SWEETENER USERS ASSOCIATION

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May 10, 2017

Mr. Patrick Kirwan
Director
Trade Promotion Coordinating Committee Secretariat
U.S. Department of Commerce
1401 Constitution Avenue, NW
Washington, DC 20230

RE: Comments Regarding Causes of Significant Trade Deficits for 2016

Dear Mr. Kirwan:

These comments represent the views of the Sweetener Users Association (SUA) on the causes of significant trade deficits, and respond to the invitation for public comments published in the Federal Register, Vol. 82, No. 72, pp. 18110-18111 on April 17, 2017. The comments pertain primarily to sugar and sugar-containing products, and so are pertinent to all articles classified in Chapter 17 of the Harmonized Tariff Schedules of the United States (HTSUS), as well as to certain articles classified in Chapters 18, 19 and 21. These articles are described in Additional U.S. Notes 5, 7, 8 and 9 of Chapter 17.

About SUA and Its Members
SUA's members are the companies that use sugar and other caloric sweeteners in manufacturing food and beverages, as well as trade associations representing these companies. Many SUA member companies export their products around the world, and also rely on imported sugar as a vital component of their supply chains, so they are deeply interested in the issues raised by Executive Order 13786 of March 17, 2017, and the Department of Commerce's (DOC) subsequent call for comments on trade deficits with Canada, China, the European Union, India, Indonesia, Japan, Korea, Malaysia, Mexico, Switzerland, Taiwan, Thailand, and Vietnam.

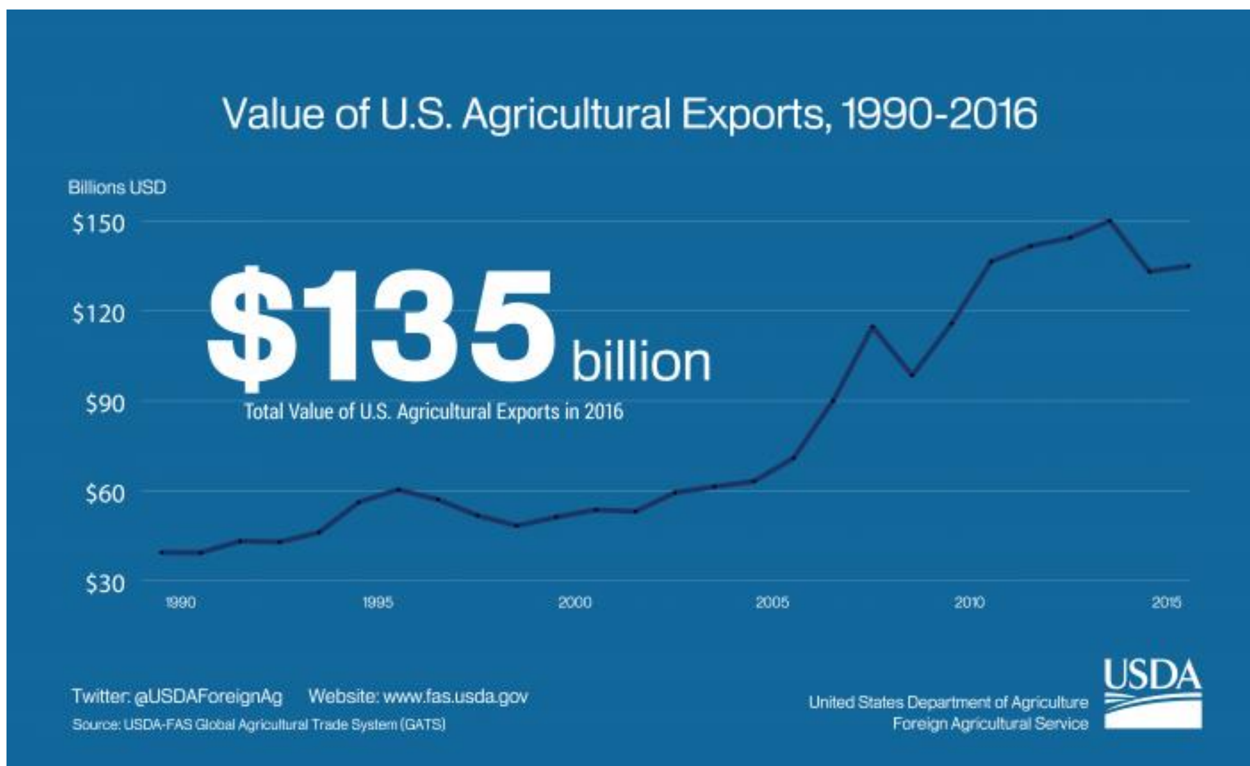
Overview

The Administration's inquiry into the causes of significant trade deficits affords an opportunity to consider the deleterious effects of U.S. sugar policies on the export prospects of other U.S.

