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Revisiting U.S.-Mexico Sugar Agreements

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Numerous reports in the business trade press in recent months have quoted U.S. government officials, lawmakers, and sugar industry leaders commenting on negotiations the U.S. Department of Commerce (DOC) is conducting with the government of Mexico to consider changes to two sugar suspension agreements the United States and Mexico entered into in December 2014. The suspension agreements, which are currently in force, establish limits on exports of Mexican sugar to the United States, including quantitative limits and minimum prices. Previously, Mexican sugar had been the only unmanaged source of sugar in the U.S. market, unique access that Mexico had achieved through the North American Free Trade Agreement (NAFTA). Mexico currently is the leading foreign source of sugar to the U.S. market, supplying about 10% of total U.S. supplies, so any changes to these agreements could have important implications for stakeholders in the U.S. sugar market.

Agreements Limit Exports, Impose Minimum Prices on Mexican Sugar

In return for concessions by Mexico that involved limiting its sugar exports to the United States and agreeing to observe minimum export prices, the U.S. government under the suspension agreements suspended the imposition of substantial duties on Mexican sugar that otherwise would have taken effect as a consequence of U.S. countervailing duty (CVD) and antidumping (AD) investigations. The investigations, which were initiated by petitioners in the U.S. sugar industry, determined that Mexican sugar was being subsidized by the Mexican government and was being dumped into the U.S. market, meaning it was sold at less than fair value. The investigations also concluded that the U.S. sugar industry was materially injured as a result of these actions. The suspended countervailing and antidumping duties range from 5.78% to 43.93% and from 40.48% to 42.14%, respectively.

In addition to addressing the subsidization and dumping of Mexican sugar, the suspension agreements were to further the intent of Congress in reauthorizing the U.S. sugar program in the 2014 farm bill (P.L. 113-79) (i.e., that the U.S. Department of Agriculture (USDA) provide support for sugar prices, while operating the program at no cost to the government). The sugar program incurred significant budgetary costs in the 2012/2013 crop year—a period when Mexican sugar exports were unrestricted. Low sugar prices that year led to forfeitures of domestic sugar under the price support mechanism, obligating USDA to incur costs disposing of the forfeited sugar. The sugar program attempts to avoid budgetary costs by combining a price support mechanism with a supply management structure. The latter consists of annual limits on the quantity of sugar that U.S. processors can sell for domestic human use with quotas and tariffs to restrict imports. The suspension agreements support the objectives of the sugar program by limiting sugar from Mexico

according to a calculation of U.S. needs after considering marketings of domestic sugar and imports under quota agreements. For more on the U.S. sugar program and the U.S.-Mexico sugar suspension agreements, see CRS Report R43998, *U.S. Sugar Program Fundamentals*, by Mark A. McMinimy.

Proportion of Raw Mexican Sugar Going to Cane Refiners is an Issue

Industry observers indicate that a key issue in the current talks concerns the proportion of raw sugar that Mexico is exporting to the U.S. market that is destined for traditional cane refineries that produce crystalline sugar. In addition to quantitative export limits and minimum prices established under the suspension agreements, Mexico agreed to limit shipments of refined sugar to no more than 53% of the total volume of its exports to the U.S. market in a given marketing year, meaning at least 47% of its sugar exports would be raw sugar.

As raw sugar is defined in the suspension agreements, a significant portion of the Mexico's sugar exports qualify as raw sugar while being sufficiently refined for human consumption. It seems likely that meaningful quantities of these raw sugar exports have been delivered to U.S. producers of liquid sugar for end use in products such as beverages, ice cream, and baked goods. While not a violation of the agreements, these raw sugar imports are bypassing traditional U.S. sugar cane refiners, which depend on imports of raw Mexican sugar to maintain an adequate level of capacity utilization. Industry observers assert that traditional cane refiners that produce crystalline sugar have been left with a smaller supply of Mexican raw cane sugar even as the market for refined sugar has become more competitive, creating a difficult market environment for these cane refiners.

At the behest of a broader coalition of U.S. sugar producing and refining interests, U.S. government officials are exploring possible modifications to the suspension agreements that could address the supply of raw Mexican sugar exports to traditional cane refiners. A consideration in assessing alternative approaches is that simply allowing for additional imports of raw cane would have to be weighed against the need to avoid creating an oversupply situation in the overall domestic sugar market, which consists of supplies of both cane and beet sugar. An excess supply of sugar could end up obliging USDA to take a variety of costly actions under the sugar program to keep prices above levels that would provoke forfeitures of domestic sugar.

Terminating Suspension Agreements Would Trigger High Duties

Another aspect of the suspension agreements that is expected to factor into the negotiations is that either government can terminate them at any time with 60 days' written notice of its intent to do so. An open question is whether DOC would move to terminate the agreements if it were to conclude that they are not operating satisfactorily and if it is unable to arrive at modifications that are also agreeable to Mexico. Terminating the suspension agreements would trigger the imposition of the suspended duties on Mexican sugar under the CVD and AD determinations, which could price Mexican sugar out of the U.S. market. If so, one option for replacing Mexican sugar might be to allow additional sugar imports from tariff-rate quota suppliers. How Mexico might respond if the suspended duties were to be levied is unknown, but prior to the suspension agreements Mexican officials had threatened to pursue retaliatory trade measures in that circumstance.