

A chart referenced in Mr. Roy's statement as "annex 1" as well as an "annex 2" also made part of the Hearing Record is posted as a pdf file [of 5 pages](#).

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1. I am deeply honoured to have been invited to testify at this hearing of the Senate Agriculture Committee on the US sugar program. It is my privilege to present the views of the traditional sugar quota holders and exporters under the US tariff rate quota (TRQ) on raw sugar. I wish to thank the Committee to provide me with this opportunity.

2. I am appearing before the Senate Agriculture Committee in my capacity as General Overseas Representative of the Mauritius Sugar Syndicate (MSS) and the Mauritius Chamber of Agriculture. The MSS is the private sector international sugar marketing organization of the sugar industry of Mauritius. I am also the Chairman of the ACP London Sugar Group which regroups the overseas representatives of the ACP sugar industries and has a long standing proactive rapport with EU and UK services to safeguard our sugar interests in the EU. The ACP are the African, Caribbean and Pacific countries supplying sugar to the EU under the Sugar Protocol

3. My testimony will underline the importance of sugar for Mauritius, the key role of the US sugar program as a vector of trade driven development in the developing country quota holders and the imperative of its continuation and consolidation in order to strengthen its benefits for the future.

Importance of Sugar to Mauritius

4. Mauritius is a small island of some 1860 km² in the Indian Ocean east of Madagascar i.e. the size of the State of Rhode Island or Fairfax County in Virginia. Despite its small size, Mauritius ranks among the top ten sugar exporters in the world, annually exporting between 500,000-600,000 metric tons (tonnes).

5. The sugar cane industry in Mauritius is in fact a cluster of sugar, energy, molasses and rum production components in an integrated sector that forms an integral part of the social, environmental and economic fabric of Mauritius. It plays a key multifunctional role in our economy. Thus,

Sugar cane covers 40% of the island's land area and is grown on 90% of total agricultural land. The island also has a very fragile ecosystem and is vulnerable to cyclones every year during the December-May period as it is situated in the cyclonic belt of the Mascareignes.

Some 28,000 small farmers grow cane and receive the full benefit of the country's sugar market access to the EU and the US as well as their share of revenue from molasses and the various elements of the cane biomass. Approximately 60,000 of the country's 1.2 million inhabitants are employed directly or indirectly in the sector, representing some 11% of the total workforce. One family out of every three thus depends on the sugar industry which anchors rural livelihood and rural development. Employees and small planters own 20% of the milling

companies and have a 10-20% stake in cogeneration entities thereby strengthening the partnership among the different stakeholders of the sugar cane cluster. Labour laws safeguard the workers rights and remuneration levels. These has been key factors underpinning the vibrant democracy that thrives in Mauritius.

Proceeds from the export of sugar amount to some US \$ 300M on average, enabling the country, a Net Food Importing Developing Country (NFIDC) to meet a very high proportion of its food import bill.

The environmental benefits of sugar cane are significant, in that almost all of the cane bio-mass, by-products and waste streams are utilised in some way or other in an environment friendly manner, e.g. bagasse/cane trash for power generation, filter cake/combustion ash as a soil conditioner, molasses as livestock feed ingredient or for the production of bio-fuel, vinasse for fertigation, composted, incinerated or concentrated vinasse as an organic fertiliser etc.

Cane-based products -- sugar, molasses and electricity -- account for 5-6% of national income and make a net contribution of 30% to foreign exchange earnings.

Around 20% of the energy needs of Mauritius are supplied by electricity produced from bagasse, a renewable green combustible resulting from cane milling, thereby reducing the country's dependence on costly fossil fuel . The sugar industry is in the process of an ambitious re-engineering plan to inter alia upgrade the cogeneration plants according to state of the art technologies and project norms aimed to earn Emissions Reduction Credits (CERs) under the Kyoto Protocol.

The new Accelerated Sugar Sector Strategic Plan includes the setting up of a molasses based ethanol producing distillery.

Of all cultivated agricultural crops, sugarcane is known as one of the most efficient sequestrator of atmospheric carbon, and, as such, has global environmental benefits in line with the objectives of the Kyoto Protocol.

The sugar industry contributes significantly to social development and welfare in the country through its central role as a service provider to rural communities. This includes the provision of housing, healthcare, education and training, recreational facilities, technical and financial assistance to its employees and their families.

Sugar cane cultivation industry contributes to the protection and preservation of the environment through biological control of pests, minimal use of pesticides, a minimal treated effluent load in comparison to other tropical crops or fruit and vegetable growing. Sugar cane is wind resistant and its strong root system binds the soil. Being a perennial crop, it is a very effective in controlling soil erosion especially in slopy areas under cane.

