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U.S., Mexico at Impasse in Negotiations on Sugar Trade

by LADB Staff

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The US and Mexico remain at an impasse in efforts to resolve their differences on trade in sweeteners, raising concerns that the issue may not be resolved before tariff restrictions under the North American Free Trade Agreement (NAFTA) are lifted in 2008. President Vicente Fox's administration has been unable to force the US government to meet its NAFTA commitment to acquire all of Mexico's excess sugar production.

The US insists that a side letter negotiated after the accord went into effect supersedes the original NAFTA commitment (see SourceMex, 2000-05-31). In the late 1980s, Mexico moved to protect its sugar industry by imposing tariffs on imports of high-fructose corn syrup (HFCS) from the US, which it said displaced sugar in the domestic market (see SourceMex, 1997-07-02, 1998-02-04).

The US took the matter to the World Trade Organization (WTO), which ruled that the tariffs were illegal. The Mexican Congress employed a different strategy in 2002 by imposing a value-added tax (impuesto al valor agregado, IVA) on products that use HFCS, forcing soft-drink manufacturers to use sugar (see SourceMex, 2002-01-06). The tax was implemented despite objections from the Fox administration (see SourceMex, 2002-04-10 and 2002-07-17).

WTO panel to hear latest corn-syrup dispute

The US government, responding to complaints by US corn processors, brought the new HFCS tax to the WTO in March. The trade organization gave the two countries two months to resolve their differences, but negotiations did not bring any agreement. This led the WTO to agree in June to create a dispute-resolution panel to review the case.

While the US has been quick to resort to international trade bodies to affirm its positions, US officials at times have been less interested in dealing with complaints about its own policies. For example, Mexico requested the creation of a NAFTA dispute-resolutions panel to look into its complaint that the US was not meeting its sugar commitments under the trade accord (see SourceMex, 2000-08-09). The panel was never formed because the US did not name any judges, said Hugo Perez Cano, legal counsel at the Secretaria de Economia (SE).

"In our view, it's a double violation of NAFTA," Perez Cano told The New York Times. "One is the lack of access to [US markets for] sugar, and the other is that the United States won't allow a panel to resolve it."

Still, the Mexican sugar industry is hopeful that the US and Mexico can eventually resolve their differences through consultations. "There's enough space in Mexico for US high-fructose and enough space in the US for Mexican sugar," said Juan Cortina Gallardo, chief executive of Grupo Azucarero Mexico (GAM). "But it needs to be managed so that there are no excesses."

Some industry sources say Mexico's tariffs on HFCS imports have given the country some leverage in negotiations with the US. "Thanks to the tax, [the US is] sitting at the negotiating table," said Jose Antonio Menchaca, president of the Camara Nacional de las Industrias Azucarera y Alcoholera (CNIAA). "Without the tax, they would not even answer the telephone." Mexican officials are cautiously optimistic that some agreement can be reached in the near future. Both countries are concerned about a 2008 NAFTA deadline, when tariffs on sweeteners are scheduled to be eliminated.

Heladio Ramirez, president of the Confederacion Nacional Campesina (CNC), believes a compromise with the US could allow the government to drastically restructure the sugar industry. "We have to provide a measure of certainty to private investment, whether Mexican or foreign," said Ramirez. "This would guarantee regional development and reduce levels of unemployment, poverty, and emigration."

The US sugar industry has also come out in favor of a negotiated solution before 2008 because of concerns that an unrestricted flow of sugar from Mexico could cause problems in the US market. "Chaos would stem from that," said Jack Roney, director of economics and policy analysis for the American Sugar Alliance. Mexico, in turn, is concerned that its market could be swamped by HFCS imports. The US Corn Refiners Association says that the elimination of the 20% IVA in Mexico alone could boost US sales of corn syrup by US\$620 million annually.

Some domestic sugar shortages continue in Mexico

The possibility of Mexican sugar flooding the US market appears remote for now because Mexico has run production deficits rather than surpluses in recent years. Mexico was even forced to import small amounts of sugar last year to prevent prices from escalating (see SourceMex, 2003-09-10). The problems in the sugar industry are viewed as temporary and are tied in part to a still inefficient sugar-processing infrastructure, which has been unable to meet increasing demand despite the government's rescue of several mills in 2000 (see SourceMex, 2000-03-01).

Economy Secretary Fernando Canales Clariond said the Fox administration is hoping that Mexico can eventually return to meeting its own domestic sugar needs. "The truth is that we are attempting to regain self-sufficiency, which we haven't had for a couple of years," said Canales Clariond. The domestic shortage of sugar has created other problems for the Fox government, including an increase in illegal imports. The CNIAA and the Union Nacional de Productores de Cana de Azucar (UNPC) estimate that as much as 100,000 metric tons of sugar have been smuggled in to Mexico since September of last year.

One company that is said to have imported sugar illegally is Comercializadora de Carnicos San Francisco de Asis, which is managed by relatives of Fox. "We are not interested in who is involved in smuggling operations," said UNPC president Daniel Perez Valdez. "All we're asking is that authorities put a halt to these illegal imports, which in the end are displacing domestic production." (Sources: Spanish news service, EFE, Dow Jones news service, 03/16/04; El Independiente, 03/17/04; El Universal, 03/17/04, 04/06/04; Agencia de noticias Proceso, 05/13/04; La Cronica de Hoy, 03/07/04, 05/14/04; El Sol de Mexico, 03/17/04, 04/01/04, 05/20/04; Associated

Press, 03/16/04, 06/06/04; The New York Times, 03/17/04, 06/09/04; The Herald-Mexico City, 03/17/04, 06/11/04; La Jornada, 05/21/04, 06/11/04, 07/07/04)

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