SUBMISSION OF THE AMERICAN SUGAR ALLIANCE

United States International Trade Commission

U.S.-Trans-Pacific Partnership Agreement:
Probable Economic Effect of Providing Duty-Free Treatment for Imports
Investigation Nos. TA-131-034 and TA 2104-026

Washington, D.C.
March 2, 2010

The American Sugar Alliance (ASA) is pleased to have this opportunity to provide advice to the Commission on the investigations being undertaken concerning the probable economic effects of the U.S.-Trans-Pacific Partnership Agreement (TPP). As the national coalition of growers, processors, and refiners of sugarbeets and sugarcane, we are greatly interested in, and concerned about, the TPP negotiations and their potential impact on the U.S. sugar market.

We would point out to the Commission that the domestic cane and beet sugar industry serves two critically important roles for our nation. First, we supply American consumers with a safe, reliable and affordable source of an essential ingredient in our nation's food supply. Sugar is used as a natural sweetener, preservative and bulking agent in 70 percent of our food manufacturing. Second, the U.S. sugar industry provides for 146,000 jobs across America and generates $10 billion annually to the U.S. economy. Many of the jobs and businesses are in highly vulnerable rural areas.

Though our industry is very efficient by global standards, it has suffered considerable consolidation and vertical integration in order to survive. Further consolidation would threaten the domestic industry's ability to provide a safe and reliable supply of sugar, carefully tailored to the complex needs of U.S. food manufacturers and consumers, and cause further distress in many hard-pressed rural areas.

USTR has indicated that TPP will, at the outset, involve Singapore, Chile, New Zealand, Brunei Darussalam, Australia, Peru, and Vietnam. Although the structure and shape that TPP will take is not yet clear, the nature of USTR's request to the USITC, as well as various public statements, indicate that it is contemplating re-opening the FTA's already in place with the four of the TPP participants (Singapore, Chile, Australia, and Peru). We object strongly to the re-opening of any FTA that has already been approved by Congress and implemented.

Moreover, USTR has made very clear that the key objective of TPP is to create "a 21st century trade agreement" that will be expanded to include other countries in the Asia-Pacific region. Indeed, much of the support for, and interest in, this initiative is predicated on the belief that it will be expanded to larger and more populous markets throughout

Asia and the Pacific Rim. Thus, in evaluating the probable economic impact of TPP on the U.S. sugar industry, the potential impact of its expansion to other Asia-Pacific countries must be taken into account. If duty-free or increased access were granted to the current TPP participants, any future TPP countries would demand equivalent treatment.

U.S. Sugar Policy, Industry: Current Situation

Both U.S. and world market sugar prices are currently at uncharacteristically high levels. However, this situation must be regarded as an anomaly resulting from a number of unusual factors in both markets. Among the factors affecting the U.S. market were poor weather, a shift away from sugarbeet plantings in 2008/09 due to the high prices of alternative crops such as corn, wheat, and soybeans, and the explosion and slow recovery of a major sugar refinery; in the world market, key factors were a huge drop in Indian production, a slowing of Brazilian sugarcane expansion, and a sharp reduction in EU exports. This current situation should not be seen as a likely indicator of future trends in either market.

A more reliable indication of likely future trends can be gleaned by reviewing the recent history of the U.S. and world sugar markets. Charts 1 and 2 show the evolution of U.S. raw and refined prices since 1997. Typically, both raw and refined prices have hovered about, or plunged below, the forfeiture range – i.e., the price range at which forfeiture of sugar stocks to the government becomes more attractive than redeeming loans from USDA.

It should also be noted that since the sugar marketing allotment program was restored in the 2002 Farm Bill, domestic production has exceeded the allotment levels for beet or cane sugar in four years. This resulted in the accumulation of substantial "blocked stocks" – stocks of sugar that domestic producers were required to hold off the market at their own expense.

Over the 1996/97-08/09 crop year period, the stocks/use ratio in the U.S. sugar market averaged 16.6% -- a level well above the 13.5% level seen as compatible with proper operation of the U.S. sugar program. And, in fact, this 13.5% ratio is now seen by many experts as too high, given technology developments in the market.

Chart 3 shows the evolution of the world sugar market prices over four decades. It reveals some spectacular spikes, but overall a chronically depressed market with prices generally below the average cost of production of nearly all sugar-producing countries. This "dump market" results from the practice, prevalent among sugar exporting countries, of maintaining their domestic prices at levels well above world market prices or otherwise subsidizing sugar producers and dumping their surplus onto the world market. Many of these countries also have preferential arrangements that enable them to sell a substantial portion of their production at more remunerative prices to the U.S., EU, and other markets. Thus, the world market becomes very much a residual, or dump, market.

