

# **SWEETENER USERS ASSOCIATION**

ONE MASSACHUSETTS AVE. NW • SUITE 800 • WASHINGTON, DC 20001 • (202) 842-2345 • (202) 408-7763 FAX

---

## **Pre-hearing Brief of the Sweetener Users Association**

**Submitted to the**

**UNITED STATES INTERNATIONAL TRADE COMMISSION**

**Investigation No. TA-2104-025**

**U.S.-Panama Trade Promotion Agreement: Potential  
Economy-Wide and Selected Sectoral Effects**

**May 10, 2007**

The Sweetener Users Association (SUA) appreciates the opportunity to offer these comments to the United States International Trade Commission (the "Commission") on the U.S.-Panama Trade Promotion Agreement ("Panama TPA"). SUA members are the companies that use nutritive sweeteners in their bakery, beverage, cereal, confectionery, dairy product, and food manufacturing operations, as well as trade associations representing those same industries.

We are pleased the President notified Congress of his intent to enter into a new trade agreement with Panama on March 30, 2007. This timely notification will allow Congress to consider the Panama FTA without concern under the current U.S. Trade Promotion Authority.

Albeit only a small amount of additional U.S. sugar market access is provided to Panama in this trade agreement, it is nevertheless important to have sugar included in order to maintain the principle of comprehensive agreements for future bilateral and multilateral trade negotiations. It is also important to recognize that the United States is a net-deficit producer of sugar, so U.S. users of sugar welcome opportunities for access to additional sugar imports.

### **Sugar Provisions of the Panama TPA**

Clearly, we are disappointed that Panama was not provided greater access to the U.S. sugar market. The Panama TPA only provides an increase in the current tariff-rate quota (TRQ) of 7,000 metric tons in the first year of the agreement. This total is divided into three different TRQs as follows:

- 6,000 metric tons of raw sugar only (this TRQ grows by 10% a year for 10 years);

- 500 metric tons of an aggregate of all other sugar tariff lines that have been included in recent FTAs (this TRQ grows by 1% a year in perpetuity); and
- 500 metric tons of specialty sugar, including organic and cubes (no growth in this TRQ).

These TRQs are to be administered with “certificates of quota eligibility” or CQEs (just like the Peru and Colombia trade agreements). The over-quota tariff remains in place and the agreement contains both a "compensation" provision and a "net exporter" provision (which applies only to the aggregate quota, not the raw or specialty quotas). The use of CQEs in these agreements is a positive feature from our standpoint, since they facilitate long-term relationships with reliable suppliers.

This agreement provides a small annual growth rate based on the additional 6,000 tons of raw sugar, but the growth in this TRQ is capped after 10 years. Expansion of Panama’s sugar access to the U.S. market in the 15<sup>th</sup> year of the agreement is as follows:

<u>FY 2006 Sugar TRQ</u>	<u>Additional Panama TPA Sugar</u>	
	<u>First Year</u>	<u>Year 15</u>
33,721 metric tons	7,000 metric tons	12,075 metric tons

In contrast to all other agricultural commodities, the Panama TPA does not reduce the above-quota sugar tariff. Thus, the prospect of Panama eventually having free access to the U.S. sugar market has been denied in the agreement. In fact, an additional provision was included in the agreement allowing the United States to unilaterally decide to compensate Panama’s sugar producers rather than import their sugar. This compensation provision was also made a part of the U.S.-Dominican Republic – Central American Free Trade Agreement (DR-CAFTA).

### **The U.S. Sugar Market Needs Additional Sugar**

Since the Commission is considering the potential economy-wide and sectoral effects of the Panama TPA, it is important to recognize that the amount of sugar market access provided in this agreement will have no effect on the U.S. sugar market in the near term and no appreciable impact over the longer-term. Leading up to this year, U.S. sugar users have experienced record tight supplies of sugar that have barely kept up with domestic demand, and into the future the United States can be expected to remain a net importer of sugar.

As sugar users, we want and need strong and healthy domestic sugar producers and processors. We believe it is in our interest to have a geographically diverse production base in the United States for both sugar beets and sugar cane.

Likewise, we believe there is a need for a strong, independent U.S. cane refining industry. Expanded imports of raw sugar as a result of the Panama TPA in combination with other new trade agreements could eventually help maintain throughput in our nation’s cane sugar refineries, which is important because this part of the U.S. sugar industry has been shrinking for many years.

