



Stored bagasse at Racecourse Mill: the fibrous residue from milled sugarcane used as fuel to co-generate electricity

APR 2020

# SUGAR POLICY INSIGHTS

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## SURREAL. UNPRECEDENTED. A TIME LIKE NO OTHER!



Like all industries, the Australian sugar milling sector has moved swiftly to assess the potential and likely impacts of the COVID-19 pandemic. The health and safety of the milling companies' workforce, their families and the broader community is the priority, together with scenario planning for business continuity.

There is a deep sense of responsibility being felt across all sugar milling companies. The sector is currently in its maintenance period with all efforts firmly focused on starting the crushing season on time mid-year. While recognising the growing community anxiety, the one certainty is that this will be a season like no other!

The sugar milling sector is a \$4billion per annum contributor to the Queensland economy, and underpins around 22,500 jobs. There is an understanding from all

levels of government and our communities that without compromising human health, we must do everything we can to keep the businesses running that generate employment and income for the economy.

Like other agricultural and manufacturing sectors, we are working closely with various government Ministers and Departments to ensure that sugar milling operations and the entire industry supply chain continues to be recognised as an essential service.

Unfortunately the current global contraction has also cast a grim shadow over the sugar market. Near-term sugar prices have plummeted almost 30% in a short space of time, in line with falls across many other commodities, due to concerns about the impacts of the outbreak on consumer and industrial demand.

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# SURREAL. UNPRECEDENTED. A TIME LIKE NO OTHER!

David Pietsch, CEO *(Continued from page 1)*



The global sugar price has been affected by Brazil's increased crop forecast & falling oil prices – a strong market signal given Brazil's ability to switch from ethanol production to sugar. The AUD:USD provides some

relief, but rates are falling for a reason as Australia's trade-exposed economy drifts into uncharted waters.

While difficult during this time of crisis, representative bodies must continue to focus on addressing the underlying challenges the industry faces in the medium and longer-term. The sector needs to position itself in readiness for life after the pandemic.

On behalf of our members who will be firmly engaged in the here and now of the 2020 crushing season, ASMC will continue to focus on:

- Working with the Australian Government to progress WTO action against India (see below) and on the development of our trade policy/market access agenda to 2030.
- Working with SRA on its fresh approach to deliver a return on the milling sector's sizeable research investment.
- Ensuring energy and water policies underpin improved productivity and profitability for milling companies and their grower suppliers.

Finally, stay safe everybody, and look after your local communities.

## AUSTRALIA'S WTO DISPUTE: THE CASE AGAINST THE INDIAN GOVERNMENT'S SUGAR SUBSIDIES



ASMC Chair, John Pratt with Senator the Hon. Simon Birmingham

The Indian Government's interventions in the Indian sugar industry – from high floor prices for sugarcane to export subsidies – send market signals that stimulate overproduction of sugarcane, and encourage offloading excess sugar on the global market.

As a World Trade Organization (WTO) Member, India has obligations to stay within its market price support and export subsidy entitlements, as well as report its levels of assistance at the WTO.

Following industry representations, the Australian Government launched dispute action in the WTO (see *Sugar Policy Insights* November 2018 and December 2019). Brazil and Guatemala also launched parallel disputes against India.

Australia filed its first written submission with the dispute panel in January 2020, setting out the detailed case against India. The submission is publicly available on the Department of Foreign Affairs and Trade website. The Indian government has also lodged its written response.

