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Report: CAFTA won't just hurt sugar

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A preliminary summary of a new study sponsored by the sugar industry says free trade agreements in play by the Bush administration would not only upend the U.S. sugar industry, but also would cut projected U.S. corn prices by 21 percent because of displaced ethanol and corn sweetener.

Though the Central American Free Trade Agreement did not eliminate U.S. import tariffs on sugar, says an executive summary of the report, "it apparently did so on ethanol, and also provided the CAFTA countries an approximate doubling of their duty-free access to the U.S. sugar market."

A sugar co-op official referred to its results in a U.S. Senate Budget Committee field hearing in Fargo on Monday. He said an official of Golden Growers Cooperative, the corn producer partner in the ProGold/Cargill corn sweetener plant at Wahpeton, N.D., referred to the study at the co-op's annual meeting last week in Fargo.

At the request of the Herald and Agweek, a summary of the report was sent by Jack Roney, director of economics and policy analysis with the American Sugar Alliance, which commissioned the study. Roney said he hadn't intended to release the contents until it was final, pending public release of the CAFTA text.

"For the last month, the Bush administration has been telling us the final text would be out in the next week or two," Roney said.

Ag groups

The report is important because it "makes a persuasive case for other ag groups to assess the down sides of trade agreements as well as up sides," Roney said in a phone interview.

He said the study report has been vetted with officials of the National Corn Growers Association, the Corn Refiners Association and the Renewable Fuels Association. He said analysts at the International Trade Commission have looked at parts associated with import tariffs and rules-of-origin.

"The corn and ethanol people have viewed this as a work in progress," Roney said.

Officials from those two groups didn't immediately return calls seeking comment.

Roney said the study was designed to look at the effect of eliminating U.S. import tariffs or significantly increasing duty-free access for sugar and ethanol on the U.S. sugar, corn sweetener, ethanol and corn markets.

Unlimited imports

Besides the sugar industry collapsing, the "U.S. ethanol market would be exposed to unlimited quantities of subsidized ethanol from Brazil and other FTA countries," wrote Peter Buzzanell of Buzzanell & Associates, Reston, Va., in the summary.

U.S. projections for corn use in sweeteners and ethanol would be "about half the projected level" in 2012, Buzzanell says. "Using USDA demand-price indicators, corn prices would be 21 percent lower than USDA's projected price for 2012."

A former analyst with the U.S. Department of Agriculture's Economic Research Service, Buzzanell is widely published for analytical work on tropical crops, including sugar.

If the sugar industry collapses, an influx of subsidized world sugar will displace some U.S. corn sweeteners and lead to a decline in demand and prices, the study says.

If the imported ethanol displaces U.S. ethanol, "investment in the ethanol industry will stagnate or decline and demand and prices for corn, the primary U.S. feedstock for ethanol, will also decline.

Assumptions

Underlying assumptions include:

CAFTA alone would allow 2 million tons of sugar into the U.S. market, producing several consequences: Absent U.S. sugar policy, U.S. raw sugar would fall from the current 21 cents to a world "dump" price of 5 to 6 cents a pound. U.S. refined sugar would decline from the current 24 cent levels to an 8 or 9 cent level.

"The U.S. sugar industry would collapse, displacing nearly 2.5 million acres of sugar beets and sugarcane. This acreage would be shifted to other crops - most notably corn, the report says - thus dampening the price of alternative crops.

"The total loss of revenues to U.S. sugar producers would be approximately $4 billion," the summary says.

An influx of 8 or 9 cent sugar could displace some high-fructose corn sweetener for use in beverages and other manufacturing on the Coasts.

Corn demand, relative to future expected demand, would decline by 350 million bushels.

"Such a demand loss would reduce the corn price by about 15 cents a pound," the study says, "implying revenue losses to U.S. corn of about $1.5 billion," the report says.

If provisions for other FTAs are similar to the CAFTA agreement, those CAFTA countries would capture much of the expected projected growth in U.S. ethanol demand, which is expected to double over the next 10 years. Brazil is planning a six-fold increase in ethanol exports over the next 10 years and is "already shipping to California, despite a 54-cent-per-gallon U.S. ethanol import tariff."

"These imports would gain much of their market share in the West and East coast regions of the United States, away from the core ethanol producing locations in the Midwest," the report says. "Future ethanol demand for corn would be less than of levels USDA has projected."

Buzzanell notes that this "undermines one of the goals of the U.S. energy policy that aims to heighten U.S. energy independence."

The report says the five CAFTA countries represent a growth market for U.S. corn, but a small one.