2-5-2004

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LADB Article Id: 52497
ISSN: 1089-1560

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by LADB Staff
Category/Department: Guatemala
Published: 2004-02-05

Guatemala is facing rising consumer prices and the prospect of a sugar war. The consumer price of sugar rose about 9% in December. The price continued to climb, leading newly inaugurated President Oscar Berger to recommend a complicated pricing scheme to bring relief to consumers.

Berger told reporters, "Yes, we're going to have two or three prices for sugar, one popular and one more refined that would be a little more expensive." But while Berger is seeking a solution to the higher price, he may also be part of the problem. This president is close to the sugar barons of Guatemala, and he reportedly received major financial support from them during the campaign. The high probability of his election may have signaled the sector that a month before the election was a good time for producers to use national price protections to counter low prices on the glutted world market.

Like sugar producers in the US, Guatemalan growers sell sugar on the domestic market at a price substantially higher than the world price. The 30% of total production sold locally in Guatemala subsidizes the 70% sold internationally (see NotiCen, 2003-10-16), but producers cited higher labor, transportation, and storage costs as reasons for their action. Sugar importer Southern Sugar, through its representative Ricardo Mendez, said that the refiners raised prices arbitrarily, but the Asociacion de Azucareros de Guatemala (ASAZGUA) denied the charge.

A swing and a miss for Portillo

Alfonso Portillo, still president on Dec. 29, the day of the announcement, reacted by raising the limit on the amount of sugar that can be imported duty free from 5,000 tons to 100,000 tons. The new limit went into effect on Jan. 7, a week before Berger's inauguration. Industry spokespeople accused Portillo of violating a World Trade Organization (WTO) rule limiting duty-free imports to 14,000 metric tons and of failing to get the approval of the Consejo de Ministros de Economia de Centroamerica (Comieco), the regional authority on tariff and quota changes. The sugar industry immediately took the case to court.

On Jan. 20, the Corte de Constitucionalidad (CC) agreed that Portillo acted improperly. Speaking for the CC, Judge Francisco Flores said, "The provisional judgment is based on [the fact that] President Portillo did not have the legal foundation to take a decision of this type." That authority, he said, resides with the Ministry of Economy. The court's decision does not, however, entirely put the matter to rest. While there is a limitation under WTO rules, the former Guatemala ambassador to the WTO, Eduardo Sperisen, pointed out that the country could increase that quota because of a shortage or natural disaster. It is unlikely the new government will try to make that case, however.

Not only is the Berger administration beholden to the sugar producers, but also Alvaro Aguilar, the new Minister of Agriculture, has said that importation would only benefit Portillo-supporting

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importers. These importers reportedly control only about 3% of the national market. Growers' backs to the wall Although Guatemalans, the majority of whom live in poverty (see NotiCen, 2002-01-24), can ill afford to carry the sugar producers on their backs, the producers have every incentive to try to force them to do so. In its recent report, the Economic Commission for Latin America and the Caribbean (ECLAC) said that international sugar prices are below production costs because of oversupply and subsidized production in developed countries.

Even with tariffs, Carmen Rosa de Leon Escribano of the Instituto Esenanza para la Desarollo Sostenible (IEPADES) told Central America Report that "imported sugar is cheaper than national sugar, even after taking into account tariffs and the cost of adding vitamin A, packaging, and distribution." In the world market, a quintal of raw sugar sells for US$5.90 (Q47.61). The report also reveals that producers use their own distributors, creating a captive market. This perches Berger on the horns of a dilemma. The de facto internal sugar monopoly is breaking the backs of many of his constituents, but, because it enables the industry to export 70% of its output, also generates many rural jobs that are irreplaceable in the short term.

For Guatemalans, the sugar increase is just a single prick on a crown of thorns. A cylinder of cooking gas went up 5%, the second hike in less than three weeks, when importers added 15% to the price of propane. Iron for construction is up and so is chicken and bottled water. The Comision Nacional de Energia Electrica (CNEE) has announced an 8% increase in rates starting in February. But for the sugar people, the outlook is just as gloomy.

One bright spot on their horizon had been the outcome of the Central America Free Trade Agreement (CAFTA), where the sugar sector was singled out as one of the unequivocal big winners. But now, even that outcome is in doubt. The major daily Prensa Libre reported having access to unofficial translations of sections of the closely guarded agreement, and it has reported that, while Central American sugar growers did see their quotas to the US double under the agreement, language has been inserted that gives the US the right, without prior warning, to stop the imports and compensate the region in return. The form the compensation takes, however, is breathtaking.

The US will pay the region's exporters with sugar. The sugar with which the US will pay will have been grown in the US. The Guatemalan and other Central American growers will then add this sugar to their own overproduction and either pour it into the already flooded market or foist it upon their compatriots at, in Guatemala's case, inflated prices. Tricked Guatemalan growers had walked away from the close of CAFTA negotiations last December with the understanding that they had won a quota fattened by some 48,000 MT. They knew that the region's proposal called for a 30-day notice of any rejection of shipments on the part of the US and compensation in cash based on a formula using market prices.

Said a surprised Jose Orive, director of the Azucareros del Istmo Centroamericano (AICA), "We are concerned to see that the United States only wants to exert its will, risking all the benefits attained in this area." As if in confirmation of Orive's charge about the US wanting to exert its will, Berger's new Economy Minister Marcio Cuevas told the paper that he had been told by the Office of the US Trade Representative (USTR) that the new Guatemalan government would only be allowed to see the contents of the final accord after they have been made "official." Guatemala received its official

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copies on Jan. 29. Cuevas told the press his people had not yet analyzed them. Simultaneously some of the text of the agreement appeared on the USTR Web site, but without the sugar details and with the notice that the "side letters," which would contain the sugar-compensation language, would not appear until after Feb. 2. They had not appeared as of Feb. 5.

What was available at the USTR site, however, was a Fact Sheet on Sugar, dated Jan. 26. Bulleted points informed the reader, "Increased sugar market access for Central American countries in the first year under CAFTA amounts to about one day's production of the U.S. sugar industry," and other facts apparently designed to reassure the US industry.

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