SWEETENER USERS ASSOCIATION

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Testimony

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Public Hearing

Negotiating Objectives Regarding Modernization of the North American Free Trade Agreement with Canada and Mexico

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The Sweeteners Users Association (SUA) commends the office of the U.S. Trade Representative (USTR) for soliciting comments and testimony from the various sectors of the economy on the negotiating objectives for modernizing the North American Free Trade Agreement (NAFTA) with Canada and Mexico. We welcome the opportunity to testify today on the views of SUA members on the most important objectives for the sweetener sector.

The stakes for all export-dependent U.S. agricultural products are high, with 20% of U.S. farm output being absorbed by overseas markets. Of all the countries in the world, only China imported a greater value of U.S. agricultural goods than our two NAFTA partners.

The sweetener trade has also grown, benefitting U.S. farmers and others. This trade has been a two-way street. In the most recent ten fiscal years, the United States sweetener sector -- including both sugar and corn sweeteners - had, on average, a trade surplus with Mexico, not a trade deficit. In total, the value of U.S. sweetener exports to Mexico at $6.35 billion actually exceeded the value of sweetener imports from Mexico over the period FY 2007-2016.

The U.S. sugar lobby tends to see the basic problem with NAFTA sugar trade as being Mexico's ability to sell sugar into our market free of quotas. Of course, the absence of trade restraints is the most fundamental concept underlying all free trade agreements, but the sugar lobby has always wanted to be a special case, arguing that normal principles of market economics that are valid everywhere else in the U.S. economy somehow cease to be relevant as soon as sugar comes under consideration.

In fact, U.S. sugar policy artificially pushed prices higher and thereby helped create powerful incentives for Mexico to ship maximum quantities of sugar to the U.S. market. First, the combination of price supports, import quotas and marketing allotments in domestic sugar policy keep U.S. prices well above world market prices. Second, the 2008 Farm Bill increased sugar price supports just as NAFTA's sugar access provisions were being implemented. Third, U.S. sugar interests pressured the previous Administration to operate the sugar program in ways that artificially spiked U.S. sugar prices. Eventually U.S. prices in this period (2009/10) were so high that approximately 200,000 short tons of sugar were imported *and paid the normally prohibitive over-quota tariff because it was cheaper to pay the prohibitive duty than to pay irrationally high domestic prices, if domestic sugar was even available.*

Another consequence of U.S. sugar policy that distorts the domestic market is its encouragement of a large increase in net imports of sugar-containing products (SCPs). While we continue to protect the sugar industry, all of the various multilateral and bilateral trade liberalization efforts in recent decades have gradually reduced or eliminated barriers to manufactured products such as food and beverages. The United States was once a net exporter of sugar in SCPs, but it is estimated that net *imports* of sugar in SCPs will exceed one million tons in the current fiscal year. The jobs involved in producing those SCPs could have been here, but now are abroad.

In establishing agricultural negotiating objectives for NAFTA modernization, the Administration should follow the principle that no current access for U.S. agricultural products in Canada or Mexico should be sacrificed, whether consciously or as a foreseeable consequence of U.S. efforts to restrict access for Canadian or Mexican products. Similarly, the U.S. should not attempt to restrict market access for merely protectionist reasons. Such a strategy would undoubtedly backfire on an export-reliant U.S. agricultural economy.

Sweetener negotiating objectives should expand, not restrict trade. Unfortunately, the modifications to the U.S.-Mexico suspension agreements, announced three weeks ago, would, if implemented, make it very difficult to expand trade. We recognize that USTR will be negotiating, not the suspension agreements, but the market conditions that could be obtained under NAFTA itself to benefit the U.S. economy. In this context, we recommend the following sweetener objectives:

1. Expand sweetener trade with a separate tariff-rate quota for Mexican sugar that would operate outside the suspension agreement regime. This special TRQ would be in addition to the minimum TRQs for other WTO members.
2. Mexico should again permit U.S. sugar to enter duty-free under the refined Sugar Re-Export program and Mexico's IMMEX program. This trade will benefit both nations.
3. Provide additional access for Canadian refined sugar. At a minimum, the cumulative access agreed to in the Trans-Pacific Partnership negotiations should be provided to Canada under any new NAFTA agreement.

SUA appreciates this opportunity to testify today. In conclusion, we strongly urge USTR to take into account the needs and opportunities of the entire U.S. farm and food sector, including the vast majority of that sector that can export efficiently, but can also be harmed, directly or indirectly, by sugar protectionism.