Under these circumstances, the U.S. will almost certainly remain a very attractive market to foreign sugar exporters in the future – one to which they are likely to direct as much of their production as is possible.

The Impact of Existing Trade Policy Commitments: As a result of market access commitments already entered into by our government in the WTO, NAFTA, CAFTA and other FTA's, the U.S. sugar market may be over-supplied with sugar in many years. In particular, since January 1, 2008, the removal of all constraints on imports from Mexico has introduced a large element of potential instability into the U.S. market. Imports of sugar from Mexico in 2008/09 were 1.27 million metric tons, nearly double any previous year's level (Chart 4). Largely as a result of this influx of Mexican sugar, for most of the 2008/09 crop year prices for raw sugar were at severely depressed levels, low enough to encourage loan forfeitures to government.

While USDA now estimates imports from Mexico in the current crop year at a much lower 490,000 metric tons, the actual level of such exports remains very uncertain – particularly since, under NAFTA rules, Mexico can, as they did in the 2008/09 crop year, import foreign sugar to meet part of their domestic needs and export the artificial surplus created to the U.S. Taking into account the possibility of such "substitution," USDA now projects that U.S. imports of sugar from Mexico will average 1.654 million metric tons over the next ten years.

A review of USDA's supply/demand tables for the U.S. sugar market shows the potential for oversupply. Assuming U.S. consumption (deliveries) at the 2008/09 level of 9.5 million metric tons (significantly higher than their estimate for 2009/10), domestic production is likely to meet on average about 80% of this demand. Over the period 1996/97 through 2008/09, dropping three years of very low production due mainly to severe weather problems, U.S. production averaged about 7.6 million metric tons. Existing WTO and FTA commitments (excluding Mexico) total another 1.3 million metric tons, or nearly 14% of U.S. sugar consumption. USDA's projected average of 1.654 million metric tons of import from Mexico would put supply well in excess of domestic needs in most years.

In addition to these trade commitments already in place, Congressional passage of the Colombia and Panama FTA's will bring additional sugar imports of about 60,000 metric tons into the market; conclusion of the Doha Round would almost certainly result in the establishment of substantial new TRQ commitments for sugar – probably on the order of 350-400,000 metric tons.

We would point out that in years when additional supplies are needed to meet domestic demand, this need can be met by increasing existing TRQ's in accordance with the provisions of the Farm Bill.

Under the circumstances described above, any additional trade concessions on sugar would, in years of normal production, almost certainly trigger the Farm Bill provision that requires that USDA facilitate the conversion of surplus sugar in the U.S. market into ethanol. If these actions proved inadequate to balance the market, loan forfeitures would occur. Either outcome would lead to substantial, unforeseen federal government expenditures – a most unwelcome result given the current budget situation.

Sugar Production and Exports in TPP countries

Current TPP Participants: Chart 5 shows production and exports in the seven countries currently designated as TPP countries. The amounts are significant. Current five-year average production by these totals 7.4 million tons per year – more than U.S. sugar production over that period – and exports have averaged 4.0 million tons per year.

We would note that in the four countries with which we already have FTA's, the issues concerning sugar were resolved in those negotiations; the provisions then agreed on sugar were the basis on which the industry's position on those agreements was formulated and constituted an important part of the deliberations of many in Congress on these matters.

Among those four countries, Australia is a major producer and generally the world's third largest exporter, averaging 3.8 million metric tons in recent years. Exports from Australia alone could swamp the U.S. sugar market. Singapore does not produce sugar while Chile is a net importer – as Peru has been in most recent years. However, if the current FTA rules governing trade in sugar (e.g., rules of origin or net exporter requirements) were modified or relaxed, significant exports of sugar to the U.S. might occur.

Two of the three TPP countries with which we do not have FTA's (Brunei and New Zealand) do not produce sugar. Vietnam is a substantial producer but, at this time, a net importer. However, Vietnam's performance in the world coffee market, where within a decade it rose to the position of the second largest exporter (causing world coffee prices to plunge) strongly suggests that, if given duty-free or increased access to the U.S. market, they would work assiduously to ramp up production. Moreover, if net exporter requirements were not imposed, they could substitute imports to meet domestic consumption needs and free up their own domestic sugar production for export to the U.S.

