Sugar-tax dispute sours free-trade talks

A dispute over sugar and high-fructose corn syrup disrupts a U.S.-Dominican free-trade pact, as Washington threatened to pull out and the Dominican government searched for a compromise.

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At a particularly tense moment of free-trade talks between the United States and the Dominican Republic earlier this year, Dominicans were startled to see Trade Minister Sonia Gúzman with tears on her face.

"You must have faith that this will turn out well," insisted the experienced Dominican official, who then brushed off the tears as a sign of exhaustion from nonstop negotiations.

Seven months after Gúzman's encouragement, free-trade advocates could use some of that faith.

The U.S.-Dominican Free Trade Agreement has taken a turn for the worse, an unprecedented dispute that has Washington threatening to scuttle the accord and the Dominican government scrambling to find a compromise.

The conflict broke out in September after the National Congress suddenly imposed a tax on the U.S. Farm Belt's exports of high-fructose corn syrup as a way of protecting the local sugar growers.

"I am asking the United States to think of the harm they would be doing to this poor country," said Campos de Moya, financial manager for Grupo Vicini, which along with Central Romana, are the country's largest sugar producers.

Such a conflict appeared a remote possibility seven months ago.

On March 15, less than 48 hours after Gúzman publicly shed tears, the Dominican Republic and the United States finalized free-trade negotiations, with U.S. Trade Representative Robert B. Zoellick proclaiming it a "proud day" for both countries.

Since the Dominican Republic was simply "docking" onto the already negotiated Central American Free Trade Agreement with Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua, the agreement was finalized in a record three months.

Former President Hipólito Mejía was in a hurry, hoping the accord would be a feather in his re-election cap. The Bush administration wanted an early passage in Congress, although as it turned out, lawmakers were loath to vote on the controversial CAFTA in an election year. No date has been set for a vote on CAFTA.

De Moya said the Dominican sugar industry spotted the problem with the accord. Dominican sugar made scant gains in access to U.S. markets under its quota system, while high fructose corn syrup could take away domestic sugar sales to soft drink makers. Mejía sent letters to Washington requesting renegotiations.

Then in September, the Dominican lower house passed a tax reform -- hiking sales and other taxes to meet conditions of the International Monetary Fund. Nothing seemed amiss on the first of two required votes. But in the second vote, a 25 percent tax on soft drinks and beverages sweetened with corn syrup was included.

Verbal skirmishes ensued. The U.S. government sent letters to Santo Domingo. On Sept. 20, Sen. Chuck Grassley, the Iowa Republican who is chairman of the Senate Finance Committee, warned that "enactment of the proposed HFCS tax into law would seriously jeopardize support in the U.S. Senate for a free-trade agreement" with the Dominican Republic.

The fierce fighting surprised those in Santo Domingo.

"Threatening the Dominican Republic with exclusion from CAFTA if it applies this measure strikes me as exaggerated," said Federico Cuello, former Dominican ambassador to the World Trade Organization. ``Corn syrup only generated $25,000 of imports last year."

But the controversy persisted. The Dominican Senate approved the bill and sent it to recently inaugurated President Leonel Fernández -- who trounced Mejía in May elections -- who was obliged to sign it or incur IMF wrath for failing to raise taxes.

Hoping to deflect this crisis, Fernández sent a bill to Congress this week to drop the offending tax.

The controversy has pitted Dominican business sectors against each other. The apparel assembly industry, which wants the free-trade accord in order to lock in preferential access to the U.S. market, has also called on the government to drop the tax.

But the sugar industry has lobbied hard.

Sugar growers are suggesting new negotiations to give them larger quota sales to the United States.

But compromise could prove difficult. The U.S. sugar industry, from Florida cane refiners to sugar beet growers, are also suffering from low prices. The industry has already predicted it will halt CAFTA passage.