## "Fairer Trade and Freer Markets"

**George Washington University's Elliott School of International Relations**
**March 5, 2010**

*Is there sufficient consumer demand for products carrying social/eco labels signaling they are fairly produced? Are fair trade strategies workable and sustainable? How do public policies channel or distort fairer trade?*

Responses by Kelly Johnston
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On behalf of the Campbell Soup Company, thank you for the invitation and opportunity to participate on this panel this morning. You've asked three questions. Since I do not feel particularly qualified to answer the first two – I am looking forward to hearing and learning from what others say – I do have a perspective on the third question, that is, how public policies can distort fairer trade and freer markets.

But before I answer that question, I do want to make three points about Campbell's commitment to fair trade. First, we have very explicit and public statements about our approach to human rights and environmental sustainability. These statements are published in our most recent Corporate Social Responsibility report and elsewhere on our company's website. We have updated our supplier requirements to specifically address environmental performance, human rights and child labor. And now, we are building auditing and assessment systems to monitor behavior.

One feature of food companies like Campbell is that because of our product lines, most of our ingredients are sourced in the region where we use them. And this simplicity of our products helps keep our supply chain "shallow."

Now, back to answer the question about how policies can distort free and fair trade. I have three examples – US policies on the production and importing of ethanol; the US Sugar Program; and country of origin labeling mandates on food. They collectively demonstrate how well-intended policies designed to help domestic growers and manufacturers can hurt developing countries that are trying to gain access to US markets and raise their standards of living. There is a fourth example, food biotechnology, but that's a barrier erected more so in Europe and elsewhere than in the United States. All three of these other policies have been controversial within the food and agriculture industry and the US Congress. The ethanol issue – the use of food for fuel – is the newest.

### Food to Fuel Mandates, Tariffs Ultimately Harm Many Developing Countries

The ethanol issue came to fruition in 2005 with enactment by a Republican Congress and President of the Energy Policy Act, which mandated the production of 7.5 billion gallons of corn-based ethanol by 2012. Two years, under a Democratic Congress, the mandate of ethanol from corn was doubled to 15 billion gallons by 2015, plus another 21 billion gallons from non-corn starch sources (e.g., sugar and cellulose) by 2022. Accompanying that mandate is 1) a subsidy, known as a blender's credit of 51 cents per gallon, paid to the oil companies to mix ethanol with gasoline, and 2) a 54 cent per gallon tariff on imported sources of ethanol. These policies were clearly designed to benefit the domestic renewable fuels industry – corn growers and ethanol refiners – and harm foreign producers of ethanol based in sugar, such as Brazil. However, these policies have also harmed American food manufacturers and consumers, who have been experiencing historically high food and feed prices resulting from higher grain prices[1]. In 2009, more than a third of the US corn crop went to make fuel, not food or feed[2].

These policies might be good for Midwestern corn growers, but they don't exactly create incentives for developing countries, many of whom grow sugar, to create a viable ethanol export business, and help reduce global demand for fossil fuels. The US has simply shut the door to any ethanol from other countries. When high corn prices drove tortilla prices through the roof – a basic staple in Mexico – riots ensued[3]. So not only did US ethanol policies hurt free trade, they also harmed the poor in developing and developed countries alike.

**The US Sugar Program – helping or hurting developing countries?**

Speaking of sugar, the US Sugar Program's impact on fair and free trade is somewhat more nuanced. While the program guarantees a price and guarantees US sugar growers 80 percent of the US market, it does allow for "tariff rate quotas (TRQ's)" that provide approximately 38 developing countries access to the U. S. market at highly inflated US prices. Mauritius is a small country about the size of Rhode Island off the east coast of Africa, yet they're one of the world's top 10 sugar-producing countries. Sugar cane is cultivated on 80 percent of its arable land. They purportedly like the US program. Here's what a sugar industry spokesman in Mauritius said back in 2007, during our most recent Farm Bill debate, about the US Sugar Program: "The fair price and predictable revenue derived from the TRQ fuels trade-driven growth in our developing countries."[4]

How nice. I wonder how much more sugar Mauritius could sell to the US if we participated fully in the global market. I wonder what the other 71 sugar producing countries (not including the US) would think if *they* could get access to US markets, without TRQs. I wonder what would happen to global sugar prices if the US actually participated in the world market for sugar, helping poor farmers in *all* sugar-producing developing countries get higher prices. I wonder how much a free market in sugar would save US consumers. I wonder if US companies like Brach's and Lifesaver's and at least 8 other companies might actually have kept their manufacturing and *thousands* of jobs in the US if America didn't have a sugar program. I wonder if US soft drink makers might actually start using cane sugar again instead of cheaper high fructose corn syrup. Inquiring teenagers want to know.

