

SUBMISSION OF THE AMERICAN SUGAR ALLIANCE

United States International Trade Commission

U.S. Trade and Investment with Sub-Saharan Africa: Recent Developments

Investigation No. 332-564

Washington, D.C.

February 2, 2018

The American Sugar Alliance (ASA) is pleased to have this opportunity to present its views to the Commission on the investigation being undertaken concerning U.S. Trade and Investment with Sub-Saharan Africa. As the national coalition of growers, processors, and refiners of sugarbeets and sugarcane, we are greatly interested in, and concerned about, this investigation – in particular, that aspect of the investigation (specified in 2 (c) of the Federal Register Notice) that asks the Commission to identify those sectors “that present the greatest potential to increase exports of goods under AGOA to the United States.”

We would remind the Commission that, recognizing the sensitivity of the U.S. sugar market, sugar and sugar-containing products (SCPs) covered by TRQs (tariff rate quotas) have been excluded from AGOA since its inception. Careful analysis will show that this exclusion should continue. But we would also note that a number of AGOA countries do benefit from the country-specific TRQs the U.S. established for sugar in WTO negotiations and from the duty-free treatment granted for many of the less sensitive SCPs.

U.S. Sugar Industry and Policy: Current Situation and Background

We believe some discussion of the U.S. industry and U.S. sugar policy would be helpful to the Commission in conducting its investigation.

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 percent of our food manufacturing. Second, the U.S. sugar industry provides for 142,000 jobs across America and generates nearly \$20 billion annually to the U.S. economy. Many of the jobs and businesses are in highly vulnerable rural areas.

Though our industry is efficient by global standards, long periods of low prices have closed over half our facilities since 1985 and the remaining companies were purchased by farmers to avoid closure. The loss of refining capacity from further closures 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 all trade negotiations is to ensure that the agreements 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.

An effective U.S. sugar policy is needed to address a world sugar market that is grossly distorted by the wide array of unfair trade practices employed by nearly all sugar-producing countries. **Chart 1** shows the history of the world sugar market prices over four decades. It reveals some spectacular spikes, but overall a chronically depressed market with prices generally below the average cost of production of nearly all sugar-producing countries. 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 surplus stocks onto the world market. 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, China, and other markets. Thus, the so-called “world market” becomes very much a residual, or dump, market.

U.S. sugar producers believe that this highly dysfunctional global sugar market can only be restored to health by comprehensive, global negotiations in a multilateral forum such as the WTO that covers the whole range of trade-distorting policies that affect the world sugar market. These negotiations must include indirect and/or non-transparent measures, as well as policies and practices of a more direct and transparent nature.

Under these circumstances, 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. If unchecked, these dumped and subsidized imports would wreak havoc on the highly efficient U.S. sugar industry.

In the absence of an effective international accord to root out these pervasive trade-distorting practices, the U.S. sugar industry, though highly competitive by international standards, has little incentive, or indeed ability, to enter into the world market. Moreover, it is essential that adequate and appropriate restraints on imports remain in place to prevent the U.S. market from being overrun with subsidized and dumped sugar at ruinous world market prices.

Nonetheless, as a result of market access commitments already entered into by our government in the WTO, NAFTA, CAFTA and other FTAs, the U.S. is one of the world’s largest sugar importers and has imported 25-30% of its consumption in recent years. With the advent of open trade with Mexico on January 1, 2008, the U.S. sugar market became subject to much greater uncertainty and more susceptible to oversupply -- and it became much more difficult to operate U.S. sugar policy effectively.

Our market situation dramatically worsened in 2013 when Mexico unleashed a flood of dumped and subsidized sugar into the U.S. market. As a result prices collapsed, the U.S. industry lost an estimated \$2 billion in 2013 and 2014 and for the first time in over a decade U.S. sugar policy incurred a budgetary cost (\$259 million). The Hawaii sugar industry was ultimately a casualty of these predatory practices.

