SUBMISSION OF THE AMERICAN SUGAR ALLIANCE

Office of the United States Trade Representative

Request for Public Comments: Proposed Transatlantic Trade and Investment Partnership (Docket: USTR-2013-0019)

May 10, 2013

The American Sugar Alliance (ASA) appreciates the opportunity to submit these comments concerning the proposed Transatlantic Trade and Investment Partnership (TTIP), a free trade agreement between the U.S. and the European Union (EU). The ASA is the national coalition of American sugarbeet and sugarcane growers, processors, and refiners.

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% of our food manufacturing. Second, the U.S. sugar industry provides for 142,000 jobs across America and generates over $19 billion annually to the U.S. economy. Many of the jobs and businesses are in highly vulnerable rural areas.

The U.S. sugar industry is among the most efficient in the world. According to LMC International, the U.S. is the 20th lowest cost of the 95 countries it studied. American sugarbeet growers are the lowest-cost beet sugar producers in the world.

Nonetheless, our industry has had to close a large number of facilities in order to survive. Half of all U.S. sugar operations shut down between 1985 and 2010. 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.

In order to operate the current sugar policy at no cost to the taxpayer, as Congress intended, supply and demand must be delicately balanced. Thus, our overriding objective in TTIP and other trade negotiations is to ensure that they do not undermine the effective, no-cost operation of the U.S. sugar program, which we believe has served U.S. farmers, processors, taxpayers, and consumers well.

As a result of the EU sugar reform introduced in 2005, there has been a significant reduction in EU production of sugar. Nonetheless, the EU, which consists of 27 member countries, is still the world's third largest producer of sugar, behind only Brazil and India. Over the 5-year period form 2006/07 to 2010/11, EU production averaged nearly 16 million metric tons, about double U.S. sugar production (see Table 1).

From the 1970's, when a common policy for sugar was introduced, until the reform was put in place, the EU was one of the world's major sugar exporters, averaging 5-6 million tons per year in the latter part of that period. The EU accomplished this feat through the maintenance of high support prices, extensive export subsidies, and provisions fostering the dumping of domestic sugar not eligible for export subsidies on the world market at much lower prices. The reform, driven in part by a WTO finding that the extent of export subsidization was far beyond that permitted by its WTO commitments, has transformed the EU into a net importer (albeit one that still may make use of export subsidies). EU imports averaged about 3.2 million metric tons over the 2006/07-2010/11 period while exports averaged 1.8 million tons. The evolution of the EU sugar industry and the continuing role of subsidies in EU sugar policy is discussed further on pp. 5-6.

Given that the U.S. and the EU are both large net importers of sugar and that both have made extensive market access commitments in various trade agreements to the benefit of developing countries, there would appear no legitimate commercial reason to negotiate further market opening on sugar between the two. This conclusion is not just that of ASA but also of its counterpart organization in the EU, the CEFS (Comité Européen des Fabricants de Sucre). In a statement submitted to the European Commission in May 2012 (see Attachment A), CEFS argues against the inclusion of sugar and sugar containing products in any trade agreement with the U.S.

U.S. Sugar Policy, Industry: Current Situation

While both U.S. and world market sugar prices were at uncharacteristically high levels in 2010 and 2011, this situation has changed dramatically over the past year, especially in the U.S. where sugar prices have plummeted more than 50 percent. In fact, when transport costs are taken into account, U.S. prices are now actually below world prices.

This situation is much more consonant with the history of the U.S. sugar market than the higher prices experienced in a few recent years**.** Charts 1 and 2, which show the evolution of U.S. raw and refined prices since 1997, as well as this recent downward trend, show that 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 is also in line with the initial, and widespread, expectations as to the effects of completely opening the U.S. market to Mexican sugar imports in 2008.

The U.S. market is now awash in sugar, with a stocks-to-use ratio variously estimated at 18-22%, much higher than the 14.5% deemed by USDA to be appropriate for the proper operation of the program and at levels not seen since the 2000-2001 period when over a million tons of sugar were forfeited to USDA.

In order to assess properly the likelihood of oversupply in the U.S. market, the combined U.S. and Mexican supply and demand picture must be consulted since the free flow of sugar across their borders is now in play. Current supply-demand estimates in Chart 3 show that once again this combined market has moved markedly into the more typical condition of surplus. Combined U.S.-Mexican sugar production, plus U.S. import commitments resulting from trade agreements, is now estimated to exceed sugar consumption in the two markets by more than 1 million metric tons.

Chart 4 shows the evolution of the world sugar market prices over four decades. It reveals some spectacular spikes, but overall a chronically depressed market.

Chart 5 shows that the world average cost of production averaged 51% more than the so-called world price during 1989-2008. 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.

Chart 6 shows average wholesale refined sugar prices in major consuming countries, as compiled by the International Sugar Organization, are more than 60% above the world price, and well above current U.S. prices.

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 (despite the current and very atypical proximity of U.S. and world market sugar prices), the U.S. will almost certainly remain an 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, imports now account for 25-30% of U.S. sugar consumption and present a real threat of over-supplying the U.S. market, especially in years of favorable domestic production. Moreover, implementation of the Colombia and Panama FTA's will bring additional sugar imports of about 60,000 metric tons into the U.S. market annually**.** Demands for

additional sugar market access commitments are being made in the TPP negotiations and, if TPP expands (as expected) to include other countries in the Asia-Pacific region (such as major sugar producers Thailand and the Philippines), these demands will likely accelerate. The U.S. sugar program – and our industry – cannot survive in the face of continuing piecemeal giveaways of our market.

