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Mexico's food manufacturers and sugarcane growers are at odds regarding the government's sugar-import policies, with recent debate centered on how much sugar the Secretaria de Agricultura, Ganaderia, Desarrollo Rural, Pesca y Alimentacion (SAGARPA) should allow this year. Food manufacturers have pushed hard for the government to expand the sugar-import quota beyond the 250,000 tons already approved for this year. The food companies argue that the imports are necessary to meet demand and keep prices down. Sugarcane producers countered that this year's production is sufficient to preclude additional imports. Any increased imports, they said, would depress prices and hurt growers. While the debate centers on short-term concerns, critics point out that the government has failed to develop a long-term strategy for sugarcane growers, who consistently endure low yields, rising costs of production, and competition from imports.

Production sufficient to preclude further imports this year In early April, the food industry urged the government to expand the sugar-import quota for 2009-2010 by another 350,000 tons to ensure sufficient supplies for domestic production of sugar-based foodstuffs, including soft drinks, juices, sweets, and other products. That would bring total imports for the year to 600,000 tons. But the Camara Nacional de la Industria de la Transformacion (CANACINTRA), which represents the manufacturing industry, acknowledged that this estimate was preliminary and that production estimates for 2009-2010 would have a bearing on whether Mexico would need to import more sugar. "At the end of next month, we should define whether more imports are required and under which conditions," CANACINTRA official Hector de la Cadena told Reuters in early April.

The industry's estimates were based on projections that sugarcane production in 2009-2010 would fall to as low as 4.6 million tons. And these forecasts were backed by SAGARPA. As recently as early April, Agriculture Secretary Francisco Mayorga Castaneda, citing bad weather and disappointing yields, had forecast output in the range of 4.5 million to 4.9 million tons. Less than two weeks after Mayorga presented his estimate, the Union Nacional de Caneros (UNC) released its forecast suggesting that sugarcane production this year would reach 4.9 million tons, just slightly below the 4.96 million tons produced in 2008-2009 but sufficient to preclude any additional imports. The forecast by the cane growers and subsequent assessments by SAGARPA were sufficient to prompt Mayorga to declare that no new imports of sugar would be required during 2009-2010.

Current levels of production, along with the 250,000 tons already imported, were sufficient to meet domestic demand, estimated at 5.2 million tons. "With the imports that we've already approved, along with the entry of sugar to the market during the final stages of harvest, we do not deem it necessary to import more sugar to stabilize prices," Mayorga said in a press conference. The Secretaria de Economia (SE), however, went to great lengths to emphasize that the 250,000 tons imported during 2009-2010 went a long way toward stabilizing the market. In a report published in mid-April, the SE said the increased supply helped reduce prices by slightly more than 10%

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in Mexico. At the same time, the SE said the decline in the Mexican market did not match the reduction at the global level, where prices dropped by more than 28% during the year. But the SE noted troubling trends in the sugar market, especially in Mexico.

The report pointed out, for example, that prices rose by 121% between June and September 2009, which put prices significantly above the average for the past 10 years. "If we hadn't acted opportunely, today we would have market conditions that would have led to a significant rise in the price of sugar," said the SE. Cane growers seek higher prices The government's policies regarding sugar imports remain a bone of contention with sugarcane growers, who argue that imports are keeping domestic prices lower than they should be. In early April, when the government said it was reviewing the situation but raising the possibility that imports would be allowed, members of the Confederacion Nacional de Propietarios Rurales (CNPR) blocked warehouses in Veracruz state to prevent shipments from going out. The CNPR, an umbrella organization for agricultural unions that includes the UNC, said the measure was intended to help boost the price that cane growers received for their product.

