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Controversy Resurfaces over Mexican Sugar Exports to U.S.

by Carlos Navarro
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The US-Mexico sugar trade agreement that went into effect more than two years ago has started to cause complications. According to the Mexican government, the problems might be related to an understaffed US Commerce Department, which has not provided timely information to help Mexico comply with the accord.

The US established quotas on imports of Mexican sugar in late 2014, following a yearlong investigation that showed that Mexican sugar mills were flooding the US market with sugar at below-market prices. According to the investigation, production subsidies in Mexico resulted in increased production (SourceMex, Jan. 30, 2013) and eventually, in a surplus. The quotas were an alternative to a push by the US sugarcane industry to impose anti-dumping and countervailing duties (SourceMex, April 9, 2014).

The issue of trade in sweeteners has been a source of controversy for the two countries since the North American Free Trade Agreement (NAFTA) went into effect. Mexico filed several complaints about the influx of high-fructose corn syrup (HFCS) from the US, which it claimed was exported at unfair prices because of the corn subsidies contained in the US Farm Bill (SourceMex, March 5, 1997, Feb. 4, 1998, Aug. 15, 2001). Mexico tried to remedy the situation 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 also were at odds over 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 the provision, negotiated by Carlos Salinas de Gortari and Bill Clinton during their presidencies (SourceMex, Aug. 9, 2000, and July 14, 2004).

The US and Mexico appeared to set aside their differences in 2006, when they agreed 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 tons of cane sugar to the US between Oct. 1, 2006, and Dec. 31, 2007. In exchange, US exporters would be allowed to ship as much as 500,000 tons of HFCS to Mexico during the same period (SourceMex, Aug. 9, 2006).

Quota system breaks down

The apparent harmonious relationship was interrupted in 2014, when US sugar producers complained about the large amounts of sugar coming in from Mexico. A US investigation concluded that Mexico had indeed been exporting its subsidized surplus to the US.

Former US President Barack Obama's administration and the government of President Enrique Peña Nieto then negotiated an agreement that would allow the US Department of Commerce to set limits on imports of Mexican sugar based on data on US production collected by the US Department of Agriculture (USDA). "Mexico's export limit is set at 100% of US needs after accounting for US production and imports from tariff rate quota countries," the Commerce Department said when the scheme was announced in December 2014.

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According to the text of the agreement, the US established the mechanism to prevent imports of Mexican sugar from becoming concentrated at specific times of year. Furthermore, the agreement set a limit on exports of refined sugar to 53% of the total Mexican sugar exports to the US.

Mexico complied with the agreement over the next two years, with the industry chamber (Cámara Nacional de las Industrias Azucarera y Alcoholera, CNIAA) establishing limits on the amount of sugar that each mill could export to the US. Under the plan, set by the Mexican government and the CNIAA, no mill would be allowed to export sugar to the US without a permit from the CNIAA.

However, the CNIAA suddenly canceled all sugar-export permits for March at the beginning of the month because of concerns that Mexico would surpass the quotas set by the US during the 2016-2017 marketing year. If the quota had been surpassed, exports would have been subject to penalties. According to US and Mexican sources, the quota for this year was set at 820,000 tons.

There was confusion in Mexico over the pace of exports, due in part to a shortage in personnel in the US Department of Commerce, according to a document obtained by Reuters from the Mexican government.

The Mexican government's decision was untimely for Mexican sugar producers, because the harvest is in full swing and mills, known as ingenios, are operating at close to full capacity.

US, Mexican officials schedule meetings

The confusion prompted Mexico's Economy Minister Ildefonso Guajardo and US Commerce Secretary Wilbur Ross to hold a meeting in Washington on March 10. "These discussions are the beginning of our work together on the day-to-day issues that arise from our very important bilateral relationship," Ross said then. Guajardo and Ross have committed to hold a follow-up meeting in the coming weeks, although they did not set a specific date.

"The dialogue will continue this week among technical teams from [Mexico's] Economy Ministry and Wilbur Ross' team," Guajardo told reporters in late March. "We are exchanging information, the positions of those who launched the investigation in the United States, the positions of Mexican industry, and we're making progress."

The US Commerce Department had been scheduled to conduct a review on the 2014 agreement by April 4, but Ross told reporters that the deadline has been pushed back to May to consider lawsuits filed in both countries challenging the agreement. In the US, the industry has asked that the 2014 agreement be scrapped entirely unless US and Mexican authorities are able to negotiate an appropriate alternative. US producers say that Mexican producers have found a loophole by which they are selling more refined than raw sugar in the US, which hurting the US processing industry.

Under the agreement, refined sugar is defined as sugar with polarity (sucrose content) of 99.5% or greater, while "other sugar" is sugar that does not meet the refined definition.

"The 99.5% polarity requirement was a major sticking point for US sugar producers, as the original draft agreement announced in late October had the definition of refined sugar at 99.9% or above," bakingbusiness.com said in 2014.

The definition of refined sugar remains a source of controversy. "The impact on people's lives is real and the US cane sugar refining industry is in crisis—it is time to finally protect America's workers

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from this unfair trade before more US factories are forced to close," Michael A. Gorrell, president and CEO of Imperial Sugar Company, said in a statement sent by email to Reuters.

Conversely, the Mexican sugar industry remains optimistic that exports will continue under the current system. Sugar processors, in fact, anticipate an increase in export amounts when the new marketing year begins. According to the CNIAA, the quota could be increased to at least 870,000 tons when the 2017-2018 marketing year begins. The optimism is based on a USDA projection from December 2016 placing demand for sugar in the US at 1.162 million tons for the current year, an increase from a previous estimate of 972,000 tons.

"To date, Mexico has shipped close to 380,000 tons of sugar to the US market," said CNIAA president Juan Cortina. "Now there appears to be an increased need in the US. The figures from the USDA suggest a market demand for 1.162 million tons. The statistics are compatible with the amount of Mexican sugar that has been consumed in the US in recent years."

Cortina said Ross and Guajardo need to set clear rules at their next meeting. He also expressed concern that a renegotiation of NAFTA, which has been proposed by US President Donald Trump, could result in the imposition of tariffs on imports on Mexican sugar. If this is the case, Cortina said, the sugar chamber would push for a halt to all imports of HFCS from the US.

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