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In mid-December, the Trade Secretariat (SECOFI) raised import tariffs on nine US products, responding primarily to a recent US decision to increase import taxes on Mexican straw brooms. The SECOFI decision was formalized through a letter presented by Trade Secretary Herminio Blanco to acting US Trade Representative Charlene Barshefsky at the meeting of the World Trade Organization (WTO) in Singapore in early December. The tariffs, which took effect immediately, will remain in place for a period of three years or until the US withdraws or eliminates the straw-broom tariffs.

The following products are subject to the increases.

Old Tariff New Tariff

Fructose 10.5% 12.5%

Table wine 14.0% 20.0%

Wine coolers 10.0% 20.0%

Brandy 12.2% 20.0%

Tennessee whiskey 0.0% 20.0%

Paper notebooks 7.0% 10.0%;

Flat glass 14.0% 20.0%

Wood office furniture 9.0% 12.0%

Wood bedroom furniture 9.0% 14.0%.

Source: SECOFI

According to Blanco, President Ernesto Zedillo's administration calculated the tariffs on the nine products based on the additional revenues the US government would obtain from higher import taxes on Mexican brooms. Blanco emphasized that the tariff increase is in full compliance with the North American Free Trade Agreement (NAFTA), which allows member countries to impose safeguards either to protect the environment or to assist an endangered domestic industry. In fact, the US government justified its new restrictions on imports of Mexican brooms as a move to protect US corn- broom manufacturers.

Since NAFTA was implemented in 1994, the US has used the clause on safeguards to maintain restrictions on imports of Mexican avocadoes, cement, steel products, and tuna. The US actions imposed in November on imports of straw brooms were applied in two phases. In the first phase, the government reduced the quota of Mexican brooms allowed to enter the US duty-free to 100,000

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12-broom packages from the previous quota of 250,000 packages. In the second phase, the US government raised the tariff for brooms above the quota to 33%, which was the prevailing rate before NAFTA went into effect. When NAFTA was implemented in 1994, the tariff for broom imports above the established duty-free quota had been set at only 22%.

The immediate reaction by US President Bill Clinton's administration to Mexico's retaliatory tariff was relatively low-key. The office of the US Trade Representative issued a short statement saying the matter will be reviewed to determine whether Mexico's actions are in violation of NAFTA. Some trade and political observers said this was the first instance in which one of the NAFTA partners had taken "economic revenge" against another in a NAFTA-related dispute. "It's the first time we've done this," a Mexican government official acknowledged in an interview with The New York Times. "But this is the first time we've been slapped with tariffs without the recourse of NAFTA. We need to defend the Mexican industry that has been affected by what we consider an incorrect judgment by the US."

At the same time, Mexican officials promised to continue attempts to resolve the dispute through NAFTA channels, including the possibility of requesting a special NAFTA dispute-resolution panel. In an interview with The New York Times, NAFTA specialist George Grayson suggested that President Zedillo's bold retaliatory move against the US was motivated by political concerns ahead of the upcoming mid-term congressional elections in July. According to Grayson, Zedillo wanted to send a message that the governing Institutional Revolutionary Party (PRI) which performed poorly in recent local and state elections was looking after the interests of the Mexican people.

On the other hand, some US trade specialists questioned the Clinton administration's decision to risk retaliation from Mexico to protect an industry as small as the broom manufacturers. According to the Mexico City newspaper The News, the US broom industry employs about 600 workers in small plants scattered across several states. In contrast, Mexican broom manufacturers employ about 2,000 workers. US exports of the nine products affected by Mexico's higher tariffs have generally been small.

However, some manufacturers, such as whiskey and wine producers, have expressed strong concern that the increased tariff will prevent expansion of sales in the Mexican market in the near future. According to Robert Koch, vice president of the California-based Wine Institute, the Zedillo administration deliberately targeted US brandy and table wine to prevent those products from gaining a share of the Mexican market.

Representatives of other US manufacturers affected by the action such as the wood furniture, glass, and fructose sectors took a less public approach, instead requesting a private meeting with US Commerce Department officials to demand an explanation of the situation. In Mexico, Jorge Trevino of the broom-producers association (Asociacion de Fabricantes de Escobas) applauded the Zedillo administration's action. "Even though the higher tariffs on those US products will not provide direct relief to our industry, they may eventually force the US to back down on its restrictions on straw brooms," said Trevino. Still, the US-Mexico conflict could be resolved by broom producers in the two countries. US producers have offered to meet with their Mexican counterparts to negotiate mutually acceptable quotas and tariffs, which they would then present to their respective

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governments. (Sources: Associated Press, 12/12/96; El Economista, 12/04/96, 12/05/96, 12/13/96; The News, Washington Post, Excelsior, La Jornada, 12/13/96; Novedades, 12/13/96, 12/16/96, 12/17/96; El Universal, 12/13/96, 12/16/96)

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