High Fructose Corn Syrup and Cane Sugar Industries

Introduction

In my previous paper I did my research on the history, production, and trade of cane sugar that was mostly produced in the United States. On our study abroad trip to Mexico we saw some sugar cane fields from the road, but we did get to tour any of the farms or see any sugar processing factories. So I was thinking to myself how I am going to write a paper on sugar cane in Mexico if I never experienced any of it while I was down there. Fortunately I found a topic that was very close to home and related to some of the agriculture in Mexico as well. While visiting the Trade Management Services, Inc., we met with the Iowa trade representative, Jose Antonio Jimenez. Jose mentioned some things about the controversy with the United States and Mexico with the imported high fructose corn syrup into Mexico and the effects it has had on the sugar markets and the producers. Since Iowa is the number one grower of corn in the United States, and number one in producing high fructose corn syrup, it is a major issue for Iowans because of the great market share we have with Mexico. In this essay I will discuss some of the issues with the trade barriers, taxes, and tariffs the two countries have opposed on each other.

Throughout the late 1990’s and the beginning of the twenty first century there has been a major controversy on United States exports of high fructose corn syrup with Mexico. The United States Trade Representative has conducted an investigation under the Trade Act of 1974, which has been amended to the certain acts, policies and practices of the Mexican government that affects the Mexican market for high fructose corn syrup. On April 2, 1998, the Corn Refiners Association Inc. filed a petition alleging that certain
acts, policies, and practices of the Government of Mexico are affecting the Trade Act because they are unreasonable and deny fair and equitable market opportunities for United States exporters of high fructose corn syrup. The United States Trade representative started their investigation on May 15, 1998, in response to the petition filed by the Corn Refiners Association Inc. They believed that the Mexican government encouraged and supported an agreement between the Mexican sugar industry and the Mexican soft drink bottling industry to limit the soft drink bottling industry’s purchases of high fructose corn syrup. The Mexican Government has not denied any of these allegations, so the United States Trade Representative are exploring further into the situation so they can come to a conclusion to provide a stable and secure market for the United State and its corn producers.

**Mexico Puts Tax on Soft Drinks with High Fructose Corn Syrup**

On January 1, 2002 a twenty percent sales tax and a twenty percent distribution tax on soft drinks containing corn syrup was passed by the Mexican Congress in order to increase their weak tax take. This only applies to the soft drinks that are sweetened with anything other than sugar, which would mostly be high fructose corn syrup. The effects from this tax increase raised restrictions of the imports of high fructose corn syrup. Mexico already has anti-dumping duties on imports on high fructose corn syrup for the United States. These duties range from $55.37 per metric ton to $175.50 per metric ton. The higher priced duties are charged to large privately owned companies such as Archer Daniels Midland and Cargill Inc.

The Mexican sugar industry is struggling with low commodity prices and a local surplus of twenty percent of its annual production. Legislators say the new tax will raise
about 6.5 billion pesos ($710 million), although analysts say this will not affect the bottling industry too much because of companies such as Coca-Cola, which dominates the soft drink market in Mexico, have the equipment to switch from corn syrup to sugar and vice versa. The smaller Mexican soft drink companies have been using sugar in the last few years because of the low sugar prices. Mexico and the United States have talked about ending this dispute over the tariffs on United State imports on high fructose corn syrup and limits on Mexican sugar exports that the United States receives. The World Trade Organization and a panel under the North American Free Trade Agreement have ruled that the duties Mexico placed on United State’s high fructose corn syrup have been illegal under international trade rules since 1998. According to the World Trade Organization, Mexico’s antidumping duties on imports of high fructose corn syrup from the United States are inconsistent with their requirements.

The American Farm Bureau Federation, the National Corn Growers Association, The Corn Refiners Association, and the U.S. Feed Grains Council sent a joint letter to United States Trade Representative Robert Zoellick to secure a commitment from Mexico to suspend the tax. Obviously these four companies are concerned that this tax will shut off U.S. Exports of high fructose corn syrup to Mexico and severely hurt our corn and high fructose corn syrup sales.

**Iowa Senator Chuck Grassley Speaks Out**

“Chairman of the Committee on Finance, with jurisdiction over international trade”

On February 11, 2002 Chuck Grassley, Iowa’s Republican U.S. Senator, presented a speech to President Bush about the trade policy between the United States and Mexico. Since Iowa is the number one producer of corn and high fructose corn syrup,
this issue is extremely important for the well being of our state. He points out that the targeting of our corn refining industry may seriously damage our bilateral trade relations. He also talks about the soft drink companies are U.S. owned firms and they have invested hundreds of millions of dollars in Mexico, providing many jobs to Mexican workers. Senator Grassley also points out that soft drinks with cane sugar are exempted from the imposed sales and distribution tax, which he believes is a discriminatory application of the tax and clearly violates Mexico’s WTO national treaty obligations. He estimates that in the year 2002 the corn refiners will lose 244 million dollars and the farmers will lose another sixty-six million dollars in corn sales.

Senator Grassley quotes, “Mr. President, this is just the sort of “beggar thy neighbor” trade policy of the past that we have worked so hard to overcome, both with the creation of the North American Free Trade Agreement, and with the creation of the World Trade Organization. It is very discouraging, therefore, just as we are starting the real work on a new round of WTO trade negotiations, in which we hope to further liberalize world trade, to suddenly find ourselves fighting a harmful protectionist measure imposed by one of our closest neighbors and trading partners.”

