

SWEETENER USERS ASSOCIATION

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

**Statement of Alfred P. Hensler, Chairman
Sweetener Users Association
Before the
UNITED STATES INTERNATIONAL TRADE COMMISSION**

February 10, 2004

The Sweetener Users Association (SUA) appreciates the opportunity to appear before the United States International Trade Commission (the "Commission") to offer comments and perspective on two important and critical proposed Free Trade Agreements. SUA's member companies include the manufacturers of confectionery, grocery products, dairy foods, soft drinks and other products made with caloric sweeteners, as well as the trade associations which represent these companies. I am Fred Hensler of Masterfoods USA, and it is my honor to serve as the chairman of SUA's board of directors.

The FTA Countries and U.S. Sugar Policy

At this hearing, the Commission is considering not only the U.S.-Andean Countries Free Trade Agreement ("Andean FTA") but also the U.S.-Panama Free Trade Agreement ("Panama FTA"). SUA's testimony will cover both proposed pacts.

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. 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).

Within this restrictive system, **the Andean nations and Panama are allocated tariff rate quotas (TRQs)** that permit them to ship small quantities of sugar into the U.S. market at a low or zero duty. The U.S. TRQ, divided among 40 countries, must be at least 1,117,195 metric tons

for raw cane sugar under the URAA.¹ Much smaller TRQs are also established for refined sugar (39,000 metric tons in 2003-04) and certain sugar-containing products (64,709 metric tons in 2003-04).

Perspective on the FTA Countries' Sugar Exports

The table below shows –

- **The 2003-04 TRQs** for each Andean country and Panama;
- Each country's **total exports** for the current or preceding marketing year as projected by the U.S. Department of Agriculture's Foreign Agricultural Service;
- The **percentage of each country's total exports** accounted for by its TRQ shipments to the United States; and
- Each country's TRQ as a **share of the total U.S. sugar market**.

Perspective on Sugar Exports: Andean Nations and Panama

(1,000 metric tons, raw value)

Country	2003-04 TRQ	Total Exports	TRQ as % of Total Exports	TRQ as % of U.S. Market²
Colombia	25,273	1,265,000	2.0	0.2
Peru	43,175	41,000	105.3	0.4
Ecuador	11,583	87,000	13.3	0.1
Bolivia	8,424	145,000	5.8	<0.1
Panama	30,538	55,000	55.5	0.3
Total	118,993	1,593,000	7.5	1.1

These numbers suggest several points.

1. **The U.S. sugar market is important to all these countries**, for slightly different reasons.
 - a. In the case of **Colombia**, a very low cost sugar producer, the United States is not among the country's larger export destinations due to our restrictive quota. But

¹ 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 1995-96.

² USDA/WAOB, "World Agricultural Supply and Demand Estimates," January 12, 2003, p. 14. U.S. market is defined as total use, estimated at 9,835,000 short tons, raw value, equivalent to 10,841,000 metric tons, raw value.

because sugar is a major export industry for Colombia, this commodity offers attractive trade benefits and growth potential through the FTA. An expanded TRQ leading to eventual open trade would be of substantial mutual benefit.

- b. By contrast, the other **Andean countries and Panama** are not major exporters, but all are dependent on the United States already for a large share of their exports, from about one-fifth for Ecuador to virtually all in the case of Peru. Once again, TRQ increases would provide substantial benefits to these countries, compared to their current TRQs, with full liberalization the ultimate goal.
2. In aggregate, **the countries' TRQs are only 1% of the U.S. sugar market** – indeed, approximately the same as the cumulative TRQs for the five Central America Free Trade Agreement (CAFTA) countries.
3. Not apparent from the table is the fact that **Colombia exports more sugar to the United States than implied by its TRQ**. According to the Department of Commerce, actual U.S. imports from Colombia were 91,428 metric tons in 2002 and more than 152,000 tons in 2003. Exports above the quota were for “processing and re-export,” according to USDA – i.e., they were imported and refined (or refined and further processed into a food product), on condition that the resulting refined sugar or food be re-exported.³ Therefore, how the proposed FTA treats the re-export program is likely to be of significant importance to Colombia.

The Importance of Comprehensive FTAs

SUA believes that if the United States is going to pursue bilateral or regional FTAs – a wise course of action in light of slow progress in the Doha Development Round of World Trade Organization talks – then these 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 likely to be import-sensitive to the Andean nations and Panama are also likely to be potential growth opportunities for American producers. (Already, for example, Colombia is the largest Western Hemisphere importer of U.S. agricultural products except for our NAFTA partners, Canada and Mexico.⁴)
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. We will apply this point to the case of sugar in a later section.
4. Finally, **comprehensive agreements also offer the most benefits to our trading partners.** Since trade is a two-way street, the United States should not only pursue its own export opportunities, but also strive to ensure trade gains for partner nations as well. Such enhanced two-way trade will maximize the economic benefits of any agreement. Expanded trade also facilitates those imperatives of foreign policy and national security

³ USDA/FAS, “Colombia Sugar Annual 2003,” April 2003.

⁴ USDA/FAS/BICO, “U.S. Exports of Agricultural Products, CY 1998-2002.”

that inform every FTA negotiation, including the ones the Commission is presently studying.

Benefits From Including Sugar in These FTAs

In SUA's view, FTAs with the Andean nations and Panama that liberalize sugar will produce a variety of benefits. We encourage the Commission to take these potential benefits into account as it analyzes the proposed FTAs.

