

WTO Impacts on U.S. Farm Policy
U.S. Views on WTO Domestic Policy Obligations
New Orleans, Louisiana
June 3, 2005

The U.S. Sugar Industry:
Status and Challenges

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U.S. Sugar Industry Views: *WTO Domestic Support*

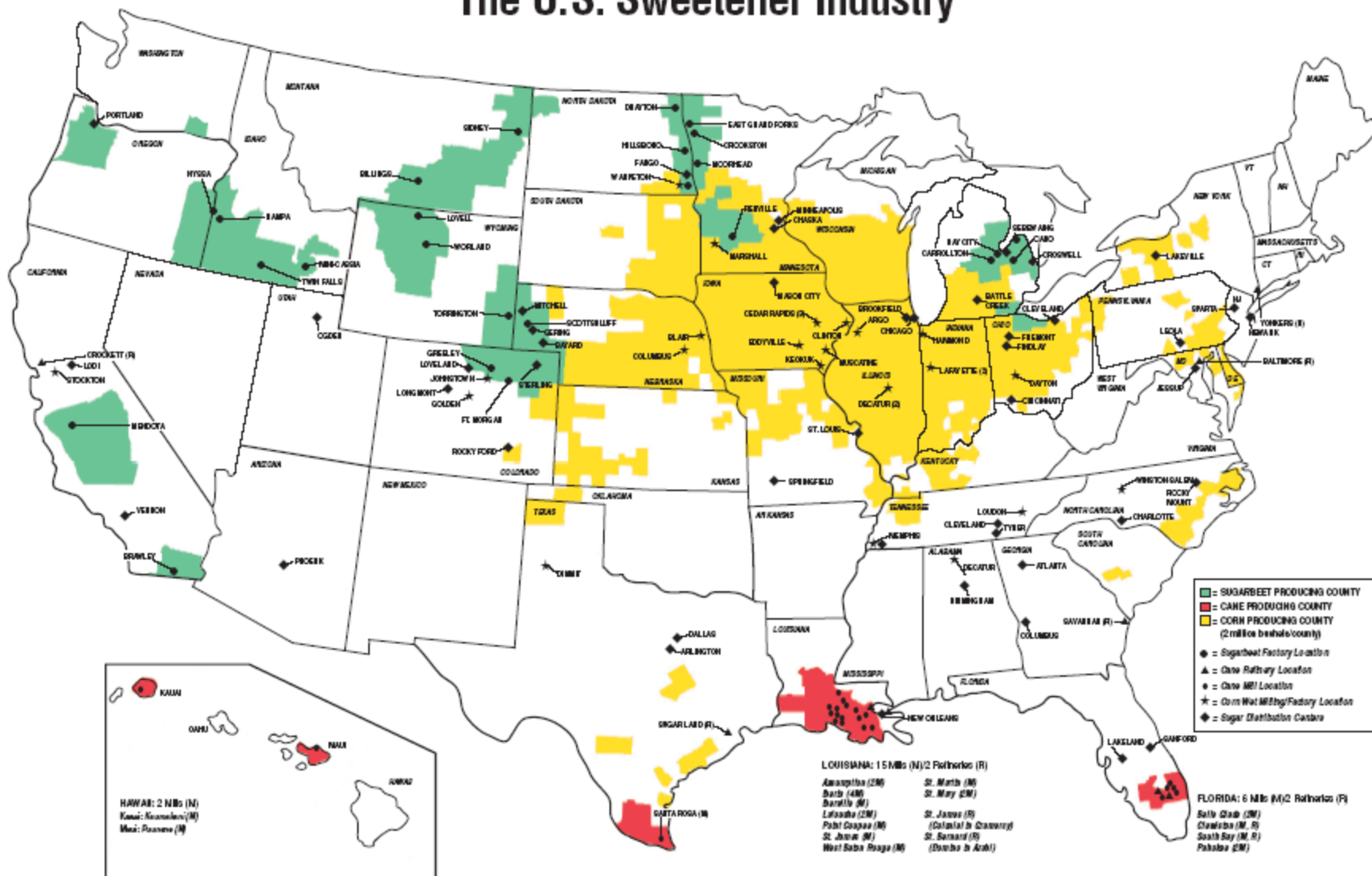
- State of the Industry
- WTO Framework and Domestic Support
- Positions: U.S. Agriculture/U.S. Sugar Industry
- Sugar in the WTO Negotiations
- The World Dump Price and Domestic Support
- Should U.S. Sugar Policy Be Fundamentally Changed?

U.S. Sugar Industry: Status and Challenges

Industry Profile, Status

- Large, important, competitive U.S. industry
 - 146,000 jobs in 19 states
 - About \$10 billion in annual economic activity
 - Rough balance of beet and cane sugar production; sugar and corn sweetener consumption
 - Political alliance with corn industry
- World's largest 5th largest producing, consuming country; 4th leading net importer
- Among world's lower cost producers

The U.S. Sweetener Industry



U.S. Sugar Industry: In Common With Other Crops

Like other U.S. farmers, American sugar farmers are:

- Efficient by world standards
- Ready to compete with foreign farmers on a level playing field
- Concerned about unfair, subsidized foreign competition
- Struggling to cope with cost inflation, declining real prices for ag commodities

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

	U.S. Rank (Lowest = 1)	Number of Producing Countries/Regions
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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.

Domestic Support (DS):

WTO FRAMEWORKS CALLS FOR:

- Substantial Reductions in Trade-Distorting DS [per Doha Declaration]
- Overall Reduction in AMS + de Minimis + Blue Box via Tiered Formula [greater cuts for those with higher levels of support; US will likely fall in second tier; EU in top tier]
- Tiered Cuts in Bound Levels of AMS (Amber Box) support. (now \$19.1 billion for U.S.)
- Caps on product-specific AMS at average levels – “methodology to be agreed.”
- Reductions in De Minimis DS
- Cap on Blue Box Support : 5% total value of ag production
- Review and Clarification of Green Box criteria

Overall U.S. Position On Agriculture

Negotiations:

- U.S. Willing to Make Major Changes/Cuts in its Farm Support Program –But Only If Major Improvement in Access to Other WTO Markets.
- Strong Reasons to Doubt Such Improvements Will Be Forthcoming.

