CANADIAN AGRI-FOOD TRADE ALLIANCE

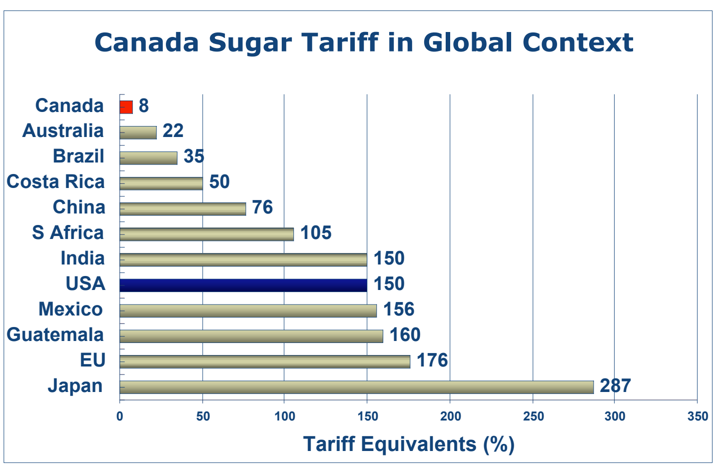
Canada's Sugar Processing Sector

The Canadian sugar industry is a capital intensive, value-added industry located in four provinces. Approximately 1.3 million tonnes of refined sugar is produced annually with a value of shipments exceeding $800 million. The sugar industry directly employs more than 1,300 Canadians at refineries in Quebec, Ontario, Alberta and British Columbia as well as hundreds of prairie sugar beet farmers.

Canadian sugar plays a critical role as an integral and valuable part of Canada's food processing industry. Over 85 percent of Canada's refined sugar production is used by Canadian food processors. The consistent supply of high quality, low-priced sugar translates into prices for both consumers and food processors that are among the lowest in the world.

Major sugar-using food manufacturers account for over $16 billion in sales and one quarter of all Canadian food manufacturing sales. Export sales by major sugar users are over $5 billion and account for almost one third of all exports by Canadian food manufacturers. Food processing is now the top manufacturing industry in seven of ten Canadian provinces, and consumer-oriented food and beverage products represent half of all Canadian agri-food exports.

Canada's cane sugar refining and sugar beet processing industry operates under world market conditions. Other than a small import tariff (8%), Canada has no price or other forms of domestic sugar support, no subsidies and no import controls. Canadian refined sugar faces extremely small quota opportunities and prohibitive over-quota tariffs in export markets – 150% in the US and 175% in the EU.



Thus far, global (WTO) trade rules have failed to address agriculture trade in a comprehensive way and sugar has been excluded as a "sensitive" commodity. As a result, Canadian sugar producers face increasing import competition without any ability to offset the losses through increased exports – Canadian exports of refined sugar are a very small share (2%) of total shipments because of foreign trade barriers. Regional trade negotiations have added to the one-way nature of sugar trade for Canada because they exclude the highly protected US market and do not address sugar trade in a comprehensive way.

Because of this imbalance, it is essential to the Canadian sugar industry that the WTO Doha Round delivers clear and meaningful market access improvements for sugar and other sensitive products. This includes significant expansion of all tariff rate quotas and reduction of all tariffs.

Many sugar-containing food products also face trade barriers in the US and other countries. An ambitious WTO deal that improves export market access for these products will also help sustain an efficient and competitive sugar industry in Canada.

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In 2007, CAFTA commissioned an analysis of the potential benefits that would flow to Canada's export sectors through a WTO agreement. The analysis looked at seven primary commodities – including refined sugar.

SUGAR IS A "SENSITIVE" PRODUCT IN EXPORT MARKETS

The analysis of impacts of WTO trade liberalization on refined sugar is complicated by the fact that sugar will be designated as a "sensitive" product by the US and many other countries. The "sensitive" product designation in the WTO will likely insulate refined sugar and many processed products containing sugar from real market access improvements. It is impossible to predict with any certainty what the Doha framework will deliver as countries have yet to agree on the methods and the extent to which quotas will be determined and access will be increased.

Currently Canada's access to the U.S. is limited to a small 10,300 tonne quota for Canadian beet sugar – 0.1% of the US sugar market. Over-quota access is prohibited by a $357/tonne tariff. Refined cane sugar must compete with all global suppliers for a share of a remaining 7,090 tonne global quota. A wide range of sugar-containing products such as drink mixes, iced tea, cocoa mixes, doughs and other products face similar restrictions.

Through "sensitive product" negotiations, US sugar and sugar-containing product quotas are likely to increase, but current modelling suggests that increases will not be commercially meaningful. Unless there is a significant shift towards a Cairns group or G-20 model for the treatment of sensitive products, the only prospect of improvements in US market access is through long term reductions in over-quota tariffs.

Under this scenario, the analysis estimated the competitiveness of Canadian exports to the US following an over-quota tariff reduction. The net effect of the tariff reduction is that the price spread between US refined sugar and Canadian sugar landed in the US would significantly decrease, bringing Canadian refiners closer to being competitive in the US market. While this does not secure immediate market access improvements it is an important step towards the reduction and eventual elimination of of trade distorting market access barriers in sugar.

Canadian Refined Sugar Pricing in the US (model calibrated to 2003-05) $US / tonne		
	Pre-Doha	**Post Doha**
US over-quota tariff	357	233
US refined sugar price	582	536
Canada refined sugar price	282-322	307-347
Canada landed price in US with tariff	639-679	540-587
Price spread	57-97	4-51

If the Doha round modalities can also deliver product-specific expansion of refined sugar and other tariff rate quotas, the potential benefits to Canadian exporters are much greater. Even a modest 100,000 tonne increase in access to the US market would bring an additional $70 million in revenue to the Canadian industry annually.

Securing an ambitious WTO agreement that includes predictable and significant access improvements for "sensitive products" will help Canada's sugar industry realize its market potential in a highly competitive international sugar market.