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During March, the US and Mexico resolved their dispute regarding trade in apples, but disagreements on high-fructose corn syrup, sugar, copyright violations, and straw brooms have again raised tensions between the two countries. The resolution of the apple dispute was surprisingly quick.

In early March, the office of the US Trade Representative (USTR) and Mexico's Secretaria de Comercio y Fomento Industrial (SECOFI) agreed to eliminate Mexico's 101% duty on US apples, primarily red-delicious and golden- delicious varieties grown in Washington state. The preliminary duty was imposed in September 1997 at the request of the Union Agricola Regional del Estado de Chihuahua (see SourceMex, 09/24/97).

In exchange for eliminating the duties, the Washington Apple Commission agreed to set a minimum price of US$13.72 per 19-kg box for apples shipped to Mexico. The US producers also agreed to ask the US Department of Agriculture to certify the state of Chihuahua as free of fruit-fly infestations, which would pave the way for producers in that state eventually to export to the US.

Apple producers in Washington state were initially opposed to any US settlement with SECOFI because of concerns that the Mexican government had not thoroughly investigated the matter. The US producers had accused Mexican importers of falsifying invoices to avoid paying taxes, creating the appearance that US apples were being sold in Mexico at less- than-market value. In an interview with the US business newspaper The Journal of Commerce, Trade Secretary Herminio Blanco acknowledged that some importers were engaged in false invoicing. But he said SECOFI's investigation also concluded that US apples were being sold at unfair prices in Mexico, which threatened apple producers in Chihuahua and other northern states.

In the end, US growers did not oppose the USTR's negotiations with Mexico because the preliminary duty of 101% imposed in September succeeded in stopping almost all apple exports from Washington state to Mexico. SECOFI had been expected to formalize the duty in March, but that has been superseded by the agreement with the USTR.

US, Mexico seek to tie sugar quotas to fructose duties

The compromise on apple trade followed another simmering dispute between the US and Mexico regarding sugar and high- fructose corn syrup. In early March, the Mexican government invoked the North American Free Trade Agreement (NAFTA) to request formal consultations with the USTR to discuss US sugar-import policies. The request for formal consultations is the first step in the creation of a special NAFTA dispute- resolution panel. The SECOFI request was presented a few days after the US announced its sugar-import quotas for the next fiscal year.

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Under this mechanism, which is in compliance with rules established by the World Trade Organization (WTO), the US determines its sugar-import needs for a given year and designates quotas accordingly to exporting nations. The quotas are based on each country's historical sales to the US. For Mexico, the US decided not to import more than the 25,000 metric tons of sugar allowed under NAFTA for this year. Blanco said the consultations with the USTR are intended to clarify technical points of sugar-import policies the US will adopt in 2000, when Mexico will be allowed to export 250,000 MT of sugar annually to the US.

The Camara Nacional de la Industria Azucarera y Alcoholera (CNIAA) was more critical of US policies on sugar- import quotas. In particular, the CNIAA complained that sugar-import quotas were increased for countries such as the Philippines and Peru, but not for Mexico. "We are not being treated like a trade partner," the CNIAA said. The Mexican government and the sugar industry are pushing for faster expansion of the quota because of Mexico's sugar surplus. In 1997, Mexico produced about 4.5 million MT of sugar, with domestic consumption of slightly more than 3 million MT.

The USTR is also facing pressure from US sugar producers, who strongly oppose any increased access to the US market for Mexico ahead of 2000. Both the US and Mexico would like to link the decision on sugar-export quotas to the dispute regarding trade in high- fructose corn syrup. In a recent interview, CNIAA president Rodolfo Pedromo Bueno said the sugar-import quota should be linked to US exports of corn syrup to Mexico.

Similarly, a spokesperson for the USTR said the US government will agree to consultations on the sugar issue on the condition that Mexico review its February decision to impose high duties on corn-syrup imports. The US government has requested NAFTA dispute resolution in this matter (see SourceMex, 02/04/98 and 03/04/98). "The actions Mexico has taken regarding high-fructose corn syrup make our consideration of their request for more sugar access much more difficult," said USTR agricultural specialist Peter Scher.

In the US Congress, 12 members of the House of Representatives have asked the USTR to investigate whether the duties on corn syrup violate US trade laws. If so, the US legislators said, the US should retaliate swiftly against Mexico.

Potential conflicts loom on brooms, copyright violations

The threat of trade retaliation has also been raised by the Mexican government regarding US restrictions on straw brooms. SECOFI has accused the US government of failing to comply with a dispute-resolution panel, which earlier this year ruled that US restrictions on brooms violated NAFTA. The US restrictions, imposed in November 1996, included a quota and a tariff increase (see SourceMex, 12/18/96).

As of late March, the US had not complied with the NAFTA panel ruling, which led SECOFI to warn of retaliation. "If the US does not comply with the [decision of the] panel, Mexico could impose some increase in tariffs for US products," said Trade Secretary Blanco. Another dispute that could soon come to the fore involves copyright violations in Mexico. The Recording Industry Association of America (RIAA) has accused the Mexican government of violating the provisions of NAFTA that

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protect intellectual property. RIAA director Jason Berman said the Mexican government has failed to act on complaints presented to the Instituto Mexicano de la Propiedad Industrial (IMPI), SECOFI, and the Procuraduria General de la Republica (PGR).

Berman said loses from illegal copying in Mexico of cassettes, compact discs, and software have reached US$60 million to US$70 million annually. Similarly, the Intellectual Property Alliance (IPA) has asked the USTR to monitor copyright violations in Mexico more closely. Under an existing monitoring system, the USTR lists Mexico as a country "under observation." The IPA has requested that Mexico be moved to a monitoring "priority" category. (Sources: Associated Press, 03/08/98; Excelsior, 03/10/98; El Universal, 03/13/98; The Journal of Commerce, 03/09/98, 03/10/98, 03/23/98; Notimex, 03/12/98, 03/24/98; Reuter, 03/18/98, 03/21/98, 03/26/98; Novedades, La Jornada, 03/26/98; El Economista, 03/12/98, 03/13/98, 03/19/98, 03/24/98, 03/25/98, 03/31/98)

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