U.S. Department of Agriculture
Washington, D.C.
March 12, 2003

“Implementation of U.S. Sugar Policy: Views of the U.S. Sugar Producing Industry”

Jack Roney
Director of Economics and Policy Analysis
American Sugar Alliance
U.S. Sugar Industry on Sugar Policy Implementation

Thoughts on:
• Industry status and restructuring
• Implementation to date
• Implementation methodology and future challenges
U.S. Sugar Industry on Sugar Policy Implementation

• Fair to farmers, consumers, taxpayers
• Steady, conservative, effective Administration
• Outstanding work by FSA staff in short time
### Sugar Votes, 1996-2001

<table>
<thead>
<tr>
<th></th>
<th>Vote</th>
<th>% of Votes Cast</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>HOUSE</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Farm Bill, February 1996</td>
<td>217 - 208</td>
<td>51%</td>
</tr>
<tr>
<td>Ag. Appropriations, July 1997</td>
<td>253 - 175</td>
<td>59%</td>
</tr>
<tr>
<td>Ag. Appropriations, June 1998</td>
<td>258 - 167</td>
<td>61%</td>
</tr>
<tr>
<td>Farm Bill, October 2001</td>
<td>239 - 177</td>
<td>57%</td>
</tr>
<tr>
<td><strong>SENATE</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Farm Bill, February 1996</td>
<td>61 - 35</td>
<td>63%</td>
</tr>
<tr>
<td>Ag. Appropriations, July 1996</td>
<td>63 - 35</td>
<td>64%</td>
</tr>
<tr>
<td>Ag. Appropriations, August 1999</td>
<td>66 - 33</td>
<td>67%</td>
</tr>
<tr>
<td>Ag. Appropriations, July 2000</td>
<td>65 - 32</td>
<td>67%</td>
</tr>
<tr>
<td>Farm Bill, December 2001</td>
<td>71 - 29</td>
<td>71%</td>
</tr>
</tbody>
</table>
Sugar producers, alone among program crops:
• Must reserve large share of market for foreign imports
• Retain supply management provisions
• Receive no government payments:
  – Only no-cost program
  – Earn all returns from the marketplace
  – Store surpluses at own expense
Government Net Outlays for Sugar and All Other Commodity Programs, 1996-2004

- Million dollars -

1991-2004 Totals
All Other Program Total Net Outlays: $195,057 million
Sugar Total Net Revenues: $24 million


American Sugar Alliance, March 2003
U.S. Sugar Industry on Sugar Policy Implementation

- Current relative market stability:
  - A sharp contrast to turbulence of past several years
    - Historically low prices; forfeitures; casualties; restructuring
    - Sharp production declines in 2000, 2001
- Market and policy stability: Still tenuous
**U.S. Raw Cane Sugar Prices Since Start of 1996 Farm Bill**


*American Sugar Alliance, March 2003*
U.S. Wholesale Refined Beet Sugar Prices
Since Start of 1996 Farm Bill

<table>
<thead>
<tr>
<th>BEET CLOSURES</th>
<th>CANE CLOSURES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spreckels Sugar, Manteca, California, 1996</td>
<td>Ka'u Agribusiness, Hawaii, 1996</td>
</tr>
<tr>
<td>Holly Sugar, Hamilton City, California, 1996</td>
<td>Waialua Sugar, Hawaii, 1996</td>
</tr>
<tr>
<td>Western Sugar, Mitchell, Nebraska, 1996</td>
<td>McBryde Sugar, Hawaii, 1996</td>
</tr>
<tr>
<td>Great Lakes Sugar, Fremont, Ohio, 1996</td>
<td>Breaux Bridge Sugar, Louisiana, 1998</td>
</tr>
<tr>
<td>Holly Sugar, Tracy, California, 2000</td>
<td>Talisman Sugar Company, Florida, 1999</td>
</tr>
<tr>
<td>Holly Sugar, Woodland, California, 2000</td>
<td></td>
</tr>
<tr>
<td>Western Sugar, Bayard, Nebraska, 2002</td>
<td></td>
</tr>
</tbody>
</table>

*In 2003, 27 beet and 25 cane mills remain

American Sugar Alliance, March 2003
U.S. Refined Sugar Sellers: Grower-Owned Share Doubles in Four Years (% of production capacity)


