Oral Statement by Thomas Earley
On behalf of the
SWEETENER USERS ASSOCIATION
To the
U.S. INTERNATIONAL TRADE COMMISSION
Pursuant to

Economic Impact of Trade Agreements Implemented Under Trade Authorities Procedures, 2016 Report

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My name is Tom Earley. I am vice president of Agralytica, an economic consulting and market research firm specializing in food and agriculture. I am also the economist for the Sweetener Users Association (SUA) and am here today on their behalf.

The U.S. government has pursued bilateral and multilateral trade liberalization in various agreements for decades. In that context, the intensely protectionist U.S. sugar program has clearly reduced the potential positive economic impacts of the trade agreements ultimately implemented over the last 25 years. The sugar industry has consistently urged the administration and U.S. trade negotiators to hold fast against any significant concessions on foreign access to the domestic sugar market. Unfortunately, once the United States tells other countries in trade negotiations that the sugar program is sacrosanct, those countries are then free to hold out against market access concessions on their own sensitive agricultural sectors. The result is that the other 98 percent of U.S. agriculture gets less access to foreign markets than it otherwise might have gained. The effect also spills over into the services and manufacturing sectors.

U.S. protection of domestic sugar crop producers and processors in recent decades is documented in my pre-hearing brief and in the Commission's own biennial study of "The Economic Effects of Significant U.S. Import Restraints". Today, import quotas and tariffs continue to prop up the price of refined sugar that consumers and food and beverage manufacturers have to pay. The pernicious effect of the 16-cent tariff wall for over-quota sugar remains quite evident in any comparison of U.S. and world market refined sugar prices. The gap between the two has generally equalled the tariff plus transportation costs and is essentially a tax on consumers.

In the Uruguay Round, the United States agreed to TRQs of about 1.1 million metric tons for raw sugar and just 22,000 metric tons, raw value, for refined sugar. This represented just 13.5 percent of domestic disappearance at the time.

The NAFTA negotiations were also underway while the Uruguay Round talks were in their final stages and the agreement actually took effect a year earlier, at the beginning of 1994. NAFTA provided for the eventual full liberalization of sugar and corn sweetener trade between Mexico and the United States after long phase-in periods over which prohibitive tariffs were phased out in a linear fashion.

The advent of completely free trade between these two neighboring countries at the beginning of 2008 proved to be a more significant development for the U.S. sugar market than the Uruguay Round agreement. Over the next six marketing years, 2008/09 to 2013/14, U.S. sugar imports from Mexico averaged almost 1.4 million metric tons, representing 13.1 percent of the higher disappearance during that period. A significant portion of those imports went to coastal cane sugar refineries, but some also came in as fully or partially refined sugar suitable for direct use.

This period of free sugar trade came to an end in 2014 with the imposition of dumping and countervailing duties against Mexican sugar and the subsequent negotiation of suspension agreements that assigned Mexico a variable quota. The agreements have in effect raised the U.S. price support level and refiners' raw material costs, and made it much more difficult for cane refiners to access raw material from Mexico.

Additionally, a group of FTAs collectively provides access to about 200,000 MTRV of sugar, a quantity that rises by about 15,000 tons annually. This includes the DR-CAFTA countries as well as the bilateral FTAs with Colombia, Panama and Peru. The nine other FTAs either have no sugar provisions or are with countries that produce no sugar or do not have an exportable surplus. The ultimate effect of negotiating FTAs with these 18 countries is access to a negligible 1.8 percent of the U.S. sugar market.

The sugar program has always worked by limiting U.S. cane sugar refiners' imports of raw sugar, putting refiners at a competitive disadvantage relative to producers of beet sugar. The failure of most recent FTAs to increase U.S. access to foreign sugar as consumption has risen has tended to worsen the supply situation for cane refiners.

Now the terms of the U.S.-Mexico suspension agreements may inadvertently complicate the ability of U.S. cane refiners to supply sufficient amounts of refined cane sugar already this year. This could result in the closure of one or more refineries.

It is SUA's position that a viable and competitive cane refining sector is fundamental to America's food security, and is especially critical to the smooth operation of those segments of the U.S. food industry that use sugar. These industries employ some 600,000 Americans. Cane refineries also serve as the shock absorber for the domestic sugar market when there is a poor sugar beet crop or some other disruption to supplies.

The Sweetener Users Association has supported every U.S. effort at trade liberalization and will continue to do so. The members of the association believe that freer trade is beneficial to their industries and to the nation's economy. However, one can only conclude that the U.S. sugar program has reduced the potential economic gains from the trade agreements that have been implemented since the 1980s.

With the end of free trade with Mexico under the suspension agreements, there is now little net positive economic effect provided by FTAs for sugar consumers or food and beverage manufacturers dependent on sugar as an ingredient. Only the termination of the suspension agreements with Mexico or future FTAs can provide much-needed sugar trade liberalization to the U.S. market.