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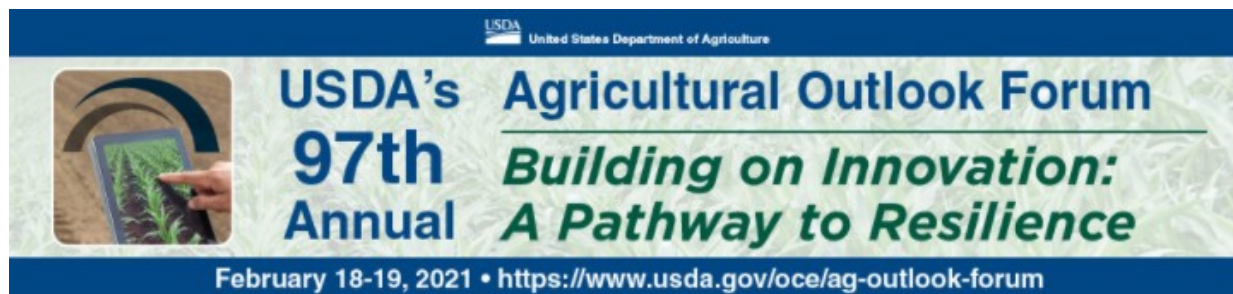
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Sugar in the USMCA

Canadian Sugar Perspective

Sandra Marsden, Canadian Sugar Institute



AGENDA



- About the Canadian sugar market
- Trade agreement provisions (Canada-US FTA, NAFTA, USMCA)
- Canadian refined sugar exports to the USA
- Challenges accessing the global refined sugar TRQ
- USMCA TRQs for Canada – Opportunities and Challenges



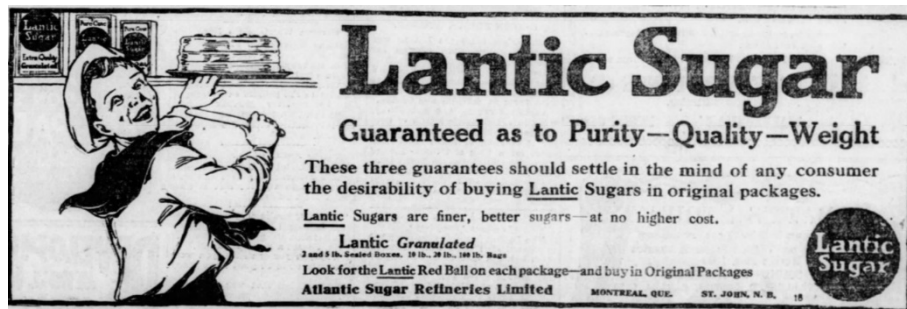
Canadian sugar refining history and focus on quality



Canada's sugar industry is an integral part of Canadian history, and a value-added success story.

The first refinery was established in 1818, half a century before confederation. From its earliest roots, the Canadian sugar industry has honoured its commitment to high quality and low prices - a commitment that continues to benefit Canadians today.

A Proud Canadian Heritage



Canadian Sugar Institute member operations

4 refined sugar operations:

- 3 cane sugar refineries
- 1 sugar beet processing factory

Lantic,
Vancouver
cane sugar

Lantic, Taber
sugar beet

Redpath,
Toronto
cane sugar

Sugar-containing
product blending in
Ontario

Lantic,
Montreal
cane sugar

The Canadian Sugar Market



- Canada does not produce raw sugar given our climate
- Rationalization of refining operations from 1980 (6 plants); prior to 1980 (10 plants)
- 1.3 million tonnes refined sugar production in 2019
 - 90% cane sugar from imported raw cane sugar (0 duty)
 - 10% beet sugar from sugar beets grown in western Canada
- Refined sugar produced to meet Canada's food standard: 99.8% sucrose



DIVISION 18

Sweetening Agents

B.18.001 [S]. Sugar

- (a) shall be the food chemically known as sucrose; and
- (b) shall contain not less than 99.8 per cent sucrose.