agricultural commodities. If past trade agreements have often failed to completely open foreign markets to U.S. farm goods, one reason is that the United States negotiates with one hand tied behind its back, due to the overriding political imperative to protect the U.S. sugar industry and insulate it from competition. By permitting our trading partners to retain more of their trade barriers than would be the case otherwise, U.S. negotiators' imperative to protect sugar has reduced the gains from trade agreements and indirectly driven up trade deficits with these countries. We will first explain the importance of exports to the U.S. farm and food sector, and then draw the contrast with sugar.

U.S. Agricultural Exports

Although the overall U.S. deficit in trade in goods is well-known, the agricultural sector is perennially a net exporter, and thus a contributor to keeping the economy-wide trade deficit significantly below where it would otherwise be. In 2016, U.S. agricultural exports were valued at $135 billion, slightly below the record level of a few years before, but continuing a long-term uptrend, according to the U.S. Department of Agriculture. In 2017, USDA forecasts an agricultural trade surplus of $21.5 billion, up from $16.6 billion in 2016.



Agriculture as a Net Exporter

The macroeconomic impacts of trade deficits and surpluses are debated by economists, and a trade deficit is not, in and of itself, evidence of cheating or sharp practice on the part of one's trading partners. However, to the extent that trade deficits are viewed as a problem, U.S. agriculture represents a tremendous success. As a nation, we feed ourselves and much of the world. The sector generates, year in and year out, billions of dollars more in foreign exchange than we send overseas. Having a comparative advantage in most agricultural commodities, the U.S. exploits that advantage by selling its farm goods and food products to nearly every country on earth.

As a net exporter, U.S. agriculture is more exposed to changes in trade policy and macroeconomic forces than some other industries. The Administration should conduct its trade and fiscal policies with this dependence in mind. The current downturn in the farm economy, which has persisted for several years, would be far worse without export markets.

Whether measured by volume or value, U.S. agriculture relies on overseas markets to absorb about 20% of its output. However, for the major U.S. commodities – especially those grown in the heartland between the coasts – export dependence tends to be higher, in some cases much higher. According to USDA, the export share of total production for selected commodities is –

- Wheat, 44%;
- Rice, 49%;
- Soybeans, 47%;
- Cotton, 77%; and
- Pork, 22%.

For the farmers and ranchers who produce these crops and livestock, trade policy is not a theoretical matter. They strongly support efforts to open foreign markets, especially where those are closed by unfair trade barriers, but they are also painfully aware of how foreign governments have often retaliated against U.S. agriculture in trade disputes, including disputes not involving agricultural products.