To combat these unfair trade practices and restore balance and stability to the U.S. sugar market, the industry filed anti-dumping (AD) and countervailing duty (CVD) cases in 2014. The U.S. International Trade Commission determined unanimously – twice, in 2014 and also in 2015 – that Mexico had injured the U.S. sugar industry. The U.S. Department of Commerce determined that combined duties of up to 80% were justified and would be needed to eliminate injurious effects of Mexican dumping and subsidization. Such duties would almost certainly have stopped all, or nearly all, imports of sugar from Mexico. This was not the goal of the U.S. sugar industry, rather it was to stop dumped and subsidized sugar from threatening the health of our industry and placing an additional burden on U.S. taxpayers. Therefore, in lieu of AD and CVD duties, the U.S. and Mexican governments negotiated Suspension Agreements (SAs) in December 2014 to attempt to eliminate injury and, at the same time, allow the Mexicans continued substantial access to the U.S. sugar market.

Unfortunately, these Suspension Agreements did not work as intended and proved totally ineffective. They neither eliminated dumping nor removed the injury to our producers and resulted in further severe damage to the sugar industry. We estimate the additional loss to our industry during period these SAs were in effect at \$2 billion.

Table 1 provides a more detailed account of the damage done by Mexican unfair trade practices and our attempts to address them. **Chart 2** shows the sharp decline in refined sugar prices that occurred in 2013 and 2014 and again in 2015 and 2016 after the previous SAs were concluded, moving them very close to loan forfeiture levels. **Chart 3** shows a similar pattern with respect to the refining margin: clear evidence

that the Mexican industry was starving U.S. refiners of needed raw sugar supplies while dumping into the refined market. (These charts also show a very considerable improvement in prices and margins due to the negotiation and conclusion of the revised SAs.)

Commerce Secretary Ross and his staff along with Agriculture Secretary Perdue and his staff worked hard in the first half of 2017 to negotiate revised SA's that would correct the defects of the SAs negotiated in December 2014. The negotiations were concluded and the revised SAs signed in June 2017. We very much appreciate their hard work and what they have accomplished. The revised SAs went into effect October 1, 2017, and thus far appear to be working well but, obviously, it is too early to make a definitive judgment.

Production, Consumption, and Trade in Sugar in AGOA Countries

As **Table 2** shows, consumption of sugar even in those AGOA countries that produce sugar (a sizeable number of AGOA countries do not produce sugar) exceeds production by nearly 2 million tons; imports of sugar exceed exports by about the same amount. Given the sharp increases in population expected in Africa, it seems likely that these gaps will widen. The interests of the AGOA countries (both of sugar producers and consumers) would, therefore, likely best be served by improving the conditions allowing their producers to meet the needs of these regional markets.

AGOA Country Utilization of Existing TRQs

Nine AGOA countries enjoy access to the U.S. sugar market under TRQs established in the WTO, with allotments totaling about 100,000 metric tons. Of these nine, four – Congo, Cote d'Ivoire, Gabon, and Madagascar – filled none of their TRQs over the FY2015-17 period. All of these countries are net importers; one, Gabon does not export any sugar.

Table 3 shows the performance of the remaining five countries. Generally, their fill rates are high, with some variance due to changes in yearly production, reallocations and increases in the TRQ, more attractive regional or overseas markets, or other factors.

Potential Impact of Providing Duty-Free Treatment or Additional Access for AGOA Sugar Imports

As **Table 2** indicates, the countries included in AGOA produce nearly 7 million metric tons of sugar and export about 2 million metric tons. Moreover, some of these countries are planning substantial expansion of sugar production. While much of this expansion appears currently aimed at supplying domestic and regional needs, the granting of duty-free or additional access for sugar under AGOA could redirect this export capacity toward the U.S. market – and could well encourage further expansion. This tendency would no doubt be strengthened by the expected diminishment of opportunities in the EU market, long favored by African sugar producers. It is anticipated that, as a result of changes in its sugar program, the EU will become a substantial net exporter in the coming years.

Substitution Problems

We should also anticipate strenuous efforts, difficult to monitor, to transship sugar from subsidized non-AGOA exporters such as India or Brazil and/or to substitute such imported foreign sugar for domestic consumption and thereby free up domestic production for export. Once sugar is sold to a trade house, the seller has little, if any, control over the sugar's final destination.

Thus, the granting of duty-free treatment for AGOA sugar exports could result in the flooding of the U.S. market with hundreds of thousands of tons of unneeded sugar.

