INTERNATIONAL CENTRE FOR THE SETTLEMENT OF INVESTMENT DISPUTES

ADDITIONAL FACILITY

REQUEST FOR INSTITUTION OF ARBITRATION PROCEEDINGS

SUBMITTED PURSUANT TO CHAPTER 11 OF THE NORTH AMERICAN FREE TRADE AGREEMENT

CORN PRODUCTS INTERNATIONAL, INC.,

Claimant/Investor,

v.

THE GOVERNMENT OF THE UNITED MEXICAN STATES,

Respondent/Party.

Submitted in accordance with Chapter II of the ICSID Arbitration (Additional Facility ("AF")) Rules, and delivered by hand on October 21, 2003 to the

International Centre for the Settlement of Investment Disputes
Secretariat
1818 H Street, N.W.
Washington, D.C. 20433
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1. Pursuant to Article 2 of the Arbitration (Additional Facility) Rules of the International Centre for the Settlement of Investment Disputes ("ICSID AF Arbitration Rules") and Articles 1116, 1117, 1120, and 1137(1)(b) of the North American Free Trade Agreement ("NAFTA"), Corn Products International, Inc. ("Corn Products" or "Claimant"), a U.S. company, by and through its authorized representatives, hereby requests the institution of arbitration proceedings on its own behalf and on behalf of its wholly-owned subsidiary, Arancia Corn Products, S.A. de C.V. ("Arancia CP"), a Mexican company.

2. Corn Products submits to arbitration this claim that the Government of the United Mexican States ("Government of Mexico" or "Mexico") has breached obligations owed to Claimant under Section A of Chapter Eleven of the NAFTA by virtue of certain measures it has imposed affecting Arancia CP and Claimant. In particular, these breaches have arisen from Mexico's imposition of a discriminatory tax on soft drinks containing high fructose corn syrup ("HFCS") while leaving soft drinks containing sugar free of the tax. This tax has eliminated the most significant market for Arancia CP's HFCS business and destroyed the value of Corn Products' very substantial investments, through Arancia CP, in HFCS production in Mexico for the soft drink industry. Corn Products seeks to recover substantial damages incurred by Corn Products and Arancia CP as a result of those breaches.

I. THE PARTIES TO THE DISPUTE

3. Pursuant to Article 3(1)(a) of the ICSID AF Arbitration Rules, each party to the dispute is identified below:

Claimant:

4. Corn Products, the Claimant in this arbitration, is a publicly-held corporation incorporated under the laws of the state of Delaware, United States of America, with its principal place of business in Westchester, Illinois, USA.1 Corn Products' address is as follows:

Corn Products International, Inc.
5 Westbrook Corporate Center
Westchester, Illinois 60154

Enterprise of the Claimant:

5. Corn Products submits this claim to arbitration on its own behalf and on behalf of its indirectly wholly owned subsidiary Arancia CP. Arancia CP is a company organized and existing under Mexican law, whose address is as follows:

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1 See Attachment 1 for Certificate of Good Standing and Corporate Existence for Corn Products International, Inc. from the State of Delaware. Corn Products was founded in 1906 as Corn Products Refining Company and later became known as CPC International. In 1997, CPC International spun off its corn refinery business to form Corn Products International, Inc., an independent and publicly traded company whose stock is listed on the New York Stock Exchange, trading under the name CPO.
6. Arancia CP is an enterprise\(^2\) that is owned and controlled indirectly by Corn Products through two subsidiaries.\(^3\) Corn Products is therefore entitled, under the terms of NAFTA Article 1117, to submit a claim on Arancia CP’s behalf as well as on its own behalf.

**Respondent:**

7. The Government of Mexico, the Respondent in these proceedings, is a sovereign State and a Party to the NAFTA. For purposes of disputes arising under NAFTA, the Government of Mexico’s address is as follows:

   Secretaría de Economía  
   Dirección General de Inversión Extranjera  
   Av. Insurgentes Sur No. 1940, piso 8,  
   Col. Florida, Del. Álvaro Obregón,  
   C.P. 01030, México, D.F.

**II. PROCEDURAL HISTORY OF DISPUTE AND JURISDICTION**

**A. Notice and Time Requirements**

8. On January 28, 2003, Corn Products notified the Government of Mexico at the address listed above of its intention to refer this dispute to arbitration under Chapter 11 of the NAFTA. A copy of the Notice of Intent stamped as received by Respondent on that date is attached to this submission.\(^4\) By delivering its Notice of Intent to Respondent more than 90 days before the submission of this Request for Institution of Arbitration Proceedings, Claimant has satisfied the notice requirement set forth in Article 1119 of the NAFTA.\(^5\)

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2 NAFTA Article 1139 defines “enterprise” by reference to NAFTA Article 201, which defines “enterprise” as “any entity constituted or organized under applicable law, whether or not for profit, \ldots including any corporation \ldots joint venture or other association.”

3 See infra at Section III.B.1, ¶¶ 77-78, for a detailed description of Corn Products’ ownership of Arancia CP. See also Attachment 18b for a Certificate of Citizenship and Residency for Arancia CP.

4 See Attachment 2. For Respondent’s convenience, Corn Products subsequently delivered a Spanish version of the Notice of Intent. See Attachment 3.

5 NAFTA Article 1119 states that “[t]he disputing investor shall deliver to the disputing [NAFTA] Party written notice of its intention to submit a claim to arbitration at least 90 days before the claim is submitted \ldots .”
9. NAFTA Article 1120 states that an investor of a Party may submit a claim to arbitration "provided that six months have elapsed since the events giving rise to a claim . . ." As described more fully below, Corn Products' claim arises from Mexico's imposition, effective January 1, 2002, of a discriminatory excise tax on sales of soft drinks containing high fructose corn syrup (the tax will hereinafter be referred to as the "HFCS Tax" or "Tax"). Accordingly, more than six months have elapsed in accordance with Article 1120.

10. The NAFTA also provides that a claim may not be filed more than three years from the date on which the investor first acquired, or should have first acquired, knowledge of a breach under the NAFTA. Because the HFCS Tax became effective on January 1, 2002, and Corn Products and Arancia CP first acquired knowledge of the NAFTA breaches and potential losses or damages on or shortly after that date, Corn Products is submitting this claim within the three-year period described in Articles 1116 and 1117.

B. Referral of Expropriation Claim to Competent Authorities

11. NAFTA Article 2103 requires an investor seeking to submit a claim involving a breach of NAFTA Article 1110 (Expropriation and Compensation) that involves taxation measures to "refer the issue of whether the measure is not an expropriation for a determination to the appropriate competent authorities set out in Annex 2103.6 at the time that it gives notice under Article 1119 (Notice of Intent to Submit a Claim to Arbitration)." NAFTA Article 2103 also states: "If the competent authorities do not agree to consider the issue or, having agreed to consider it, fail to agree that the measure is not an expropriation within a period of six months of such referral, the investor may submit its claim to arbitration under Article 1120 (Submission of Claim to Arbitration)."

12. On January 28, 2003, the same date on which Corn Products delivered its Notice of Intent to the Government of Mexico, Corn Products delivered submissions to the competent authorities of the United States and Mexico designated pursuant to NAFTA Article 2103, requesting that those authorities permit Corn Products to submit to arbitration a claim for expropriation under NAFTA Article 1110. The submission to the Mexican competent authority is attached to this Request for Institution of Arbitration Proceedings.

13. On July 28, 2003, the United States competent authority informed Corn Products that the competent authorities had failed to agree that the measure was not an expropriation. By the

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6 NAFTA Articles 1116 and 1117 provide that an investor of a Party may not bring a claim on its own behalf or on behalf of an enterprise of another Party "if more than three years have elapsed from the date on which the investor or the enterprise first acquired, or should have first acquired, knowledge of the alleged breach and knowledge that the investor or enterprise has incurred loss or damage."

7 See Attachment 4. The U.S. submission will be provided upon request but is not included here because it is more extensive and because its attachments are duplicative of some of the attachments to this submission.

8 Oral communication from Barbara Angus, International Tax Counsel, U.S. Treasury Department, to Miller & Chevalier Chartered, on behalf of the Assistant Secretary for Tax Policy, U.S. Treasury Department.
terms of Article 2103 as set forth above, the effect of this determination is that Corn Products’ expropriation claim may be submitted to arbitration.

C. Consultations and Negotiation Pursuant to NAFTA Article 1118

14. NAFTA Article 1118 states that, before initiating arbitration proceedings, the disputing parties should first attempt to settle a claim through consultation or negotiation. Since the imposition by the Government of Mexico of the HFCS Tax, Corn Products and Arancia CP have persistently sought the removal of this measure through, among other things, numerous meetings with Mexican government officials. These efforts include a May 12, 2003 meeting with Hon. Fernando Canales Clariond, of Mexico’s Secretaria de Economia.9 This meeting and numerous other efforts undertaken by Corn Products detailed more fully below have failed to result in the removal of the HFCS Tax or any other settlement of the claim.

D. Consent and Waiver of the Parties Providing for Arbitration Under the ICSID AF Rules

15. Article 3(1)(b) of the ICSID AF Arbitration Rules provides that a Request for the Institution of Arbitration Proceedings “set forth the relevant provisions embodying the agreement of the parties to refer the dispute to arbitration.”

