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Sugar Prices Fall Sharply in Mexico, Prompting Sugarcane Growers to Demand Restrictions on Corn-Syrup Imports, Guaranteed Price from Government

by Carlos Navarro

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A bumper sugarcane harvest and steady imports of competing high-fructose corn syrup (HFCS) from the US are making life difficult for Mexico’s sugarcane growers. With prices falling sharply, the Confederación Nacional Campesina (CNC) and related organizations like the Unión Nacional de Productores de Caña (UNPC) decided to take matters into their own hands in January. Sugarcane growers set up protests and partially took over Mexico’s 54 mills to demand action from President Enrique Peña Nieto’s administration, including the imposition of a limit on HFCS imports and the implementation of a guaranteed price for sugarcane.

HFCS imports have been a thorn in the side of Mexico’s sugar industry since the inception of the North American Free Trade Agreement (NAFTA) in 1994. Because of free-trade rules in NAFTA, Mexico has lost many battles with the US to limit HFCS imports (SourceMex, March 29, 2006, March 5, 1997, and Aug. 9, 2006).

The CNC is pushing for new restrictions on the premise that Mexico has the trade laws on its side, since US corn subsidies contribute to increased production of the grain and its byproducts, including HFCS. Therefore, the organization has asked the Peña Nieto administration to impose anti-dumping duties on US corn-syrup imports, which would reduce the amount of this product entering Mexico.

**HFCS accounts for one-third of sweetener consumption in Mexico**

A big concern for Mexican sugarcane growers is the inability of sugar to compete in the soft-drink market, with many manufacturers resorting to HFCS, which is cheaper. HFCS consumption increased from almost nothing in 1990 to about 9,800 tons in 2002. In 2002, a tax on soft drinks manufactured with HFCS slowed down the use of corn syrup in the manufacture of these beverages (SourceMex, Jan 16, 2002), but this was only a stopgap measure.

A recent industry estimate indicates that HFCS now accounts for one-third of the sweeteners consumed in Mexico annually, with consumption increasing to the current 1.7 million tons. In addition to beverage manufacturers, bakers and confectioners in Mexico use HFCS extensively.

"For the sugar mills, that represents about 13.6 billion pesos (US$1.1 billion) in lost sales," said the Mexico City daily business newspaper El Financiero, citing industry estimates.

UNPC director Carlos Blackaller Ayala said producers, manufacturers, and the government must come together to forge a joint solution. One option, he said, is for the soft-drink industry to voluntarily return to using sugar primarily in manufacturing its beverages.

While a recent drop in sugar prices would tend to make sugar more of an option for soft-drink manufacturers, sugarcane producers are worried about the reduced income resulting from the
depressed prices. Prices have plunged from a high of 750 pesos (US$59) per 50 kg sack in 2011 to 360 pesos (US$28) in 2012.

Some alternate proposals to help growers have been made, including the suggestion that Mexico expand its biofuels industry, which would increase demand for sugarcane. But growers point out that this option is not as economically viable for sugarcane growers. "Sugarcane is an expensive product, so possibilities in the biofuels market are limited," said Federico López Medel, director of the industry organization Procazúcar. "Producers, especially those in Veracruz, obtain higher prices from manufacturers of sugar and molasses than their counterparts in Brazil."

But some experts warn that the situation cannot be fixed by simply imposing tariffs on imports and that a change in Mexico’s industrial policy to develop more uses for sugarcane is the preferred option. In an interview with El Financiero, Raymundo Tenorio Aguilar, an economics expert at the Instituto Tecnológico de Monterrey (ITESM), said processors and producers should invest in developing value-added products like alcohol and ethanol, and the government can help by providing loans via the development banks.

**Bumper crop depresses prices**

An underlying problem for producers this year is the prospect for a bumper crop in 2012-2013, estimated at 5.6 million tons, up about 12.5% from 2011-2012. The higher production is the result in part of a combination of an expanded planted area, which increased by 8.8% between 2008 and 2012, and steady yields.

To underscore their demands, sugarcane growers set up protests at Mexico’s 54 sugar mills, imposing a partial blockade on sugar. Only sugar for export was allowed to leave the mills. The move had its intended effect, boosting some retail prices in Mexico’s domestic sugar market by about 30%.

Ángel Gómez Tapia, president of the Unión Estatal de Cañeros in Veracruz state, said producers are concerned about reports that the Peña Nieto administration is planning to allow 1,700 tons of HFCS imports into Mexico this year, which is the same amount as last year.

Producers said they would keep up their protests unless the government addresses that concern, along with the demand for a guaranteed price of 9,000 pesos (US$707) per ton.

And UNPC officials warn that the current situation could have negative repercussions across the sugar sector, not only driving producers out of business but also the sugar mills that buy the cane. By some estimates, the sugar industry accounts for 450,000 direct and 2.5 million indirect jobs in Mexico.

"If sugar sells at prices below the necessary margin for millers to obtain earnings—at least to meet their costs of production—the industry faces a high risk of its mills closing, which would cause the loss of jobs," said UNPC official Daniel Pérez Valdés.

Pérez Valdés warned that increased unemployment could result in social instability. "This could unleash a climate of violence around the country, especially in the 15 states where sugarcane is produced," said the UNPC leader. Veracruz accounts for about 37% of sugarcane output, followed by Jalisco and San Luis Potosí (each with 11%) and Oaxaca and Chiapas (6% each).
conversions in this article are based on the Interbank rate in effect on Jan. 30, 2013, reported at 12.73 pesos per US$1.00].

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