The landscape of well ordained and lush green planted cane fields also have a positive fall-out on the aesthetic beauty of Mauritius as a prime tourist destination.

Why sugar cane?

6. Owing principally to its considerable resilience to drought and more particularly to cyclones, sugar cane has become the core viable agricultural activity by rational choice. A wide range of other crops have been tried over time, but none has been found to be suited to the inherent climatic conditions and to be viable in the long term. Through the 366 years of cane cultivation in Mauritius, cane has been validated as the only sustainable core agricultural activity on the national scale. A world reputed cane research centre has through the development of higher yielding, drought or cyclone resistant or high fibre content cane varieties and the continuous induction of improved cultural practices helped consolidate the sector. Mauritius has thus opted for a policy of "diversification within sugar" aimed at generating supplementary revenue from the cane by-products and biomass as well as the production and marketing of a unique range of 18 value added up market speciality sugars in some 33 countries across the world including the US and 14 of the EU countries. With global sales of specialty sugars of some 75,000 tonnes, Mauritius is by far the world leader in this segment of the sugar market.

7. In order to maximize use of scarce arable land resources, food crops are grown in cane interlines and cane rotational lands farmed out to small growers.

The US Market

8. The US has been an important traditional export market for Mauritian sugar for decades well before the establishment of the current US Sugar Program. As a long standing traditional supplier, Mauritius benefited from a quota allocation of 1.2% under the US TRQ. It has, barring the adverse effect of cyclones, diligently supplied its quota over the years in spite of its distance from the US market and the costlier freight. It has readily accepted to deliver the additional quota allocated in February 2006 to help make good the deficit in US sugar requirements resulting from the adverse effects of hurricanes Katrina, Rita and Wilma against a background of rising freight costs and soaring world prices. The US market remains a priority market owing to the guarantees of long term market access, remunerative price level and predictable revenue assured by the US Sugar Program.

9. In order to maximize revenue from its quota allocation, Mauritius has developed the sale of its range of special cane sugars in the US through targeted buyers as well as cogent marketing initiatives in the US and currently markets a large portion of its quota as specials.

Access to the US Market Is Important for the Developing Country Quota Holders

10. A total of 40 countries hold allocations under the US TRQ. Most of these quota holders are developing countries for which sugar exports are an important source of predictable and remunerative revenues. Of these, some 24 countries are small, island, land locked vulnerable developing countries or LDCs. The market access provided under the TRQ and the stable revenue flow has assisted these countries in assuring their sustainable development and rural livelihood through trade.

11. But market access is moot unless it is coupled with a remunerative and stable price that

covers production and the increasing delivery costs to the US market, related to rising freight. This has been achieved over the past 24 years through market management instruments underpinning the US Sugar Program such as marketing allotments governing domestic production, the TRQ on imports and the safety net of the non-recourse loan programme, at no cost to the US budget.

12. The US Sugar Program also maintains a reasonable market price of sugar for consumers as the retail price of sugar remains one of the lowest priced food items in the standard shopping basket of the US household, as compared to the retail price of sugar in other developed countries.

13. It is equally important to contest the flawed argument that the US Sugar Program maintains a market price that is higher than the world market price. That is a red herring. The world market price is not a valid benchmark for the value of sugar as it is a residual market. According to an International Sugar Organization (ISO) study carried out amongst more than 100 countries in June 2003, covering the period 1996-2002, some 76% of the world's sugar production is consumed within the country in which it is grown and the world average domestic price at retail level was \$610 per tonne (27.67 per cents/lb) i.e. significantly more than the support price of the US Sugar Program or the NY No 14 prices and more than twice the average world price of the last decade. This confirms the generally held view that most sugar industries in the world sustain their long term viability through principally sales to their captive higher priced domestic markets. The world market is marked by generally bearish and unstable price trends and the dominant position of Brazil. Since 1999, world prices have fluctuated between 6 - 10 cents per lb i.e. below the cost of production of most of the efficient producers of the world, before rising to above 19 cents per lb in February 2006 and subsiding to some 17.30 cents per lb presently. The volatility of world prices is illustrated in the annexed graph covering the last decade based on NY No 11 (Annex 1).

EU Sugar Regime Reform: A model not to emulate

14. I am annexing for the record a recent article I wrote for the 24 February edition of Agra Europe on the EU Sugar Regime reform from an ACP perspective (Annex 2).

