

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

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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

<u>HOUSE</u>	<u>Vote</u>	<u>% of Votes Cast</u>
Farm Bill, February 1996	217 - 208	51%
Ag. Appropriations, July 1997	253 - 175	59%
Ag. Appropriations, June 1998	258 - 167	61%
Farm Bill, October 2001	239 - 177	57%
<u>SENATE</u>		
Farm Bill, February 1996	61 - 35	63%
Ag. Appropriations, July 1996	63 - 35	64%
Ag. Appropriations, August 1999	66 - 33	67%
Ag. Appropriations, July 2000	65 - 32	67%
Farm Bill, December 2001	71 - 29	71%

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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

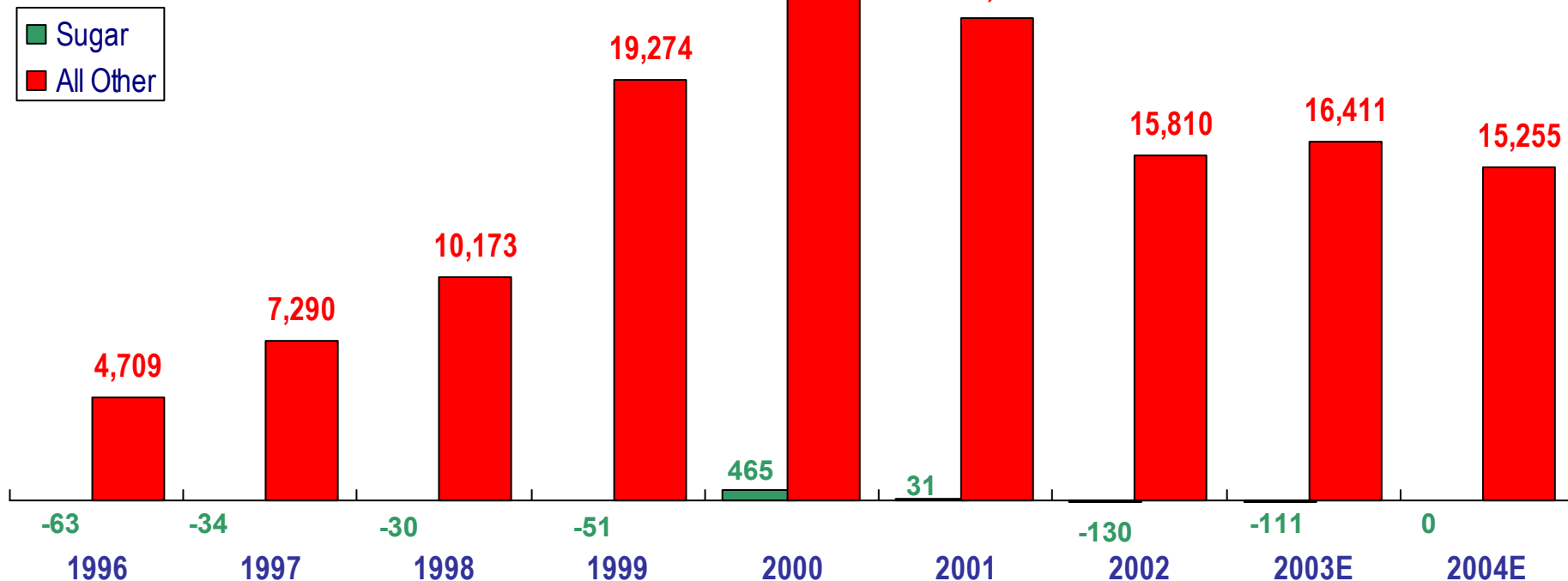
Government Net Outlays for Sugar and All Other Commodity Programs, 1996-2004

