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Federal Government Refuses To Rescue Financially Troubled Sugar Processors

by LADB Staff
Category/Department: Mexico
Published: 2000-03-01

President Ernesto Zedillo's administration is refusing to rescue Mexico's sugar processors, which face near-certain bankruptcy because of unsurmountable debts, high production costs, and unfavorable terms negotiated under the North American Free Trade Agreement (NAFTA). Some estimates indicate the debts of sugar processors have escalated to about US$2.5 billion since the industry was privatized in the late 1980s and early 1990s. Some debt problems are linked to the industry's decision to raise capital by issuing inflation-indexed instruments (unidades de inversion, UDIs) in the early 1990s. The devaluation of the peso in 1994 pushed annual inflation above 50% in 1995, which caused the UDI-denominated debts to grow beyond their initial value. Some industry observers had suggested that the administration allow the sugar processors to restructure the debt owed the government, much of which is held by the government's sugar-financing agency (Financiera Nacional Azucarera, FINASA). Consorcio Azucarero Escorpion (CAZE), which accounts for almost one-fourth of Mexico's sugar production, owes the equivalent of US$700 million to FINASA and another US$100 million to private commercial banks. "The most feasible future for Escorpion is that the government take it over," said the daily business newspaper El Economista. However, administration officials quickly dismissed this proposal, saying that sugar millers have other options to restructure their debts. "There are plans to restructure the debt of some groups, but the government is not participating," said Agriculture Secretary Romarico Arroyo Marroquin.

Industry problems blamed partly on mismanagement
Mario Garcia Estrada, technical secretary for the government-sponsored Comite de la Agroindustria Azucarera, said CAZE's financial problems are the result of mismanagement. "They're bad managers, they are no longer credit worthy, and they don't have money to repair their refineries or pay the sugar growers," Estrada told The Financial Times. CAZE is a subsidiary of Grupo Escorpion, whose operations also include huge soft-drink bottler GEMEX. The sugar processor has taken steps to avoid financial collapse by offering to sell its processing plants. Earlier this year, the company hired US accounting company Price Waterhouse Coopers (PWC) to identify potential buyers for the plants by October. The proposed sale of the sugar mills has received mixed reactions from the sugar-workers union (Union Nacional de Caneros) and its parent Confederacion Nacional de Propietarios Rurales (CNPR). Union spokesman Jose Luis Cruz said sugar-industry workers would prefer that the government live up to its responsibilities to the industry and devote more funds to rescue CAZE and other troubled millers like Grupo Azucarero Mexicano (GAM). Cruz expressed concern that only large multinational companies like Cargill, Archer Daniels Midland (ADM), and Arancia CPC would be in a position to acquire CAZE's sugar-milling operations, since any sale would require that the buyer assume the massive debts. Enrique Ramos Rodriguez, also a member of the sugar-workers union, said employees do not intend for the government to run the sugar-processing plants in the long run. He said the government should acquire the plants from their current owners, who are incompetent, and then sell them to others who are more knowledgeable.
about the sugar sector. Some estimates show almost half of Mexico's sugar-processing plants in danger of disappearing because of extreme financial difficulties.