Market Access Improvement Impeded By:

- Loopholes for Developing Countries Include: Lower cuts, Longer Transition Periods, Special Products, Special Safeguards, Cuts Made from Bound not Applied Tariffs
- G-10 (Japan, Korea, Switzerland, etc) Unlikely to Agree to Significant Market Opening
- EU Reform Not Likely to Result in Real Improvement in Market Access [b/c have switched from price support to direct payments can make tariff cuts w/o actually improving access.]]

U.S. Sugar Industry Position: WTO Negotiations:

- Changes in U.S. Sugar Program, Domestic and Import, Should be Contingent on Achievement of Fundamental Reform of the Grossly Distorted World Sugar Market.
- Prospects for Such Reform Do Not Appear Bright at This Point [EU pledge to eliminate export subsidies but little interest so far in comprehensive product specific approach, S&D problem, three pillar approach appears ill-suited to get at range of distorting policies, esp. indirect, non-transparent]

U.S. Sugar and Trade Policy

Trade Policy Opportunities and Dangers

U.S. sugar producers have endorsed goal of genuine global free trade in sugar: Efficient, can compete.

- Global problem: *Address sugar subsidies globally, in WTO*
- Do *not* address partially, piecemeal:
 - FTA approach: Ineffective, dangerous – wrench open markets w/o addressing subsidies
 - Virtually every FTA ever done excludes sugar

U.S. Sugar and Trade Policy

To address global sugar subsidies:

Sector-specific WTO approach:

1. All countries – including developing countries – 75% of sugar production, exports
2. All programs – including non-transparent or indirect supports

Summary of Support for Sugar Industry in Selected Countries, 2002 -- Direct Supports

	Australia	Brazil	China	Colombia	Cuba	EU	Guatemala	India	Japan	Mexico	Russia	S. Africa	Thailand	Turkey
TRANSPARENT SUPPORT														
Domestic Market Controls														
Production Quotas						✓								✓
Guaranteed Support Prices			✓			✓		✓	✓				✓	✓
Supply Controls								✓						
Market Sharing/Sales Quotas				✓			✓			✓		✓	✓	
Import Controls														
Import Quota			✓								✓	✓		
Import Tariff		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Import Licences			✓										✓	✓
Quality Restrictions							✓		✓					
Export Support														
Export Subsidies				✓		✓		✓						✓
Import Tariff Level (refined, a.v. or equivalent)	0%	18%	75%	20%	10%	164%	20%	68%	71%	172%	50%	46%	96%	138%

Review of sugar policies in major sugar industries: Transparent and non-transparent or indirect policies

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Summary of Support for Sugar Industry in Selected Countries, 2002 -- Indirect Supports

	Australia	Brazil	China	Colombia	Cuba	EU	Guatemala	India	Japan	Mexico	Russia	S. Africa	Thailand	Turkey
NON-TRANSPARENT SUPPORT														
Direct Financial Aid														
State Ownership			✓		✓					✓				✓
Income Support	✓	✓				✓			✓				✓	
Debt Financing	✓	✓								✓	✓	✓	✓	
Input Subsidies								✓		✓	✓	✓	✓	✓
Indirect Long Term Support														
Single Desk Selling	✓			✓	✓							✓		
R&D Subsidies								✓				✓		✓
Efficiency Programs	✓													
Ethanol Programs/Subsidies		✓		✓		✓							✓	
Consumer Demand Support			✓		✓					✓				✓
Domestic Wholesale Sugar Price (cents/lb)	13.5	8.1	16.9	21.1	0.1	30.4	18	12.7	65.4	25.6	16.5	17.3	11.8	27.9

Review of sugar policies in major sugar industries: Transparent and non-transparent or indirect policies