16. Corn Products refers to Section B of Chapter 11 of the NAFTA, more particularly Articles 1116, 1117, 1120, and 1122 of the NAFTA, as providing the basis for this submission to arbitration. The Respondent’s consent to arbitration proceedings under the ICSID AF Rules is contained in NAFTA Article 1122(1), which states that “[e]ach Party consents to the submission of a claim to arbitration in accordance with the procedures set out in this Agreement.” NAFTA Article 1122(2) provides further that “[t]he consent given by paragraph one [of Article 1122] and the submission by a disputing investor of a claim to arbitration shall satisfy the requirement of . . . Chapter II of the ICSID Convention (Jurisdiction of the Centre) and the Additional Facility Rules for written consent of the parties . . . .”

17. NAFTA Article 1121 sets forth a consent and waiver as conditions precedent to submission of a claim to arbitration. As required by NAFTA Article 1121, Corn Products and Arancia CP consent to arbitration in accordance with the procedures set out in NAFTA and waive their right to initiate or continue other dispute settlement procedures involving the payment of damages by submitting herewith its NAFTA Article 1121 Consent to Arbitration and Waiver of Other Dispute Settlement Procedures.10 As further required by NAFTA Article 1121(3), Corn Products and Arancia CP have included their consent and waiver in this Request for Institution of Arbitration Proceedings, a copy of which is being delivered to Respondent.

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9 See Attachment 5 for a copy of a letter to Secretary Canales describing this meeting. See also, infra at Section III.A.8 for further discussion of Arancia CP’s efforts in seeking the removal of the HFCS Tax.

10 See Attachment 6.
E. Approval by the Secretary-General Pursuant to Article 4 of the ICSID AF Arbitration Rules

18. Article 3(1)(c) of the ICSID Arbitration (AF) Rules requires a Request for Institution of Arbitration Proceedings to "indicate the date of approval by the Secretary-General pursuant to Article 4 of the AF Rules of the agreement of the parties providing for access to the Additional Facility." Article 4, in turn, states that the Secretary-General, once satisfied that the Request for Institution of Arbitration Proceedings "conforms in form and substance of the provisions of Article 3 of [the ICSID AF] Rules, . . . shall register the request in the Arbitration (Additional Facility) Register and on the same day dispatch to the parties a notice of registration."

19. Approval of the parties' arbitration agreement by the ICSID Secretary-General therefore appears to be available only at the time proceedings are instituted and registered. Accordingly, the date of approval can only be provided once the Secretary-General registers this request.

F. Agreements Concerning the Number and Appointment of Arbitrators

20. Article 3(2) of the ICSID AF Arbitration Rules states that a Request for Institution of Arbitration Proceedings may set forth any provisions agreed by the parties regarding the number of arbitrators and the method of their appointment, as well as any other provisions agreed concerning the settlement of the dispute.

21. NAFTA Article 1123 states that "unless the disputing parties otherwise agree, the Tribunal shall comprise three arbitrators, one arbitrator appointed by each of the disputing parties and the third who shall be the presiding arbitrator, appointed by agreement of the disputing parties." Since the parties have not agreed otherwise concerning the appointment of arbitrators, this provision shall govern.

III. ISSUES AND FACTS IN DISPUTE

22. Pursuant to Article 3(d) of the ICSID AF Arbitration Rules, the following section sets forth the factual background to this dispute, the breaches of Chapter 11 of the NAFTA that Corn Products will prove during the proceedings, the issues presented by these claims, and the relief sought.

A. Factual Background

1. Overview

23. This case represents a claim of precisely the type Chapter 11 was intended to redress. The claim, described more fully in the paragraphs that follow, arises out of the Government of Mexico's imposition, on January 1, 2002, of the HFCS Tax. This Tax, the culmination of a series of discriminatory measures taken by the Government of Mexico against the HFCS industry since it invested in Mexico post-NAFTA, was adopted to shield the Mexican sugar industry from open and free market competition with the foreign-owned HFCS industry for Mexico's lucrative soft drink sweetener market. By imposing the Tax on soft drinks containing HFCS but excluding from its scope soft drinks that use sugar as their sweetening ingredient,
Mexico purposefully eliminated the most important market for HFCS production in Mexico and, in a single stroke, handed the entire soft drink sweetener market to Mexico's domestic sugar producers. In so doing, Mexico has wrongfully deprived Corn Products of the value of its large investments in the HFCS business in Mexico -- investments that were made post-NAFTA in reliance on the promises of the Mexican government as described below and that were specifically tailored to the needs of the soft drink industry -- and has caused Corn Products and Arancia CP to suffer enormous and continuing losses.

24. The HFCS Tax represents the most recent effort by the Mexican Government to protect Mexico's inefficient and uncompetitive domestic sugar industry, now approximately 50 percent owned by the Government following a series of nationalizations in September 2001, against foreign competitors. The invidious and discriminatory character of the HFCS Tax is apparent on its face. The HFCS Tax is not a tax designed to raise revenue -- and indeed will not do so since the Tax effectively eliminates the market for the product input that triggers the Tax. It is simply protectionism in disguise. By virtue of the HFCS Tax, the Mexican Government has limited access to the sweetener market for Mexico's enormous soft drink industry to only those firms that produce sugar rather than HFCS. The Tax has also effectively limited HFCS producers' freedom of choice with respect to production inputs, requiring them -- notwithstanding its technological infeasibility -- to use domestic sugar rather than corn to produce sweeteners. The HFCS Tax represents economic favoritism and the elimination of free competition of precisely the sort the NAFTA promised to eliminate.

25. The effects of the HFCS Tax have been disastrous for Corn Products' business in Mexico, which since 1995 has been focused primarily on sales to Mexico's large soft drink industry. As a direct consequence of the Tax, Arancia CP's plant in Mexico where HFCS is produced has been crippled, and HFCS sales to soft drink bottlers in Mexico have essentially ceased. Corn Products made a major long-term investment in the machinery, equipment and other infrastructure necessary for HFCS production in Mexico on the basis of its reasonable expectations, created by the NAFTA and other clear market signals from the Mexican Government, of free and open competition. Those expectations were bluntly frustrated by the HFCS Tax.

26. The HFCS Tax represents a violation of Mexico's obligations under the NAFTA, specifically, its obligation of national treatment under Article 1102 as well as its obligation not to impose certain types of performance requirements under Article 1106, and constitutes an unlawful expropriation of property under Article 1110.

2. HFCS Is a Recent Innovation that Has Had a Dramatic Impact on the Market for Sweeteners in Soft Drinks

27. HFCS is a relatively recent innovation that has revolutionized the sweetener business in the last thirty years. It is a liquid sweetener that has substantially the same chemical characteristics as sugar. The primary applications for HFCS are in the beverage and food industries. There are two principal grades of HFCS: grade 55 (HFCS-55), which contains 55 percent fructose, and grade 42 (HFCS-42), which contains 42 percent fructose. Approximately
90 percent of HFCS-55, which has a sweetness level equivalent to sugar, is used in the soft drink and carbonated beverages industry.\textsuperscript{11} Arancia CP is the only producer of HFCS-55 in Mexico.\textsuperscript{12}

28. Corn refiners produce HFCS by subjecting corn to a technologically highly sophisticated, capital-intensive, multi-stage, production process. The process begins with corn,\textsuperscript{13} which is milled to produce slurry starch and refined to produce dextrose. Dextrose is further processed to produce HFCS-42. HFCS-42 is then mixed with a solution of 90 percent fructose and further refined to produce HFCS-55. The production process requires not only basic corn wet milling capacity, but also specialized machinery and equipment to produce both the intermediate products and HFCS-55. Expensive enzymes and chemicals, energy and other utilities, water, storage and transportation capacity, and, of course, corn, are all required as well. The capital investment required for HFCS-55 production typically runs into the hundreds of millions of dollars.

29. It was not until the 1970s that the technology to produce HFCS-55 on a commercial scale was fully developed. Since its market introduction, however, HFCS-55's success as a sweetener has been dramatic, especially in the soft drink industry. HFCS-55 was first offered in the U.S. as a soft drink sweetener in the mid-1970s. Prior to that time, all non-dietetic soft drinks were sweetened with sugar. By the late 1980s, just over a decade later, U.S. soft drink bottlers used HFCS exclusively for their caloric sweetener needs. In Canada, where HFCS was introduced several years later, there was similar success, with HFCS capturing 90-95 percent of the soft drink market in just a few years.

30. This phenomenal growth reflects the several advantages that HFCS has as an input over sugar for soft drink sweeteners in an open market environment. In addition to lower per unit prices resulting from HFCS' lower unit production costs, HFCS is produced as a liquid and distributed to soft drink bottlers in bulk form that can be directly used in the soft drink production process. By contrast, sugar is produced in solid form and typically requires further processing before it can be used as a sweetener in soft drinks. In Mexico, HFCS' advantages over sugar are even more pronounced. There, sugar is delivered in 50-kilo bags and must be unwrapped, cleaned, and further processed to produce dissolved sugar for use in soft drinks. Other factors, including easy storage and availability, contribute to the preference for HFCS over

\textsuperscript{11} HFCS-42 also is used to a lesser extent in the beverage industry (e.g., juices and some carbonated soft drinks).

