

Sweeteners and Sweetener Products
Agricultural Technical Advisory Committee

April 6, 2004

The Honorable Robert B. Zoellick
United States Trade Representative
600 17th Street, N.W.
Washington, D.C. 20508

Dear Ambassador Zoellick:

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-Morocco 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.-Morocco Free Trade Agreement (FTA)

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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.-Morocco 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 Trade Advisory Committee for Sweeteners and Sweetener Products hereby submits the following report.

II. Executive Summary of Committee Report

Majority Opinion. 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 the World Trade Organization and we urge the Administration to focus its efforts on WTO negotiations and to reserve negotiations on sugar exclusively for that forum.

However, the proposed FTA with Morocco contains provisions, very similar to those in the U.S.-Chile FTA, making eligibility for preferential treatment for sugar (either via increased TRQs or duty reduction) contingent on achieving net exporter surplus. Such provisions apply to both the U.S. and Moroccan sugar exports. These provisions should address the primary concern of the U.S. sugar industry with respect to the Morocco FTA -- that Morocco might substitute imported sugar for that domestically produced and sold in its own market and ship the artificially created surplus to the U.S. In light of these

provisions, we find that the proposed FTA does provide for equity and reciprocity in the sugar and sweetener sector.

Minority Opinion. The user members of the Sweeteners ATAC generally feel that the Morocco FTA merits support, while acknowledging that sugar is not a major issue in this agreement. We fundamentally disagree with the ATAC majority's viewpoint that sugar should be excluded from FTAs, and are happy that this was not the case for the Morocco agreement.

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, global 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.

Attempts to negotiate further market access commitments in such FTA agreements will undercut the much more important efforts underway in the WTO to reform the world sugar market and run 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 Sugar and Sweetener ATAC has outlined its views to the Administration on this matter on numerous occasions.

V. Advisory Committee Opinion on Agreement

Majority Opinion. We would note that both Morocco and the U.S. are significant net importers of sugar and sugar-containing products (SCP's) and both maintain import policies aimed at shielding their domestic markets from the world dump market. 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, and the ATAC consistently presented this majority position to the Administration. As the Administration was unwilling to exclude sugar from this FTA, however, the U.S. sugar industry has sought to work with the Administration to achieve an outcome that would avoid practical harm to our industry.

We would also note the failure of the Administration to release publicly the text of the Morocco agreement in a timely manner. The absence of a public text on such agreements limits the ability of the Sweetener ATAC and other private sector advisory groups to present an informed and broadly representative report. We would strongly urge the Administration to make the texts of any future agreement public at the time Congress is notified that the negotiations have been completed – as was done in the case of the proposed FTA with Central America.

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. As noted above, Morocco is a substantial net importer of sugar; moreover, its domestic prices are well above world market prices. Thus, our major concern was to prevent the “substitution” of domestically consumed Moroccan sugar by imports of foreign sugar at world dump market prices so as to free up Moroccan-produced sugar for export to the U.S. Such an arrangement would enable unscrupulous traders to circumvent FTA rules of origin and would be tantamount to transshipment of third country sugar through Morocco to the U.S. Though hardly the sort of economic efficiency intended by an FTA, such trade would, because of the discrepancy between U.S. and world dump market prices, prove very attractive financially.

We commend the Administration for taking these concerns seriously and for making considerable efforts to address them.

The text of the Moroccan FTA provides for the establishment of a TRQ of 2,000 kilograms (covering SCPs as well as sugar) which will rise to 3,330 kilograms in year 14 and then be eliminated; second-tier, or above quota, tariffs on sugar and SCP’s steadily decline to zero over a 15-year period. As the U.S. market for sugar is already saturated and the Moroccan FTA does nothing to advance our key objective of achieving drastic reform of the world sugar market through WTO negotiations, these provisions would in themselves be objectionable. However, Morocco’s ability to derive the benefits of these provisions is contingent on its becoming a net exporter of sugar and SCP’s and this limitation, as we understand it, will continue in effect even after the 15-year transition period.

