Testimony of
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Senate Finance Committee
Hearing on the Proposed U.S. Free Trade Agreement with the Dominican Republic and Central America (CAFTA)

April 13, 2005

The American Sugar Alliance is grateful for the opportunity to provide testimony for this important hearing. The ASA represents the 146,000 American farmers, workers, and their families in 19 states, engaged directly and indirectly in the growing, processing and refining of sugarbeets and sugarcane. The U.S. sugar industry generates nearly $10 billion in annual economic activity.

Background on U.S. and World Sugar Markets

In some states, sugar is the most important cash crop, or among the most important. Sugar accounts for 44% of crop receipts in Louisiana, 37% in Wyoming, 24% in Hawaii, and 10-20% in Idaho, Minnesota, Florida, North Dakota, Montana, and Michigan.

American sugar growers and processors are among the most efficient in the world, and, like other American farmers, we would welcome the opportunity to compete globally on a level playing field, free of government intervention *(Chart 1).* Like other American farmers, we *can* compete against foreign farmers, but we *cannot* compete against foreign government subsidies and predatory trading practices.

The world sugar market is the world's most distorted commodity market, because of a vast, global array of subsidies. Subsidized growers overproduce and dump their surpluses on the world market for whatever price it will bring. As a result of all this dumping, the so-called world sugar price has averaged barely half the world average cost of producing sugar for the past 20 years *(Chart 2)*. The ASA supports correcting this distorted dump market through genuine global sugar trade liberalization.

Only Path to Sugar Trade Liberalization: WTO

There is a right way and a wrong way to achieve global sugar trade liberalization.

- The right way: The World Trade Organization (WTO) – all countries at the table; all programs and all subsidies on the table. The ASA has supported sugar trade liberalization in the WTO since the initiation of the Uruguay Round of the GATT in 1986.

- The wrong way: Bilateral and regional free trade agreements (FTAs), where markets are wrenched open without addressing *any* foreign subsidies. The Administration has rightfully declared it will not address any support programs or subsidies in FTAs. Yet it has effectively negotiated away the U.S. sugar support program in the CAFTA.

Virtually every FTA ever completed around the world *excludes* import-access mandates for sugar. Sugar import mandates are excluded from the U.S.-Canada portion of the NAFTA; from the Mercosur agreement among four South American sugar producing countries, including Brazil; from the European Union's (EU) trade agreements with South Africa, with Japan, and now with Mercosur; from Mexico's FTAs with other Latin American countries and with Japan; from Japan's pending agreements with Thailand and with the Philippines. Sugar was excluded from the U.S.-Australia FTA, which USTR touted as a "state of the art" agreement that gained the U.S. immediate duty-free access for 99% of its exports to Australia, and which Congress passed easily.

The only exceptions: Sugar market-access mandates were included in the U.S.-Mexico portion of the NAFTA, and those provisions have been mired in controversy ever since, and in the CAFTA, whose fate in the Congress is highly uncertain.

The ASA's recommendation to the Administration has been long-standing and unambiguous: Reserve sugar negotiations for the WTO, where genuine trade liberalization can occur.

CAFTA Dangers to U.S. Sugar, U.S. Economy, WTO Process

The U.S. sugar industry adamantly opposes the CAFTA and respectfully suggests that this Committee do the same. The potential benefits for the U.S. economy simply do not outweigh the definite risks. The possible benefits are tiny: The entire GDP of the six countries is about the same as New Haven, Connecticut's. At serious risk are American jobs in sugar and a host of other sectors.

- The government's own analysis, by the International Trade Commission (ITC), predicts that at the end of the 15-year implementation period, the U.S. trade *deficit* with the CAFTA region will have *increased*, not fallen, to $2.4 billion. *("U.S.-Central America-Dominican Republic Free Trade Agreement: Potential Economywide and Selected Sectoral Effects,"* Investigation No. TA-2104-13, August 2004.) Other ITC findings from the same study:

    - Job losses in the sugar sector will be 38 times greater than job loss in the next most harmed sector, textiles. ITC also predicted American job losses in electronic equipment, transport equipment, oil, gas, coal and other minerals.

    - The U.S. already has 100% duty-free access for wheat exports to the CAFTA countries.

- The U.S. already accounts for 94% of the small CAFTA market's grain imports; and 95% of soybean imports.

- The U.S. gets immediate tariff-free access only for prime and choice cuts of beef. With 40% of the CAFTA population earning less than $2 per day, the demand for such expensive cuts of beef cannot be great.

- FTAs such as the CAFTA distract from, and harm, the progress toward genuine trade liberalization in the WTO.

  For example, after the CAFTA countries have spent years negotiating special access to the United States, the world's biggest market, why should these countries cooperate in Geneva to provide the same access to the U.S. for the rest of the world?

  The FTA approach risks fragmenting the world economy into to a matrix of trading blocs, each with its own tariff wall around it to protect the subsidies within. Only in the WTO can we address both the tariff walls and the subsidies within.

- Opposition to the CAFTA is widespread.

  The American public correctly perceives that CAFTA dangers outweigh the risks. Polls indicate a majority of Americans opposes the CAFTA, including pluralities of Republicans, Democrats, and Hispanics.

  Opposition extends to labor, environmental, textile, human rights, and faith-based organizations, both here and in the CAFTA countries.

  Some national farm groups oppose CAFTA, some others are split. American farmers have grown understandably skeptical that the promises of trade agreements and other efforts to expand U.S. exports far exceed actual performance. In 1996, the U.S. achieved a record agricultural trade surplus of $27.3 billion. In 2004, 11 years into the NAFTA, 10 years into the Uruguay Round Agreement on Agriculture, and 9 years after the 1996 Freedom to Farm Bill reduced commodity prices to encourage more exports, our ag trade surplus has plummeted to zero *(Chart 3)* – despite the weaker dollar that made our exports more competitive. Our ag imports have skyrocketed under these agreements; our exports have been essentially flat.

  The CAFTA promises more of the same, particularly in the near term. U.S. import concessions are frontloaded – concentrated in the early years of the agreement – and CAFTA-country import concessions are backloaded, to the final stages of the 15-year implementation period.

As the Senators from sugar-producing states know, if the CAFTA passes, it will have devastating effects on the U.S. sugar industry. Our farmers know their industry and their policy well, and have examined the CAFTA provisions soberly and carefully. We regard the CAFTA as a fully genuine, life-or-death issue. Our farmers, whose livelihoods are at stake, are insulted when USTR trivializes the potential harm from this agreement with cutesy, misleading estimates such as the amount of additional access in teaspoons per consumer or production per day.

We are already one the world's most open sugar markets. Past trade-agreement concessions have made us the world's fourth largest net importer. We are required, under WTO concessions, to import 1.256 million short tons of sugar per year from 41 countries, essentially duty free, whether we need the sugar or not. *The six CAFTA countries are already our largest duty free supplier, accounting for 27% of our WTO-required imports.* In addition, we are required under the NAFTA to import up to 276,000 short tons per year of Mexican surplus sugar production, again, whether we need the sugar or not.

Unfortunately, U.S. sugar consumption has declined in recent years, rather than grown. As a result, every additional ton of sugar we are forced to import from foreign countries is one ton less that struggling American sugar farmers will be able to produce or sell in their own market.

U.S. sugar policy is unique. It is the only U.S. commodity policy designed to operate at no cost to taxpayers. During this time of enormous federal budget pressures, American sugar farmers are proud to have a program with no budgetary costs *(Chart 4).*

Congress in the 2002 Farm Bill provided an inventory management approach for sugar and a mandate for the Administration to operate the program at no cost by avoiding sugar loan forfeitures. The Administration has two tools to balance the domestic market: the WTO-legal tariff-rate import quota and domestic marketing allotments. Basically, USDA forecasts U.S. sugar consumption, subtracts required WTO and NAFTA imports, and sets the remainder as the American sugar producers' share of their own market. With a large part of our market guaranteed to foreign suppliers, American sugar farmers – taxpayers, businessmen, and cooperative owners – must line up behind the foreign farmers for access to their own U.S. market. If we produce more sugar than our marketing allotment, our producers store the excess *at their own expense*, not the government's expense, until that sugar is needed.