## U.S. Sugar Policy

The Commission is well aware that **U.S. sugar imports are heavily regulated and restricted**. In contrast to nearly all other manufactured and agricultural goods, sugar policy relies on strict import quotas to manage supplies and maintain premium domestic prices. With the exception of this past year, these quotas have become more restrictive, not less, in recent years. Imports that reached 2 million metric tons in the mid-1990s are now routinely set at little more than 1 million tons, and would probably be further limited but for U.S. legal obligations under the Uruguay Round Agreement on Agriculture (URAA).

The United States is obliged by World Trade Organization (WTO) rules to import minimum amounts of both raw and refined sugar. The U.S. raw sugar TRQ is allocated among 40 supplying countries based on their share of exports to the United States between 1975 and 1981. The U.S. WTO minimum quota is 1,117,195 metric tons for raw cane sugar, but only 22,000 metric tons for refined sugar under the URAA.<sup>1</sup> U.S. note 5 of the Harmonized Schedule of the United States authorizes the establishment of higher TRQ amounts whenever the Secretary of Agriculture “believes that domestic supplies of sugars may be inadequate to meet domestic demand at reasonable prices.”

## Perspective on Panama’s Sugar Exports

Panama’s total agricultural product exports to the United States in 2006 were only valued at \$56 million, with raw sugar exports accounting for \$23 million or 41% of these exports (according to data from USDA’s Foreign Agricultural Service). In contrast, U.S. agricultural product exports to Panama in 2006 were valued at \$209 million. Thus, U.S. agricultural exports to Panama are nearly four times greater than Panamanian agricultural exports to the United States.

It is also noteworthy that sugar exports represent a large portion of Panama’s agricultural export earnings. Panama’s second leading agricultural export to the United States is unroasted coffee valued at only \$11 million in 2006, but representing 20% of the value of Panama’s agricultural exports to the United States. In a relative sense, raw sugar is by far Panama’s most significant agricultural product export, but the United States has effectively denied Panama any substantial expansion of its sugar its existing sugar TRQ in this agreement.

Within the restrictive U.S. TRQ allocation system, Panama currently is **allocated a TRQ** that until 2005, allowed it to ship a small quantity of about 30,000 tons of raw sugar into the U.S. market at a nominal or zero duty. The first year of the Panama TPA allows only another 7,000 metric tons of sugar imports.

Other key information on Panamanian sugar exports includes the following –

---

<sup>1</sup> This quantity is a minimum, and during the mid-1990s, the TRQ was frequently established at a significantly higher level -- for example, 2,167,160 metric tons in 1995/1996.

- **The sugar TRQ for Panama in 2002/2003 and 2003/2004 was 30,538 metric tons, raw value** (although the initial TRQ in 2005/2006 was increased to 36,533 metric tons to help meet the U.S. domestic sugar supply shortfall);
- **The percentage of Panama's current share of the total U.S. sugar TRQ is only 2.7%**; and
- **Panama's current sugar TRQ as a share of the total U.S. sugar market is only 0.28%** (total sugar use in the U.S. market is approximately 10,500,000 metric tons, raw value).

These numbers suggest the following points.

1. **The U.S. sugar market is important to Panama**, since it is a low cost sugar producer and Panama has very few other significant agricultural products to export to the United States. The restrictive U.S. sugar quota continues to deny Panama access to the U.S. market, but because sugar is a major export industry for Panama, this commodity offers attractive trade benefits and growth potential through the trade agreement. An expanded TRQ leading to eventual open trade would be of substantial mutual benefit.
2. Panama's **additional TRQ represents only 0.06% of the U.S. sugar market** – indeed, approximately 6% of the cumulative TRQs provided for the six DR-CAFTA countries.

### **The Importance of Comprehensive FTAs**

SUA believes that if the United States is going to pursue bilateral or regional free trade agreements (FTAs) – a wise course of action in light of the suspension of the Doha Development Round of World Trade Organization talks – then FTAs should be comprehensive in nature. We hold this belief for several reasons:

1. The General Agreement on Tariffs and Trade 1994 requires that FTAs cover **“substantially all trade.”**
2. **When one negotiating party removes an import-sensitive product from negotiation, it gives license to the other party or parties to do likewise.** Those items import-sensitive to Panama are likely to be potential growth opportunities for American producers. Already, Panama imports agricultural imports from the United States that are valued four times the value of its exports to the United States.
3. Enhanced access to the products of our FTA partners will **confer a number of benefits on a wide variety of industries** and sectors in the U.S. economy.
4. Finally, a **comprehensive agreement Panama TPA, sends a positive signal to future FTA trading partners.** Since trade is a two-way street, this FTA demonstrates that the United States will not only pursue its own export opportunities, but also strive to ensure trade gains for partner nations as well. Such enhanced two-way trade maximizes the economic benefits of any agreement. Expanded trade also facilitates those imperatives of foreign policy and national security that inform every FTA negotiation, including this FTA.

