

SWEETENER USERS ASSOCIATION

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Statement of
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For the
SWEETENER USERS ASSOCIATION
Before the
U.S. INTERNATIONAL TRADE COMMISSION

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The Sweetener Users Association (SUA) appreciates the opportunity to provide information to the International Trade Commission that may be helpful in the Commission's analysis of the U.S.-Central America Free Trade Agreement. SUA's members include the manufacturers of confectionery, grocery products, dairy foods, soft drinks and other products made with caloric sweeteners, as well as the trade associations that represent those companies. I am Thomas Earley of Promar International, an economic analysis firm specializing in sweeteners and other commodities. It is an honor to appear before the Commission in my capacity as SUA's economics consultant.

SUA supports CAFTA and will work for its approval by Congress. CAFTA will increase exports of U.S. food and beverage products to these countries, and achieves some modest progress in the case of sugar. Our members generally did not believe that the agreement liberalized sugar trade sufficiently, but recognizing the controversy that always surrounds sugar trade, we understood the realities under which Administration negotiators labored. In today's hearing, I will comment not on the full liberalization that our members would support, but on the limited liberalization that is actually contemplated under the CAFTA.

Sugar Quotas

The CAFTA countries, including the Dominican Republic, will receive initial quantities of sugar market access totaling 109,000 metric tons. The countries' quotas will be allocated as follows:

Costa Rica	13,000 mt ¹
Dominican Republic	10,000 mt
El Salvador	24,000 mt
Guatemala	32,000 mt
Honduras	8,000 mt
Nicaragua	22,000 mt

¹ Includes up to 2,000 mt of organic sugar each year.

The sugar quotas will increase incrementally each year, by around 2%, and will reach 153,140 mt in Year 15, when they will be allocated as follows:

Costa Rica	16,080 mt ¹
Dominican Republic	12,800 mt
El Salvador	36,040 mt
Guatemala	49,820 mt
Honduras	10,240 mt
Nicaragua	28,160 mt

The quotas will continue to grow, albeit quite slowly at 2% annually, after Year 15.

Perspective on the Agreement's Sugar Provisions

We urge the Commission, in analyzing CAFTA, not to be drawn into debates over the U.S. sugar program. It will not surprise the Commission to learn that our members do not think highly of the current sugar program, and believe that public support for producers should be provided in ways that do not distort trade. Nor should it surprise the Commission that supporters of the current program, who believe that even a single ton of additional imports is a death threat to the domestic industry, oppose CAFTA. But as we understand the Commission's charge, it is simply to describe objectively the likely effects of CAFTA.

In fulfilling this responsibility, we assume that the Commission will consider CAFTA on its own terms. Some of the sugar lobby's furious opposition to CAFTA stems from the belief that it will establish precedents which will lead to much larger volumes of sugar imports in future FTAs. Yet what these FTAs have in common, at this point, is that they are incomplete. No informed analysis of their terms is possible now because there are no terms, nor any agreements. Indeed, the only FTA outside CAFTA that has been concluded this year – the U.S.-Australia FTA – excluded sugar (wrongly, in our view).

Instead, the Commission will be analyzing CAFTA itself – and the quantities of sugar imports in CAFTA do not remotely threaten the sugar program or the U.S. sugar industry. Consider that the initial 109,000 metric tons of additional quota represent –

- Only about one-fifth of the existing surplus cane refining capacity in the United States;
- Less than 1% of total supply in the current 2003/04 marketing year;
- Less than 7% of total imports and less than 6% of ending stocks for 2003/04;
- Only about half of the amount by which beet sugar supplies last year fell *short* of the beet marketing allotment; and
- Only about one-tenth of one month's value of sugar utilization in the United States.