Congress stipulated that if imports exceed 1.532 million short tons – the sum of the WTO commitment of 1.256 million short tons and the NAFTA/Mexico commitment of up to 276,000 short tons – USDA would lose its authority to administer marketing allotments and sustain no-cost sugar-program operation. In effect, the Congress was saying: Though American sugar producers are among the world's most efficient, we have already ceded to foreign producers over 1.5 million short tons of the U.S. market. Let's reserve the remainder of the U.S. market for American farmers, rather than giving our market away, piecemeal, to foreign producers in FTAs *(Charts 5, 6).*

American sugar producers are currently storing at their own expense about 600,000 tons of surplus sugar, and many are reducing acreage, idling or shutting down mills – many of them farmer owned – to absorb the oversupply. Sugar prices have been flat or depressed for some time – the raw cane sugar support price has been the same 18 cents per pound for 20 years now, since 1985; prices in 2004 averaged 11% lower than in 2003 *(Charts 7, 8)*. Unlike other program crops, sugar farmers receive *no* income support from the government to compensate for low market prices. This allows scarce federal dollars to be directed toward assisting farmers of export crops.

Sugar farmers, meanwhile, are making wrenching adjustments to survive, or just going out of business. Fully a third of all U.S. beet and cane mills and refineries have closed just since 1996, 30 plants in total *(Chart 9).*

As independent beet processors and cane refiners have gone out of business, beet and cane farmers, desperate to retain outlets for their beets and raw cane sugar, have organized cooperatively to purchase those operations. Beet farmers now own 94% of U.S. beet processing capacity and cane farmers own 57% of U.S. cane refining capacity *(Chart 10).*

This vertical integration has helped to increase efficiency, but growers have literally mortgaged the farm to stay afloat and are deeply in debt. Since sugar farmers derive 100% of their return from the marketplace and none from government payments, they are more dependent on, and more vulnerable to, market forces than other farmers. Sugar farmers are generally unable to switch to other crops because of their commitment to supplying beets and cane to the processing mills they now own. This makes sugar farmers all the more vulnerable to the type of market disruption the CAFTA would be likely to cause.

Sugar farmers based their investment decisions on the promise in the 2002 Farm Bill of volume and price levels that would enable them to remain in business and repay their loans. The CAFTA, and other FTAs, now threaten to break that promise.

Low, Steady U.S. Consumer Prices for Sugar

The low producer prices for sugar over the past several years have been a hardship for sugar farmers and caused considerable job loss as mills have closed. Unfortunately, consumers have seen no benefit from the low producer prices for sugar. Though wholesale sugar prices in 2004 averaged 11% lower than the previous year and 20% less than in 1996, consumer prices for sugar in the grocery store have risen modestly; and, sweetened product prices have continued a steady rise, at least with the overall rate of inflation *(Chart 11).*

Nonetheless, American consumers are getting a great deal on the sugar they purchase, with low, steady prices. U.S. retail sugar prices are essentially unchanged since the early 1990's. And new figures from LMC International show that the foreign developed-country retail sugar price averages 30% higher than the United States.' EU average prices

are 35% higher than the United States', and retail sugar prices in Australia and Canada, which claim to be exposed to world dump market sugar, are virtually the same as prices here *(Chart 13). ("Retail and Wholesale Prices of Sugar around the World*," LMC International Ltd, Oxford, England, April 2005.)

Taking into account developing countries, and varying income levels, LMC discovered that sugar here is about the most affordable in the world. In terms of minutes of work to purchase one pound of sugar, only tiny Singapore is lower; the world average is four times higher than the U.S. And, our expenditure on sugar as a percent of per capita income is the lowest in both the developed and the developing world *(Charts 13, 14).*

World Average Wholesale Prices are Double Dump Market Levels

In the same survey, LMC also examined wholesale refined prices and found that the global average is 22 cents per pound – double the world dump market average price for 2004 – and about the same as the United States'. This reinforces the meaninglessness of the world dump price. Globally, the vast majority of sugar is sold in domestic markets at price levels that are, on average, double the world dump market price and similar to the United States' *(Chart 15).*

It is worth noting that LMC found wholesale prices in Mexico to be 5 cents higher than the United States' 23 cents per pound, and Canada's price to be just 2 cents lower. This contradicts notions that U.S. candy manufacturers are moving to these countries for lower sugar prices. Other factors are far more important in those decisions. For example, the same candy company that paid average wages in Chicago of more than $14 per hour now pays an average of 56 cents per hour in Juarez, Mexico *(Chart 16).*

CAFTA: Short and Long-term Dangers to U.S. Sugar Market

Despite the fact that our market is already oversupplied, and despite the fact that the six CAFTA countries already supply more than a fourth of our guaranteed duty-free imports, the proposed CAFTA more than doubles the five Central American countries' duty-free access to the U.S. market, an increase of 111%. With an additional, smaller concession to the Dominican Republic, additional imports would total 120,000 short tons in the first year, growing to 169,000 short tons per year in year 15, and an additional 2,910 short tons per year forever after *(Chart 17).*

The CAFTA poses serious short-term and long-term dangers to the U.S. sugar industry.

1. In the short term, the CAFTA sugar market-access concessions – on top of import commitments the U.S. has made already in the WTO, to 41 countries, and in the NAFTA, to Mexico – will prevent the USDA from administering a no-cost U.S. sugar policy, as Congress directed it to in the 2002 Farm Bill, and will badly further oversupply the U.S. sugar market.

The additional concessions will trigger off the marketing allotment program that permits USDA to restrict domestic sugar sales and balance the market. Absent marketing allotments, surplus U.S. sugar – the 600,000 tons producers are currently holding off the market and storing it at their own expense – would cascade onto the market and destroy the price.

- Contrary to USTR's misleading claims, there is no "cushion" – no amount of additional import access Congress intended to make available in FTAs. The difference between recent actual imports and the 1.532-million-ton trigger has already been allocated to Mexico under the NAFTA. Mexico has not recently had the surplus sugar available to send to the U.S. But surplus Mexican sugar may soon become available again, with improved crops and with the successful conclusion of sweetener-trade discussions with Mexico that Members of Congress from sugar and corn states strongly support.

  We find it disturbing that USTR would ignore commitments made in past agreements in order to promote new agreements.

2. In the longer term, the CAFTA is the tip of the FTA iceberg.

   Behind the CAFTA countries, 21 other sugar-exporting countries are lined up, like planes on a tarmac, waiting to do their deal with the U.S. and, no doubt, expecting no less access than already granted to the CAFTA countries. Combined, these 21 countries export over 25 million tons of sugar per year, nearly triple U.S. sugar consumption. Obviously, the precedent the CAFTA concession would set will make it impossible for the U.S. sugar industry to survive future agreements *(Charts 18, 19).*

   The U.S. is pushing to complete the Panama, the Andean, and the Thailand FTAs this year. The South Africa Customs Union FTA and the Free Trade Area of the Americas are on hold, but still very much on the Administration's FTA agenda. All these involve major sugar producers and exporters.

Conclusion

In conclusion, Mister Chairman, the dangers of the CAFTA to the U.S. economy outweigh the risks. We respectfully urge that this Committee reject the CAFTA, and focus U.S. trade liberalization efforts instead on the WTO, where there is a genuine potential for progress.

The CAFTA would devastate the U.S. sugar industry. We are, therefore, expending all possible resources and energy to urge Congress to defeat this ill-conceived agreement.

Thank you.

Chart 1

U.S. Cost of Production Rank Among World Sweetener Producers, 1997/98 – 2002/03

	U.S. Rank (Lowest = 1)	Number of Producing Countries/Regions
Beet Sugar	3	41
Cane Sugar	26	64

Source: "LMC Worldwide Survey of Sugar and Corn Sweetener Production Costs: 2003 Report," LMC International Ltd., Oxford, England, June 2004.