Morocco appears highly unlikely to attain net sugar exporter status. Thus, this “net export surplus” provision would appear to address the U.S. sugar industry’s concerns. (A similar

provision would prevent the U.S. sugar and SCP exports from gaining preferential access to the Moroccan market.)

Assuming that our understanding of the above provision is correct (and despite the fact that we see no particular benefit to the U.S. sugar producing industry), the majority of the Sweetener ATAC finds that the FTA agreement with Morocco provides for equity and reciprocity in the sugar and sweetener sector.

In rendering this opinion, however, we would emphasize that, while the provisions of the Morocco FTA on sugar may prove an appropriate model for the negotiation of FTA's with other sugar-importing countries or regions (depending on the specific circumstances of the sugar industry in those countries and regions), they can in no way be viewed as a precedent for negotiations with sugar-exporting countries or regions.

With respect to whether the proposed FTA promotes the overall interests or negotiating objectives of the U.S., we defer to our colleagues in other ATAC's and chartered private sector advisory groups.

We would also re-emphasize that negotiations on sugar in this and other FTA's do nothing to advance the principal negotiating objectives of the sugar and sweetener industry, which have been set forth above. These can only be achieved in the WTO and we again urge the Administration to focus its efforts on those negotiations and to reserve negotiations on sugar exclusively for that forum.

Minority Opinion. The members of the Sweeteners ATAC representing users of sugar are in fundamental disagreement with the committee's majority about the inclusion of sugar in free trade agreements (FTAs). Instead, we believe that FTAs should be comprehensive, and have supported those which are, while not supporting those which fail that test.

In the case of Morocco, that nation's status as a net importer of sugar means that trade in sweeteners is unlikely to be affected by the FTA in any significant way. However, we would observe that even in an agreement like this one, U.S. sugar policies complicate the bargain by requiring a complex net surplus producer calculation, whose aim is to prevent the FTA partner country from becoming a "platform" for sugar produced in a third country. Needless to say, the perceived need to guard against such schemes is a consequence of a sugar policy which maintains U.S. prices at two to three times the world level.

Thus, in contrast to the majority view, we applaud the nominal inclusion of sugar in the Morocco FTA, while acknowledging that sugar is not a major issue in this agreement. While deferring to the views of our colleagues on other advisory committees as to the

agreement's specific impact on particular agricultural sectors, we generally feel that the Morocco FTA merits support.

VI. Membership of the Sweeteners and Sweetener Products ATAC

Agreeing to Majority Opinion:

Ms. Margaret O. Blamberg	American Cane Sugar Refiners' Association
Mr. Van R. Boyette	Okeelanta Corporation
Ms. Sarah A. Catala	U.S. Sugar Corporation
Mr. Otto A. Christopherson	Christopherson Farms
Mr. Troy Fore	American Beekeeping Federation, Inc.
Mr. Benjamin A. Goodwin	California Beet Growers Association, Ltd.
Mr. Patrick D. Henneberry	Imperial Sugar Company
Mr. James Johnson	U.S. Beet Sugar Association
Mr. Kent Peppler	Kent Peppler Farms
Mr. Don Phillips	American Sugar Alliance
Mr. Kevin Price	American Crystal Sugar Company
Mr. Jack Roney	American Sugar Alliance
Mr. Charles Thibaut	Evan Hall Sugar Coop., Inc.
Mr. Don Wallace	American Sugar Cane League
Mr. Dalton Yancey	Florida Sugar Cane League, Inc.

Agreeing to Minority Opinion:

Mr. Thomas C. Earley	Promar International
Mr. Robert R. Green	McLeod, Watkinson and Miller
Mr. Roland E. Hoch	Global Organics, Ltd.
Mr. Alfred Hensler	Masterfoods USA
Mr. Kenneth Lorenze	Kraft Foods

Member not Participating in this Opinion:

Ms. Linda K. Thrasher	Cargill, Inc.
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