ORAL TESTIMONY OF THE AMERICAN SUGAR ALLIANCE

United States International Trade Commission

AGOA: Economic Effects of Providing Duty-Free Treatment for Imports Investigation No. 332-544

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The American Sugar Alliance (ASA) is pleased to have this opportunity to provide advice to the Commission on its investigation of the economic effects of providing duty-free treatment for imports from AGOA countries.

ASA is the national coalition of growers, processors, and refiners of sugarbeets and sugarcane. Our industry supplies American consumers with a safe, reliable, and affordable source of an essential ingredient in our nation's food supply, 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.

Although highly efficient, between 1985 and 2010, the U.S sugar industry had to close 54 facilities – more than half of all U.S. sugar operations – because of low prices. In addition, growers took on substantial debt to purchase their beet and cane processing operations in order to avoid further closures. Further consolidation would cripple 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.

Here is the key point for the Commission to bear in mind in proceeding with this investigation: The trade commitments the U.S. has already made, especially in NAFTA, mean there is a high probability the U.S. market will be chronically oversupplied. Oversupply will make it increasingly difficult for the Administration to effectively operate U.S. sugar policy as it is intended by Congress – that is, at zero cost to taxpayers. The granting of duty-free access on sugar to AGOA would greatly exacerbate the oversupply situation.

Consider the current situation.

While both U.S. and world market sugar prices were at uncharacteristically high levels in 2010 and 2011, U.S. sugar prices have plummeted more than 50 percent in the past two years. In fact, when transport costs are taken into account, U.S. prices were actually below world prices most of 2013.

This situation is much more consistent with the history of the U.S. sugar market as shown in Charts 1 and 2. Typically both raw and refined prices have hovered around or below the forfeiture range – that is, the range at which forfeiture of sugar stocks to the government becomes more attractive than selling the sugar on the market.

The U.S. market has been awash in sugar over the past year. This unfortunate situation resulted almost entirely from the flood of Mexican sugar entering the U.S. market in 2012/13 – over 2.1 million short tons, double the previous year's. As a result USDA has been forced to take various actions, and removed 845,000 short tons of surplus sugar from the market. These actions, outlined in Table 1, cost the U.S. government $278 million in 2012/13.

The outlook for the 2013/14 crop year, at this point, appears only slightly better. Estimated Mexican production continues to run at a very high level (7.9 million short tons, raw value) with exports to the U.S projected at 1.75 million short tons.

In order to assess properly the oversupply situation in the U.S. market, the combined U.S. and Mexican supply and demand picture must now be consulted. The import commitments under other trade agreements – the WTO, CAFTA, Colombia, and Panama, which now total 1.5 million short tons, – must also be taken into account.

Chart 3 shows how this combined market moved markedly into the more likely condition of surplus in 2012/13. Combined U.S.-Mexican sugar production, plus U.S. import commitments, exceeded sugar consumption in the two markets in 2012/13 by 1.9 million metric tons; for 2013/14, the estimated surplus generated by Mexico and other trade commitments amounts to 1.3 million metric tons.

The Commission should also bear in mind that demands for additional sugar market access commitments are being made in our current FTA negotiations – TPP and TTIP, constituting another potential threat to the operation of the U.S. sugar program.

As clearly illustrated in Chart 4, Mexico's unrestricted access has introduced a large element of uncertainty and potential instability into the U.S. sugar market. Several factors suggest that Mexican exports will continue to disrupt the U.S. market in the coming years: the increased use of HFCS in the Mexican food and beverage industry; the recent introduction of soda and "junk food" taxes in Mexico; and the prospect that the high Mexican sugar production levels of last year and this could well prove to be the norm.

Moreover, even if Mexican production falls below recent levels, Mexico may import sugar (as they have, in fact, done in nearly every year since 2008) and maintain high levels of sugar exports to the U.S. Imports of nearly 900,000 tons in 2010/11, for example, facilitated (then) record exports to the U.S. the following year.

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. History shows the Mexican government will intervene to prevent any loss of production capacity.

