8-9-2006

Mexico, U.S. Agree to Ease Trade Restrictions on Sweeteners

LADB Staff

LADB Article Id: 51662
ISSN: 1054-8890

Mexico, U.S. Agree to Ease Trade Restrictions on Sweeteners

by LADB Staff
Category/Department: Mexico
Published: 2006-08-09

The Mexican and US governments have reached a tariff-reduction agreement on sugar and sweeteners that will cover a 15-month period, beginning in October of this year. The accord is a preliminary step to the full opening of the agriculture market under the North American Free Trade Agreement (NAFTA), scheduled for Jan. 1, 2008.

The agreement allows Mexico to export as much as 500,000 metric tons of cane sugar to the US between Oct. 1, 2006, and Dec. 31, 2007. In exchange, US exporters will be allowed to ship as much as 500,000 MT of high-fructose corn syrup (HFCS) to Mexico during the same period. "This [agreement] sends an important signal that both countries are committed to the full opening of agriculture," said Kenneth Smith, director general for international trade negotiations at the Secretaria de Economia (SE).

The agreement practically ensures the end of nearly a decade of heated disputes between the two countries. A major bone of contention has been the Mexican government's claim that the US had not complied with its obligations under the original NAFTA text to absorb all of Mexico's surplus sugar production. The US countered that an informal agreement negotiated by US and Mexican officials after the accord went into effect superseded the original provisions in NAFTA. That agreement limited the annual amounts of surplus sugar that the US would acquire from Mexico.

Former President Carlos Salinas de Gortari's administration negotiated the original NAFTA sugar provisions with US ex-President George Bush. The Salinas government then agreed to negotiate the informal letter with US ex-President Bill Clinton's administration. Salinas' successors Ernesto Zedillo and Vicente Fox brought the matter to a NAFTA dispute-resolutions panel, but with no success (see SourceMex, 2000-08-09 and 2002-03-06).

In the interim, Mexico attempted on several occasions to protect its sugar-cane producers by imposing restrictions on imports of US corn syrup, including a consumption tax on products made with HFCS (see SourceMex, 1998-09-16 and 2002-01-16). The Mexican government was forced to withdraw the restrictions after the World Trade Organization (WTO) ruled them illegal (see SourceMex, 2005-08-31). The WTO issued its final ruling on the 20% consumption tax in March of this year but did not recommend a specific timetable for Mexico to eliminate the tax (see SourceMex, 2006-03-29).

Fox has pledged that the tax would be off the books by January 2007, but the matter is not entirely in his hands because the levy can only be removed by an act of Congress. Unless the new Congress, which will take office Sept. 1, 2006, acts on the matter promptly, it will be up to Fox's successor to push for the elimination of the tax. The new Congress will be mostly divided, even though Fox's

LADB Article Id: 51662
ISSN: 1054-8890

center-right Partido Accion Nacional (PAN) will have the upper hand because it won a plurality in both the Chamber of Deputies and the Senate (see SourceMex, 2006-07-12). This means that PAN legislators will have to strike deals to approve legislation such as the elimination of the consumption tax on HFCS. "The problem, inherited from the current Congress, will have to be resolved by the new and very divided Congress," said the Mexico City daily business newspaper El Economista.

Mexican sugar industry applauds accord

Industry organizations both in Mexico and the US hailed the agreement as beneficial to their sectors. In Mexico, the Camara Nacional de las Industrias Alcoholera y Azucarera (CNIAA) said the accord practically opens the door for the country to export all its excess sugar production to the US. "This advances the opening of the market because our excess production ranges between 300,000 MT and 500,000 MT of sugar, and that is what the US is allowing in as of the end of 2007," said CNIAA vice president Juan Cortina.

Still, others in the sugar industry are concerned that Mexico may be paying too high a price for the opening of the US market. The Sindicato Nacional de Trabajadores de la Industria Azucarera y Similares de la Republica Mexicana (STIASRM) called on the industry and the government to modernize the sugar industry to better compete with the inevitable influx of US HFCS. "Without a doubt, the presence of HFCS in our country will create problems for the sugar industry, leading to unemployment," said STIASRM secretary-general Enrique Ramos.

Ramos said the sugar industry faces uncertainties this year, with a record production of 280,000 MT of sugar anticipated for 2005-2006, high inventory, and lingering uncertainties on whether the US is going to comply with its new commitment to take excess production. While some food and soft drink companies have started to add HFCS to their products, some company officials do not expect demand to grow significantly. "For Mexicans, corn sweetener has a plastic flavor. It tastes artificial," said Alfredo Paredes, chief executive of Ajegroup, which manufactures the Big Cola soft drink. "You can make a cheap product. But if people don't like it, they won't buy it again."

Mexican officials are confident that US agreement to allow more imports could in the end help bring capital into the Mexican sugar industry. "This is a very important signal that will help bring investments into this sector," said the SE's Kenneth Smith. He noted that foreign companies had only invested about US$37.6 million in the Mexican sugar sector in the past seven years, with capital inflows nearly nonexistent in 2004 and 2005.

Some of that new investment, however, may end up going into domestic production of HFCS. Companies like Corn Products International (CPI), which constructed a plant in Queretaro state in the 1980s to manufacture HFCS, could easily expand its domestic operations if demand for the product increases significantly. CPI also operates corn-processing plants in Jalisco and Mexico states through its subsidiary CPIngredientes.

US corn refiners laud pact, but sugar industry unhappy

The US Corn Refiners Association (CRA), which led the fight against the Mexican taxes on high-fructose corn syrup, issued a statement welcoming the accord, even though it said it does not fully compensate for losses of more than US$4 billion in the past 10 years from Mexico's barriers to US

LADB Article Id: 51662
ISSN: 1054-8890

exports of HFCS. "The corn-refining industry welcomes this agreement that guarantees access for HFCS to the Mexican market, eliminates the soft-drink tax and removes all tariffs on HFCS exports," said CRA president Audrae Erickson.

The US sugar industry had a less positive reaction to the new agreement with Mexico. Some sugar manufacturers said the agreement is heavily weighted toward the US corn industry at the expense of the US sugar-cane industry. "They're getting benefits from that and we're not," said Wallace Ellender of Ellender Farms.

Other manufacturers questioned the quality of Mexican sugar relative to the US product. Officials at Domino Foods Inc. said this became a problem when they had to acquire sugar from Mexico after Hurricane Katrina forced the company to shut down its refinery in Louisiana in September 2005. The sugar imported from Mexico was full of impurities and had to be reprocessed, said Domino Foods president and chief executive officer Brian O'Malley.

Mexican and US officials acknowledged that sugar shortages created by Katrina might have expedited the negotiation of an agreement with the US (see SourceMex, 2005-09-14). The hurricane not only shut down Domino's refinery but also damaged sugar cane fields in Louisiana, contributing to tight supplies in the US. (Sources: La Jornada, 07/19/06; El Diario de Mexico, 07/23/06; Los Angeles Times, The Wall Street Journal, 07/29/06; USAgNet, 07/31/06; Reforma, 07/28/06, 08/01/06; El Economista, 07/10/06, 08/02/06; El Universal, 08/03/06; Reuters, 07/28/06, 08/07/06)

-- End --