Destinations for U.S. Agricultural Exports

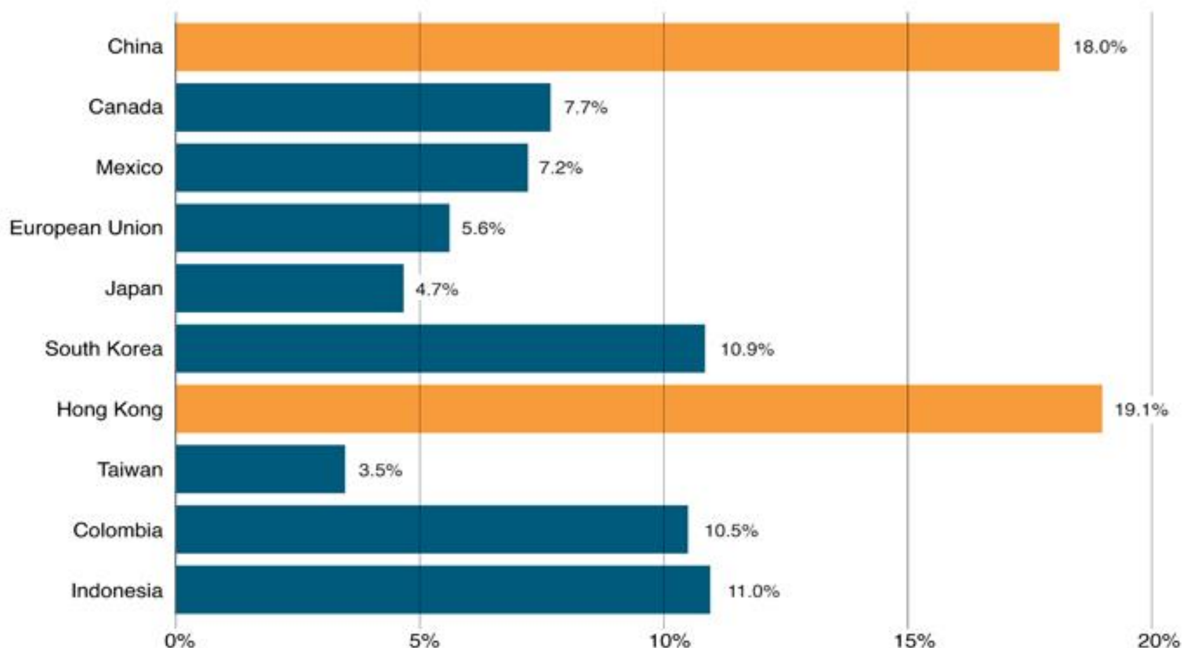
For U.S. agriculture, the list of countries with which the United States has "significant trade deficits" is a familiar one because most are significant markets for American products. The top five destinations for U.S. agricultural exports in 2016 were, in order, Canada, China, Mexico, the European Union and Japan. Should the United States get into a tit-for-tat retaliatory situation with any of these countries, American farmers and food manufacturers would likely be among the first to suffer.

Interestingly, USDA's Foreign Agricultural Service presents data showing that U.S. exports to several of the countries identified in the Presidential proclamation have grown at a rapid pace. In particular, as the graphic below shows, U.S. agricultural exports between 2005-2015 grew at an average pace of –

- 7.7% to Canada;
- 18.0% to China;
- 5.6% to the European Union;
- 11.0% to Indonesia;
- 4.7% to Japan;
- 10.9% to South Korea;
- 7.2% to Mexico; and
- 3.5% to Taiwan.

The Administration needs to be keenly aware of the fact that the listed countries, while they enjoy overall trade surpluses with the United States, also represent markets for U.S. farmers and food manufacturers – and markets, moreover, that in many cases have grown at a healthy clip over the past decade. Singling out these countries for adverse action merely because of their trade deficits would put at risk the success that U.S. agriculture has had in selling products to them. These sales not only help U.S. farmers at a time of significant financial stress, but also contribute to better nutrition and wider dietary choices in developing countries.

Average Annual U.S. Ag Export Growth Rate, 2005-2015



Website: **www.fas.usda.gov**
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United States Department of Agriculture
Foreign Agricultural Service

U.S. Sugar Sector and Policy

The first thing to understand about the U.S. sugar economy is that the United States is a net importer of sugar. This has been the case not for decades, but for centuries. There has never been a time when the United States did not consume more sugar than it produced. This is hardly surprising: Sugarcane is a tropical crop and although limited areas of the United States can produce it efficiently, our population's sugar intake far outstrips the capacity of the cane industry to supply it, and always has. The United States is an efficient producer of sugar beets, which grow in temperate climates, but again the beet industry has never had sufficient capacity, even when added to cane capacity, to supply the U.S. market without dependence on imports. There is absolutely no reason to think that this situation, which has persisted for 400 years, will change.

The second thing to understand is that sugar is a highly politicized commodity and, again, always has been. The first U.S. barrier to sugar imports, a tariff, was enacted in 1789, the first year of government under our Constitution. Even before that, sugar was surrounded by controversy and indeed played a role in instigating the American Revolution. Over the years, sugar was

inextricably connected to U.S. territorial ambitions, as in the Philippines and Hawaii; to U.S. intervention in other countries, notably Cuba; and to the expansion of the federal government's role in agriculture, as in the Sugar Act of 1934.

Today, the design of most U.S. agricultural policies is oriented toward promoting exports. Market prices are permitted to seek their own level to ensure competitiveness; production controls have been abandoned for the past 20 years to avoid shorting markets; federal assistance to producers is generally provided in ways that do not directly influence market prices.