15. The EU Sugar Regime reform was driven inter alia by:

? The adverse ruling of the WTO Panel on EU export subsidies

The policy decision to align EU Sugar Regime with the objectives of the reform of the Common Agricultural Policy

The need to ensure that domestic support measures in Agriculture are compliant with WTO green box criteria in the context of Doha Round

Budgetary constraints

The perceived threat of massive disruptive exports of sugar from LDCs under the EBA Initiative and the consequential pressure from the EU producers to have a deeper price cut than

needed in order to stem investment in sugar production expansion projects in LDCs.

16. The EU reform Agreement concluded in November 2005 is therefore anchored on the twin principles of a deep price cut over a short time frame coupled with comprehensive and adequate resources to enable the various EU stakeholders to adapt to the reform. It thus comprised the following key elements:

? Reduction of the EU price by 36% by 2009/10 with no change in the first two years

? The setting up of a restructuring Fund estimated at Euros 4 billion through a restructuring levy to assist the adjustment of EU stakeholders to the EU sugar reform

? Decoupled payments to beet farmers equivalent to 60% of the price cut totaling some Euros 8 billion

? E 2 billion as adjustment aid in favour of the cane sugar industry in European overseas territories

? E150 million as restructuring assistance to full time cane refiners

? Various flexibilities to address the specific concerns of the more vulnerable counties of the EU

17. The reform is essentially Eurocentric. In practice, it initiates a major overhaul of the EU sugar sector to concentrate production of some 13 - 14 million tonnes of sugar per year amongst the more efficient world class producers and entities in Northern Europe (principally in Germany, France, the United Kingdom, Holland, Belgium) and some East European countries. The EU sugar sector is in the throes of a pan-European rationalization process with the emergence of a handful of key players positioning themselves to seize the trade opportunities of the post reform EU sugar market place. Although the reform is expected to reduce sugar production from the current 19 million tonnes to some 13 - 14 million tonnes, hence downsize surplus production, the EU will remain the third largest world producer of sugar after Brazil and India. In contrast the US produces some 7 million tonnes. Similarly the post reform refined sugar price after the 36% price cut of E404.40 per tonne is equal at the current E/\$ exchange rate to 23.11 cs per lb i.e. a price level higher than the loan rate of 22.90 cs per lb for refined sugar in the US Sugar Program.

18. The US situation is not comparable to that of the EU. It is materially different. The US sugar industry is already fairly well rationalized. The US market is a deficit market. The Sugar Program is budget neutral, already includes a WTO compatible TRQ benefiting 40 traditional quota holders, is supported by the US sugar producers and there are no threats of quantum imports except from Mexico under the NAFTA Accord. Furthermore, any price reform far from benefiting producers or consumers will thwart the role of the TRQ under the Sugar Program as an instrument of trade driven development especially among the vulnerable quota holders and solely benefit industrial users and the major players in the retail distribution sector.

19. The EU sugar reform risks the further impoverishment of the developing country quota holders and will probably drive several of the ACP countries out of the sugar industry completely. Already St Kitts and Nevis has announced its decision to cease sugar production after 360 years. This in turn will add to already serious unemployment, deprive these countries of much-needed export revenues and create new barriers to the economic development of these vulnerable countries. The United States should definitely not look to the EU sugar reform as a model to follow.

Conclusion

20. At a time when the WTO membership is examining meaningful ways to translate the undertakings of the Doha Development Round Agenda, it is important to remember that the US Sugar Program is a potent instrument of trade driven development among the developing country quota holders. Accordingly, continuation and reinforcement of the US Sugar Program would be fully consistent with the central underlying objectives of the Doha Development Round.

21. It is equally important to preserve the value of market access under the sugar program through appropriate border protection as an inadequate tariff barrier for sugar will expose, akin to the flux of Chinese textile exports in the wake of the end of the Multi-Fiber Agreement, the US sugar market to the threat of cheap third country exports which would seriously undermine both the US Sugar Program as well as the sugar price level to the detriment of sugar producers and traditional exporters.

22. For the past 24 years, the US sugar program has provided much needed access to the US sugar market for 40 traditional suppliers, most of whom are developing countries, at stable and remunerative prices. The export revenues generated by these exports to the US market have contributed to the economic development of these countries through trade, not aid. From our perspective, the US sugar program has been very successful, and should be continued and reinforced so that it can continue to provide meaningful trade opportunities that will in turn contribute to the sustainable development of numerous developing countries around the world.

23. For all the stated reasons let us collectively maintain and consolidate the US Sugar Program through related initiatives and measures in the context of the Doha Round to strengthen its benefits and development oriented dimension.

Mrinal Roy.
May 10th 2006