Potential TPP Participants: Given the disparate economic and political situations of the current TPP participants and their geographic locations, one might presume that virtually any interested country in East or Southeast Asia, Oceania, or along the Pacific coast of the Western Hemisphere might emerge as a TPP participant. Similarly, given that more than half of the current participants already have FTA's with the U.S., other countries with which the U.S. has already negotiated or concluded FTA's could eventually fall within the embrace of TPP.

Table 1 shows sugar production and exports of the sugar-exporting countries that would fall within this geographic sphere. These twelve countries produce 16.9 million tons of sugar per year, on average, and export 8.4 million.

Most notable is Thailand, the world's second largest exporter. Thailand's sugar exports have been rising, with the help of aggressive government programs to increase sugarcane production. Though current 5-year average exports are 4.6 million tons, USDA projects Thailand's 2009/10 exports at 5.8 million tons. Intensive FTA negotiations were conducted several years ago with Thailand but were abandoned due to political turmoil in that country. Fiji and the Philippines are also significant sugar exporters, averaging about 225,000 tons per year.

On the other side of the Pacific, the list of sugar-exporting countries includes the CAFTA/DR countries, plus Colombia, Panama, and Ecuador. The CAFTA/DR countries produce in total about 4.5 million tons of sugar per year and export about 2.4 million tons. CAFTA member Guatemala is the world's fourth largest sugar exporter, and Colombia is the world's sixth largest. The U.S. has already concluded or negotiated FTA's with all of these countries, except Ecuador. Exploratory FTA talks with Ecuador were held several years ago but were discontinued.

Impact of TPP on Domestic Sugar Industry, Policy

Granting of duty-free treatment to sugar imports from TPP countries would clearly be ruinous to the U.S. sugar industry and would make operation of the domestic sugar program, mandated by Congress in the Farm Bill, impossible. Australia alone, with its export capacity of some 4 million tons, could swamp the U.S. market, depressing U.S. prices below loan rate levels, causing major declines in U.S. sugar producer incomes, and triggering large government expenditures.

But any accurate analysis of TPP impact must also take into account the near certainty that the treatment extended to the current circle of participants would also be granted to new candidates as the intended expansion of TPP takes place. To put it bluntly, the domestic sugar program, and the domestic sugar industry, could not survive the granting of duty-free treatment on sugar in the TPP negotiations.

Beyond the question of duty-free treatment, however, it should be clear that, given the U.S. sugar market situation described above, the granting of any additional market access concessions on sugar in the TPP or other new trade initiatives would be foolhardy, leading to disruption of the U.S. market, jeopardizing the operation of the domestic program, and generating substantial government expenditures. In the long run, neither the U.S. industry nor the domestic sugar program mandated by Congress can remain viable in the face of continued piecemeal giveaways of domestic market share.

If U.S. sugar policy were to collapse under the weight of unneeded imports, the United States would have to shift its source of a vital food ingredient from American growers to less dependable, often highly subsidized, foreign producers. The United States is already the world second largest net importer of sugar and has committed to importing no less than 15% of its needs. In many years, that percentage is higher. As a matter of national food security, the remaining U.S. sugar industry should not be put at risk.

Impact of TPP on Traditional Foreign Suppliers

Although perhaps not within the terms of reference of the Commission, it should be pointed out that the collapse of the U.S. sugar program and/or the depression of U.S. sugar prices would not only prove disastrous to U.S. sugar producers but would seriously damage the interests of the many developing countries whose sugar exports benefit from the TRQ's established under the WTO and it would significantly diminish the value of concessions on sugar granted to our existing FTA partners. Thirty-eight of the United States' 40 traditional suppliers are developing countries.

The importance of maintaining a viable U.S. sugar program is clearly recognized by many of these countries. The International Sugar Trade Coalition, a group of developing countries that account for half the volume of the United States' WTO-mandated minimum import quota, has made clear to Congress and the Administration their strong support of existing U.S. sugar policy and their concerns that further trade concessions on sugar could jeopardize this program. The ISTC includes Barbados, Belize, the Dominican Republic, Fiji, Guyana, Haiti, Jamaica, Mauritius, Panama, the Philippines, St. Kitts and Nevis, Trinidad and Tobago, and Zimbabwe.