Chart 2

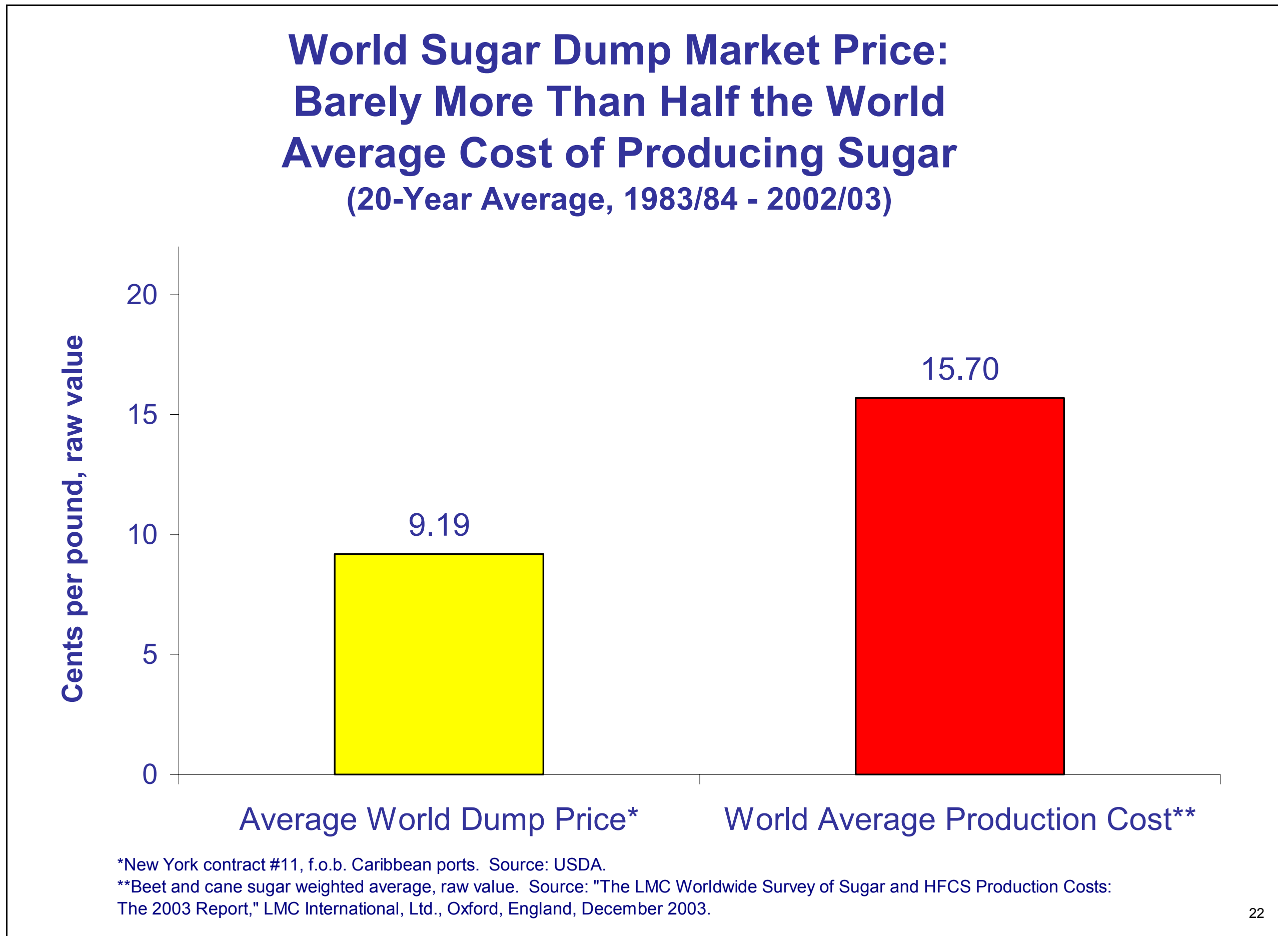

Chart 3

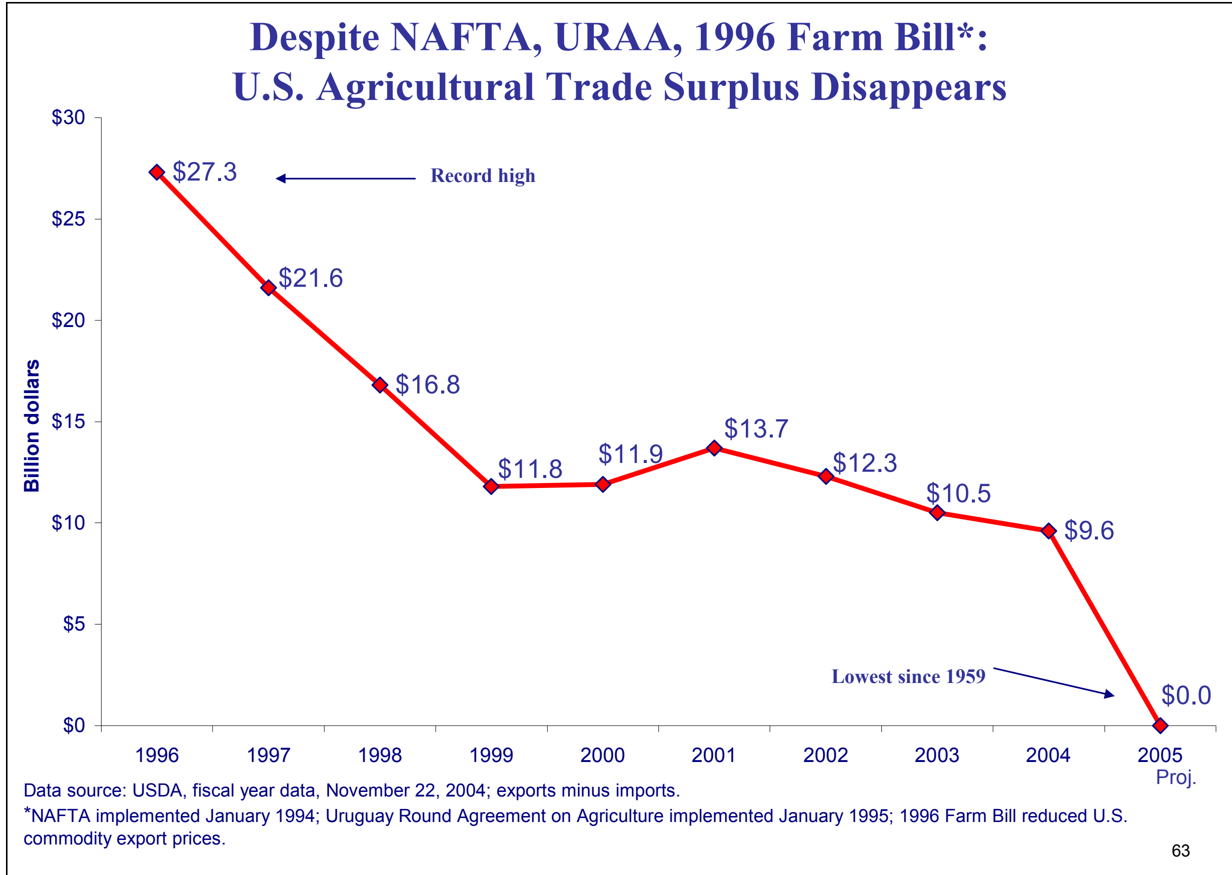

Chart 4

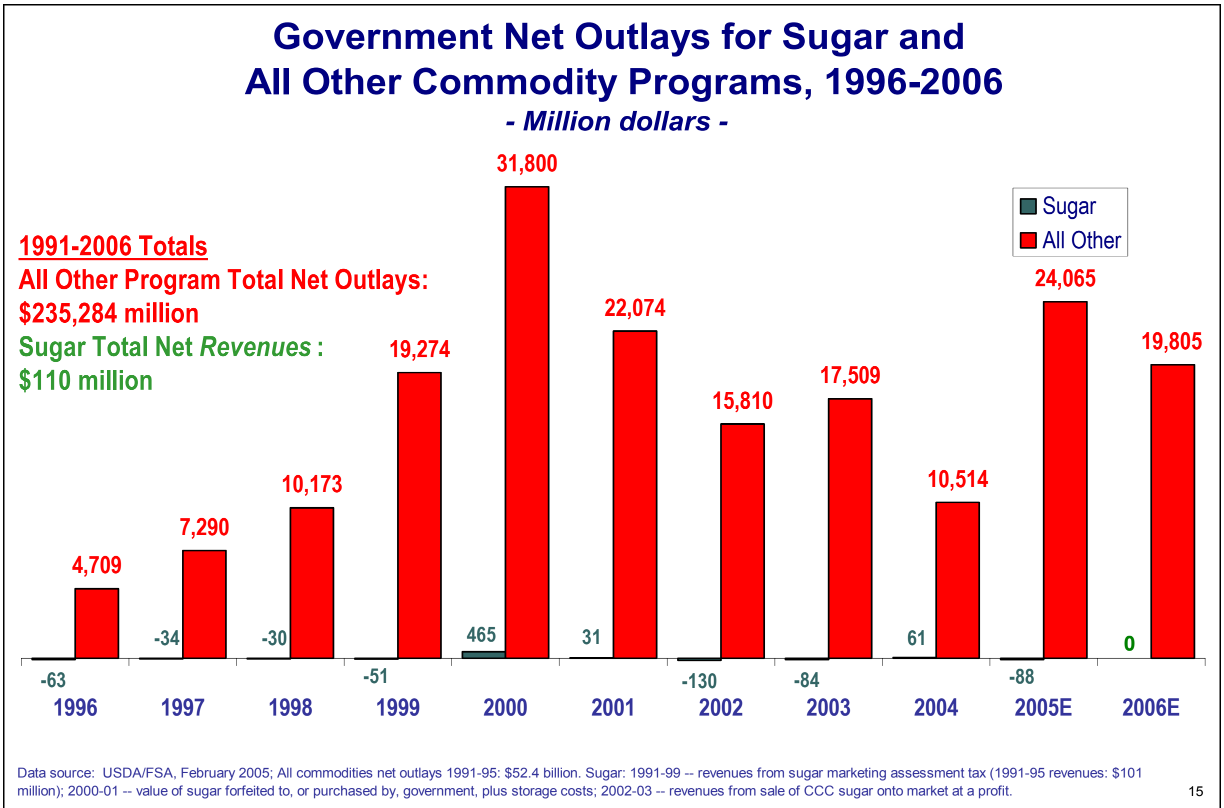

Chart 5

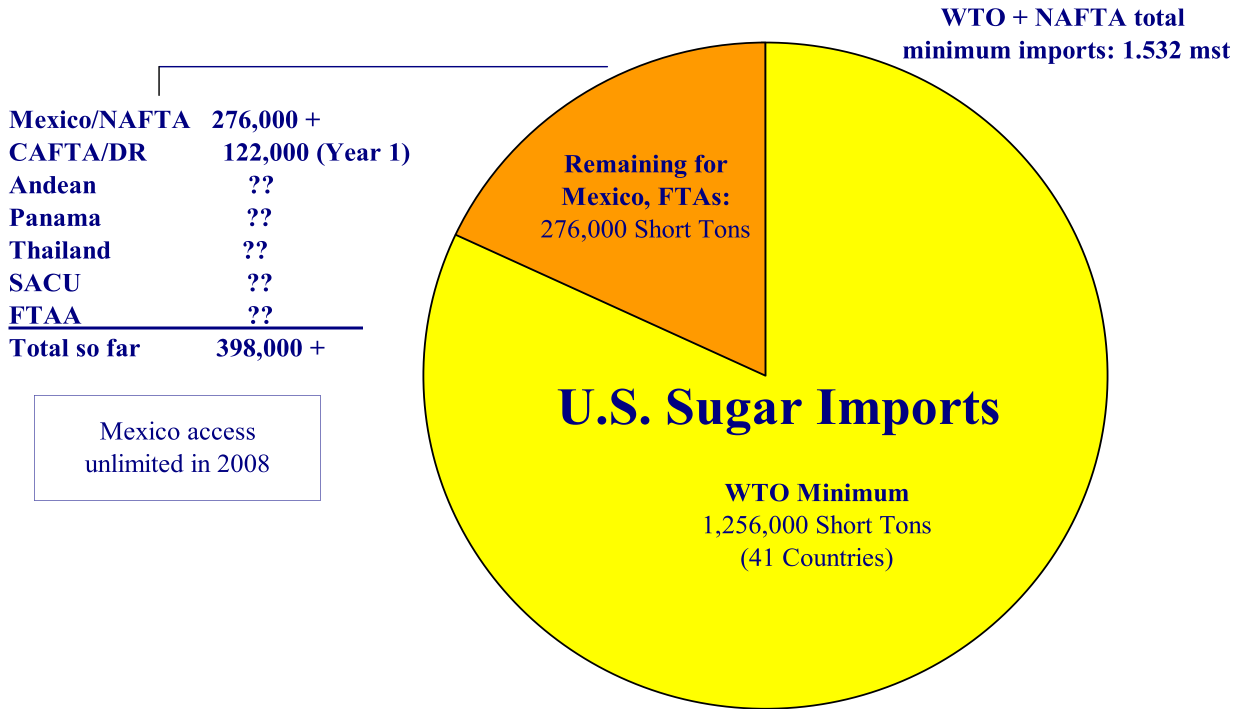

Chart 6

FTAs: Threat to Sugar

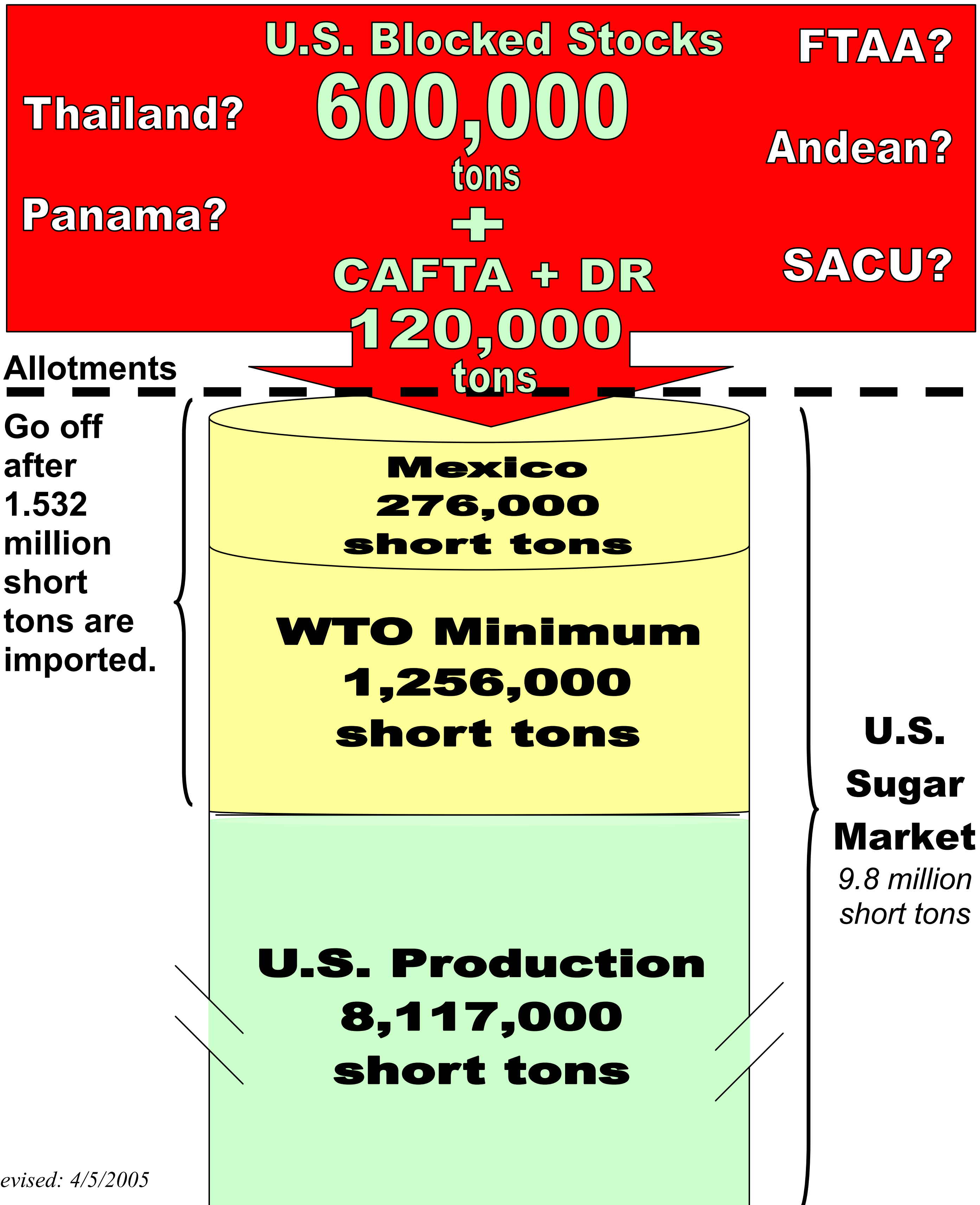

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Chart 7

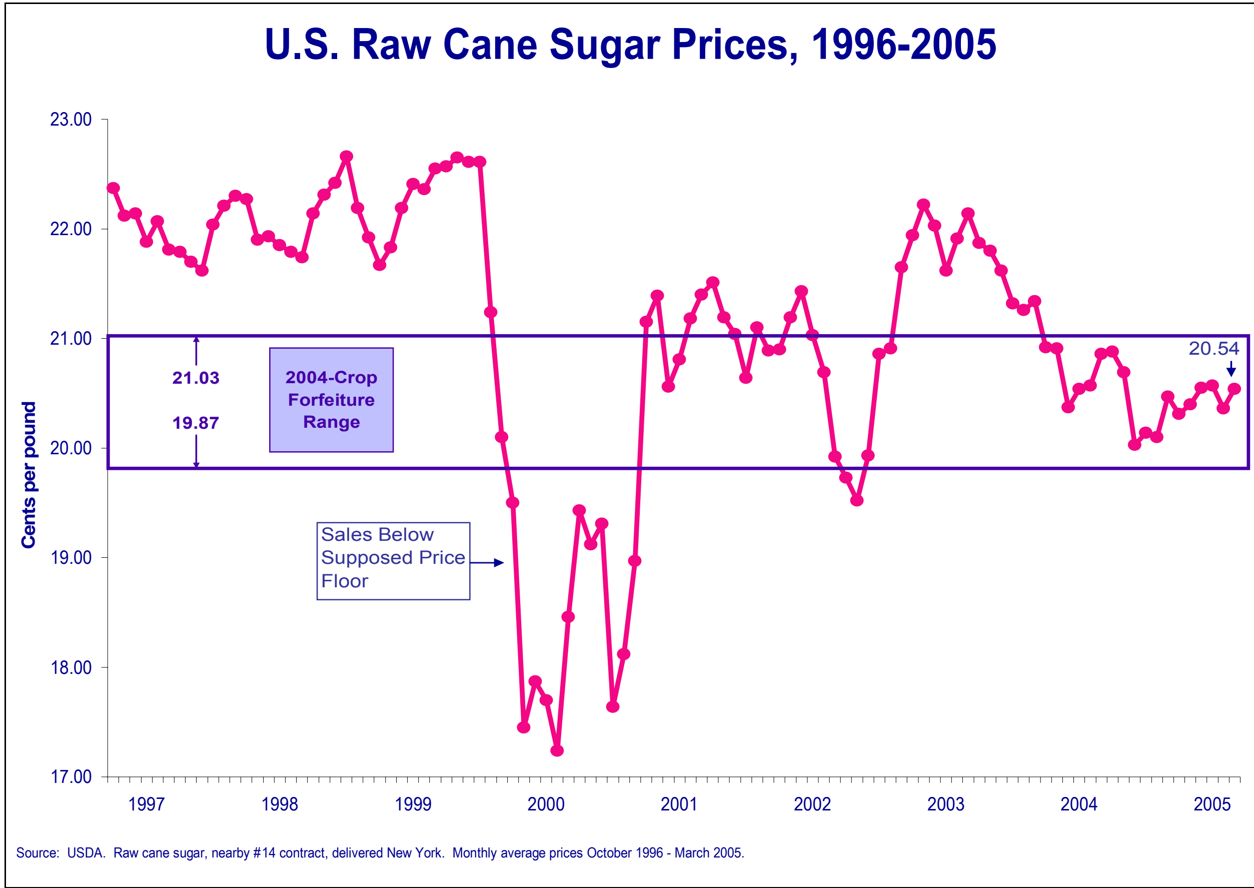

Chart 8

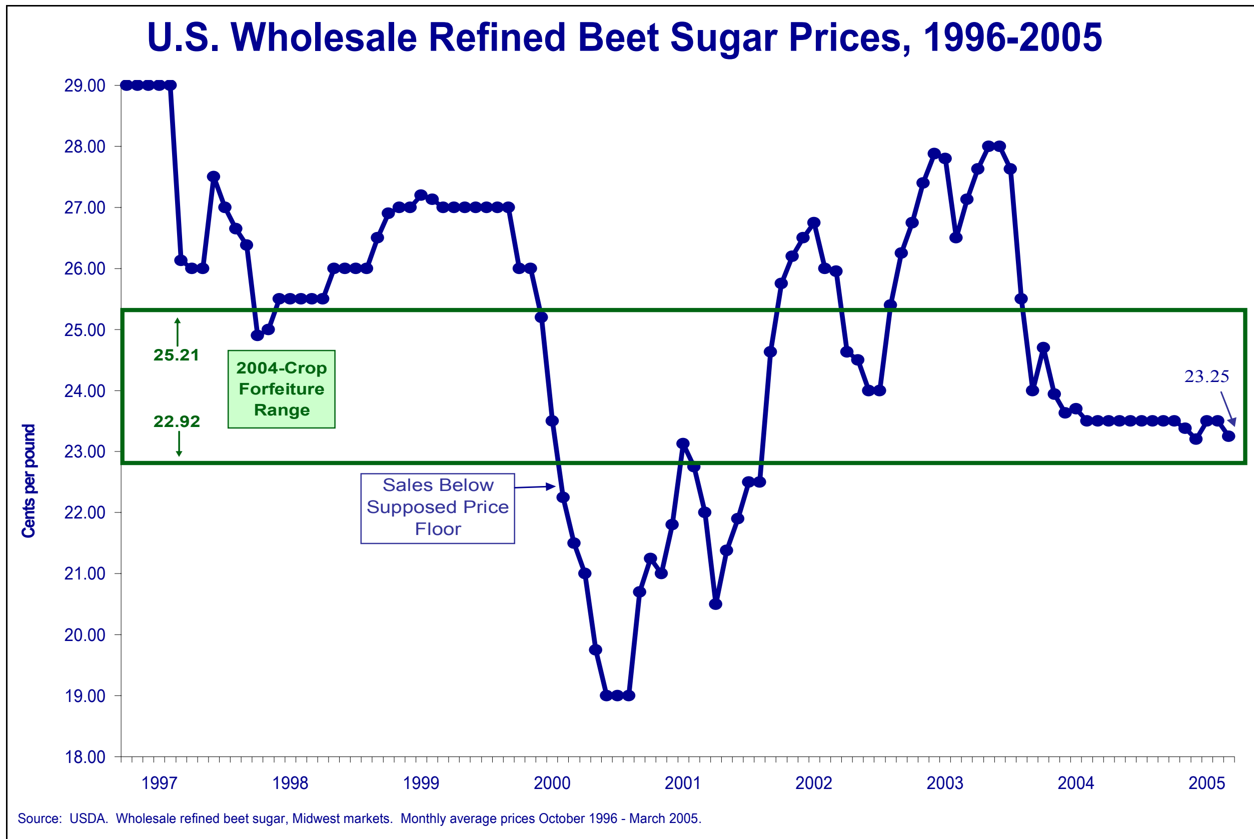

Chart 9

30 Sugar Mill and Refinery Closures Since 1996

BEET CLOSURES

- Spreckels Sugar, Manteca
  California, 1996
- Holly Sugar, Hamilton City
  California, 1996
- Western Sugar, Mitchell
  Nebraska, 1996