As has been made clear in the previous discussion, the U.S. sugar market is in no position to absorb additional quantities of imported sugar. In combination with the commitments already made in the WTO,

NAFTA, and other trade agreements, the granting of additional, duty-free access to AGOA sugar imports would jeopardize the effective operation of the U.S. sugar program and could make it impossible to comply with the no-cost objective set by Congress. It would also undercut the Suspension Agreements negotiated with Mexico last year.

If the U.S. sugar industry were further damaged, and the operation of U.S. sugar policy further impaired by unneeded import commitments, further consolidation of domestic beet and cane production would almost certainly result, putting domestic industrial sugar users and individual consumers at much greater risk for obtaining reliable supplies. 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.

Impact on Traditional Foreign Suppliers

It should also be pointed out that the impairment of U.S. sugar policy and/or the depression of U.S. sugar prices would seriously damage the interests of the many developing countries whose sugar exports benefit from the TRQs 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. And, as noted above, additional import commitments would undercut the revised Suspension Agreements, concluded last year after very difficult negotiations, with Mexico.

The importance of maintaining a viable U.S. sugar program is clearly recognized by most of these traditional supplying countries, which have repeatedly 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.

Conclusion

We believe that the careful examination of the U.S. sugar market situation and the requirements of U.S. domestic sugar policy by the Commission would reveal that duty-free access for sugar and sugar-containing products (or indeed any additional market access commitments for these products) imported from the AGOA countries would severely damage the U.S. industry, generate large government expenditures, and make the U.S. domestic sugar program unworkable.

Thus, we believe it is important that the Commission NOT identify the U.S. sugar market as having potential to increase AGOA exports to the U.S. In order to avoid imposing further burdens on the effective operation of the U.S. sugar program, sugar and all sugar-containing products covered by the sugar TRQs should continue to be excluded from AGOA and no further commitments regarding U.S. imports of these products should be made.



Don Phillips

Trade Adviser

American Sugar Alliance

Table 1

U.S. Anti-Dumping (AD) and Countervailing-Duty (CVD) Cases vs. Mexican Sugar	
2012/13	Mexican sugar production rises by 38%; Mexican sugar exports to the U.S. double (to 2 million tons); U.S. sugar price collapses.
2014	
March	U.S. files AD/CVD cases vs. Mexican sugar.
May	U.S. International Trade Commission (ITC) preliminary finding, by 5-0 vote, that Mexico has injured the U.S. sugar industry.
August	U.S. Department of Commerce (DOC) finds that Mexico has been subsidizing and imposes preliminary CVDs at 3-17%.
October	DOC finds that Mexico has been dumping (selling below domestic cost of production or prices) and imposes preliminary ADs at 40-47%.
	U.S. & Mexican governments announce draft Suspension Agreements (SAs) to suspend duties and resume duty-free sugar trade, with Mexican exports to the U.S. no longer to exceed U.S. needs.
December	U.S. & Mexican governments sign the SAs. Mexico may fulfill 100% of U.S. import needs above trade commitments; reference prices and limit on refined share of imports set.
2015	
September	DOC finds final dumping margins of 41-42%.
October	DOC finds final subsidy margins of 6-44%. Combined final subsidy and dumping margins total 48-84%.
	ITC final finding, by 6-0 vote, that Mexico injured U.S. sugar industry.
2016	
December	DOC preliminarily determines in an administrative review of the SAs, covering 2015, that some companies may not be in compliance with the SAs and that not all statutory requirements for the SAs are still being met.
2017	
May	DOC May-1 letter to Government of Mexico states that the SAs will be terminated and duties imposed unless the U.S. and Mexican governments can reach a new agreement by June 5, 2017.
June	U.S. and Mexican governments agree to amendments to improve operation of the SAs.