Turning to AGOA, the countries included in AGOA produce nearly 7 million metric tons of sugar and export about 2 million metric tons, as Table 2 indicates. Moreover, many of these countries are planning substantial expansion of sugar production; a submission from a group of foreign suppliers put this potential expansion at over 3 million metric tons. While much of this expansion appears aimed at the EU, many observers believe that the elimination of EU sugar and isoglucose (HFS) production quotas in 2017 could make the EU once again a net sugar exporter.

Thus, the granting of duty-free access for sugar under AGOA would likely redirect a substantial portion of AGOA's export capacity toward the U.S. market, resulting in the flooding of the U.S. market with hundreds of thousands of tons of sugar from these countries.

Clearly, the U.S. sugar market is in no position to absorb such quantities. In combination with its existing trade commitments – in particular, completely unfettered exports from Mexico – increased AGOA imports would jeopardize the effective operation of the U.S. sugar program and would likely make it impossible to comply with the no-cost objective set by Congress.

In closing, let me first underscore that the need for constraints on sugar imports is not due to inefficiency on the part of the U.S. sugar industry. According to LMC International, the U.S. is the 20th lowest cost of the 95 largest sugar-producing countries. American sugarbeet growers are the lowest-cost beet sugar producers in the world.

However, as Charts 5 and 6 demonstrate the world sugar market is a chronically depressed "dump" market, with the world average cost of production averaging over 50% 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 7).

And, with the recent slump in world prices, we have seen the major players on the world sugar market – Brazil, India, Thailand, and Mexico, – scrambling to implement new policies to prop up their industries.

Under the circumstances we have described, expanding AGOA to provide duty-free import treatment on sugar imports would, barring major, unfavorable weather events in the U.S. or Mexico, create an unacceptable risk of generating loan forfeitures and the conversion of surplus sugar in the U.S. market into ethanol or other nonfood uses. Thus, it would very likely translate directly into substantial federal government expenditures – a most unwelcome result given the current budget situation.

If U.S. sugar policy were to collapse under the weight of unneeded imports, 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.

A U.S.-sugar-policy collapse would also 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.

To conclude:

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 will find that duty-free access for sugar (or indeed any additional market access commitments) 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. Owing to the sensitivity of the U.S. sugar market, sugar has been excluded from AGOA since its inception and this exclusion should continue.

