SWEETENER TRADE ISSUES: A VIEW FROM CAPITOL HILL

Thomas Mahr
Legislative Director to Senator Kent Conrad (D-ND)

Good afternoon. It is a pleasure to be here today to talk about the outlook for trade legislation and sweetener trade issues.

My name is Tom Mahr, and I am legislative director to Senator Kent Conrad of North Dakota. I have covered international trade issues for the Senator since 1993. Senator Conrad is a senior member of both the Finance and Agriculture Committees, the two committees in the Senate with jurisdiction over agricultural trade issues. Senator Conrad, as many of you probably know, is a vigorous and vocal proponent for American farmers. Most relevant to today's topic, Senator Conrad represents the $1.5 billion Red River Valley sugar beet industry and is an active member of the Senate Sweetener Caucus.

I'd like to cover two sets of three issues this afternoon, and then I'd be happy to take questions. First, I'll try to put sweetener trade in context by talking more generally about the three trade items on the Congressional agenda for the year. Then, I'll discuss the three top trade issues facing the sweetener industry.

LEGISLATIVE OUTLOOK

The Congress will consider three pieces of trade legislation this year. Only one of these has any potentially significant implications for sweetener producers, and it's probably the one to which you've paid the least attention.

China WTO Accession

First, China's accession to the WTO is by far the highest profile trade issue facing the Congress this year. Clearly, the accession agreement has huge implications for US agriculture, which I'm sure you've heard about from a number of speakers in the last 24 hours.

Sometime later this year, once China completes its accession negotiations with other members of the WTO, the Congress will need to grant China permanent Normal Trading Relations (PNTR) if the U.S. is to benefit from the agreement. Most Congress watchers are predicting that this will be NAFTA all over again. The US business community is leading an all-out lobbying campaign for PNTR. Labor is waging an equally aggressive fight against PNTR. The vote is expected to be very close in the House, but passage in the Senate is seen as likely.

This is largely a spectator sport for the sweetener industry. It's a safe bet that there won't be any sugar side letters to smooth passage of the China deal: the China accession agreement does not grant China any additional access to the US market.

WTO Withdrawal
The second issue that the Congress will almost certainly face this year is a resolution withdrawing the United States from the WTO. Under the terms of section 125 of the Uruguay Round Agreements Act, the President must submit a report on the operation of the WTO by March 31. Then, any member of Congress may introduce a resolution withdrawing the approval of the Congress for the WTO Agreement. This resolution -- which a number of members have already indicated will be introduced -- will be considered under fast track procedures that guarantee an up-or-down vote in both the House and Senate within 90 days of its introduction.

Despite the protests in Seattle and a general dissatisfaction with some elements of the Uruguay Round Agreements (particularly dispute settlement and the European subsidy advantage in agriculture), I would not usually expect that this would be a close vote. The Uruguay Round Agreements were approved by a comfortable margin, and even some opponents would concede that pulling out of the WTO would be very disruptive.

However, the China politics may make this vote closer than it would otherwise be. Some Members of Congress who are looking for political cover on a tough China vote may decide to vote against continued US participation in the WTO. The thinking is that this is a "free vote" in the House. Even if the House passes a withdrawal resolution, the theory goes, the Senate won't-- or at least not by a large enough margin to override a certain Presidential veto.

Again, this is a spectator sport for the sugar industry. As a practical matter, even if the US were to withdraw from the WTO, it is unlikely that we would modify our sugar TRQ. And, in any case, this would be of little practical benefit to the US industry unless the NAFTA provisions were modified at the same time.

Africa Trade Bill
The surprise bill on my list is the Africa trade bill, which is currently waiting for conference committee action. This legislation would grant tariff preferences to a range of products from sub-Saharan Africa, most notably textiles. The hope is that these preferences will create incentives for building infrastructure and light manufacturing plants, and foster economic development in sub-Saharan Africa. As proponents like to say, it embodies a new approach to helping this region: trade, not aid. The main disagreement to be resolved in the conference is whether and to what extent textile products must be made from US components in order to qualify.

So why is a bill focused on African textile tariffs potentially of interest to the sweetener industry? Unlike the House version, which was narrowly limited to the Africa trade preferences, the Senate bill contained a number of other measures, including a provision making the agriculture ambassador at USTR a permanent position, language laying out the US negotiating objectives for the WTO round on agriculture, and a Trade Adjustment Assistance (TAA) for Farmers program. These are all issues that Senator Conrad has taken a leading role on -- he called for the creation of a special negotiator for agriculture in 1993, leading to the creation of the current special ambassadorship, and he sponsored the agricultural negotiating objectives language in the Senate -- but I'd like to concentrate for a moment on the TAA for Farmers program.

