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In early September, the Secretaria de Comercio y Fomento Industrial (SECOFI) announced a new tariff on imports of high- fructose corn syrup (HFCS) from US companies Archer Daniels Midland (ADM) and A.E. Staley Manufacturing Co. SECOFI said the new tariffs will apply to imports of Grade-90 corn syrup, which the two US companies were shipping to their Mexican subsidiaries to blend with a lower grade of syrup to produce Grade-55 corn syrup. By mixing the imported Grade-90 syrup with domestically produced Grade-44, the companies avoided paying tariffs on Grade-55 corn syrup. SECOFI imposed temporary tariffs on Grade-55 corn syrup in June 1997 and formalized these tariffs in January of 1998 (see SourceMex, 07/02/97 and 02/04/98).

Under the latest SECOFI action, ADM will now have to pay a tariff of US$55.37 per metric ton on Grade-90 corn syrup imported into Mexico. A.E. Staley's tariff was set at US$90.26 per MT. Sugar industry seeks total ban on corn-syrup imports The Mexican sugar industry is pushing President Ernesto Zedillo's administration to impose further restrictions on imports of US corn syrup to protect the Mexican sugar industry.

Gustavo O'Farrill, a SECOFI official who represents the sugar industry, said Mexico would be justified under the rules of the World Trade Organization (WTO) to completely stop all imports of US corn syrup. O'Farrill said US companies are not only selling corn syrup in Mexico at below-market prices, but the imports have severely damaged the Mexican sugar industry.

Manuel Enriquez Poy, vice president of the Camara Nacional de la Industria Azucarera y Alcoholera (CNIAA), said the tariffs imposed on Grade-55 corn syrup have failed to slow imports from the US. In an interview with Reuters news agency, Enriquez said imports this year would approach the 350,000 MT imported in 1997. One reason for the steady imports of US corn syrup is strong demand from the soft-drink and candy industries, said Ricardo Celma, director of the Mexico City office of the US Grains Council. According to Celma, US prices are also very competitive in the Mexican market in relation to sugar and other sweeteners.

For its part, the US Corn Refiners Association (CRA) has criticized SECOFI's decision to impose duties on Grade-90 corn syrup but will not request any new actions by the US government. Chuck Conner, spokesman for the organization, said the CRA will instead await the results of other procedures initiated by the US Trade Representative's office (USTR), including requests for the creation of dispute- resolution panels through the WTO and the North American Free Trade Agreement (NAFTA). Those requests were made in response to SECOFI's formalizing duties on Grade-55 corn syrup earlier this year.

SECOFI spokesperson Luis de la Calle said Mexico is prepared to name its panelists to the NAFTA dispute-resolution panel but would rather resolve the dispute in direct negotiations with the US

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government. The USTR is also in the midst of an investigation under Section 301 of the US Trade Law to determine whether Mexican tariffs on imports of corn syrup represent an anti-competitive practice. A USTR ruling that the Mexican tariffs hinder competition would empower the US government to take retaliatory actions against Mexico.

Mexico faces oversupply of sugar

Meanwhile, the Mexican sugar industry is facing mixed prospects for the 1998-1999 season. A preliminary estimate by the CNIAA has forecast the sugar-cane crop for the year at between 4.8 million MT and 4.9 million MT, a slight decline from 5.2 million MT the previous year. CNIAA vice president Manuel Enriquez said the slight reduction is partly the result of dry conditions in many growing areas. But even with the reduced output in the coming season, Mexico's sugar surplus has kept domestic prices depressed.

Mexico is now the world's sixth-largest sugar producer, with production surging from 3 million MT in 1990 to the 5.2 million MT forecast for the current season. Of the total production forecast for this season, only 4 million MT will be consumed domestically. Because of the surplus on the domestic market, SECOFI has provided subsidies for sugar mills to export their excess production. As a condition for the subsidies, SECOFI is requiring the mills to export all their excess supply to avoid penalties. However, the CNIAA has asked SECOFI for an extension of the deadline to export the excess sugar, because transportation delays and other logistical problems have slowed down shipments.

SECOFI must balance the CNIAA request with concerns from the Union Nacional de Caneros (UNC), which represents more than 140,000 sugar-cane producers. The UNC has asked the government to impose the penalties because the current oversupply has caused severe problems for the domestic market. With 1 million MT of surplus sugar, Mexico would like more access to the US market. But exports to the US are limited by an NAFTA side agreement limiting Mexican sugar exports to the US to 250,000 MT.

At a recent forum in Idaho, SECOFI officials said they plan to challenge the validity of the letter. But this angered the US sugar industry, which claims that Mexico must stick to its end of the bargain. "The side letter was negotiated by the Mexican and US governments and approved by the US Congress when it considered NAFTA," said Carolyn Cheney, a spokesperson for the American Sugar Alliance, a coalition of growers, processors and refiners of sugar. "A deal is a deal." (Sources: The News, 08/13/98; Excelsior, 08/17/98; Reuters, 08/06/98, 09/07/98, 09/09/98, 09/10/98; El Economista, 08/17/98, 09/04/98, 09/08/98; El Universal, 09/08/98; El Financiero International, 08/31/98, 09/14/98)

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