- First, the inclusion of sugar will **increase competition in the U.S. market**. It is astonishing that the same concentration of economic power that causes intense Congressional concern in meat packing or food retailing has occasioned no controversy at all in the sugar industry. 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 Promar International – which is attached to my testimony – shows that thousands of confectionery industry jobs, as well as jobs in other sugar-using food sectors, have been lost in recent years because the present U.S. sugar program creates powerful incentives to locate manufacturing offshore. FTAs can at least begin to address the import restrictions that precipitate these job losses. FTAs can also contribute to increased economic activity and employment in the U.S. cane sugar refining industry, which has seen thousands of jobs lost and most of its plants closed since the present sugar program commenced in 1981. In so doing, FTAs can encourage long-term investment and job creation in the United States.
- Third, additional sugar exports from the Andean countries and Panama will **generate foreign exchange that these countries can use to buy U.S. food and agriculture products**. Everyone wants FTAs because they create opportunities to increase U.S. exports. But sometimes we forget that in order to purchase those exports, our partner countries need to earn foreign exchange by exporting products to us. For the Andean nations and Panama, sugar is among the products they can produce efficiently and export profitably.
- Fourth, **taxpayers could benefit**, depending on how over-quota exports are treated. At present, over-quota exports from these countries are charged a prohibitive tariff, so there is virtually no trade. However, if over-quota tariffs are phased down as in the North American Free Trade Agreement, there would come a time when at least some over-quota imports would occur. The duties collected on these imports during the phase-down period would flow into government revenues, reducing the U.S. budget deficit.
- Fifth, **U.S. consumers will benefit from more open sugar trade** in several ways. The nature and extent of the benefits will depend heavily on the terms and timing of the FTAs' trade-opening provisions. However, 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 Liberalization

The Commission will receive testimony asserting that sugar must be **excluded from these FTAs**. This testimony will implicitly – or perhaps explicitly – assert that there is no acceptable level of sugar imports. One additional ton of Andean or Panamanian sugar, 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 contemplated in the Central America Free Trade Agreement. Similarly, the small TRQs now held by the Andean countries and Panama could be expanded several-fold without a material impact on the viability of the U.S. sugar industry.

There is another issue that the Commission will need to consider, however. Even if Commissioners accept what I have said about modestly expanded imports, **what about total liberalization?** After all, this is what the sugar lobby claims is its ultimate nightmare. In the eventual absence of any quotas or tariffs, according to the sugar lobby, Colombia will send every bit of its 1.1 million tons of exports to the United States, overwhelming both the sugar program and the sugar industry.

Unfortunately, **CAFTA will never provide a test case of full liberalization** because that agreement's TRQ is to continue indefinitely. However, this failing of the CAFTA was related to the Central American nations' desire to exclude some products of their own from liberalization. In the event that the Andean nations and Panama are prepared to liberalize their imports fully, the question will again arise: What would happen if the United States completely opened its market to these nations' sugar exports?

The simplistic, naïve view is that a rational exporter would never do anything *except* sell to the U.S. market, since sugar prices here are two to three times the world price. Therefore, in this reasoning, full liberalization means that the full amount of every FTA country's exportable surplus would be dedicated to serving the U.S. market, and not one ton would go to any other destination. We would urge the Commission to dig more deeply into the question.

To shift all their exports to the U.S. market, **our FTA partner countries would have to abandon all their existing customer relationships**. Are we sure they would do that? Colombia's largest export market is neighboring Venezuela; is that bilateral relationship so unimportant as to be immediately and irrevocably sacrificed to sell into the U.S. market? One thing every business operator knows is that customer relationships, once severed, are not easy to restore. Will our trading partners be so confident in unlimited, perpetual access to the U.S. market that they will utterly fail to hedge their bets – abandoning every other market everywhere in the world? To do this, they would need to ignore 200 years of sugar politics in the United States: **The countries would need to make the calculation that their access**

to the U.S. market was permanently assured, so that they were safe in abandoning all prior customers. I would like to think that sugar politics had changed this much, but I am not sure they have, and I am not sure the Andean countries are sure. Therefore, my conclusion is that these countries are unlikely to overwhelm our market because they will not assume that such a strategy could be sustained.

A second consideration for the Commission is that **not all countries ship their existing TRQs, even now.** Every year, there is a shortfall: Between 20,000 and 70,000 tons of the quota 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. And yet there are. This fact should at least give pause to the Commission as it considers what might happen in the event of unrestricted trade.

The Commission should also ask why nations value access to the U.S. market so highly. Clearly, the answer is that **ours is a premium market**, with prices far more lucrative than those available in the world market. This premium has some deleterious effects – for example, it encourages the movement of food manufacturing facilities offshore – but there is no doubt that foreign suppliers value it.

And yet **the sugar lobby's argument implicitly assumes that exporting nations will voluntarily and consciously sacrifice this premium.** For that could be the only consequence of swamping the U.S. market with millions upon millions of tons of sugar. If our market is sufficiently oversupplied, the price premium will disappear – partly because the U.S. price will fall, and partly because the world price will rise as supplies are diverted to the United States.

So to assert that our FTA partners will ship literally millions of tons to this market is to assert that they want the U.S. price premium to disappear. But why would they want that? It seems much more likely that they would behave as rational economic actors, taking advantage of increased export opportunities but also maintaining other customer relationships. Such behavior would maximize these nations' economic gains, and would also be their best hedge against U.S. backsliding on their market access.

It should be possible to calculate, for any given country, the quantity of increased sugar exports that would optimize its economic gain: the maximum increase in exports at the minimum erosion of the U.S. price premium. We encourage the Commission to carry out analytical work along these lines, since we believe such an analysis may be among the best predictors of our partner nations' actual, rational economic behavior.

Conclusion

In summary, we hope that the Commission will carry out its analysis 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 most likely real-world economic behavior of our FTA partner countries, not the sky-is-falling scenarios that have more to do with media spin than sober economics.

Thank you for the opportunity to appear, and for taking our views into account.