EFFECTS OF NAFTA ON THE SUGAR INDUSTRY

Summary. Under the NAFTA, the United States and Mexico will gradually reduce barriers to sugar trade between the two countries and harmonize border protection with the rest of the world. During the 15-year transition period, any additional access to the U.S. market beyond Mexico's current 7,258 metric ton quota will be conditioned on Mexico becoming a net surplus producer of sugar. Mexico is currently a large net importer of sugar. The United States has exported substantial refined sugar to Mexico in recent years and the sugar re-export program will remain in place.

Current Policies and Proposed Changes. Mexico eliminated its sugar import permit requirement system in late 1989 and instituted a variable levy system on sugar imports. The government announces a target internal price each month, which is adjusted to stay at about 18.7 cents (U.S.) a pound. The variable levy is adjusted to bridge the gap between the target price and world price. This price support system will work only when Mexico is a net importer, which has been the case in recent years.

The United States maintains a quota and tariff on over-quota amounts of sugar. Any imports over a country's quota allotment face a second tier tariff of $0.16 per pound, raw sugar. The United States also has re-export programs under which sugar can be imported, refined, or further processed, and then re-exported without being subject to a quota or a tariff. These programs will remain in place under the NAFTA.

In the first 6 years, the United States will reduce its second-tier tariff on sugar from Mexico by 15 percent and during years 7-15, both U.S. and Mexican tariffs will be reduced linearly to zero. By the end of year six of the transition, Mexico will align its tariff regime that applies to the rest of the world with that of the United States, and phase out this tariff on imports from the United States by the end of year 15.

Mexican sugar exports to the United States will be subject to several conditions relating to its net surplus production status. The NAFTA provides for Mexico's current access of 7,258 metric tons of raw sugar, duty-free. But during the transition period, any additional duty-free access above this amount is limited to no more than Mexico's projected net production surplus of sugar. In addition, for the first 6 years of the agreement, duty-free access may not be more than 25,000 metric tons, raw value.

In year seven of the agreement, the maximum duty-free access quantity becomes 150,000 metric tons, raw value. In each subsequent year of the 15-year transition period, the maximum quantity of Mexican sugar allowed duty-free access will be increased by 10 percent.

However, beginning in year seven the United States shall provide duty-free access to the full extent of Mexico's projected net production surplus for that year if (1) Mexico has been a net surplus producer for any two consecutive marketing years (including years one through six of the agreement), or if (2) Mexico has been a net surplus producer during the previous year and is projected to be a net surplus producer in that year. If Mexico is not ultimately a net surplus producer in that second year, the appropriate quantitative restriction on duty-free access is applied in the subsequent year.

Current Trade Patterns and NAFTA Effects. Mexico has consistently filled its sugar import quota allocation from the United States, but it has been a large net importer of sugar from the United States and other suppliers. In 1990/91, Mexican sugar imports were 1.4 million metric tons. Imports in 1991/92 dropped to about 275,000 tons as the Government of Mexico raised tariffs to limit imports and draw down stocks. With stocks down sharply, 1992/93 imports are projected to approach 1 million metric tons, raw value. Approximately 20 percent of these imports is expected to come from the United States.

Under the NAFTA, the United States will continue using the sugar re-export programs to ship refined sugar to Mexico at the MFN duty-rate. Income growth in Mexico will expand its demand for sugar and will also encourage a shift to more highly refined sugar.

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