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The Mexican government's decision to convert temporary duties imposed against imports of high-fructose corn syrup (HFSC) from the US into permanent tariffs has sparked heated debate on both sides of the US-Mexico border and raised questions about applicable provisions in the North American Free Trade Agreement (NAFTA). The temporary duties, which were announced in late June, range from 66% to 102% or from US$63.40 to US$175.50 for every metric ton of corn syrup imported from the US (see SourceMex, 07/02/97).

The tariffs were imposed following an investigation requested by the Camara Nacional de la Industria Azucarera y Alcoholera (CNIAA). In the complaint, the CNIAA accused large US corn processors, such as Archer Daniels Midland (ADM) and A.E. Staley, of selling corn syrup in Mexico at a lower cost than in the US market, thus undercutting the Mexican sugar industry. According to sources at the Secretaria de Comercio y Fomento Industrial (SECOFI), the government has reviewed data presented by both sides and has decided to remove the temporary status of the duties, retaining them permanently at the levels announced in June.

SECOFI is expected to make a formal announcement on this matter before mid-October. Mexican sugar industry seeks tighter control on imports Even though the administration is making the duties permanent, its decision to maintain the tariffs at the same level imposed in June rather than increase them has brought protests from the CNIAA and the sugar-cane growers organization Uniones Locales y Comites de Produccion Canera (ULCPC). Those organizations warned that the tariffs announced in June were insufficient to deter HFSC imports from the US.

In an interview with the daily newspaper El Universal in mid-August, ULCPC secretary Pascual Alvarado warned that a continuation of corn-syrup imports at current levels could result in bankruptcy for 25 sugar mills in Mexico, which employ about 150,000 workers. In a private meeting with Trade Secretary Herminio Blanco later in the month, the CNIAA and ULCPC pressed for greater protection for the sugar industry, including the possibility of imposing quotas or other restrictions on US corn syrup.

However, Blanco told representatives of the sugar industry that the administration cannot implement any stronger protections without violating its commitments under the North American Free Trade Agreement (NAFTA) and the World Trade Organization (WTO). "We must respect the commitments we made under NAFTA," Blanco told participants. "Because of them, it would be very difficult to block corn-syrup producers from gaining access to the Mexican market." At Blanco's suggestion, in mid-September representatives from the sugar industry and soft-drink manufacturers negotiated a three-year supply agreement.

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According to CNIAA president Rodolfo Perdomo, soft-drink bottlers pledged to limit their use of HFSC to 350,000 MT annually during 1998- 2000 in exchange for a 6% reduction in sugar prices. But SECOFI's facilitation of the negotiations between the sugar industry and soft-drink manufacturers raised some questions in the US about possible violations of NAFTA.

US seeks to reverse Mexican tariffs on corn syrup

According to some members of the US Congress, the agreement between the sugar industry and soft-drink manufacturers violates Mexico's own anti-monopoly laws and could represent a non-tariff barrier to imports of HFSC. In a letter in mid-September, two key members of the US Senate Agriculture Committee, Sen. Richard Lugar (R-IN) and Sen. Tom Harkin (D-Iowa), asked Blanco to clarify SECOFI's involvement in the deal. For his part, Blanco has dismissed the criticisms from the US Congress and emphasized that SECOFI played a very small role in the deal. "The agreements were reached between private parties," Blanco told reporters.

Still, SECOFI's involvement in brokering the agreement is only a small part of a growing dispute between the US and Mexico regarding trade in sugar and HFSC. According to US President Bill Clinton's administration, the larger issue is whether the duties imposed by the Mexican government in June violate fair-trade rules of NAFTA and the World Trade Organization (WTO). The US contends that the WTO anti-dumping code does not apply to the case since corn syrup and sugar are two separate products, even though they are used for similar purposes.

Peter Scher, the Clinton administration's special trade ambassador for agriculture, said the US has requested consultations with Mexico to discuss the dispute. According to Scher, consultations are required before the matter can be brought before a WTO dispute-resolution panel. The Mexican government contends that action against US HFSC imports was taken in full accordance with the rules of international trade. "If these were not comparable products, we would not have continued with the preliminary ruling," said Alvaro Baillet, director of SECOFI's commercial policy unit.