Mexico is the United States third largest agricultural export market, which grew fifteen percent in 2001. If this trend continues they will surpass Canada, but Grassley implies that it cannot continue unless more action is taken on their tax, and the two countries can get rid of the “beg thy neighbor,” trade polices.

On June 25, 2003 Chuck Grassley once again spoke to President Bush and the rest of the Senate with the issue on the Mexican barriers on imports of U.S. agricultural products. Not only are high fructose corn syrup causing trade barriers, but other
agricultural products such as pork, beef, corn, rice, apples, and dry beans. Senator Grassley says that the U.S. corn refining industry estimates that they are losing up to 620 million dollars annually due to Mexico’s imposed tax. Estimates say that the U.S. corn farmers are losing over 300 million dollars each year due to loss of sales to the U.S. and Mexico high fructose corn syrup producers.

Grassley quotes, “I find it especially ironic that Mexico, a country that is actively seeking foreign investment, is treating so poorly the United State’s high fructose corn syrup industry, an industry that has invested heavily in Mexico. Based upon the promises of NAFTA, U.S. high fructose corn syrup producers made major investments in the United States and Mexico. Mexico has now pulled the rug out from under them. This certainly sends, at best, mixed signals to foreign investors.”

On September 23, 2003, Senator Chuck Grassley, made a trip to Cancun, Mexico for a hearing to discuss the trade barriers between Mexico and the United States. After the announcement of the hearing the Fox Administration proposed legislation to repeal the illegal twenty percent sales and distribution tax on high fructose corn syrup. Grassley is also thinking of taking a new course of action that would authorize tariffs on specific imports of Mexican agriculture products into the United States.

**Mexican Lawmakers Debate on Certain Proposals**

In December of 2003 Mexican lawmakers were debating a proposal to ease but not eliminate tax on soft drinks that contained corn syrup. The proposal was that soft drink makers would not have to pay a tax if they make a 70-30 formula. In other words this means to use seventy percent sugar and thirty percent high fructose corn syrup or any other type of sweetener. If the soft drink producers go above thirty percent they will have
to pay the twenty percent sales and distribution tax. Lazao Arias, of the opposition Institutional Revolutionary Party (PRI), said, “The proposal is not acceptable because Mexico comes out as the loser, and that is not the intention.” From Mexico’s point of view, obviously the tax was a great turn around for the Mexico sugar industry. Once the tax came into effect Mexican sugar industry rebounded and the soft drink companies absorbed almost the entire sugar surplus causing the sugar prices to rise. Legislators made another proposal to apply the tax to soft drink companies when using more than fifteen percent of high fructose corn syrup. U.S. trade negotiators and farm states lawmakers, such as Senator Grassley, have previously insisted the high fructose corn syrup tax must be completely eliminated in order for any U.S.-Mexico sweetener agreement is finalized.

**Farmers and Peasants Protest**

Thousands of peasants gathered in Mexico City on August 8, 2001 to demand immediate payment for their crops, and the revisions of portions of the North American Free Trade Agreement that was affecting the imports of grains and other products. They also protested for more government resources for the peasants and small farmers. Marches and rallies were organized in front of government buildings in 194 rural districts of various states. The rallies are emphasizing the exploitation of the millions of peasants in Mexico that have been aggravated by protectionist barriers imposed by Washington. Which they believe is an already unequal competition with giant agricultural corporations in the United States and low prices in the international market.

About 5,000 sugar cane farmers protested in front of the government offices in Mexico City demanding $420 million in unpaid wages. The farmers sell the cane at
government set prices to any of Mexico’s sixty sugar mills. They were supposed to receive payment for the crops before the end of May, which is the end of the cane-growing season. The sugar mill owners claimed they have not paid the farmers because they have suffered from drops in the prices of sugar and are being unfairly kept out of the United States market. For many of the growers the payments from the sugar mills are only payment they will receive that year.

**Mexico’s Side of the Story**

The Mexican government claims that the original NAFTA agreement allowed Mexico to export all its excess sugar, an estimated 500,000 tons without any tariffs to the United States as of October 2000. But the U.S. government has limited Mexico’s sugar exports to 116,000 tons a year in order to protect the United States sugar industry. The Mexican government believes Washington introduced a “side letter” to the trade agreement.

From 1994 to 2001, 1.3 million tons of high fructose corn syrup has been imported in Mexico. According to La Jornada, 280,000 tons of U.S. corn comes into the country each year with zero tariffs. The 3.5 million corn growers in Mexico have also been affected by a forty-five percent drop in corn prices between 1998 and 2001. In July of 2001, farmers in the state of Sinaloa were unable to sell 2.4 million tons of corn due to the market being flooded with imports form the United States. The same farmers protested by blocking access to gas depots and demanded higher tariffs.

**Conclusion**

To this day they have not come up with a solution. Hence this is why this is a hot issue; no one wants to give in. It is hard to tell who is in the right and who is in the
wrong. According to the law Mexico is in the wrong, but maybe morally the United States is jumping on Mexico’s toes by trying to overpower their sugar market. The United States can produce high fructose corn syrup a lot more efficient and less expensive than Mexico can produce cane sugar, so we do have the comparative advantage. The majority of the soft drink companies are owned by the United States and maybe they should have more say in how the soft drinks are sweetened. Sometimes Mexico takes advantage of our investments, but maybe the United States is too greedy. So the bottom line is that both countries are in the right and the wrong and that the World Trade Organization and the North American Free Trade Agreement panels need to help the two countries come to a consensus.
Works Cited


