

## URGENT TRADE ALERT

October 1, 2003

## CAFTA Negotiations Threaten U.S. Sugar Industry Survival

The Administration is pushing full steam ahead to conclude negotiation of a Central America Free Trade Agreement (Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua) by the end of this year – despite the obstructionist role played by most of these countries in the recent World Trade Organization (WTO) agricultural negotiations in Cancun, and despite Administration and Congressional pronouncements that such countries would be called to account for their actions.

The Administration has steadfastly maintained that domestic agriculture support programs should *not* be addressed in free trade agreement (FTA) negotiations, but rather in the WTO – a position strongly endorsed by the Congress. However, the Administration's insistence on negotiating sugar tariffs and TRQs in FTA negotiations is inconsistent with this position and unfair to the U.S. sugar industry. The no-cost U.S. sugar program involves no subsidy payments. Domestic support, instead, is based on limits on imports from the grossly distorted and subsidized world dump sugar market.

Negotiating away sugar tariffs and TRQs in CAFTA and other FTAs will have a disastrous impact on the U.S. prices and producer income. The results will be massive USDA sugar loan forfeitures and government expenditures, inoperability of the no-cost U.S. sugar program, and destruction of our industry. CAFTA alone has an export availability of 2 million tons, the great bulk of which would likely be redirected to the U.S. market; the total export availability of actual and potential FTA candidates is over 27 million tons. This compares with U.S. sugar production of roughly 8 million tons and consumption of less than 10 million tons.

The U.S. sugar industry, many Members of Congress, and Governors have urged that market access negotiations on sugar be excluded from FTAs and reserved for WTO negotiations. But the Administration clearly plans to include sugar, to eliminate tariffs on sugar in these negotiations, and to offer some immediate increase in access for CAFTA sugar exporters to the already saturated U.S. sugar market.

At the next formal round of CAFTA negotiations, scheduled for the week of October 20 in Houston, the Administration plans to put forward a specific offer on sugar. Once submitted, it will be virtually impossible to retract this offer.

Despite the Administration's determination to put the U.S. sugar program on the table in CAFTA and other FTAs, it appears neither to have analyzed the impact of these decisions on the U.S. sugar industry, nor developed a plan as to how to deal with the harm to the U.S. sugar industry and the damage to the U.S. sugar program just approved by Congress in the 2002 farm bill.

The Trade Promotion Authority (TPA) bill, passed by Congress in 2002, requires close consultations between the Administration and Congress on sensitive agricultural products such as sugar, "taking into account the impact of any such tariff reduction on the United States industry ...concerned." We strongly urge Members of Congress demand that the Administration disclose its intentions concerning specific offers to be made on sugar, including an analysis of the adverse impact and its plan for addressing this impact, well in advance of the presentation of any offers – so that meaningful consultations may take place. These consultations and the Administration's plan and analysis should encompass not just the CAFTA negotiations, but the whole of FTA negotiations in which the U.S. is involved.

A balanced agreement can be reached without the inclusion of sugar. The CAFTA countries already enjoy duty-free treatment on 95 percent of their exports to the U.S. as a result of the Caribbean Basin Initiative (CBI) – and these commitments will no doubt be permanently bound in the FTA negotiations. No concessions on sugar are needed to achieve a successful trade agreement.

## Congress of the United States

Washington, DC 20515

September 25, 2003

The Honorable Robert B. Zoellick  
United States Trade Representative  
600 17th Street, N.W.  
Washington, D.C. 20508

Dear Ambassador Zoellick,

We are writing to urge you to proceed with caution as the United States addresses the scope of the Central America Free Trade Agreement (CAFTA) and the Free Trade Area of the Americas (FTAA) negotiations in the aftermath of the World Trade Organization ministerial in Cancun. If the United States proceeds with these regional trade agreements, it would immediately confront significant and troubling issues involving sugar trade that are analyzed in detail in a new report by Peter Buzzanell & Associates, Inc.