- Great Lakes Sugar, Fremont
  Ohio, 1996
- Holly Sugar, Hereford
  Texas, 1998
- Holly Sugar, Tracy
  California, 2000
- Holly Sugar, Woodland
  California, 2000
- Western Sugar, Bayard
  Nebraska, 2002
- Pacific Northwest, Moses Lake
  Washington, 2003
- Amalgamated Sugar, Nyssa
  Oregon, 2005**
- Michigan Sugar, Carrollton
  Michigan, 2005**

CANE CLOSURES

- Ka'u Agribusiness
  Hawaii, 1996
- Waialua Sugar
  Hawaii, 1996
- McBryde Sugar
  Hawaii, 1996
- Breaux Bridge Sugar
  Louisiana, 1998
- Pioneer Mill Company
  Hawaii, 1999
- Talisman Sugar Company
  Florida, 1999
- Amfac Sugar, Kekaha
  Hawaii, 2000
- Amfac Sugar, Lihue
  Hawaii, 2000
- Hawaiian Commercial & Sugar, Paia
  Hawaii, 2000
- Evan Hall Sugar Cooperative
  Louisiana, 2001
- Caldwell Sugar Cooperative
  Louisiana, 2001
- Glenwood Sugar Cooperative
  Lousiana, 2003
- New Iberia Sugar Cooperative
  Louisiana, 2005
- Jeanerette Sugar Company
  Louisiana, 2005
- U.S. Sugar, Bryant
  Florida, 2005*

CANE REFINERY CLOSURES

- Aiea, C & H
  Hawaii, 1996
- Everglades, Imperial
  Florida, 1999
- Sugarland, Imperial
  Texas, 2003
- Brooklyn, Domino
  New York, 2004

Note: In 2005, 24 beet factories, 21 raw cane mills, and 7 cane refineries remain in operation.
*Phasing out operations, 2005-07. **Suspended operations for 2005.

