Competitiveness Depends on Good Products and Enlightened Domestic Farm and Trade Policies

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Mars is a family owned United States company headquartered in McLean, Virginia.

There are **15 domestic manufacturing facilities** and more than 22 offices coordinating domestic and international sales of US-made confectionery, snackfood and pet food products employing more than **7,000 people** in 16 states.

Uses over **$1 billion annually** of raw materials purchased from U.S. suppliers in more than 30 states including sugar, dairy, nuts, grains, meat and poultry products, and packaging.

Globally there are 97 manufacturing facilities and more than 191 offices in 64 countries **employing 35,000** people. Worldwide sales exceed $14 billion annually.

Confectionery and snackfood brands include M&M's®, Snickers®, Mars®, Milky Way®, Twix®, Three Musketeers®, Skittles®, Starburst®, and Combos®.

One of the world's leading producers of foods for dogs and cats sold under the internationally renowned brands of Pedigree®, Whiskas®, Sheba®, Frolic®, Chappi®, Waltham® and Royal Canin®.

Also included among the Mars group of companies and products are Uncle Ben's® Rice, Dove® ice cream, and Mars Electronics International (MEI) which is the world leader in the application of electronics to point of sales systems.

The Importance of Domestic Agricultural Policies to Competitiveness

U.S. confectionery and processed food manufacturers pay 2 to 3 times the world price for sugar because of the domestic sugar program.

- The U.S. sugar program is costing jobs in the food and beverage industry.

- As many as 26,500 jobs have been lost since 1997 due to the high domestic sugar price.

- Employment in the confectionery industry in Chicago alone declined from 13,600 in 1995 to 7,000 in 2004.

Job losses occur for several reasons…….

1. Due to higher cost, demand for sugar containing products shifts to other types of food and beverages.

2. Demand shifts to imported sugar containing products from countries with lower sugar prices.

3. Production moves off shore to lower costs.

Companies moving off-shore to manufacture sugar containing products is not a failure of U.S. trade policy or the result of bad trade agreements. It is a failure of domestic agriculture policy to consider the competitive needs of consuming industries and to focus on maintaining jobs in value added industries.

- The sugar program costs the U.S. economy $1 billion annually.
- There are 61,304 jobs in sugar production and refining.
- There are 724,118 direct jobs in the domestic sugar using industries.

Options?……….

- Imports of sugar into the U.S. are limited by quota to 1.1 million tons of raw sugar and 43,000 tons of refined sugar.

- Over quota imports subject to 194% duty for raw sugar and 179% for refined.

- Sugar re-export program for exports.

Restricted Access to Sugar as a Key Raw Materials in the United States

	RAW SUGAR OF HS 1701.11 IMPORTED INTO THE UNITED STATES
World Price	***$189.80 / mt***
Domestic Price	***$451.10 / mt***
Domestic Price as % of World Price	**238%**
Over Quota Rate (OQ = 33.87 cents/kg)	**$338.70 / mt**
Special Safeguard Rate (SSG = 3 cents/kg)	**$30.00 / mt**
Total Applied Tariff (OQ + SSG)	**$368.70 / mt**
Applied Tariff as % of World Price	**194%**

1. Average world price of Raw Sugar for 2004 calendar year = 8.61 cents/lb = 18.98 cents/kg as reported by US Dept. of Agriculture, Economic Research Service. Contract No. 11 – fob, stowed Caribbean port, bulk spot price. CSCE.
2. Average US domestic price of Raw Sugar for 2004 calendar year = 20.46 cents/lb = 45.11 cents/kg as reported by US Dept. of Agriculture, Economic Research Service. Contract No. 14 – duty fee paid New York. NYBOT.
3. Within quota, the US allows 1.12 million mt of raw sugar with specific country allocations. The applied IQ tariff rate is 1.4606 cents/kg or 6.4%.