Chart 1

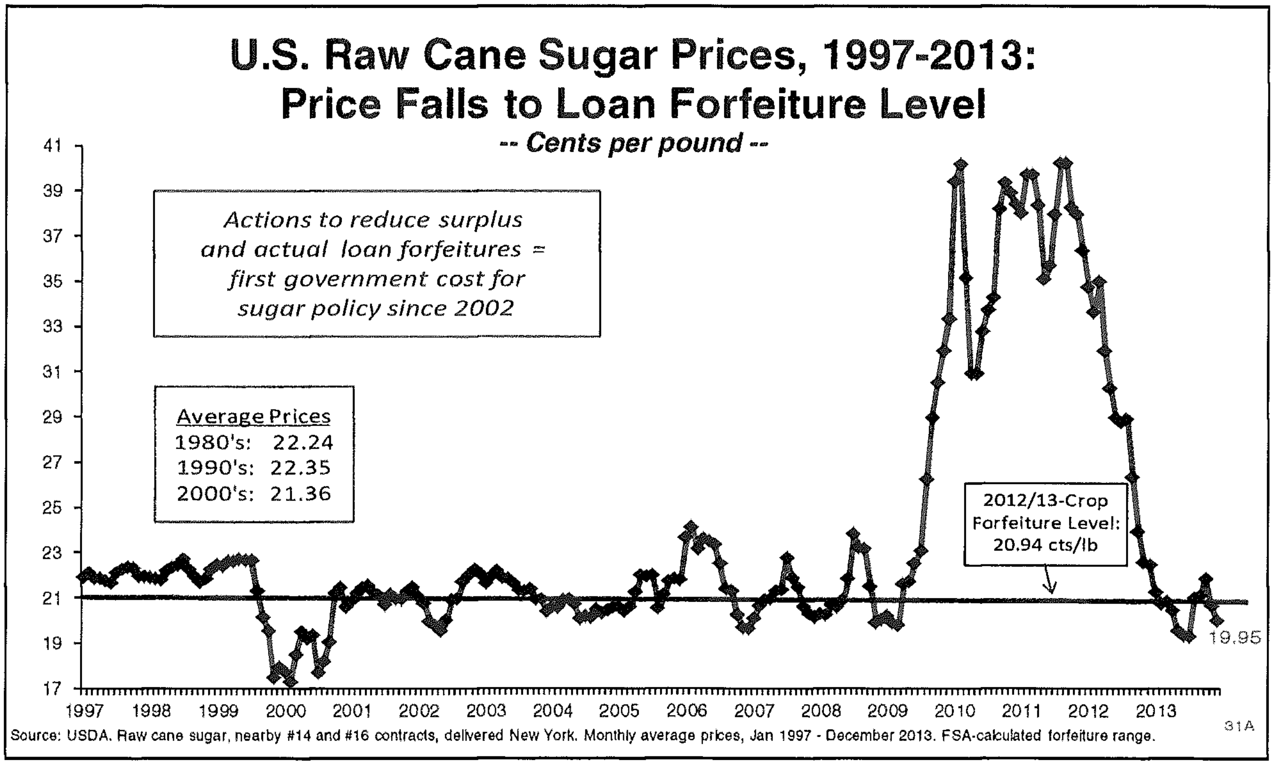


Chart 2

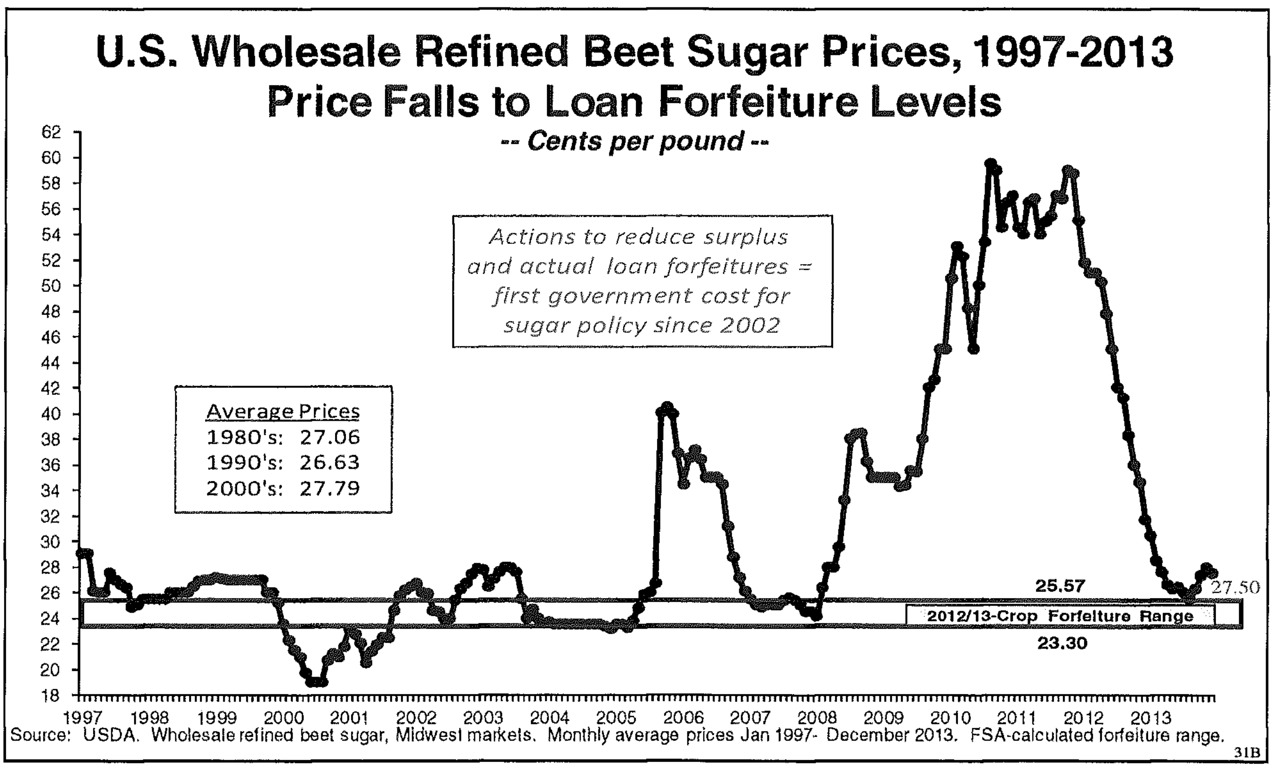


Table 1

USDA actions to remove sugar from U.S. market, 2012/13 and 2013/14

Sugar Removed	-Short tons, raw value-
2012/13	
Re-export swaps, net removal[1]	404,849
Sold for ethanol (FFP)[2]	143,144
2012/13 total	547,993
2013/14	
Forfeited sugar sold for ethanol (FFP)[3]	216,750
Forfeited sugar sold for other nonfood uses[4]	79,750
2013/14 total	296,500
Total sugar removed	**844,493**

U.S. sugar policy costs/revenues, 2012/13 and 2013/14

2012/13 costs	-Million dollars-
Purchases of sugar under loan for re-export swaps[1]	\$50.7
Purchases of sugar under loan for ethanol (FFP)[2]	\$56.0
Forfeitures	\$171.5
Total	\$278.2
2013/14 revenues	
Forfeited sugar sold for ethanol (FFP)[3]	\$11.3
Forfeited sugar sold for other nonfood uses[4]	\$8.2
	\$19.5

[1]July 11 and 31, sugar under loan purchased and swapped; September 19 and 26, forfeited sugar swapped. Some of the retired re-export import credits possibly not used until 2013/14 or 2014/15.

[2]August 30 and September 30, sugar under loan purchased and sold for ethanol under the Feedstock Flexibility Program (FFP).

[3]November 26, forfeited sugar sold under FFP.

[4]December 13, forefited sugar sold for bee and animal feed.