According to trade specialists, Clinton has a particularly strong interest in resolving this issue because of its impact on his push to obtain fast-track negotiating authority from Congress. In early September, Rep. Bill Barrett (R-Neb.) hinted that the case could have a bearing on whether Congress agrees to fast-track authority. "If existing trade agreements can be violated, then many members of Congress would question whether the president should receive authority to negotiate other accords," Barrett said in a letter to Jesus Silva Herzog, Mexico's ambassador to Washington.

The Clinton administration, which unveiled its proposed legislation to obtain fast-track authority on Sept. 16, is expected to face a tough fight in Congress, particularly from members of Clinton's own Democratic Party. Fast track allows the executive branch to negotiate trade agreements that Congress can approve or disapprove but not amend.

Mexican sugar industry questions NAFTA sugar clauses

For its part, the CNIAA has urged the Zedillo administration to renegotiate sections of NAFTA to allow Mexican sugar greater access to the US market. According to CNIAA president Rodolfo Perdomo, "a bad negotiation of NAFTA" by former president Carlos Salinas de Gortari's

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administration allowed US corn syrup almost unlimited access to the Mexican market, while Mexican sugar exports to the US have strict limitations. Under NAFTA, Mexico received a quota of 25,000 MT annually for sugar exports to the US through the year 2001. The quota will increase to 250,000 MT between 2001 and 2009, and will disappear completely thereafter.

In negotiating the sugar provisions, the US and Mexico left open the possibility of expanding Mexico's quota. However, this commitment was not included in the NAFTA text, but was part of a letter of understanding between former US trade representative Mickey Kantor and Mexico's ex-trade secretary Jaime Serra Puche. The CNIAA has charged that the letter of understanding could invalidate the sugar provisions of NAFTA because of a lack of input from the Mexican Senate, which must ratify all treaties signed by the executive. However, Trade Secretary Blanco ruled out a renegotiation of NAFTA, suggesting that the letter merely contains an exchange of technical details.

Furthermore, Blanco said the Mexican sugar industry was fully aware of the letter's content, so there was no "secret agreement" with the US, as the CNIAA has charged. On the other hand, Blanco said the Mexican government is following up on the letter with the US government to clarify the steps by which Mexico can raise its sugar-export quota. If the US and Mexico are unable to clarify the matter through consultations, said Blanco, the Mexican government can still request that a NAFTA dispute-resolutions panel look into the matter.

The dispute over HFSC imports have also raised questions about the Mexican sugar industry's future ability to compete. Sugar producers have to contend with high production costs and a large surplus of product. According to El Financiero International weekly newspaper, much of the future competition for the sugar industry will come from domestic HFSC, which is fairly inexpensive to produce because of a large supply of corn in Mexico. In fact, two US-based companies, Cargill and ADM, have already initiated construction of HFSC plants in Mexico.

According to the food committee (Consejo de Alimentos) of the Camara Nacional de la Industria de Transformacion (CANACINTRA), the development of an HFSC industry could prove beneficial to the Mexican economy. "On one hand, manufacturers would have access to a more manageable, cleaner, cheaper, and safer product," the committee said. "On the other hand, this would open the door to investments in new plants and technology to produce high- fructose corn syrup in Mexico." (Sources: The News, 08/04/97; El Nacional, 08/21/97, 09/01/97; Reuter, 07/16/97, 08/28/97, 09/03/97, 09/04/97; El Financiero International, 09/01/97, 09/08/97; Associated Press-Dow Jones news service, 09/04/97, 09/08/97; La Jornada, Novedades, 09/10/97; El Universal, 08/04/97, 08/11/97, 08/12/97, 08/26/97, 08/28/97, 09/03/97, 09/05/97, 09/10/97, 09/11/97; Excelsior, 09/05/97, 09/09- 11/97; El Economista, 08/11/97, 08/12/97, 08/20/97, 08/21/97, 08/28/97, 09/03/97, 09/05/97, 09/11/97, 09/17/97; New York Times, Journal of Commerce, 09/17/97)

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