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TRADE AGREEMENTS: IMPACT ON THE U.S. SUGAR INDUSTRY

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Over the past year, we have witnessed a whirlwind of activity on the trade policy front. With Trade Promotion Authority now in hand, the Administration has sought to move WTO and FTAA negotiations into a more serious phase, concluded negotiations on free trade agreements (FTA's) with Chile and Singapore, and launched four new FTA negotiations-- with Central America, Morocco, the South Africa Customs Union, and Australia. And it has hinted broadly that more such FTA initiatives may be on the way.

What does this mean for the U.S sugar industry and for U.S. sugar policy? If negotiations are pursued on global basis, with intense attention to the specific problems plaguing the world sugar market, I believe, they could lead to the restoration of health to this highly dysfunctional market and, thus, to an acceptable, and perhaps even beneficial, outcome for U.S sugar producers. On the other hand, if negotiations are pursued piecemeal and/or with inadequate attention to industry-specific problems, as they seem now headed, they will bring disastrous results to the U.S. sugar industry.

The basic train of my argument is as follows:

- The world sugar market is now, and has historically been, grossly distorted by government intervention by virtually every significant sugar producer in the world. It is a "dump" market, with prices averaging barely half the world average cost of production for the past two decades.
- While American sugar producers are not the lowest cost producers in the world, they are efficient by world standards, with costs of production below the world average, and could compete on a level playing field freed of this excessive government intervention.
- In the absence of a thoroughgoing reform of the trade-distorting policies and practices affecting sugar worldwide, opening the U.S. to the world dump market for sugar would result in a ruinous decline in U.S. sugar producer prices and incomes and in massive budgetary outlays. These adverse effects would likely spill over into the corn sweetener market as well.
- The drastic reform necessary to correct the world sugar market can only be achieved in comprehensive, global negotiations in the World Trade Organization (WTO).
- Moreover, WTO negotiations on sugar can only be effective if there is an aggressive attack on the specific policies distorting trade in sugar and the same level of commitments and implementation schedule are imposed on developing and developed country alike.
- Elimination of sugar tariffs in regional or bilateral FTA's, as the Administration is currently proposing to do, would leave the dysfunctional world dump market untouched and inevitably push U.S. prices towards this artificial level - - with disastrous results for the U.S. sugar industry.
- Negotiations on sugar should not be pursued in the FTA context but reserved for the WTO.

THE WORLD DUMP MARKET FOR SUGAR

Sugar is generally acknowledged to be the most distorted commodity market in the world. According to the surveys conducted by the internationally-renowned commodity research firm, LMC International, the average world price for sugar over the 16-year period ending in 1998/99, was about 9-1/2 cents per pound raw value - - barely more than half the world average cost of producing sugar (16.26 cts/lb) during that period. Because of inflation in input costs, the average cost of production has almost certainly risen since this survey was conducted while the dump market price has fallen even lower. Thus, the gap has likely widened in recent years.

No sugar producer in the world can cover their costs of production at such low prices for any sustained period of time. As will be discussed in more detail below, virtually every sugar producing country has provided a heavy dose of government intervention and support to its industry. And virtually all countries exporting sugar at world market prices have consistently engaged in dumping - - selling their sugar at prices below their costs of production but, even more importantly, below the prices in their domestic market as well.

This assertion is borne out by more recent work done by LMC that shows that domestic wholesale refined sugar prices in nearly all the major sugar-trading and producing countries are well above world market prices. Out of 13 countries covered by an ASA-commissioned LMC study of trade-distorting policies in the sugar sector, 11 were found to have domestic prices consistently above the world dump price over the 3-year 2000-02 period. Some examples: Australia, 35% higher than world prices, Guatemala, 80%; Mexico, 2-1/2 times the world price; EU, 3 times the world price; Japan, nearly 6-1/2 times the world price!

EFFICIENCY OF U.S INDUSTRY

The strenuous efforts the U.S. sugar industry has made, and continues to make, to improve its efficiency are well documented. How do U.S. costs of production stack against producers throughout the rest of the world?