- Million dollars -

1991-2004 Totals

All Other Program Total Net Outlays: \$195,057 million

Sugar Total Net Revenues : \$24 million

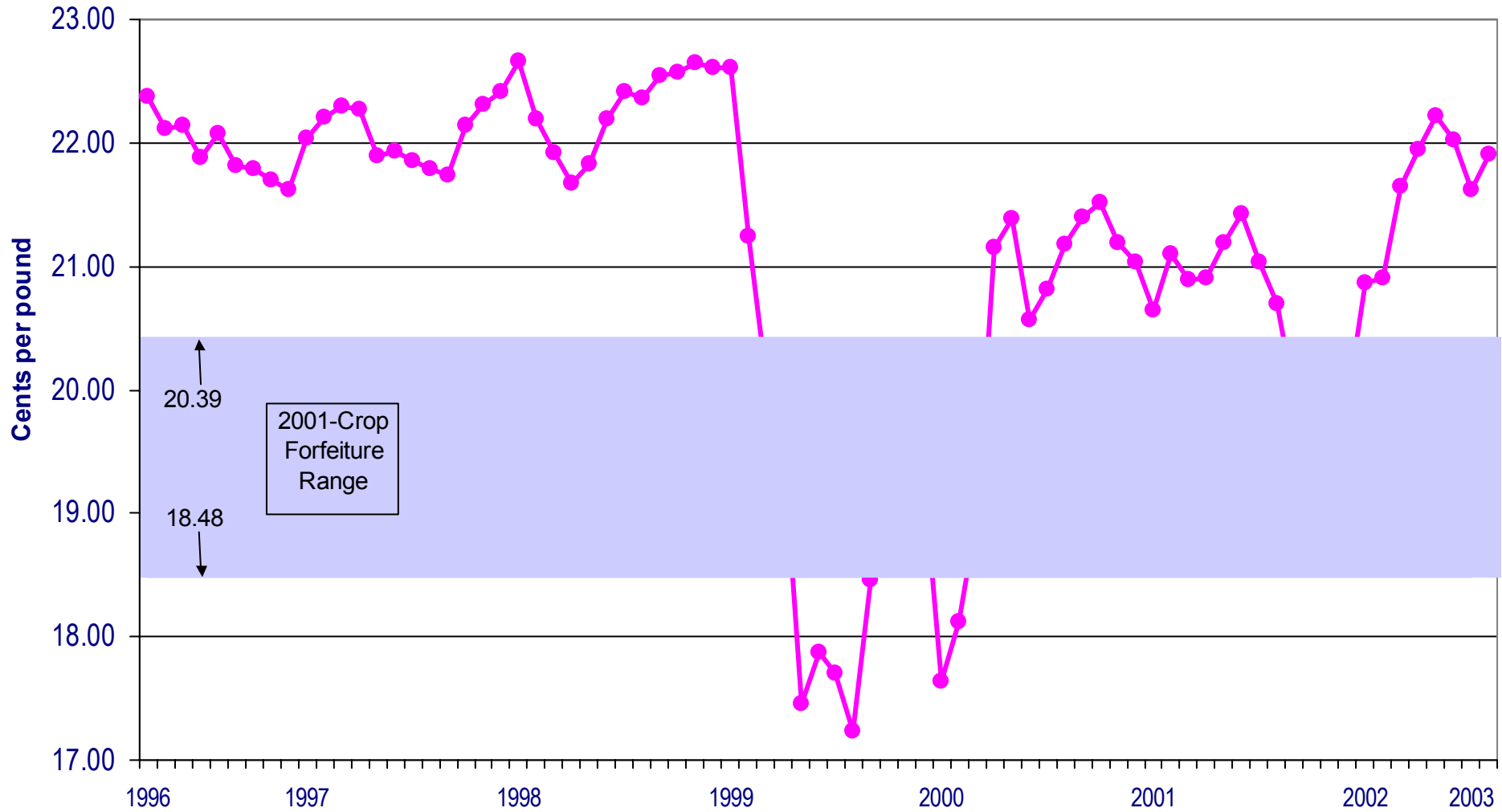


Data source: USDA/FSA, February 3, 2003; All commodities net outlays 1991-95: \$52.2 billion. Sugar: 1991-99 -- revenues from sugar marketing assessment tax (1991-95 revenues: \$101 million); 2000-01 -- value of sugar forfeited to, or purchased by, government, plus storage costs; 2002-03 -- revenues from sale of CCC sugar onto market at a profit.

