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President Vicente Fox has come under severe criticism for his administration's handling of the domestic sugar market, which has resulted in temporary shortages and high prices. The temporary sugar shortages have forced the Fox administration to import small amounts of sugar from the US to keep prices from increasing further. This is a surprising development for a country that has been a surplus producer and that has been battling to force the US to accept its commitment under the North American Free Trade Agreement (NAFTA) to absorb Mexico's surplus production, beginning with the 2000-2001 crop (see 2000-05-31).

In 2001, Mexico took its complaints one step further by requesting the creation of a special dispute-resolution panel to examine its complaint against the US failure to meet its sugar-import commitment (see SourceMex, 2001-10-03). The US and Mexico are embroiled in another NAFTA dispute related to sweeteners. Partly to protect its domestic sugar producers and partly to retaliate against the US, the Mexican government imposed tariffs on imports of US high-fructose corn syrup in 1997 (see SourceMex, 1997-07-02).

Special panels under NAFTA and the World Trade Organizations (WTO) deemed the restrictions illegal, forcing Mexico to withdraw the tariffs (see SourceMex, 1999-10-27, 2000-03-01 and 2000-09-027). In 2001, the Mexican Congress found a way to circumvent the NAFTA and WTO decisions by imposing a 20% special tax (Impuesto Especial sobre Produccion y Servicios, IEPS) on products manufactured with high-fructose corn syrup (see SourceMex, 2002-01-09).

Fox suspended the tax, but the Mexican Supreme Court (Suprema Corte de Justicia de la Nacion, SCJN) eventually overruled the president's decision (see SourceMex, 2002-07-17).

Corn syrup tax boosts demand for sugar

This special tax on products with high-fructose corn syrup may have contributed to the current domestic shortage of sugar. Faced with higher costs, soft-drink manufacturers switched to sugar, greatly tightening supplies and contributing to an increase in domestic prices.

The food industry estimates that the increased demand for sugar from prior users of high-fructose corn syrup may have resulted in an increase of at least 30% in the price of sugar. "In our country, total sales of high-fructose corn syrup totaled 500,000 metric tons before the tax was imposed," said Jaime Gallo, president of the Camara de la Industria Alimenticia de Jalisco (CIAJ). "All of a sudden these sales were shut off, creating more demand for sugar."

An analysis by the daily newspaper Reforma found the price of sugar increased by about 2.4% in 2001, by 4% in 2002 and by 10.35% thus far in 2003. In contrast, the increase in 2000 was only 0.4%. Faced with pressure from the soft-drink industry and other sugar users to find a way to temporarily
increase domestic supplies, the Fox administration committed to import 120,000 MT of sugar from the US.

Noe Lecona, director of the Asociacion Nacional de Fabricantes de Chocolates, Dulces y Similares, said many candy manufacturers had been forced to cut production levels because of high sugar costs. He urged the administration to expedite the sugar imports. "The longer they take, the more difficult the situation is going to become for us," said Lecona. Soft-drink manufacturers pledged to keep prices down as long as the administration met its import commitment. "The increase in sugar prices does put pressure on our industry," said Juan Hawach, finance director at Coca-Cola bottler Grupo Continental. "But we are confident that the price is going to gradually drop to more normal levels."

**Imports weaken Mexico's NAFTA complaint against US**

Another result of Mexico's decision to import sugar is that it weakens its complaint against the US failure to meet its commitments under the NAFTA sugar provision. Attorney Luis Bravo Aguilera, who represents the US Corn Refiners Association, notes that NAFTA sugar provisions require Mexico to have sugar surpluses for two consecutive years before it is allowed to export its excess production to the US. "If Mexico does not have excess production, how can it file an appeal against the US?" said Bravo.

Mexican sugar-cane producers are quick to point out that production has not declined significantly and domestic supplies are not in danger of falling to unmanageable levels. Sugar production for the current 2002-2003 crop year is projected at about 4.9 million MT, about 500,000 MT higher than the previous year. Two years ago, sugar production totaled 4.6 million MT.

Jose Octavio Menchaca Diaz, president of the Camara Nacional de las Industrias Azucarera y Alcoholera (CNIAA), told the Mexico City daily newspaper Milenio Diario that current sugar output is sufficient to supply the domestic market. "We should also be able to maintain a reserve to supply the needs of the market in the last quarter of the year," said Menchaca, who faulted "speculators" for the recent increase in prices.

Francisco Fernandez Capistran, director of the Fondo de Empresas Expropiadas del Sector Azucarero (FEESA), acknowledged some problems in sugar distribution around the country. "These are problems related directly to supply and demand," said Fernandez, not necessarily associated with insufficient stocks. Fernandez said shortages were estimated at 21% in June of this year, but FEESA had managed to reduce those shortages by six percentage points by August.

**Sugar mills unable to make up for shortages**

Some critics question whether the figures presented by the administration are accurate. "The president is embellishing the production figures," said Sen. Gloria Lavara of the Partido Verde Ecologista Mexicano (PVEM) and a member of the special committee on sugar (Comision Especial Azucarera) in the upper house. Others blame the administration's handling of the expropriation of the sugar industry as a reason for the shortages on the domestic market.
In 2001, the administration seized 27 sugar mills that were facing bankruptcy because of financial mismanagement (see SourceMex, 2001-09-05).

One candy manufacturer, Enrique Michel Velasco of Mazapan de La Rosa, went as far as to blame the mills for creating an artificial shortage. Some private-sector officials say a major problem is the lack of integration between the sugar and the food industries. "We have to recognize that the chain does not end with the processing of sugar," said CIAJ president Jaime Gallo. "We have to include producers of candy, chocolates, soft drinks and other products in the chain."

The deposed owners of the sugar mills, meanwhile, have filed legal action against the government to regain their property and have received mixed verdicts from the SCJN. In August of this year, the high court ruled that the government had violated the Constitution in four of the six cases of expropriation against Mexico's largest sugar-milling concern, Grupo Azucarero Mexico (GAM).

GAM officials said they expected to receive the properties within three months, depending on whether the government files an appeal. The GAM decision appears to be the exception rather than the rule in this case. In early September, the high court denied the appeals by another large sugar-milling concern, Consorcio Azucarero Caze, previously known as Grupo Escorpion. The private company had sought to recover nine mills expropriated by the government. The SCJN had previously ruled in favor of the government in more than a dozen other cases (see SourceMex, 2003-06-11).

FEESA director Fernandez Capistran acknowledged that the government has retained the properties longer than promised. When the mills were expropriated, the government said they would be resold to private buyers within 18 months after finances were straightened out. Among the potential buyers for the mills is the sugar-cane producers organization Union Nacional de Productores de Cana de Azucar (UNPCA-CNC). Francisco Castro Gonzalez, secretary-general of the UNPCA-CNC, said he has been told that the government expects to resell at least two mills by the end of 2003. (Sources: El Universal, 05/22/03; CNI en Linea, 08/20/03; Agencia de noticias Proceso, 08/20/03; Notimex, 08/20/03, 08/21/03, 08/25/03, 08/30/03; Milenio Diario, 08/26/03, 08/28/03; La Cronica de Hoy, 08/26/03, 09/03/03; Reforma, 08/21/03, 08/22/03, 08/25-28/03, 08/31/03, 09/01/03, 09/04/03, 09/06/03; La Jornada, 09/10/03)

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