CONCLUSIONS

In previous submissions to USTR, ASA has urged that:

1. The provisions in the existing FTA's with TPP participants concerning market access for sugar not be re-opened; and,

2. No new market access concessions on sugar be given in TPP negotiations with countries not currently covered by FTA's.

We believe that the careful examination of the U.S. sugar market situation and the exigencies of U.S. domestic sugar policy by the Commission will find that duty-free access for sugar (or indeed any additional market access commitments) will severely damage the U.S. industry, generate large government expenditures, and make the U.S. domestic sugar program unworkable. Thus, we believe the Commission's probable effects findings will strongly support the above recommendations.

Chart 1

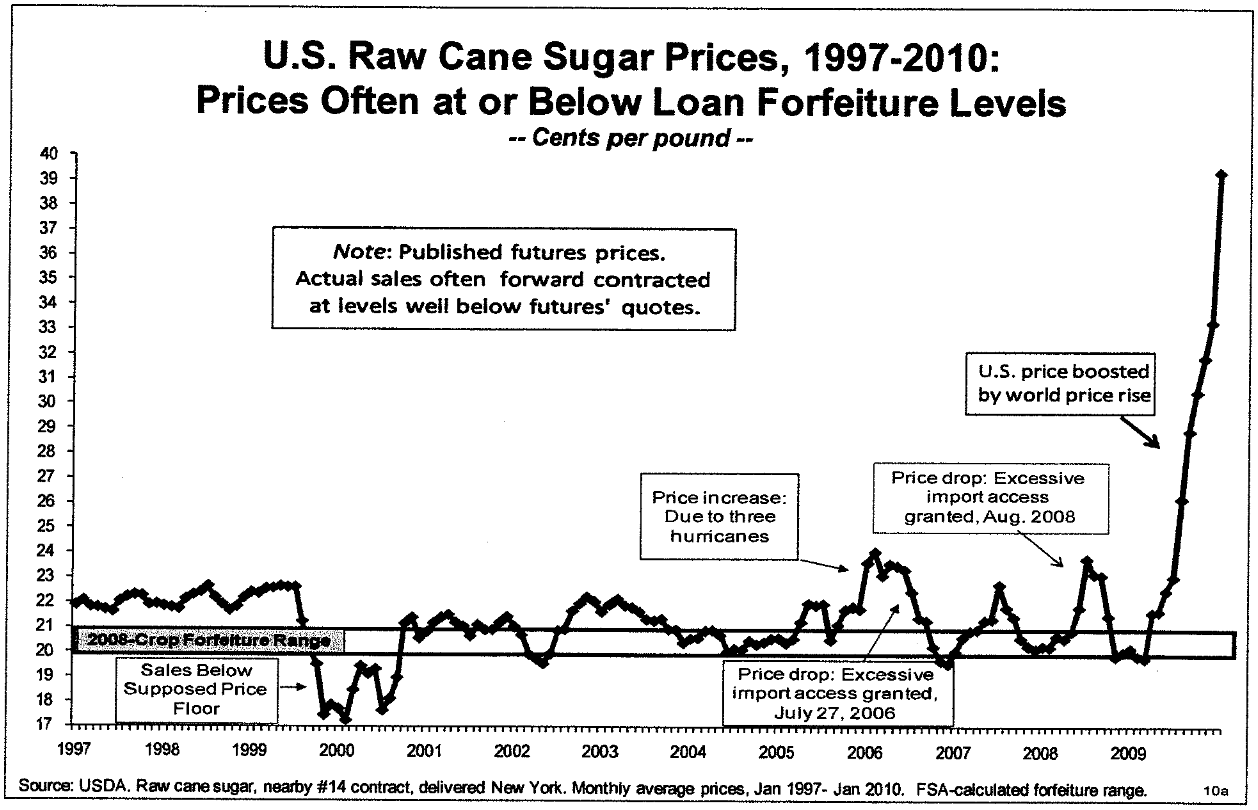

Chart 2

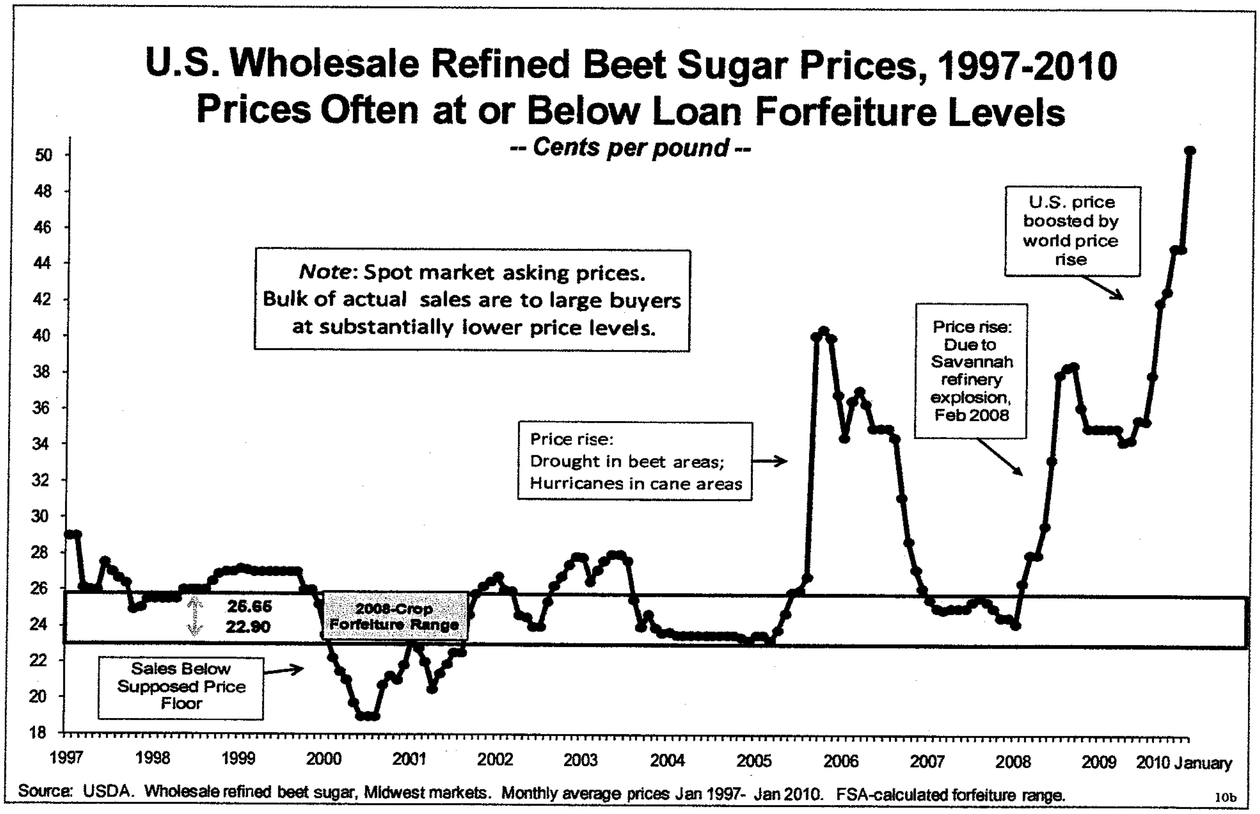

Chart 3

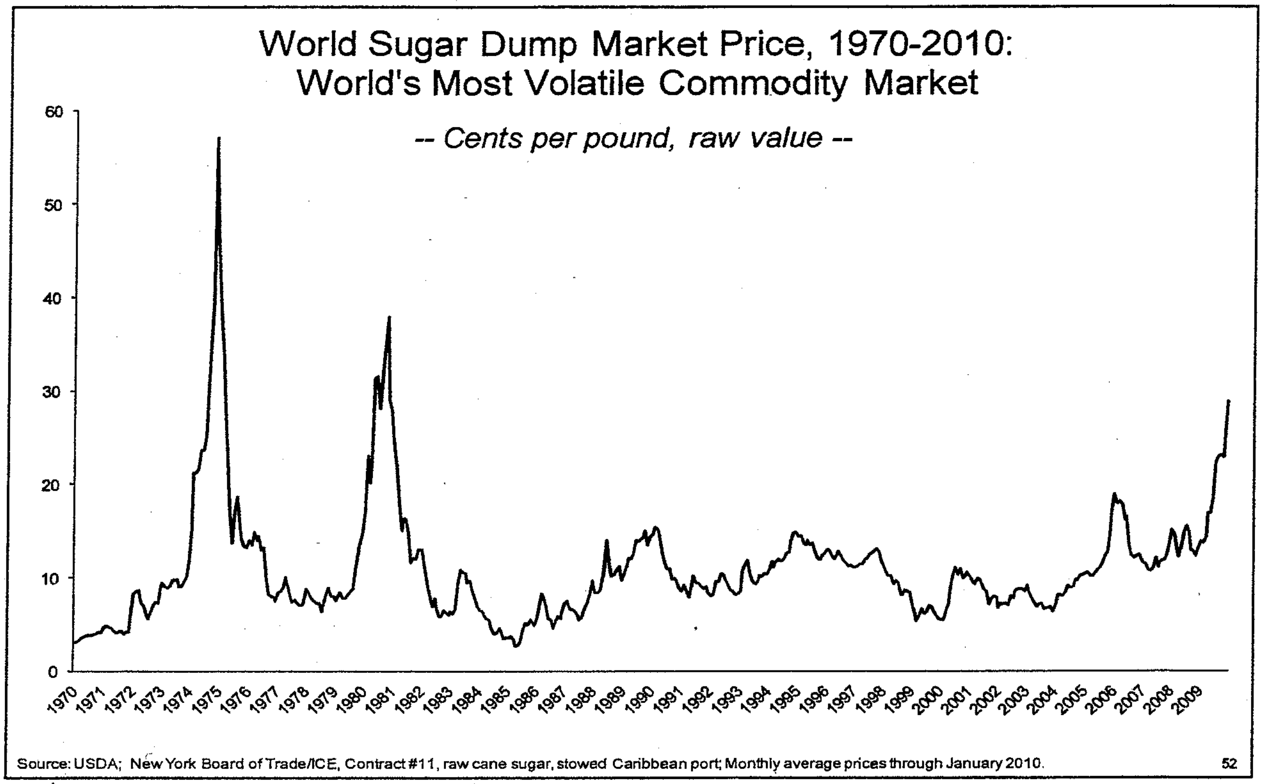

Chart 4

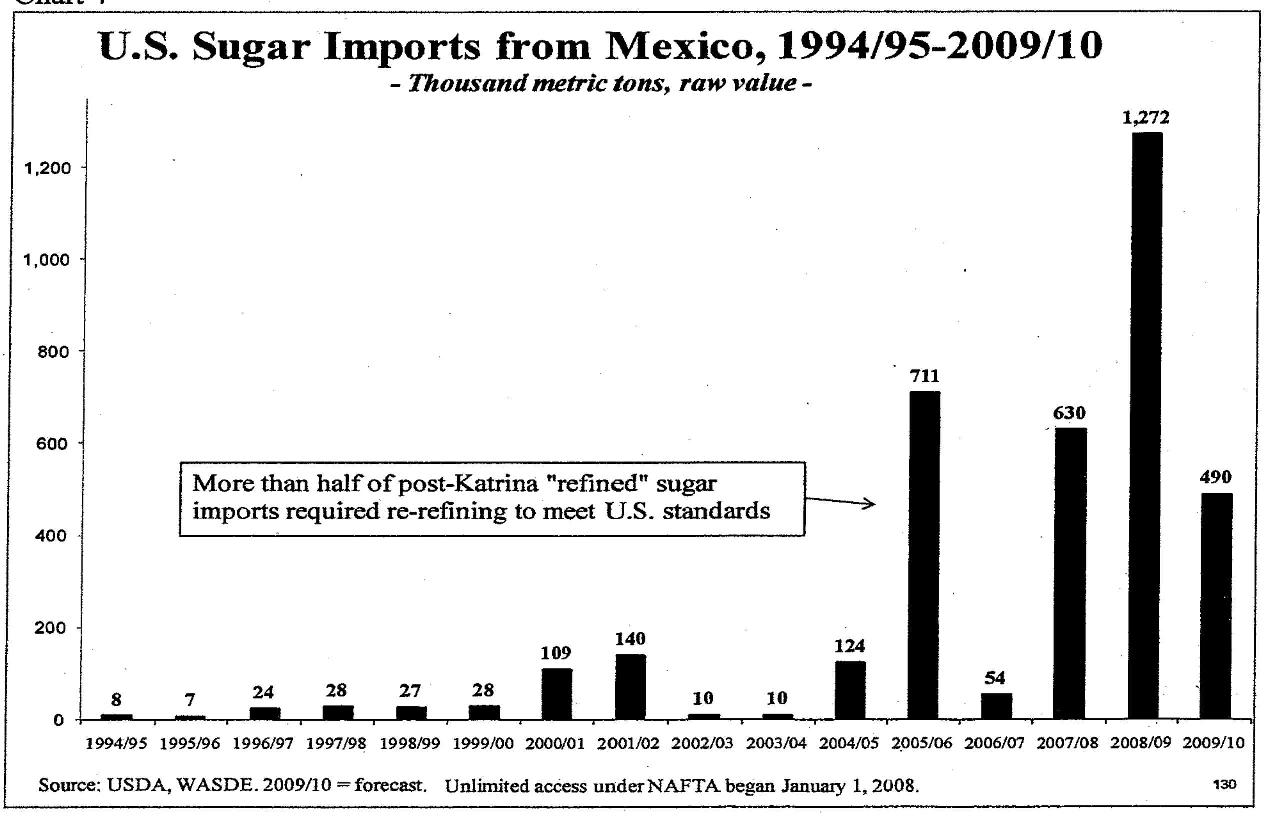

Chart 5

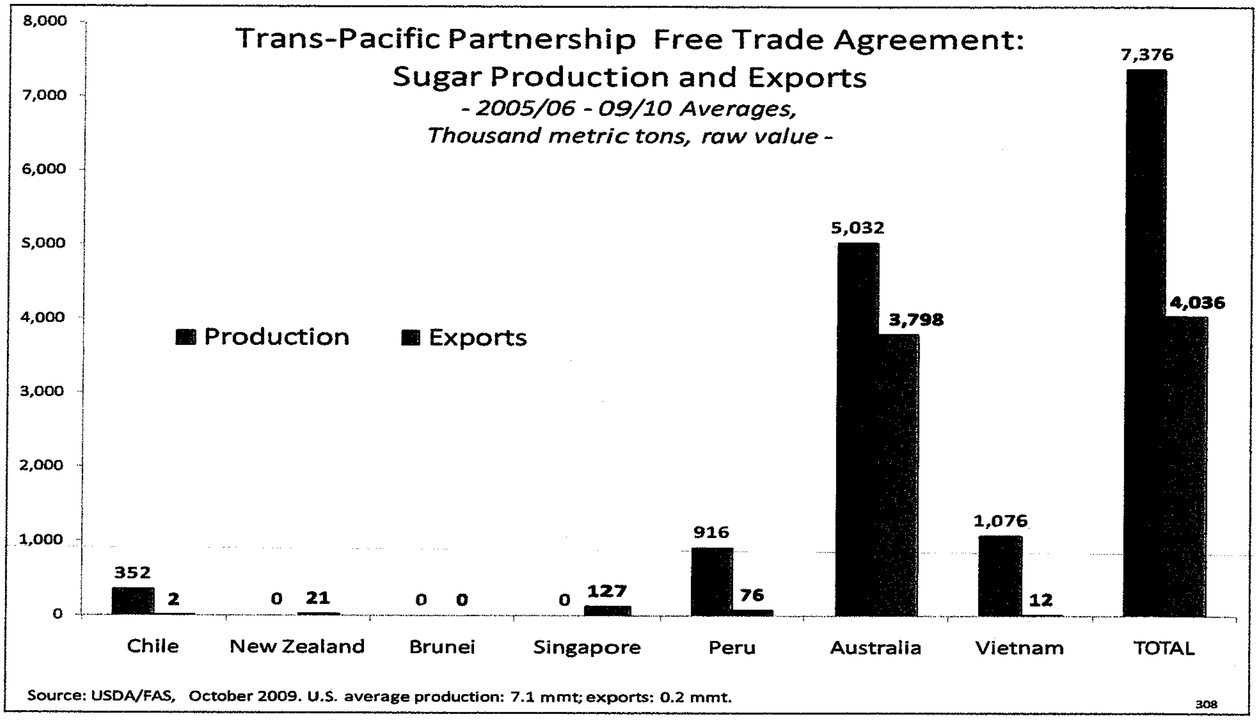

Table 1. Potential TPP Members:
Sugar Production and Exports
--2005/06 - 2009/10 Averages,
Thousand metric tons, raw value--

	Production	Exports
CAFTA/DR		
Costa Rica	381	128
Dominican Republic	503	225
El Salvador	550	314
Guatemala	2,227	1,446
Honduras	386	98
Nicaragua	464	189
CAFTA Total	4,511	2,400
OTHER		
Colombia	2,333	851
Ecuador	509	37
Fiji	256	225
Panama	178	51
Philippines	2,225	224
Thailand	6,855	4,632
Other Total	12,356	6,020
TOTAL	16,867	8,420

Source: USDA/FAS, October 2009.