\textsuperscript{12} Arancia CP produces both HFCS-55 and HFCS-42. The only other Mexican HFCS producer is Almidones Mexicanos, S.A. de C.V. (Ailmex), which produces HFCS-42 and blends HFCS-55 in Mexico, while also importing HFCS-55 from the United States. Ailmex, like Arancia CP, is foreign-owned.

\textsuperscript{13} The raw material for HFCS produced in the United States and Mexico is corn grain, the cost of which represents the largest variable cost in the HFCS production process. Yellow corn is preferred for this process because it is less expensive than white corn, the principal type of corn produced in Mexico. The yellow color is also useful for certain marketable byproducts of the corn wet milling process.
sugar by many soft drink bottlers, in Mexico and elsewhere. In Mexico, before the HFCS Tax, HFCS' price advantage over sugar was approximately 15 percent.

3. Mexico Is a Natural Market for HFCS Production

31. Mexico is a natural market for HFCS for a number of reasons. First, Mexico is the second largest per capita consumer of soft drinks in the world, with annual sales of more than 15 billion liters, or 150 liters per person. In 1994, approximately one-third of its total sugar consumption, or 3.2 billion pounds (1.45 million metric tons) was used to sweeten soft drinks. Given the rapid conversion of U.S. soft drink producers to HFCS, and given the fact that many of these same producers hold interests in soft drink bottlers in Mexico, it was clear early in the history of HFCS that the huge Mexican soft drink industry could present significant opportunities for HFCS producers if the conditions were right.

32. When the technology to produce HFCS was developed in the late 1970s, Mexico represented an obvious candidate for HFCS production. Since the 1930s, Mexico has had a significant corn-refining industry consisting of Mexican- and foreign-owned companies. These companies produced a variety of products other than HFCS for food and beverage and industrial applications. In addition, yellow corn, the principal input for HFCS, although not available in Mexico in significant quantities, was amply available from the United States. These preconditions were insufficient, however, to attract HFCS investment to Mexico in the 1980s. Domestic capital to fund the large investment required for HFCS production was scarce, and foreign capital was deterred by the lack of effective legal protection for foreign investment, the political clout of Mexico's sugar barons, uncertainties as to the willingness of Mexican bottlers to switch from sugar to HFCS, and heavy government intervention in the market.

33. During the 1970s and 1980s, the Mexican sugar industry was closely tied to the government in a system of rigid laws and ownership relations that had been in place for decades and made the industry a virtual ward of that state. Among other things, these laws required sugar mills to purchase the entire sugar harvest of neighboring farms and offered heavy subsidies to mills and growers. Government ownership of the sugar mills was common. The industry's political influence was enormous. This influence derives from the industry's historical ties to the Partido Revolucionario Institucional (PRI). The PRI was the ruling party in Mexico for 71 years. The labor and industry unions, which represent hundreds of thousands of cane growers and workers in Mexico's 50-plus mills, have been major financial supporters of the PRI. These unions are instrumental in developing policies favorable to the sugar industry that ultimately are supported or adopted by the PRI and its legislators. Any knowledgeable observer of Mexico in the 1980s would have concluded that efforts to introduce a competing sweetener to the soft drink market could be frustrated in many ways — including through discriminatory government actions and unseen lines of influence.

4. Mexico Created a Favorable Environment for Foreign Investment in HFCS Production, Convincing Corn Products to Invest in HFCS Production in Mexico

34. Between the late 1980s and early 1990s, Mexico's barriers to HFCS investment were progressively dismantled. The Mexican Government embarked on a series of market-
liberalization measures that significantly opened Mexico to foreign investment and trade and created market conditions conducive to competition, high technology, and economic efficiency. By 1994, Mexico had privatized sugar producers and taken broad measures to redirect the role of the state in the economy. These measures, including reduced trade barriers and sale of state-owned companies, deregulation, and new laws on foreign investment and intellectual property, all sent a clear signal that Mexico was open to trade and investment. That signal was repeatedly broadcast in clearest terms in speeches by high-level government officials. These dramatic changes were codified that year when a binding treaty with the U.S. and Canada, the NAFTA, took effect. Both the treaty and other emphatic declarations of government policy created an opening for competition in the sweetener business.

35. Corn Products responded to the Mexican government’s clear and assuring signals. In the wake of NAFTA, the Company decided the time was right for investment in HFCS production in Mexico. Corn Products was a leading U.S. producer of HFCS and other products derived from corn wet milling. It had first invested in wet milling facilities in Mexico making traditional corn products in 1930. Over the years, its affiliate, Productos de Maíz, S.A. de C.V. ("Productos de Maíz"), which through a merger is now Arancia CP, became one of the principal members of the corn wet milling industry in Mexico. In 1984, Productos de Maíz, with significant investment from Corn Products, built a technologically advanced plant in San Juan del Río (the “SJR Facility” or “SJR Plant”), in the Mexican State of Querétaro, near Mexico City. The SJR Plant was designed for corn wet milling and the production of corn starch, glucose, and other traditional corn products. The SJR Facility was Corn Products’ second plant in Mexico.

36. Based on the success of HFCS in the United States, and given Mexico’s high rate and large volume of soft drink consumption as noted earlier, it was natural for Corn Products to consider making an HFCS investment in Mexico. While Corn Products executives had considered investing in HFCS in Mexico as early as the late 1980s, corporate management had concluded that the conditions were not yet ripe. The lack of an open, competitive marketplace, coupled with the advantages enjoyed by the sugar industry, made it simply too risky to commit the significant capital such an investment would require.

37. For the reasons set forth earlier, NAFTA changed the risk calculus for Corn Products, by creating obligations at the international level for Mexico to continue to maintain an open, rules-based, economy. In addition, Mexican corn wet milling companies, including Arancia S.A. de C.V. ("Arancia"), a company that later merged with Productos de Maíz to become Arancia CP, received specific assurances from the Mexican Government that induced it and Corn Products to invest. For example, in April 1994, in the wake of NAFTA, the Mexican Government entered into a written agreement with Arancia, Productos de Maíz, and other members of the Mexican corn wet milling industry promising the industry that a quota for the import of duty-free yellow

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14 Pre-NAFTA, the major customers of Productos de Maíz were the Mexican breweries. Productos de Maíz also produced corn starch, corn grits, and other products.

15 Corn Products preferred investment in local HFCS production rather than exporting HFCS to Mexico in part due to the significant transportation costs incurred in delivering HFCS, which is sold in liquid form.
corn, a critical input for HFCS production and, as noted earlier, a product not grown in Mexico in significant quantities and needing to be imported from the U.S., would be available. Arancia also received encouragement from the Mexican government to proceed with the investment.

38. To pursue the HFCS opportunity, in 1994, Corn Products entered into a joint venture with Arancia to produce HFCS-55 for the soft drink industry. Arancia was wholly owned at the time by local investors, the Aranguren family. Founded in 1925, Arancia was one of the largest corn wet milling producers in Mexico. At the time, Arancia owned two plants, one in Guadalajara and the other just outside Mexico City.

39. Corn Products developed a master plan for phased investments in HFCS-55 production that, if fully completed, would have expanded tenfold the wet milling capacity of the SJR Plant in order to produce HFCS-55. Over the next five years, pursuant to this plan, Corn Products invested more than U.S. $170 million in the expansion of the SJR Facility and related infrastructure to support HFCS production for the Mexican soft drink industry. These investments occurred in two principal phases.

40. During the first phase, which occurred between 1994 and 1997, Corn Products, through the joint venture entity (originally named Productos de Maíz, S.A. de C.V., then Arancia-CPC), invested more than U.S. $100 million in the establishment of HFCS production facilities and related infrastructure at Corn Products’ SJR Facility. In addition to purchasing and installing the necessary machinery and equipment for HFCS production, transportation, and storage, Corn Products expanded the wet milling capacity of the SJR Facility, which was then operating at full capacity in producing its existing family of corn-refined products, from 450 tons per day to 1,300 tons per day. Additional land was acquired to accommodate the expansion. Corn Products also invested in a cogeneration facility, the first of its type in Mexico, to satisfy the substantial energy requirements of HFCS production, and other necessary utilities. It also built a waste water treatment facility to treat effluent, to comply with Mexico’s environmental requirements. The HFCS project was planned so that the SJR Plant could meet the highest quality standards, including ISO certification, and with the specific requirements of the soft drink bottlers in mind.