The Importance of an aggressive trade policy to competitiveness

CAFTA-DR

Andean FTA

US-Thailand FTA

US-South African Customs Union FTA

Doha Round in the WTO

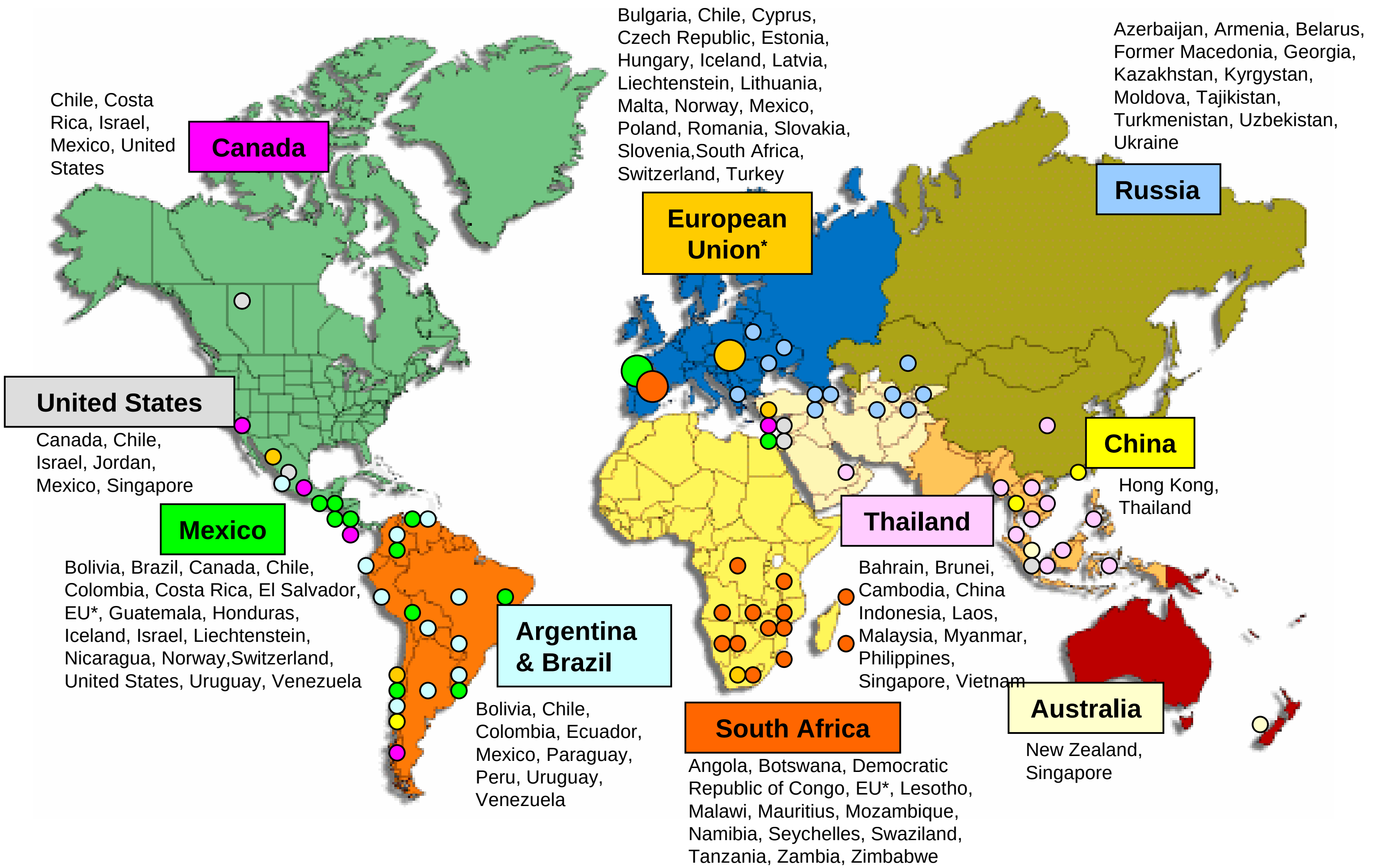
FTAs create a tariff advantage for U.S. exports.

