Mexico warns US of retaliation in sugar war

Jude Webber in Lagos de Moreno, Mexico  Author alerts

"All hell will break loose" if the US triggers anti-dumping duties on Mexican sugar in the coming days, Mexico’s economy minister has warned.

Ildefonso Guajardo threatened, in an interview with the Financial Times, to impose duties on US corn syrup in retaliation.

“We have been [in the US, negotiating on sugar] for more than a week. It’s like pinball. They table something; we respond; we table something,” Mr Guajardo said.

The US Department of Commerce has until midnight on Friday to rule on a dumping case brought by US sugar companies. They say the US is being flooded by cheap Mexican imports and want duties of 17.01 per cent to be imposed on its North American Free Trade Agreement partner.

However, Mr Guajardo said he expected talks to continue over the weekend, with any announcement likely to be made on Monday. US dumping duties would leave Mexico “no other option” than to take the case to the World Trade Organisation.

The politically powerful sugar industry is one of the most protected in the US and has a long history of being at the centre of trade battles. Mexico and the US alone have been battling over their trade in sugar for more than 20 years.

Speaking after the inauguration of a Nestlé plant in central Mexico, Mr Guajardo said: “At this point, I am highly optimistic we will reach an agreement . . . But if they trigger the dumping case, all hell will break loose and we are going to go to a big fight. Everybody is going to lose.”

He declined to comment on reports that Mexico was seeking a floor on sugar exports to the US of at least 1m tons. But Mr Guajardo said any restriction on Mexican exports of refined sugar would be unacceptable.

Carlos Rello, the head of Mexico’s state-owned mills, signalled a willingness this month to accept a deal with the US setting a minimum export threshold of 1m-1.3m tons. Mexico has exported 1.8m-1.9m tons in recent years.

Mr Guajardo said: “They have to understand, on the US side, that they are withdrawing, with the mere stroke of a pen, the free access that we have through Nafta to the US market, [which] by itself, is already a tremendous blow to US-Mexican trade relations.”

The potential battle over sugar risks deepening a parallel dispute between Mexico and Canada, on the one hand, and the US on the other, with the Nafta partners embroiled since 2012 in a row over country of origin labelling (Cool) for beef and pork.

Mexico says that US practice discriminates against its beef and pork exports by reducing prices for its produce in the US.

In a joint government statement, Canada and Mexico said this week that the WTO had “confirmed once again what we have known all along: the requirements imposed by the US on beef and pork are a flagrant violation of their international obligations as a member of the WTO”, and were “clearly protectionist”.

Mr Guajardo said time was running out for the US and Mexico could impose retaliatory measures in the first half of next year to compensate its ranchers. He signalled that Mexico could use remedies it said were open to it in this dispute as a means of imposing corn syrup duties.
“If there is no compliance from the US authorities on Cool, there will be the possibility of retaliation by restricting some US exports to Mexico and imposing new tariffs,” Mr Guajardo said. This could mean “special tariffs on fructose”, which he said he would be allowed to apply under Mexico’s trade commitments.

The US exports about 1m tons of high fructose corn syrup to Mexico annually – the bulk of its exports of the product. “I have to look for ways to protect my market,” Mr Guajardo said. “I will use all the room to manoeuvre I can.”

Expressing his frustration with the sugar talks, he said: “It’s always risky when you have discourse in favour of free trade and forces take you away from free trade, and this is not in the best interest of nations.”

He added that despite the prospect of a trade spat over sugar, “I’d rather go into a terrible fight than get a terrible agreement”.

The Sweetener Users Association in Washington said on Thursday that the sugar dispute had driven refined sugar prices in the US up more than 40 per cent.

“Even if the US and Mexico work out some agreement to restrict Mexico’s sugar exports to the United States in the coming months, the implicit shorting of the market and uncertainty about how our supply deficit will be met is expected to keep US sugar prices much higher than they would have been otherwise,” it said.

US refined sugar prices averaged 7.6 cents per pound more in the six months since the dispute began than in the preceding six months, the association said, adding: “With annual consumption of refined sugar estimated by [by US authorities] at 11m tons, that extra 7.6 cents works out to $837m in additional consumer costs over the last six months.”

Additional reporting by Shaun Donnan in London

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