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Granting DFQF Status to Sugar From LDCs Would Do More Harm Than Good to Developing Countries

The International Sugar Trade Coalition (ISTC) respectfully submits these comments for the record of the March 9, 2010 hearing by the Senate Finance Committee on U.S. trade preference programs. ISTC urges that sugar be excluded from any reform of U.S. trade preference programs.

ISTC is a non-profit association representing sugar industries in developing countries from Africa, the Caribbean, Central and South America, Asia and the Pacific that are traditional suppliers of sugar to the U.S. market under the raw sugar tariff rate quota (TRQ), including: Barbados, Belize, the Dominican Republic, Fiji, Guyana, Jamaica, Mauritius, Panama, the Philippines, St. Kitts and Nevis, Trinidad and Tobago, and Zimbabwe. ITC's members represent approximately one-half of the raw sugar TRQ allocations.

U.S. industrial users of sugar (such as chocolate and candy manufacturers) and certain free-trade think tanks and NGOs have suggested that least developed countries (LDCs), especially those in Africa, would benefit by extending duty-free, quota-free treatment (DFQF) to sugar imports to the United States from LDCs. Experience with the reform of the EU sugar regime has proven, however, that including sugar in DFQF initiatives actually does more harm than good to developing countries. For that reason, in its testimony presented at the November 17, 2009 preference reform hearing before the House Ways and Means Committee, the Common Market for Eastern and Southern Africa (COMESA) recommended that sugar should be excluded from DFQF initiatives. ISTC agrees.

1. Access to the U.S. Sugar Market Is Valuable Because of the U.S. Sugar Program.

In considering whether sugar should be included in DFQF for LDCs, one has to start with the question why LDCs want to export sugar to the United States in the first place. According to the International Sugar Organization (ISO) the vast majority – roughly 80% - of the sugar produced in the world is consumed within the country of origin. Most sugar-producing countries, including some LDCs, maintain the viability of their sugar industries through measures (including TRQs, subsidies, etc.) to ensure that the price of sugar in their internal markets is above their local cost of production.

There are only two major import markets where, over the past half century, sugar prices have been consistently above the world average cost of production: the EU and the United States. The EU price was traditionally significantly higher than the U.S. price, which made access to the EU market the most sought-after by sugar-exporting countries. But as a result of a WTO challenge brought by Brazil, Australia and Thailand, coupled with the impact of the EU's Everything But Arms (EBA) initiative, which extended DFQF to LDC sugar, the EU reduced its

sugar reference price by 36%. Today, the U.S. and EU market prices are the closest they have been in decades. Depending on currency exchange and freight rates, the U.S. price may actually provide greater returns for some exporters from time to time. As a result, access to the U.S. market today is relatively even more attractive than ever before.

In addition to the premium-priced EU and U.S. markets, sugar is also traded on the so-called “world market,” where prices are typically well below the world average cost of production.* Only the lowest cost sugar producers, Brazil, Australia and Thailand, intentionally target the world market. Other countries may occasionally dispose of surplus production on the world market, which only further depresses the world market price. No LDCs and no African countries (with the possible exception of South Africa) produce sugar with the intention of exporting to the world market precisely because the price is usually below their cost of production.

The U.S. sugar program ensures that the market price is above the cost of production through a combination of (1) TRQs on imports from traditional suppliers; (2) domestic marketing allotments to control the amount of domestic sugar in the market; and (3) “nonrecourse” loans to domestic sugar producers. Through these measures, the U.S. Department of Agriculture (USDA) balances the interests of domestic sugar producers, U.S. consumers, and traditional foreign suppliers, with the goal of maintaining a stable market. The resulting U.S. market price is in the mid-range of internal market prices around the world.

A total of 40 countries, all but two of which are developing countries, hold allocations under the U.S. raw sugar TRQ. (Australia and Taiwan are the developed quota holders.) The developing-country quota holders include four LDCs: Haiti, Madagascar, Malawi and Mozambique. Consistent with GATT Article XIII, quota shares under the TRQ are assigned on the basis of actual exports to the United States during a representative base period. Countries not assigned quota shares are not traditional suppliers to the U.S. market.

Sugar exports are the life’s blood of many of these developing-country quota holders. Sugar exports represent as much as 24% of total GDP (*e.g.*, Swaziland) and up to 93% of agricultural revenues (*e.g.*, Fiji) for many these developing-country quota holders. Literally millions of farmers and workers earn their livings in the sugar industries of these developing-country quota holders. The non-LDC developing-country quota holders are significantly more dependant upon sugar exports than are the LDCs (*i.e.*, sugar exports are a larger percentage of total exports for the non-LDC developing countries).