LMC surveys indicate that U.S. beet sugar producers ranked second lowest among world beet sugar producers in terms of cost of production and that U.S. cane sugar producers ranked 26 out of 63 cane countries or regions surveyed worldwide. (U.S. corn sweetener producers, incidentally, ranked first among 19 countries surveyed.) Overall, U.S. sugar ranked 28th out of 102 producers surveyed worldwide. More than half of world sugar production is produced at costs of production higher than that of U.S. producers.

The implication: The U.S. sugar industry could compete in a world market freed of massive government intervention and pervasive dumping.

TRADE-DISTORTING GOVERNMENT POLICIES AND PRACTICES

As noted above, nearly every government in the world plays a major role in its sugar industry. Some of this support, such as most of that provided by the EU, is transparent and well-documented and falls into the categories traditionally dealt with in WTO negotiations - - high tariffs, export subsidies, price support programs. But much of it is indirect, opaque, and/or poorly understood.

ASA has argued that it is crucial that these indirect, or non-transparent, policies also be brought within the ambit of the WTO negotiations. To assist U.S. negotiators in doing this, and in response to requests from the Administration and Congress, ASA last year commissioned a study of foreign trade-distorting policies and practices in 13 major sugar-trading and producing countries, covering 70 percent of world production and 75 percent of world exports. ASA has provided this study to the Administration and Congress, and, indeed to all interested parties, at the beginning of this year.

The LMC study covered 11 major exporting countries: Australia, Brazil, Colombia, Cuba, the EU, Guatemala, India, Mexico, South Africa, Thailand, and Turkey; and two major importers: China and Japan. In addition to examining the more traditional forms of support mentioned above, LMC was charged with uncovering the less obvious indirect or non-transparent policies affecting sugar. In every country a heavy dose of government involvement and influence was found.

Many of the policies or practices identified fall outside of, or will not necessarily be affected by, the disciplines that have been agreed in the WTO and are the focus of the current Doha Round negotiations. Some non-exhaustive examples include: Brazil's cross-subsidization of sugar through its heavily subsidized ethanol program and through its repeated devaluations; debt forgiveness programs of Mexico and Thailand; government ownership and control (Cuba, Turkey, Mexico, China); state-trading, included state-sanctioned private monopolies - - on the export side: Australia and South Africa, on the import side, Japan and China; and a number of diverse policies that encourage or force dumping (South Africa, Colombia, Guatemala, India, Mexico.)

To bring about real reform of the world sugar market, WTO negotiations must effectively address these types of policies as well as more well-known and traditional policy tools such as export subsidies and tariffs.

WTO AGRICULTURAL NEGOTIATIONS

The ASA has forcefully argued that U.S. efforts to address the issue of trade liberalization in the sugar sector should be focused in the WTO and not in bilateral or regional initiatives. It seems obvious that, given the pervasive, worldwide causes of the problems plaguing the world sugar market, this matter can only be effectively dealt with in comprehensive, multilateral negotiations.

ASA has consistently supported the Administration's efforts to liberalize world agricultural trade and to put in place strong, effective international rules governing this sector. While ASA applauded the ambitious proposal for agricultural trade reform made by the Administration last July, it made clear at the same time its firm belief that, in the case of sugar, this broad brush proposal needs to be supplemented by an aggressive attack on the specific policies and practices that distort the world sugar market.

We believe that the study completed by LMC gives U.S. negotiators a great deal of ammunition with which to commence this effort and the U.S. sugar industry hopes to work closely with the Administration to fashion an effective means of doing so. Unless this is accomplished, however, reform of the world sugar market will only be half-done at best and will not provide a viable basis for liberalization of market access.

Looking ahead at the WTO negotiations, I believe there are three major obstacles to the achievement of real reform of the world sugar market and the establishment of a viable basis for further liberalization access to the U.S. sugar market.

- Other countries may not be willing to eliminate or make meaningful changes in their trade-distorting policies. Most of the focus in these negotiations has thus far been on the “intransigence” of the EU and Japan and similarly minded developed countries, whose expectations regarding the Doha Round seem far short of the ambitious outcome aimed at by the U.S. But the willingness of many, if not most, developing countries (including some of those of greatest interest such as China and India) to open further their markets is also very problematic.
- The Administration may not be willing, or able, to frame the negotiations in a way that enables us to address the specific policies affecting sugar in an effective way.
- Developing countries may insist on a markedly different level of commitment and schedule of implementation. In the case of sugar market, which is dominated by developing countries (accounting for three-quarters of world exports and production), this is a recipe for failed reform.

