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Submission on Behalf of the

SWEETENER USERS ASSOCIATION

to the

United States Trade Representative

for

TPP Employment Impact Review

Docket Number USTR-2015-0012

January 14, 2016

The Sweetener Users Association (SUA) appreciates the opportunity to present information on the employment impact of the Trans-Pacific Partnership (TPP) Agreement on the U.S. sugar and sweetener sector and the food and beverage industries that use the majority of these key food ingredients. SUA's membership includes a broad range of food and beverage manufacturers, along with the trade associations that represent these companies. We believe Congress should approve the Trans-Pacific Partnership Agreement because the TPP will bring economic benefits beyond the sweetener sector. However, the U.S. sugar program reduced the potential economic gains from the TPP Agreement. We conclude that the agreement will fail to achieve any meaningful increase in employment in the sugar-using segments of the food and beverage industry and represents a lost opportunity for these segments. Because the agreement did little to liberalize regional sugar trade, it will perpetuate the ongoing decline in employment in domestic sugar-using industries and it threatens the future viability of some domestic cane sugar refining businesses.

Objectives of trade agreements

The United States government has pursued bilateral and multilateral trade liberalization in various agreements for decades with the objective of enhancing commerce, boosting economic growth and expanding export-oriented employment. While some domestic industries assert they are adversely affected by tariff reductions or the loss of other protections against competition from imports, the overall impact of trade liberalization has been to increase the efficiency of the economy and improve the national economic welfare.

In this context, the intensely protectionist U.S. sugar program has clearly reduced the potential positive economic and employment impacts of trade agreements implemented over the last 25 years and is doing so again in the TPP context. Regardless of the party in the White House, the sugar industry has brought pressure to bear on the administration and U.S. trade negotiators to hold fast against any significant concessions on foreign access to the domestic sugar market. Unfortunately, once the United States tells other countries in trade agreement negotiations that the sugar program is sacrosanct, those countries then have a ready-made excuse to hold out against market access concessions on their specially protected agricultural sectors. The result is that the 98 percent of U.S. agriculture that does *not* produce sugar crops gets less access to foreign markets than it otherwise might have gained. The effect also spills over into the services and manufacturing sectors.

The best example and the one most often cited by observers in recent years is probably South Korea's refusal to make any concessions on admitting rice into its market as part of the U.S.-Korea FTA. The United States set the pattern in the U.S.-Australia FTA when it refused to provide any access to the U.S. market for Australian sugar. A Cato Institute analysis of the U.S. position on sugar at the time noted that "The United States, in turn, had softened demands that Australia open up in a number of protected sectors." Among these may have been the pharmaceutical industry. What the United States lost out on in the TPP Agreement may never be known, except to the negotiators involved.

Sugar provisions in the TPP agreement

Various countries offered minor concessions on market access for sugar and sweeteners in the agreement. Those offered by the United States and its negotiating partners can be summarized as follows:

For Australia:

- Of the 65,000 metric tons of new U.S. market access for Australia – 60,500 tons will be raw sugar and 4,500 tons will be sugar goods. These amounts are commercial weight, not raw value, and will enter duty-free;
- The additional 60,500 metric tons of access represents a 69% increase over current Australian quota access of 87,402 metric tons provided to Australia under WTO commitments;
- For both categories, the Australian government will issue export certificates; and
- The TPP also provides Australia with 23% of any future additional quota allocations for raw sugar announced by the U.S. Secretary of Agriculture, up from 8% currently.

The 23% additional quota for Australia will occur in years when the Secretary of Agriculture determines there is a need to import additional sugar into the U.S market. Although the new U.S. market access is small for Australia, the expanded access will help provide some additional sugar earlier in the marketing year that is much-needed by U.S. food companies.

There are also a number of side letters to the TPP agreement and one of them is on sugar – the Australian Trade Minister sent a letter to USTR Froman, who acknowledged that it provides that "Upon the request of either party after the 9th year after entry into force of the TPP agreement between the United States and Australia, the parties shall consult on global supply and demand conditions for sugar to consider the possibility of modifying market access commitments for sugar…of the TPP agreement."