The fact that, since January 1, 2008, all constraints on imports from Mexico have been removed has introduced a large element of uncertainty and potential instability into the U.S. market. As depicted in Chart 7, imports of sugar from Mexico have risen sharply since 2008, averaging 1.1 million metric tons over the past three years, and are expected to reach an extraordinary 1.5 million tons in the 2012/13 crop year.

Several factors suggest that Mexican exports will continue to rise in the coming years:

- The dramatic increase in HFCS use by the Mexican food industry, especially the beverage industry, replacing domestic sugar and making more sugar available for export. HFCS consumption has risen from 653,000 metric tons to 1.720 million tons since 2008/09 and now accounts for about 70% of sweetener use in their beverage industry.

- Mexican production is expected to reach a record level of 6.5 million metric tons this year, far above the levels of the previous 5 years. This level could well prove to be the norm whenever weather conditions are favorable.

- Finally, despite information to the contrary from the Mexican sugar industry as to the existence of shortfalls, Mexico has imported sugar every year since 2008. Imports of nearly 900,000 tons in 2010/11, for example, facilitated record exports to the U.S. the following year. The result has been to create an artificial surplus which has been exported to the U.S. The resulting "substitution" of foreign sugar for Mexican sugar greatly increases the uncertainty surrounding Mexico's sugar exports to the U.S. and raises serious questions about this practice under NAFTA.

It should be pointed out that Mexican sugar production is, in effect, heavily subsidized by the Mexican government. Less than ten years ago, the Mexican government owned mills accounting for 50% of sugar production. Currently, government ownership still accounts for about 20% of production. Historical experience makes clear that the Mexican government will intervene to prevent the social instability that would result from any loss of production capacity.

We would also point out that in years when additional sugar supplies are needed to meet U.S. domestic demand, this need can be met by increasing existing TRQ's in accordance with the provisions of the Farm Bill. Table 2 shows that this has indeed been the case with TRQ increases (above the minimum required by the WTO and FTA's) totaling 2.165 million short tons just since 2008/09.

Under the circumstances described above, any additional trade concessions on sugar would, barring major, unfavorable weather events in the U.S. or Mexico, create an unacceptable risk of generating loan forfeitures or triggering the Farm Bill provision that requires that USDA facilitate the conversion of surplus sugar in the U.S. market into ethanol. Both outcomes (but especially forfeitures) would lead to substantial, unforeseen federal government expenditures – a most unwelcome result given the current budget situation.

EU Sugar Reform and the EU Sugar Industry

As noted earlier and shown in Table 1, the EU is a major producer of sugar but, in recent years, a substantial net importer, with net imports averaging about 1.4 million metric tons over the most recent five year period. Prior to the 2005 reform, EU sugar prices tended to be far higher than those in the U.S. Since reform, the picture has been mixed (see Chart 8), reflecting among other things, the difficulty experienced by EU officials in administering the new policy. EU prices were well above U.S. prices from 2006 until early 2008, about the same in late 2008-2009, well below U.S. prices (and world prices) in most of 2010-11, and are currently far above U.S. prices.

It should be noted that relative prices in the U.S. and EU are much influenced by exchange rates (but note that Chart 5 uses the current rate throughout). Since the reform, dollar-Euro exchange rates have ranged from 1 Euro = $1.20 to 1 Euro = $1.60; since the inception of the Euro in 1999, this rate has ranged from $0.80 to $1.60. Currently, the rate hovers around 1 Euro = $1.30.

EU Sugar Reform. The basic elements of the original EU policy were:

1. An intervention price which triggered government purchases;
2. A production quota system consisting of three tranches:
    - A, for domestic use;
    - B, for export via export subsidies; and
    - C, for export without subsidies.

This policy, which unleashed a flood of subsidized sugar exports onto the world market, was subject to great criticism internationally and in 2004 a WTO panel found the amount of B sugar to exceed WTO commitments and C sugar exports to benefit from an implicit, prohibited subsidy. The system was further undercut by the EU's introduction of the EBA (Everything But Arms) program, which promised unfettered access to the EU sugar market for LDC's (Least Developed Countries), which had previously been subject to bilateral quotas.

2005 Policy Reform. EU Ministers agreed on a comprehensive reform in November 2005, consisting of the following key elements:

- The intervention price (632 Euros/mt or about 37 cts/lb at current exchange rates) was to be reduced over 4 years by 36%, beginning in 2006/07, to a "reference" price of 404 Euros/mt, (about 24 cts/lb at current exchange rates.). This latter price does not trigger government purchases; instead it is to be defended by a private storage system (not used so far).

- The A and B quotas were combined and substantially reduced. The combined quota totaled 17.4 million metric tons (for 25 countries) at the outset of reform and now total 13.3 million tons (for 27 countries). But as Table 1 shows, EU production has been substantially above this level**.** The over-quota sugar is either sold for industrial use, exported, bled back into consumption, or put into stocks and counted against the next year's quota.

- Farmers were to be compensated for 64.2% of the price cut by adding this amount to their Single Farm Payment (uncoupled to production). This compensation would bring the real price support to well over 30 cts/lb). Where the quota was reduced by 50% or more, additional compensation of 30% of income loss could be granted for a maximum of 5 years.

- Restructuring payments were made to processors for factory closures and quota renunciation over the period 2006/07 to 2009/10.

Next phase of reform. The current sugar regime expires September 30, 2015. The question now under deliberation in the EU is when will production quotas be ended. The date chosen seems likely to fall between 2017 and 2020. Production quotas on isoglucose (high-fructose syrup), which have kept EU consumption at low levels, would also be eliminated.

The reference price system will remain intact after production quotas are eliminated. EU tariffs on sugar and sugar-containing products, which prevent sugar imports from entering the EU unless under special arrangements (e.g., the afore-mentioned EBA or various bilateral agreements), will also remain. Moreover, the EU is still allowed under WTO to export nearly 1.4 million metric tons of sugar with the aid of export subsidies.