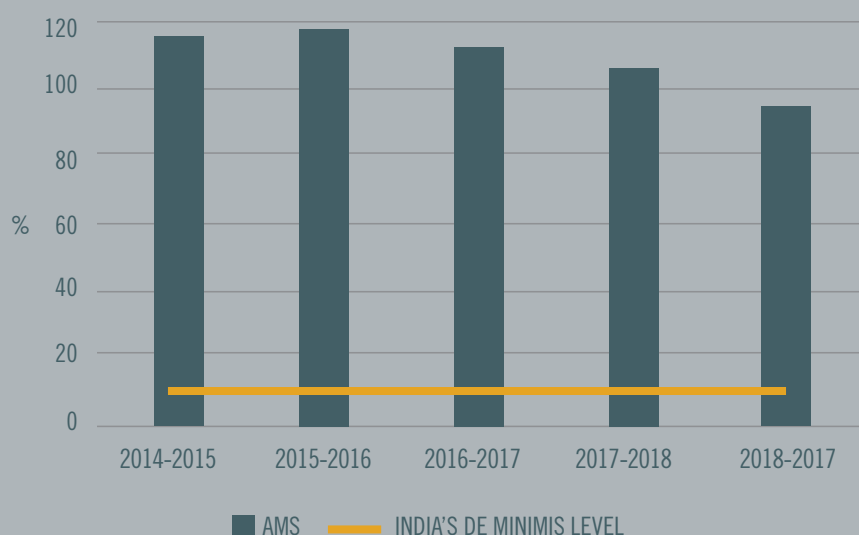
### INDIA'S SUPPORT FOR SUGARCANE IS FAR IN EXCESS OF ITS ENTITLEMENTS

When it joined the WTO, India committed to keep its domestic support (including market price support) to a “*de minimis*” amount of 10% of the value of production of the basic agricultural product.

To calculate India's market price support, the floor price (applied administered price, or AAP) is judged against a benchmark ‘reference price’ to which India committed when it joined the WTO: a fixed price from 1986–88 (‘fixed external reference price’, or FERP). The difference is multiplied by the quantity of eligible sugarcane production (QEP) entitled to receive the floor price, to derive the value of market price support (MPS).

\* Information provided by the Australian Department of Foreign Affairs and Trade

**CHART 1: INDIA'S AMS FOR SUGARCANE VS *DE MINIMIS* LIMIT**



$$\text{MPS} = (\text{AAP} - \text{FERP}) * \text{QEP}$$

The value of other subsidies, in addition to those that maintain the floor price, are also added to determine the aggregate measurement of support (AMS) for sugarcane. This is then compared to the value of sugarcane production to derive a percentage.

India's floor price for sugarcane at the federal level (the 'fair and remunerative price'), and state-level floor prices ('State Advised Prices'), as well subsidies to help mills pay the floor prices, have been above 90% of the value of production of sugarcane (Chart 1).

Australia is seeking a ruling from the WTO panel that India's floor prices and subsidies result in an AMS for sugarcane that is vastly in excess of India's 10% *de minimis* limit, and that India is violating its obligations.

### INDIA IS OFFERING ILLEGAL EXPORT SUBSIDIES

In addition to its 10% *de minimis* domestic support limit, India committed to provide no export subsidies – subsidies that are available contingent on export performance – under two WTO treaties, the Agreement on Agriculture and the Subsidies and Countervailing Measures Agreement.

India offers a range of export subsidies. For example, millers can claim cash payments if they meet certain export targets. Australia is asking the WTO panel to find that these export subsidies violate India's obligations.

### INDIA HAS FAILED TO REPORT ITS ASSISTANCE

Australia also challenges India's failure to report to the WTO Membership its domestic support of sugarcane over its 10% limit, and its export subsidies. India has failed to include sugarcane or sugar in its reports on domestic support since 1995–96, and has not reported its export subsidies since 2009–10.

## QUESTIONS AND ANSWERS

### When can we expect a result?

The timeframes of WTO disputes are difficult to predict, and greater uncertainty has been introduced due to the global COVID-19 pandemic. The panel is due to meet in May 2020. If the formal process can be completed under normal timeframes in 2020, the panel's report would likely be circulated to the WTO Membership in 2021. If the report is adopted, India will have a period of time to bring itself into compliance. Depending on the complexity of reforms needed, this compliance period could be 12–18 months.

### Can the panel's decision be appealed?

Under the WTO dispute settlement rules, panel reports can be appealed to the WTO Appellate Body. However, WTO Members have failed to agree on the selection of new Appellate Body members and as a result it is not currently hearing new appeals. In the meantime, the work of the panel will continue, and Australia is working with others to develop interim appeal arrangements as well as advance reforms that ensure a properly functioning Appellate Body.