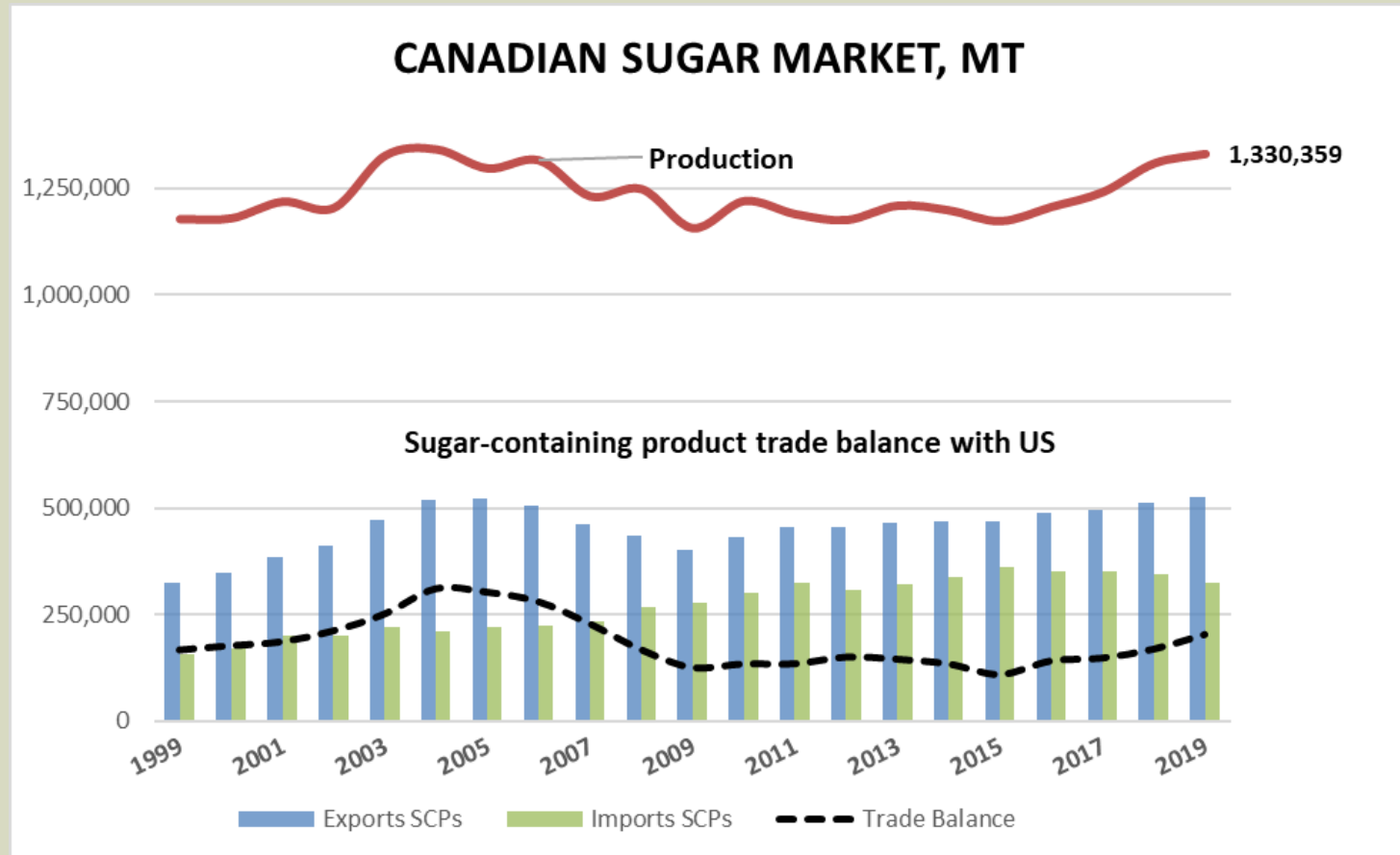


Canadian production primarily supplies Canadian industrial users for the domestic and export markets



- 87% of sugar is for industrial use

- Dynamic two-way trade in sugar-containing products



Trade Agreement Provisions – US Refined Sugar TRQ

1977 – 1979	No US quota restrictions on sugar and sugar-containing products
1982	US country-by-country quotas of raw/refined global quota <i>(Canada 1.1% share for Canadian refined cane or beet sugar)</i>
1987	US Customs Ruling restricted quota access to Canadian beet sugar <i>(refined cane sugar ruled not substantial transformation)</i>
1989	Canada-US FTA – US maintained quotas on sugar and SCPs
1990	US absolute quotas replaced by tariff-rate quotas (TRQs)
1994	NAFTA excluded Canada from US – Mexico free trade provisions
1995	WTO – carve out of small refined sugar TRQ <i>(22,000 MT minimum for the world!)</i>
1997 – 2019	Canada – US bilateral understanding: <ul style="list-style-type: none"> • 10,300 MT share of 22,000 MT refined sugar TRQ • 59,250 MT share of 64,250 MT SCP TRQ • US continued SCP Re-export Program