41. The expanded and revamped SJR Facility and its HFCS channel were inaugurated in November 1996, in a ceremony attended by Mexican President Ernesto Zedillo. In his speech, President Zedillo congratulated Arancia CP on its investment, making clear not only the Mexican Government’s support of and encouragement for the investment but also that it represented the type of response to NAFTA that the Government had hoped for. Production of HFCS-55 at the

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16 This assurance was provided through an agreement between the Government and IDAQUIM, a trade association of the Mexican corn wet milling and refining industry. See Convenio que Celebran la Industria de Derivados Alimenticios y Químicos del Maíz y la Secretaría de Comercio y Fomento Industrial, Para Assegurar el Acceso de Dicha Industria al Cupo de Importación de Maíz Con Arancel Cero Acordado en el Tratado de Libre Comercio con Estados Unidos y Canadá (Agreement between IDAQUIM and the Secretary of Commerce and Industrial Development to Assure the Corn Wet Milling Industry’s Access to Duty-Free Corn Agreed to in the NAFTA), signed April 29, 1994 (Attachment 7). This agreement further obliged Mexico to timely issue certificates giving IDAQUIM members duty-free import quota access, and set forth the mechanics for ensuring that corn wet millers would have their needs for imported corn met going forward.
SJR Facility began in late 1996. Once the Plant had been ISO-certified and major Mexican soft drink bottlers had certified the plant as a supplier in May 1997, Arancia CP began selling HFCS-55 produced in Mexico to Mexican soft drink bottlers.\textsuperscript{17}

42. Mexican soft drink bottlers embraced HFCS quickly. By 2001, less than five years after HFCS-55 production began at the SJR Facility, HFCS had captured 25% of the market in Mexico for sweeteners in soft drinks, with the sugar industry supplying the other 75%.\textsuperscript{18}

43. In 1997-99, Corn Products made a further investment of U.S. $7 million in the SJR Plant, to maximize the HFCS-55 production capacity of its investments to date. This investment increased the SJR Plant’s wet milling capacity to 1,500 tons per day and brought Corn Products’ total investment in HFCS-55 production facilities in Mexico to U.S. $112 million.

44. In October 1998, Corn Products committed to acquire the remainder of Arancia CP in a series of transactions. Pursuant to this agreement, at the end of 1998, Corn Products acquired a controlling interest in Arancia CP from the Aranguren family and consolidated Arancia CP’s results in Corn Products’ financial statements. In January 2000, Corn Products increased its ownership in Arancia CP to 90 percent. In March 2002, the 1998 agreement was fully consummated by Corn Products’ acquisition of the remaining equity of Arancia CP. Each additional equity purchase increased Corn Products’ investment in Arancia CP. Corn Products paid consideration of U.S. $39 million in cash and common stock to Arancia CP’s Mexican shareholders in 2002, and U.S. $41 million in cash and common stock in 2000. The biggest payment, however, was in 1998 when, in order to acquire a controlling interest in Arancia CP, Corn Products had to pay a premium of U.S. $120 million. This amount, carried on the financial statements of Corn Products as goodwill, was based principally on the projected value of Arancia CP’s HFCS business.

45. At the time Corn Products acquired control of Arancia CP in 1998, HFCS-55 had enjoyed four years of increasing success in supplying Mexico’s soft drink industry. All expectations were that its success would continue despite competition from the domestic sugar industry. After the acquisition of control of Arancia CP, Corn Products planned a further expansion of the SJR Plant that would have doubled its wet milling capacity from 1,500 to 3,000 tons per day in order to expand its production of HFCS-55 from 550 to 1,100 tons per day.

46. The first phase of this further expansion plan was to enlarge the Plant’s corn wet milling capacity by 25 percent and increase the capacity to produce dextrose, an intermediate product in HFCS production. This phase was carried out in 1999-2000, at a cost of U.S. $60 million. This brought Corn Products’ total investment through Arancia CP in HFCS production capacity and associated assets to approximately U.S. $172 million. The second phase of the SJR Plant’s further expansion, projected to cost an additional U.S. $50 million, which Claimant had planned

\textsuperscript{17} To test the market, the joint venture had begun selling HFCS-55 imported from the U.S. to bottlers in Mexico in 1995.

\textsuperscript{18} One barrier to HFCS’ market penetration in Mexico on the scale realized in the U.S. and Canada is that a number of Mexican bottlers own sugar mills. Their vertical integration naturally leads them to source sweetener from their sugar affiliates.
to complete in 2002, was not completed. Likewise, the final phase of the project, which would have increased the corn wet milling capacity to 4,500 tons per day, has been set aside. These plans, as well as all the previous investment of time and strategic resources of the Company, were frustrated by the discriminatory and unlawful measures taken by the Mexican Government described below.

5. The Success of HFCS in Mexico Led the Sugar Industry to Seek Government Protection

47. The success of HFCS in supplying the Mexican soft drink industry beginning in the mid-1990s did not go unnoticed by Mexico’s sugar producers. As early as 1997, the industry began attempting to check the growing success of their foreign competitors, and sought the government’s assistance in reversing the success. Responding to this pressure, the Mexican Government began to take measures targeting the foreign-owned HFCS industry.

48. In 1997, at the request of the domestic sugar industry, the Mexican Government initiated an antidumping case against imported HFCS and ultimately imposed antidumping duties on HFCS imported from the United States. Despite rulings by NAFTA and WTO panels that the duties were unjustified, Mexico continued to impose these duties until May 2002.

49. In addition to attacking HFCS imports through the dumping case, Mexican sugar producers sought to impede domestic production of HFCS. The industry pressured the Mexican Government to reduce the corn wet milling industry’s annual allocation of duty-free yellow corn imports, which had been guaranteed in its agreement with the industry association in 1994.¹⁹ The Government responded beginning in 1997, and continuing each year thereafter, with reductions in those quotas. In 2000, for example, the corn wet milling industry requested 326,000 tons of imported yellow corn to produce HFCS but was allocated only 140,000 tons, a clear breach of the Government’s corn supply commitment. In 2001, the industry required 385,000 tons of imported yellow corn to produce HFCS but was granted quota for only 270,000 tons.

50. Also in 1997, the Mexican Government was widely reported to have supported an agreement reached between the soft drink bottling industry and the sugar industry. Under this agreement, designed to promote sugar over HFCS, it was reported that bottlers would not increase their consumption of HFCS beyond 1997 levels, and the sugar industry would supply the bottlers sugar at prices not exceeding 1997 levels.²⁰

51. Since 2001, the Mexican Government has taken, or attempted to take, a number of additional actions targeting HFCS. These measures, which show the Government’s clear

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¹⁹ See supra, note 16 and Attachment 7 (IDAQUIM Agreement). Mexican domestic corn production consists principally of white corn, used in the manufacture of tortillas. It is possible that certain corn growers in Mexico may also have had a role in pressing the Mexican Government to reduce quota allocations.

²⁰ See Attachment 8 for an unofficial translation of agreement published by U.S. Department of Agriculture, Foreign Agriculture Service.
intention to impede the HFCS business, include the imposition of import permit requirements, burdensome tariff rate quotas, and increased duty rates. In addition, in September 2001, the Mexican Congress even went so far as to propose a ban on all imported HFCS and yellow corn for the production of HFCS.21 Although this ban was not enacted, the measures that were, particularly the reduction in the yellow corn quotas from 1997 forward, created significant difficulties for Arancia Corn Products. Although these measures did not prevent Arancia CP’s HFCS sales to the soft drink industry in Mexico from occurring and even growing through 2001, sales growth was almost certainly slower than it would have been otherwise.22

6. The HFCS Tax Gives the Sugar Industry the Protection It Had Been Seeking

52. Although the measures described above slowed the growth of Arancia CP’s HFCS business in Mexico, and imposed costs and burdens on Arancia CP, they did not prevent soft drink producers from using HFCS as a sweetener for their products. The Mexican sugar industry quickly realized that more dramatic measures were necessary to counter the market superiority of HFCS. Their wish for absolute protection was finally realized with the Mexican Congress’ enactment of the HFCS Tax.

53. The HFCS Tax was passed in December 2001, and became effective January 1, 2002. It was structured as an amendment to a preexisting tax regime, the Impuesto Especial Sobre Producción y Servicios (Special Tax on Production and Services) (“IEPS”). The IEPS, adopted in 1980, is not a generally applicable sales or value-added tax, but is an excise tax that is applied

21 These and other measures of the Mexican Government targeting HFCS paralleled the emergence of a trade dispute with the United States concerning access for Mexican sugar to the U.S market under NAFTA. The dispute centers on the interpretation of NAFTA’s sugar trade provisions and the methodology for determining whether Mexico is a surplus sugar producer, which dictates whether and to what extent the United States must allow access to Mexican sugar exports. Lack of access by Mexican sugar to the U.S. market has likely contributed to anti-HFCS measures in Mexico, even though it is the U.S. sugar industry that is the source of the U.S. market access problem. The United States and Mexico engaged in bilateral negotiations on this issue throughout 2002-03 with no apparent resolution as of the time of this submission.

22 At the time of this submission, there is a sugar deficit in Mexico such that demand for sugar in Mexico exceeds domestic production. Notwithstanding this sugar deficit and the unutilized HFCS capacity, the Government has decided to satisfy domestic sweetener demand by importing sugar rather than by removing the HFCS Tax so that HFCS production and sales can resume. While sugar imports were previously non-existent due to prohibitively high import duties, the Government has provided for imports by establishing an import quota in effect until December 31, 2003 and reducing the import duty on sugar from 40 cents per kg of sugar to 3 cents per kg. See “Decreto por el que se crean, modifican y suprimen diversos aranceles de la Tarifa de la Ley de los Impuestos Generales de Importación y de Exportación,” D.O., 26 de septiembre de 2003, Primera Sección, p. 41. The only entity entitled to apply for quota is the government agency that holds the nationalized sugar mills, which may indicate the basis for the government’s preference for imported sugar over domestically produced HFCS.
to sales of specific products or services, including gasoline, alcoholic beverages, and tobacco products.  