WTO is the only mechanism for addressing subsidies.

Current Free Trade Agreements

(Tariffs at 0% or gradually reducing to 0%. Includes full and partial scope FTAs.)

All dots in the same color as the country label represent an FTA with that country

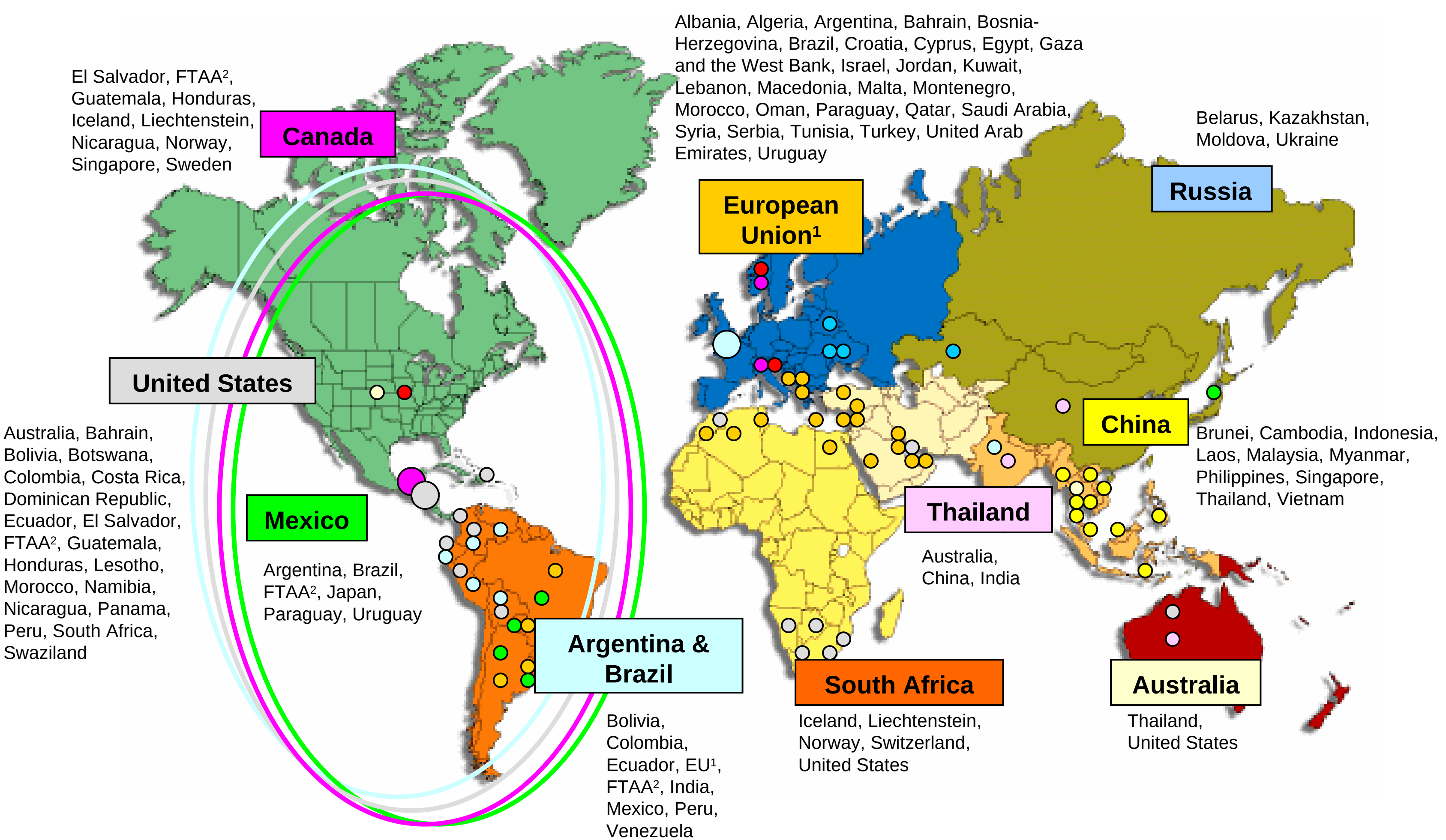


* European Union members are: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Portugal, Spain, Sweden, The Netherlands, and United Kingdom