### **Benefits From Including Sugar in The U.S.-Panama TPA**

Even though the Panama TPA only provides an additional 7,000 metric tons of sugar in the first year of the agreement (which rises to more than 12,000 metric tons in year 15), we believe this agreement will maintain the principle of comprehensive trade agreements. This agreement allows for additional raw sugar imports as well as minimal specialty sugar imports from Panama. We encourage the Commission to take the following potential benefits into account as it assesses the economic effects of this trade agreement.

- First, despite the fact the agreement keeps the prohibitive over-quota sugar tariff in place, the inclusion of sugar will help **increase competition in the U.S. market**. In our view, anything that increases and diversifies the sources of supplies in the U.S. marketplace will help to foster a healthier, more competitive environment.
- Second, a more liberal sugar trading environment will **help to stem job losses**. A recent study by the U.S. Department of Commerce indicates that between 1997 and 2004, more than 70,000 jobs were lost in American companies that use sugar in their products. U.S. jobs have been lost in the sugar-using food sector because the present U.S. sugar program creates powerful incentives to locate manufacturing offshore. New trade agreements, such as the Panama TPA, can at least begin to address the problem of tight domestic sugar supplies that precipitate these job losses. Trade agreements that provide additional sugar imports can also contribute to increased economic activity and employment in the U.S. cane sugar refining industry, which has seen the number of sugarcane refineries drop from 23 to 8, costing American refinery workers 5,000 jobs, since the current sugar program was adopted in 1981. Clearly, new trade agreements can encourage long-term investment and job creation in the United States.
- Third, additional sugar exports from Panama will **generate foreign exchange that it can use to buy U.S. food and agriculture products**. This trade agreement will create real opportunities to increase U.S. exports. U.S. agricultural exports to Panama, including corn, wheat, soybean meal, and processed fruit and vegetables, as well as other consumer-oriented products, make Panama an attractive market for the U.S. agriculture and food sector. But sometimes we forget that in order to purchase additional U.S. exports, our partner countries need to earn foreign exchange by exporting more products to us. For Panama, sugar is among the few agricultural products it can produce efficiently and export profitably.
- Fourth, **U.S. consumers will benefit from additional sugar trade**. U.S. consumers and businesses already rely on sugar imports from Panama as one of the 40 countries that are allocated a U.S. sugar TRQ. We are in fundamental agreement with **previous analytical work by the Commission** – as described in the Commission’s periodic analyses of significant U.S. import barriers – that the sugar program creates substantial welfare losses to the U.S. economy by inflating prices, and that measures to erode that price inflation would benefit the economy.

### **Partial and Full Trade Liberalization**

The Commission has received testimony in the past asserting that sugar must be **excluded from future free trade agreements**. This testimony has implicitly – or perhaps explicitly – asserted that there is no acceptable level of sugar imports. One additional ton of sugar from any FTA, according to this view, will be fatal to the U.S. sugar industry.

If the Commission took this proposition seriously, it might be worthwhile to analyze just how fragile, how uncompetitive an industry must be, if it cannot bear one single ton of sugar without collapsing. But, of course, the argument made by the sugar lobby is not a serious one, in economic terms. The industry is not remotely threatened, for example, by the modest amounts of additional sugar imports contained in the DR-CAFTA. Similarly, the small sugar TRQ now held by Panama could be expanded several-fold without a material impact on the viability of the U.S. sugar industry.

These two FTA's continue to maintain TRQs that limit U.S. sugar imports, so these **FTA partner countries are not able to shift sugar exports to the U.S. market even if they wanted to abandon all their existing customer relationships**. Are we sure they would do that anyway? In the case of Panama, it has limited sugar export potential anyway.

A second consideration for the Commission is that **not all countries ship their existing TRQs, even now**. Every year, except for this past year, there has been a shortfall: Between 20,000 and 70,000 tons of the U.S. sugar TRQ is unused, despite its great value. If the interest of every nation was always and everywhere to ship every possible ton of sugar to the United States, then there should be no shortfalls, but yet there are.

## **Conclusion**

In summary, we hope that the Commission will carry out its analysis of the economic effect of the Panama TPA with certain basic principles in mind:

**First, consider benefits to sugar consumers as well as costs to sugar producers.**

**Second, consider the effects on other U.S. agricultural producers if the United States were to exclude any single commodity.**

**Third, consider the fact that future agricultural and food trade between the two countries will be mutually beneficial.**

Thank you for the opportunity to submit these comments and for taking our views into account.