54. The HFCS Tax imposed a permanent, facially discriminatory, 20 percent ad valorem tax on soft drinks containing HFCS, for the purpose of protecting the domestic sugar industry by making HFCS uneconomic as a soft drink sweetener. The HFCS Tax, enacted as Article 2, paragraph I.G. of the IEPS, applies to:

Gasified or mineral waters; soft drinks; hydrating or rehydrating beverages; concentrates, powders, syrups, flavor essences and extracts, that when diluted allow one to produce soft drinks, hydrating or rehydrating beverages that use sweeteners different from sugar from cane.

The Tax applies not to the value of the sweetener input, but to the higher value of the entire soft drink. Its cost impact for bottlers is therefore many times the 15 percent price advantage HFCS had over sugar in Mexico before the Tax’s adoption.

55. In adopting the HFCS Tax, the Mexican Congress readily admitted that its purpose was to protect the domestic sugar industry. For example, on December 30, 2001, Representative Francisco Raúl Ramírez Ávila, on behalf of the Comisión de Hacienda y Crédito Público (Tax Committee) of the Mexican House of Representatives, urged the Congress to pass the IEPS amendments on the following basis:

We legislators, however, have the commitment to protect the domestic sugar industry because a great number of Mexicans’ subsistence depends on it. For that

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23 The IEPS collected what had previously been individual taxes on these and other items under a single umbrella. Since its adoption, it has become the third largest source of tax revenues for the Mexican Government, after income and value-added taxes. Historically, gasoline and petroleum products have been the source of the vast majority of the revenue the IEPS has collected. Other products have been subject to the IEPS as well. Most significant for this claim, the IEPS applied to all soft drinks from 1980-1990. See, e.g., “Decreto por el que se modifican diversas leyes fiscales,” Artículo Décimocuarto, regarding the “Ley del Impuesto Sobre Compraventa de Primera Mano de Aguas Envasadas y Refrescos,” D.O., 31 December 1973 (Attachment 9). Previous excise taxes had also treated soft drinks as a luxury item and subjected them to taxation. Corn Products does not challenge the validity of the IEPS nor the authority of the Mexican Government to impose legitimate excise taxes. Rather, its claims are focused on the HFCS Tax, which, unlike the IEPS in general, is not a legitimate tax measure but a discriminatory, protectionist device.

24 “Ley del Impuesto Especial sobre Producción y Servicios” (Law on the Special Tax on Production and Services), D.O., 1 de enero de 2002, Primera Sección, p. 32 (unofficial translation) (Attachment 10, at 33). The IEPS further defines soft drinks as: “Soft drinks, the beverages that are not fermented, made with water, carbonated water, fruit extracts or essences, flavorings or any other raw material, gasified or without gas, that may contain citric acid, benzoic acid or ascorbic acid or their salts as preservatives, as long as they contain fructose.” Id. at Article 3.XV. (emphasis added) (unofficial translation) (Attachment 10, at 34). This last phrase excluded from taxation soft drinks produced with non-caloric sweeteners such as aspartame. (This exclusion was apparently eliminated in December 2002).
effect, a tax on soft drinks that applies only to those that for their production use fructose in substitution of sugar from cane is proposed.25

56. At the time of the Tax’s adoption, Mexico had a divided government. The PRI had lost the presidency to Vicente Fox Quesada of the Partido Acción Nacional (PAN) in 2000. However, the PAN was not able to secure control of the Congress. There, the dominant party remained the PRI, which as noted above (see paragraph 33) has long been closely tied to the sugar industry. The Tax was approved by the Congress in late 2001 in a process that, as described below, was neither open nor transparent.

57. President Fox, recognizing the Tax’s illegal, discriminatory character, opposed it. He acted to suspend the Tax in March 2002. However, the Congress filed a constitutional challenge to his authority to do so in April 2002. In July 2002, the Mexican Supreme Court ruled in favor of the Congress, and the suspension was lifted.

58. The congressional debate surrounding the constitutional challenge to President Fox’s suspension provides further evidence of the not only discriminatory but specifically anti-U.S. intent underlying the adoption of the Tax. It shows that the HFCS Tax was intended to benefit domestic interests (Mexican sugar producers and growers) at the expense of foreign interests (the U.S.-owned HFCS producers and corn growers). For example, Representative Ildefonso Guajardo Villarreal, during a debate on the constitutional controversy, made clear that the congressional intent was to benefit Mexican interests at the expense of U.S. interests:

This time, the Executive advocates for the defense of employment [referring to the Considerandos section of the Suspension Decree]; it is natural to ask when one advocates for the temporary suspension of the tax on beverages that use fructose, to what employment are we referring to?... We are referring to the employment created by the fructose industry in Iowa or Dakota in the United States. We are referring to the yellow corn producers that are fundamentally the same ones that complained to the American negotiators because, obviously, this muddles the interests of the North American exporters, or are we really referring to the need to protect a tremendously injured social sector, of the Mexican cane and sugar sector.26

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26 Debate on whether the House of Representatives should file a Constitutional Controversy before the Supreme Court against President Fox's lack of authority to suspend the HFCS Tax with the Suspension Decree on April 2, 2002, during the Ordinary Session Period of the Second Term Year 2001 – 2002 of the House of Representatives, LVIII Legislature, at http://www.cddhcu.gob.mx/servddd under Versión Estenográfica, then click on LVIII Legislatura Segundo Año de Ejercicio 2001-2002 (unofficial translation) (Attachment 12).
59. The illegitimate nature of the Tax is further revealed by its absence of revenue character. Had the Tax been applied to all soft drinks, as it was in the 1980s, it would have raised billions of dollars of much-needed revenue for the Government's coffers. But it was not. Applied only to soft drinks made with HFCS, the Tax resulted in bottlers switching from use of foreign-owned HFCS as the most cost-effective sweetener to domestic sugar to avoid the Tax. The Mexican legislators were well aware of the ability of sugar to substitute for HFCS-55 in soft drinks and, in passing the Tax, intended such substitution to occur. Thus, it is evident the Tax could not have been intended to raise revenue since its very existence eliminates the market for the sweetener it targets -- HFCS. The Government's own revenue projections for the Tax confirm this reality.

60. The process by which the HFCS Tax was enacted was neither open nor transparent. No legislative proposal was publicly available until shortly prior to the Tax's adoption. No public hearings on the proposed HFCS Tax were conducted. Although the legislation was clearly targeted at the HFCS industry, Arancia CP was given no opportunity to present its position on the legislative proposal to the Congress. Instead, members of Congress held private, separate meetings with members of the soft drink and sugar industries to discuss the proposed HFCS Tax. The Mexican press reported subsequently that both industries had agreed on the proposed Tax and that Mexican senators had promised passage of the Tax before the end of 2001.

61. That is what in fact occurred. The Tax was enacted on December 30, 2001.

7. The Impact of the HFCS Tax Was Immediate and Devastating to Arancia CP and Corn Products

62. Literally within days of the HFCS Tax's effectiveness on January 1, 2002, bottlers began canceling outstanding orders for HFCS they had previously placed with Arancia CP. New orders ceased. By January 7, 2002, Arancia CP was forced to shut down HFCS-55 production at the SJR Plant. By the end of January 2002, the first month of the Tax, Arancia CP's losses were already in the millions of dollars.

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27 See supra, note 23.

28 The Mexican Congress projected revenues raised by the HFCS Tax to account for less than 1% of the total revenues raised by the IEPS in 2002. See "Ley de Ingresos de la Federación para el Ejercicio Fiscal de 2002," D.O., 1 de enero de 2002, Primera Sección, p. 1 (Attachment 13) (estimating, probably based on orders in existence at the time the Tax became effective, revenues from the HFCS Tax in 2002 at $1.374 billion pesos out of total IEPS collections of $155.06 billion pesos). Considering the lack of sales of HFCS to soft drink bottlers that resulted from the Tax, except for some sales that occurred during the suspension period described infra, it is unlikely such revenue estimates were met. Indeed, the Mexican Government substantially lowered revenue estimates for the HFCS Tax in 2003 by 88% to 168.1 million pesos, or about U.S.$15 million. See "Ley de Ingresos de la Federación para el Ejercicio Fiscal de 2003," D.O., 30 de diciembre de 2002, Tercera Sección, p. 1 (Attachment 14). Even this reduced estimate is of doubtful accuracy.


30 See Attachment 15 for sample letters canceling orders of HFCS.
President Fox's suspension of the Tax on March 6, 2002, while providing limited respite, was unable to alleviate the Tax's fundamentally devastating impact. Bottlers remained reluctant to place orders for future delivery in such a climate of uncertainty, as Arancia CP's reduced sales during this period reflect. That caution proved justified when the Supreme Court ruled in July 2002 that President Fox lacked the authority to suspend an act of Congress. Reinstatement of the Tax definitively closed the door to new HFCS orders from bottlers.