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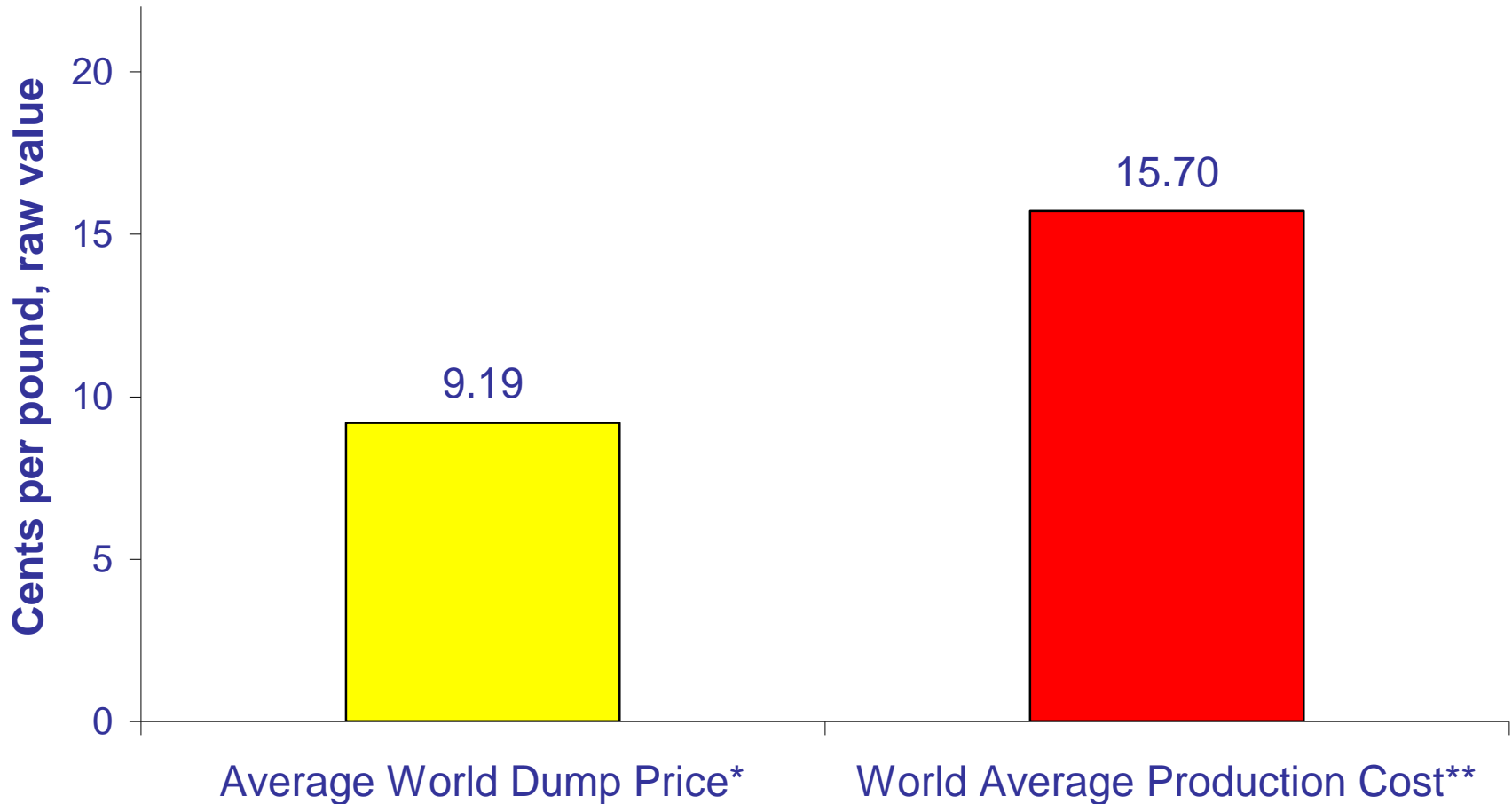
Sugar In The WTO Negotiations:

- U.S. Cash Subsidies for Export Crops [cotton, wheat, corn, soybeans] Are Focus-- Not Sugar.
- While Aggressive Exporters Like Brazil, Thailand, Australia May Seek Major Cuts in DS, Large Group of ACP and Other Developing Countries Want to Maintain Good Prices, Preferential Access for Sugar in U.S. EU.
- Few Countries Willing to Expose Their Industries to World Dump Market

World Dump Market for Sugar

- World market price barely half world average cost of production for 20 years
 - But domestic wholesale prices average double the world price
- All countries' governments intervene to some degree
- Most price depressing factor of past 10 years: Brazil exports rise from 2 mmt/yr to 18 mmt
 - Ethanol cross subsidies; debt relief; low labor/environmental enforcement; currency devaluations

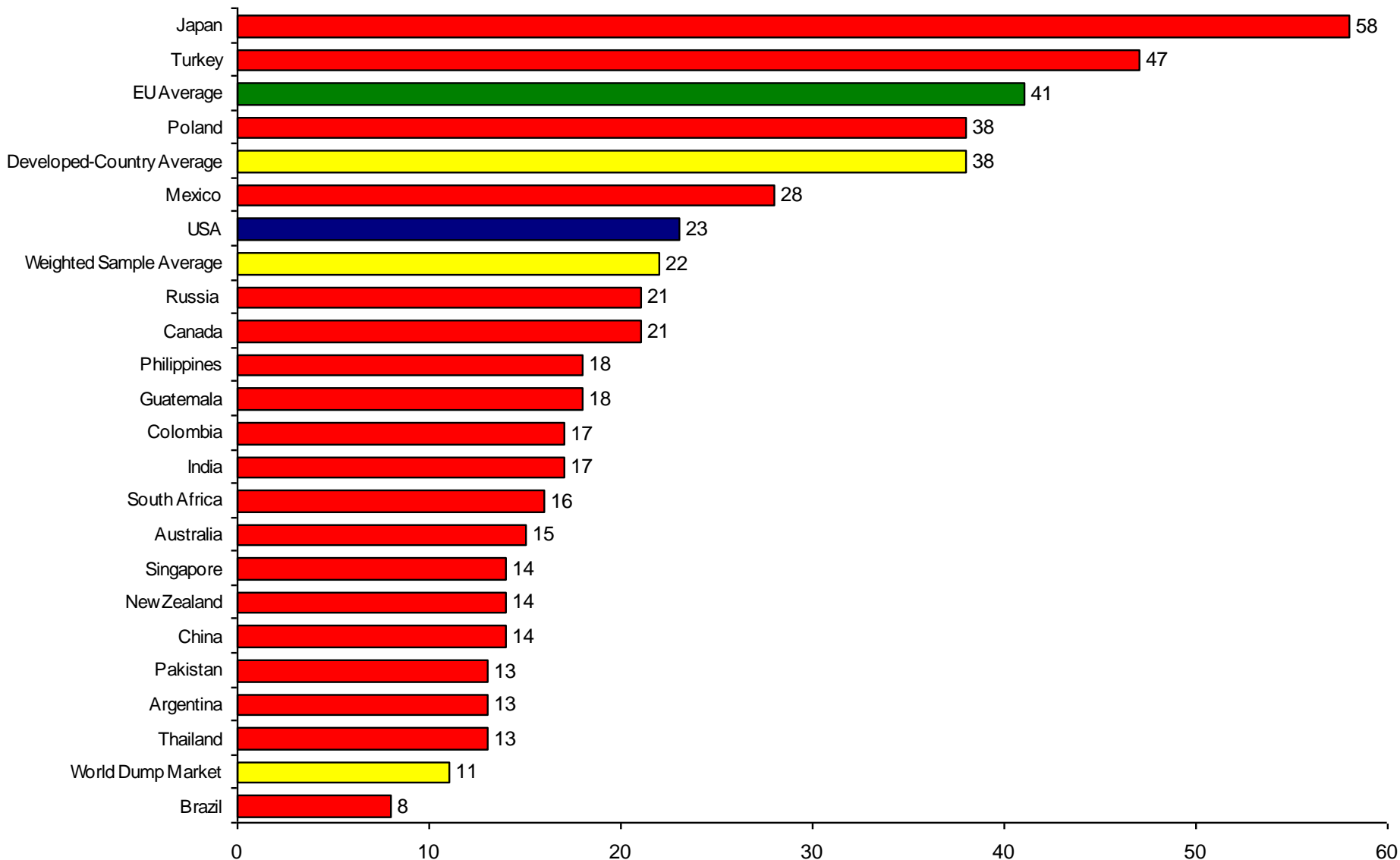
World Sugar Dump Market Price: Barely More Than Half the World Average Cost of Producing Sugar (20-Year Average, 1983/84 - 2002/03)