Potential Impact of TTIP on Domestic Sugar Industry, Policy

As mentioned previously, both the U.S. and the EU are large net importers with little interest in access to each other's markets. Moreover, studies done by LMC, the internationally respected commodities research firm, show the highly competitive U.S. sugar producers to be generally more efficient than their EU counterparts. However, under certain circumstances the export of EU sugar to the U.S. could temporarily become attractive due to: (1) the availability of EU export subsidies, as well as the subsidies provided to producers through the Single Farm Payment program; (2) oversupply of the EU market resulting from EBA and from the various

Economic Partnership Agreements negotiated, or under negotiation, with various groupings of countries in the Caribbean and Africa – these agreements will eventually allow free entry of sugar into the EU market; (3) marked changes in the Euro-dollar exchange rate.

Conversely, the oversupply of the U.S. market due to free entry of Mexican sugar and the commitments made in the WTO and other FTA's and/or marked changes in the Euro-dollar exchange rate in the other direction could make U.S. exports of sugar to the EU temporarily attractive. Either circumstance could substantially disrupt domestic sugar markets and undercut the efforts of U.S. or EU officials to administer their respective sugar programs efficiently.

The prospective elimination of EU production quotas adds a great element of uncertainty to the picture. Will it result in a decrease in total EU production, or an increase, as restraints on the more efficient sugar producers in the EU are removed? And will the elimination of production quotas on isoglucose result in a major displacement of sugar consumption in the EU?

Thus, granting market access for sugar to the EU, yet another subsidized producer, would add another major element of uncertainty to the already difficult task USDA administrators have in analyzing the market situation. It would seriously jeopardize the effective, no-cost operation of the domestic sugar program and likely generate 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.

We should point out that such an outcome would prove equally disastrous for the Mexican sugar industry, which has come to depend on large sugar exports to the U.S. to maintain balance in its domestic market – especially in light of above-mentioned replacement of Mexican sugar by U.S. HFCS in much of the Mexican sweetener consumption.

Impact of TTIP on Traditional Foreign Suppliers

It should also be pointed out that the collapse of U.S. sugar policy 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, Jamaica, Malawi, Mauritius, Mozambique, Panama, the Philippines, Trinidad and Tobago, and Zimbabwe.

CONCLUSIONS

1. Both the U.S. and EU are large net importers with no legitimate commercial interest in exporting to each other's markets. Any market access concessions on sugar negotiated in TTIP would run the risk of substantially disrupting the operation of their respective sugar programs to the detriment not only of the U.S. and EU sugar industries but those in developing countries that depend heavily on these programs to provide remunerative markets for their exports.

2. This view is shared by the EU sugar industry.

3. U.S. market access concessions on sugar to the EU, yet another subsidized producer, would add another major element of uncertainty into the analysis of the U.S. sugar market, would seriously jeopardize the effective, no cost operation of domestic sugar policy, and would likely generate substantial government expenditures.

4. Negotiation of market access provisions on sugar in TTIP would be unnecessary and counter-productive. Sugar and the sugar-containing products covered by the sugar TRQ program should be excluded from the negotiations.

We would emphasize that the concerns expressed above should not be construed as opposition to TTIP but rather to urge that the new reality of an integrated North American sweetener market set up by NAFTA and the impact of the other market access commitments already made in the WTO and other trade agreements be fully taken into account in TTIP negotiations.

Table 1

European Union Sugar Supply and Demand, 2006/07-2012/13							
-Thousand metric tons raw value-							
	2006/07	**2007/08**	**2008/09**	**2009/10**	**2010/11**	**2011/12**	**2012/13**
Beginning Stocks	5,088	2,720	3,130	2,232	1,433	1,974	3,637
Total Sugar Production	17,757	15,614	14,014	16,687	15,699	18,251	16,390
Total Imports	3,530	3,048	3,180	2,561	3,755	3,800	3,850
Total Supply	26,375	21,282	20,324	21,480	20,887	24,025	23,877
Total Exports	2,439	1,656	1,332	2,647	1,113	2,388	1,500
Human Domestic Consumption	19,816	16,496	16,760	17,400	17,800	18,000	18,000
Total Use	21,216	16,496	16,760	17,400	17,800	18,000	18,000
Ending Stocks	2,720	3,130	2,232	1,433	1,974	3,637	4,377

Source: USDA Foreign Agriculture Service, May 5, 2013.

Table 2

Twelve Post-April-1 Sugar TRQ Increases Since Start of 2008 Farm Bill (short tons, raw value)

-- In addition to WTO and FTA minimum imports of about 1.5 million tons --

Fiscal Year	Date	Raw Sugar	Refined Sugar	Specialty Sugar	**Total**
2008/09	8/6/2008		300,000		300,000
	9/22/2008			80,000	80,000
					380,000
2009/10	10/6/2009			75,000	75,000
	4/23/2010	200,000			200,000
	7/6/2010	300,000			300,000
					575,000
2010/11	8/17/2010			85,000	85,000
	4/11/2011	325,000			325,000
	6/21/2011	120,000			120,000
	8/2/2011			10,000	10,000
	9/30/2011		150,000		150,000
					690,000
2011/12	8/2/2011			100,000	100,000
	4/18/2012	420,000			420,000
					520,000
TOTAL	12				**2,165,000**

Data Source: USDA. U.S. sugar tariff-rate quota (TRQ) increases above the approximately 1.5 million short tons of required World Trade Organization (WTO) and free-trade agreement (FTA) imports each year (WTO raw, 1.231 mst; WTO refined and specialty, ~120,000 st; CAFTA/DR, Peru, and other FTA's, ~130,000 st.)