Table 2

AGOA Sugar-Producing Countries*						
(Thousand metric tons, three-year average, 2014/15-2016/17)						
	Production	Imports	Consumption	Exports	Net Exports	U.S. Quota**
Angola	47	386	441	-		
Benin	10	117	183	8		
Burkina Faso	33	20	58	-		
Burundi	25	-	27	-		
Cameroon	117	64	194	-		
Central African Republic	10	-	11	-		
Chad	25	-	28	-		
Republic of the Congo	70	16	86	-		7
Democratic Republic of the Congo	75	63	148	-		
Ivory Coast	193	146	336	-		7
Ethiopia	393	302	687	-		
Gabon	30	-	39	-		7
Kenya	550	299	837	-		
Madagascar	93	111	181	22		7
Malawi	270	-	187	87	87	10
Mali	123	10	138	-		
Mauritius	418	101	55	465	364	12
Mozambique	383	84	262	207	123	14
Niger	15	6	22	-		
Nigeria	73	1,585	1,377	233		
Rwanda	15	13	30	-		
Senegal	123	109	248	1		
Sierra Leone	10	38	50	-		
South Africa	1,828	573	1,956	431		24
Swaziland	656	8	50	622	614	17
Tanzania	333	200	527	7		
Togo	5	199	204	-		
Uganda	447	29	432	45	16	
Zambia	420	-	334	82	82	
TOTAL -- 26 countries	6,790	4,479	9,128	2,210	1,286	105
Source: USDA, FAS, Nov. 2017.						202
*Other African Growth and Opportunity Act countries, non-sugar-producing, are: Botswana, Cape Verde, Comoros, Djibouti, The Gambia, Ghana, Guinea, Guinea-Bissau, Lesotho, Liberia, Mauritania, Namibia, Sao Tome and Principe, Seychelles and South Sudan.						
**Minimum access granted under the WTO.						

Table 3

Import-Quota Fill Rates of AGOA Countries*			
Country	FY 2015	FY 2016	FY 2017
Malawi	35.6% (3,744 mt)	100% (12,865 mt)	97% (14,808 mt)
Mauritius	39.5% (4,978mt)	71.8% (11,089 mt)	95% (17,338 mt)
Mozambique	100% (17,095 mt)	84.1% (14,066 mt)	100% (19,837 mt)
South Africa	100% (30,244 mt)	81.8% (24,220 mt)	100% (30,095 mt)
Swaziland	100% (21,040 mt)	98.7% (20,325 mt)	97% (23,626 mt)
*Includes increases and reallocations of TRQs.			
FY 2016 & 2017 – there was a net increase and a reallocation for all four countries.			
FY 2015 had a reallocation and only Mozambique and South Africa received some of it.			