As most of you probably know, the Trade Adjustment Assistance program has been around since the Kennedy Administration. It is designed to give temporary cash assistance to workers when they are adversely impacted by import competition resulting from trade liberalization. To qualify, workers must participate in worker retraining programs. Unfortunately, the program inadvertently prevents farmers from getting assistance because a worker needs to lose his or her job to qualify. That's fine for manufacturing workers, but when a farmer is faced with import competition, he doesn't lose his job. Instead, what happens is that commodity prices drop and the farmer's income can be dramatically reduced. The impact on the farm family can be just as dramatic as if the farmer had lost his job, but the farmer doesn't qualify for TAA.

Senator Conrad's amendment would create a new TAA for Farmers program to provide cash assistance of up to $10,000 per farmer when the price of a commodity drops by more than 20% and imports "contribute importantly" to the price decline. In order to qualify, farmers would need to meet with extension service agents to plan how to adjust to the import competition.

Although it was not designed with sugar producers in mind, current prices and the threat of increased imports from Mexico suggest that this could be a very important program for sugar producers in the future. Senate conferees are trying to hold this provision, but there is stiff resistance from the House so the outlook is unclear.

SUGAR TRADE ISSUES OFF THE HILL

As a practical matter, this focus on high profile legislation – a distinct change from the past five years, during which trade has not taken center stage on the Hill – means that other trade issues will have a hard time competing for time and attention.

That's unfortunate for this industry, in two respects. First, because the US sweetener industry has a very good story to tell. Second, because the industry faces a number of critical challenges on the international trade front.

Before I focus on the trade challenges facing the industry, let me take just a couple of seconds to highlight the competitiveness of the U.S. sugar industry. I think a few facts speak for themselves:

- The U.S. is the lowest cost producer of beet sugar and corn sweetener in the world.
- Overall, the U.S. average cost of production for all sweeteners ranks 12th out of 112 producing countries.
- Retail sugar prices in this country are 1/3 less than the developed country average.
- The U.S. ranks 2nd lowest in the world (after Singapore) in the minutes of work required to buy one pound of sugar

These facts sometimes get lost in misleading references to the world dump market price for sugar, which is currently far below the unsubsidized cost of production anywhere in the world.

Let me turn to the top trade challenges facing the sweetener industry.

WTO Agriculture Round

As those of you who, like me, spent several days locked in your hotels in Seattle already know, the new round of agriculture talks did not get off to quite the start that was anticipated. Clearly, though, agriculture talks are going to move forward, and this provides a forum for critics of the U.S. sugar program to call for its demise.

In Seattle, the U.S. sugar industry came under attack from a number of sugar exporting countries hoping to dismantle the U.S. sweetener program. I have a couple of observations about these attacks.

First, these attacks seem to be predicated on the argument that if the U.S. imported more sugar from the world market, retail prices in the grocery store would fall. Well, it's a nice theory, but in the real world retail food prices -- whether it's pork, beef, bread or sugar -- continue to rise even as prices received by farmers fall to record lows.

Second, and perhaps more importantly, what these critics are advocating is unilateral disarmament. Their assumption is that if the US dismantles its programs, others will follow suit.

Well, that theory has also been put to the test. In the 1996 Farm Bill, supporters argued that if we cut US farm programs, our friends in Europe would follow suit. That just hasn't happened. In fact, in Seattle, the Europeans were the primary opponents of further disciplines on trade distorting subsidies and supports. The lessons I and many on Capitol Hill took away from Seattle were that unilateral disarmament doesn't work and that, in fact, we need to increase support for U.S. agriculture to gain leverage with the Europeans, not reduce support.

In light of these lessons, it would be truly ironic if the net result of attacks on the US sugar program was an increase in heavily subsidized production of EU sugar to capture the US market.

At this point, though, it seems unlikely that WTO talks on agriculture will move forward in any serious, substantive fashion in 2000. This year will be spent laying the groundwork for talks after elections in this country and, next year, in France. This gives the sweetener industry an opportunity to make its strong case for retention of the US sugar program until and unless our less efficient competitors partners are willing to give up their trade distorting practices.