Chart 3

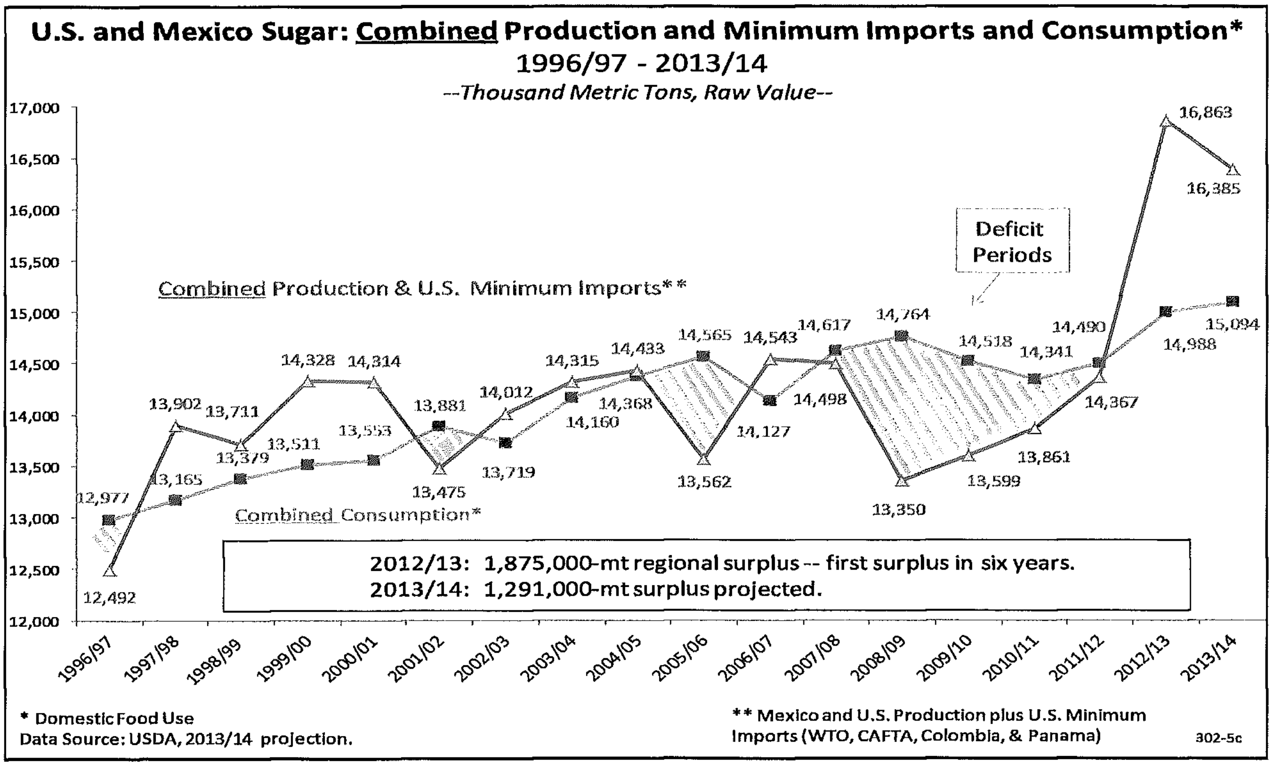


Chart 4

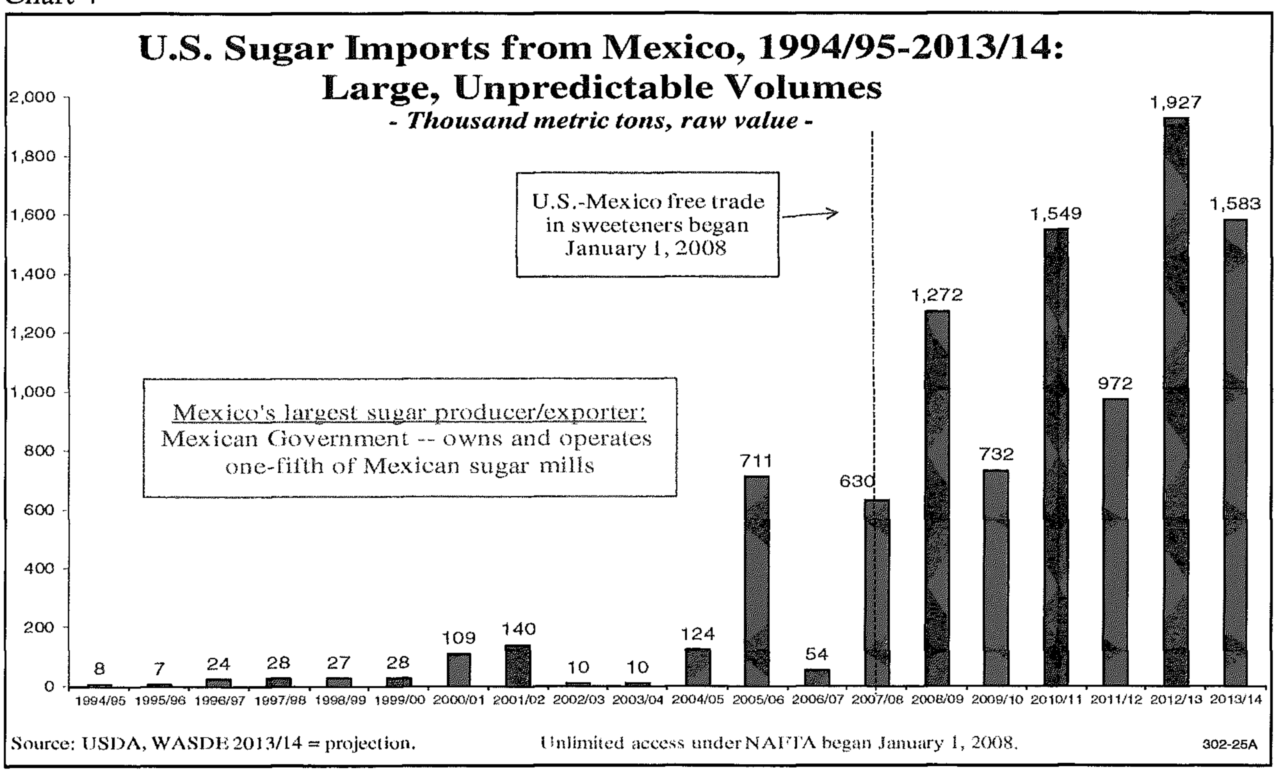


Table 2

AGOA Sugar-Producing Countries*						
(Thousand metric tons, three-year average, 2011/12-2013/14)						
	Production	Imports	Consumption	Exports	Net Exports	U.S. Quota**
Angola	50	309	359			
Benin	10	44	42	10		
Burkina Faso	30	48	77			
Burundi	20		20			
Cameroon	127	130	256			
Chad	35	49	85			
Republic of the Congo	73	25	73	34	9	7
Ethiopia	290	75	362			
Gabon	27	-	27			7
Guinea	28	107	125	10		
Kenya	500	259	760			
Liberia		25	26			
Madagascar	82	93	175			7
Malawi	330	2	276	58	56	10
Mauritius	457	23	41	382	360	12
Mozambique	424	17	179	248	231	14
Niger	15	50	65			
Nigeria	65	1,441	1,248	200		
Rwanda	13	2	15			
Senegal	107	65	170	3		
Sierra Leone	4	26	30			
South Africa	2,122	213	1,847	416	203	24
Swaziland	710		337	342	342	17
Tanzania	302	210	509	40		
Togo	5	40	45			
Uganda	347		250	101		
Zambia	432		310	122	122	
TOTAL – 26 countries	**6,604**	**3,253**	**7,708**	**1,965**	**1,322**	**98**
Source: USDA, FAS, Nov. 2013.						202

**Other African Growth and Opportunity Act countries, non-sugar-producing, are: Botswana, Cape Verde, Comoros, Djibouti, The Gambia, Ghana, Lesotho, Mauritana, Namibia, Sao Tome and Principe, Seychelles and South Sudan.*
**Minimum access granted under the WTO.