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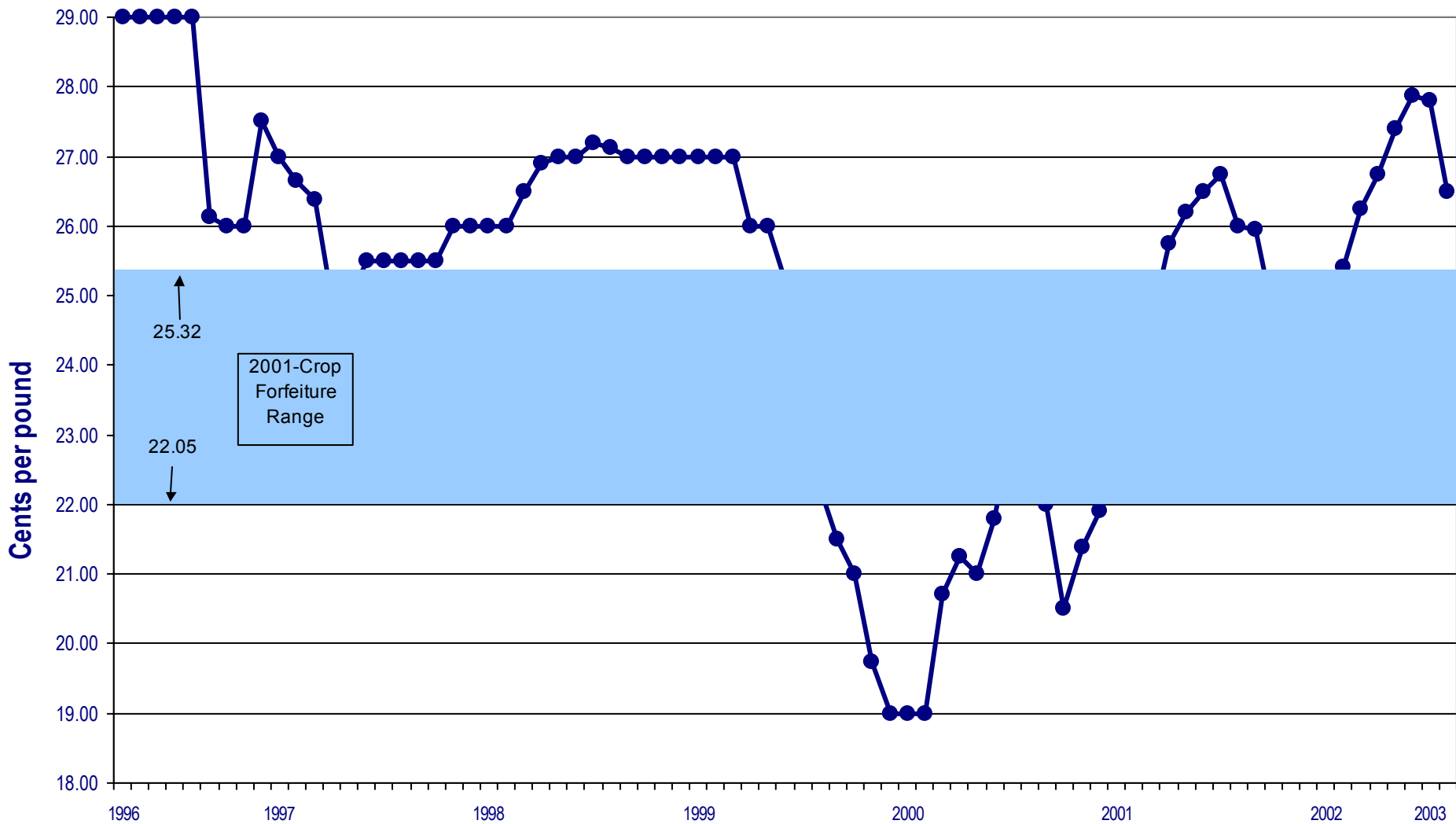
- Current relative market stability:
 - A sharp contrast to turbulence of past several years
 - Historically low prices; forfeitures; casualties; restructuring
 - Sharp production declines in 2000, 2001
- Market and policy stability: Still tenuous

U.S. Raw Cane Sugar Prices Since Start of 1996 Farm Bill



Source: USDA. Raw cane sugar, nearby #14 contract, delivered New York. Monthly average prices October 1996 -February 2003.

U.S. Wholesale Refined Beet Sugar Prices Since Start of 1996 Farm Bill



Source: USDA. Wholesale refined beet sugar, Midwest markets. Monthly average prices October 1996 - February 2003.

