Sweeteners and Sweetener Products
Agricultural Technical Advisory Committee

July 14, 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-Bahrain 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.-Bahrain 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.-Bahrain 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 FTAs do nothing to advance the principal negotiating objectives of the sugar and sweetener industry. These objectives can only be achieved in the World Trade Organization. We urge the Administration to focus its efforts on WTO negotiations and to reserve negotiations on sugar exclusively for that forum.

However, given that Bahrain produces neither raw nor refined sugar, we understand that they will not be able to meet the rules of origin requirements for sugar or any of the sugar-containing products covered by the U.S. sugar import program. Bahrain would therefore not be eligible for the preferential access provided by the proposed FTA. Thus, the agreement would appear to have no practical effect with respect to sugar and sweeteners trade. On that basis, the majority has no strong objections to the agreement. It is important, however, that these rules of origin be strictly enforced and that the Administration remains vigilant of 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.

In the opinion of the minority of the Sweeteners ATAC, the Bahrain FTA will have no, or negligible, impact on sugar trade and policy. However, these members note that the agreement honors the spirit of comprehensive trade pacts by providing a tariff-rate quota (TRQ) structure for sugar access, even though the quantities involved are not of commercial significance because Bahrain is not a sugar producer. These members appreciate the fact that the Bahrain FTA has no product exclusions.

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 intervention and support to its domestic industry. The U.S. sugar import program was developed to buffer U.S. producers against the disastrous impact of such dumping 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. Such negotiations should 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 through FTA will undercut more important efforts to reform the world sugar market in the WTO. In addition, these negotiations risk exposing the U.S. market to dumping market prices and disruption of the U.S. sugar import and domestic programs. The Sweeteners ATAC has outlined its views for the Administration on this matter on numerous occasions.

V. <u>Advisory Committee Opinion on Agreement</u>

Majority View. The producer members of the Sweeteners ATAC, constituting a majority of the Committee, note that Bahrain produces neither raw nor refined sugar and imports all its sugar needs. For its part, the U.S. is a large net importer of sugar and sugar-containing products (SCP's) and therefore has no prospects for exporting sugar to Bahrain. 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 be 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 establishes a duty-free TRQ on those sugar and sugar-containing products for which overall TRQs under the U.S. sugar import program are in operation. This TRQ is set at 15,000 kg (15 metric tons) in year one of the agreement and rises to 22,162 kg (22 metric tons) in year nine; unlimited quantities may enter duty-free after that date. Similarly, the above-TRQ on these products is gradually phased out in equal, annual stages over this nine-year period.

However, we understand that the rules of origin (ROO) requirements will essentially prevent Bahrain 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 strong objection to the proposed FTA with Bahrain. We note again, however, the importance of strictly enforcing the rules of origin with respect to sugar and SCPs and the need for vigilance to ensure that no “bogus” product trade circumvents 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 Bahrain 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.

We would also point out again that sugar negotiations in this and other FTAs 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 View. The consumer members of the Sweeteners ATAC concur that the Bahrain FTA will have no, or negligible, impact on sugar trade and policy. These members note, however, that the agreement honors the spirit of comprehensive trade pacts by providing a tariff-rate quota structure for sugar access even though, because Bahrain is not a sugar producer, the quantities involved are not of commercial significance. The consumer members appreciate that the Bahrain FTA has no product exclusions.

VI. Membership of the Sweeteners and Sweetener Products ATAC

Agreeing to majority view:

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

Agreeing to minority view:
Thomas Earley, Promar International
Randy Green, McLeod, Watkinson and Miller
Fred Hensler, Masterfoods USA
Roland Hoch, Global Organics, Ltd
Ken Lorenze, Kraft Foods

Not participating in this opinion:
Linda Thrasher, Cargill, Inc.