321

Chart 1

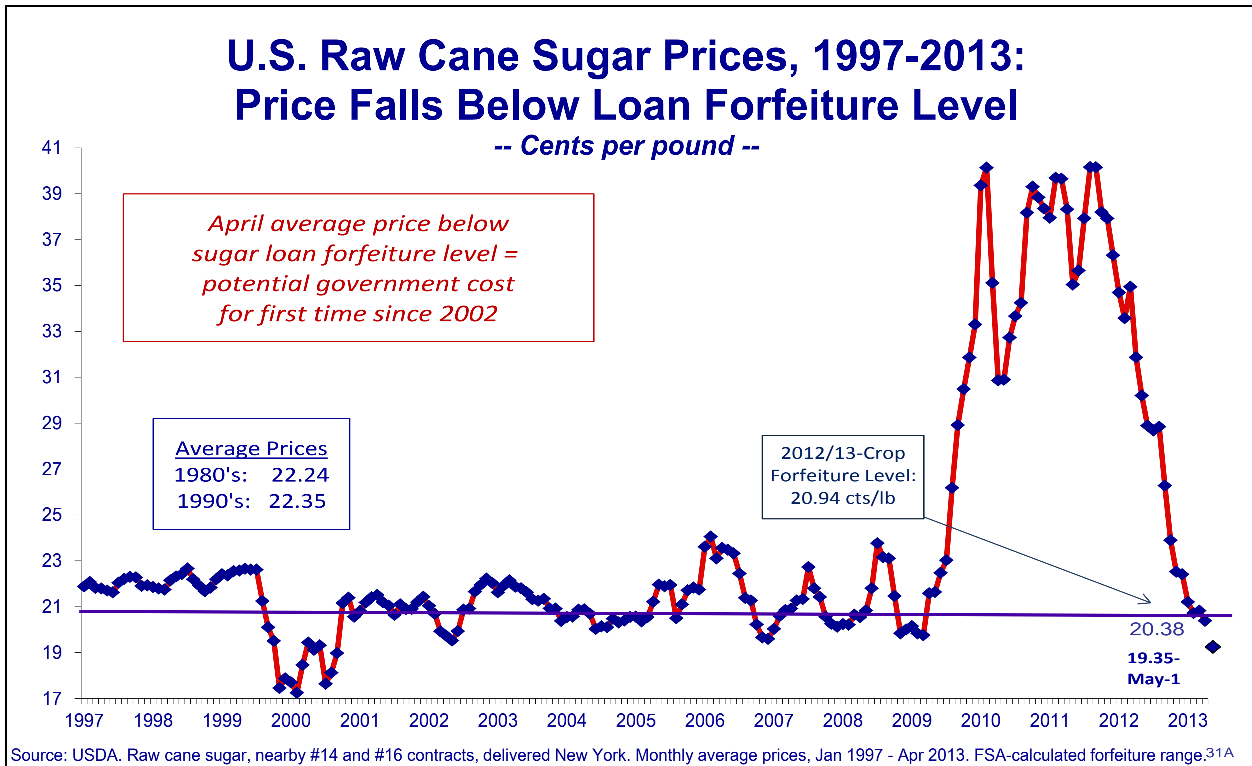


Chart 2

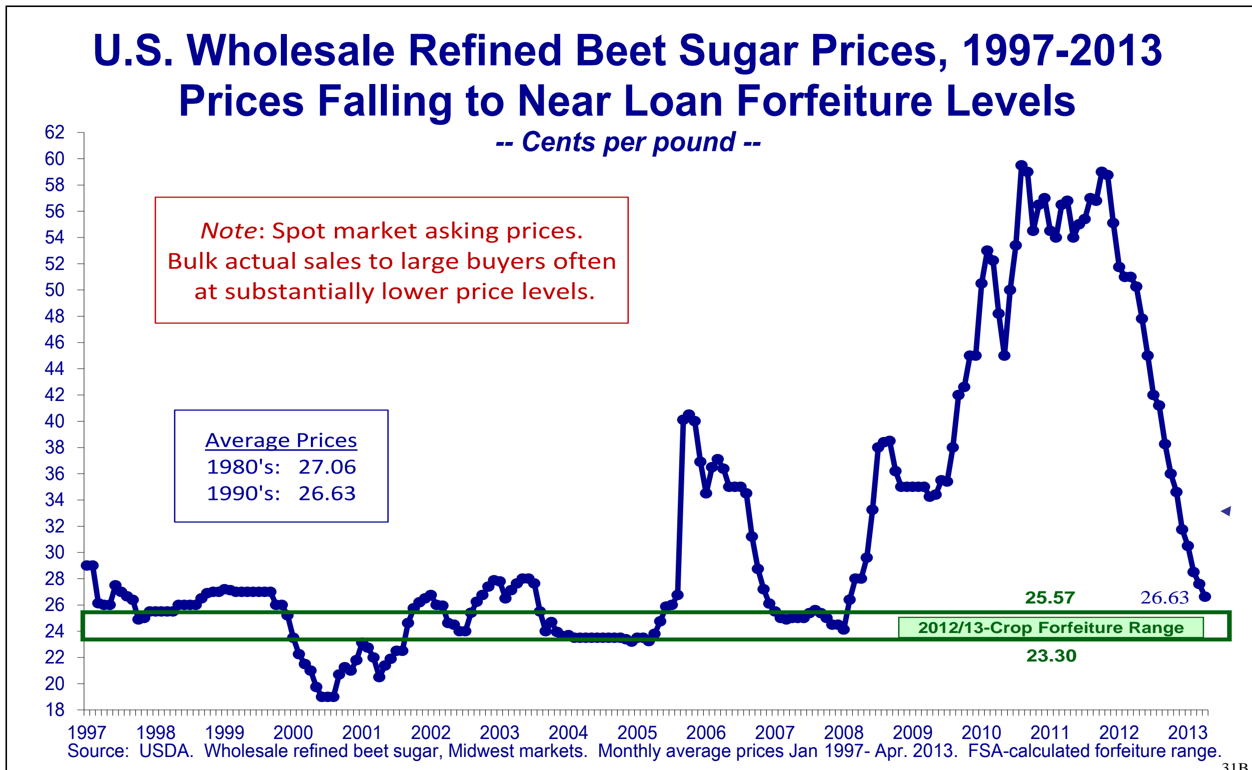