American Sugar Alliance, March 2003
Modest Price Recovery in 2002

- Prices slightly above forfeiture range
- Ample supplies available for consumers
- Program operates as price cap, but not always price floor
  - Price can fall well below forfeiture levels
  - Price rises always capped by TRQ, OAQ increases
U.S. Raw Cane Sugar Prices
Since Start of 1996 Farm Bill

U.S. Sugar Industry on Sugar Policy Implementation

Methodology

We commend the Department for taking the conservative approach on overall allotment quantity management, particularly given the unpredictability of commodity markets.
Methodology

We endorse the Administration’s current approach in its operation of the marketing allotments program, allowing the Secretary some discretion to determine OAQ, and TRQ, amounts that balance the market under changing conditions and that avoid loan forfeitures.
U.S. Sugar Industry on Sugar Policy Implementation

Methodology

We regard it as unnecessary, and, in fact, as potentially dangerous, to burden the Secretary with specific triggers – stocks/use ratio, price, or other – to force the Secretary to alter the OAQ amount.
TRQ Management

Congress’ instruction: If the beet or cane sector is unable to fulfill its allocation, and the CCC has no sugar in inventory, then, and only then, should the Department make up any shortfall by increasing the TRQ.
Future Prices, Survival Strategies

• Flat nominal prices, declining real prices: Continued pressure to reduce costs
• Many growers highly leveraged by processing/refining plant purchases
• Weather catastrophes worsen prospects:
  – Serious drought in six beet states
  – Hurricane & rain disaster in LA
U.S. Raw Sugar Prices, Nominal and Real, 1985-2002

U.S Wholesale Refined Sugar Prices, Nominal and Real, 1985-2002

U.S. Sugar Industry on Sugar Policy Implementation

Consumer Benefits

• Low stable prices

• Should be lower still:
  – Lack of passthrough when producer prices fall
Developed Countries' Retail Sugar Prices:
USA 22% Below Average

Cents per pound, refined

Japan 85¢
Denmark 79¢
Sweden 77¢
Finland 76¢
Switzerland 66¢
Germany 60¢
Netherlands 60¢
OTHER DEVELOPED COUNTRIES
Austria 52¢
France 52¢
Belgium 48¢
Ireland 43¢
Portugal 42¢
USA 42¢
Italy 41¢
Norway 38¢
Canada 35¢
Australia 34¢

"Other Developed Countries" represents the weighted average of 21 foreign developed countries.

Wholesale - retail sugar price gap doubles, from 9¢/lb average in 1982-84 to 20¢/lb in 2000-02:
Revenue transfer from producers and consumers to grocers


Consumer Prices: Sweetened Products Average
Up 78% Since 1982-84

Producer Prices: Wholesale Refined Sugar
Down 12% Since 1982-84

Data Sources: USDA, BLS. Nominal prices; Annual averages, 1986-2002. Producer prices: Midwest markets. Consumer prices: Average of five major BLS sweetened product categories: Candy; Cookies and Cakes; Other Bakery Products; Cereal; Ice Cream.
Real Price Changes: Sugar Producers Hammered by Inflation; Sweetened-Product Manufacturers Keep Pace (1982-2002)

Real Consumer (Retail) Prices for Sweetened Products since 1982-84: Just Below Inflation Rate

Real Producer (Wholesale) Price for Sugar since 1982-84: Down 50%

Data Sources: USDA, BLS. Annual averages, 1986-2002, adjusted by CPI-U. Producer prices: Midwest markets. Consumer prices: Average of five major BLS sweetened product categories: Candy; Cookies and Cakes; Other Bakery Products; Cereal; Ice Cream.
Future Implementation Challenges

• TRQ Circumvention
• Mexican Tier-2 Sugar
• Pressure to Increase Minimum TRQ
  – WTO
  – Bilateral and Regional FTA’s
Circumvention Products: Negative Consequences