19 PERMANENT SUGAR MILL CLOSURES SINCE 1996

BEET CLOSURES

**Spreckels Sugar, Manteca
California, 1996**

**Holly Sugar, Hamilton City
California, 1996**

**Western Sugar, Mitchell
Nebraska, 1996**

**Great Lakes Sugar, Fremont
Ohio, 1996**

**Holly Sugar, Hereford
Texas, 1998**

**Holly Sugar, Tracy
California, 2000**

**Holly Sugar, Woodland
California, 2000**

**Western Sugar, Bayard
Nebraska, 2002**

CANE CLOSURES

**Ka'u Agribusiness
Hawaii, 1996**

**Waialua Sugar
Hawaii, 1996**

**McBryde Sugar
Hawaii, 1996**

**Breaux Bridge Sugar
Louisiana, 1998**

**Pioneer Mill Company
Hawaii, 1999**

**Talisman Sugar Company
Florida, 1999**

**Amfac Sugar, Kekaha
Hawaii, 2000**

**Amfac Sugar, Lihue
Hawaii, 2000**

**Hawaiian Commercial & Sugar, Paia
Hawaii, 2000**

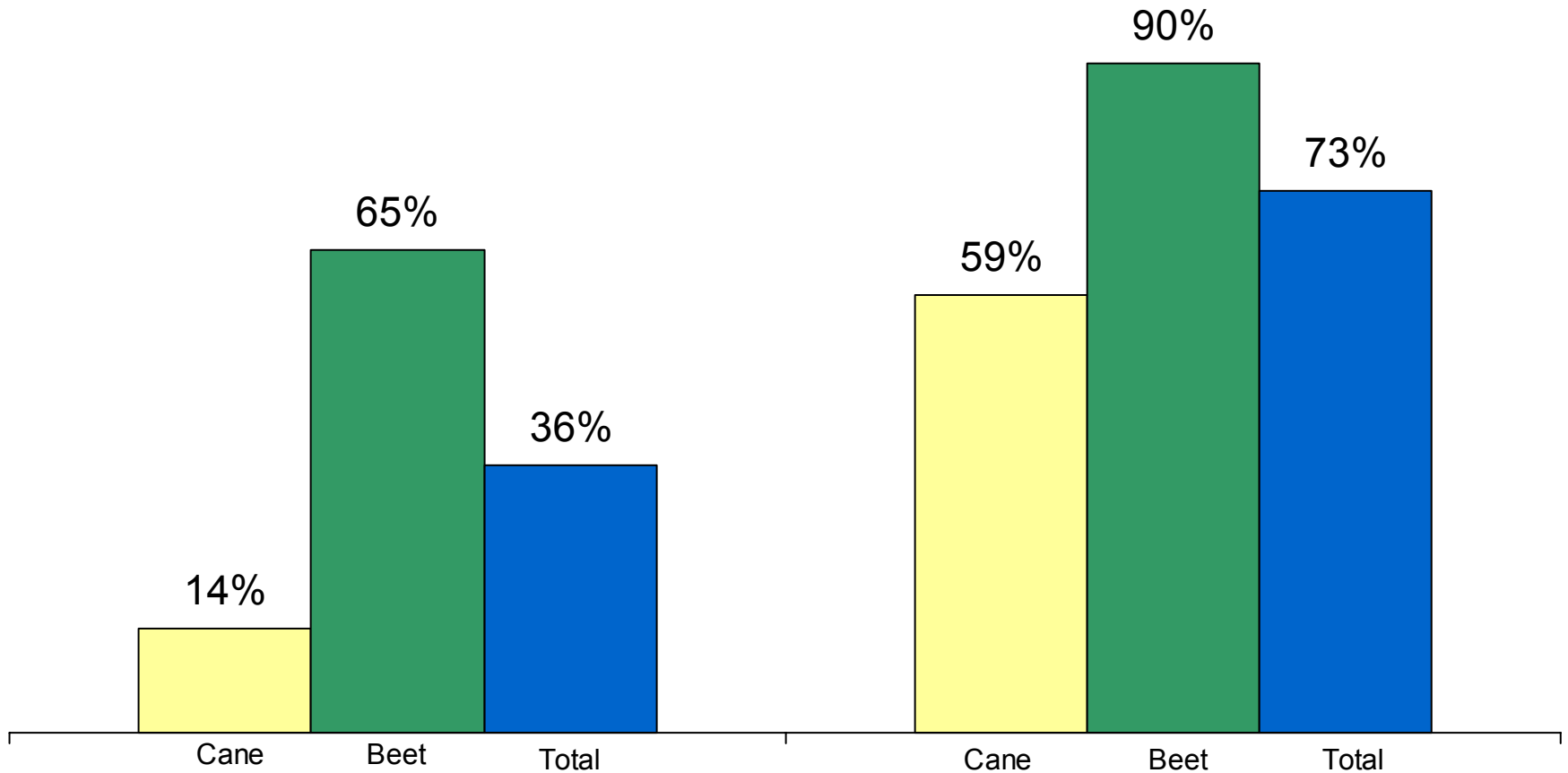
**Evan Hall Sugar Cooperative
Louisiana, 2001**

