

US trade

'Big Sugar' holds out as US and Mexico near trade deal

Commerce secretary Wilbur Ross expresses confidence despite American alliance's issues



Workers load a truck with sugar cane in southern Mexico

JUNE 6, 2017 by: Jude Webber in Mexico City and Demetri Sevastopulo in Washington

US “Big Sugar” is holding out despite the Mexican and [US](#) governments reaching a deal to resolve a trade spat that had threatened to impose duties on each other’s [sugar](#) and fructose just months before the start of negotiations on updating the North American Free Trade Agreement.

“We have gotten the Mexican side to agree to nearly every request made by US industry to address flaws in the current system and ensure fair treatment of American sugar growers and refiners,” Wilbur Ross, US commerce secretary, told a news conference in Washington with his Mexican counterpart Ildefonso Guajardo.

He said the deal — which limits [Mexico](#) to sending only 30 per cent of its sugar exports as refined sugar, compared with 53 per cent previously — prevented dumping, corrected for Mexican state subsidies and protected US corn growers, chocolate and soda producers.

“Unfortunately, despite all of these gains, the US sugar industry has said it is unable to support the new agreement, but we remain hopeful that further progress can be made during the drafting process,” Mr Ross said. “We remain confident that this deal defends American workers across many industries and is the best way to ensure stability and growth.”

In a statement released on Tuesday afternoon, the American Sugar Alliance said: “US sugar farmers and producers are concerned that the agreement in principle contains a major loophole in the section dealing with additional US needs. Mexico could exploit this loophole to continue to dump subsidised sugar into the US market and short US refineries of raw sugar inputs.”

The alliance added that it would “work with Secretary Ross in the coming days to see if that loophole can be effectively closed so that the basic provisions of the agreement are not undermined and [the US Department of Agriculture] can effectively manage the sugar programme”.

Mr Ross hoped a definitive agreement would be signed in “days, not weeks or months”. Sonny Perdue, agriculture secretary, hailed the deal as “a dramatic improvement for the US sugar industry”.

Agralytica, an agricultural consultancy in the US, slammed the deal in a memo to sweetener clients.

“It can only be characterized as the worst form of managed trade. The two industries got together and gave themselves higher sugar prices with the blessing of the two governments. These prices represent an annual \$1 billion tax on US consumers,” the memo from economist Tom Earley said.

“While some may describe this as a positive first step leading into negotiations on revisions to the Nafta agreements, special trade restrictive arrangements like these for an individual sector do not bode well for the Nafta process,” he wrote.

US producers had presented Mr Ross with a list of additional demands shortly before a deadline for a deal on Monday, said Juan Cortina, president of the Mexican sugar chamber, prompting the US secretary to grant a 24-hour extension. “They [the US sugar industry] got everything. But they want to torpedo the deal . . . with no justification,” he told the Financial Times.

The agreement between the governments looks like a climbdown by Mexico, but Mr Guajardo said earlier that the “primordial” aim of the negotiations had been to avoid tariffs and to maintain Mexico’s position as principal US supplier.

With negotiations on [Nafta](#) expected to start as soon as August, Mexico had little room to manoeuvre.

“The issue is whether we were willing to go into permanent dispute . . . You have to be pragmatic, because of Nafta,” said Carlos Véjar, a trade attorney at Holland & Knight and former general

counsel for international trade at the Mexican economy ministry. “The consequences are worse than signing this agreement. There’s no downside when you see it from that perspective.”

Mr Guajardo said that the months of close dialogue with Mr Ross on the sugar dispute “will be one of the biggest assets in the coming Nafta negotiations”.

Nonetheless, “the US used its leverage ‘to the hilt’ . . . sticking to its hardline stance and signalling that it is willing to play hardball,” said Eswar Prasad, a trade policy and economics professor at Cornell University and a senior fellow at the Brookings Institution.

Under the deal, Mexico not only swallows a large reduction in the volume of refined sugar it can export, but also a reduction in the quality of raw sugar exports. Mexican producers had complained that would force them to supply an inferior quality that no one else produces.

In addition, it sets a higher price for refined sugar that Mr Cortina said would hurt Mexico’s competitiveness and requires Mexico to ship its raw sugar in bulk by ship, rather than in packages or by land, to ensure it would go through US refineries.

In exchange, Mexico won the right of first refusal to supply any additional sugar the US requires beyond its forecast demand, which the American Sugar Alliance is now contesting. The price for raw sugar at Mexican sugar mills will also increase, setting a higher floor for Mexican cane growers.

The US had threatened to impose 80 per cent duties on Mexican sugar if no deal could be struck. Mexico has threatened tit-for-tat duties on US high-fructose corn syrup if Washington imposed tariffs on its sugar — a move that alarmed the US corn industry.

The National Grain and Feed Association praised the secretaries for creating a “can-do environment” as the Nafta negotiations approach. The US Chamber of Commerce also hailed Mr Ross and the Trump administration “for listening to the concerns of industry and averting trade actions that would have cost American jobs and stifled economic growth”.

Mexico expects to export 983,835 tonnes of sugar to the US in the current season, out of total exports of 1.79m tonnes, according to the National Committee for the Sustainable Development of Sugar Cane, a government agency.