For Canada:

- It provides duty-free access to an additional 9,600 metric tons of refined sugar of Canadian beet origin for the U.S. market, a doubling of the current quota access of

10,300 metric tons provided by WTO commitments after one converts it to raw value;

- The TPP also provides Canada with 20% of any future additional quota allocations for refined sugar announced by the U.S. Secretary of Agriculture and this refined sugar may also be processed from imported raw cane sugar;
- The TPP provides new duty-free access for 9,600 metric tons of sugar-containing products from Canada. This new access is on top of Canada's current 59,250 metric ton access for such products; and
- Canada may issue export certificates for the sugar-containing products.

<u>For Chile:</u>

- Chile will have duty-free treatment for its exportable surplus of raw or refined beet sugar, corn sweeteners, and blends of sugar with cocoa or dairy; and
- However, these imports into the United States count against any imports under the U.S.-Chile FTA, so there is no additional market access.

<u>For Japan</u>:

- Japan gains duty-free access for 100 metric tons of sugar goods to the U.S. market;
- Japan will create new quotas for 6 sugar-containing products; and
- The agreement provides new duty-free or preferential tariff access to the Japanese market for many sugar and sweetener-related processed products, including chewing gum, chocolates and products containing chocolate, other confectionary products, and food preparation items through multiple duty-free TPP-wide TRQs that expand to total nearly 95,000 tons by year 11 of the agreement.

<u>For Malaysia</u>:

- Malaysia gains duty free access to the U.S. market for raw and refined sugar and sugar-containing products for 500 metric tons annually; and
- The TPP immediately eliminates Malaysian tariffs on sugar products that are currently as high as 10%.

For Peru:

- o The TPP gives Peru access for 10,260 metric tons, raw value, beginning in 2016 and rising by 180 metric tons per year, limited by an exportable surplus calculation;
- o The U.S. may regulate this access with certificate of quota eligibility (CQEs);
- o The TPP also provides a 2,000 metric ton quota for specialty sugars; and
- o As with Chile, these imports count against the quantity of goods imported into the United States under both the U.S.-Peru FTA and the TPP.

For Vietnam:

- o Vietnam gets a 1,500 metric ton quota for raw or refined sugar, or a variety of sugar goods; and
- o All sugar-containing product tariff lines for Vietnam are fully liberalized.

Our views on the sugar provisions

We appreciate the fact that sugar trade was addressed by our negotiators. However, the additional access to the U.S. sugar market offered to TPP partner countries is negligible and does little to liberalize regional trade in sugar. The TRQs offered by the United States are either small or provide little additional raw sugar access beyond that in existing FTAs. Instead, we believe that the United States should be taking a leading role in eliminating protectionist practices that distort world sugar trade.

The U.S. sugar program has been a major factor causing job declines in food and beverage industries dependent on sugar as an ingredient. Between 1997 and 2014, these sectors have experienced an employment decline of more than 132,000 jobs – an 18.5% reduction over that period. The decline has been steady and relentless. This calculation is based on Commerce Department data published in the Economic Census and the Annual Survey of Manufacturers. Details by industry are provided in Table 1. In contrast, food and beverage industries that do not rely on sugar to any significant degree experienced a 4% increase in employment over that period. While many factors can affect employment trends in different parts of the economy, the only significant difference between these sectors is their degree of dependence on sugar as an ingredient.

