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After weeks of difficult negotiations, the US and Mexico have agreed in principle to change the terms of sugar trade between the two countries. But the US and Mexican sugar industries both expressed reservations about the agreement reached between the negotiating teams led by US Commerce Secretary Wilbur Russ and Mexico's Economy Secretary Ildefonso Guajardo. Under the accord, Mexico agreed to reduce the amount of refined sugar it ships to the US in exchange for an increase in shipments of raw sugar.

The two sides agreed to modify an accord negotiated in 2015 after the US moved to establish quotas on imports of Mexican sugar. That decision followed 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 came to the forefront in March, when Mexico came close to surpassing quotas that were established in 2015 for the 2016-2017 marketing year. The Mexican sugar industry chamber (Cámara Nacional de las Industrias Azucarera y Alcoholera, CNIAA), which was in charge of monitoring exports of refined sugar to the US, suddenly stopped issuing permits (SourceMex, March 29, 2017), worried that Mexico would surpass the quotas set by the US. 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.

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

A change in the export formula

The confusion over the situation that led to the CNIAA actions prompted Guajardo and Ross to begin a series of consultations. Earlier this month, the two countries announced they had reached an agreement in principle that would keep the quota of Mexican sugar exports at current levels but change the ratio of refined and raw sugar that would be shipped north of the border. Mexico agreed to reduce the amount of refined sugar exports to 30% from 53% of the total quota. Unrefined sugar exports would increase to 70% from the current rate of 47%. By accepting the quotas, Mexico avoids tariffs on sugar, which would have been set at 43.9%.

The agreement also raises the price of raw sugar imported from Mexico to US$0.23 per pound from US$0.2225 cents and to US$0.28 from US$0.26 for refined sugar.

US, Mexican producers concerned

The agreement left industry groups on both sides of the border with some concerns. Representatives for the American Sugar Alliance (ASA), based in Arlington, Virginia, mentioned a loophole in the accord that could potentially take away decision-making powers from the US Department of Agriculture (USDA).

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The loophole deals with a clause that gives Mexico the right to supply all US sugar needs when domestic or other foreign suppliers are not able to meet those needs. The ASA is worried that should that circumstance arise, Mexico would be able to flood the US market with refined sugar rather than the raw sugar needed to keep processors in the US running. ASA officials said they are working with Ross to see how that concern could be addressed.

Some trade experts noted that the objection from the US sugar industry was an expected outcome of the negotiations.

“Petitioners are never entirely happy with suspension agreements like this,” said William Perry, who served in the US Commerce Department and the US International Trade Commission during the administration of former US President Ronald Reagan (1980-1988). “They would rather have anti-dumping and countervailing duty orders with rates high enough to shut out imports.”

In Mexico, the organization that represents sugarcane growers viewed the agreement with some concern as well, with some officials suggesting that the accord was negotiated to benefit US interests rather than Mexican producers. “We were able to maintain the privilege of access to the US market without tariffs,” Carlos Blackaller Ayala, director of the Unión Nacional de Cañeros (UNC), said in an interview with the daily business newspaper El Financiero. “Nevertheless, the restrictions create limitations that prevent us from participating in the US market with a value-added product, which is refined sugar.”

CNIAA officials said the agreement is a positive development because it does not supersede the 2014 accord. “I am pleased that the US government recognized that we had a prior agreement between our two countries,” chamber president Juan Cortina Gallardo told a news conference.

Blackaller Ayala and officials for the food industry, however, raised concerns that the recently negotiated agreement would have the effect of making Mexican sugar exports to the US cheaper. “Because of the agreement, Mexican sugar producers are forgoing the opportunity to receive greater earnings for their product,” he said.

The reduced revenues, in turn, could put Mexican producers in a difficult situation. According to Rubén Masayi González Uyeda, president of the Jalisco chamber of food industries (Cámara de la Industria Alimenticia de Jalisco, CIAJ), Mexican producers are unable to recover their production costs because of low global prices. “It might be better for producers to sell their sugar on the domestic market than export it,” he said.

González Uyeda noted, however, that the Mexican food industry could benefit from a reduction of exports of refined sugar, noting, “With exports declining by about 30%, that would mean more sugar stays in the domestic market, which could result in better prices for us.”

Cortina suggested that the ability of the two sides to come together bodes well for the pending renegotiation of the North American Free Trade Agreement (NAFTA), which US President Donald Trump would like to begin this year. According to analysts, the Trump government wanted to resolve the sugar dispute and a disagreement over lumber with Canada before launching negotiations on a revised NAFTA.

One sweetener-related issue that was not addressed by the recent sugar agreement is high-fructose corn syrup (HFCS). The two countries have been at odds over US exports of HFCS since NAFTA first went into effect. Mexico has filed several complaints suggesting that HFCS was entering Mexico at

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artificially low prices because of 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 CNIAA and other groups insist that the US continues to sell HFCS in Mexico at below-market prices. They have called on Peña Nieto's administration to launch a new anti-dumping investigation. Guajardo told reporters, however, that the economy ministry (Secretaría de Economía, SE) has yet to receive a formal request to launch such a probe. However, the issue will very likely become a part of the NAFTA renegotiation process.

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