### What happens if India loses but then does nothing?

Once a panel report is adopted, and after the end of the compliance period, Australia may be authorised to impose retaliatory measures to the value of India's violation. Australia may bring a compliance proceeding if it considers that India has failed to bring itself into compliance with the recommendations and rulings of the panel.



## US in Focus

The US sugar program, authorised under the 2018 farm bill, provides certainty for beet and cane sugar producers by maintaining a minimum price for sugar and strictly controlling imports. The program maintains US sugar prices above comparable levels in the world market.

The program uses 3 main policy levers:

- Grower price support via non-recourse loans.\*
- Flexible marketing allotments to limit sugar volumes sold domestically by processors.
- Import tariff-rate quotas (TRQs) and high customs duties.

Since 2008, duty-free sugar from Mexico† has entered the US (initially under NAFTA and now the US, Mexico, Canada Agreement (USMCA).

Under its WTO obligations, the US must import 1.117 million metric tonne (mmt) at a minimum tariff-rate quota (TRQ). Based on traditional supplies, 40 countries have access to the TRQ at low or zero tariffs on a first-come first-served basis. Mexico also receives preferential access to supply the TRQ. An over-quota tariff regime allows unlimited quantities of sugar imports, but at a higher duty.

Access for Australian raw sugar into the US is severely restricted with an annual raw sugar quota of only 87,402 mt.

While relatively free market access was granted to Australian beef, lamb, wine etc. sugar was omitted from the 2005 Australia–United States Free Trade Agreement (AUSFTA). And in 2017, the US withdrew support for the TransPacific Partnership (TPP-12), which would have increased Australia's raw sugar access.

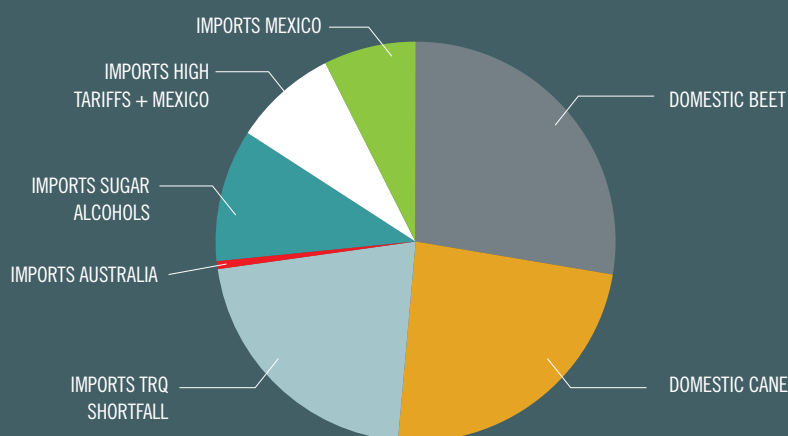
### Current Situation

Poor weather significantly reduced US & Mexican domestic sugar production in 2019. With a record low stocks-to-use ratio, US import quotas are being adjusted. To date, Australia has been allocated access for an additional 7,733 metric tonnes.

### At a glance

- US population is 329 million
- 46 kg per capita/year – world's highest sugar/sweetener consumer
- >20 million metric tonne (mmt) market for sugar/sweeteners:
  - >12 mmt sugar
  - 8 mmt of High Fructose Corn Syrup (HFCS)

### US SUGAR SUPPLY 2019/20 ESTIMATED (1,000 SHORT TONS/RAW VALUE)



\* A measure to avoid loan forfeitures and ensure the program operates at least cost.

† Refer: US antidumping sugar suspension agreement Dec 2014.

Source: USDA


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### About ASMC

The Australian Sugar Milling Council represents Australia's raw sugar manufacturers and exporters.

Our members manufacture 90% and collectively market over 50% of Australia's raw sugar.

Our aim is to be a leading voice for change to create opportunities for a more profitable and sustainable Australian sugar industry.

### KEY FOCUS AREAS



Trade  
policy



Social  
licence



Advocacy



Revitalisation



Research  
strategy