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Farmer Agreement Offers Alternative to NAFTA's Failures

By R. Dennis Olson

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On January 1, 2008, the North American Free Trade Agreement (NAFTA) came into full effect after a 15-year phase-in for more sensitive agricultural products like sugar, white corn, beans and dairy. This means the last remaining tariffs are no longer legally binding, including those on sugar imported from Mexico to the U.S., and vice versa. Additionally, the Mexican government will no longer block imported high fructose corn syrup from the U.S., which competes directly with sugar in the Mexican sweetener markets.

The expected fallout threatens to hurt sugar farmers on both sides of the border. This threat is so dire, that it has provided an impetus for Mexican and American sugar growers to reach an historic agreement to modify the final implementation of NAFTA.

First, let's look at the chaos NAFTA is expected to bring to sugar markets in the U.S. and Mexico.

An expected import surge of U.S. corn syrup will likely displace Mexican sugar from the Mexican sweetener market. Mexican sugar growers also face the prospect of increased U.S sugar imports, because the current U.S. cost of production for sugar is less than in Mexico. Moreover, increased imports from other countries have created a substantial U.S. surplus of sugar that could be dumped into Mexico.

In the U.S., sugar displaced from the Mexican market by corn syrup could be exported to the U.S. This could overwhelm the delicately balanced U.S. inventory management system, already under siege by increased imports from World Trade Organization (WTO) and Central American Free Trade Agreement (CAFTA) obligations.

All these threats taken together would likely depress sugar prices below the cost of production on both sides of the border, resulting in a shutdown of most of the North American sugar industry.

However, there is more at stake here than the fate of an agricultural commodity. Sugar is Mexico's largest remaining agricultural industry. According to the U.S. Department of Agriculture Foreign Agricultural Service, there are an estimated 158,000 sugar farms in Mexico that average 10 acres in size. These farms supply 58 mills located in 15 of the country's poorest 35 states. The Mexican sugar industry directly employs more than 300,000 workers, including cane cutters, seasonal field workers, and factory workers; and indirectly supports another 2.2 million jobs.

The NAFTA-mandated destruction of the Mexican sugar industry would likely cause a new wave of immigrants to try to find work in the United States. This new migration would rival the well documented surge of Mexican migration caused by U.S. export dumping of yellow corn into Mexico facilitated by NAFTA over the last decade.

Thus far, Mexican sugar farmers have been spared the devastating effects of dumped imports because the Mexican government has refused for 15 years to deregulate their sweetener market. Just as importantly, U.S. sugar growers have had enough political clout to defend their own sugar program that—unlike other U.S. farm programs—manages inventories, prevents overproduction and export dumping, and guarantees farmers a fair price at no cost to U.S. taxpayers.

For decades, high fructose corn syrup has competed with sugar in an increasingly integrated sweetener market. In fact, the rules for this sweetener war under NAFTA have been continually in dispute literally since the signing of the agreement in 1994. As NAFTA forced Mexico to deregulate its sweetener market, cheaper U.S. corn syrup began taking market share away from Mexican sugar growers, especially in the soft drink market. Mexico tried to protect its sugar growers: first with anti-dumping measures; and then with a tax on corn syrup. However, the U.S. government, on behalf of the Corn Refiners Association (including Cargill and Archer Daniels Midland), dutifully challenged Mexico's actions before international trade tribunals under both NAFTA and the WTO, and won.

Significantly, the agreement reached by U.S. and Mexican sugar growers sets the stage for managing the sweetener market between the two countries in a way that could benefit farmers in both countries. Specifically, the deal would modify the implementation of full NAFTA deregulation of Mexican and U.S. sweetener markets by:

- Building on a provision currently included in the pending Farm Bill that would allow the use of some sugar to produce ethanol as a means to manage excess supplies.
- Managing sugar supplies used for ethanol production separately from sugar used for human consumption; a prudent step given the growing controversy over fuel versus fuel.
- Limiting import surges of Mexican sugar exports to the U.S. caused by displacement of Mexican sugar from the anticipated import surges of high fructose corn syrup being dumped by multinational agribusinesses into Mexico.
- Managing the two countries' sugar re-export programs to provide a smoother and more predictable transition to a more integrated North American sweetener market.
- Providing Mexican and U.S. sugar growers with preferential market access to North American sugar markets both for human and ethanol consumption—while still fulfilling the two countries' existing WTO and other international trade commitments.
- Establishing a Joint Mexico-United States Sugar Commission to resolve future disputes, rather than leaving them up to secret NAFTA tribunals.

The agreement has been circulated among appropriate government officials in both countries, and various options have been suggested for moving the agreement forward.

The mutual threat of lost markets and livelihoods has compelled Mexican and U.S. sugar farmers to work out an agreement that will give both sides a fighting chance to survive. The deal could help resolve the endless trade disputes and uncertainty that have wreaked havoc in the sweetener market since NAFTA was signed. It could curtail the otherwise inevitable increase in cross-border dumping of sweeteners that threatens to irrevocably damage the North American sugar industry, which is so important to both the Mexican and the U.S. economies. Finally, it could help us avoid another displacement of Mexican agricultural workers who will be forced to migrate north if we allow NAFTA to be implemented unencumbered.

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