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The Mexican sugar industry, already suffering from massive debt problems, has fallen deeper into crisis because of an oversupply of sugar on the world market. Some industry sources are projecting a global sugar surplus of 12 million metric tons this year, based on world production of about 126.4 million MT in the 1998-1999 season. Mexico's sugar production is forecast at 1.6 million MT in 1998-1999, which will create a 600,000 MT surplus.

Surplus production caused global sugar prices to plummet to a 14-year low of just below US$0.04 per pound in late April before recovering to between US$0.05 and US$0.06 in early August. "A few years ago, sugar would sell on the international markets for US$0.17 a pound," said Alberto Santos, owner of Mexican sugar milling company Santos Ingenios. "Last year it was only US$0.11 and this year US$0.05." Some sugar-industry analysts have recommended that sugar producers lower production by about 10% in 1999-2000 to avert a severe crisis for sugar producers worldwide.

But Mexico's Camara Nacional de la Industria Azucarera y del Alcohol (CNIAA) has resisted this proposal because of the pending opening of the US market. Under a timetable negotiated through the North American Free Trade Agreement (NAFTA), the US is scheduled to increase Mexico's quota of tariff-free sugar imports to 250,000 MT per year, beginning in 2000-2001.

Still, the Mexican sugar industry has criticized former president Carlos Salinas de Gortari and former trade secretary Jaime Serra Puche for caving in to US negotiators to limit sugar exports in the first years of the accord. The limits were imposed reportedly at the insistence of sugar producers in Texas and Florida. Santos questioned why the US would give the Dominican Republic a quota of 400,000 MT of tariff-free sugar annually and only 25,000 MT to its NAFTA partner Mexico. "This seems unfair, since Mexico accepts 500,000 MT of high-fructose corn syrup from the US," said Santos.

US sugar producers concerned about Mexican imports

US sugar producers, meanwhile, are concerned not only about the opening of the market next year, but about a possible surge in Mexican sugar imports this year. Under US Customs regulations, Mexico can export any amount of sugar to the US as long as all exports above 25,000 MT are charged a tariff of about US$0.136 per pound. With global sugar prices at US$0.05 to US$0.06 per pound, Mexican sugar is still slightly cheaper than the US sugar price of US$0.22, even when the tariff is imposed. "There is no limit on how much of this over-quota Mexican sugar may enter the US market, and US sugar policy is already at risk," the American Sugar Alliance (ASA) said in a study presented to the US International Trade Commission.

Earlier this year, the US Department of Agriculture (USDA) forecast "above-quota" sugar imports from Mexico at 260,000 short tons in 1999-2000, compared with 155,000 short tons in 1998-1999 year

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and none last year. While the Mexican sugar industry looks forward to boosting its presence in the US, the Mexican government has attempted to protect the industry by imposing restrictions on imports of high-fructose corn syrup (see SourceMex, 1998-09- 16, 1998-02-04). But US producers have appealed the restrictions to the World Trade Organization (WTO) and NAFTA. At a recent meeting in Mexico City in August, members of the CNIAA raised concerns that the crisis could worsen for the Mexican sugar industry if US producers prevail in their appeals.

Legislators considering plan to ease sugar industry debt

Deputy Alvaro Lopez Rios, a member of the agriculture committee (Comision de Agricultura) in the Chamber of Deputies, said sugar millers both the large operations and the smaller cooperatives known as ingenios have piled up debts of close to 18 billion pesos (US$1.9 billion) in recent years. Some legislators are pushing for the federal government to rescue the sugar industry in much the same way that the toll highways and the banking industry were bailed out (see SourceMex, 1997-09-03, 1998-12-16).

"Everything seems to indicate that the sugar industry's debt will soon be passed on to the Instituto de Proteccion al Ahorro Bancario (IPAB)," said Lopez, a member of the center- left Partido de la Revolucion Democratica (PRD).

Although the proposals to rescue the toll highways and the banking system were controversial, President Ernesto Zedillo's administration may be willing to consider a bailout of the sugar industry rather than allow massive bankruptcies. Israel Gutierrez, a deputy secretary for domestic trade at the Secretaria de Hacienda y Credito Publico (SHCP), said the sugar industry creates 314,000 jobs in the agricultural sector.

"This is an important industry that contributes 0.5% of the nation's GDP," said Gutierrez. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on Aug. 11, reported at 9.42 pesos per US$1.00] (Sources: Bloomberg news service, 05/25/99; Novedades, 05/21/99, 06/28/99; El Economista, 07/29/99; La Jornada, 07/26/99, 07/28/99, 08/02/99; Reuters, PRNewswire, 08/10/99; The News, 05/26/99, 08/11/99)

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