Chart 3

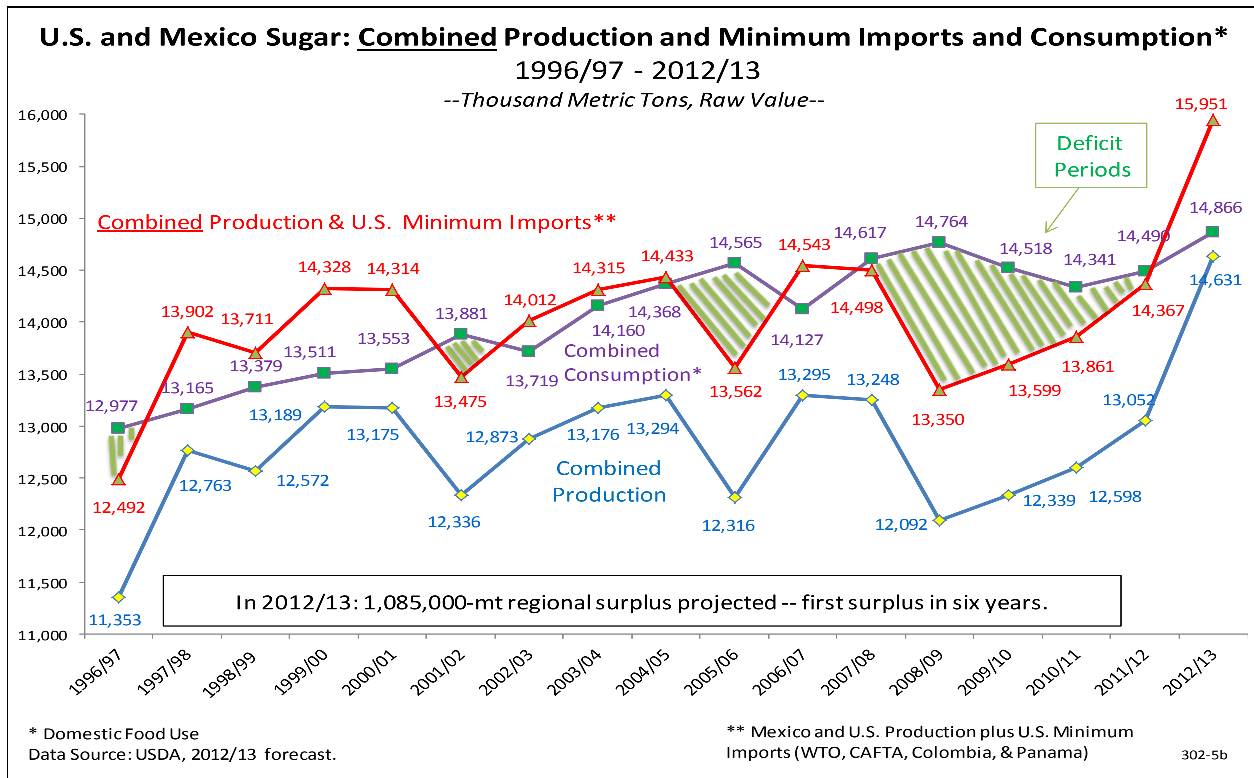


Chart 4

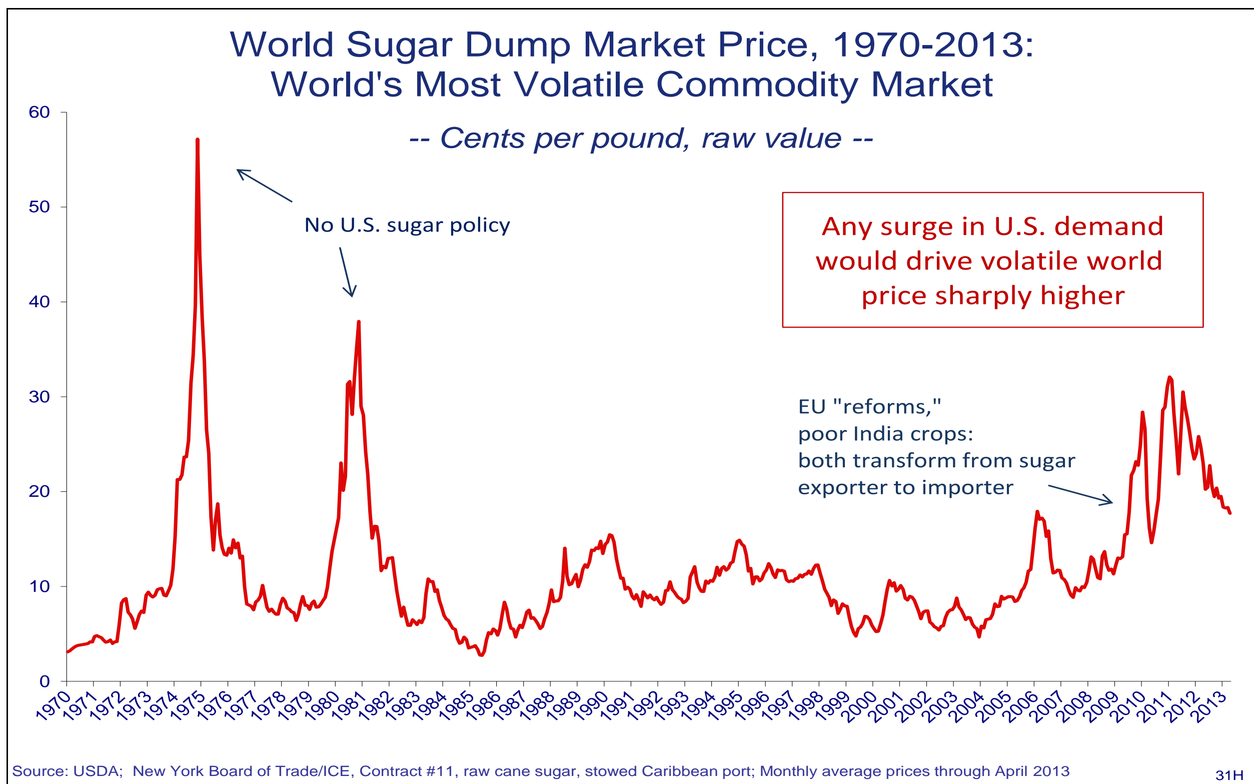