64. As a result of the HFCS Tax, Arancia CP's SJR Plant has been crippled. Due to the lack of demand for HFCS-55, production has been suspended or curtailed at all times. The Plant has been forced to operate at significantly less than full capacity in terms of its corn grind and related production processes, creating costly inefficiencies and production difficulties for its remaining products. Although Arancia CP has searched exhaustively for new markets, it has proven impossible to date to even approach replacing the soft drink market either in volume or financial contribution. Overall sales of HFCS in 2002 declined 77% from 2001 levels. HFCS-55 production in 2002 declined by approximately 75% and overall HFCS production declined by two-thirds. These 2002 figures reflect the fact that some sales continued during the suspension of the HFCS Tax. With no such suspension in effect in 2003, HFCS sales to Mexico’s soft drink producers this year, 2003, have suffered even further.

65. The HFCS Tax has caused Arancia CP (i) to lose sales of approximately US $130 million through August 2003 (and lost sales of approximately $7 million are incurred every month that the HFCS Tax remains in place); (ii) to lose significant profits; (iii) to cancel outstanding orders for equipment for the HFCS channel, resulting in penalties; (iv) to shut down its HFCS-55 channel and portions of the SJR Facility for substantial periods of time, resulting in higher costs for the remainder of its operations at the SJR Facility; and (v) to incur penalties under energy supply contracts with outside vendors, among other damages.

66. The HFCS Tax has likewise been the direct and demonstrable cause of significant additional damages at the Corn Products corporate level. At the time the Tax became effective, Arancia CP supplied 25 percent of the operating income of Corn Products, with HFCS-55 sales to the soft drink industry representing the major contribution to that figure. Besides this loss of income resulting from the Tax, the decimation of the Mexican HFCS-55 business has caused other damages to Corn Products, including an increase in its borrowing costs by at least US $5 million per year for the five-year period beginning in 2002, for an aggregate loss of at least U.S $25 million. Because the Tax adversely affected Corn Products' credit rating, the Company has also been forced to refinance its revolver into a five-year note, at a further loss of at least U.S. $20 million. These losses can and will be shown to be the unambiguous consequence of the Tax.

67. As of the date of this request for arbitration, Corn Products' and Arancia CP's damages continue to mount daily. Despite these losses, to date the Mexican Government has neither offered nor paid any compensation to Arancia CP or Corn Products.

68. The HFCS Tax has consequently destroyed the value of Arancia CP’s Mexican HFCS-55 business and assets necessary for that business, and Corn Products’ investments, through Arancia CP, in that business and assets. Although some other markets for HFCS, especially HFCS-42, remain, and Corn Products and Arancia CP have been aggressively searching for new business opportunities, the soft drink sweetener market was the economic basis for Corn Products' huge
investments in the expansions of the SJR Facility since 1994 to establish an HFCS-55 production channel for the soft drink industry, as well as for the premium it paid for Arancia CP. There is simply no ready alternative market for HFCS-55. Continuation of the Tax will ultimately force Corn Products and Arancia CP, in order to mitigate ongoing losses, either to reconfigure the Facility to other uses at considerable expense and for a substantially lesser return, or to abandon the HFCS-55 business in Mexico and, to the extent feasible, sell the assets necessary for that business at what will likely be only a tiny fraction of their value. At the same time, the HFCS Tax has enabled the domestic sugar industry to capture the role of sole supplier of sweeteners to Mexico's soft drink industry, a position it would demonstrably not have had absent government intervention.

8. **Corn Products' and Arancia CP's Many Efforts to Remove the HFCS Tax and Mitigate Their Damages Have Proven Futile**

69. Given the devastating impact of the HFCS Tax on Arancia CP's business, Corn Products and Arancia CP have made many efforts to overturn the HFCS Tax, to no avail.

70. Arancia CP has undertaken an extensive lobbying campaign seeking the Tax's repeal over the last 21 months. This campaign has involved meeting with over 100 legislators, including leaders of the PRI and PAN parties in both the Mexican Senate and Mexican House of Representatives, leaders of the relevant congressional committees, including the Budget Commission and Commerce Commission, and members of the congressional Sugar Commission. In addition, Arancia CP and Corn Products have met on numerous occasions with executive branch officials to seek their support in persuading the Congress to repeal the Tax.

71. Arancia CP's efforts to convince the Mexican Congress to repeal the Tax have thus far not been successful. In December 2002, the Mexican Congress voted against repeal, leaving the Tax in place for 2003. As a result, as noted earlier, HFCS sales have been further adversely affected, and financial losses on Arancia CP and Corn Products continue to mount daily.

72. Arancia CP has initiated proceedings before domestic agencies and courts seeking rulings confirming the discriminatory and unconstitutional nature of the HFCS Tax. None of these efforts has succeeded in eliminating the Tax, however. In March 2002, Arancia CP requested an opinion from Mexico's Federal Competition Commission as to whether the HFCS Tax is anticompetitive. On April 22, 2002, the Federal Competition Commission in Mexico issued a report on the HFCS Tax's implications for competition and free commerce. Recognizing that "both products [HFCS and sugar] are used as sweeteners for the production of [soft drinks]," the Commission stated that "in . . . protecting one specific industry [sugar], the other one [HFCS] is...

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31 In addition to maintaining the HFCS Tax, the Mexican Congress extended its application to diet soft drinks (a very small market in Mexico). Legislators voting to repeal the HFCS Tax described the Tax as incapable of raising revenue and urged that the Tax be amended to apply to all soft drinks so that it would in fact raise revenue. See Debate on the Amendments to the IEPS on December 10, 2002 during the 1st Ordinary Session Period of the Third Term Year 2001 – 2002 of the House of Representatives, LVIII Legislature, at http://www.diputados.gob.mx/servddiverest/index1.htm under Versión Estenográfica, then click on LVIII Legislatura Tercer Año de Ejercicio 2001-2002 (unofficial translation) (Attachment 16). This position was not successful.
clearly affected, which constitutes a restriction to the efficient functioning of the market.”\textsuperscript{32} However, this report was purely advisory; the Commission has no authority to order the Tax to be rescinded or to award compensation to injured parties.

73. In February 2002, Arancia CP filed an amparo (a type of extraordinary writ) in the Mexican courts challenging the constitutionality of the HFCS Tax. Notwithstanding the ruling of the Competition Commission, in the 18 months since this case was filed, only the issue of venue has been resolved. Moreover, the amparo, even if successful, does not give rise to damages.

74. Arancia CP has also initiated several judicial proceedings with respect to corn supply measures taken by the Government. These include a challenge (juicio de nulidad) to the Government’s corn quota allocations since 2001. However, these proceedings can only adjudicate whether the Government has breached its obligations under the corn supply agreement in the years in question, and will not even force the Government’s future compliance or provide any monetary compensation, much less have any effect on the Tax.

75. The lack of success of these efforts has left Corn Products with little choice but to pursue this NAFTA claim. Even the fact that Mexico has developed a sugar shortage in 2003 -- probably as a result of the Tax -- has not produced any relief. Shortly before this submission, the Mexican Government decided to cover this deficit by importing sugar rather than ending its discrimination against the foreign-owned HFCS industry, notwithstanding the very substantial investment of that industry in Mexico.

B. Legal Claims Under Chapter 11 of the NAFTA

1. Corn Products Is Eligible to Submit Claims Under NAFTA
Chapter 11 on Its Own Behalf and on Behalf of Arancia CP

76. NAFTA Article 1116 provides that “[a]n investor of a Party may submit to arbitration . . . a claim that another Party has breached an obligation under . . . Section A [of Chapter 11].” As a U.S. corporation that wholly owns Arancia CP, a Mexican company, and has made investments through Arancia CP, Corn Products is an “investor of a Party” as defined by Article 1139 of the NAFTA.

77. Article 1139 of the NAFTA defines “investor of a Party” as “a national or an enterprise of such Party, that seeks to make, is making or has made an investment.” Corn Products falls within the definition of “enterprise.” As noted above,\textsuperscript{33} the NAFTA defines “enterprise” as “any entity constituted or organized under applicable law, whether or not for profit, . . . including any corporation . . . joint venture or other association.” As a Delaware corporation in good standing, Corn Products satisfies that definition. The final requirement for standing as an “investor of a


\textsuperscript{33} See supra, note 2.
Party” is that the enterprise “seeks to make, is making, or has made an investment.” As discussed above, Corn Products has made a very substantial investment, through its indirect wholly owned subsidiary Arancia CP, in the HFCS business in Mexico. Therefore, as an investor of a Party, Corn Products is entitled to submit a claim under Chapter 11 on its own behalf.