Chart 1

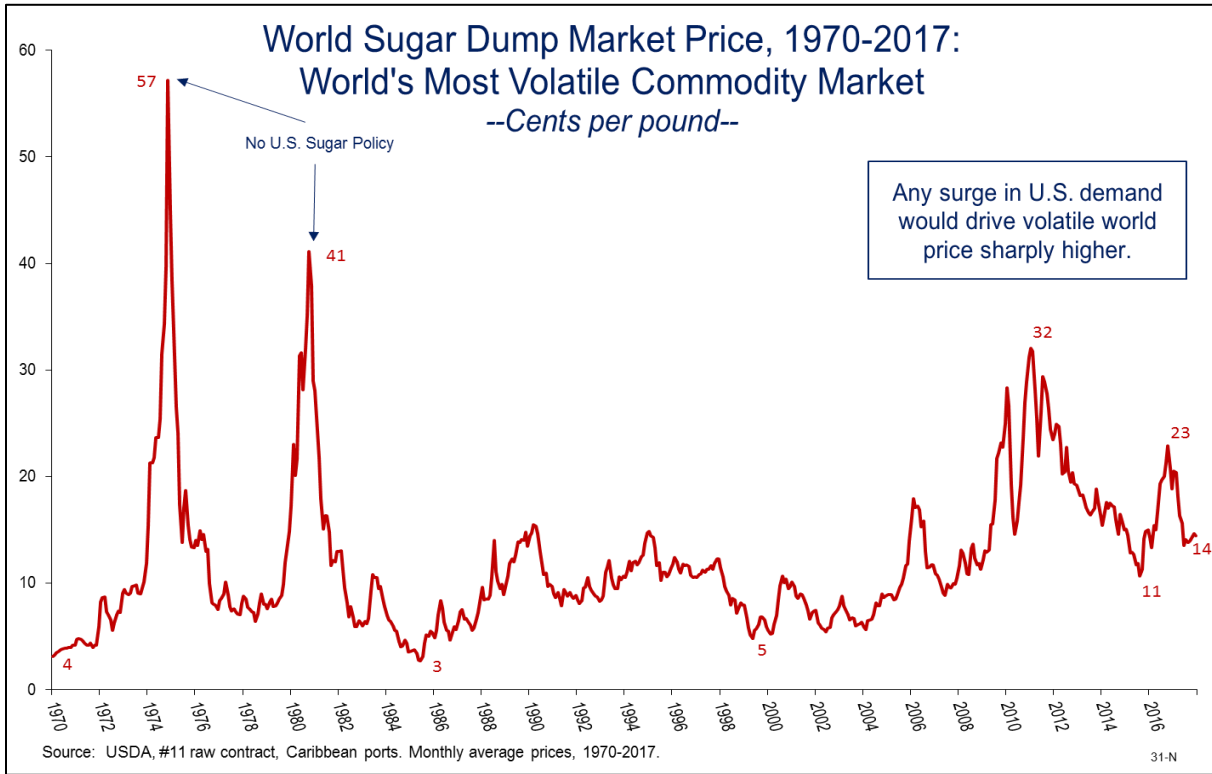


Chart 2

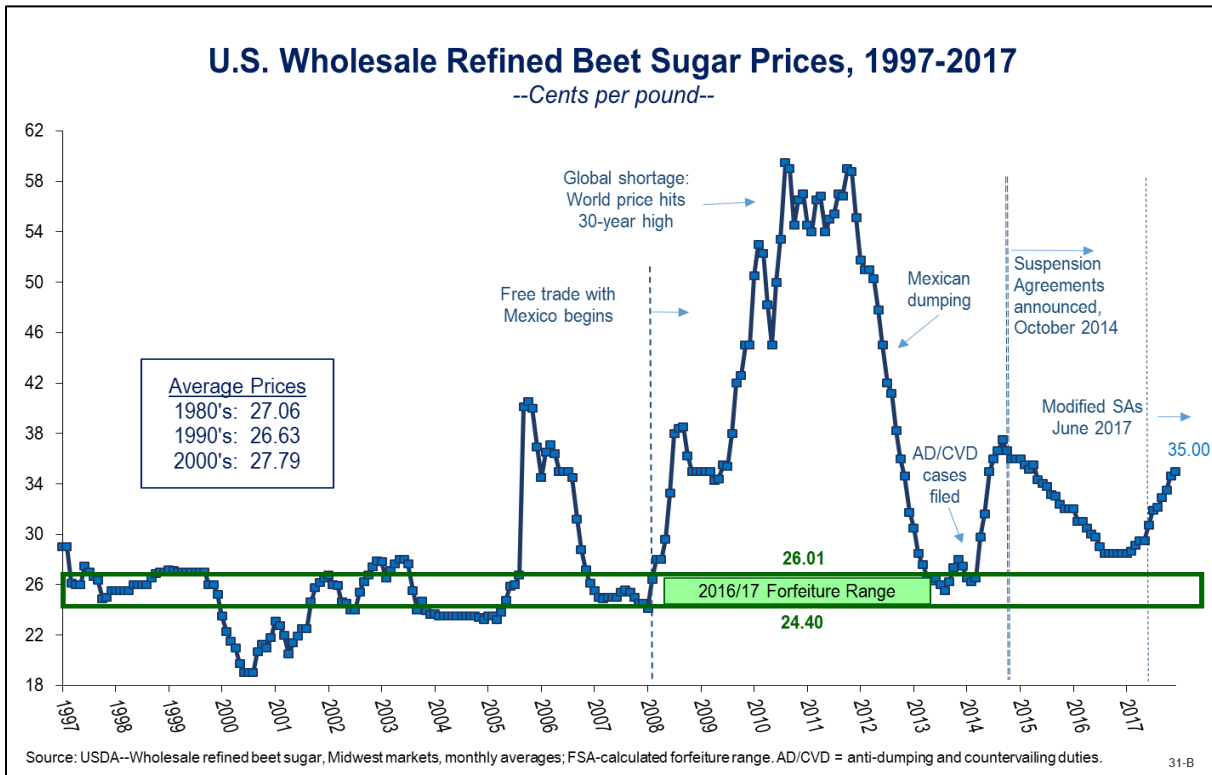


Chart 3