Table 1: Employment in U.S. Food and Beverage Industries

Industry	1997	2014	Absolute change	% change
Sugar-using industries				
Breakfast cereal mfg	14,396	11,556	-2,840	-19.7%
Choc. & confec. Mfg. from cacao beans	9,946	6,636	-3,310	-33.3%
Confec. Mfg from purchased choc.	32,871	30,492	-2,379	-7.2%
Nonchocolate confectionary mfg.	25,512	17,815	-7,697	-30.2%
Frozen food mfg.	94,192	88,059	-6,133	-6.5%
Fruit & veg canning, pickling., & drying	97,384	74,532	-22,852	-23.5%
Ice cream & frozen desert mfg.	19,786	18,201	-1,585	-8.0%
Bread & bakery product mfg.	222,596	172,052	-50,544	-22.7%
Cookie, cracker & pasta mfg	64,401	50,333	-14,068	-21.8%
Snack food mfg	46,609	48,713	2,104	4.5%
Flavoring syrup & concentrate mfg	6,243	7,370	1,127	18.1%
Soft drink & ice mfg	83,256	58,966	-24,290	-29.2%
Sub-total	**717,192**	**584,725**	**-132,467**	**-18.5%**
Other food & beverage				
Animal food mfg.	46,651	44,260	-2,391	-5.1%
Flour milling & malt mfg	17,877	17,346	-531	-3.0%
Starch & veg fats & oils mfg	26,970	22,734	-4,236	-15.7%
Dairy product (except frozen) mfg	112,082	113,955	1,873	1.7%
Animal slaughtering & processing	464,991	476,944	11,953	2.6%
Seafood product prep & packaging	40,763	32,394	-8,369	-20.5%
Tortilla mfg	11,303	16,252	4,949	43.8%
Coffee & tea mfg	12,895	16,868	3,973	30.8%
Seasoning and salad dressing mfg	26,055	29,352	3,297	12.7%
All other food mfg	56,886	65,065	8,179	14.4%
Breweries	34,251	30,080	-4,171	-12.2%
Wineries	18,193	37,359	19,166	105.3%
Distilleries	6,417	7,808	1,391	21.7%
Sub-total	**875,334**	**910,417**	**35,083**	**4.0%**
Sugar manufacturing				
Sugar manufacturing	16,547	13,415	-3,132	-18.9%
Total food & beverage	**1,609,073**	**1,508,557**	**-100,516**	**-6.2%**

Source: U.S. Census Bureau, Economic Census & Annual Survey of Manufactures

While some argue that national sugar policy preserves jobs in sugar production, a Commerce Department study in 2006 concluded that "For each one sugar growing and harvesting job saved through high U.S. sugar prices, nearly three confectionery manufacturing jobs are lost."[1]

SUA is also concerned that the TPP Agreement does almost nothing to help U.S. cane sugar refiners. The lack of significant additional access to foreign raw sugar for domestic cane sugar refiners is troubling because these facilities are operating at an unacceptably low level of capacity utilization that threatens their future viability and employment in that industry. The recent announcement that the last Hawaiian producer of raw cane sugar will end its production means that U.S. cane refineries may see their capacity utilization slip still further. The cane sugar refining industry is critical infrastructure for the domestic food system, serving as the shock absorber whenever there is a poor sugar beet crop or some other disruption to sugar supplies.

Growing demand for foods that are not genetically engineered (GE) is also creating additional demand for cane sugar that cannot be met by domestic beet sugar manufacturers. In this regard, the role of cane refiners – and the need to keep them adequately supplied – is likely to become even more critical in the years ahead.

The US offers to Australia and Canada were particularly disappointing. Australia is one of the world's most important and efficient raw sugar exporters and one of the most reliable suppliers of sugar to the United States under the WTO quota. The Australian sugar industry operates free of government subsidies, and this agreement missed a chance to reward such exemplary trade behavior. Similarly, Canada's beet sugar industry is right next door and could be supplying additional refined sugar to customers in the United States.