Veracruz, which typically accounts for about 36% of the land devoted to sugarcane in Mexico, also has the most milling operations in the country. UNC president Carlos Blackaller Ayala said the import of 250,000 tons of sugar this year was responsible for a drop of 20% in the price of sugar in Mexico during March and April. The government's sugar-import policy also has some political overtones. Just days before SAGARPA announced its final decision on imports for this year, opposition members in the Senate issued a statement urging President Felipe Calderon to suspend this policy for the rest of the 2009-2010 season. Sen. Juan Fernando Pedromo, a member of the center-left Partido Convergencia por la Democracia (PCD), said the imports might well reduce the price for food companies and intermediaries, but the savings would not necessarily trickle down to the consumer. "If the price paid to the sugarcane grower declines by 25% and the price at the sugar miller would also drop by that same amount, the food companies might not pass that on to the consumer if they saw a chance to make profit above 100%," said Fernando Pedromo, whose home state is Veracruz. Veracruz Gov. Fidel Herrera Beltran who is said to have presidential aspirations also took actions to support the cane producers.

Herrera met with governors of five other cane-producing states to form a coalition that would lobby against any further sugar imports. Also forming the coalition are the governors of Sinaloa, Quintana Roo, Tabasco, San Luis Potosi, and Puebla, all members of the opposition Partido Revolucionario Institucional (PRI). Notably absent from the group was Jalisco Gov. Emilio Gonzalez Marquez, a member of the governing Partido Accion Nacional (PAN). In a meeting with PRI legislators and the six governors, Herrera said the group would look primarily at the legal system to halt sugar imports. "I will not seek any actions that are illegal," said Herrera Beltran. "We want to follow the letter of the law, using such tools as lawsuits." Herrera said he was planning to ask the Confederacion Nacional de Gobernadores (CONAGO), which comprises governors of all parties, to develop a link to the sugar-producing states. "We are in conversations to form a solid front to prevent the federal government from causing harm to an industry that was already in good shape," said the Veracruz governor. Sometimes producers benefit from other government decisions and other factors related to supply and demand.

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Last year, SAGARPA allowed the export of 1.2 million tons of sugar at a time when international prices were high because of reduced production in India and increased global demand. As a result, the price of a 50-pound bag of sugar increased to 700 pesos (US$57.55), compared with 250 pesos (US$20.55) previously, said Deputy Felix Rodriguez Sosa, a sugarcane grower who belongs to the Confederacion Nacional Campesina (CNC) in Morelos state. Rodriguez Sosa is a member of the PRI. Reduced production in Quintana Roo state as a result of poor weather has also affected domestic supply, which has kept a floor under prices in Mexico. In 2006, Quintana Roo state produced 1.57 million tons of sugar, the second-largest in Mexico that year. But production slumped by 35% in subsequent years because of the damage caused by Hurricane Dean in the Yucatan Peninsula in 2007 (SourceMex, August 09, 2007), said Gabriel Rivas, a CNPR representative in Quintana Roo. Sugar industry battles structural problems But observers suggest that the sugar industry, especially at the cane-production level, is facing some serious structural problems.

The high cost of production and low yields keep many cane growers in relative poverty. Producers receive between 380 and 450 pesos (US$31.25 to US$37.00) per ton, a payment that is adjusted based on percentage of sucrose content and market prices. This translates to about 25,000 pesos (US $2,056) per planted hectare. Much of that money does not come until the crop is harvested, and in the meantime producers have to cover the costs of fertilizer, irrigation, weed and pest control, and transportation. "The small producers do not always have the resources to assume these costs and must often take out loans," said Jalisco cane grower Braulio Delgado Aranda. "If the mill does not make its payment on time, then the loan accrues interest." Mayorga acknowledged that the government must review and revise its long-term strategy regarding cane producers.

In a meeting with members of the Senate agriculture committee (Comision de Agricultura) in early April, the agriculture secretary said the sugar sector has remained stagnant for a long time, with production little changed from the 1970s. In addition, the secretary cited such factors as obsolete milling operations, an excess of processors in some areas, and continued high prices for the consumer. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on April 21, 2010, reported at 12.16 pesos per US$1.00]

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