Mexico

Mexico poses a much more immediate challenge. In the waning days before the NAFTA vote in the House, it became clear to both the Administration and Mexico that the votes were not yet there to pass NAFTA. The original sugar provisions would have allowed Mexico to ship its entire net surplus production to the U.S. starting in October 2000, and congressional supporters of the sugar industry had made it clear that they could not support NAFTA unless this was fixed. As a result, Mexico agreed to a sugar side letter that limits imports from Mexico to 25,000 tons through this year, and 250,000 tons starting next October 1. As someone who was a close observer of this process, I can assure you that there was no doubt in anyone's mind – on the Mexican side or on our side – that the Mexicans had to agree, and had in fact agreed, to whatever terms the U.S. demanded on this issue as the price for passage of the NAFTA.

More recently, however, the Mexicans have dramatically increased sugar production and they need a market for their surpluses. Engaging in some revisionist history, they now claim that the side letter is not valid. Although it seems unlikely that Mexico would prevail in a dispute on this issue -- the negotiating history is clear -- the consequences of a Mexican victory would be devastating. Mexico could immediately ship its entire surplus production of about 800,000 tons to the U.S., swamping the U.S. market. Of course, if Mexico were to swamp our market, it would kill the proverbial golden goose. Since that is not a result that is in either our interest or Mexico's interest, both Mexico and the US have expressed some interest in reaching a negotiated settlement on these issues.

Separately, both the NAFTA and the side letter subject over-quota amounts of sugar to a declining second tier tariff. At the time NAFTA was negotiated, world prices were high enough that it was thought that this tariff would be prohibitive until the final few years of the NAFTA's 15 year transition period for sugar. Now, though, world prices have dropped to the point that it became cost effective for Mexico to ship small amounts of over-quota sugar to the US last year.

However, it is important to note that Mexican imports in an amount sufficient to injure the US industry would provoke an almost certain anti-dumping or countervailing duty case. Again, that would not appear to be in Mexico's interest, nor that of the U.S. industry. Clearly, though, the threat of dramatically increased imports is already having a significant impact on U.S. sugar prices. This makes it vitally important that these two issues be resolved to the satisfaction of the US industry, and at a meeting with the Senate Sweetener Caucus last fall, Ambassador Barshefsky committed her agency to finding a solution.

Stuffed Molasses

Finally, the sugar industry is plagued by imports of so-called "stuffed molasses." A company in Michigan discovered a couple of years ago that it could evade the sugar TRQ by mixing sugar into a water and molasses mixture. Once the sugar has cleared Customs, it is removed from the molasses mixture, and in some cases the molasses is re-exported to be used again in this operation.

This product has no use other than to evade the sugar TRQ, and the Customs Service, at Senator Conrad's urging and with the support of USTR and USDA, recognized that this practice was undermining US trade law and the US sugar program. In response, Customs reclassified stuffed molasses within the TRQ. Unfortunately, the Court of International Trade has since ruled that Customs acted inappropriately and overturned the reclassification decision. The industry and Administration are preparing for an appeal of this ruling. However, if the CIT ruling stands, other importers will quickly exploit this newly created loophole in our Customs law, putting the sugar program at risk. For that reason, it is my understanding that members of Congress have started to look at a legislative fix on this issue.

CONCLUSIONS

The US sweetener industry faces tough trade-related challenges. It is under direct attack from Mexico and stuffed molasses. And a coalition of sugar users and exporting nations hopes to use the WTO round to eliminate the US sweetener program, leaving the market to less efficient, more highly subsidized producers.

The good news for the sweetener industry is that it has a good story to tell, and it has powerful support on Capitol Hill. After a narrow victory in 1996, the sugar industry has defeated attempts to kill the sugar program by increasingly comfortable margins. Members of Congress and their staffs recognize that the sugar program makes sense for both producers and consumers, and that it doesn’t make sense to jettison our highly competitive sweetener industry to allow subsidized imports from inefficient producers.

However, the industry can’t rest on its laurels. As you can tell, trade issues generally are high on the Congressional agenda this year, but sweetener trade issues are not central to the debates. That means people who care about these issues will have to work harder than ever to make sure your issues and your concerns stay on the radar screens of members and their staffs. The simple fact is that Congressional offices typically develop a system of triage to deal with the multiple issues coming at them. Unless your issue is on the committee or floor schedule – and sweetener issues won’t be front and center this year – you need to work especially hard to make sure your message gets through.