A reliable, “just in time” supplier of high quality refined sugar

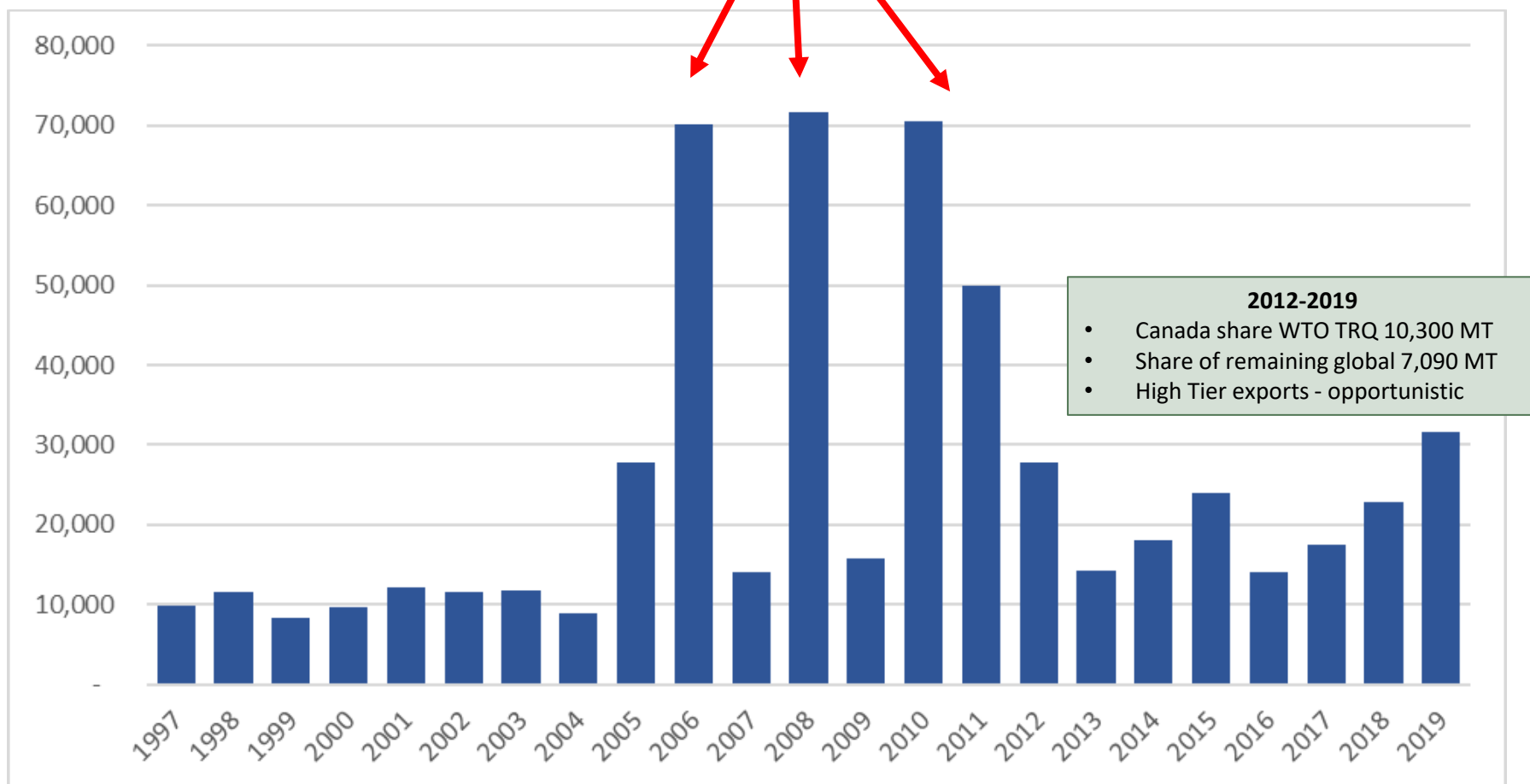


- Exports of refined sugar limited given historical small US refined sugar TRQ (Canada share 10,300 tonnes)
- Tier 2 exports when US prices are high relative to world prices
- **Orderly exports of high quality sugar “refined in Canada” during global TRQ increases:**
 - 1) beet sugar allocation to Canada but limited opportunity given short notice – no time to plant another crop!
 - 2) cane sugar exported on a first-come, first-served basis – squeezed out by large overseas shipments of lower quality sugar



