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WORLD

Mexico to Maintain Sugar Exports to U.S.; Refined to Raw Sugar Ratio Lowered

Mexico aimed to avoid facing duties on its sugar and to continue being main supplier when U.S. has additional sugar needs

U.S. Commerce Secretary Wilbur Ross, at left, speaks during a news conference in March with his Mexican counterpart, Economy Minister Ildefonso Guajardo. The men will hold another conference Tuesday afternoon updating talks over curbing Mexican sugar exports. PHOTO: MANDEL NGAN/AGENCE FRANCE-PRESSE/GETTY IMAGES

By Anthony Harrup and William Mauldin

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WASHINGTON—The U.S. and Mexican governments announced an "agreement in principle" Tuesday designed to avert a trade war over sugar, helping to set the course for bigger talks on rewriting the North American Free Trade Agreement.

The preliminary pact imposes new limits on Mexican imports to the U.S., and appears to provide longer-term clarity to a market that has been overshadowed for three years by cross-border tensions and prospects of tit-for-tat sanctions over sweeteners from each country.

U.S. Commerce Secretary Wilbur Ross and Mexican Economy Minister Ildefonso Guajardo, who announced the deal Tuesday, have sought to portray healthy economic cooperation between the two countries on sugar, a contrast to President Donald Trump's tough rhetoric on Mexico earlier this year that led to the cancellation of a visit by Mexican President Enrique Peña Nieto.

Mr. Ross said "the Mexican side has agreed to nearly every request made by the U.S. industry," but he added that the U.S. sugar industry overall isn't ready to support the pact. Washington protects U.S. sugar growers and refiners from some foreign competition, but policy makers also have to take into account confectioners who want easy access to sugar at the lowest possible price.

"We now need to make a definitive agreement, and we're hoping in that process the industry will come on board," Mr. Ross said.

U.S. sugar refiners say they are being hurt by imports of refined Mexican sugar, while not getting enough raw sugar for their refineries. The new agreement would reduce the share of refined sugar that Mexico can send to the U.S. to 30% of total sugar sent.

"Mexico may have had little choice but to give in, since this outcome forestalls broader trade tensions with the U.S. and keeps Nafta renegotiation talks on track," said Eswar Prasad, professor at Cornell University and trade expert at the Brookings Institution. "The U.S. has gained a tactical advantage in further trade talks by sticking to its hard-line stance and signaling that it is willing to play hardball to extract ostensibly favorable terms.

Mr. Guajardo said the deal protects Mexico's status as the major supplier to the U.S. market, with the right to supply extra amounts needed in the U.S. The agreement's details will be worked out in coming days, he said.

"This is positive in that we managed not to derail the agreements" that govern U.S.-Mexican sugar trade, said Juan Cortina, president of the Mexican sugar industry chamber. While it reduces the amount of refined sugar Mexican can export to the U.S., "it would have been much worse if there hadn't been agreements," he added.

Mr. Cortina said the fact the U.S. industry wasn't on board with the agreement between the two governments, and was "trying to defy Mr. Ross," showed their aim was to do away with the 2014 agreements that suspended the application of anti-dumping and anti-subsidy duties against Mexican sugar.

U.S. sugar producers said the pact contained a "loophole" that they say could allow Mexico to dump more sugar on the U.S. market, or fail to provide raw sugar to refineries. "We will 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," said Phillip Hayes, spokesman for the American Sugar Alliance, which represents sugar cane and beet producers, as well as refiners.

Because the deal will raise the floor price for raw sugar, it will hurt cereal, beverage and candy makers, said Rick Pasco, head of the Washington-based Sweetener Users Association. Mr. Pasco estimated that U.S. raw sugar prices currently are about 80% above those elsewhere in the world, and Tuesday's trade deal with Mexico would push that premium to 100%.

"If you're a food company looking at long-term investment in the U.S. and you're paying twice the world price, that's got to be a consideration going forward," said Mr. Pasco, who said sugar-using companies support about 600,000 jobs in the U.S.

American producers have complained that Mexican sugar has been unfairly dumped—or sold below cost—across the border, aided by improper Mexican government subsidies. Mr. Ross last month set a June 5 deadline—later extended to Tuesday—for Mexico to agree to new restrictions, threatening to impose duties of up to 80% on Mexican sugar if any agreement weren't reached by that time. Mexican industry had said they would seek retaliatory tariffs on U.S. exports of high fructose corn syrup.

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In addition to creating tensions between the two governments, the issue has divided American industry, pitting sugar producers seeking protection against American makers of candies and soft drinks fighting curbs they said would boost costs, as well as corn growers worried about a loss of exports.

In early May, 38 members of Congress representing sugar-industry districts—in Florida, Minnesota, Michigan, and elsewhere—wrote to Mr. Ross backing tougher limits on Mexican imports. Two weeks later, 51 House members—including those from Pennsylvania representing Hershey Co. —followed with their own letter urging him to "take into account the interests of. the companies that make food products and beverages using sugar." Iowa farm groups sent a separate letter arguing against a hard line, expressing concern that they could face new barriers in a market that currently accounts for 80% of their high-fructose corn syrup exports.

Mexican producers expect to export about a million tons of sugar to the U.S. this year, worth about $600 million.

The roots of the dispute go back to 2008, when free trade in sugar between the two countries was phased in under the 1993 terms fixed by Nafta. The subsequent surge in Mexican sugar exports prompted U.S. industry complaints.

The Obama administration threatened to impose penalties on Mexican imports, but "suspended" the duties when the two sides in 2014 negotiated a settlement that imposed quotas and price controls on Mexican exports. After initially accepting the pact, U.S. producers began complaining that it wasn't working as intended, and a year later renewed their push for sanctions, prompting the latest round of talks.

If completed, a sugar settlement would eliminate one trade irritant between the U.S. and Mexico as they prepare—along with Canada—to begin renegotiating Nafta as soon as August, aiming to complete talks by the end of the year. A breakdown in the sugar talks would have complicated those broader discussions, though tensions over specific industries still fester along the northern border. The Trump administration in April announced a 20% tariff on Canadian softwood lumber imports, alleging improper subsidies, and Mr. Trump that month also blasted Canada for limits on U.S. dairy exports.

A sugar agreement is expected to ease some of the strains that have emerged in U.S.-Mexican relations since Mr. Trump's election over trade, immigration, and the president's demands that Mexico pay for a new border wall between the two neighbors. Mr. Trump regularly blasted Nafta during last year's presidential campaign as "a disaster," blaming the pact for encouraging U.S. manufacturers to relocate to Mexico, and citing the growing U.S. trade deficit with Mexico after the pact took effect as a sign of the agreement's flaws.

He threatened in April to withdraw from Nafta, but was talked out of it by advisers, lawmakers, and American business leaders who said such a move would drastically disrupt regional business. Free-trade advocates have been nervously watching how the Trump administration has handled Mexican trade disputes as a sign of how aggressive he would be in changing American trade policies.

—Jacob M. Schlesinger and Jacob Bunge contributed to this article.

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