*New York contract #11, f.o.b. Caribbean ports. Source: USDA.

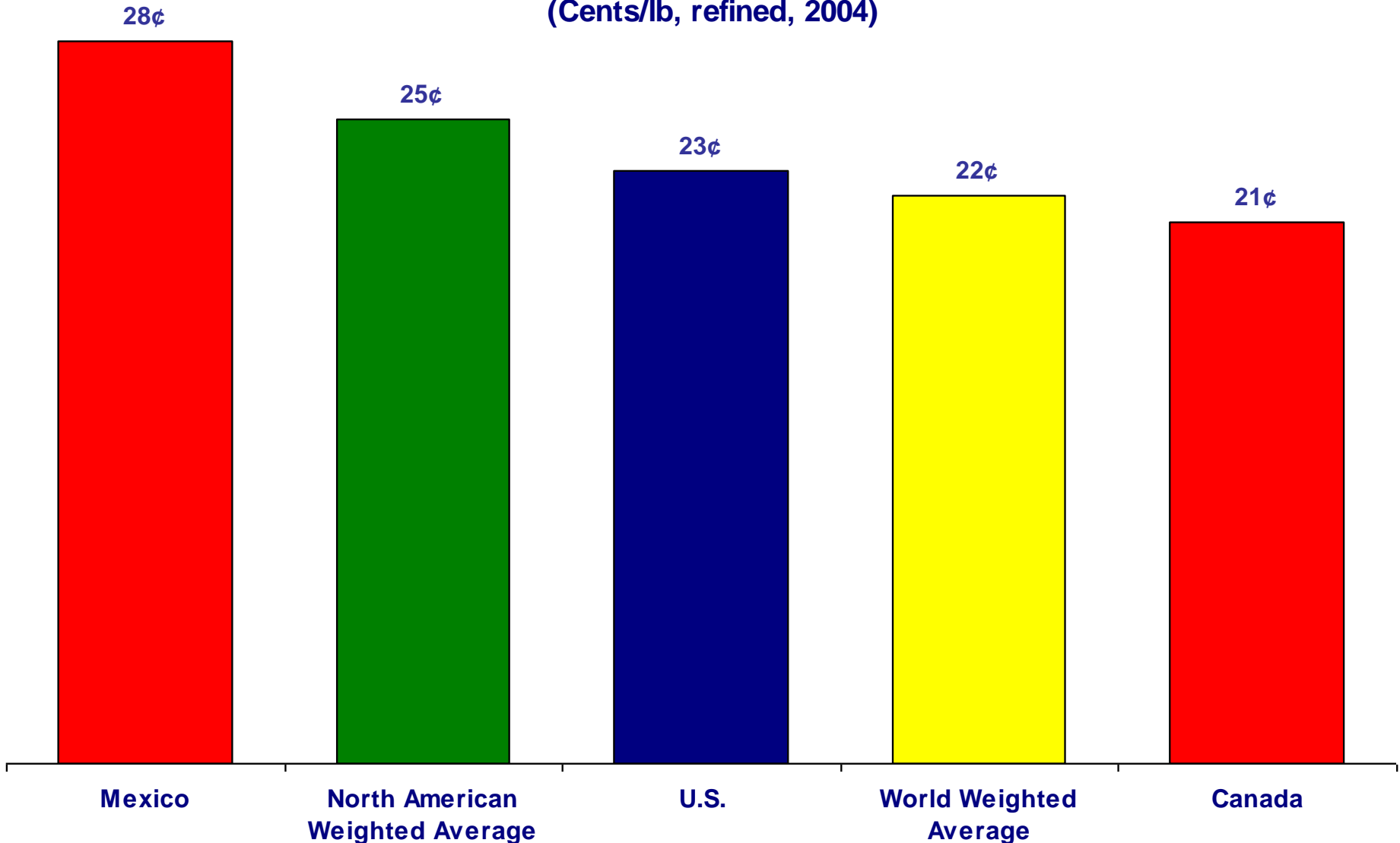
**Beet and cane sugar weighted average, raw value. Source: "The LMC Worldwide Survey of Sugar and HFCS Production Costs: The 2000 Report," LMC International, Ltd., Oxford, England, June 2004

**Actual Wholesale Refined Sugar Prices Average Double the World Dump Market Price;
U.S. at World Average Level; Other Developed Countries 65% Higher (¢/lb, 2004)**



Data Sources: World refined price, London futures contract #5, USDA; all others, LMC International, April 2005. Countries surveyed represent 82% of global production.

Wholesale Refined Sugar Prices, North American and World: U.S. Price Lower than Mexico, at Canada and World Level* (Cents/lb, refined, 2004)



*Source: LMC International Ltd, Oxford, England, April 2005: global survey of countries representing 77% of global sugar production.

