

*Sweeteners and Sweetener Products
Agricultural Technical Advisory Committee*

April 27, 2007

The Honorable Susan Schwab
United States Trade Representative
600 17th Street, N.W.
Washington, D.C. 20508

Dear Ambassador Schwab:

Pursuant to Section 2104 (e) of the Trade Act of 2002 and Section 135 (e) of the Trade Act of 1974, as amended, I am pleased to transmit the report of the Sweeteners and Sweetener Products Agricultural Technical Advisory Committee on the US-Korea Free Trade Agreement, reflecting majority and minority advisory opinion(s) on the proposed Agreement.

Sincerely,

Jack Roney
Chair

Agricultural Technical Advisory Committee for Sweeteners and Sweetener Products

The U.S.-Korea Free Trade Agreement (FTA)

April 27, 2007

April 27, 2007

Agricultural Technical Advisory Committee for Sweeteners and Sweetener Products

Advisory Committee Report to the President, the Congress and the United States Trade Representative on the U.S.-Korea Free Trade Agreement (FTA)

I. Purpose of the Committee Report

Section 2104 (e) of the Trade Act of 2002 requires that advisory committees provide the President, the U.S. Trade Representative, and Congress with reports required under Section 135 (e)(1) of the Trade Act of 1974, as amended, not later than 30 days after the President notifies Congress of his intent to enter into an agreement.

Under Section 135 (e) of the Trade Act of 1974, as amended, the report of the Advisory Committee for Trade Policy and Negotiations and each appropriate policy advisory committee must include an advisory opinion as to whether and to what extent the agreement promotes the economic interests of the United States and achieves the applicable overall and principle negotiating objectives set forth in the Trade Act of 2002.

The report of the appropriate sectoral or functional committee must also include an advisory opinion as to whether the agreement provides for equity and reciprocity within the sectoral or functional area.

Pursuant to these requirements, the Agricultural Technical Advisory Committee for Sweeteners and Sweetener Products hereby submits the following report.

II. Executive Summary of Committee Report

In the opinion of the **majority** of the Sweeteners ATAC, negotiations on sugar in this and other FTA's do nothing to advance the principal negotiating objectives of the sugar and sweetener industry. These can only be achieved in World Trade Organization and again we urge the Administration to pursue a sector-specific approach that would effectively address all of the myriad trade-distorting foreign policies that significantly impact on the world sugar market and to reserve negotiations on sugar exclusively for that forum.

However, given that Korea does not produce raw sugar (although it is a significant refiner of imported raw sugar), we understand that they will not be able to meet the rules of origin requirements for sugar and the sugar-containing products covered by the U.S. sugar import program and therefore would not be eligible for the preferential access provided by the proposed FTA for these products.. Thus, the agreement would appear to have little practical effect with respect to sugar and sweeteners trade and, on that basis, the majority has no objection to it. It is important, however, that these rules of origin be

strictly enforced and that the Administration remain vigilant to any attempts to circumvent our sugar import program.

We defer to other advisory committees as to whether the proposed FTA promotes the overall economic interests of the United States.

The representative of **U.S. honey-producing industry** notes that high tariffs have seriously hampered the ability of our exporters to sell there. Currently, only limited imports (120 MT) are allowed under a TRQ for which the in-quota duty is 20%. Imports outside the TRQ are charged a prohibitive tariff of 243%. While the U.S. honey industry appreciates the improved access achieved under the proposed agreement -- a duty-free TRQ of 200 MT, which is to increase 3% annually, we are disappointed that the prohibitive duty is to remain permanently in place. We urge the U.S. government to make further efforts within the framework of the FTA or in other trade fora to obtain greater access to Korean market to U.S. honey exports.

The ATAC members signing **minority** views concur with the majority that the South Korea FTA presents no substantial issues involving sweetener trade. We do not agree, however, with the majority's overall views on FTAs as laid out in their comments. Instead, we favor comprehensive trade agreements that liberalize the terms of trade for all products so that all industries have opportunities for commerce.