**Caldwell Sugars Cooperative
Louisiana, 2001**

**In 2003, 27 beet and 25 cane mills remain*

U.S. Refined Sugar Sellers: Grower-Owned Share Doubles in Four Years

1999 (% of production capacity) 2003



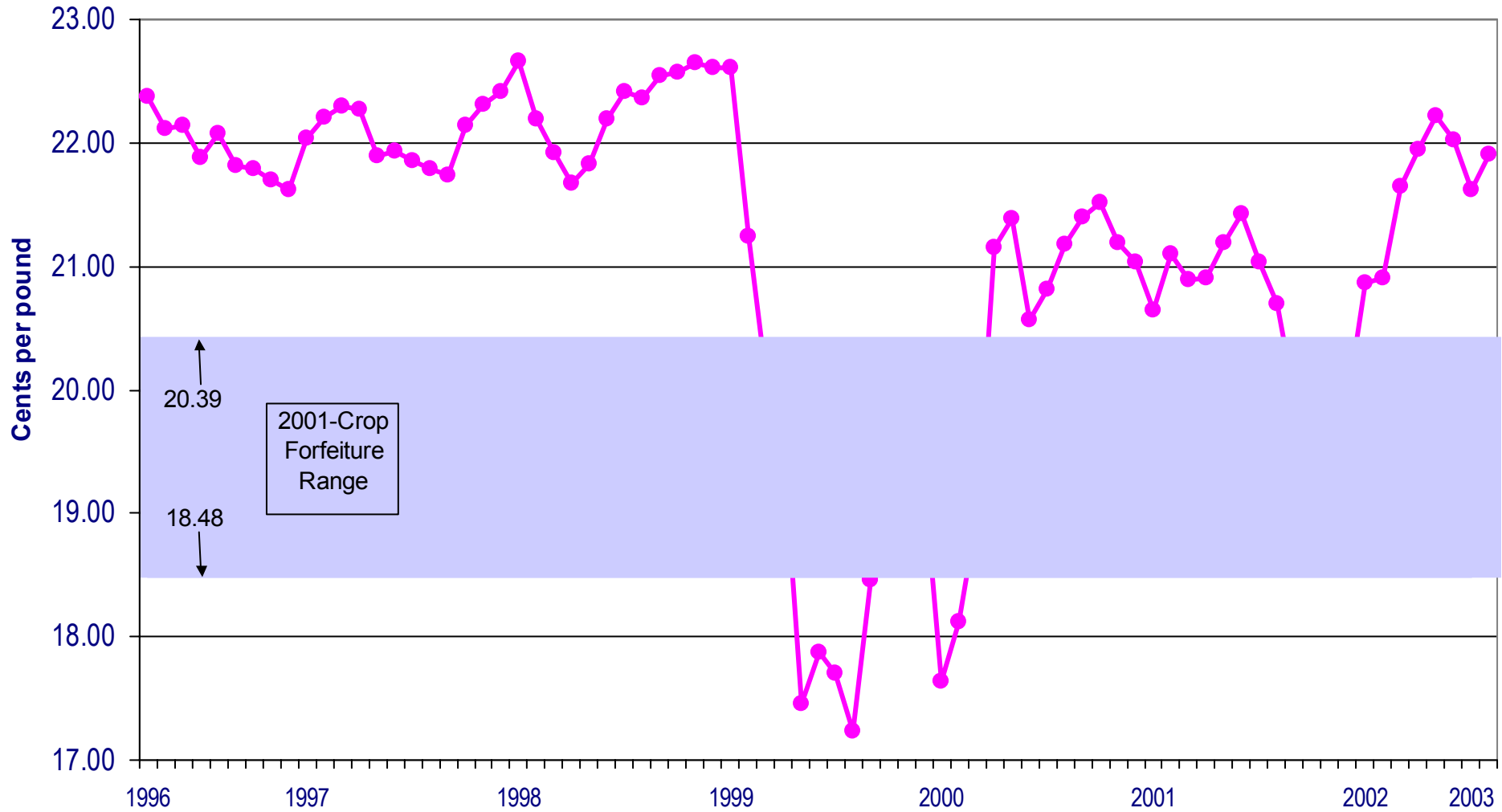
Source: Production capacity estimates from McKeany-Favell Company, Inc. American Sugar Alliance, March 2003.