Does AMS Really Measure U.S. Support For Sugar?

- Not a Real Subsidy. Abstract calculation of Difference Between U.S. Loan Rate and External Reference Prices. [Under UR, world dump prices 1986-88.]
- World dump price reflects neither production costs nor prices in national domestic market
- If true reform achieved, world price would rise and AMS calculation would decline.

2002 Farm Bill Sugar Provisions: Three Key Elements

1. Non-recourse loan program at no cost to the government

Two tools to administer at no cost:

2. Limit imports: TRQ

3. Limit domestic sales: Marketing allotments

- Expected consumption, minus imports
= U.S. producers' share of U.S. market

U.S. Sugar Policy: No Cost

Inventory management: Market-oriented solution to over-supply, mandatory imports.

U.S. sugar producers:

- Earn all returns from the marketplace
 - *No government payments*
- Store surpluses at their own expense to balance the market
 - *Shifts inventory management cost from government to producers*

U.S. Sugar Policy Benefits

Taxpayer, consumer benefits from
U.S. sugar policy

- *Taxpayer Benefits*: No cost, revenue raiser some years
- *Consumer Benefits*: Below developed country prices; affordable
 - Could be greater: Lack of pass-through of lower prices from manufacturers, retailers to consumers

Government Net Outlays for Sugar and All Other Commodity Programs, 1996-2006

- Million dollars -

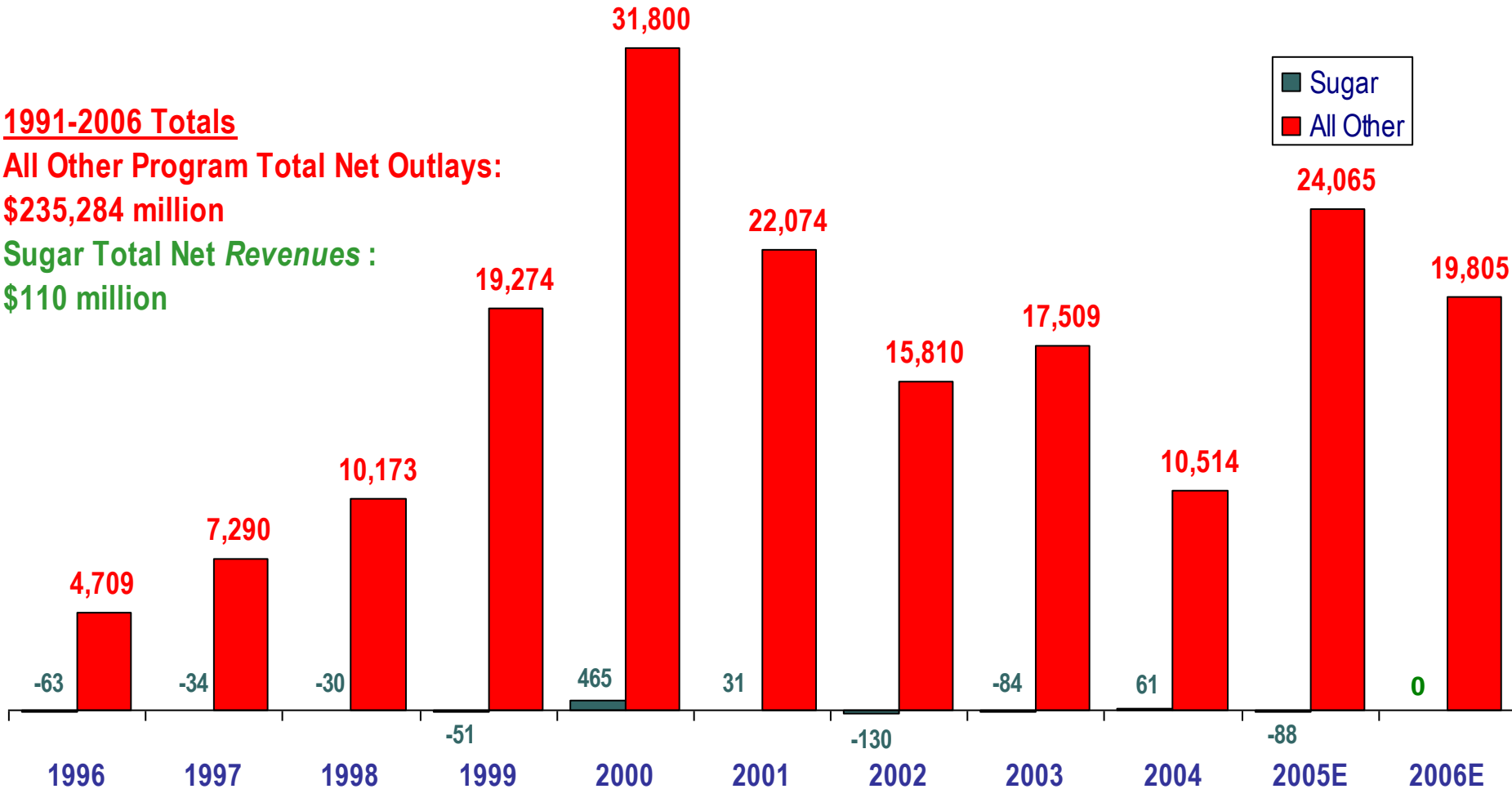
1991-2006 Totals

All Other Program Total Net Outlays:

\$235,284 million

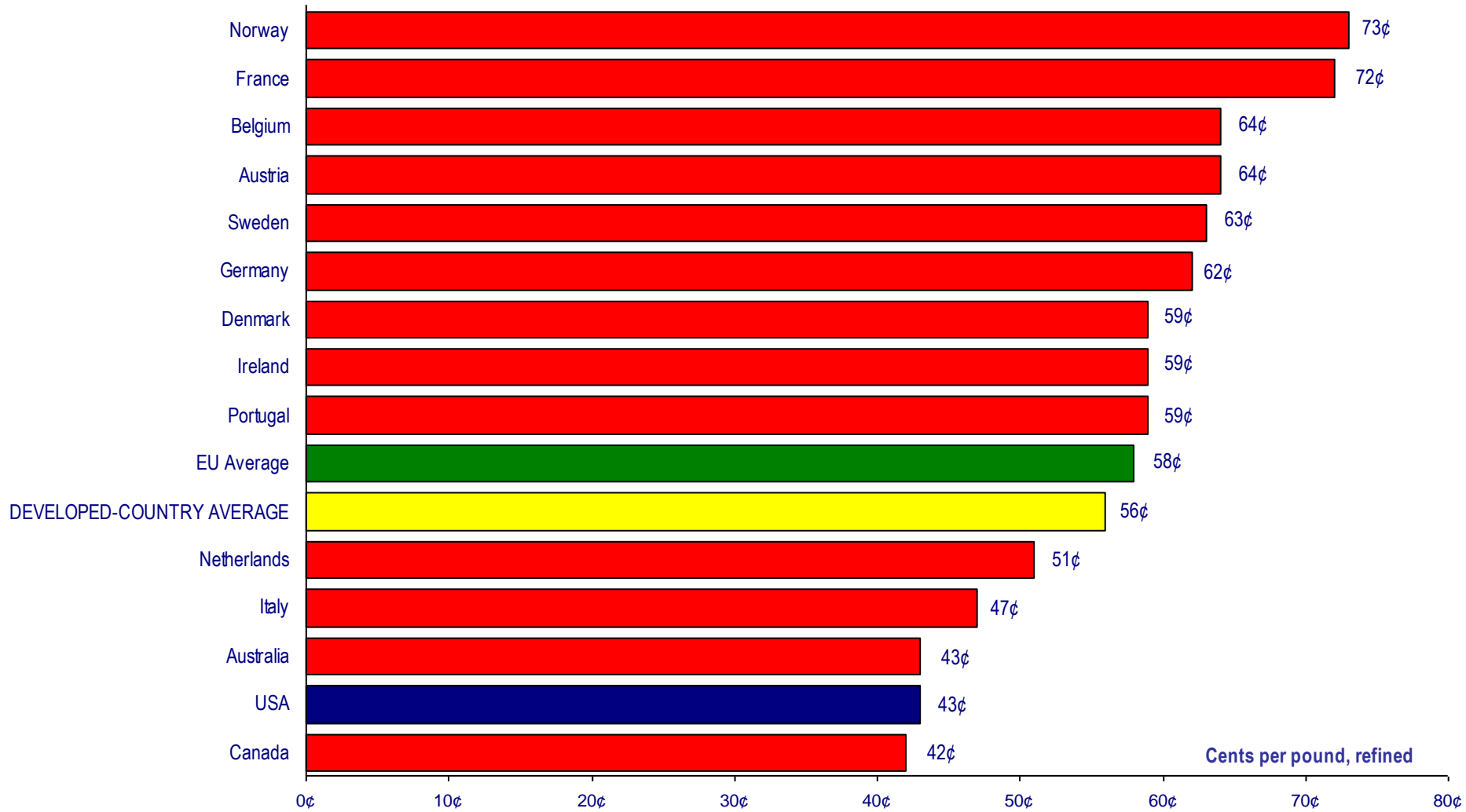
Sugar Total Net Revenues :

\$110 million



Data source: USDA/FSA, February 2005; All commodities net outlays 1991-95: \$52.4 billion. Sugar: 1991-99 -- revenues from sugar marketing assessment tax (1991-95 revenues: \$101 million); 2000-01 -- value of sugar forfeited to, or purchased by, government, plus storage costs; 2002-03 -- revenues from sale of CCC sugar onto market at a profit.

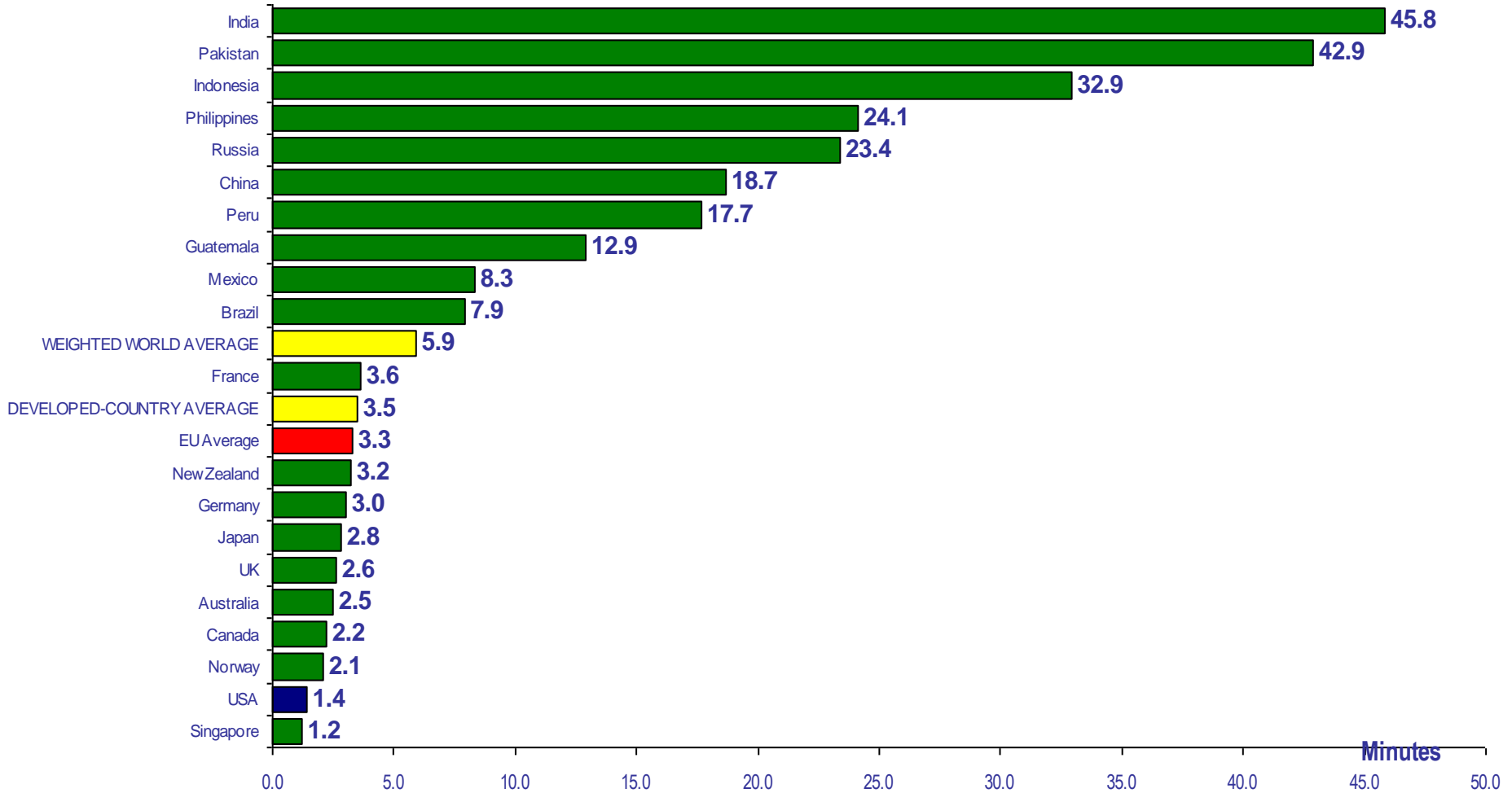
Developed Countries' Average Retail Sugar Prices: 30% Higher Than USA



