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BACKING AMERICA'S BEET AND CANE FARMERS

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VIA E-MAIL and FAX

August 1, 2006

Ambassador Dick Crowder
Special Trade Negotiator for Agriculture and Food Policy
Office of the United States Trade Representative

The Honorable J.B. Penn
Under Secretary of Agriculture for Farm and Foreign Agricultural Services
U.S. Department of Agriculture

Dear Ambassador Crowder and Secretary Penn,

We are writing on behalf of the U.S. sugar industry to express our deep concerns about your parallel announcements on July 27 of the new sweetener transition agreement with Mexico, the domestic marketing allotment for 2006/07, and import quota (TRQ) amounts for 2005/06, 2006/07, and part of 2007/08.

As you have often said, the key to the success of the NAFTA sweetener provisions will be an orderly transition to free trade between Mexico and the United States in 2008. Unfortunately, under current market conditions, ¹ the new U.S.-Mexico agreement will not accomplish that goal. Indeed, it is already having the opposite effect.

We appreciate your success in securing Mexico's commitment to abide by its NAFTA obligations to import U.S. sugar duty free for this year and the next two. However, the amount of Mexican sugar to be imported in the context of the overall TRQs ignores current U.S. market conditions. We are deeply concerned that: ¹ the overall amount of imported sugar you have allowed will oversupply and disrupt the U.S. sugar market, even while some domestic beet sugar is potentially blocked from sale; and ² the transition agreement abandons the fundamental principles that have governed NAFTA sweetener trade.

The excessive amount of foreign sugar you have agreed to import from Mexico and other countries is already adversely affecting the U.S. market. The extent to which the market will be oversupplied is demonstrated clearly by:

- Your expectation of stocks-to-use ratios this year and next of 15% or more. While a stocks-to-use-ratio of 15% had traditionally been an acceptable range, industry

consolidation and increasing efficiency in the ability of producers to supply the market have most likely lowered this target by at least 3 percentage points;

- The U.S. sugar market's reaction – with the recent sharp decline in raw cane sugar futures accelerating since the announcement.

Other elements of your announcement create considerable market uncertainty and the danger of a disorderly transition to free trade with Mexico in 2008, rather than an orderly one:

- Elimination of import shipping patterns raises the possibility of a flood of foreign sugar in the early part of 2006/07, just as U.S. sugar crops are being harvested, processed, and sold.
- A surge of second-tier imports of sugar from Mexico is now more likely to disrupt the U.S. sugar market because of the large amounts of duty-free access granted to Mexico and other countries. The USDA assumption that Mexico will send the U.S. only 50,000 short tons of sugar in 2006/07 is difficult to understand when Mexico's tier-2 imports for this year are estimated to be 350,000 tons and the tier-2 tariff will be cut in half, to just 1.51 cents per pound, next January 1. Additional imports of tier-2 sugar from Mexico in 2006/07 would swamp an already oversupplied U.S. market.

Finally, we are dismayed that, after 13 years of careful adherence to the NAFTA sweetener provisions, you have abandoned the rules on U.S.-Mexico sugar trade spelled out in the NAFTA side-letter that was approved by the Congress.

- USDA's normally reliable and widely accepted published statistics on Mexican sugar and corn sweetener supply and demand indicate that Mexico will have sugar *deficits* of 267,000 metric tons in 2005/06 and 341,000 tons in 2006/07. On the basis of these facts, it is impossible to understand how you could have declared Mexico to be a *surplus* producer and grant it access for 250,000 tons in 2005/06 and in 2006/07.
- The allocation of 175,000-250,000 tons to Mexico in the final quarter of 2007 is even more mystifying as there are no data yet available upon which to base any surplus-producer determination.

We support the idea of an orderly transition to free trade in sweeteners under NAFTA in 2008 for American sugar producers, Mexican sugar producers and U.S. HFCS producers. The new US-Mexico transition agreement benefits Mexican sugar producers and U.S. HFCS producers and industrial sweetener users, but it does *not* provide for an orderly transition to free trade in sugar for U.S. producers.

We would like to meet with you as soon as possible to discuss how balance and stability in the U.S. market can be restored and how the orderly transition to free trade under

NAFTA can be put back on track, so that American sugar producers will be treated fairly and not relegated to be residual suppliers in their own market.

Sincerely,

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