If these obstacles are overcome, a shaking out of inefficient producers worldwide could be expected to occur and one would expect to see world sugar prices rise to levels compatible with average world production costs. In such a situation, American producers, who are efficient by world standards, would likely do well.

If, however, the trade-distorting policies of foreign producers are not dealt with in a comprehensive and effective way, the world sugar market would no doubt remain dysfunctional and opening of the U.S. market would only result in the replacement of U.S. production by subsidized or dumped exports.

OTHER WTO CONCERNS

Negotiated commitments only have value, of course, if they are fulfilled. The record of compliance with trade agreements reached in the WTO and in other fora gives cause for concern. Mexico’s failure to comply with its NAFTA obligations is an example that hits close to home. China’s performance so far with respect to its TRQ obligations is another example. The continued widespread use of price bands and other similar devices despite the Uruguay Round prohibition on variable levies also serves to show how WTO rules do not necessarily translate into changes in practice.

Moreover, it would appear that some issues, despite their very real effects on agricultural markets and trade, cannot be dealt with at all in the WTO or other trade negotiations. This seems to be the case with regard to currency devaluation where, despite a Congressional directive to establish mechanisms in trade agreements to examine this matter, there appears to be no serious effort under way to deal with it.

In light of the uncertainty of compliance and the potentially disruptive impact of other factors affecting the market such as currency devaluation, ASA believes it is critical that a special safeguard mechanism be maintained. The existence of such a mechanism would make WTO members more likely to commit to far-reaching reform and would provide a safety net in the event that commitments agreed in the WTO did not have the expected, and desired, beneficial effects on the operation of the world sugar market.

FTA'S: NOT THE RIGHT PLACE FOR SUGAR NEGOTIATIONS

The negotiation of market access commitments in the context of bilateral or regional FTA's will do nothing to correct the grossly distorted world sugar market. The policies distorting the market are either, like the EU sugar policies, outside the geographical range of the agreements or, like the cross-subsidies to sugar resulting from Brazil's ethanol programs, outside the scope of the FTA negotiations. FTA commitments on sugar would inevitably redirect the exports of the countries involved to the U.S. market, pushing U.S. prices ever closer to the world dump market price. A look at the export capabilities of those countries already designated or suggested as FTA candidates makes clear just how unmanageable this situation is. Total export availability of these countries averaged over 25 million tons of sugar in the three years ending in 2002 - - 2-1/2 times U.S. sugar consumption!

The U.S. market is already a mature and saturated market. Even small amounts of excess imports can seriously disrupt the market place. The already-saturated U.S. sugar market would be swamped by imports if tariffs were eliminated as a result of the FTA negotiations cited above, resulting in a drastic decline in producer prices and incomes, massive forfeitures to the CCC, and comparably huge budgetary outlays. Under these circumstances, the disruptive effects would no doubt spill over into corn sweetener market. The many developing countries that depend heavily on the earnings from their preferential access to the U.S. sugar market under our TRQ program would also be greatly harmed by these developments.

As the current U.S. support program for sugar would almost certainly be destroyed by this influx of imports, I believe it can also be argued that the elimination of tariffs on sugar is inconsistent with the general U.S. position that domestic agricultural support programs should not be negotiated in FTA's.

CONCLUSION

The WTO trade negotiations, if done properly, could restore health to the highly dysfunctional world sugar market to the benefit of U.S. and other efficient producers. In order to achieve this objective, the U.S. needs to focus its efforts on the WTO negotiations and insist that: (1) the trade-distorting policies of all significant sugar-trading, producing and consuming countries be addressed, including indirect or non-transparent supports; and (2) the same level of commitment and schedule of implementation be applied to developing and developed country alike. Negotiation of sugar market access commitments in bilateral or regional FTA's will only undercut our WTO objectives and would have a devastating impact on U.S. sugar and sweetener producers.