- When TRQ is above the minimum: Reduce 40 quota-holding countries’ legitimate share of the U.S. market, at the U.S. price
- When TRQ is at the minimum: Reduce the OAQ – the domestic producers’ share of their own market.
- If imports pushed above 1.532 million tons, marketing allotments could be triggered off, domestic market oversupplied, no-cost compromised.
<table>
<thead>
<tr>
<th>Year</th>
<th>Mexico</th>
<th>Base</th>
</tr>
</thead>
<tbody>
<tr>
<td>1994</td>
<td>15.60</td>
<td>--</td>
</tr>
<tr>
<td>1995</td>
<td>15.20</td>
<td>17.62</td>
</tr>
<tr>
<td>1996</td>
<td>14.80</td>
<td>17.17</td>
</tr>
<tr>
<td>1997</td>
<td>14.40</td>
<td>16.72</td>
</tr>
<tr>
<td>1998</td>
<td>14.00</td>
<td>16.27</td>
</tr>
<tr>
<td>1999</td>
<td>13.60</td>
<td>15.82</td>
</tr>
<tr>
<td>2000</td>
<td>12.09</td>
<td>15.36</td>
</tr>
<tr>
<td>2001</td>
<td>10.58</td>
<td>15.36</td>
</tr>
<tr>
<td>2002</td>
<td>9.07</td>
<td>15.36</td>
</tr>
<tr>
<td>2003</td>
<td>7.56</td>
<td>15.36</td>
</tr>
<tr>
<td>2004</td>
<td>6.04</td>
<td>15.36</td>
</tr>
<tr>
<td>2005</td>
<td>4.53</td>
<td>15.36</td>
</tr>
<tr>
<td>2006</td>
<td>3.02</td>
<td>15.36</td>
</tr>
<tr>
<td>2007</td>
<td>1.51</td>
<td>15.36</td>
</tr>
<tr>
<td>2008</td>
<td>0.00</td>
<td>15.36</td>
</tr>
</tbody>
</table>

Source: USDA
Mexico

We pledge our support for the Administration’s continuing effort to negotiate with the government of Mexico a comprehensive, permanent agreement that addresses the potent threat of tier-2 sugar, restores access to Mexico for U.S. corn sweeteners, and restores balance and stability to an integrated U.S.-Mexican sugar and corn sweetener market.
<table>
<thead>
<tr>
<th>Country</th>
<th>Production</th>
<th>Exports</th>
<th>U.S. TRQ Allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Mexico</strong></td>
<td>5,128,000</td>
<td>246,000</td>
<td>7,258</td>
</tr>
<tr>
<td><strong>Canada</strong></td>
<td>94,000</td>
<td>5,000</td>
<td>---</td>
</tr>
<tr>
<td><em>Caribbean</em></td>
<td>864,000</td>
<td>487,000</td>
<td>237,760</td>
</tr>
<tr>
<td><strong>Central America</strong></td>
<td>3,633,000</td>
<td>2,168,000</td>
<td>168,486</td>
</tr>
<tr>
<td><strong>South America</strong></td>
<td>25,917,000</td>
<td>12,376,000</td>
<td>313,579</td>
</tr>
<tr>
<td><strong>FTAA Total</strong></td>
<td>35,636,000</td>
<td>15,282,000</td>
<td>727,083</td>
</tr>
<tr>
<td><strong>South Africa</strong></td>
<td>2,741,000</td>
<td>1,388,000</td>
<td>24,221</td>
</tr>
<tr>
<td><strong>Swaziland</strong></td>
<td>537,000</td>
<td>253,000</td>
<td>16,850</td>
</tr>
<tr>
<td><strong>SACU Total</strong></td>
<td>3,278,000</td>
<td>1,641,000</td>
<td>41,071</td>
</tr>
<tr>
<td><strong>Australia</strong></td>
<td>4,600,000</td>
<td>3,456,000</td>
<td>87,402</td>
</tr>
<tr>
<td><strong>Thailand</strong></td>
<td>6,030,000</td>
<td>4,085,000</td>
<td>14,743</td>
</tr>
<tr>
<td><strong>FTA Total</strong></td>
<td>49,544,000</td>
<td>24,464,000</td>
<td>870,299</td>
</tr>
</tbody>
</table>

* Excluding Cuba

Data Source: USDA/FAS, November 2002
U.S. Sugar Industry on Sugar Policy Implementation

WTO & FTA’s

*We support the goal of genuine global free trade in sugar through comprehensive, sector-specific negotiations in the WTO*

*We urge the Administration to reserve sugar for comprehensive, sector-specific negotiation in the WTO, and not in bilateral and regional trade agreements.*
Conclusion

The U.S. sugar-producing industry commends the Department for its implementation of U.S. sugar policy under the 2002 Farm Bill. We recommend that the Administration continue to implement the marketing allotment program as it has been doing.