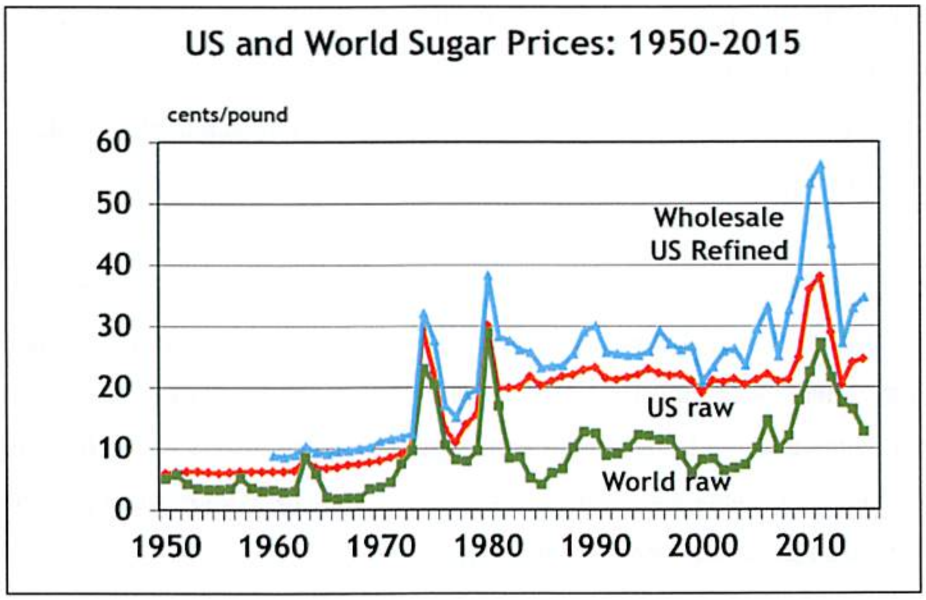
U.S. sugar production is less than 75% of annual requirements. U.S. imports of sugar have exceeded 3 million short tons, raw value, in each of the last 7 years, averaging almost 3.5 million tons. Sugar imports will be at that level again during the current fiscal year. Since the sum of

[1] International Trade Administration, U.S. Department of Commerce, "Employment Changes in U.S. Food Manufacturing: The Impact of Sugar Prices", February 2006, page 2

existing WTO and FTA sugar TRQs is less than 1.6 million short tons, there is no reason why the United States should not have provided greater assured minimum access to the U.S. sugar market for reliable trading partners like Australia and Canada. This would have helped ensure a reliable and reasonably priced supply of sugar for consumers and food and beverage manufacturers. Moreover, if the United States had exhibited a greater willingness to reduce its sugar trade barriers, we would have been able to negotiate better access for our own products and services to partner country markets.

The degree and duration of U.S. protection of its domestic sugar crop producers and processors is readily apparent in Figure 1, which compares the price of raw sugar in the United States to the world market price since the 1950s. The high price threshold for raw sugar also supports the price of refined sugar in the domestic market, which is what consumers and food and beverage manufacturers actually pay.

Figure 1



Source: http://www.ers.usda.gov/data-products/sugar-and-sweeteners-yearbook-tables.aspx

