

U.S. – Mexico Sugar Trade Issues

NAFTA negotiations have been intense between the U.S. and Mexican governments. U.S. and Mexican sugar industries have also held many sidebar discussions.

Earlier this year Mexico instituted an internal tax on U.S. high fructose corn syrup (HFCS), which resulted in near elimination of Mexican demand for HFCS and near total replacement of HFCS with sugar. This HFCS tax is working in our favor for the moment as Mexico is consuming most of its excess sugar, leaving little need to export sugar to the United States. Currently it does not appear that we will be able to achieve a satisfactory long-term solution to NAFTA until after next summer's mid-term election in Mexico.

When NAFTA Was Negotiated, 1992-93:

- Mexico had been a deficit sugar producer for five years of six, 1988/89-93/94
- Mexican imports and consumption of corn sweeteners were minimal
- Mexico had a minimal share of the U.S. import quota—about 7,000 metric tons
- U.S. and Mexican governments assured the U.S. Congress that Mexico would remain a deficit sugar producer

Original NAFTA Sugar Provisions:

- Opened Mexican market to U.S. high fructose corn syrup HFCS
- Encouraged Mexico to substitute HFCS for sugar by allowing Mexico to export all displaced sugar to U.S. market: three-fold increase to 25,000 tons in 1994-2000; all surplus production in 2001-2007 (surplus production=sugar production minus sugar consumption); second-tier (over-quota) tariff drops from 16 cents per pound of raw sugar in 1994 to zero in 2008; common market beginning in 2008
- American sugar producers vehemently opposed

NAFTA Sugar Side Letter:

- Negotiated by U.S. and Mexico prior to U.S. vote, November 1993
- Limited 2001-07 access to up to 250,000 tons of surplus production—roughly 35 times traditional Mexican access; changed surplus producer definition to sugar production minus sugar *and* HFCS consumption; *no* change in second-tier tariff phase-out
- Won NAFTA passage in Congress

Developments Since NAFTA Inception, January 1994:

- Mexican government has provided subsidies amounting to over \$1.6 billion since NAFTA entered into force for the purchase of facilities, the financing of these purchases, sugar storage, and virtually all other aspects of sugar production
- Mexican sugar production exploded — 1.22-million-ton, or 33%, increase *post-NAFTA* in 1994/95-99/00 average over 1988/89-93/94 *pre-NAFTA* average; pre-NAFTA 455,000-tons/year average deficit transformed to 631,000-ton average surplus
- Mexico imposed high antidumping duties, which were found to be inconsistent with WTO rules, on U.S. HFCS. These duties effectively limited imports of U.S. HFCS to an average of 158,000 tons/year, but Mexican consumption of corn sweeteners has also exploded, to about 500,000 tons/year — most of it domestically produced
- Mexico renounced the sugar side letter and attacked its validity in formal NAFTA dispute settlement
- U.S. government agrees to renegotiate side letter, but Mexican proposals will not produce fair trade
- In the presence of both Mexican and worldwide sugar market distortions, U.S. sugar policy is the only way to ensure fair trade in sugar
- American producers suggest sugar ethanol program to relieve Mexican problems of sugar surplus, potential rural job losses from sugar mill closures, and air and water pollution