**Low prices, unfavorable NAFTA terms also hurt industry**

In addition to debt problems, the sugar companies trace their problems to marketing difficulties caused by a weak global sugar market. Because of a global oversupply of sugar, international prices as of mid-February had declined by about 21% from levels a year ago. "There will not be any increase in sugar prices soon," market analyst Patrick Funaro of Fimfat Futures told Mexico's official news agency Notimex. "Prices will adjust only with a recovery in global consumption or a decline in production." Under current conditions, Mexican producers are barely able to recover their production costs. Average production costs for Mexican sugar processors are estimated at about US$0.15 per pound, compared with the recent price of sugar of US$0.19 cents per pound. The small production-cost benefit disappears when financing costs are added, said Reuters news agency. Additionally, Mexican sugar processors have had difficulties finding a market for their sugar because of unfavorable terms negotiated under NAFTA. While many Mexican products enjoyed quick access to the US market under the agreement, sugar exports have been limited to 25,000 metric tons per year since NAFTA went into effect in 1994. The strict limits were placed reportedly at the insistence of sugar producers in Florida and Texas. But the annual quota of 25,000 MT negotiated by former Mexican trade secretary Jaime Serra Puche and former US trade representative Mickey Kantor expires this marketing year, which ends in September. Under NAFTA terms, Mexico will be able to export 250,000 MT of sugar to the US starting in the 2000-2001 marketing year, which begins in October. Furthermore, NAFTA requires the US to fully open its market to Mexican sugar and sweeteners by 2008. Guillermo Beltran, director of the Camara Nacional de la Industria Azucarera y Alcoholera (CNIAA), said the expansion of the US quota, along with greater credit opportunities for the agricultural sector, will contribute to a recovery in the Mexican sugar sector. "A year ago, conditions were not as favorable for a solution as they are now, but we think that after this year we will move from crisis to a much better situation," Beltran said in an interview with Reuters.

**WTO ruling on fructose causes further tensions**

Beyond the controversy over the sugar quota, Mexican sugar producers have faced tensions with the US over imports of US high-fructose corn syrup (HFCS). Sugar producers, who said that less expensive US corn syrup was displacing sugar in the Mexican market, filed a complaint with the Secretaria de Comercio y Fomento Industrial (SECOFI). The complaint said that imports of US syrup had displaced domestic sugar sales of about 600,000 MT per year. After investigating the complaint, SECOFI agreed to impose restrictions on imports of US corn syrup (see SourceMex, July 2, 1997, February 4, 1998, September 16, 1998). But US manufacturers and the US government filed a challenge to Mexico's restrictions before the World Trade Organization (WTO). In January of this year, a special WTO panel ruled that Mexico failed to follow the proper procedures when it implemented the countervailing duty against US corn-syrup imports. Mexico has decided to accept the WTO ruling and will not appeal. However, sugar-industry officials said the WTO decision did not find that duties were not warranted, only that the government did not follow the proper procedures in setting the duties. "Dumping corn syrup on the Mexican market has occurred, and the Mexican sugar industry was subjected to injury as a result of this dumping," said CNIAA chairman Alberto Santos. "The only question, therefore, will be the extent of that injury." Trade Secretary Herminio Blanco said SECOFI has initiated a review of pricing, amounts, and other factors related
to US corn-syrup imports and will determine a new level of duties. "We are going to calculate the damage again," Blanco told Reuters. "Meanwhile, the previous duties will remain in place." SECOFI's decision not to eliminate the corn-syrup duties immediately is expected to increase tensions with the US, particularly corn-syrup exporters. "Mexico should bring itself immediately into conformity with the [WTO] panel's ruling by immediately terminating the anti-dumping order on HFCS imports from the US to Mexico," said Chuck Connor, president of the US Corn Refiners Association. US Trade Representative Charlene Barshefsky took a more conciliatory tone, saying she hoped Mexico would implement the WTO ruling. She said the US will give a period of 30 days to determine how the WTO decision will be implemented. (Sources: Financial Times, 02/06/00; The News, 02/07/00; Reforma, 02/15/00; Associated Press-Dow Jones news service, 01/27/00, 01/31/00, 02/03/00, 02/16/00; Excelsior, 01/28/00, 02/01/00, 02/04/00, 02/17/00; Notimex, 02/20/00; Reuters, 01/25/00, 02/10/00, 02/14/00, 02/22/00, 02/25/00, 02/28/00, 02/29/00; El Economista, 01/24/00, 01/28/00, 02/14/00, 02/23/00, 02/25/00, 03/01/00; El Financiero, 02/10/00, 02/17/00, 02/18/00, 03/01/00)