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[1] *"Ethanol Demand Threatens Food Prices,"* Technology Review, Massachusetts Institute of Technology, February 13, 2007.
[2] *"Ethanol Blend Hike May Require Half of U.S. Corn Crop,"* http://www.bloomberg.com, June 9, 2009.
[3] *"The Story You Didn't Read: Mexico's Tortilla Riots,"* http://www.bloggingstocks.com, February 2, 2007
[4] *"Developing Country Support for US Sugar Program,"* Sugar Producer, March, 2007

The biggest fans of the US sugar program might be consumers in other countries, who appreciate their artificially low prices thanks to the fact that US consumers pay, at last count, about twice as much for sugar than the rest of the globe[5]. One study from nearly a decade ago suggested that freeing just the U.S. market would boost global demand and raise world prices by 17 percent, increasing the annual export earnings of developing nations by $1.5 billion[6].

**Country of Origin Labeling . . . or Discrimination?**

Ever since Florida vegetable growers lost their battle against alleged Mexican dumping of winter fruit and vegetables in 1979, beef and produce growers have invested millions of dollars in lobbying to mandate country of origin labeling on food products. We've had it for years on processed products, but most recently, it's finally been mandated for fresh produce as well as fresh beef. Walk into your neighborhood grocery store, and peruse the fresh produce aisle. I did, just this past weekend. I was pleased to see mini watermelons, a personal favorite, on sale. Affixed on each melon was a sticker that included the name of the brand, the farm corporation, and, the country of origin. In this case, it was Guatemala.

The main argument for mandatory country of origin labeling is that consumers have a "right to know" where their food comes from. If you ask Americans consumers in a survey if they "want more information," they almost always say yes, and by a large majority. But where is the evidence that Americans really *use* that information to make point of purchase decisions? The fact that my local Safeway store in the Philadelphia suburbs has no problem selling watermelons from Guatemala, blueberries from Chile and oranges from South Africa is that consumers are willing to purchase them. After all, if they're being sold in our grocery stories, they must be safe, right?

Information about country of origin may be interesting, but it conveys absolutely no meaningful information to consumers. Why? Because *all* food sold in the US must, by law, meet US food safety standards. Studies also suggest that domestic food products are neither more nor less safe, on average, than imported food products.[7] The fact is that country of origin labeling mandates are nothing more than thinly disguised non-tariff barriers to disparage foods from other countries. That is especially powerful given the high number of food safety issues we've experienced in the US over the past 3 years, whether its Jalapeño peppers from Mexico, peanut butter from Georgia, Spinach from California, or melamine from China. As long as growers and manufacturers can meet US food safety standards and regulations, why should it matter whether it's the fair trade grower from the Ivory Coast or the cocoa processor from Indonesia . . . or Canada? There is already plenty of information required on the label to help a consumer know who made their product, and how to contact them, either by phone or by website.

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[5] *"Sugar Tariffs Cost Americans $2.5 billion in 2009,"* http://www.economistblog.com, Dr. Mark Perry, University of Michigan at Flint, MI, January 31, 2010.

[6] "*America's Bittersweet Sugar Policy*," Groombridge, Mark A., Center for Trade Policy Studies, CATO Institute, December 4, 2001

[7] *"Food Safety And Fresh Fruits And Vegetables : Is There A Difference Between Imported And Domestically Produced Products?"* L. Zepp, F. Kuchler, and G. Lucier, Vegetables and Specialties/VGS-274/April 1998, page 23-28

And this isn't enough for some. Now, COOL proponents want to mandate COOL for *ingredients*, at least on company websites. That is not only onerous and expensive, it's unenforceable, given sudden and frequent changes in supply chains, whether it's wheat from Canada or the US, or cocoa from the Ivory Coast or Central America.

Thank you for this opportunity. I look forward to your questions and comments.