The U.S. sugar program is beneficial to developing-country quota holders because it provides them with access to a market where the price is consistently remunerative, *i.e.*, above their cost of production. Uncontrolled increases in the flow of sugar into the U.S. market risk undermining the U.S. price, reducing the revenues upon which developing-country quota holders

* Drought-induced damage to the cane crop in India caused world-market prices in 2009 to double and rise above the world average cost of production for the first time in more than 30 years. Raw cane sugar, which accounts for the great bulk of world sugar trade, is traded on New York and London exchanges and is historically more volatile in price than crude oil.

rely. Developing-country sugar exporters need a balance between the volume of access and the value of that access, because *increased access at a price that is below the cost of production is worthless.*

2. Granting DFQF to LDC Sugar Risks Destroying the U.S. Sugar Program, Which Is Already Vulnerable Because of NAFTA.

The U.S. sugar program has remained in effect since 1982 with only relatively minor changes precisely because it has been effective in balancing the interests of domestic producers, U.S. consumers and traditional foreign suppliers – all at no budgetary cost to the U.S. taxpayer. This balance of interests has been seriously disrupted by the North American Free Trade Agreement (NAFTA), which gave Mexico DFQF access to the U.S. market. U.S. sugar imports from Mexico have sky-rocketed from 7,258 metric tons (MT) before NAFTA to 1.3 million MT during the 2008-09 quota year. In the meantime, U.S. sugar imports from the 40 traditional suppliers have fallen to the minimum level bound in the Uruguay Round (approximately 1.1 million MT), and the U.S. market price has become more volatile, jeopardizing sugar export revenues for the developing-country quota holders that depend on access to the U.S. sugar market.

The U.S. Administration learned its lesson from NAFTA. No subsequent FTA negotiated with a sugar-producing country has included DFQF treatment for sugar. Rather, all U.S. FTAs since NAFTA have strictly limited the volume of sugar to be imported duty-free under the FTA. The reason is simple: DFQF treatment for sugar is incompatible with maintaining a premium price.

Adding another major source of DFQF sugar to the U.S. market would seriously depress the U.S. market price, thereby further reducing sugar export revenues by all developing-country quota holders. Even worse, extending DFQF treatment to sugar from LDCs could collapse the sugar program completely, which would benefit neither current developing-country quota holders nor LDCs. Rather, the only beneficiaries of such an outcome would be (1) the U.S. industrial sugar users, who would then be able to source sugar at the lowest possible price; and (2) the lowest cost exporters of sugar, none of which are LDCs, primarily Brazil, Australia and Thailand.

Twenty-four LDCs are significant sugar producers. Of these, five are currently major exporters: Malawi, Mozambique, Myanmar, Sudan and Zambia. These five LDCs export an average of 1.1 million MT of sugar annually.

Least Developed Country* Sugar Producers

(Thousand metric tons, three-year average, 2007/08-09/10)

	<u>Production</u>	<u>Imports</u>	<u>Consumption</u>	<u>Exports</u>	<u>Net Exports</u>	<u>US Quota</u>	<u>EU Quota</u>
Angola	30	270	302	0			
Bangladesh	147	1000	1183	0			
Benin	9	49	43	9			
Burkina Faso	33	35	68	0			7
Burundi	20	0	20	0			
Chad	34	18	50	0			
Congo (Dem. Rep.)	75	73	137	12		7	13
Ethiopia	320	127	443	17			15
Guinea	28	75	95	20			
Haiti	1	185	185	0		7	
Madagascar	25	150	172	5		7	12
Malawi	284	1	173	137	136	11	44
Mali	38	40	75	0			
Mozambique	318	179	173	319	140	14	8
Myanmar	300	10	103	209	199		
Nepal	150	17	150	10			9
Niger	15	50	65	0			
Sierra Leone	0	35	35	0			
Somalia	22	70	93	0			
Sudan	833	83	640	310	227		17
Tanzania	293	183	473	5			13
Togo	5	40	45	0			
Uganda	281	18	247	17			
Zambia	325	1	157	137	135		
24 Countries - Total (Net exporters in bold)	3,587	2,710	5,126	1,206	837	46	138

Source: USDA, Foreign Agricultural Service, May 2009; U.S. quota: WTO minimum.

* Others: Afganistan, Bhutan, Cambodia, Cape Verde, Central African Republic, Comoros, Djibouti, Equatorial Guinea, Eritrea, Gambia, Guinea-Bissau, Kiribati, Laos, Lesotho, Liberia, Maldives, Mauritania, Rwanda, Samoa, Sao Tome and Principe, Senegal, Solomon Islands, Timor-Leste, Tuvalu, Vanuatu, Yemen; 50 least developed countries in all; United Nations, May 2009.