Source: LMC International Ltd., Oxford, England, April 2005, 2004 prices.

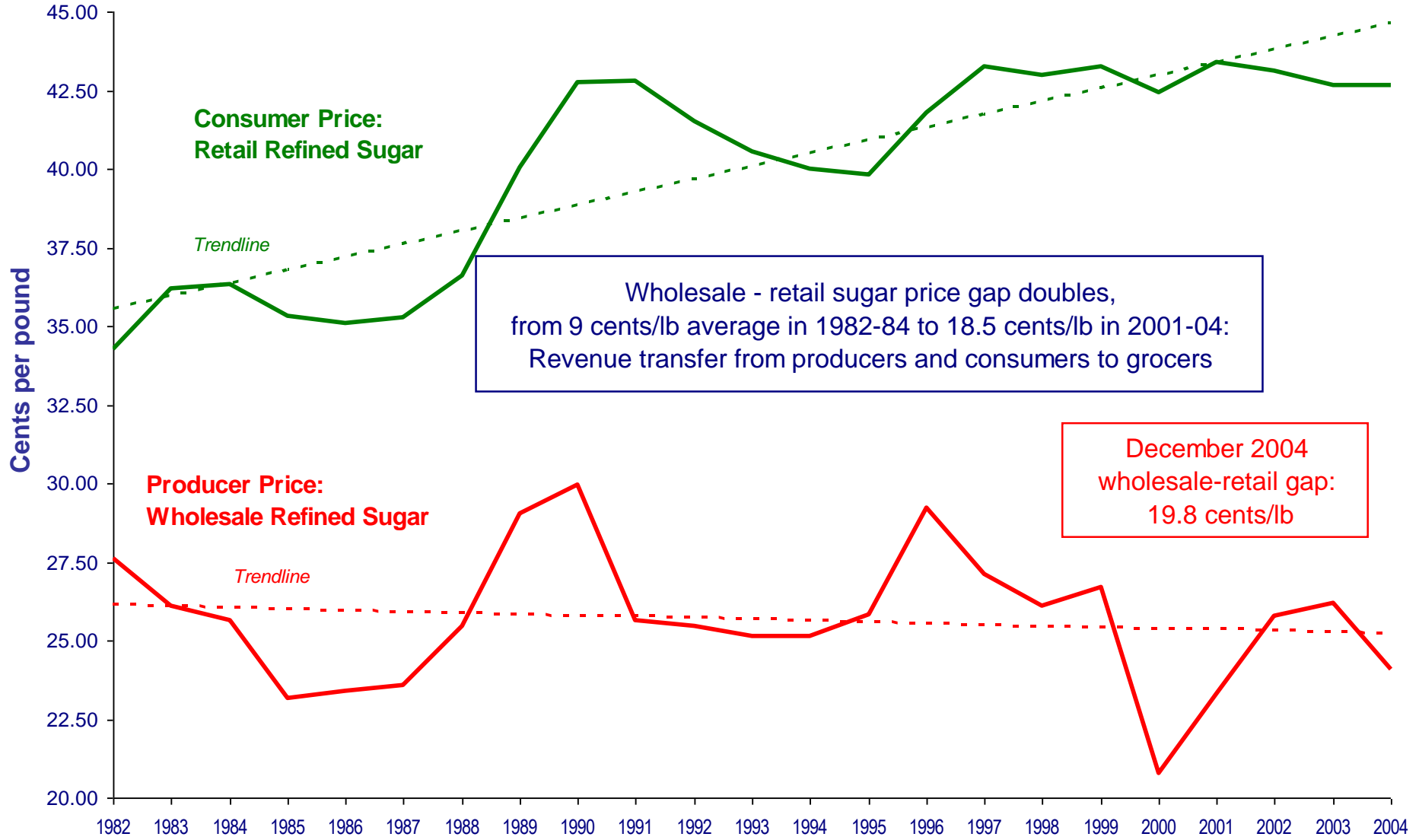
"DEVELOPED-COUNTRY AVERAGE" represents the weighted average of 23 foreign developed countries.