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Chart 10

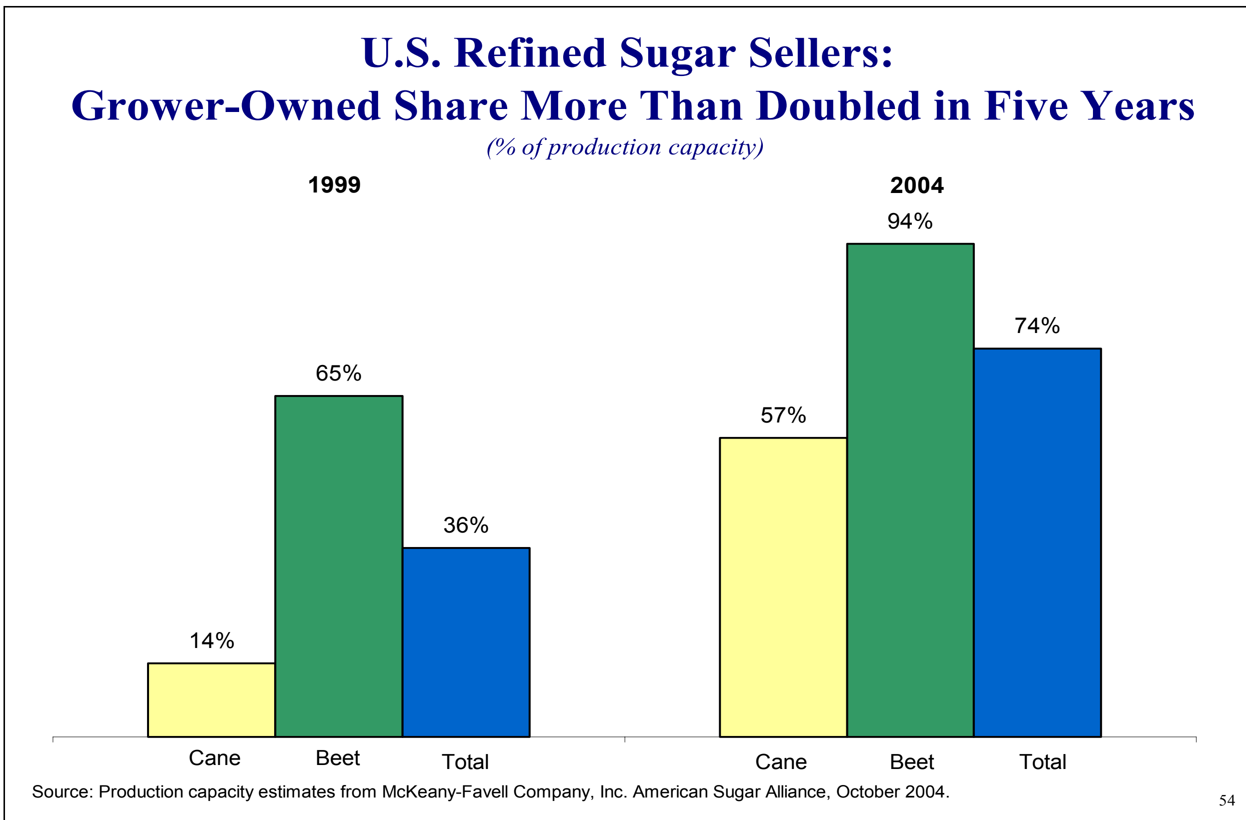

Chart 11

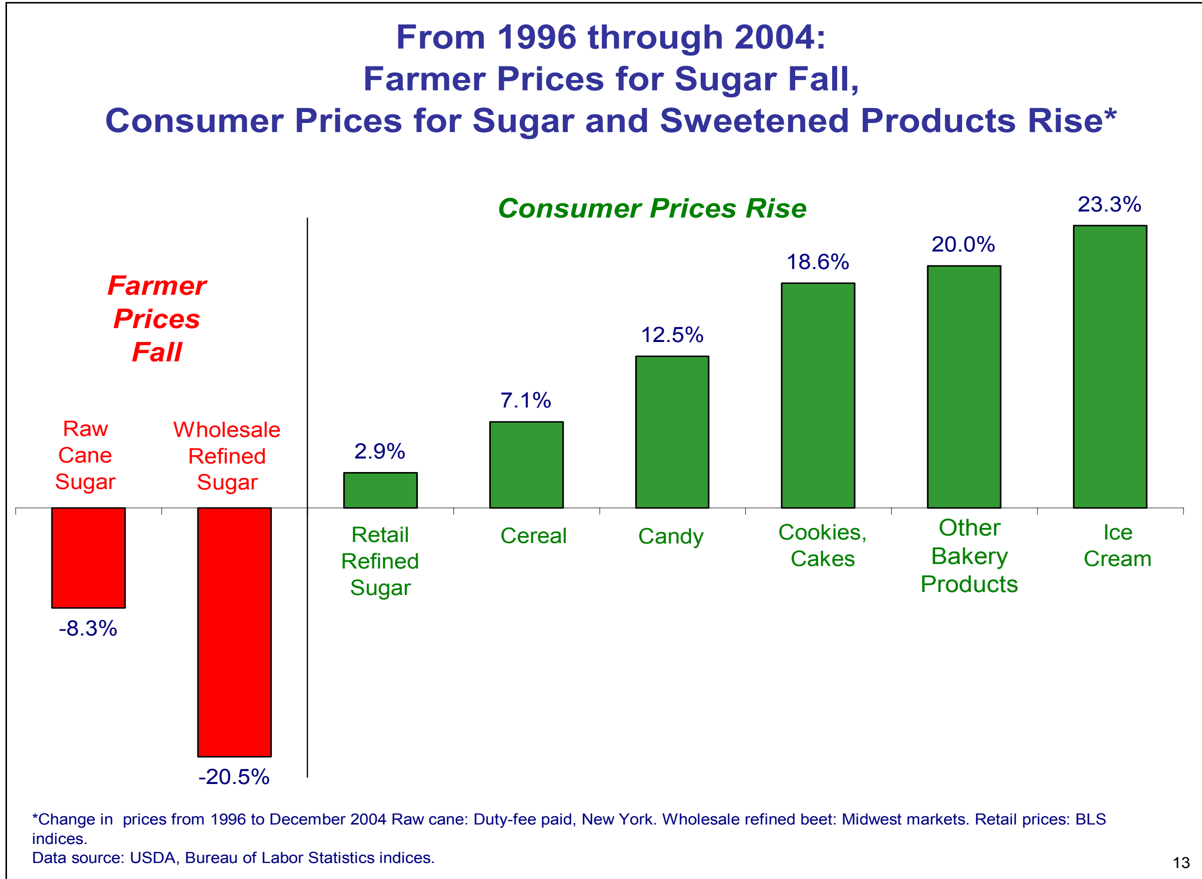

Chart 12

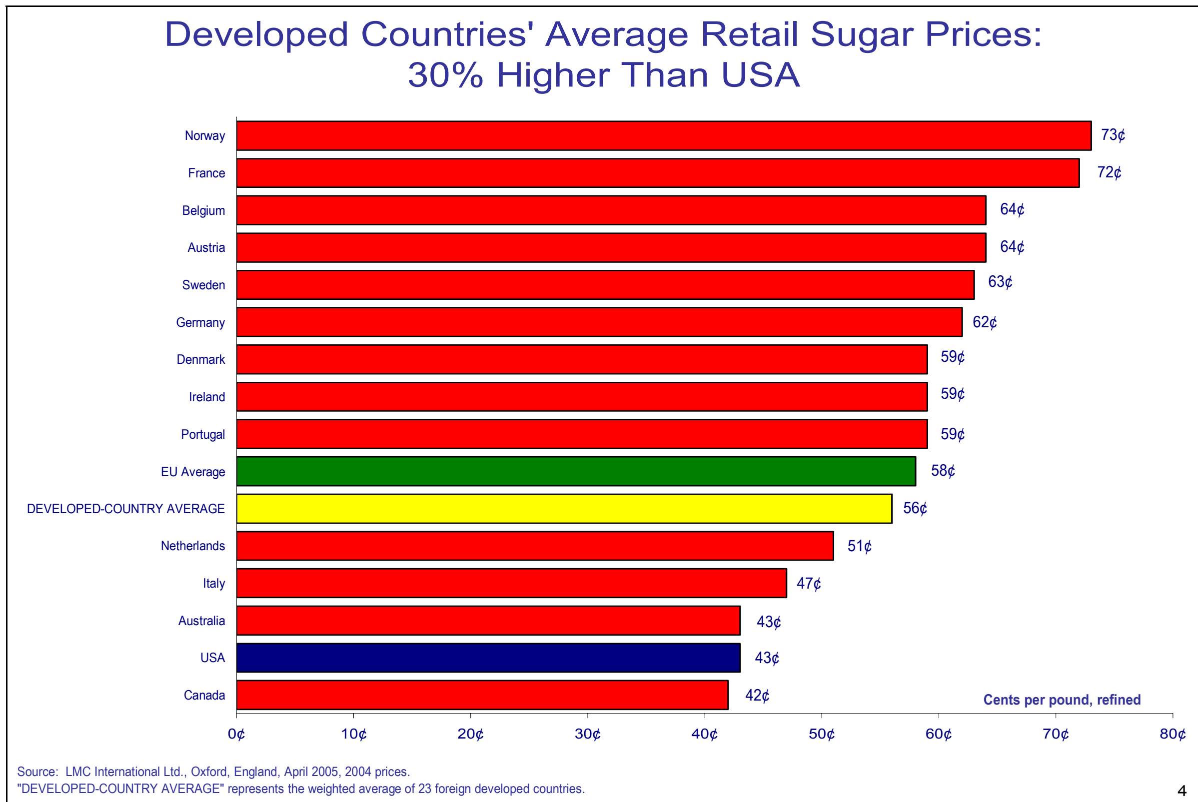

Chart 13

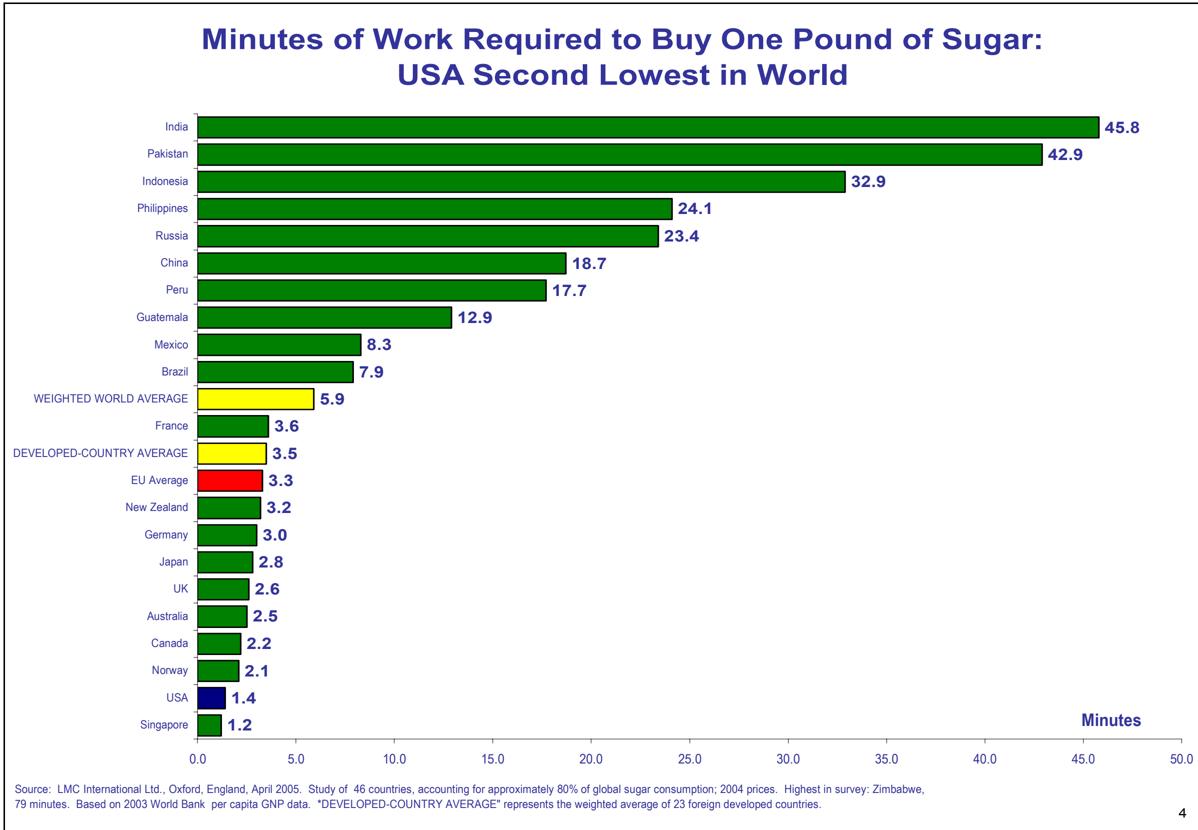

Chart 14

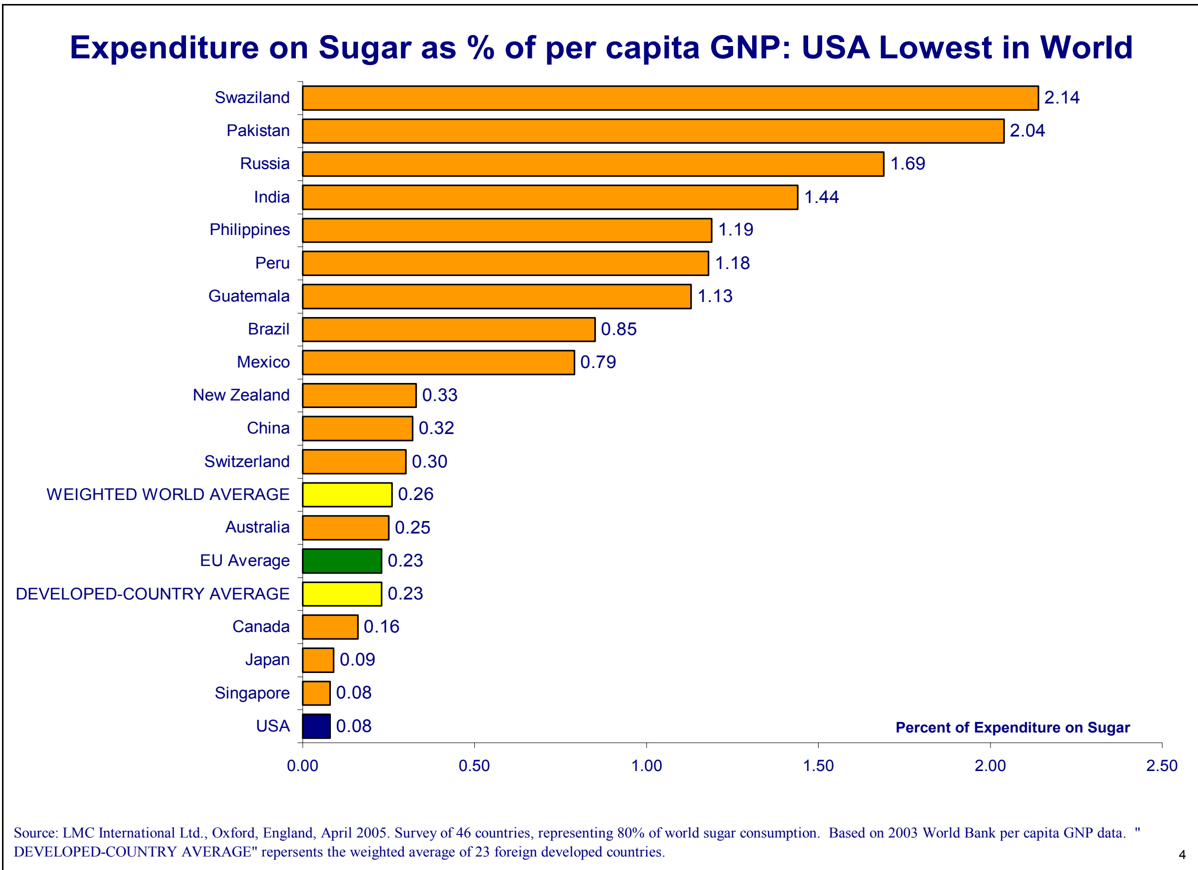

Chart 15

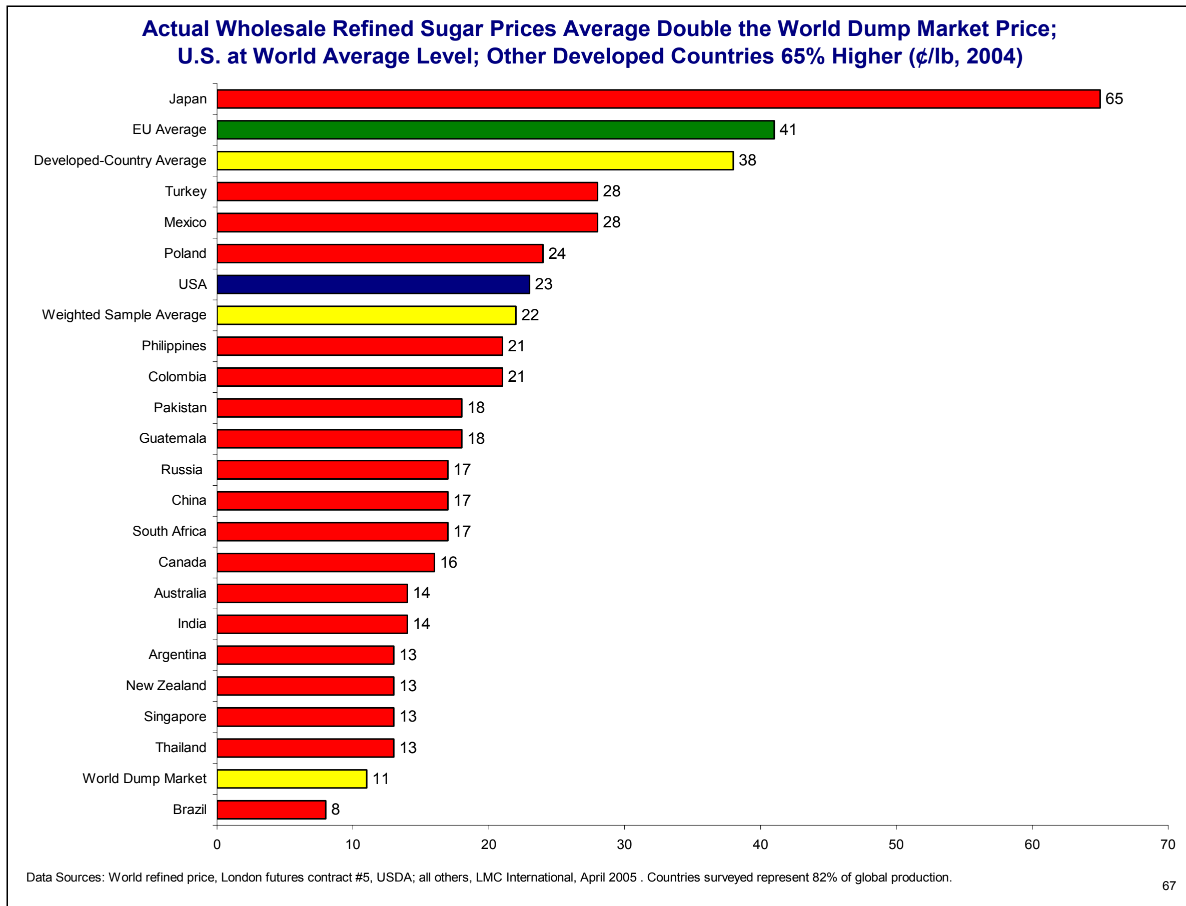

Chart 16

Candy companies don't flee America because of sugar

	U.S.	MEXICO	CANADA
Wages per hour	$14.04	$0.56	$12.50
Annual healthcare costs per worker	$2,400	$360	$605
Tax percentage	42%	9%	31%
Rent per square foot	$10.00	$4.00	$4.60
2004 wholesale sugar price per pound*	$0.23	$0.28	$0.21

Source: "North America's Confectionary Industries: Structure, Trade, and Costs and Trends in Sugar Demand," Peter Buzzanell & Associates, Inc., March 2003

*Source: "Retail and Wholesale Prices of Sugar Around the World in 2004," LMC International Ltd, April 2005

Chart 17

CAFTA & D.R.-FTA Sugar Import Access
(Metric Tons)

	2003/04 quota	Increase year 1	Increase year 15*	Total year 15	Annual increase year 16 onward
Guatemala	50,546	32,000	49,820	100,366	+ 940
El Salvador	27,379	24,000	36,040	63,419	+ 680
Nicaragua	22,114	22,000	28,160	50,274	+ 440
Honduras	10,530	8,000	10,240	20,770	+ 160
Costa Rica**	15,796	13,000	16,080	31,876	+ 220