Total annual U.S. sugar consumption is about 9.5 million MT. Domestic producers by law are guaranteed the opportunity to supply 85 percent of that total. Traditional suppliers are guaranteed the opportunity to supply 1.1 million MT, about 11 percent, under WTO agreements. Mexico faces no limits and supplied about 1.3 million MT last quota year, over 12 percent of the market. Extending DFQF to LDC sugar risks massive oversupply and a price collapse. It has been reported that Malawi, Mozambique and Sudan are already expanding their sugar production dramatically (doubling it according to some sources) to take advantage of their new DFQF access to the EU under EBA. With the recent reduction in EU sugar prices, a result of EU sugar market reforms, some or even all of these increased LDC exports – as much as another 1.4 million MT, almost 15 percent of U.S. consumption -- might be diverted to the U.S. market under DFQF. Supplies could equal over 120 percent of consumption, making it impossible to maintain the sugar price required by law without government purchases of sugar on an unprecedented and extremely costly scale.

But even that is not the worst case scenario. A newly-introduced bill, the New Partnership for Trade Development Act, H.R. 4101, would extend DFQF status to all AGOA beneficiaries, as well as the non-African LDCs. This group of 29 countries exports on average 2.8 million MT of sugar annually.

Sugar Producing Countries Included in H.R. 4101
DFQF Access for Sugar to U.S. Market
(Thousand metric tons, most recent three-year average)

	Production	Imports	Consumption	Exports	Net Exports
LDCs					
Angola	30	270	305		
Bangladesh	125	1,067	1,219		
Benin	11	43	39	9	
Burkina Faso	32	36	66		
Burundi	20		20		
Chad	34	18	50		
DR Congo	75	73	137	10	
Ethiopia	307	127	443	17	
Guinea	28	75	95	20	
Haiti	1	185	185		
Madagascar	25	150	172		
Malawi	297	1	180	137	136
Mali	37	40	75		
Mozambique	297	169	175	296	127
Nepal	150	17	150	10	
Niger	15	50	65		
Sierra Leone	62	15	34	41	26
Somalia	22	70	93		
Tanzania	278	185	457	17	
Togo	5	40	45		
Uganda	285	15	250	15	
Zambia	320	1	157	155	154
<i>LDC Subtotal</i>	<i>2,456</i>	<i>2,648</i>	<i>4,413</i>	<i>727</i>	<i>443</i>
Non-LDCs					
Congo (Brazzaville)	58	15	34	41	26
Kenya	529	234	724	45	
Mauritius	482	41	42	477	437
Nigeria	53	1,295	1,150	150	
Senegal	100	75	170	7	
South Africa	2,363	180	1,638	1,018	838
Swaziland	657		306	350	350
<i>Non-LDC Subtotal</i>	<i>4,243</i>	<i>1,840</i>	<i>4,064</i>	<i>2,088</i>	<i>1,651</i>
Grand Total	6,698	4,488	8,477	2,815	2,093

(Source: USDA, Foreign Agricultural Service, November 11, 2009.)

There can be no serious debate over whether the U.S. sugar program could withstand additional imports of that magnitude. At a minimum, the U.S. sugar price would fall significantly, probably below the cost of production in almost all developing-country quota holders, thereby immediately slashing sugar export revenues by those developing countries that

are already dependent upon exports to the United States. The sugar program would no longer be tenable.

As was experienced by the African, Caribbean and Pacific (ACP) countries in the reform of the EU regime, sugar export earnings by the developing country quota holders would plummet, tens of thousands of sugar workers would lose their jobs, and in some countries (Trinidad & Tobago and St. Kitts & Nevis in the case of the EU reform) the entire sugar sector would shut down, causing major economic dislocation and social upheaval.

Another policy option would be to replace the current U.S. sugar program with a more traditional commodity program (*e.g.*, deficiency payments). Under this model, U.S. sugar producers would be guaranteed a certain price, but imported sugar would trade at the so-called world market price, which as noted above is typically below the cost of production of all but a handful of countries. The result would be the loss of sugar export revenues by both current quota holders and LDCs, as sugar trade would be dominated by Brazil (the world's largest and lowest-cost producer), and to a lesser extent Australia and Thailand. The only winners would be the large corporate sugar users, commodity speculators, and the handful of non-LDC lowest-cost sugar exporters.

The outcome would be a classic case of "robbing Peter to pay Paul," as existing trade by the developing countries that are already dependent on their sugar exports to the United States would be destroyed to make room for new imports from LDCs. The United States sugar program, which sustains a premium price for sugar by limiting supply, would likely be overwhelmed. Increasing poverty in one group of poor countries in the hopes of reducing poverty in another group of poor countries is not a worthy policy goal. Indeed, there is a serious risk that even the LDCs would lose out, being replaced by the small group of super-competitive non-LDC sugar producers. The result would be increased sugar exports by Brazil, and increased poverty in almost all other sugar exporters, including the LDCs the DFQF initiative is intended to help.

For all these reasons, ISTC respectfully requests that sugar should be excluded from DFQF treatment in any preference reform legislation.

Respectfully submitted,


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