The WTO remains the appropriate forum for comprehensive, meaningful reforms to achieve trade liberalization in agriculture. Only in global WTO negotiations can the widespread and pervasive international policies that have grossly distorted the world sugar market be effectively addressed. But we fear that an over-reaction by the U.S. to the breakdown of negotiations in Cancun could unintentionally steer U.S. trade policy in a troubling new direction.

We share the point of view that the overarching purpose of trade agreements is expanded trade and economic growth through agreements that are both fair and enforceable. It would be a perverse outcome indeed if the very same countries that prevented global success at Cancun became winners by negotiating trade-distorting regional trade agreements. For this reason, we urge you to immediately reassess the fundamental principles underlying regional and bilateral trade agreement negotiations to assure that they serve our national interest. It would be a clear mistake in the wake of Cancun to emphasize regional and bilateral trade agreements that tend to magnify, rather than reduce, trade distortions.

The Buzzanell study, which was conducted for the Florida Sugar Industry Labor Management Committee, demonstrates the potential pitfalls of relying on regional and bilateral trade agreements. The sugar industry is a vital part of the economy in our states and cities, providing good, well-paying manufacturing jobs. The workers in this industry deserve a voice in this debate.

The Buzzanell study, which we have enclosed for your review, demonstrates that U.S. sugar producers and their workers are focused intensely on becoming efficient producers. The study compared Florida's sugar industry with the sugar industries of Brazil and Guatemala, which are Latin America's first and third largest sugar exporters, respectively. Brazil (with 152,261 tons) and Guatemala (50,546 tons) already have significant access to the U.S. market under the current tariff rate quota (TRQ) for raw sugar. These same countries "are rife with

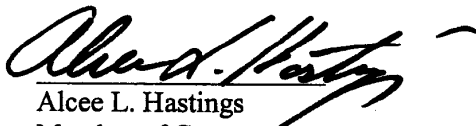
trade-distorting labor and environmental differences that lower production costs," the Buzzanell study concluded. They also are among the countries that helped shut down the talks in Cancun.

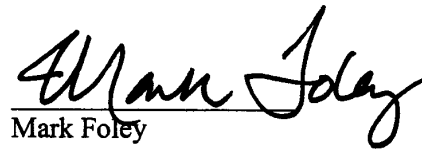
If the United States continues to negotiate agreements like CAFTA or FTAA, we urge you to first take into consideration several issues.

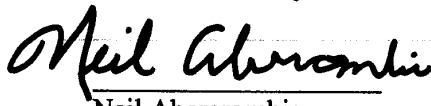
- First, we encourage your office to conduct an analysis of the track record in resolving agricultural trade disputes in regional agreements to date;
- Second, we believe any regional or bilateral agreement should include strong enforcement mechanisms dealing with labor and environmental standards;
- Third, the impact on the U.S. sugar program and policy established by Congress - - no regional or bilateral trade agreements should in any way impede this domestic agricultural support program; and
- Fourth, the United States should not accept the lower environmental or wage standards of one country to set a lower bar of standards for other countries in bilateral or regional negotiations. Trade-distorting practices should not be allowed to cascade through the global economy because of the failure of the WTO negotiations.

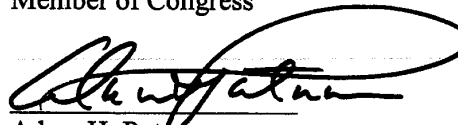
The stakes are high as the United States enters the post-Cancun regional trade negotiations. It would be a mistake to reach any agreement, whether bilateral or regional, which places high-paying American jobs in jeopardy by favoring countries that lack strong environmental and labor safeguards. Foreign countries should not be allowed to dictate the scope of regional and bilateral agreements by becoming roadblocks to global agreements. We stand ready to assist you in any way possible in the United States government's efforts to analyze and resolve these issues.