TOTAL	**126,365**	**99,000**	**140,340**	**266,705**	**2,440**
Dominican Republic	185,335	10,000	12,800	198,135	+200

*CAFTA increases of varying increments during years 2-15; total CAFTA increase is 111% of 2003/04 quota share.

** Increase includes Costa Rica's additional TRQ of 2,000 mt of organic sugar.

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Chart 18

*Argentina, Australia, Barbados, Belize, Bolivia, Brazil, Canada, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, South Africa, St. Kitts & Nevis, Swaziland, Thailand, Trinidad & Tobago, Uruguay

Sources: USDA/FAS November 2004; USDA, April 2005 WASDE

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Chart 19

Potential U.S. Free Trade Agreement (FTA) Countries/Regions: Sugar Production and Exports, 2002/03 - 2004/05 Average, and Share of U.S. Raw Sugar Import Quota, 2004/05

Country	Production	Exports	U.S. TRQ Allocation
		-Metric Tons-	
North America			
Mexico	5,416,000	34,000	7,258
Canada	87,000	65,000	---
Caribbean[1]			
Barbados	40,000	40,000	7,371
Dominican Republic	503,000	186,000	185,335
Haiti	10,000	0	7,258
Jamaica	158,000	119,000	11,583
St.Kitts & Nevis	20,000	18,000	7,258
Trinidad & Tobago	83,000	55,000	7,371
Central America			
Costa Rica	393,000	167,000	15,796
