

**Submission of the
AMERICAN SUGAR ALLIANCE**

**United States International Trade Commission Hearing:
Investigation Nos. TA-131-24 and TA-2104-04**

***Proposed Free Trade Agreement Negotiations Between the
United States and Australia:
Advice Concerning Probable Economic Effect***

**Washington, D.C.
January 21, 2003**

INTRODUCTION

The American Sugar Alliance (ASA) is pleased to have the opportunity to submit its views on USITC's investigations concerning the impact of the elimination of tariffs with respect to Australia on U.S. industries producing like or directly competitive products, as well as the impact of such tariff elimination on the economy as a whole. The ASA is the national coalition of growers, processors, and refiners of sugarbeets, sugarcane, and corn for sweeteners.

Our concerns relate to the tariff lines within Chapter 17 (sugar and sugar confectionary) of the HTSUS that affect the administration of U.S. sugar policy and to those sugar-containing products in other Chapters—particularly, those identified in the headnotes to Chapter 17—which have been, or could be used, to circumvent the sugar import program. Nearly all of these products are on the list of sensitive products provided to the U.S. International Trade Commission by USTR.

Australia, the world's fourth leading sugar exporter, has produced as much as 5.4 million metric tons of sugar in a year and exported more than 4 million. Australia is a significant beneficiary of the U.S. tariff rate quota (TRQ) for sugar, in recent years shipping about 87,000 tons per year under that program. Australia has the fourth largest share among the 40 quotaholding countries.

For reasons described in more detail below, the great bulk of this 4-million-ton export capability would be directed to the U.S. market if our tariffs on sugar and sugar-containing products were eliminated for Australia. The U.S. sugar market,

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which is already oversupplied, clearly could not absorb such quantities, and would be swamped by exports priced ever closer to the world dump market price. The result would be a collapse in U.S. producer prices, massive sugar loan forfeitures to the government, and major costs to the U.S. taxpayer. Sugar prices this low would also threaten the U.S. corn sweetener industry. Given the well documented lack of passthrough of lower producer prices, consumers would not benefit.

ASA POSITION ON TRADE NEGOTIATIONS

The ASA has long endorsed the goal of global free trade in sugar. U.S. sugar and corn sweetener producers are efficient by world standards and welcome the opportunity to compete on a genuine level playing field. However, the world market for sugar is now, and has historically been, characterized by a vast and complex array of policies that not only facilitate but also encourage dumping onto the world market, where prices have barely averaged half of average world production costs over the past two decades. Until this pervasive dumping is addressed comprehensively and these distorting policies are eliminated, further improvement in market access to the U.S. and the majority of other sugar producing and importing countries is not feasible.

Previous ASA submissions to USTR on the WTO (May 1 and October 24, 2002) have provided some information on the widespread and varied trade-distorting policies and practices significantly affecting the world sugar market. These include export subsidies, state-trading enterprises (STE's), government ownership and control, and a wide range of direct and indirect subsidies. We have provided the Administration with a just-completed study, prepared by the renowned commodities research firm, LMC International of Oxford, England, on the trade-distorting policies of 13 of the major sugar-producing and trading countries, including Australia.

Virtually every sugar-producing country provides some type of government support for its sugar sector. The most egregious is the decades-long ethanol subsidy program of Brazil, which, along with repeated currency devaluations, has fueled a three-fold increase in sugar production and a five-fold increase in exports over the past decade. USDA forecasts Brazil will export more than 13 million tons of sugar this year. Also highly distortive is the high support price and export subsidy program of the European Union (EU), which exports some 5-6 million tons of sugar per year.

State-trading enterprises govern sugar trade in Australia, China, Cuba, India, Indonesia, South Africa and many other countries, generally pursuing practices that are far from transparent. In Mexico and Thailand, government ownership or

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control of sugar mills and/or the forgiveness of debt have significantly distorted sugar market forces.

None of these foreign trade-distorting practices would be addressed in a U.S.-Australia FTA.

ASA believes that these linked issues of trade-distorting government policies and pervasive dumping can only be effectively addressed in multilateral WTO negotiations. ASA has urged the Administration to focus its efforts on comprehensive sector-specific negotiations within that forum. Attempts to deal with the problems plaguing the world sugar industry and to eliminate tariffs on sugar within the various FTA negotiations would jeopardize this broader goal and are unworkable.

ASA advocates a much sounder course of action, in which FTA partners would join together with the U.S. in sector-specific WTO negotiations and aggressively attack and eliminate those government policies, in particular, export subsidies, which have so grossly distorted world trade in sugar.

TRADE-DISTORTING POLICIES AND PRACTICES IN AUSTRALIA

Despite its claim to be a “free trader,” the government of Australia maintains a number of trade-distorting policies in the sugar sector:

- **Single Desk Selling:** In Queensland, which produces 95% of Australia’s sugar, all raw sugar is acquired and sold by the industry-owned body, Queensland Sugar Limited (QSL). This monopoly power enables QSL to confer indirect price support to the industry. Wholesale refined sugar prices in Australia are 30% higher than world market prices.
- Over the past few years, Australia has introduced a number of programs subsidizing domestic sugar producers (in part financed by the State of Queensland.) These programs include interest rate subsidies, emergency and other income supports, and various other assistance programs, totaling over \$A250 million. To finance these programs, the Australian government has imposed a levy of three cents per pound on domestic sugar sales.
- Although Australia’s applied tariffs on raw and refined sugar imports have been set at zero since 1997 (WTO bound rates are 160%), and domestic refined prices are relatively high, sugar imports during that period have been negligible.

