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Mexico Daily Report - 20th November 2009

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FOREIGN PARTICIPATION IN THE MEXICAN SUGAR INDUSTRY GROWS SIGNIFICANTLY IN THE PAST 5 YEARS.

Without a doubt, the past 5 years have been critical for the Mexican sugar industry. During that period, the participation of foreign investors has multiplied considerably. Prior to 2000, only the Saenz group had a foreign partner (Tate and Lyle). Today, Cargill, ED&F Man, the Fanjuls, Ardila Lulle and Imperial Sugar have partners in the country.

In 2000, Cargill began a partnership with Zucarmex (belonging to Eduardo de la Vega) to export sugar. Two years later, it was announced that the US company purchased 15% of the equity in Zucarmex. Cargill's interest in Mexican sugar wasn't new- a few years earlier it had 'courted' the CAZE group, then owned by Enrique Molina, proposing to purchase up to 1 million mt. of sugar each year. In the end, Mr. Molina decided not to commit his company's future. Cargill was also interested in purchasing Machado that same year, and along with Eduardo de la Vega made an offer to Teresita Machado. The deal could have gone through, but failed because the government refused to allow a 50% haircut on the amount of debt Machado owed them. Cargill's appetite for Mexican sugar appears unabated: for two years it has had a commercial arrangement with the Gargonz Group (owned by Francisco Garcia Gonzalez), and it's not clear if Cargill's interest is merely commercial, or if it is considering an equity investment in the group's three mills, El Carmen, Calipam, and Nuevo San Francisco.

Another international company interested in the Mexican sugar sector was ADM, which also approached CAZE in 2000 to buy its mills, offering some 300 million USD for the properties. That deal also failed, because again, the government refused to discount the debt that CAZE owed them. It's not unlikely that when the government finally decides to sell the ex-CAZE mills, ADM could be interested once more.

ED&F Man began its participation in the Mexican sugar sector in 2001, when it began marketing nearly all the sugar produced by the La Gloria mill. At the same time, it began to sell all of the sugar produced by Puga, and in 2003 purchased a nearly 40% stake in the mill. Prior to that deal, Man only had direct participation in some sugar mills in Venezuela. Subsequently, Man bought 49% of the shares of the Saenz group, and just recently announced the purchase of 30% of the Los Mochis mill. According to Man's local director, with these acquisitions the company intends to increase its participation in the Mexican market.

In 2007, much to the surprise of most market participants, the Fanjul group purchased San Nicolas mill, proving that despite high cane and labor costs, Mexican mills were worthy investments.

One year later, in the midst of the confusion surrounding the Benito Juarez mill, its owner (GAM) sold 51% of the mill's shares to the Colombian group, Ardila Lulle. It's said that the Colombians wanted a majority stake in all of GAM's mills.

All this history proves that while the Mexican mill owners have done little over the past 15 years, foreign companies have taken a more serious view of the opportunities offered by the opening of the US/Mexican border for bilateral sweetener trade in 2008. It's not clear yet whether the foreign investors have won or lost in their deals, but they're here, and they want more.

HFCS GAINS MARKET SHARE DUE TO COMPETITIVE PRICES

Industry experts believe that HFCS has gained historically high market shares this year due to competitive pricing. According to a survey carried out by SIA, currently 80% of the bottling sector has begun to use the corn sweetener, including Contal (partner with PIASA), and GEUPEC (belonging to GAM). Following this trend is Ajemex (which produces Big Cola), despite the fact that the company has long used liquid sugar to supply its plants.

Given this situation, officials at several bottling companies and industry analysts estimate that by 2010, Mexico could consume more than 1 million mt. of HFCS (sugar equivalent). This trend is not limited to the soft drink sector, but in more than 200 different products, including juices, wines, jellies/jams, canned fruit, salads, bakeries, and dairy products.



















According to the specialists, right now this increase in HFCS demand isn't a threat to Mexican sugar producers, since the current shortage of sugar means that their prices haven't been affected very much. However, once inventory levels stabilize, the sugar producers will be challenged to keep their prices at profitable levels and avoid having more market share 'stolen' by HFCS.

SUGAR SECTOR SUPPORT 'IN LIMBO' FOR THE 2010 BUDGET

The Finance Secretary for the National Cane Growers' Union of the CNC, Lazaro Arias, told SIA that sugar sector supports in the proposed budget are 'in limbo', since they haven't been officially published in the Federal Gazette- despite being approved in the budget process. The current proposals, he said, are these:

- 280 million pesos (about 21 million USD) for irrigation systems
- 179.5 million pesos (about 13.8 million USD) for machinery
- 300 million pesos (about 23 million USD) to subsidize Social Security payments for needy cane growers
- 75 million pesos (about 5.75 million USD) for Social Security payments for cane harvesters
- 20 million pesos (about 1.5 million USD) for the NCSSD
- 20 million pesos (about 1.5 million USD) for CICTCANA
- 20 million pesos (about 1.5 million USD) for the creation of a dispute resolution panel
- 600 million pesos (about 46 million USD) for purchasing fertilizer

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