Minutes of Work Required to Buy One Pound of Sugar: USA Second Lowest in World



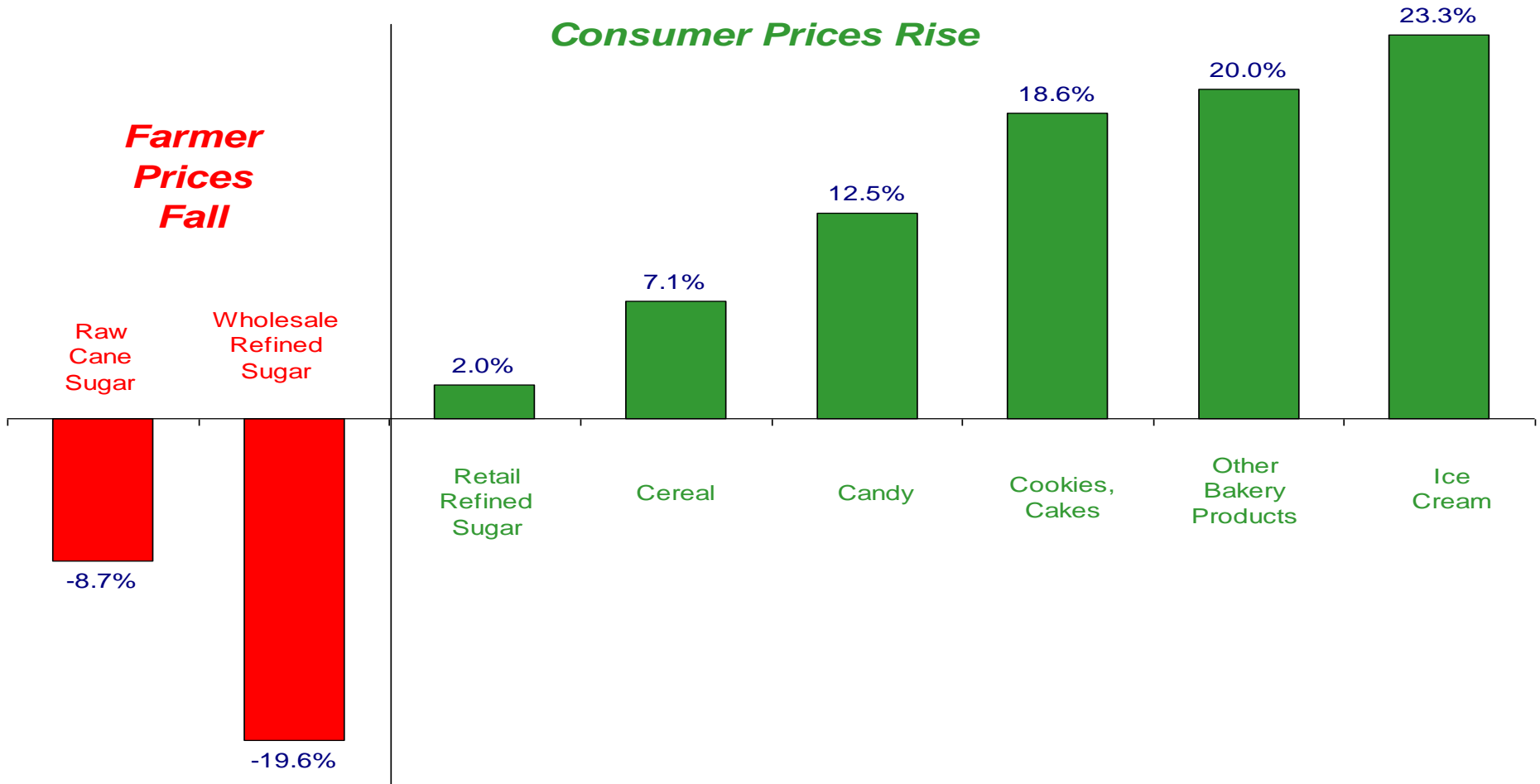
Source: LMC International Ltd., Oxford, England, April 2005. Study of 46 countries, accounting for approximately 80% of global sugar consumption; 2004 prices. Highest in survey: Zimbabwe, 79 minutes. Based on 2003 World Bank per capita GNP data. *DEVELOPED-COUNTRY AVERAGE* represents the weighted average of 23 foreign developed countries.

Wholesale-Retail Sugar Price Gap More than Doubles: No Passthrough of Lower Producer Prices to Consumers (1982-2004)



Sources: USDA, BLS. Wholesale refined beet sugar, Midwest markets; U.S. retail refined sugar . Annual average prices 1982-2004. Linear trendlines.

From 1996 through 2004: Farmer Prices for Sugar Fall, Consumer Prices for Sugar and Sweetened Products Rise*



*2004 annual average price compared with 1996. Raw cane: Duty-fee paid, New York. Wholesale refined beet: Midwest markets. Retail prices: BLS indices, Data source: USDA.

FEASIBILITY OF SHIFT TO “STANDARD” COMMODITY PROGRAM

- 2007 Farm Bill Constraints [out of whose hide will money come?]
- Payment Limitations [not just big corporations; mixed crop beet farmers very vulnerable]
- Industry Strongly Opposed
- Dubious Value in Doha Negotiations [if result is just lower US prices with no increase in MFN imports (a la FB study), what good is that to other WTO countries?]

Conclusions:

- Overall: Unless Major Concessions Secured In Market Access And Other Areas, Us Should Not Commit To Major Changes In Domestic Farm Support
- Sugar: Comprehensive, Effective Reform Of World Sugar Market Provides Only Basis For Significant Change In Us Domestic, Import Policy
- Sugar AMS Calculation Should Reflect Realistic Measurement Of Support
- Shift To “Standard” Type Domestic Policy Will Not Provide Panacea