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Modest Price Recovery in 2002

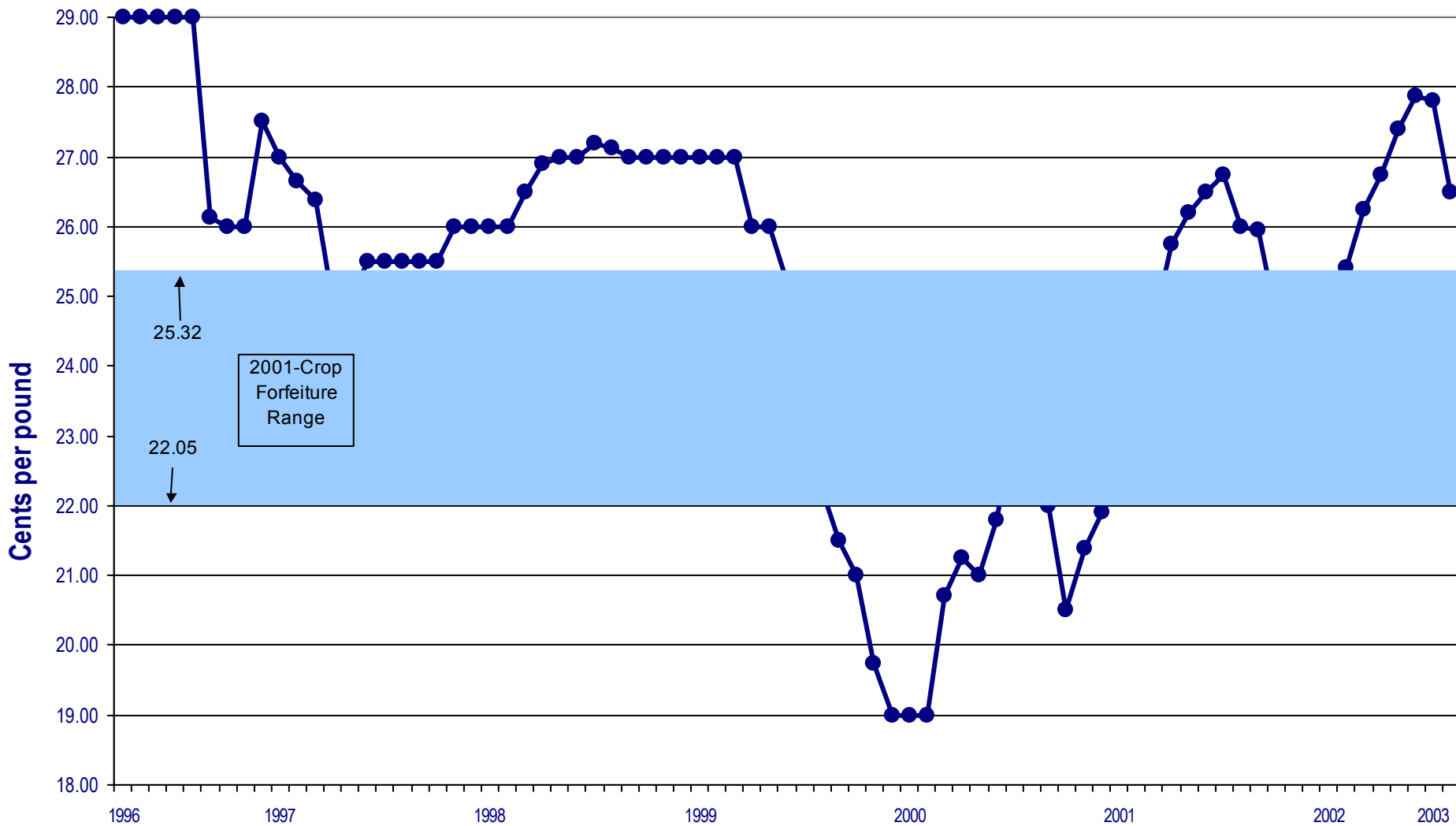
- Prices slightly above forfeiture range
- Ample supplies available for consumers
- Program operates as price cap, but not always price floor
 - Price can fall well below forfeiture levels
 - Price rises always capped by TRQ, OAQ increases

U.S. Raw Cane Sugar Prices Since Start of 1996 Farm Bill



Source: USDA. Raw cane sugar, nearby #14 contract, delivered New York. Monthly average prices October 1996 -February 2003.

