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Growers Angry with Fox for Threatening to Veto Sugar Cane Legislation

by LADB Staff
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President Vicente Fox's administration and sugar growers are embroiled in a fierce fight on whether the government should continue to provide direct production subsidies. At issue is whether growers should receive up-front guaranteed payments or whether the market should determine the price at which cane will be sold to processors. The president had already taken steps to modify the pricing mechanism for sugar cane by eliminating the 30-year sugar-cane decree (Ley de Desarrollo Sustentable de la Cana de Azúcar) in January of this year (see SourceMex, 2005-01-26).

The Chamber of Deputies, led by representatives of sugar-producing states like Veracruz, voted to bring back the decree during a special session of Congress in June. Fox, unhappy with the congressional vote, has threatened to exercise his veto power, although the decision may be delayed for some weeks to allow a compromise with legislators and with the sugar-cane unions, part of the Confederacion Nacional Campesina (CNC) and the Confederacion Nacional de Productores Rurales (CNPR). If the president does veto the law, he would send it back to Congress with recommended changes.

Administration says old policies keep sugar prices high

In press statements, the administration repeated its contention that the guaranteed prices, in effect production subsidies, contribute to artificially high prices for sugar in Mexico. "As a result of this situation, Mexican consumers pay two-and-a-half times more for sugar than the price on the international market," said a study released by the Secretaria de Agricultura, Ganaderia, Desarrollo Rural, Pesca y Alimentacion (SAGARPA).

Mexico was the world's seventh-largest sugar producer in 2004, yet its domestic prices were among the highest in the world. Labor leaders say, however, that sugar-cane producers are not the main beneficiaries of the high prices. "Today, the cane producer receives about 3.28 pesos (US$0.30) per kilo of sugar, while the processor receives 5.90 pesos (US$0.55), and the consumer pays about 10 pesos (US$0.94)," said CNPR officer Carlos Blackaller Ayala.

Furthermore, Blackaller Ayala noted that the price of soft drinks has risen at a much faster rate than the price of sugar and the consumer price index. The Fox administration argues that the artificially high domestic prices for sugar cane are also hurting the sugar-processing industry, which has been unable to modernize. The decree seeks to set a reference price for sugar cane, regardless of the international price of sugar.

Under these conditions, one cannot develop a healthy domestic market, said nationally syndicated columnist Sergio Sarmiento, who argues that the sugar sector has to modernize before Mexico fully opens its market to sugar imports in 2008 under terms of the North American Free Trade Agreement.
(NAFTA). "There are very good reasons to eliminate the special treatment that the sugar-cane sector has enjoyed for so many years," said Sarmiento. "A very important reason is that our sugar industry is becoming obsolete and inefficient, resulting in higher prices not only for sugar consumers, but also producers of candies, chocolate, and soft drinks."

The CNC and CNPR, supported by legislators and governors from the 15 major sugar-producing states, warn that the administration could cripple the sugar industry if the decree is not allowed to remain in place. Mexico's sugar industry employs 270,000 cane growers. An estimated 3.5 million people in many of the most isolated parts of the country rely indirectly on the sugar sector for their income.

Critics accuse president of helping soft-drink industry

Among those opposing a presidential veto are legislators from Fox's center-right Partido Accion Nacional (PAN), including Sens. Gerardo Buganza Salmeron and Diego Palmero Andrade of Veracruz state.

The legislators defended the congressional decision to resurrect the sugar decree, which offers the Mexican sugar industry much-needed special protections to survive, especially with the opening of the sweetener market to foreign competition. "If President Fox insists on exercising the veto, our sugar-cane production could decline to about 4 million [metric] tons," said Jose Cruz Romero, legal counsel of the CNPR. "And any deficit in the domestic sweetener market will be made up through imports of high-fructose corn syrup (HFCS)."

Industry sources said a decline in production could lead soft-drink manufacturers to replace as much as 150,000 MT of sugar with imported HFCS. Mexico and the US have been in a dispute regarding HFCS for almost two decades. In the late 1980s, Mexico moved to protect its sugar industry by imposing tariffs on HFCS imports from the US, saying they 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).

Informal reports in June of this year indicate that the WTO trade-resolutions panel is about to rule against the tax on HFCS-based soft drinks as an unfair trade practice. The Mexican government obtained a preliminary version of the resolution, expected to be finalized in August. "We are reviewing this document to see if there is any possibility of appealing the matter to a higher authority," said Economy Secretary Fernando Canales Clariond. At the same, he noted, the Mexican government would continue to negotiate a compromise with the US.

The Mexican sugar industry and legislators from sugar-producing states, while supporting the Fox government's decision to appeal the WTO case, doubt that the Fox administration is truly looking after the interests of Mexican sugar growers. As evidence, they cite the government's insistence on
vetoing the sugar decree and its failure to launch a more vigorous effort to force the US to comply with its commitments under NAFTA to acquire all excess sugar produced by Mexico.

Former Trade Secretary Jaime Serra Puhe signed a side letter to the NAFTA accord reducing the amount of Mexican sugar that the US is obligated to acquire under NAFTA. The US insists that the side letter supersedes the original NAFTA commitment (see SourceMex, 2000-05-31).

Deputies Marco Antonio Torres and Juan Fernando Perdomo Bueno, both members of the former governing Partido Revolucionario Institucional (PRI), accused Fox of favoring soft-drink manufacturers over sugar-cane growers. Both Torres and Perdomo represent Veracruz state, one of the major sugar-cane producing areas. "Fox appears to want to favor his friends in the soft-drink industry more than the sugar-cane industry," said Perdomo, referring to the years Fox spent as an executive of Coca Cola Mexico before he entered politics.

Sugar-cane producers made known their discontent with the Fox government's intention to veto the decree by holding a huge demonstration in Mexico City. Event organizers said 35,000 cane growers and their supporters marched several kilometers to the SAGARPA headquarters to express their opposition. The sugar-cane unions threatened to punish Fox's party, the PAN, in next year's congressional and municipal elections in 15 states if the president vetoes the decree. The elections coincide with the presidential race on July 2. "[The PAN] has betrayed the people," said one speaker.

The Fox administration is attempting to forge some sort of compromise with cane producers, thereby avoiding the veto. "We are in favor of a full and open dialogue," said Agriculture Secretary Javier Usabiaga Arroyo. The two sides are expected to hold fast to their positions, however, as evidenced by the lack of progress during an initial meeting between administration officials and union leaders in late July.

"This is not about pitting forces against one another. It's a time for all aspects of the sugar-producing sector to work together to ensure equal treatment, fair distribution of payments, stability for growers, as well as competition and investment in the industry," said Usabiaga. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on July 28, reported at 10.61 pesos per US$1.00] (Sources: Global Agriculture Network Information, 06/27/05; US Corn Refiners Association press release, 06/29/05; Reuters, 07/13/05; Reforma, 07/15/05; Periodico A.M., El Sol de Xalapa, 07/18/05; E-Once Noticias, 07/19/05; El Financiero, 07/18/05, 07/19/05, 07/22/05; El Informador, 07/25/05; Notimex, 07/14/05, 07/18/05, 07/19/05, 07/21/05, 07/26/05, 07/27/05; El Sol de Cordoba, 07/19/05, 07/27/05; Associated Press, Agence France-Presse, 07/27/05; La Jornada, 07/17/05, 07/19/05, 07/20/05, 07/22/05, 07/25-28/05; El Universal, 07/19/05, 07/20/05, 07/28/05; La Cronica de Hoy, 07/19/05, 07/21/05, 07/22/05, 07/27/05, 07/28/05; The Herald-Mexico City, 07/20/05, 07/28/05)

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