Impact of trade agreements

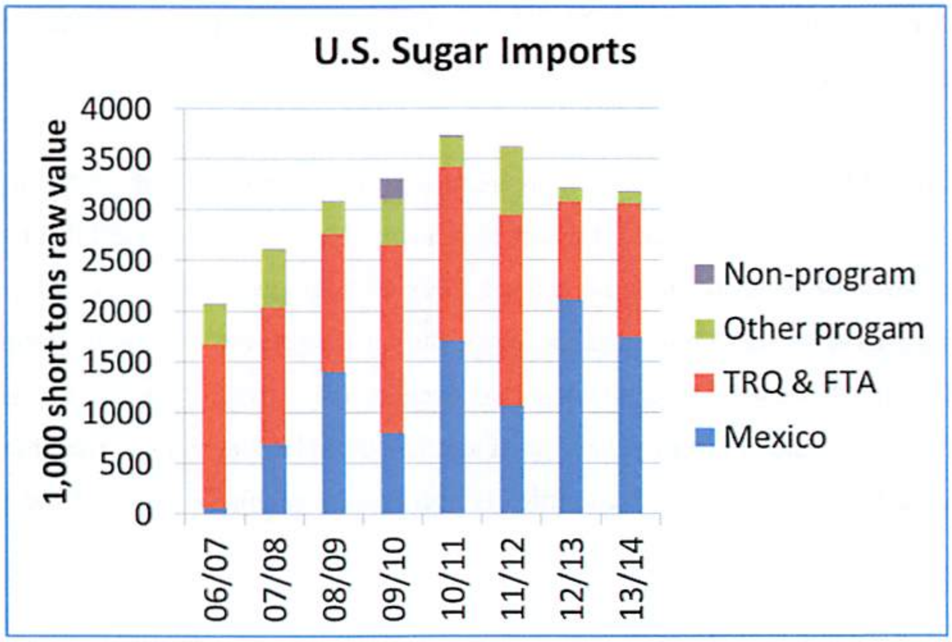
The very small degree of additional access to sugar from TPP trading partners – a mere 72,200 metric tons in aggregate, well below 1% of total annual use – continues a counter-productive policy of maintaining excessive protection of the domestic market. During the Uruguay Round, the United States agreed to tariff-rate quotas (TRQs) of 1,117,195 metric tons, raw value (MTRV) for raw sugar and 22,000 MTRV for refined sugar. This represented 13.5% of domestic disappearance in 1993/94.

Free trade with Mexico proved to be a more significant development for the U.S. sugar market than the Uruguay Round agreement. Over the six marketing years following full liberalization, 2008/09 to 2013/14, U.S. sugar imports from Mexico averaged almost 1.4 million MTRV, representing 13.1% of the higher disappearance during that period. A third group of FTAs negotiated with 18 countries over the last two decades collectively provides access to about 200,000 MTRV of sugar, a quantity that rises about 15,000 MTRV annually. The ultimate effect of negotiating FTAs with these 18 countries is access to a negligible 1.8% of the U.S. sugar market.

A significant portion of the imports from Mexico went to coastal cane sugar refineries, but some also came in as fully refined sugar or less processed forms suitable for direct use. This period of free sugar trade came to an end in 2014 with the imposition of anti-dumping and countervailing duties against Mexican sugar and the subsequent negotiation of suspension agreements that in effect assigned Mexico a variable TRQ. These agreements have made it much more difficult for cane refiners to access raw material from Mexico.

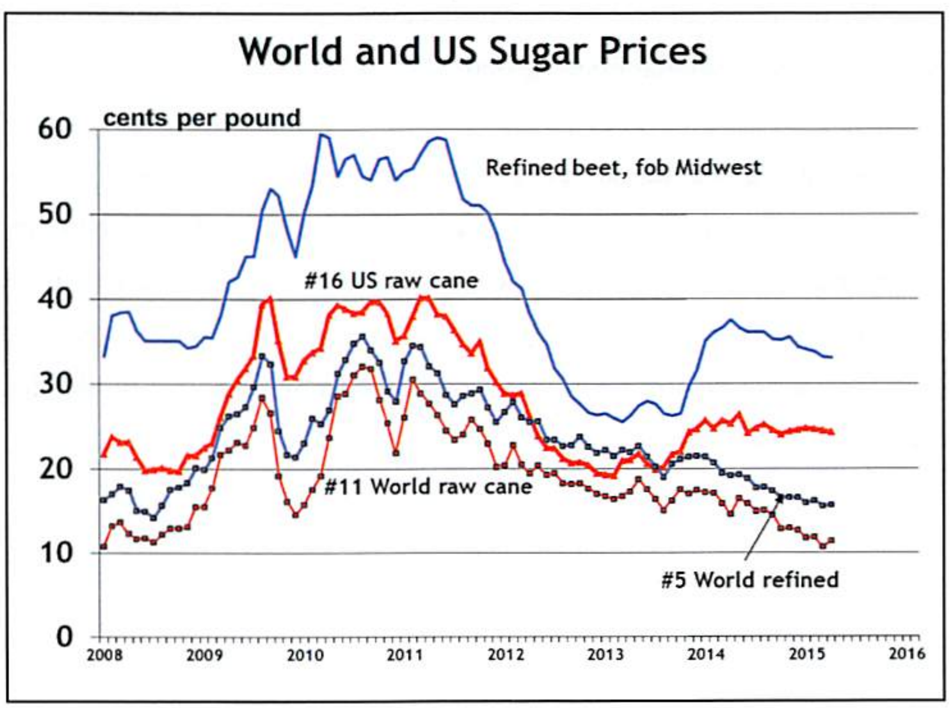
The relative importance of the various categories of sugar imports in recent years is shown in Figure 2. The "other program" category is for sugar that enters for refining and re-export either as refined sugar or in sugar-containing products. The non-program category is sugar for which importers pay the normally prohibitive duty of about 16 cents per pound. Total sugar imports into the U.S. market averaged about 3.4 million short tons, raw value (3.1 million MTRV) over the six-year period of free trade with Mexico.