78. NAFTA Article 1117 provides that “[a]n investor of a Party, on behalf of an enterprise of another Party that is a juridical person that the investor owns or controls directly or indirectly, may submit to arbitration under this Section a claim that the other Party has breached an obligation under . . . Section A [of Chapter 11].” As a Mexican corporation, Arancia CP is an “enterprise of another Party.” In addition, Corn Products indirectly owns Arancia CP. Specifically, Corn Products owns 100% of the issued and outstanding stock of Corn Products Development, Inc. (“CP Development”), a U.S. company incorporated under the laws of the State of Delaware. CP Development owns 59% of the issued and outstanding stock of Arancia CP, and 100% of the issued and outstanding stock of Aracorn, S.A. de C.V., a Mexican company (“Aracorn”). Aracorn owns the remaining 41% of Arancia CP.34 Therefore, Corn Products is also entitled to submit this claim to arbitration on behalf of Arancia CP.

79. As required by NAFTA Article 1101, the Chapter 11 breaches described below arise out of “measures adopted or maintained by a Party relating to: (a) investors of another Party [and] (b) investments of investors of another Party in the territory of the Party . . . .” Arancia CP is an “investment of an investor of a Party,” which is defined in NAFTA Article 1139 as “an investment owned or controlled directly or indirectly by an investor of such Party.” As noted above, Article 1139 defines “investment” as including, but not limited to, an enterprise.35

80. The HFCS Tax is a “measure” as that term is used in NAFTA Chapter 11 and defined elsewhere in the NAFTA. NAFTA Article 201 defines “measure” as any law, regulation, procedure, requirement or practice. As described above, the HFCS Tax was adopted by the Government of Mexico as an amendment to an existing tax law, the IEPS, *Impuesto Especial Sobre Producción y Servicios* (Special Tax on Production and Services). This challenge is only to the HFCS Tax and not to the IEPS apart from the Tax.

81. Moreover, based on the facts described above, the HFCS Tax is a measure that “relates to” Arancia CP and its HFCS business, as that term is used in NAFTA Article 1101. There is a direct and deliberate nexus between the HFCS Tax and Arancia CP’s ability to sell HFCS produced at its SJR Plant to the soft drink industry. Moreover, the intention of the Government of Mexico to harm the foreign-owned HFCS industry in order to benefit Mexico’s sugar industry further demonstrates that the HFCS Tax is a measure that “relates to” Arancia CP in accordance with Article 1101.

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34 See Attachment 18 for documents detailing Corn Products’ indirect ownership of Arancia CP and a diagram of the ownership structure described above.

35 In addition to its equity in Arancia CP, Corn Products has an indirect investment in the property comprising the assets used in HFCS production in its Mexican operations.
Tax Is a Breach of Mexico’s National Treatment Obligations Under NAFTA Article 1102

Article 1102 of the NAFTA requires each NAFTA Party to accord to investors of another Party, and investments of investors of another Party, treatment no less favorable than it accords, in like circumstances, to its own investors and their investments with respect to the establishment, acquisition, expansion, management, conduct, operation, and sale or other disposition of investments.

83. It is indisputable that producers of HFCS and producers of sugar are in “like circumstances.” Both produce sweeteners for use by soft drink manufacturers. The sweeteners are substantially similar in chemical characteristics and are interchangeable in application by the soft drink producers. Various branches of the Mexican government, including the Executive, through the Secretariat of Commerce (SECOFI), legislative officials, the Mexican Supreme Court, and Mexico’s Federal Competition Commission, have confirmed in many different contexts that HFCS and sugar producers compete with each other in the same economic and business sector. The Tax itself demonstrates that they are competitive and interchangeable.

84. By discriminatorily taxing soft drinks produced with HFCS while not taxing soft drinks produced with sugar, the Government of Mexico has accorded less favorable treatment to HFCS producers generally, and Corn Products and Arancia CP specifically, than that accorded to domestic sugar producers with respect to the establishment, acquisition, expansion, management, conduct, operation, and sale of investments. Arancia CP’s operation of the SJR Plant, and particularly HFCS-55 production at the Plant, has been significantly impaired, and its conduct of its HFCS-55 business has been destroyed by the Tax. The Mexican Government has not claimed any legitimate basis for the invidious distinction the Tax makes between soft drinks produced with HFCS and soft drinks produced with sugar. Moreover, even if assisting the domestic sugar industry were a legitimate goal, the means chosen – discriminatory taxation to insulate a national industry against foreign competition – is illegitimate.

85. The HFCS Tax was plainly adopted to undo the results of fair and open competition between foreign-owned HFCS producers and the Mexican sugar industry. Before the Tax, those foreign producers had succeeded in capturing 25 percent of the soft drink sweetener market on the basis of price and product quality. As the Mexican Congress was well aware, all of the HFCS-55 sold in Mexico prior to the Tax was either imported from the U.S. or produced by Arancia CP, a wholly foreign-owned company. By deliberately giving the soft drink sweetener market to the domestic sugar industry, the Tax discriminates against Corn Products and Arancia CP as a matter of law and fact.

86. The HFCS Tax’s invidious discrimination has thus eliminated the most significant customer base for Arancia CP and the reason for its HFCS-55 investment. It has caused enormous damages to it and to Corn Products. These include lost profits and other damages incurred as a result of Arancia CP’s having to cease production of HFCS for the soft drink industry, and damages at the parent company (Claimant) level as well. These damages are continuing.
3. The Tax Is a Breach of Mexico’s Obligation Not to Impose Performance Requirements Under NAFTA Article 1106

87. NAFTA Article 1106(1) prohibits a Party from imposing various forms of performance requirements, including a requirement to achieve a given level or percentage of domestic content or a requirement to purchase, use or accord a preference to goods produced in that Party’s territory. Thus, NAFTA Parties cannot require investors to include in their products or services any amount of goods or services that originate within the Party and cannot require investors to purchase, use, or accord preferential treatment to any products or services made domestically.

88. NAFTA Article 1106(3) prohibits a Party from conditioning the receipt or continued receipt of an advantage on compliance with such performance requirements. Article 2103 of the NAFTA permits a claim involving taxation measures to be stated under this paragraph.

89. The HFCS Tax imposes prohibited performance requirements on both sweetener producers such as Arancia CP, and on soft drink producers, requiring them to use Mexican inputs rather than inputs from the United States or produced by U.S.-owned businesses.

90. The HFCS Tax compels a company like Arancia CP that is in the business of producing sweeteners for sale to soft drink makers to produce their sweeteners using Mexican sugar cane rather than corn. Continued operation of the SJR Plant for HFCS-55 production has thus effectively been conditioned on use of the favored input. Since it is technologically infeasible for Arancia CP to use Mexican sugar in its sweetener production operation at the SJR Plant, the HFCS Tax has in fact prevented it from operating the Plant for its intended and certified purpose, and from participating in the soft drink sweetener business for which its HFCS investments were made.

91. Prior to NAFTA, Claimant’s investment in HFCS production in Mexico had been deterred based on a number of factors. Among the most significant was Mexico’s maintenance of border measures that limited imports of yellow corn from the United States in quantities that were sufficient to produce HFCS. In conjunction with the trade liberalization commitments made by Mexico as part of the NAFTA, the Government of Mexico enticed Corn Products to invest in HFCS production in Mexico by, among other advantages, guaranteeing duty-free access to imported yellow corn through the 1994 written agreement between the Government and Mexico’s corn wet milling industry. By imposing the HFCS Tax, however, Mexico has conditioned Arancia CP’s continued access to critical inputs for sweetener production on compliance with the requirement that Arancia CP use domestic sugar cane instead of yellow corn. The Tax renders the agreement between the Government and the wet-milling industry, and

36 To protect the domestic sugar industry, Mexico imposes a prohibitively high duty rate on imported sugar. The current rate, 40 cents per kilo (which, as noted above in footnote 22 has been temporarily waived due to the current deficit of domestic sugar), is almost double the value of sugar on the international market. A tariff wall of this magnitude rules out the use of imported sugar in producing sweeteners for the soft drink industry.

37 As noted earlier, Mexico did not (and does not) produce yellow corn in sufficient supplies to produce HFCS on the scale required by Arancia CP.
other advantages granted to Arancia CP, ineffective because the Tax eliminates the market for HFCS produced by Arancia CP with yellow corn imported from the United States.

92. The HFCS Tax also compels companies that are in the business of producing soft drinks to make their soft drinks using sugar (predominantly produced in Mexico) rather than HFCS (made by Arancia CP or imported by Arancia CP and others). The result of this requirement is to eliminate Arancia CP and other HFCS suppliers from the market.38

93. This requirement that soft drink bottlers use sugar is enforced by a tax that is calculated not to equalize the prices of the competing sweeteners, but to impose a heavy penalty on those bottlers who choose to use HFCS instead of domestic sugar. Such a financial penalty limits the bottlers’ freedom to select the best sweetener on the basis of price and quality. Freedom from punitive taxation is thus conditioned on choice of sweetener inputs. As noted above, Mexico had imposed an excise tax on all soft drinks from 1980 to 1990, treating them as luxury items.39 Along with other market-liberalization measures adopted by the Mexican government in the early 1990s, Mexico repealed this tax. As of January 1, 2002, however, Mexico retreated from this position, conditioning the continued non-taxation of soft drinks on compliance with the requirement that Mexico’s soft drink producers manufacture soft drinks with sugar instead of HFCS. The devastating effect of this measure on sweetener producers such as Arancia CP, whose production requires inputs other than sugar, is direct and foreseeable.

