Statement of the National Confectioners Association:
Impact of the trade dispute over country-of-origin labeling on the U.S. chocolate and confectionery industry

Hearing of the U.S. House of Representatives Committee on Agriculture
Subcommittee on Livestock and Foreign Agriculture

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Making Life Sweeter Since 1884

I appreciate this opportunity to testify on behalf of America's confectionery companies before this subcommittee. NCA has been representing companies that manufacture candy, one of life's little pleasures, since 1884. Today, NCA represents 290 companies that manufacture and market the vast majority of chocolate confectionery, sugar confectionery, gum and mints sold in the United States, 260 companies who supply those manufacturers and 135 companies who serve as third-party sales agents for manufacturers, known as brokers.

More than two-thirds of NCA's members are small businesses. Many of the industry's manufacturers are now fourth and fifth generation family-owned companies, started by immigrants before the turn of the century. There are confectionery manufacturers in all 50 states, with a particular concentration in Pennsylvania, New York, New Jersey, Illinois, Ohio and California.

According to the U.S. Department of Labor, in 2009 (the latest data available) there were about 70,000 Americans directly employed by the confectionery industry. When you count the related number of sales and distribution jobs associated with the industry, that number triples. Confectionery workers are represented by the Bakery, Confectionery, Tobacco, and Grain Millers; United Food and Commercial Workers International; and the Teamsters Unions.

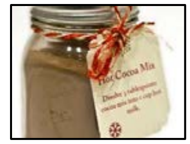
Confectionery manufacturers are major users of U.S.-grown commodities including sugar, corn sweeteners, dairy products, peanuts, almonds and other nuts. These industries, of course, benefit also from U.S. exports of confections.

NCA members have long supported free trade. This is despite the fact that our companies are disadvantaged in our own domestic marketplace by U.S. agriculture subsidies that increase the price of sugar, one of our key ingredients, in the U.S. compared to the world price that our global competitors enjoy.

NCA companies have actively engaged in the President's National Export Initiative. In 2014, U.S. confectioners exported more than $2 billion worth of candy, chocolate, gum, mints and bulk chocolate products around the world. Not surprisingly, Mexico and Canada are our most important trading partners. Forty percent of U.S. confectionery exports are to Canada ($900 million) while 15 percent (more than $300 million) are to Mexico. These two markets together total over 50 percent of U.S. confectionery exports. We are deeply concerned that retaliatory duties from both countries will target our industry.

Let me tell you more about how U.S. confectioners will be impacted if Canada proceeds with retaliatory duties. Currently, four confectionery related tariff codes are on Canada's proposed retaliatory duty list. These codes capture U.S.-made bulk chocolate, finished chocolate confections and sugar-free sweeteners. Together, these confectionery products represented $615 million of U.S. exports to Canada last year.

Tariff code 1806.90 covers chocolate and chocolate confectionery. Included here are chocolates in varied forms, such as buttons, coins, drops, hearts, animals, and other shapes along with assorted boxes of chocolate and hot cocoa mixes. U.S. confectioners supply more than 50 percent of Canada's total imports in this category. Examples of typical chocolate products classified under 1806.90 are pictured below.

Sweet biscuits and waffles/wafers are covered under tariff code 1905.31 and 1905.32. Forty-two percent of Canada's total imports of sweet biscuits and two-thirds (68 percent) of Canada's total imports of waffles/wafers are sourced from the U.S. Some of NCA's members manufacture chocolate-covered or chocolate-containing sweet biscuits, waffles and wafers. Examples to illustrate such finished products are pictured below.

Example of chocolate-covered sweet biscuits (1905.31)

Examples of chocolate-covered waffles and wafers (1905.32)

Tariff code 1806.20 covers bulk chocolate preparations. These include chocolate crumb, liquid chocolate and chocolate slurries, all of which are used in the manufacture of chocolate and chocolate-containing products. U.S. chocolate makers supply more than 75 percent of Canada's total import demand of bulk chocolate preparations.

Certain sugar substitutes including sorbitol and xylitol are included in Tariff Code 2940.00. More than one-quarter (28 percent) of Canada's total imports of sweeteners of 2940.00 are sourced from the U.S. As the sugar-free market continues to grow, sugar substitute inputs sourced from the U.S. continue to grow to support manufacturing of sugar-free gum and confectionery.

U.S confectioners have worked hard to grow the presence of U.S. confections and intermediates in Canada and our efforts are paying off. Exports of finished chocolate grew by almost $45 million in just the last two years, while exports of bulk chocolate grew by almost $12 million. Those years of investment will quickly be diminished if the retaliations are implemented. For all of these products – chocolate, bulk chocolate, wafers/biscuits and sweeteners – there are Canadian and global competitors. Many American-made chocolate products will disappear from Canadian shelves. Manufacturers in Canada that source critical raw materials from U.S.-based suppliers will shift supply chains outside of the United States. We are aware already of Canadian companies using the threat of the retaliation to lure manufacturers to new and more secure supply sources. The loss of business will impact U.S. confectionery companies and their workers, also their communities.

The government of Mexico has not yet declared the products upon which they intend to levy duties if WTO grants retaliation, but U.S. confectioners are very troubled that our industry will again be targeted as they were several years ago during the U.S.-Mexico cross-border trucking dispute.

The longer these disputes are unresolved, the greater the consequences to the U.S. confectionery industry.

U.S. confectioners urge Congress and the affected industries to find a resolution that ensures U.S. compliance with international trade obligations and avoids retaliatory actions against our exports to the north, and possible retaliation for our exports to the south.