Chart 5

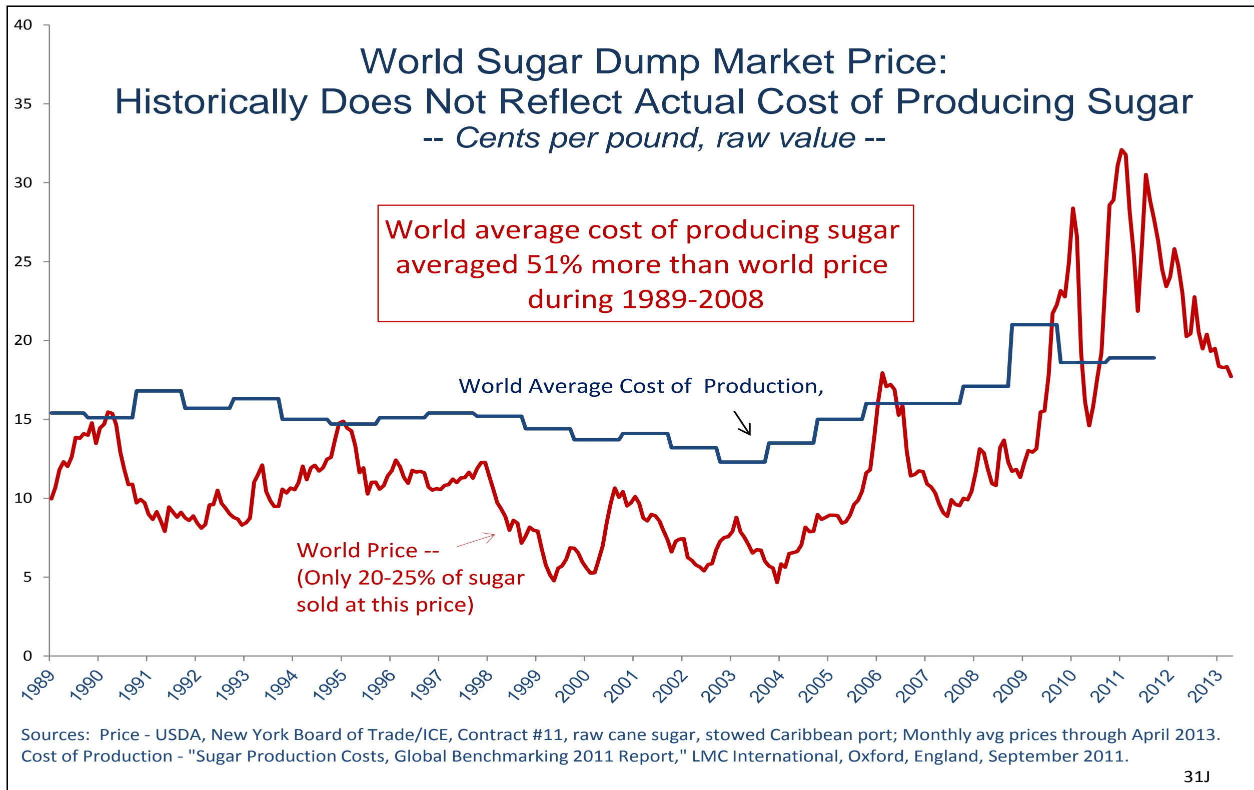


Chart 6

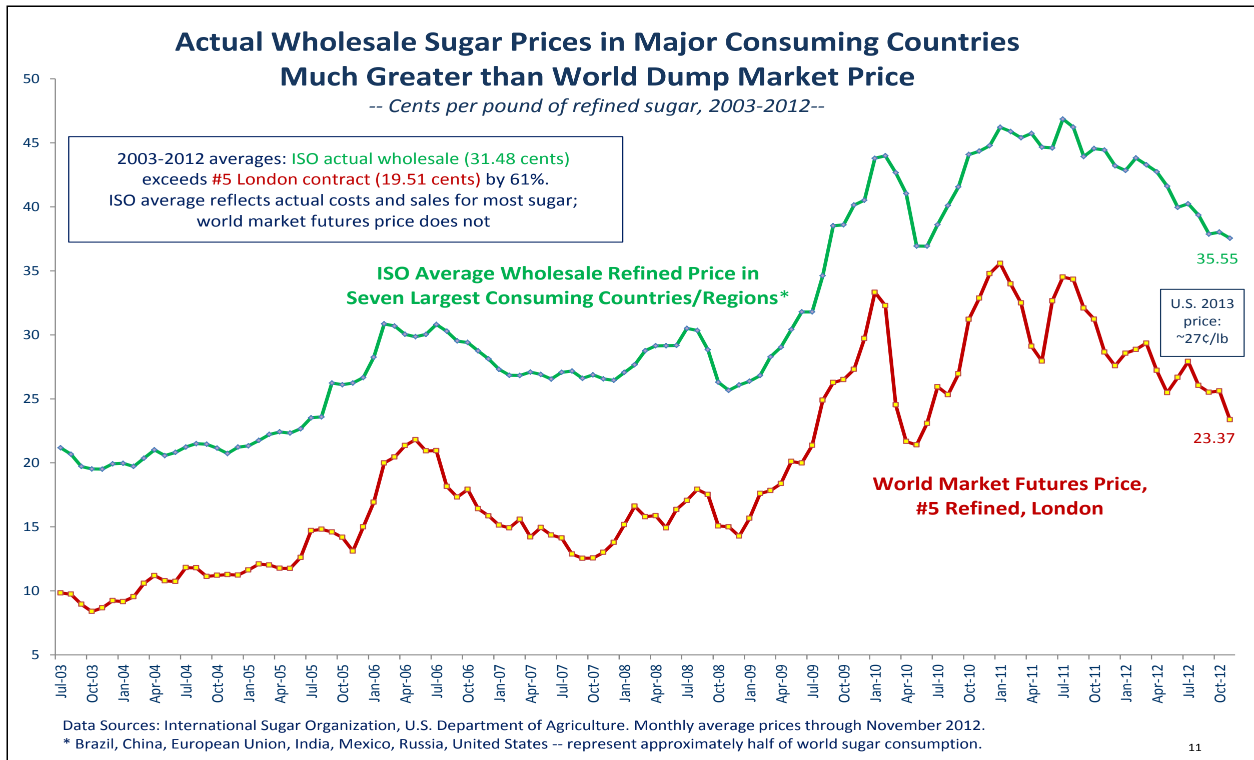