We do not cite these policies with the intention of singling out Australia for criticism. It is worth noting, however, that, in the face of the grossly distorted

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world dump market for sugar, the Australian government has felt the same need to provide support for its producers that it has sharply criticized in other governments.

Nor do we realistically expect that these policies and practices can be effectively addressed in an FTA negotiation.

Our purpose is to underscore the widespread occurrence of trade-distorting government policies and practices and the importance of holding to a WTO-focused approach that addresses all such policies globally.

AUSTRALIAN EXPORTS WOULD SWAMP THE U.S. MARKET

Table 1 shows average sugar production and exports of Australia for the 2000-2002 period, as well as its allocation under the U.S. TRQ for sugar.

In recent years, the TRQ has been set at the minimum access levels (~1.2 million tons) required by our WTO and NAFTA obligations, reflecting the oversupply of the U.S. market (Table 2). This oversupply has also resulted in recent years in unprecedentedly large CCC accumulation of sugar stocks, the initiation of several programs to reduce stock levels, and in 2002, under the new Farm Bill, the imposition of domestic marketing allotments. (Charts 1 and 2 depict the U.S. sugar imports over the past several years and the price depressing effect of oversupplies, particularly during 2000-2002.)

As noted earlier, Australia would almost certainly shift the great bulk of its exports, about 4 million tons, to the U.S. market if tariffs were eliminated. Australia sells its sugar to other markets at the depressed world market price. Prices on the U.S. market, even if suppressed by an influx of imports, would for a time remain attractive in comparison with world dump prices.

In fact, the level of exports from Australia would likely be even greater than their current total exports. The prospect of unlimited access to the U.S. market would encourage increased sugar production (as it has in Mexico) and could make it remunerative for Australia to divert sugar from domestic consumption to the U.S. market, making up any shortfall through imports of sugar at world dump prices.

It should also be noted that the depression of U.S. market prices that would result from increased imports from Australia would substantially reduce the value of the TRQ allotments to other countries, nearly all of which are developing countries and many of which are heavily dependent on their shipments to U.S. market. This would no doubt lead to calls for compensation and equity from these countries.

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Finally, we would point out that the proposed FTA with Australia is only one of several FTA's underway or contemplated involving major sugar exporters (The FTAA, South Africa, Central America, and possibly Thailand are others.) Total sugar exports of all of these countries averaged approximately 25 million tons over the last three years (Table 1), more than double the total U.S. consumption of sugar in that period. The elimination of tariffs on sugar in the Australian FTA would set a precedent for these other negotiations that would presage complete disruption of the U.S. sugar market.

IMPACT ON THE U.S. SUGAR INDUSTRY AND THE OVERALL ECONOMY

The U.S. market is already oversupplied, necessitating the imposition of domestic marketing allotments. Additional imports from Mexico under the NAFTA (the levels of which are currently under negotiation) will further aggravate this situation. It is clear that the flood of imports from Australia that would result from tariff elimination could not be absorbed by the U.S. market and would have a severely disruptive impact, resulting in greatly reduced grower prices and income, massive loan forfeitures to, and huge outlays by, the government, and the continuing and ultimately unsustainable accumulation of stocks.

The ASA submissions of May 1 and September 19, 2002, to the USITC presented more detailed ASA views and analysis on the benefits to the U.S. economy provided by U.S. sugar policy and the costs to the industry and the economy if that program were lost or severely damaged. These submissions also outlined our serious concerns with previous ITC analyses of the economic impact of eliminating sugar tariffs, which we believe have seriously underestimated the damage to the U.S. industry resulting from such elimination and the resulting job losses, and overestimated the benefits to society as a whole. We believe that the losses to the U.S. economy will far outweigh any hypothetical benefits to consumers – benefits that seem entirely illusory, given the well-documented lack of passthrough of lower producer prices to consumers.

Although these previous submissions concerned investigations dealing with the FTAA and the WTO, we believe that they are quite relevant to the subject negotiations. While the magnitude of potential imports is greater under the FTAA and WTO scenarios, similarly ruinous effects would, as demonstrated above, result from the elimination of tariffs under an FTA with Australia.

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CONCLUSION

Elimination of tariffs on imports of sugar from Australia would result in major disruption of the U.S. market, sharply reduced producer prices and income, great loss of jobs, and major budgetary outlays by the U.S. government. These costs would far outweigh any overall gains to the economy resulting from tariff elimination; in particular, it is highly unlikely that consumers would see any benefit in the form of reduced retail prices for sugar or sugar-containing consumer products. The Administration should not increase market access for sugar within the framework of an FTA with Australia or of any other FTA, but should rather focus its efforts on achieving a drastic reform of the world sugar market through comprehensive, sector-specific WTO negotiations to eliminate all significant trade-distorting government practices affecting the world sugar market.