El Salvador	497,000	275,000	27,379
Guatemala	1,970,000	1,368,000	50,546
Honduras	347,000	53,000	10,530
Nicaragua	370,000	194,000	22,114
CAFTA Total	**3,577,000**	**2,057,000**	**126,365**
Belize	109,000	96,000	11,583
Panama	172,000	45,000	30,538
North America Total[2]	10,175,000	2,715,000	401,920
South America			
Bolivia	390,000	135,000	8,424
Colombia	2,637,000	1,292,000	25,273
Ecuador	497,000	69,000	11,583
Peru	941,000	40,000	43,175
Andean Total	**4,465,000**	**1,536,000**	**88,455**
Argentina	1,772,000	255,000	45,281
Brazil	26,193,000	15,780,000	152,691
Guyana	324,000	300,000	12,636
Paraguay	118,000	20,000	7,258
Uruguay	142,000	27,000	7,258
South America Total	33,014,000	17,918,000	313,579
FTAA Total[2]	**43,189,000**	**20,633,000**	**715,499**
% of U.S. TRQ			***64.0%***
South Africa	2,621,000	1,222,000	24,221
Swaziland	583,000	263,000	16,850
SACU Total	**3,204,000**	**1,485,000**	**41,071**
Thailand	**6,939,000**	**5,080,000**	**14,743**
FTA Total[3]	**53,332,000**	**27,198,000**	**771,313**
% of U.S. TRQ			***69.0%***

1/ Excludes Cuba. 2/ North and South America, excluding United States and Cuba; includes CAFTA countries and Dominican Republic. 3/ FTA total less CAFTA and D.R.: production, 49.252 mmt; exports, 24.995 mmt.
Data Source: USDA/FAS, November 2004.