Future Free Trade Agreements

(Negotiations in progress or concluded and pending ratification by parties)

All dots and circles in the same color as the country label represent a planned FTA with that country



[1] European Union members are: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Portugal, Spain, Sweden, The Netherlands, and United Kingdom

[2] FTAA countries are: Antigua & Barbuda, Argentina, Bahamas, Barbados, Belize, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Dominica, Dominican Republic, Ecuador, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, St. Kitts & Nevis, St. Lucia, St. Vincent & the Grenadines, Suriname, Trinidad & Tobago, Uruguay, United States and Venezuela.

AMERICAS TARIFF MATRIX
HIGHLIGHTS

HS 2309.10: Prepared Pet Food

EXPORT UNITS

TARGET IMPORT COUNTRY MARKETS	Argentina	Brazil	Canada	Chile	Colombia	Costa Rica	Jamaica	Mexico	Peru	United States
MFN	**15.5%**	**14%**	**3.5%**	**6%**	**20% + (price band)**	**15%**	**20%**	**13%**	**12%**	**0**
Argentina		0	0	0	17.6% + (price-band)[1]	15%	20%	10.4%	11.3%[3]	0
Brazil	0		0	0	17.6% + (price-band)[1]	15%	20%	10.4%	11.3%[3]	0
Canada	15.5%	14%		0	20% + (price band)	2004: 12% 2005: 11% Etc.-2016: 0	20%	0	12%	0
Mexico	0	11.2%	0	0	17.6% + (price-band)	0	20%		11.3%	0
United States	15.5%	14%	0	0	20% + (price band)	15%[2]	20%	0	12%	

[1] Colombia, Ecuador and Venezuela concluded a partial FTA with Mercosur in December 2003. Implementation is expected on July 1, 2004. The complete tariff reduction schedule has not yet been released. Pet food may receive additional preferences under this agreement.

[2] Upon implementation of CAFTA, tariffs on U.S. pet food exports (2309.10) will be phased out over a period of 12 years in Costa Rica. Tariffs will be phased out over 12 years in Honduras, 5 years in Nicaragua, and will be eliminated immediately in El Salvador and Guatemala. Market access negotiations with the Dominican Republic are currently taking place.

[3] In December 2003, Peru concluded a partial FTA with Mercosur. The complete tariff reduction schedule has not yet been released. Pet food may receive additional preferences under this agreement.

Opportunities in the Americas

- Access lower cost raw materials for US and other regional manufacturing units.

- Reduce finished product tariffs in the region to zero:

  - Sugar confectionery Tariffs now range *from 0 – 65%*
  - Chocolate Tariffs now range from *0 – 35%*
  - Pet food Tariffs now range from 0 – *35%, and as high as 95% with price bands*

- Eliminate non-tariff barriers to pet food including pre-import registration requirements, certification of ingredients and finished pet food, and inconsistent import documentation requirements among the countries.

- Eliminate non-tariff barriers affecting confectionery including arbitrary labeling requirements, excessive ingredient certification, border inspection delays.

SOME FAMILIAR NON TARIFF BARRIERS

- Pre-import registration
- Customs Classification
- Customs Valuation
- Restrictions on ingredients, colors, additives etc.
- Demands for proprietary information
- Labeling

Export or Invest………

The example of China………..

Difficulty of serving China's food market from outside because of its huge population and geography.

China's duty on chocolate was 100% in 1990.

But, investing behind a high tariff wall is not attractive because the market is "dead." Competition stimulates market growth and high tariffs suppress competition.

High tariffs also create high risk customs environments. Smuggling and grey market imports compete directly with legitimate imports and domestically produced Western brands.

The deal: China lowers confectionery duties to 15% and Mars invests.