4-9-2014

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U.S. Producers Seek Countervailing Duty on Imports of Mexican Sugar

by Carlos Navarro
Category/Department: Mexico
Published: 2014-04-09

The dispute between the US and Mexico on sugar trade has erupted again following a request by the American Sugar Coalition (ASC) to the US government to impose anti-dumping and countervailing duties against imports of Mexican sugar. In a petition filed before the US International Trade Commission (ITC), the ASC alleges that the Mexican government is subsidizing sugar production, costing the US sugar industry about US$1 billion in net income for the 2013-2014 crop year.

The ASC represents members of the American Sugar Alliance (ASA), including the American Sugar Cane League, American Sugarbeet Growers Association, American Sugar Refining Inc, Florida Sugar Cane League, Hawaiian Commercial and Sugar Company, Rio Grande Valley Sugar Growers, Inc, Sugar Cane Growers Cooperative of Florida, and the United States Beet Sugar Association.

The US sugar-industry group acknowledged that the North American Free Trade Agreement (NAFTA) opened up trade against trade, but the organization also noted that the subsidies go beyond what is allowed by the trade accord. "[NAFTA] gives Mexico the right to export sugar to the United States on a tariff-free and quota-free basis," the ASC petition said. "But that does not give the Mexican industry the right to export its surplus to the US market at dumped prices, nor does it permit the [Mexican government] to subsidize its sugar industry without regard to the impact of those subsidies on US producers."

Bumper sugar crops in Mexico

The complaint points out that government subsidies have resulted in a bumper sugarcane crop and large surplus of sugar in Mexico, which has led the Mexican industry to increase exports significantly. Mexico produced a record crop of 7 million tons of sugar in 2012-2013 (SourceMex, Jan. 30, 2013). The Cámara Nacional de las Industrias Azucarera y Alcoholera (CNIAA) attributed the increase to a larger planted area and favorable climate conditions. As a result, said CNIAA executive Humberto Jasso, Mexico increased exports to a record 2.5 million tons during 2012-2013, compared with 941,000 tons the previous year.

The sugarcane crop in Mexico is expected to drop off slightly to about 6.6 million tons in 2013-2014, partly because of reduced financing for agriculture, said the Unión Nacional de Cañeros (UNC).

The US sugar growers might have a strong case if the ITC investigation proves that government subsidies played a role in the sharp increase in sugar imports from Mexico. The ASC says imports from all sources, including Mexico, accounted for about 9% of sugar consumption in the US in 2011-2012, but that percentage increased to about 18% in 2012-2013, coinciding with the sharp increase in Mexican exports. "It is hard for US farmers to succeed when a subsidized industry that is largely government controlled is dumping its product," said ASA spokesperson Phillip Hayes.

The ITC, which launched the investigation on March 28, expects to announce a decision on whether to send the matter to the US Commerce Department by May 12.
The ASC complaints broke a period of relative calm in the feud about trade in sweeteners between the two countries since NAFTA first went into effect in 1994. One of the biggest controversies has been the influx of high-fructose corn syrup (HFCS) from the US. During the 1990s, Mexican sugar producers asked the Mexican government to impose restrictions on imports of HFCS, which they claimed were entering the country at subsidized prices. While the finished product was not directly subsidized, the corn used to produce the syrup was subsidized via the US Farm Bill (SourceMex, March 5, 1997, Feb. 4, 1998, and Aug. 15, 2001). Mexico tried to remedy the problem by imposing a special tax on soft drinks sweetened with HFCS, but the World Trade Organization (WTO) ruled that the measure violated fair-trade rules (SourceMex, Dec. 7, 2005, and March 29, 2006).

The two countries have also been at odds about other sugar-related issues, including a NAFTA provision that required the US to absorb all of Mexico's excess sugar production annually, beginning with the 2000-2001 fiscal year. Mexico complained that the US was reneging on this provision negotiated by ex-Presidents Carlos Salinas de Gortari and Bill Clinton (SourceMex, Aug. 9, 2000, and July 14, 2004).

The US and Mexico appeared to set aside their differences on trade in sugar and sweeteners in 2006 when they reached an agreement to ease trade restrictions ahead of the full opening of the agriculture market under NAFTA in 2008. Under the agreement, Mexico would be allowed 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 HFCS to Mexico during the same period (SourceMex, Aug. 9, 2006).

With the full opening of the agriculture market, the bilateral spats on trade in sugar and sweeteners appeared to disappear, at least temporarily, although the concerns in Mexico about HFCS imports have not disappeared entirely (SourceMex, Jan. 30, 2013).

That period of apparent harmony was broken when the ASC requested that the ITC launch an investigation in March of this year.

**Duties would disrupt ‘balance’ created under NAFTA**

This move prompted strong concerns from the Mexican government and the sugar industry. "We deeply regret the US industry’s decision, which is contrary to the spirit of cooperation that has marked the relationship between the two countries in the sweetener industry and could seriously disrupt the delicate balance that exists in the trade of these products," said the Secretaría de Economía (SE).

The SE pointed out that the opening of agricultural trade under NAFTA created an integrated North American sweetener market in which Mexico exports sugar to the US and imports HFCS from its northern neighbor.

The SE pledged to defend the interests of Mexican sugarcane producers, using all legal means to protect growers, processors, and others involved in the industry. "[The US sugar industry complaints] have the potential to affect a significant number of families in Mexico who are employed in this activity, as well as damage those US productive sectors that depend on Mexican sugar as a production input, such as the pastry and confectionery industry," said the SE.

Producer organizations raised concerns about the possible impact on the Mexican sugar industry if the US imposes countervailing duties. UNC president Carlos Blackaller Ayala said the restrictions
would greatly reduce the amount of sugar moving north of the border, which would create a supply glut in Mexico and result in a steep drop in domestic prices.

Some producer organizations suggested the US action has implications beyond bilateral trade in sweeteners. "The US is afraid that sugar produced in Mexico will become more competitive on international markets, and that is why so many obstacles are put in place," said Aristo Rodríguez Barrera, president of the Unión Local de Productores de Caña de Azúcar in Morelos state. The union is affiliated with the national agricultural labor movement Confederación Nacional Campesina (CNC).

Rodríguez Barrera said the US lacks the capacity to produce sugar for export on a large scale, so the government has turned to high-fructose corn syrup to gain a foothold in the global sweetener market. "What is happening is that the US [sugarcane and sugar beet] season lasts for only seven or eight months," the labor leader said in an interview with the daily newspaper El Sol de Cuernavaca. "That is why they have resorted to promotion of corn-based sugar."

Rodríguez Barrera pointed out that Mexico should continue to expand production and diversify its potential destinations for sugar. "There are many processing plants in our country where production has fallen off significantly," said the labor leader.

**Soft-drink tax also hurts Mexican sugar industry**

Any potential action by the US government would also add another layer of problems for Mexican sugar producers. The industry is already reeling from the tax reform pushed through by President Enrique Peña Nieto’s administration and the Congress at the end of 2013. One measure in the tax-reform package was a special tax (impuesto especial sobre producción y servicios, IEPS) on soft drinks and junk food, which the president promoted as a health-related initiative to reduce obesity in Mexico (SourceMex, Oct. 23, 2013).

In January, when the IEPS went into effect, the UNPC projected that the increased price of soft drinks would reduce demand for sugar in Mexico by 400,000 to 500,000 tons per year. This could potentially result in massive losses in the sugarcane sector, which employs about 175,000 workers. "We expect to see the biggest impact of the tax in 2015 unless the government takes action [to prevent the job losses in the sector]," said Blackaller Ayala.

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