None of these principles is true for sugar policy. Though some exports do occur, the sugar sector has no ambitions to be a net exporter, or at least has taken no steps in that direction. Production controls continue to constrain domestic output, constituting a company-by-company market-sharing arrangement that would be blatantly illegal were it not sanctioned by acts of Congress. And federal assistance to the sugar sector – which is generous – is supplied through explicit market price floors and, notably for purposes of these comments, by strict tariff rate quotas (TRQs) on imports. Some 40 countries have quotas to ship limited amounts of sugar to the U.S. market, and prohibitive over-quota tariffs keep them from shipping any more than that in normal market conditions.

Identified Countries and Sugar

Of the countries identified in the executive order as having a significant trade deficit with the United States, most have no raw sugar quota: Canada, China, the EU, Indonesia, Japan, Malaysia, Switzerland and Vietnam have no raw quotas. (Canada has a share of the extremely small refined TRQ.)

India has a so-called minimum boatload quota of 7,258 tonnes, while Taiwan and Thailand have mid-sized quotas, 12,636 and 14,743 tonnes, respectively. Mexico is a major supplier, whose shipments in fiscal 2017 are projected at 1,054,149 tonnes, but its imports are constrained by a quota-like mechanism, the Export Limit, under agreements that suspend anti-dumping and countervailing duties that were assessed following a 2014 complaint.

Sugar Policy and Trade Negotiations

The U.S. sugar lobby is famously influential, and its categorical imperative is to preserve sugar policy in its present form. Toward that end, the lobby typically opposes any liberalization of sugar market access in bilateral or multilateral trade agreements, consenting only grudgingly to minor concessions. Since the U.S. sugar market is typically more lucrative than the world market due to U.S. price supports, other countries understandably seek greater access. Failing to get that, they feel less pressure to give the United States access to their own protected agricultural markets.

Sugar policy was a major sticking point in the negotiation, approval and implementation of both the North American Free Trade Agreement (NAFTA) and the Central America-Dominican Republic Free Trade Agreement (CAFTA-DR). The former constitutes the only trade agreement ever concluded by the United States in which sugar trade was (until the recent suspension agreements) more or less unfettered, and even then the open access had a 14-year phase-in period. In the case of the CAFTA-DR, U.S. negotiators' previous experience with NAFTA caused them to reject fully free trade from the outset; the only issue became what size quota the partner countries would receive.

Similarly, the initial FTA with Australia provided exactly zero additional market access. Reportedly, the argument over sugar reached the highest levels of government. Non-agricultural concessions by Australia were reportedly less than if sugar had been included.

The same basic dynamic plays out in every trade negotiation involving one or more sugar-producing countries: U.S. negotiators have extremely limited flexibility to make concessions on sugar, both because more imports might threaten the U.S. sugar program and, relatedly, because they know that the sugar lobby is capable of creating significant political problems for Congressional approval of agreements if its demands are not met.

Unless one believes that foreign negotiators simply give the United States a free pass on sugar – and the present Administration does not appear to believe that foreign negotiators have been kind to the U.S. in the past – then it necessarily follows that because the U.S. holds out on sugar, our interlocutors will hold out on something else. It may be an agricultural product like rice, as apparently occurred in the FTA with South Korea. It may be an industrial product or service. But in any case, there is a price to be paid, and it will typically be less market access for American-made products than would have been attained had U.S. negotiators not been compelled to protect the sugar lobby.

Sugar Protection and Trade Deficits

Therefore, if the Administration is searching for reasons that the United States has a trade deficit with some of the countries listed in the executive order, it is worth considering the impact of sugar protectionism. No doubt there are many reasons for trade deficits, and we would not assert that sugar policy is the most important of these, but we believe anyone with experience in U.S. trade negotiations would agree that the need to protect sugar subsidies is a fact of life for our negotiators and, other things equal, reduces their leverage on other issues.

Should the Administration agree, and wish to enhance the future ability of U.S. negotiators to aggressively bargain for more access to foreign markets on fair terms, the best way to work toward this objective would be through Administration support for, and advocacy of, sugar policy reform in the 2018 farm bill. SUA strongly supports the need for viable sugar beet and sugarcane production, processing and refining industries in the United States. We rely on these

industries for high-quality supplies of refined sugar. However, there are a number of possible reforms to current sugar policies that would move the sector in a more market-oriented direction without dismantling government assistance or harming producer income. We anticipate that legislation consistent with these principles will be proposed during debate on the 2018 farm bill.

SUA appreciates the opportunity to comment on issues relevant to trade deficits.

Sincerely,

Richard Pasco
President