Chart 7

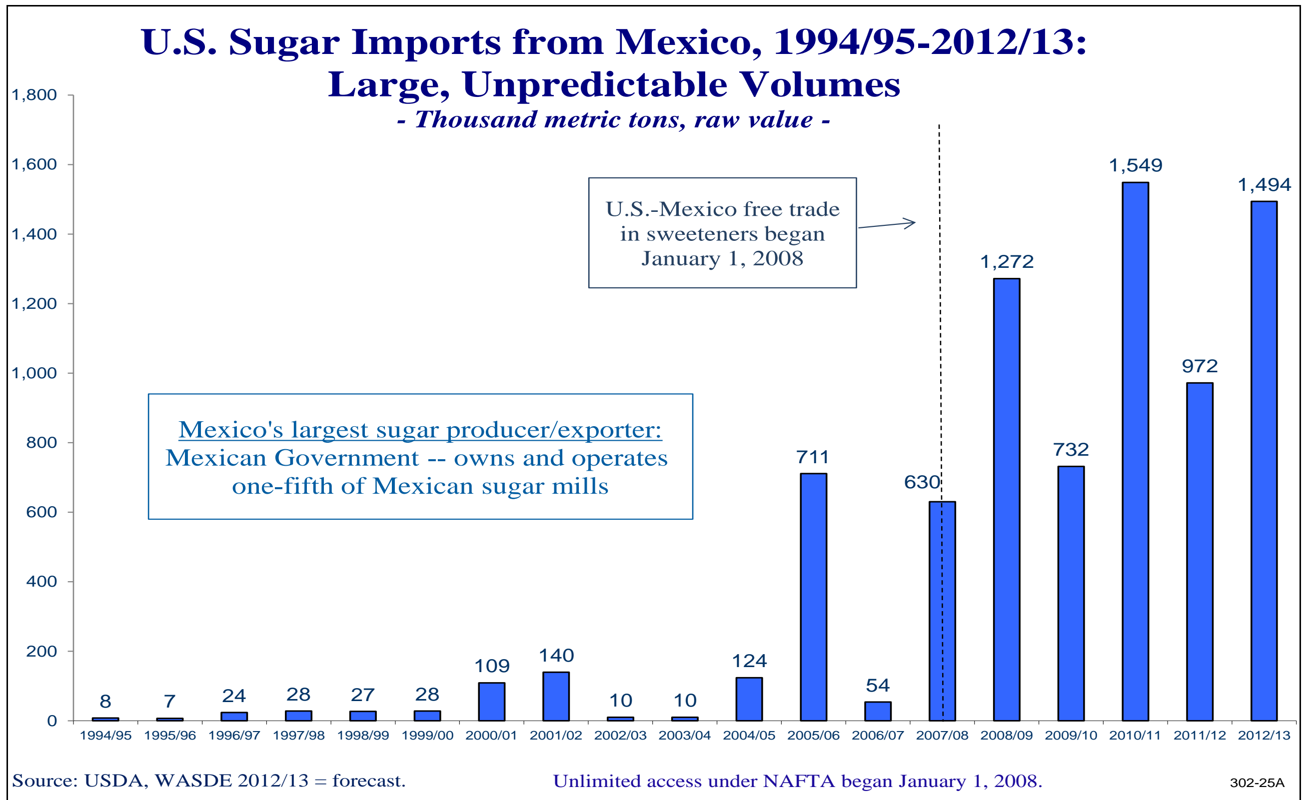
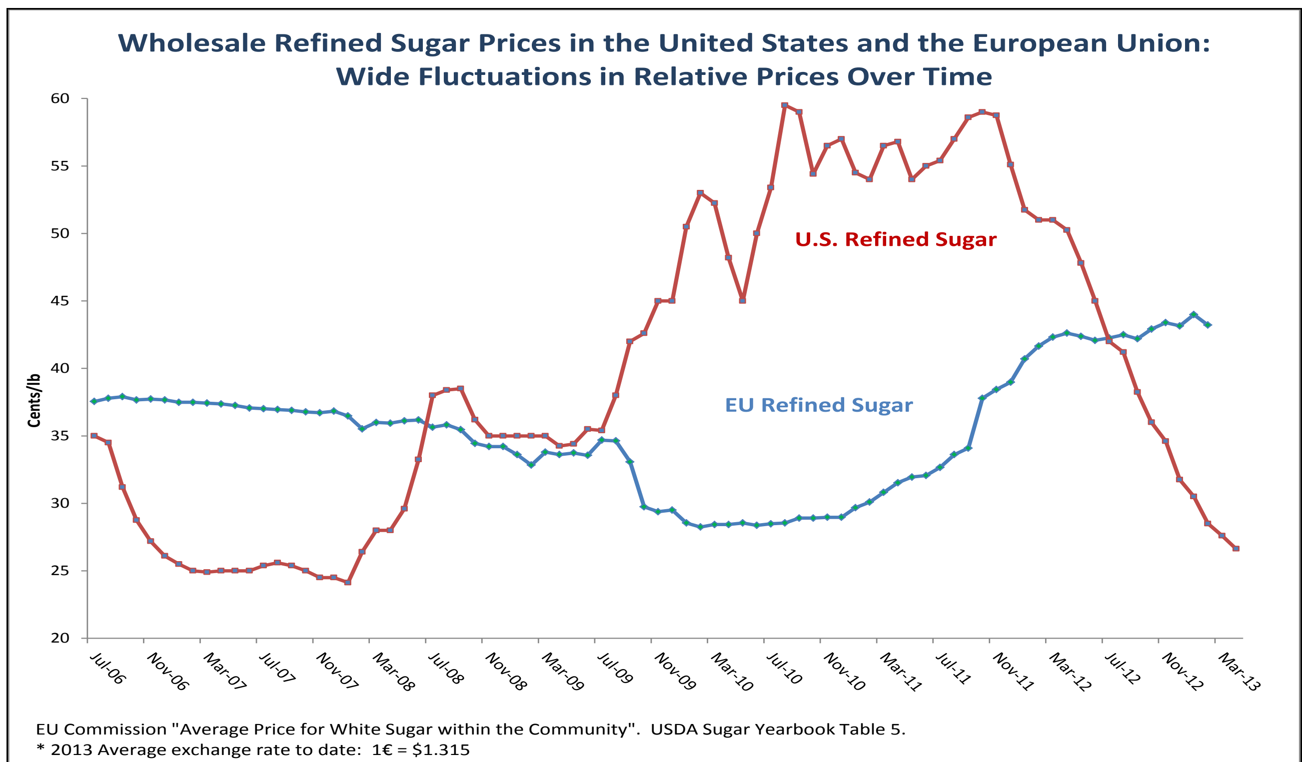