III. Brief Description of the Mandate of the ATAC Committee for Trade in Sweeteners and Sweetener Products

The advisory committee is authorized by Sections 135(c)(1) and (2) of the Trade Act of 1974 (Pub. L. No. 93-618), as amended, and is intended to assure that representative elements of the private sector have an opportunity to make known their views to the U.S. Government on trade and trade policy matters. They provide a formal mechanism through which the U.S. Government may seek advice and information. The continuance of the committee is in the public interest in connection with the work of the U.S. Department of Agriculture (USDA) and the Office of the U.S. Trade Representative. There are no other agencies or existing advisory committees that could supply this private sector input.

IV. Negotiating Objectives and Priorities of ATAC Committee for Trade in Sweeteners and Sweetener Products

It is the opinion of the majority of the Sweeteners ATAC that, in evaluating whether an agreement promotes the economic interests of the United States and achieves the negotiating objectives of the Trade Act of 2002, several provisions of the Trade Act are of particular importance to the Committee:

- Section 2102(a)(2) establishes as one of the overall U.S. trade objectives: “the elimination of barriers and distortions that... distort U.S. trade;”
- Similarly, Section 2102(b)(1)(A) establishes as one of the principal trade negotiating objectives: “to obtain fairer and more open conditions of trade by reducing or eliminating tariff and nontariff barriers and policies and practices of foreign governments directly related to trade that ...distort United States trade;”
- Section 2102(b)(7)(A) sets as a principal negotiating objective regarding the improvement of the WTO the extension of WTO coverage “to products, sectors, and conditions of trade not adequately covered;”
- Section 2102(b)(10)(A)(iii), (vi), (viii) establishes as principal negotiating objectives: the reduction or elimination of subsidies that “unfairly distort agriculture markets to the detriment of the United States;” the elimination of government policies that create price-depressing surpluses; and the development, strengthening and clarification of rules and dispute settlement mechanisms to eliminate practices that distort agricultural markets to the detriment of the U.S., “particularly with respect to import-sensitive products.”
- Finally, we would note that Section 2102(b)(10)(A)(xvi) directs the Administration to recognize “the effect that simultaneous sets of negotiations may have on United States import-sensitive commodities (including those subject to tariff-rate quotas).”

The above-mentioned provisions are of special importance to the U.S. sugar and sweetener industry because the world sugar market is generally acknowledged to be the most distorted commodity market in the world. It is a market characterized by chronic dumping, where for two decades average prices have averaged less than half world average production costs. This pervasive dumping has been facilitated by government policies, some of them well known and transparent, others opaque and poorly understood. Virtually every sugar producing government has provided a heavy dose of trade-distorting government intervention and support to its industry. The U.S. sugar import program was developed to buffer U.S. producers against the disastrous impact of such dumped and subsidized competition.

U.S. sugar producers believe that this highly dysfunctional market can only be restored to health by comprehensive, sector-specific negotiations in the WTO that cover the whole range of trade-distorting policies that affect the world sugar market, indirect and/or non-transparent as well as policies and practices of a more direct and transparent nature. Thus, we believe that negotiations on sugar should be reserved exclusively for the WTO and should not be pursued in the negotiation of bilateral or regional trade agreements.

Negotiation of further market access commitments in such FTA agreements tends to undercut the much more important efforts underway in the WTO to reform the world sugar market and runs the risk of exposing the U.S. market to ruinous world dump market prices and of severely disrupting the U.S. sugar import and domestic program. The

Sweeteners ATAC has outlined its views to the Administration on this matter on numerous occasions.

V. Advisory Committee Opinion on Agreement

Majority View. The producer members of the Sweeteners ATAC, constituting a majority of the Committee, note that Korea does not produce sugar beets or cane; however, it is a significant refiner of imported raw sugar, importing an average of 1.7 million MT of sugar (raw equivalent) over the past five years, of which an average 336,000 MT have been re-exported. The U.S., for its part, is a large net importer of sugar and sugar-containing products (SCP's) and has no prospects for exporting sugar to Korea. Thus, there would appear to be no legitimate commercial interest on either side in the inclusion of sugar in FTA market access negotiations.