U.S. Wholesale Refined Beet Sugar Prices Since Start of 1996 Farm Bill



Source: USDA. Wholesale refined beet sugar, Midwest markets. Monthly average prices October 1996 - February 2003.

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Methodology

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

U.S. Sugar Industry on Sugar Policy Implementation

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.

U.S. Sugar Industry on Sugar Policy Implementation

TRQ Management

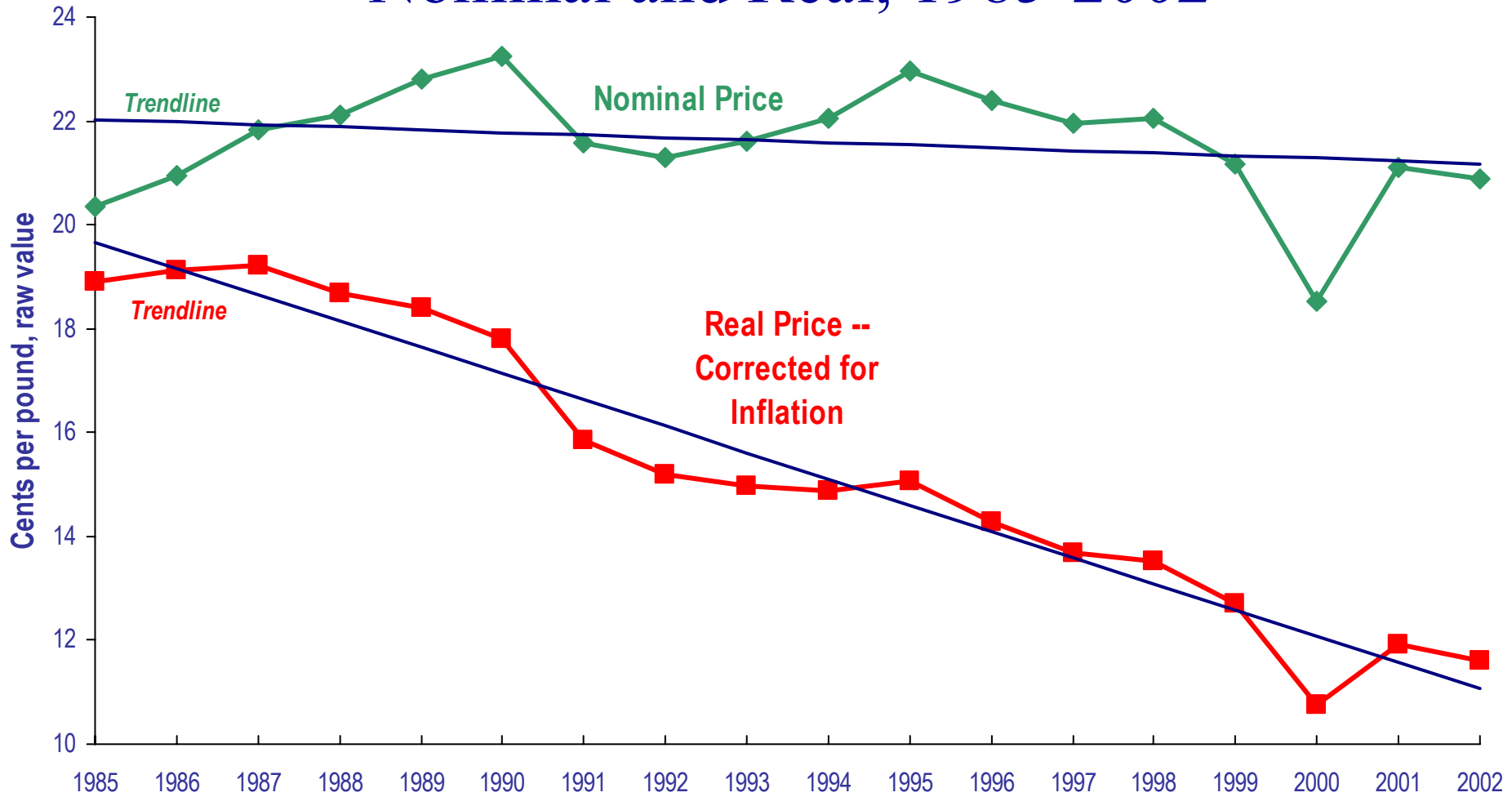
Congress' instruction: If the beet or cane sector is unable to fulfill its allocation, and the CCC has no sugar in inventory, then, and only then, should the Department make up any shortfall by increasing the TRQ.