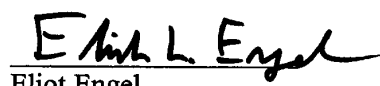
Sincerely,


  
Alcee L. Hastings  
Member of Congress

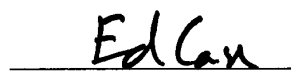
  
Mark Foley  
Member of Congress

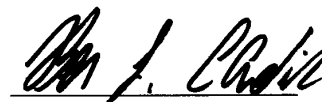
  
Neil Abercrombie  
Member of Congress

  
Adam H. Putnam  
Member of Congress

  
Eliot Engel  
Member of Congress

  
Allen Boyd  
Member of Congress

  
Ed Case  
Member of Congress

  
Benjamin L. Cardin  
Member of Congress

FOR IMMEDIATE RELEASE

Thursday, October 9, 2003

## **Study By Financial Institutions Shows:**

# **Trade Talks in Works Could Devastate U.S. Sugar Industry**

BATON ROUGE, LA – A new study by economics professors at Louisiana State University, conducted for the Louisiana Bankers Association and the First South Farm Credit Association, confirm that bilateral and regional trade agreements being negotiated by the U.S. administration would devastate America's sugar industry if free trade for sugar is included.

Stephen L. Rochelle, chief executive officer of First South Farm Credit Association, said, "As a lender to agriculture, we are very concerned over the findings of the study. The study bears out what we have feared. That is, the regional and bilateral trade agreements being pursued by the Administration could literally wreck the Louisiana sugar industry, and in truth, the entire U.S. sugar industry."

Rochelle said if, based on the study, lenders expect that "in the near future the sugar industry would be over run by foreign subsidized sugar, the premature dismantling of the sugar program, and the consequence of sugar prices below production for any country, it would put the state of Louisiana and its delicate economic base in great jeopardy." Sugarcane is by far Louisiana's most valuable crop.

The LSU analysts estimated that additional imports of 2 million metric tons would cut U.S. producer prices for sugar in half, to less than 12 cents per pound. Two million tons is the export capacity of the five Central American countries with which the U.S. is rushing to achieve a free trade agreement, the CAFTA, by the end of this year.

The study predicted a domestic producer price of only 8 cents per pound – less than half of world average sugar production costs – if imports grew by 3 million tons. The authors noted, "These additional import levels pale in comparison to the 27 million metric ton sugar export volumes of countries currently negotiating free trade agreements with the United States." Total U.S. sugar consumption is less than 9 million tons.

Upon learning of the study and its contents, Carolyn Cheney, chairman of the American Sugar Alliance, said, "American sugarcane and sugarbeet farmers, in 16 states, are among the most efficient in the world, but none could survive at the low prices these trade agreements would bring. This thorough and detailed study by experts outside of the sugar industry reinforces dramatically what we in the industry have been saying. Including sugar in these agreements and opening our borders to excessive tons of subsidized foreign sugar would drive efficient American sugar farmers out of business."

Cheney said, "American sugar farmers have long endorsed the goal of genuine global free trade in sugar. We could compete with foreign farmers on a level playing field, free of all government intervention. But the world sugar market is distorted by a vast array of subsidies and the so-called world price is really a dump price – barely a third of the world average cost of producing sugar.

"The only way to address these distortions," Cheney said, "is multilaterally, through comprehensive negotiations in the World Trade Organization (WTO), not piecemeal in these bilateral and regional agreements. Our message to the Administration is quite clear: Reserve sugar for negotiation in the WTO, not in these bilaterals and regionals."

Cheney also noted that consumers would not see any benefit from the lower producer prices that might occur, because food manufacturers and grocers do not pass their savings along to consumers. "For example," Cheney said, "during much of 1999 through 2001, sugar producer prices languished 20 to 30 percent below previous levels and drove many farmers out of business, but consumer prices for sugar and sugar-containing products have not declined."

In addition to the CAFTA, the U.S. is currently negotiating, or soon to begin negotiating, agreements with major sugar-exporting countries and regions such as Australia, South Africa, Thailand, and, in the Free Trade Area of the Americas, Brazil.

The study, "Impact of Potential Bilateral Free Trade Agreements on Projected Raw Sugar Prices and the Economic Viability of Louisiana Sugar Industry," was conducted by LSU economic professors Michael Salassi and Lynn Kennedy and research assistant Janis Breaux.

The American Sugar Alliance is the national coalition of growers, processors, and refiners of sugarcane, sugarbeets, and corn for sweetener.

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