In light of the above, our strong preference would have been to exclude sugar from the market access negotiations of this FTA. As the Administration was unwilling to exclude sugar from this FTA, however, the U.S. sugar industry must examine this agreement with a view towards determining whether it will result in any practical harm to our industry.

Our comments on the specific elements of the text are limited to the chapter on agriculture and, more specifically, to those provisions affecting sugar and sugar-containing products. The proposed FTA calls for the 10-year phase-out of tariffs on those sugar and sugar-containing products for which TRQ's under the U.S. sugar import program are in operation. However, we understand that the rules of origin (ROO) requirements will essentially prevent Korea from shipping these sugar or sugar-containing products to the U.S. under the preferential terms of the agreement. Thus, the proposed FTA seems unlikely to have any practical impact on the U.S. sugar industry.

On that basis, the majority of the ATAC has no objection to the proposed FTA with Korea. We note again, however, the importance of the strictly enforcing the rules of origin with respect to sugar and SCP's as well as the need for Administration vigilance in ensuring that no trade in "bogus" products develops aimed at circumventing the U.S. sugar program.

Given the perceived lack of impact, positive or negative, on the U.S. sugar and sweetener industry, we offer no opinion as to whether the FTA agreement with Korea promotes the economic interests of the U.S. and achieves the applicable overall and principal negotiating objectives of the Trade Act of 2002. We defer to the views of other Advisory Committees on this point.

Honey Industry View. The representative of **U.S. honey-producing industry** notes that high tariffs have seriously hampered the ability of our exporters to sell there. Currently, only limited imports (120 MT) are allowed under a TRQ for which the in-quota duty is 20%. Imports outside the TRQ are charged a prohibitive tariff of 243%. While the U.S.

honey industry appreciates the improved access achieved under the proposed agreement - a duty-free TRQ of 200 MT , which is to increase 3% annually, we are disappointed that the prohibitive duty is to remain permanently in place. We urge the U.S. government to make further efforts within the framework of the FTA or in other trade fora to obtain greater access to Korean market to U.S. honey exports.

Minority View. The ATAC members signing minority views concur with the majority that the South Korea FTA presents no substantial issues involving sweetener trade. We do not agree, however, with the majority's overall views on FTAs as laid out in their comments. Instead, we favor comprehensive trade agreements that liberalize the terms of trade for all products so that all industries have opportunities for commerce.

VI. Membership of the Sweeteners and Sweetener Products ATAC

Agreeing to majority view:

Van Boyette, Smith & Boyette
Ralph Burton, Amalgamated Sugar Company LLC
Otto Christopherson, Christopherson Farms
Wallace Ellender, Ellender Farms, Inc.
Benjamin Goodwin, California Beet Growers Association, Ltd.
James Johnson, U.S. Beet Sugar Association
Luther Markwart, American Sugarbeet Growers Association
Kent Pepler, Kent Pepler Farms
Don Phillips, American Sugar Alliance
Kevin Price, American Crystal Sugar Company
Jack Roney, American Sugar Alliance
Parks Shackelford, Florida Crystals Corporation
Dalton Yancey, Florida Sugar Cane League, Inc.

Agreeing to the honey-industry opinion:

Troy Fore, American Beekeeping Federation, Inc.

Agreeing to minority view:

Thomas Earley, Promar International
Liz Gorski, The Coca-Cola Company
Randy Green, McLeod, Watkinson and Miller
Patrick Henneberry, Imperial Sugar Company
Fred Hensler, Masterfoods USA
Roland Hoch, Global Organics, Ltd
Ken Lorenze, Kraft Foods
Martin Muenzmaier, Cargill, Inc.

Not participating in this opinion:

John Yonover, Indiana Sugars, Inc.