Chart 8



Appendix A:

Public Consultation on EU-US High Level Working Group on Jobs and Growth

CEFS representing the EU sugar manufacturers took note that during the EU-US Summit of the 28th of November 2011, the TEC (Transatlantic Economic Council) launched a joint High-Level Working Group on Jobs and Growth. CEFS understood that **negotiation of one or more bilateral trade agreements could be included** in the framework of the policy measures that there could be identified after the analysis of the High Level WG. CEFS would like to answer to the DG Trade open consultation on the issue:

CEFS general position on sugar and sugar products is that **no further concession should be made** in the future and ongoing trade negotiations.

1. United States ranks among the top sugar producers, and is one of the few countries with significant production of both sugarbeets and sugarcane. US is a huge net importer of sugar. CEFS doesn't see the reason why US should be granted concessions on sugar.
2. The country[1] imports large quantities of raw sugar (2.041.072 tons in 2010) particularly from huge exporter such as Brazil, Australia, Guatemala and Dominique Republic and important quantities of white sugar (936.258 tons in 2010) especially from Mexico. At the same time, according to International Sugar Organization data, US exported in 2010 more than 307.000 tons of sugar (7.061 raw sugar - 300.107 white sugar) including 10.793 of white sugar in the EU.
3. **USDA** United States Department of Agriculture **has established TRQs at lower levels in recent years to offset increasing domestic production**. If a FTA with US will be launched in the future, US will probably consider sugar as a sensitive product.

European Commission is concluding ambitious bilateral/regional Free Trade Agreements (FTAs) with all parts of the world and TRQs have been already granted to Central America, Peru/Colombia and Ukraine. As already stated in different occasions sugar **tariff lines should be excluded**. In the same way **products containing high amount of sugar should also be excluded from negotiations.**

In addition, it is particularly crucial for our industry to maintain **effective and strict Rules of Origin for sugar** and sugar products on concession already granted to avoid loopholes. It is also important for us to ensure that no circumvention of rules of origin takes place in the different regions which are geographically close to these countries.

Please find enclosed CEFS general position on Trade Agreements. We hope that you will take our comments into considerations and remain for any further information needed.

Marie-Christine Ribera

[1] Data of US on sugar – 2010 -Source International Sugar Organization ISO Year Book 2011-
Production 7.635.221 Imports 2.977.330 Exports 307.168 Net Trade -2.670.162 Consumption 10.153.780

Comité Européen des Fabricants de Sucre
182, avenue de Tervuren - B-1150 Bruxelles
Tél. : +32 2 762 07 60 - Fax : +32 2 771 00 26 - E-mail : cefs@cefs.org - http://www.cefs.org
T.V.A. : BE 436.324.311 - Banque : ING 310-1000803-43