Canadian Exports Refined Sugar to the United States

TRQ Increases During Emergency Shortages



Canada share of global refined sugar TRQ increases during times of US emergency shortages ... squeezed out by lower quality sugar in bulk vessels



Canada share of refined TRQ increases (MT)	2006	2008	2011
Canada-specific beet sugar	31,587	34,903	27,260
Canada beet or cane sugar (global)	37,445	28,846	14,000
Total Canada beet and cane sugar	69,032	63,749	41,260
Total global refined TRQ entries	449,279	274,148	145,428
Canada share	15%	23%	28%

Variable conditions of entry affected Canadian export success:

- tranches
- container size restrictions
- “user quality white sugar not for further processing”



Collaborative work historically with Canadian government and US sweetener users to define user quality, high polarity sugar for the refined sugar TRQ increase



Canadian Embassy



Ambassade du Canada

October 15, 2008

Dr. Mark Keenum
Under Secretary, Farm and Foreign Agricultural Service
Room 205-E Whitten Building

The change in definition that facilitated entry of low quality sugar that needs further refining will only increase pressure on already tight refining capabilities. It is our understanding that the U.S. is in a tight market this year and possibly also next year due to reduced refining capacity resulting from an explosion at a major cane refinery and a reduction in sugar beet production. Given that Canada is in close proximity to the U.S. and is a producer of high-quality refined sugar, we are well positioned to be a key and dependable supplier of user-quality sugar when the U.S. market is in short supply.

February 23, 2009

The Honorable Tom Vilsack
Secretary of Agriculture
U.S. Department of Agriculture
Washington, D.C. 20250

Dear Mr. Secretary:

The undersigned companies and organizations congratulate you on being confirmed as Secretary of Agriculture, and stand ready to work with you and your USDA colleagues toward sound agricultural, nutritional and rural policies to serve all Americans.

Because of the lead time to purchase, ship, and refine raw sugar, a TRQ increase must occur in the very near future in order to avoid supply disruptions later this year. Current short supplies partially reflect the continued unavailability of refining capacity because of a 2008 industrial accident, so it is also imperative that a portion of imports be available in the form of refined sugar of high polarity. In this regard, USDA has reportedly requested a technical change to U.S. tariff schedules that will facilitate your ability to control the refined TRQ, and we support this action.

Congress of the United States
Washington, DC 20515

April 3, 2009

The Honorable Tom Vilsack
Secretary of Agriculture
U.S. Department of Agriculture
Washington, DC 20250

Dear Mr. Secretary:

It seems clear that both the raw and refined sugar TRQs will need to be increased. USDA's own statements have recognized the need for more sugar supplies. Current USDA projections show that sugar supplies at the end of this year will be barely half of their normal levels.

We respectfully request that you act immediately to increase both the raw and refined TRQs, and take administrative action to ensure that all sugar entering the United States under the refined TRQ is, in fact, true refined sugar. We are aware of estimates that a total TRQ increase of at least 600,000 tons is needed in order to adequately supply the market.

Canadian Sugar Refiners and US Sweetener Users Welcome the additional USMCA access for high quality refined sugar



July 1, 2020 - International Trade News

Canadian Sugar Industry Welcomes Entry Into Force of the CUSMA

Canada's sugar industry welcomes the entry into force of the Canada-US-Mexico Agreement (CUSMA) – also known as the “USMCA” in the United States and the “T-MEC” in Mexico.

The United States is by far Canada's largest trading partner, and the new agreement will preserve integrated cross-border supply chains serving food and beverage industries in which Canadian sugar is an essential and competitive ingredient.

The agreement continues long-standing trade provisions established under the NAFTA, while also providing important new US market access for Canadian sugar and sugar-containing products restricted by US import quotas.

