12-7-2005

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Recommended Citation
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by LADB Staff
Category/Department: Mexico
Published: 2005-12-07

In the latest chapter on the US-Mexico dispute regarding trade in sweeteners, President Vicente Fox's administration has announced its intention to appeal a recent ruling from the World Trade Organization (WTO) declaring a Mexican tax on high-fructose corn syrup (HFCS) illegal. In the ruling handed down earlier this year, a WTO panel said the 20% consumption tax applied to products manufactured with HFCS runs counter to global rules on fair trade (see SourceMex, 2005-08-31).

The Mexican Congress imposed the tax in 2002 to discourage the soft-drink industry, one of the country's largest sugar consumers, from switching to HFCS imported from the US (see SourceMex, 2002-01-16). The Secretaria de Economia (SE), which will file the appeal, said a WTO appeals panel has 60 days to resolve the case, although in some instances that period can be extended to 90 days.

**Tax on fructose to remain in place for now**

Mexico plans to keep the tax on HFCS in place until all appeals have been exhausted. In defending the decision to appeal, the SE said the move by Congress to impose the tax on HFCS was a response to the US refusal to meet its sugar-purchase commitments under the North American Free Trade Agreement (NAFTA).

Under the agreement, the US committed to acquire all of Mexico's surplus sugar production, beginning in 2000 (see SourceMex, 2000-05-31 and 2000-08-09 and 2002-03-06). The US has reneged on the original terms of NAFTA, arguing that a side letter signed by former trade secretary Jaime Serra Puche and ex-US trade representative Mickey Kantor superseded the NAFTA provision. The side letter commits the US to buy only 25,000 metric tons of Mexican sugar annually. In an effort to compromise, the US agreed in 2000 to increase the quota to 250,000 MT rather than take all of Mexico’s surplus (see SourceMex, 2000-05-31).

A global surplus of sugar, along with a US commitment to import supplies from other countries, compounded the problem. The US has kept the quota somewhat flexible in recent years, allowing a certain amount of Mexican sugar to enter the country duty free and charging a tariff on additional amounts.

Even after adopting a more flexible policy, the US has never agreed to its original NAFTA commitment to take all Mexico's surplus production. This prompted the Mexican government to repeatedly propose that the disagreement be brought before a NAFTA dispute-resolutions panel, but the US government has declined this option, said the SE. "Even if Mexico wins the WTO appeal, this will not solve the root cause of the problem, which is the lack of access for Mexican sugar to the US market," the SE said in a statement.

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Still, Mexico has not always been in a position to provide a reliable supply of sugar to the US. In 2003 and 2004, Mexico faced a domestic sugar shortage despite global surpluses. The shortages were related to an inefficient sugar-processing infrastructure (see SourceMex, 2003-09-10 and 2004-07-14).

Some observers are urging the Mexican government to find a negotiated solution to the dispute regarding sweeteners. "This problem has dragged on for a very long time," said Marco A. Mares, a columnist for the Mexico City daily newspaper La Cronica de Hoy. "It is not efficient for one country to take unilateral measures that will force the other one to respond with its own unilateral measures."

If the US were to agree to take Mexico's surplus production from the 2004-2005 crop, which would be applicable to the 2006 calendar year, the total would amount to 1 million MT. Lacking a commitment from the US to meet its NAFTA obligations, the Mexican government thinks it can convince US President George W. Bush's administration to take 500,000 MT of sugar next year, compared with 300,000 MT in 2005. "There is an increase in demand for sugar in the US," said the government's sugar-marketing agency (Fideicomiso Comercializador, FICO).

Some sugar producers, however, are not pleased with FICO's marketing plans because 400,000 MT of sugar exports to the US will be subject to a tariff of US$70 per MT. "We will incur a loss, as the cost of production for a metric ton of sugar is 391 pesos (US$37)," said Ruben Garcia Trevino, president of the Camara Nacional de las Industrias Azucarera y Alcoholera (CNIAA).

**WTO denies Mexico’s appeal on rice duties**

In addition to the dispute about sweeteners, Mexico is involved in a conflict with the US regarding tariffs imposed on imports of US rice. In a ruling handed down in late November, a WTO panel rejected an appeal from the Mexican government to a decision the trade body issued in late May of this year. In that earlier ruling, a special panel said Mexico improperly imposed countervailing duties on imports of US long-grain rice in 2002 (see SourceMex, 2003-07-02).

In upholding the earlier ruling, the appeals panel agreed with the conclusion that the Mexican government had based its analysis of economic damage to its rice producers on outdated information (see SourceMex, 2005-06-01). Furthermore, said he appeals panel, Mexico failed to examine some of the data it had collected and improperly applied anti-dumping tariffs against two US exporters that were not selling their product in Mexico at below-market value. The recent decision by the appeals panel is not open to further appeal, which means that Mexico will have to eliminate the duties on US rice.

Mexico was self-sufficient in rice production in the 1960s and imported less than 1% of its total needs as recently as 1989 (see SourceMex, 2000-01-19). By 2000, Mexico was importing 60% of the rice consumed in the country, particularly from the US. By 2002, Mexico had become the largest market for US rice exports, with imports that year totaling US$103 million. The import volume rose to US$183 million in 2004 despite the duties that the government had imposed on long-grain rice. EU threatens to file complaint against Mexico on olive oil Mexico's agricultural-trade policies are also being questioned by the European Union (EU), which is disputing countervailing duties imposed on olive oil.
The EU, which plans to bring the matter before the WTO, said Mexico improperly placed import duties of US$0.40 to US$0.73 per kg on imports of olive oil from EU countries. Mexico contends the EU is providing illegal subsidies to its producers. Luz Maria Reyes is a partner in the consulting company SAI, which filed the complaint in 2003 that led to the Mexican government's decision to impose the duties on European olive oil. Reyes, who is representing Mexican food company Fortuny de Mexico, said subsidies significantly reduce the price of EU olive-oil exports to Mexico, hurting her client.

The EU contends that its subsidies are not illegal. EU officials are taking the matter to the WTO on behalf of industry groups in Spain and Italy. Mexico imported US$45.2 million worth of Spanish and Italian olive oil in 2004. This was before the duties were imposed in August of 2005. Reyes is confident that the WTO will side with Mexico.

"The Mexican government conducted a very careful investigation in this case," said Reyes. "It will be very interesting to see how the WTO is going to resolve this case because it could set a precedent on subsidies offered by the large entities to their agriculture producers." [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on Dec. 7, reported at 10.46 pesos per US$1.00] (Sources: Press release, Office of the US Trade Representative (USTR), Reforma, 11/29/05; The Herald-Mexico City, 11/30/05; Associated Press, 11/30/05, 12/06/05; Spanish news service EFE, Notimex, Reuters, 12/06/05; El Universal, La Jornada, 11/28/05, 12/01/01, 12/07/05; La Cronica de Hoy, El Economista, 12/06/05, 12/07/05)