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Re-Export Programs, IMMEX & the North American Sugar Market

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Sugar Re-Export Programs

- Separate programs for refined sugar, sugar-containing products (SCPs), polyhydric alcohol
- All allow import of world-priced sugar
- Firm statutory basis
  - HTSUS, 1701.11.20, Add'l Note 6 to Ch. 17
  - 7 USC 7272 clarifies beet substitutability

Refined Re-Export Program

- Focus on refined re-export program
- Created in early 1980s to offset sugar program effects on cane refiners
  - Quotas re-introduced 1982
  - Program encouraged beet sugar production
  - Consequent reduction in refinery throughput, refinery closures

Importance of Re-Export Program

- Cane refining capacity a concern for refiners, users alike
- TRQ restrictions in pending farm bill may further restrict refinery throughput
  - Only minimum quota Oct-Apr
  - No restrictions on imports of raws *or* whites under NAFTA
- Re-export program becomes more important

Importance of Re-Export Program

- Program facilitates exports from U.S.
  - Export-related jobs – refining, transportation, manufacturing, etc.
  - Exports of U.S. beet, cane sugar
  - Contributes to trade balance
  - Grower-owned refiner is major participant

Importance of Re-Export Program

- Re-exports usually 8-10% of all cane sugar refined; 8% in 2006/07, likely more in 2007/08
- Circumvention of sugar program *already* prohibited
  - Substantial transformation required
  - USDA clarified in recent letter
- AD/CVD laws available

Re-Exports & Mexico

- Mexico comprises largest share of re-exported refined sugar credits **(Source: FAS)**

FY	**World**	**Mexico**
06	140,000	98,000
07	301,000	266,000

Re-Exports & Mexico

- Mexico is *not* source of majority of sugar imported in products
- Promar measures sugar in SCPs, confectionery,etc.
- 2/3 of sugar in products *not* from Mexico
- Net imports of sugar in products from Mexico fell 23% in 06/07

SCP Imports

- Promar estimates 06/07 imports, sugar in SCPs:
  - Selected products, Chapters 17-22
  - Convert sugar content to STRV
- Total 1.386 million STRV
  - (USDA: 1.193 million)
- Mexico 446,503 STRV (32%)
  - (USDA: 380,000 or 32%)

Perspective

- **Total U.S. SCP imports much larger than re-exports to Mexico**
  - 1.4 million STRV vs. 266,000 STRV
- **SCP imports *from Mexico* much larger than re-exports to Mexico**
  - 447,000 STRV vs. 266,000 STRV
- **But Mexico re-exports *are large majority of all re-exports***
  - 266,000 STRV out of 301,000 STRV (88%)

NAFTA Provisions

- NAFTA clearly contemplates re-export program may continue
- Annex 703.2(A)(21): Mexico *may* apply MFN tariff if sugar gets re-export credit
  - Mexico’s option; NAFTA-consistent
  - Mexico has right, *at any time,* to cut off trade

What if …

- If Mexico was no longer eligible re-export destination …
- Would confectionery plants return to U.S.?
- Growers claim sugar price irrelevant to plant location decisions …
- So why would change in re-export program make any difference?

What if Growers are Right?

- If growers are right (sugar price irrelevant) …
- Then ending re-export program would only mean use of Mexican sugar, not U.S. cane or beet sugar, in products made in Mexico
- Imports of confectionery, SCPs into U.S. wouldn’t change

What if Growers are Wrong?

- What if sugar price *does* matter?
- No quotas on confectionery
- Zero or low tariffs
- U.S. sugar exports would fall, but confectionery imports would just change source

What if Growers Are Wrong?

- Plants would re-locate outside NAFTA zone
  - Loss of jobs in Mexico, no gain in U.S.
  - No change in confectionery imports
  - SCP imports might fall, but largest share of Mexico trade is Ch. 17 confectionery, not blends

Re-Export Program is Needed

- Helps maintain viable U.S. cane refining industry
- Without it, jobs would move outside NAFTA zone
- Eliminating re-exports is not a magic bullet for the North American sugar balance sheet
- Issue is U.S. sugar program, not re-export program