The new US market access improvements for Canada include:

- An annual quota of 9,600 tonnes of refined sugar (processed in Alberta from Canadian sugar beets produced in Alberta);
- An annual quota of 9,600 tonnes of sugar-containing products (made in Canada using beet sugar or cane sugar “refined in Canada”); and
- Increased refined sugar quota access in any year that the United States permits additional global quota access beyond its WTO commitments. When this happens, Canada's CUSMA quota will increase by an amount equivalent to 20% of the additional global quota. Refined sugar supplied under the increased quantity of the CUSMA quota can be made from Canadian beet sugar or from cane sugar refined in Canada from non-originating raw sugar.

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SUA Applauds USMCA Entry Into Force and the Support It Brings for U.S. Sugar-Using Companies

Food and Beverage Manufacturers Praise USTR, USDA and Congress for Efforts to Get New Trade Agreement in Effect on July 1

Washington, D.C. (July 1, 2020) – The [Sweetener Users Association](#) (SUA) today issued the following statement applauding the U.S. Trade Representative (USTR), U.S. Department of Agriculture (USDA) and Congress for ensuring that the United States-Mexico-Canada Agreement (USMCA) [entered into force](#) today:

SUA commends USTR, USDA and Congress for their efforts to ensure that the USMCA entered into force on July 1, 2020.

American sugar-using companies continue to face a tight domestic sugar supply situation; this new trade agreement will help ease market pressure by allowing the United States to import additional refined sugar from Canada beginning today.

More specifically, under the USMCA, Canada is entitled to fill 20 percent of certain increases in the U.S. refined sugar quota. This means that U.S. food and beverage manufacturers will now have greater access to genuine, high-polarity, refined sugar.

Since raw sugar, which must go through a refinery prior to use, has filled the majority of the latest U.S. tariff-rate quota increase, SUA is grateful that its members now have additional access to ready-to-use sugar.

While the long-term solution for ongoing domestic sugar supply challenges is to reform the U.S. sugar program, which the Fair Sugar Policy Act (S.2568, H.R.4521) would do, SUA appreciates the hard work of the U.S. federal government, as well as the governments of Mexico and Canada, in enabling the USMCA to take effect immediately.

[More Press Release](#)

More specifically, under the USMCA, Canada is entitled to fill 20 percent of certain increases in the U.S. refined sugar quota. This means that U.S. food and beverage manufacturers will now have **greater access to genuine, high-polarity, refined sugar.** Since raw sugar, which must go through a refinery prior to use, has filled the majority of the latest U.S. tariff-rate quota increase, SUA is grateful that its members now have additional **access to ready-to-use sugar.**

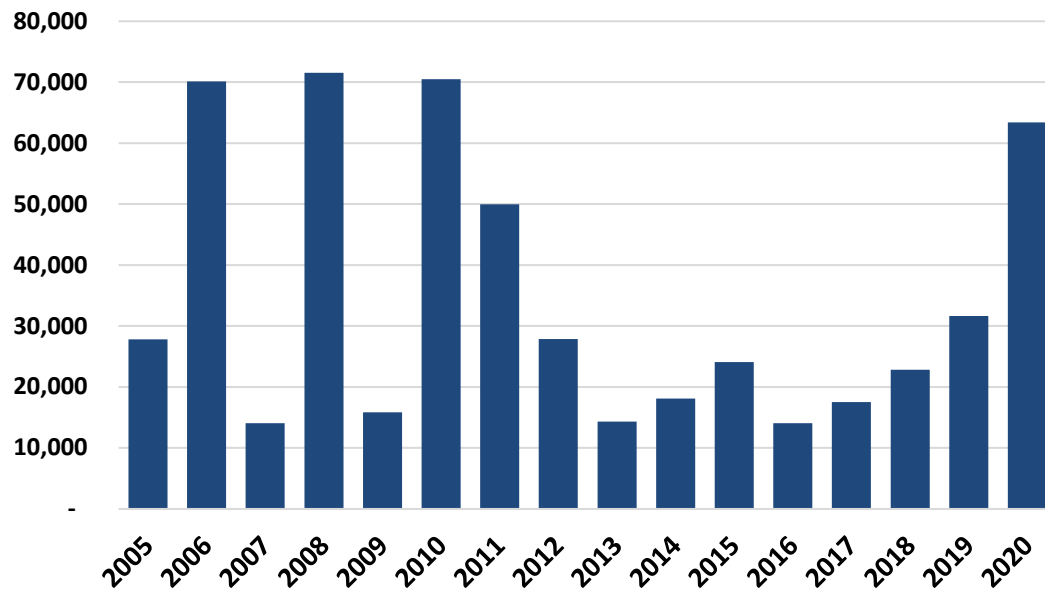


Canadian Sugar Institute

Tight US Sugar Market in 2019/20 results in Increased US refined sugar TRQ access – WTO and USMCA