In October 2003, economists at Louisiana State University published a study entitled "Impact of Potential Bilateral Free Trade Agreements on Projected Raw Sugar Prices and the Economic Viability of the Louisiana Sugar Industry," which attempted to quantify the price impact of various increases in sugar imports. SUA does not agree with some of the study's conclusions or results. For

example, the study posits that 100,000 tons of additional imports – about equal to CAFTA’s Year 1 quantity and therefore less than 1% of U.S. supply – would lead to a price decline of 3.17%. This elasticity may be excessive. But accepting it for the sake of argument, it would still mean that current refined beet sugar prices of approximately 24.5 cents per pound would decline to 23.7 cents, a decline of only 0.8 cents per pound of refined sugar.

This level of price change is substantially less than normal year-to-year, and even month-to-month, price variability. According to USDA statistics², average refined sugar prices have varied from one year to the next by *more* than 0.7 cents per pound in all but three of the past 13 years.

There is some evidence that **the U.S. sugar industry does not, in fact, find additional imports threatening under all circumstances.** At the same time that it is raging against CAFTA, the U.S. sugar industry has been negotiating with its private-sector counterparts in Mexico toward an agreement that – if adopted by the governments of the two countries – would permanently increase U.S. sugar imports from Mexico by 260,000 metric tons (according to trade press reports).

Since the U.S. sugar industry has entered these negotiations voluntarily, and not under duress, one may presume that the industry feels it can live with another 260,000 metric tons of imports each year. **Why, then, would the CAFTA quotas of less than half this amount be industry threatening?**

The “Compensation” Provision

One feature of CAFTA that SUA members do not like is the ability of the United States to compensate CAFTA countries for the quota rents they would otherwise have obtained by shipping quota sugar to the United States, but prevent them from actually sending the sugar to this market. We suggest the Commission analyze not only the potential impact of this compensation provision, but the likely reaction of our non-CAFTA trading partners as well.

Even after the United States pays compensation, this sugar will still exist. One can safely assume it will not be buried in the ground. Instead, it will be sold onto the world market. The price impact would be small, just as we have stated it would be in the U.S. market, but would still presumably be negative. **Thus, the United States would have implemented a policy whose direct and foreseeable effect would be to increase world sugar market supplies and decrease world market prices.** Indeed, the economic impact is not so different from **the European Union’s** policy of importing sugar preferentially from former colonies, then using subsidies to export a like quantity onto the world market. If, as expected, the EU loses the current World Trade Organization challenge to certain of its sugar policies, what will be the implications for U.S. use of very similar schemes?

The Commission may also wish to analyze the cost to taxpayers of exercising this “compensation” option. Even for the first-year quantities, the costs appear to be around \$30 million. Such expenditures would belie the longstanding assertion that the sugar program is operated at “no net cost” to taxpayers.

² USDA/ERS, *Sugar and Sweetener Outlook*, Jan. 30, 2004, Table 11, p. 33.

Conclusion: CAFTA's Benefits

We support CAFTA and believe its sugar provisions will confer numerous benefits on the United States. These benefits – which are also subject to analysis and evaluation by the Commission – include the following:

- **Enhanced competition** in the increasingly consolidated U.S. sugar market, where fewer and fewer vertically integrated sellers control more and more of available supplies.
- **Better export opportunities** for those segments of U.S. agriculture that, unlike the sugar industry, are capable of competing in export markets. It is clear from the negotiating history of CAFTA that the inclusion of sugar prevented the Central American nations from excluding several agricultural commodities of export interest to the United States, and permitted more rapid and complete trade liberalization in Central American agriculture.
- **Potentially positive employment effects**, to the extent that any marginal decrease in the artificial gap between U.S. and world prices may serve to reduce incentives to relocate confectionery and other food and beverage production offshore in order to take advantage of world-price sugar.
- **The generation of foreign exchange** which CAFTA countries can use to buy U.S. agricultural and industrial products.
- **Benefits to consumers**, which are difficult to quantify for the very modest market access in CAFTA, but which would be consistent with previous analytical work by the Commission that found substantial welfare losses to the U.S. economy from the sugar program, and net benefits to the economy from reforming the program.

Thank you for the opportunity to testify. I will be happy to answer any of your questions.