Chart 5

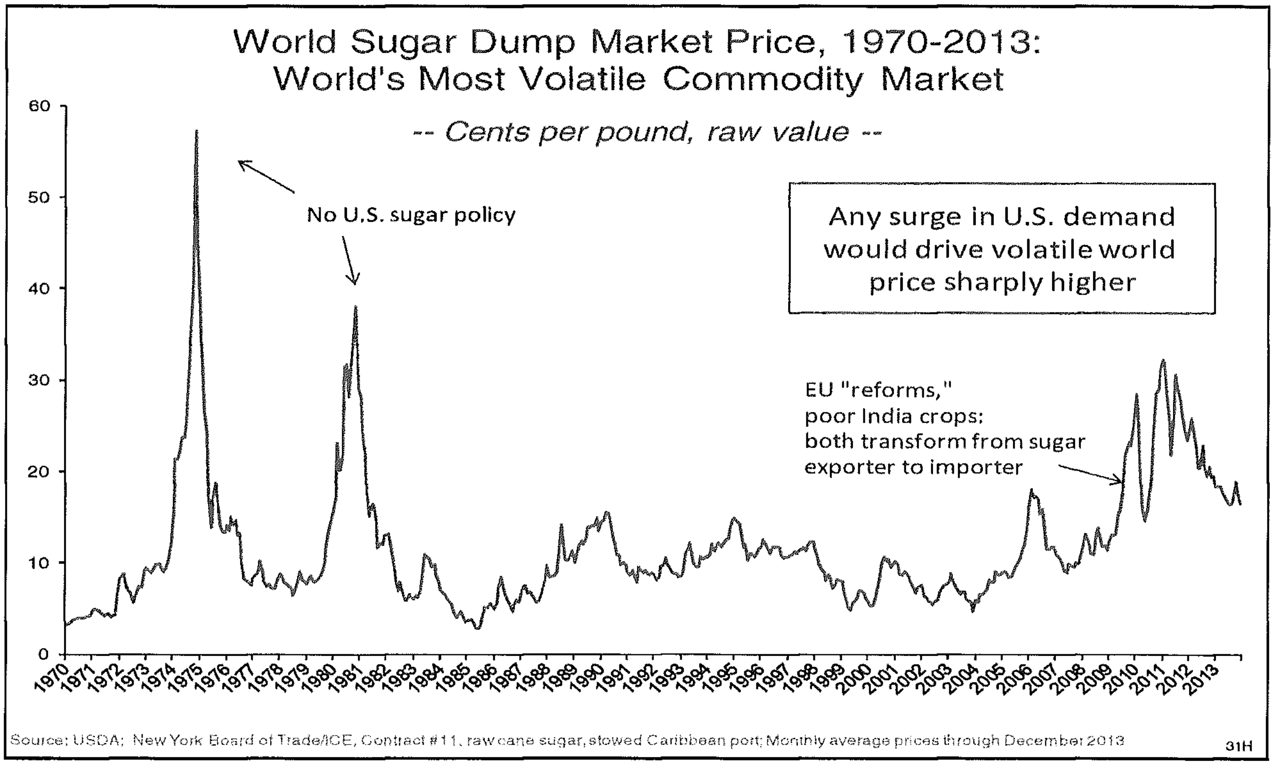


Chart 6

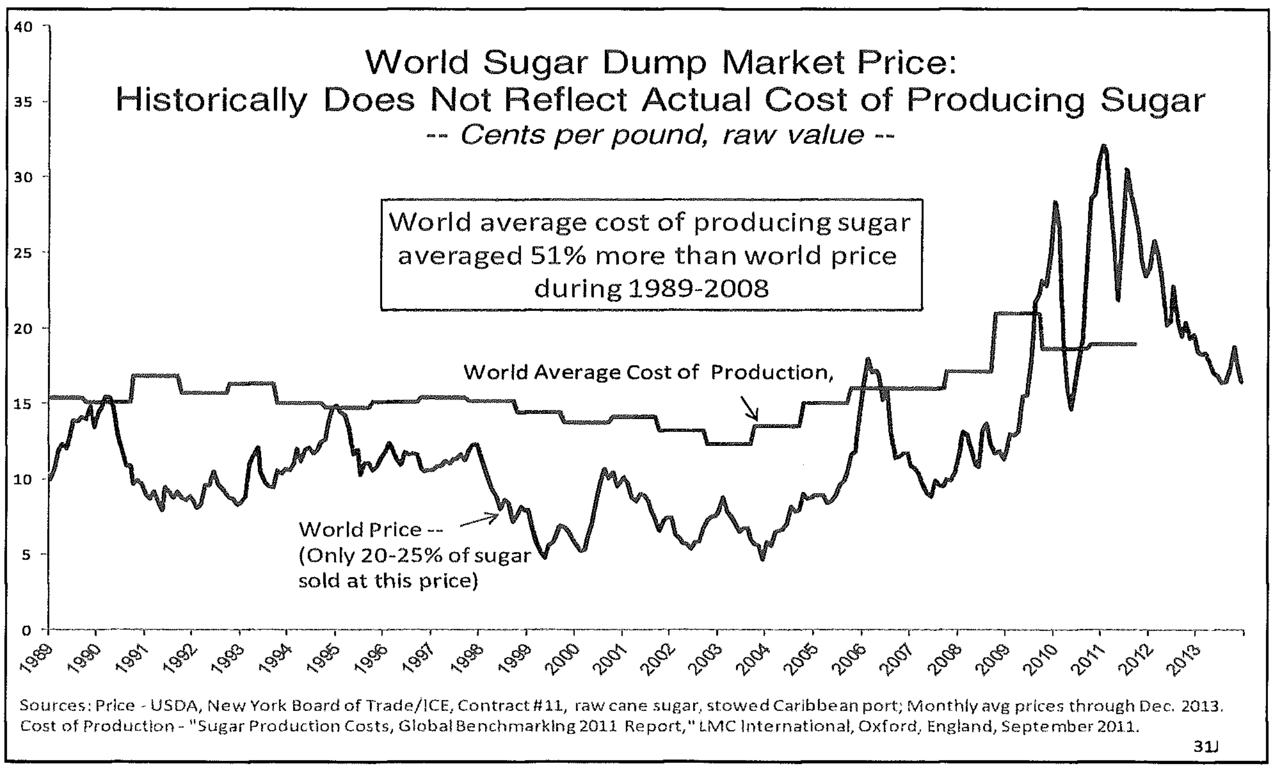
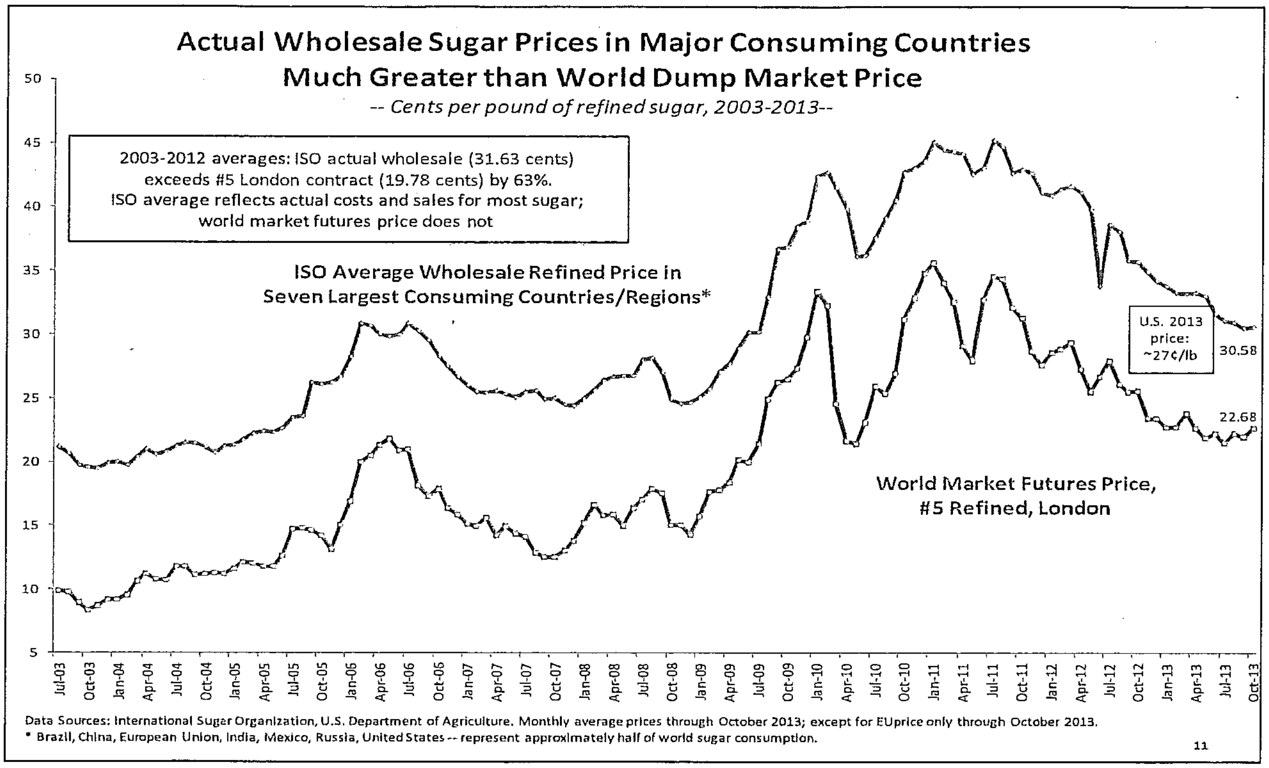


Chart 7



Actual Wholesale Sugar Prices in Major Consuming Countries
Much Greater than World Dump Market Price
-- Cents per pound of refined sugar, 2003-2013--
2003-2012 averages: ISO actual wholesale (31.63 cents) exceeds #5 London contract (19.78 cents) by 63%. ISO average reflects actual costs and sales for most sugar; world market futures price does not
ISO Average Wholesale Refined Price in Seven Largest Consuming Countries/Regions*
U.S. 2013 price: ~27¢/lb
30.58
22.68
World Market Futures Price, #5 Refined, London
Data Sources: International Sugar Organization, U.S. Department of Agriculture. Monthly average prices through October 2013; except for EUprice only through October 2013.
* Brazil, China, European Union, India, Mexico, Russia, United States -- represent approximately half of world sugar consumption.
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