July 1 2020

- Incorporated 1997 bilateral understanding and protected Canada share of refined sugar and SCP TRQs
- Created 2 new TRQs for refined sugar and sugar-containing products, each 9600 MT (Implemented 4800 MT pro-rated quantity on July 1, 2020)
- USMCA grants Canada additional TRQ access = 20% of global (WTO) refined sugar TRQ increase



2020 Canadian export increase includes:

- Canadian beet sugar increases (WTO + USMCA)
- Canadian cane and beet sugar access to WTO global increase from Apr-Jun
- Canadian high quality refined sugar access to USMCA refined sugar TRQ from Jul-Oct
- Other sugar from Canada access to USMCA refined sugar TRQ from Jul-Oct



Canadian Exports Refined Sugar to the United States

TRQ Increases from April 2020 – WTO and USMCA

<p>Beet sugar made from Canadian sugar beets</p> <ul style="list-style-type: none"> Predictable access to Canada-specific volumes 	<ul style="list-style-type: none"> 10,300 MT WTO minimum Canada-specific MT share 5,000 MT increase (available supply of beet sugar limited given crop damage in October 2019 due to extreme weather events) 4,800 MT USMCA TRQ-US 9 (prorated volume of full TRQ for the period Jul 1 – Dec 31)
<p>Cane sugar made [refined in Canada] from non-originating raw sugar</p> <ul style="list-style-type: none"> Historical challenges of WTO global access Surprising challenges in accessing Canada-specific USMCA volume 	<ul style="list-style-type: none"> WTO Global TRQ – 1st come, 1st served share of 176,437 MT global increase <ul style="list-style-type: none"> 6 tranches (April 13 – June 29) with declining pro-rata share (Tranche 1 prorated at 74.5% declining to 68.7% by Tranche 7) Limited Canada's exports of high-quality refined sugar USMCA TRQ US-9 for Canada (20% of 181,437 MT increase = 36,287 MT) from Jul 1 – Dec 31 <ul style="list-style-type: none"> 1st come, 1st served share under uncertain Canadian criteria and US Customs enforcement TRQ unexpectedly filled rapidly, closing on Oct 22, 2020 Traditional Canadian refiner exports of high-quality refined sugar squeezed out by other sugar of uncertain quality High duty entries necessary given TRQ closing early



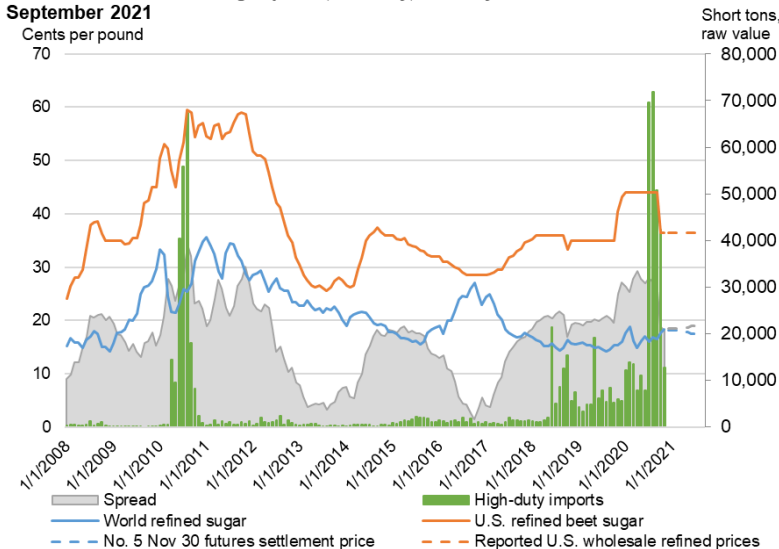
Canadian Exports Refined Sugar to the United States

