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Mexico-U.S. Agreement Could End 16-Year Dispute Over Cement Tariffs

by LADB Staff
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The protracted battle between the US and Mexico regarding trade in cement appears finally to be coming to a conclusion. In mid-January, officials from the two countries reached an agreement by which the US would gradually eliminate its anti-dumping tariffs on Mexican cement. In exchange, Mexico agreed to drop its complaint against the US for unfair trade practices on imports of Mexican cement.

The two sides have been at odds on this issue since 1990, when the US government imposed a countervailing duty of 55% against several Mexican cement companies on the premise that they were selling surplus cement in the US at below-market prices. The US had made the countervailing duty subject to review on an annual basis, but there has been no move to remove the tariff in the past 16 years (see SourceMex, 1994-08-10, 2000-10-11, and 2002-02-26).

Mexico brought the issue before the World Trade Organization (WTO), which agreed in 2003 to form a dispute-resolutions panel (see SourceMex, 2003-02-12 and 2003-09-03). The WTO panel had not issued a ruling as of late 2005.

The US and Mexican governments revisited the issue in December 2005 at the meeting of the Doha Round of WTO talks in Hong Kong. At that meeting, led by US Trade Representative Robert Portman and Mexican Economy Secretary Sergio Garcia de Alba, the two sides committed to find a negotiated solution to the problem. A month later, the US and Mexico announced the agreement, by which the US would initially reduce the tariff on Mexican cement imports to 42.26%.

At the same time, Mexico agreed to drop the dispute that had been under consideration by the WTO dispute-resolution panel. Garcia de Alba said the two sides are expected to continue negotiations in the coming months as part of an effort to eliminate the duties entirely. The US cement industry, which had pushed the US government to impose the tariffs in the first place, said it had no problem with the tariff reductions. "We understand that progress is being made and wish the negotiators good luck on both sides," said attorney Joe Dorn, whose company King and Spalding represents a coalition of 23 US cement companies known as the Southern Tier Cement Committee.

The Camara Nacional del Cemento (CANACEM) said a reduction in tariffs would allow companies like CEMEX and Grupo Cementos Chihuahua to expand their production and boost exports to the US. Some companies, like Holcim Apasco, which previously had little presence in the US, will now be able to gain a share of the US market, said CANACEM. CEMEX currently exports about 5 million metric tons of cement to the US annually, but much of it is shipped from plants in Asia to avoid the duties that had been in place for Mexican cement.
Even with the duties, CEMEX was shipping about 1 million MT of cement to the US directly from Mexico. This compares with 4.5 million MT in the mid-1980s, before the duties were imposed. The company has already announced plans to boost Mexican production to cover increased exports to the US once duties are lifted. Mexico is also expected to push for compensation for CEMEX because the tariff is considered an unfair trade barrier. CEMEX estimates that the company may be due as much as US$100 million in compensation from the US government.

**Agreement motivated by US cement shortages**

The US decision to ease the restrictions was motivated in part by a severe shortage of US cement, a situation worsened by the damage caused by Hurricane Katrina to New Orleans and the Mississippi Gulf Coast in September 2005 (see SourceMex, 2005-09-14). Mexico and the US were already in negotiations during the summer to ease tariff restrictions because of the US cement shortages, but Katrina created an urgency for an agreement, sources said. The US cement deficit is estimated at about 20 million MT per year, which has driven up prices dramatically in the US market, industry sources said. It is not certain how much the US agreement will slow the recent increase in cement prices.

Prior to the agreement, the construction industry was expecting cement prices to increase by 10% to 15% in 2006, on top of the 10% to 13% rise experienced between October 2004 and October 2005. These estimates were made before any plans for the reconstruction of New Orleans or the Mississippi Gulf Coast were announced, economist Ken Simonson of the Virginia-based Associated General Contractors of America told The New York Times.

Without considering the reconstruction in the Gulf of Mexico, the US cement shortages have been driven primarily by a US domestic housing boom in recent years, along with increased demand for cement and other construction materials in rapidly developing economies like India and China.

Some estimates indicate that China accounts for about one-third of global cement consumption. The US cement industry appears to be facing a situation similar to that of the Mexican and US oil industries, where a lack of processing infrastructure has limited domestic production. "The manufacturing of Portland cement requires high-temperature kilns," wrote Robert Kimball in the Nogales (AZ) International newspaper. "And just as no new oil refineries have been built in this country in years, largely due to expensive environmental regulations, most new cement plants have been built in other countries with more than half of new plants being built in China." (Sources: The New York Times, 12/22/05; Notimex, 01/02/06; Reuters, 01/10/06, 01/12/06; Dow Jones news service, Nogales International-Arizona, 01/12/06; El Economista, 01/09/06, 01/13/06; The Herald-Mexico City, 01/12/06, 01/13/06; El Universal, El Porvenier, 01/13/06)

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