Trump, Mexico Settle Sugar Dispute Just in Time for NAFTA Renegotiations

The sugar settlement between the United States and Mexico, announced on Tuesday by U.S. Commerce Secretary Wilbur Ross, sets the stage for the NAFTA "renegotiation" scheduled to begin in August. And the settlement is going to cost Americans more to satisfy their sweet tooths.

At bottom, it's all about protecting an inefficient American industry from foreign competition. Sugar is an enormous industry, and economic and political interests want to keep protections in place in order to save it from foreign competition. On one side is Big Sugar: a conglomeration of sugar interests such as cane and beet farming groups and American Sugar Refining (ASR), which owns Domino Sugar, California and Hawaiian Sugar Company, Redpath Sugar, and Tate & Lyle's European sugar operations. ASR, located in West Palm Beach, Florida, is essentially controlled by the politically connected Fanjul brothers.

On the other side is the American consumer, who could scarcely be concerned about whether sugar costs 15 cents a pound or 30. Which means that Big Sugar is going to have its way. A deal sought by Ross in May collapsed thanks to pressure from Big Sugar for a better deal. That better deal arrived on Tuesday.

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The deal is simple: Mexico will stop dumping low-cost sugar into the American market in exchange for receiving higher prices on the sugar it is allowed to ship. The deal avoided the nastiness of retaliatory tariffs: Ross threatened duties of 80 percent on incoming Mexican sugar if that country didn't stop its dumping, while Mexico threatened to retaliate by applying similar duties on American exports of high fructose corn syrup into that country.

John Downs, president and CEO of the National Confectioners Association, a trade group that represents more than 600 small businesses making candy products in the United States, was very clear about the downside of such agreements:

> Because of this program [a complex of subsidies, mandates, and penalties] candy companies in the United States pay about double the global average price for sugar. While global prices began trending downwards in 2013, U.S. sugar has surged upwards due to continued reauthorization of the sugar subsidy program and regulations on Mexican sugar imports. This trend has a negative

> impact on candy makers, especially the small and mid-sized, family-owned companies that don't have flexibility in their supply chains. And it is doing irreparable damage to a storied industry consisting of multi-generational, innovative owners.

And he ends the article with:

> It is also a time to take stock of the challenges the industry faces now and in the future. Candy companies have proven to be resilient, but it is time to take a stand on sugar subsidies that benefit so few and hurt so many American manufacturers.

He notes that just the "the confectionary industry has a direct economic impact of $35 billion and provides 55,000 jobs in more than 1,000 manufacturing facilities across the country."

Translation: In helping a few American sugar giants, the U.S. government is ignoring the the pain it causes elsewhere in the country — to the great detriment of the American worker.

Tom Earley, though an economist with Agralytica, a trade consultant to the sugar industry with degrees from Yale and the London School of Economics and a statist, also derided the agreement — but from a different point of view. The only brush he might have had with free market economics would have been oblique, brief, and negative, but in a memo to his company's clients, he explained that Trump's pressure on Mexico bodes ill for the upcoming NAFTA hassle in August:

> [The agreement reached on Tuesday] can only be characterized as the worst form of managed trade. The two industries got together and gave themselves higher sugar prices with the blessing of the two governments. These prices represent an annual $1 billion tax on US consumers.
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> While some may describe this as a positive first step leading into negotiations on revision to the Nafta agreements, special trade restrictive arrangements like these for an individual sector do not bode well for the Nafta process.

This is Keynesian-speak for understanding that managed trade agreements should apply across every industry in every country and should at least make a passing effort at not gouging consumers, with governments agreeing to enforce them in coordination with each other.

This is President Trump's blind spot. He thinks everything is negotiable, and little if anything is non-negotiable. Lacking a free market ideology on which to base his policies, he is open to pressure from his commerce secretary, Wilbur Ross, who got his economic training at the Harvard Business School and his real world experience at the feet of the international banking firm of N M Rothschild & Sons. This is where Ross learned how to restructure failed companies profitably, becoming known as what the *Wall Street Journal* calls him: a "scavenger," feeding on the remains of once-profitable companies by restructuring them and selling them to new owners.

To satisfy their sweet tooth, Americans will have to pay more in order to protect Big Sugar and its economic and political interests. That's how crony capitalism works.

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