TRQ Increases Going Forward – WTO and USMCA

Ongoing issues

- **WTO Global TRQ over-subscribed at all openings**
 - No definition of “refined sugar”
 - Uncertain access, high cost to store unentered sugar while waiting for the next tranche, pay high duty to enter excess
 - Substantially more sugar, of unknown quality, enters the US market than intended by the TRQ increase
- **USMCA TRQ-US 9**
 - Canada’s export policy delayed and eligibility criteria not defined
 - Entry of sugar of unknown quality from Canada limits Canadian refiner exports of user quality refined sugar
 - US expectation of high quality sugar from Canada not achieved
 - More high duty sugar entries raising costs for Canadian refiners and US users

Figure 3
U.S. and world refined sugar prices, monthly, January 2008 to September 2021



Source: USDA, Economic Research Service.



USMCA Provisions for TRQ US 9

Canadian refined sugar made from non-originating raw sugar

- A fundamental rule of treaty interpretation is that “A treaty shall be interpreted in good faith in accordance with the ordinary meaning to be given to the terms of the treaty in their context and in the light of its object and purpose.”

Vienna Convention on the Law of Treaties



- The Canadian Sugar Institute was the advocate for a flexible rule of origin to allow Canadian exports of cane sugar “refined in Canada” at times of additional US market need given the limited supply of “originating” Canadian beet sugar
- The intention of TRQ US 9 was clearly to provide preferential market access for Canada’s production of high-quality refined sugar “made from” from imported raw sugar, recognizing the history of orderly exports to the United States with “user quality” refined sugar at times of additional US market need
- The intention was not to provide preferential market access to non-originating refined sugar imported into Canada and re-exported to the United States after only minor processing (or no processing) and/or partially-processed sugar that is not of a quality fit for human consumption.



USMCA Implementation Issues – Canada's export policy



- Exports of sugar and sugar-containing products from Canada to US TRQs are controlled through the issuance of export permits under Canada's Export and Import Controls Act and regulations
- The Canadian government established export policies for the USMCA 9,600 MT TRQs for sugar and SCPs but did not have sufficient time to establish eligibility criteria and allocations for the increased refined sugar quantity

Policy for the 9,600 MT USMCA TRQ US 9 refined sugar quantity:

- Eligibility applies to sugar that is “wholly obtained from raw sugar beets produced in Canada”
- A company is eligible for an allocation if you are a:
 - Sugar Refiner** - you have been **actively involved in the refining** of Originating Sugar in **Canada** for at least three years.

- Eligibility for the increased quantity under TRQ US 9 should similarly apply to a “**Sugar Refiner**” that has been “**actively involved in the refining**” of non-originating raw sugar “**in Canada**” for at least three years
- All sugar refined in Canada from sugar beets is “**refined sugar**” and must meet the food standard of at least 99.8% sucrose and similarly, sugar refined from raw sugar must also meet this standard



USMCA Implementation Issues – The Way Forward – A joint agenda



- **Canadian and US officials can work together to ensure that the proper interpretation of the “increased quantity” provisions of TRQ-US 9 are achieved and reflect the full context of the USMCA text and the object and purpose of the negotiated outcomes of the agreement**
 - Sugar “refined in Canada” from non-originating raw sugar and of “user quality” not requiring further processing supports value-added production and exports from Canada
 - High quality refined sugar from Canada addresses the US market need for refined sugar, not sugar of lower value and quality and not meeting immediate US market needs
 - Acceptance of a lower standard for refined sugar under the increased quantity provision of US-TRQ 9 undermines the integrity of the Canadian supply of high quality, food-grade refined sugar and the objectives of the US refined sugar TRQ increase
- **US acceptance of Canada’s export permits as a condition of entry to USMCA TRQ US-9 will help prevent circumvention of Canada’s export administration policy**
 - Canada issues export permits for all Canadian sugar and sugar-containing product exports to the Canada-specific shares of the WTO TRQ and to the USMCA TRQs
 - US requirement for a Certificates of Quota Eligibility (CQE) and/or export permit is consistent with longstanding US practice with respect to Canada’s share of WTO TRQs and will be consistent with the acceptance of Canada’s export permits for the USMCA SCP TRQ





CANADIAN
SUGAR
INSTITUTE



Thank you! Merci! Gracias!