4. The Tax Constitutes an Indirect Expropriation Under NAFTA Article 1110

94. Under NAFTA Article 1110, “[n]o Party may directly or indirectly . . . expropriate an investment of an investor of another Party in its territory or take a measure tantamount to . . . expropriation . . ., except: (a) for a public purpose, (b) on a non-discriminatory basis, (c) in accordance with due process of law and Article 1105(1), and (d) on payment of compensation, in accordance with [its provisions].”

95. As the language quoted above demonstrates, Article 1110 provides both for claims of direct expropriation involving a physical taking of property and for claims of indirect expropriation, generally involving regulatory measures that effect an expropriation or that have an effect tantamount to an expropriation.

96. As one NAFTA arbitral tribunal considering Article 1110 has stated:

Expropriation includes not only open, deliberate or incidental takings of property, but also covert or incidental interference with the use of property which has the effect of depriving the owner, in whole or in significant part, of the use or

38 The other member of the Mexican HFCS industry, Almex, imports HFCS; in addition, it has been Arancia CP’s practice to import from either the United States or Canada HFCS that the Mexican market has required in excess of Arancia CP’s local production.

39 See supra, note 23.
reasonably-to-be-expected economic benefit of property even if not necessarily to the obvious benefit of the host State.\textsuperscript{40}

97. The Restatement (Third) of the Foreign Relations Law of the United States, which has been frequently cited by NAFTA Tribunals, makes clear that discriminatory tax measures can result in expropriation. The Restatement recognizes that:

\[\text{[a] state is responsible as for an expropriation of property ... when it subjects alien property to taxation, regulation, or other action that is confiscatory, or that prevents, unreasonably interferes with, or unduly delays, effective enjoyment of an alien's property ...}^{41}\]

98. By virtue of the HFCS Tax, Mexico has indirectly expropriated, or has taken measures tantamount to an expropriation, of an investment of an investor of another Party, i.e., Corn Products. In particular, Mexico has indirectly expropriated the assets used in Arancia CP's HFCS production and other assets critical to the HFCS-55 business in Mexico. Even though the taking was "indirect," it was nonetheless immediate and decisive. The HFCS Tax has deprived Arancia CP of the value of its HFCS investments as a consequence of the Tax's elimination of HFCS' ability to participate in the Mexican soft drink sweetener market for which those investments were made. The economic effect of this measure on Corn Products and Arancia CP is equivalent to abandonment or a sale of the HFCS production channel and related assets at a distress price.

99. In the wake of the Tax, Arancia CP has sought to develop new uses and new customers for HFCS, and to expand its other product lines. It has also considered the feasibility of transferring certain HFCS production equipment to plants outside of Mexico in order to stem the huge losses the Tax has inflicted. These measures at best mitigate its losses to a minor degree and do not restore the value of its investments.\textsuperscript{42}

100. The imposition of the HFCS Tax, by depriving Arancia CP of access to the Mexican soft drink sweetener market and rendering Corn Products' HFCS investments, through Arancia CP,

\textsuperscript{40} Metalclad Corporation v. United Mexican States, Award, ¶ 103, ICSID Case No. ARB(AF)/97/1 (Aug. 30, 2000) ("Metalclad"). See also, Starrett Housing Corp. and Islamic Republic of Iran, Award No. ITT 32-24-1, reprinted in 4 Iran-U.S. C.T.R. 122, 154 (1987) (expropriation occurs when a property owner is deprived of "effective use, control, and benefits of property rights," clarifying that "[m]easures taken by a State can interfere with property rights to such an extent that these rights are rendered so useless that they must be deemed to have been expropriated, even though the State does not purport to have expropriated them and the legal title to the property formally remains with the original owner.").

\textsuperscript{41} See 2 Restatement (Third) of the Foreign Relations Law of the United States ("Restatement") § 712, comment g.

\textsuperscript{42} In fact, the scale of the SJR Plant's operation is such that it is likely to be economically prohibitive or technically impossible to move much of the machinery and equipment elsewhere. Other equipment reflects the Plant's customized layout and may simply not be usable elsewhere.
in the SJR Plant uneconomic and unusable, has frustrated the reasonable and justified investment expectations Corn Products had when it made its HFCS investments in Mexico beginning in the mid-1990s. Mexico induced Corn Products' investments by promising an open, competitive, non-discriminatory, and transparent investment environment under the NAFTA. Consistent with this open environment, Mexico agreed to provide Corn Products and Arancia CP with zero-duty quota allocations of imported yellow corn. When Corn Products made its investments in HFCS production through Arancia CP, the HFCS Tax was not present or contemplated. Although generalized excise taxes on soft drinks may have been foreseeable, Corn Products could not, when it planned and executed its HFCS investments in Mexico, have reasonably foreseen such a targeted, discriminatory and devastating tax. Corn Products had every reason to expect that Arancia CP would be able to engage in HFCS-55 production over the life of its investments and have the opportunity to sell its products, in competition with sugar, to soft drink producers.

101. As a result of Mexico’s expropriation of Corn Products’ investments in HFCS-55 production, Corn Products is entitled under NAFTA Article 1110 to compensation in an amount that is at least equivalent to the fair market value of the investment necessary for that production. As Corn Products will show during the course of arbitration, Arancia CP’s years of successful operation in the HFCS business prior to the Tax’s imposition make going concern value the only fair basis for compensation.

102. But the HFCS Tax is more than an expropriatory action for which fair market value compensation must be paid. It is also an unlawful measure. As already set forth in paragraphs 82-86, the HFCS Tax is a facially discriminatory measure, designed to protect domestic interests at the expense of foreign interests. That it was adopted through an irregular process and suffers fundamentally flawed public purpose are beyond cavil. Any one of these elements is sufficient to render the Tax unlawful under NAFTA Article 1110,43 even if Corn Products is compensated for the loss of its investment. Such unlawful action, which Corn Products will prove during the course of this arbitration, entitles Corn Products to recover any additional damages necessary to restore it and Arancia CP to the position they occupied prior to the Tax’s imposition.

C. Issues to be Presented

1. Has the Government of Mexico taken measures that are inconsistent with its obligations under Articles 1102, 1106, or 1110 of the NAFTA?

2. If so, which measures are inconsistent and with which of these provisions, and at what time(s)? In particular as to Article 1110, has the expropriation been arbitrary, discriminatory, or lacking in public purpose as well as uncompensated?

3. If so, what are the damages that are properly compensable to Corn Products in respect of the losses it or Arancia CP have suffered as a result of the Government of Mexico’s breaches of its NAFTA obligations?

43 See supra, ¶94.
D. Relief and Remedy Sought

103. As a result of the actions and breaches of the Government of Mexico described above, Corn Products is seeking the following relief:

- Damages not less than $325 million U.S. dollars arising out of the Government of Mexico's breaches of its NAFTA obligations and sufficient to restore the companies to their pre-Tax status;

- Damages to compensate Corn Products for costs associated with its and Arancia CP's efforts to prevent and remedy the Government of Mexico's breaches of its NAFTA obligations;

- Costs associated with these proceedings, including all professional fees and disbursements;

- Prejudgment and post-judgment interest at a rate to be fixed by the tribunal; and

- Such further relief as the tribunal may deem appropriate.

IV. REQUIRED COPIES AND PAYMENT

104. In accordance with Article 4 of the AF Administrative and Financial Rules as amended, this Request is accompanied by five additional signed copies and by a non-refundable fee of U.S. $7,000. The undersigned counsel certify that all copies included in the submission are based on original documents.
As authorized by the appropriately appended signature below and Corn Products' Power of Attorney (Attachment 19), the law firm Miller & Chevalier Chartered represents Corn Products and is authorized to receive correspondence related to this matter on its behalf. All correspondence related to this arbitration should therefore be delivered to the undersigned.

Respectfully submitted,

[Signature]

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Counsel to Corn Products International, Inc.

October 21, 2003
Index of Exhibits


4. Submission Under NAFTA Article 2103(6) to the Mexican Competent Authority Regarding Corn Products' Notice of Intent To Submit a Claim To Arbitration Against the Government of Mexico Under Chapter 11 of the NAFTA (January 28, 2003) (English and Spanish versions) (With attachments).


7. Convenio que Celebran la Industria de Derivados Alimenticios y Químicos del Maíz y la Secretaría de Comercio y Fomento Industrial, Para Asegurar el Acceso de Dicha Industria al Cupo de Importación de Maíz Con Arancel Cero Acordado en el Tratado de Libre Comercio con Estados Unidos y Canadá (signed April 29, 1994).


12. Debate on whether the House of Representatives should file a Constitutional Controversy before the Supreme Court against President Fox’s lack of authority to suspend the HFCS Tax with the Suspension Decree (April 2, 2002).


15. Sample Letters Canceling Orders of HFCS.


18. Documents Detailing Corn Products’ Indirect Ownership of Arancia CP.


   d. Arancia Corn Products S.A. de C.V. -- Certificate of Citizenship and Residency

   e. Aracorn S.A. de C.V. -- Certificate of Citizenship and Residency

   f. Diagram Showing Current Ownership Structure of Arancia Corn Products, S.A. de C.V.