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Table 1

**Potential U.S. Free-Trade Agreement Countries/Regions:
Sugar Production and Exports and
Share of U.S. Sugar Import Quota
2000/01 - 2002/03 Average**

<u>Country</u>	<u>Production</u>	<u>Exports</u>	<u>U.S. TRQ Allocation</u>
	<i>-Metric Tons-</i>		
Mexico	5,128,000	246,000	7,258
Canada	94,000	5,000	---
Caribbean*	864,000	487,000	237,760
Central America	3,633,000	2,168,000	168,486
South America	25,917,000	12,376,000	313,579
FTAA Total	<u>35,636,000</u>	<u>15,282,000</u>	<u>727,083</u>
South Africa	2,741,000	1,388,000	24,221
Swaziland	537,000	253,000	16,850
SACU Total	<u>3,278,000</u>	<u>1,641,000</u>	<u>41,071</u>
Australia	4,600,000	3,456,000	87,402
Thailand	6,030,000	4,085,000	14,743
FTA Total	<u>49,544,000</u>	<u>24,464,000</u>	<u>870,299</u>

* Excluding Cuba

Data Source: USDA/FAS, November 2002

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Table 2

USDA World Agricultural Supply & Demand Estimates				
U.S. Sugar Supply and Use 1/				
Item	2000/01	2001/02	2002/03 Projections	
		Estimate	December	January

1,000 short tons, raw value				
Beginning stocks 2/	2,219	2,180	1,288	1,276
Production 2/3/	8,770	7,906	8,255	8,155
Beet sugar	4,680	3,914	4,315	4,215
Cane Sugar 4/	4,090	3,992	3,940	3,940
Imports 2/	1,591	1,526	1,565	1,605
TRQ 5/	1,277	1,149	1,245	1,245
Other program 6/	238	296	260	300
Non-program 7/	76	81	60	60
Total supply	12,580	11,612	11,108	11,036
Exports 2/8/	141	108	125	125
Domestic deliveries 2/	10,132	10,084	9,780	9,800
Domestic food use	10,000	9,891	9,600	9,600
Other 9/	132	193	180	200
Miscellaneous 10/	127	144	0	-200
Use, total	10,400	10,336	9,905	9,725
Ending stocks 2/	2,180	1,276	1,203	1,311
Private	1,396	1,064	NA	NA
Other 11/	784	212	NA	NA
Stocks to use ratio	21.0	12.3	12.1	13.5

1/ Fiscal years beginning Oct 1. Includes Puerto Rico. 2/ Historical data are from FSA, "Sweetener Market Data" except imports from U.S. Customs Service. 3/ Projections for 2002/03 are based on January Crop Production and analyses by the Interagency Commodity Estimates Committee for sugar. 4/ Production by state for 2001/02 (projected 2002/03): FL 1,980 (2,150); HI 251 (275); LA 1,587 (1,340); TX 174 (175); PR 0 (0). 5/ Actual arrivals under the tariff rate quota (TRQ) with late entries, early entries, and TRQ overfills assigned to the fiscal year in which they actually arrived. The 2002/03 available TRQs assume shortfall of 50,000 tons. 6/ Includes sugar under the re-export and polyhydric alcohol programs. 7/ Includes high-tier and other. 8/ Mostly reexports. 9/ Transfer to sugar containing products for reexport and for nonedible alcohol and feed. 10/ For 2000/01 and 2001/02, mostly residual statistical discrepancies. 11/ For 2000/01 and 2001/02, uncommitted CCC-owned sugar.

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Chart 1

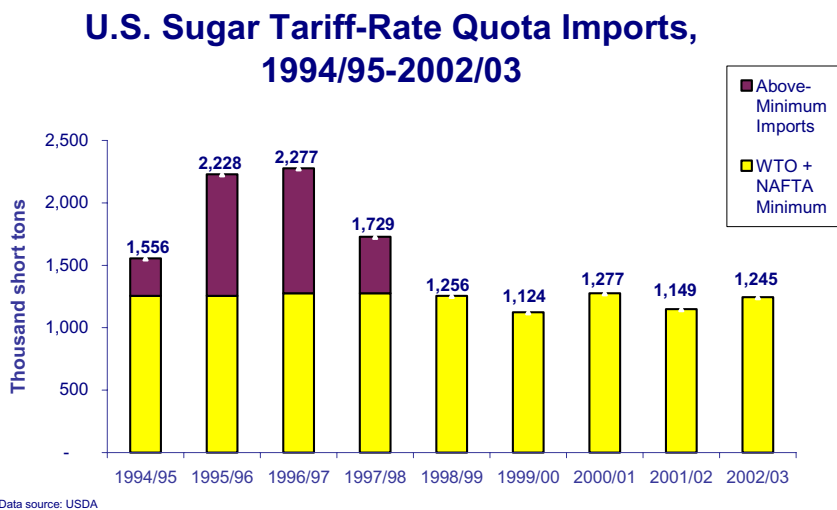


Chart 2

