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LADB Staff

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WTO Rules Mexico's Tax on High-fructose Corn Syrup is Illegal

by LADB Staff
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The Mexican government is considering imposing new restrictions on imports of US high-fructose corn syrup (HFCS) after the World Trade Organization (WTO) issued a ruling that an existing tax was illegal. The WTO ruling has not been formally announced, but Mexican trade officials confirmed that the international trade body has declared that Mexico's 20% consumption tax on HFCS runs counter to global fair-trade laws.

The tax was imposed in 2002 to discourage the Mexican soft-drink industry, which is one of the country's largest sugar consumers, from switching to imported high-fructose corn syrup (see SourceMex, 2002-01-16). President Vicente Fox briefly suspended the tax (see SourceMex, 2002-04-10), but was overruled by Mexico's high court (see SourceMex, 2002-07-17).

The US government brought the matter before the WTO at the request of the US corn-processing industry and legislators from US Midwestern states, which supply much of the corn used in HFCS production (see SourceMex, 2004-07-14). Analysts said the WTO's decision was not surprising. "The Mexicans never had a chance," said Sidney Weintraub, a political economist with the Center for Strategic and International Studies (CSIS) in Washington, DC. "Their argument was based on fair play; the US position was based on the law."

The Los Angeles Times made a similar comment in an editorial in late August. "The US won its case, unsurprisingly, upholding the principle of free trade enshrined in NAFTA," said the editorial. "Yet the victory does nothing for its reputation for fairness. When it comes to the sugar industry, there is hardly a more protectionist country in the world than the United States."

The Mexican government is now considering using provisions in the North American Free Trade Agreement (NAFTA) to protect its sugar industry. "We're considering resolving the tax issue and substituting it with an import tariff under the NAFTA framework," said Hugo Perezcano, director of international trade negotiations at the Secretaria de Economia (SE).

Corn syrup could replace sugar in Mexican soft drinks

Unrestricted importation of high-fructose corn syrup could result in a change in the formula used to manufacture soft drinks in Mexico. The change could especially affect Coca-Cola, one of the more popular soft drinks in Mexico. The company sold 2.28 billion unit cases of Coca-Cola in Mexico in 2004, the second-largest national sales in the world. "What makes Mexican Coke so good and different from the US variety, say aficionados, is that it is made with real sugar cane sweetener," columnist Jonathan Clark said in the Mexico City English-language newspaper The Herald.

"Mexican Coke has a fresher flavor than US Coke," Mexico City accountant Gilda Varela told The Herald. "It tastes like they just made it, whereas US Coke tastes like it's been sitting in a warehouse
for weeks." Coca-Cola officials say flavor is not the only factor that has built up loyalty for the Mexican product. "I think a large part of folks' preference for Mexican Coke is the bottles," said Jorge Casimiro, spokesman for Coca-Cola's Latin American operations.

**Fox agrees not to veto sugar decree**

Beyond the impact on the product, a flood of HFCS into Mexico could be devastating for the Mexican sugar industry, which is highly subsidized but which also provides jobs for 2.5 million families. Organizations representing sugar-cane growers were recently able to pressure the Fox administration to support a decree that retains direct production subsidies.

In January of this year, Fox eliminated the 30-year sugar-cane law (Ley Sustentable de la Cana de Azucar), in effect eliminating guaranteed prices for cane growers (see SourceMex, 2005-01-26). The Congress restored the measure in a special session in June, prompting Fox to threaten to veto the legislation (see SourceMex, 2005-07-27).

The threat of a presidential veto caused the Confederacion Nacional Campesina (CNC) and the Confederacion Nacional de Productores Rurales (CNPR) to organize massive demonstrations in Mexico City. This prompted the Fox government to negotiate an agreement with the organizations rather than veto the legislation.

The agreement retains many protections for cane growers, but also implements some market mechanisms that the Fox government was promoting. Under the compromise crafted by the Fox government and representatives of the CNC and CNPR, growers will receive a 57% up-front payment on the delivery of cane but will establish market-based prices, rather than fixed minimum prices, as the reference for the supply contract.

"The new law will keep the collective supply contracts for cane growers, but it will also include the option for producers to use the new individual supply contract that the government had proposed," said Deputy Lazaro Arias Martinez of the former governing Partido Revolucionario Institucional (PRI). [Sources: Reuters, 07/13/05; Notimex, 08/11/05; El Universal, 08/11/05, 08/12/05, 08/15/05; La Jornada, 08/12/05, 08/15/05; El Financiero, 08/15/05; Notimex, 08/14/05, 08/22/05; Agencia de noticias Proceso, 08/22/05; La Cronica de Hoy, 08/15/05, 08/23/05, 08/24/05; The Herald-Mexico City, 08/15/05, 08/23/05, 08/25/05; Los Angeles Times, 08/24/05, 08/28/05]

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