Figure 2



Yet the pernicious effect of the 16-cent-per-pound tariff wall remains quite evident in Figure 3's comparison of U.S. and world market refined sugar prices. The gap between the two has often been equal to the tariff plus transportation costs and has essentially been a tax on consumers.

Figure 3



U.S. sugar policies have traditionally limited U.S. cane sugar refiners' imports of raw sugar, putting refiners at a competitive disadvantage relative to producers of beet sugar. The failure of most recent FTAs to increase access to the U.S. sugar market as consumption has risen has made the raw sugar supply situation more problematic for refiners.

Unfortunately, the terms of the U.S.-Mexico suspension agreements have already made it more difficult for U.S. cane refiners to supply sufficient amounts of refined cane sugar this year and may threaten the future viability of one or more refineries. These suspension agreements create a powerful incentive for Mexico to supply as much sugar as possible in the higher-priced sugar category with approximately a 4-cent-per-pound premium to the minimum price for Mexican raw sugar. Some of this sugar, sold for direct consumption, competes directly with the final product sold by cane refiners. Other Mexican sugar requires further refining for most commercial purposes, yet because of its polarity it can be sold at the higher of the two minimum prices, making it unaffordable as a raw sugar feedstock for U.S. cane refineries.

SUA believes that a viable and competitive cane refining sector is fundamental to America's food security, and is especially critical to the smooth operation of those segments of the U.S. food industry that use sugar. These industries employ some 600,000 Americans.

A relatively new factor that underscores cane refining's importance is the growing demand for ingredients that do not contain genetically modified organisms (GMOs). SUA believes that biotechnology has provided important benefits to sugar beet farmers, and supports their ability to make their own choices about varieties. Moreover, there is no doubt that GMOs on the market today are safe. However, consumer preferences are also a factor that many food companies will take into account. Given these market realities, it is essential that cane sugar refiners have sufficient access to imported raw sugar to meet growing demand for their products. To the degree that FTAs unduly restrict such access, threatening the viability of these essential businesses, the economic impact on the country will be strongly negative.

The Sweetener Users Association has supported every U.S. effort at trade liberalization and will continue to do so. The members of the association believe that freer trade is beneficial to their industries and to the nation's economy. We believe Congress should approve the Trans-Pacific Partnership Agreement because the TPP will bring economic benefits beyond the sweetener sector.

However, one can only conclude that the U.S. sugar program reduced the potential economic gains from the TPP Agreement. We conclude that the agreement will fail to achieve any meaningful increase in employment in the sugar-using segments of the food and beverage industry and represents a lost opportunity for these segments. Because the agreement did little to liberalize regional sugar trade, it will perpetuate the ongoing decline in employment in domestic sugar-using industries and it threatens the future viability of some domestic cane sugar refining businesses.