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Future Prices, Survival Strategies

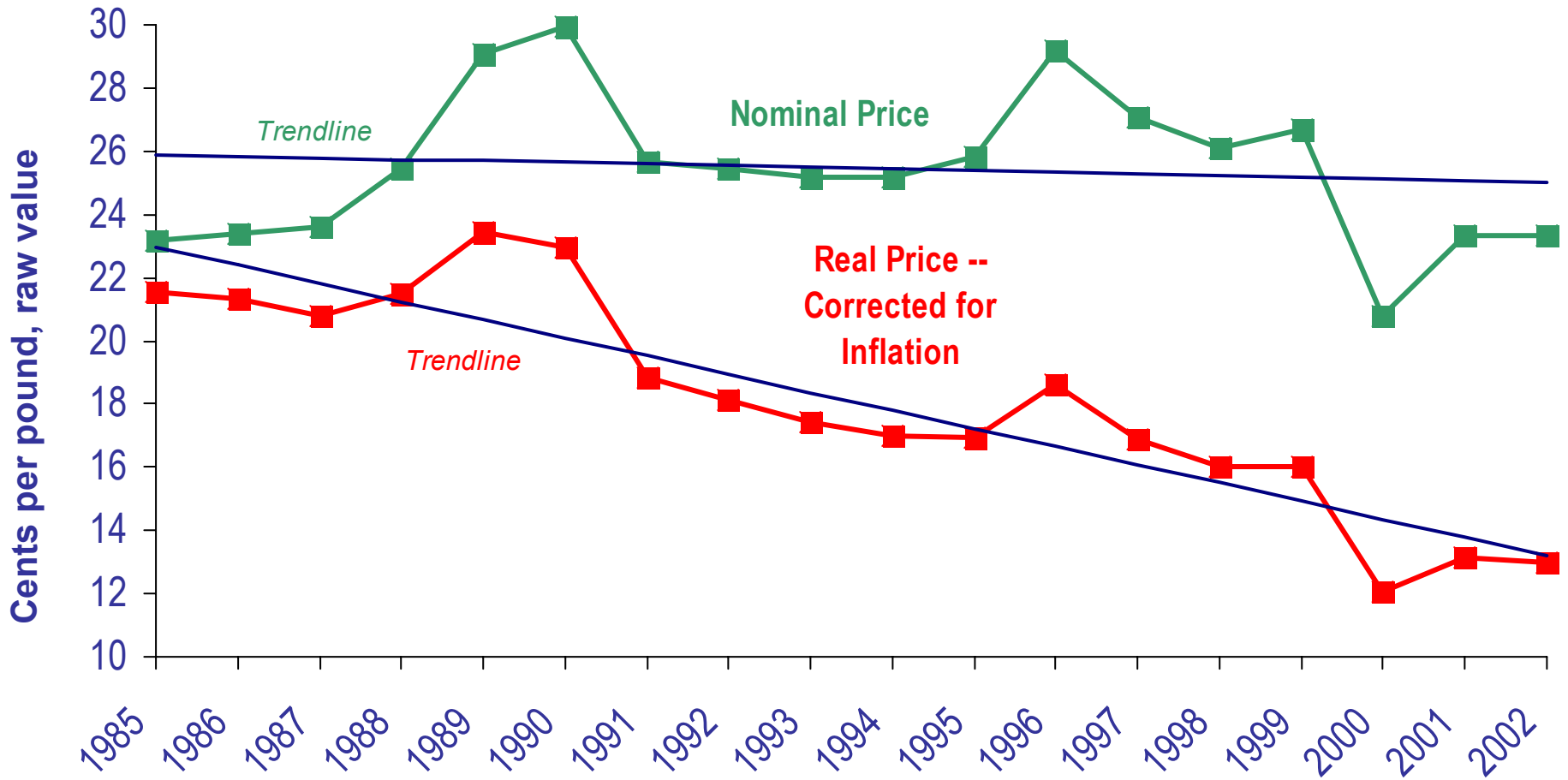
- Flat nominal prices, declining real prices:
Continued pressure to reduce costs
- Many growers highly leveraged by
processing/refining plant purchases
- Weather catastrophes worsen prospects:
 - Serious drought in six beet states
 - Hurricane & rain disaster in LA

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



Data Sources: USDA, BLS. Price delivered New York, duty-fee paid. Annual averages, 1985-2002, adjusted by CPI-U.

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



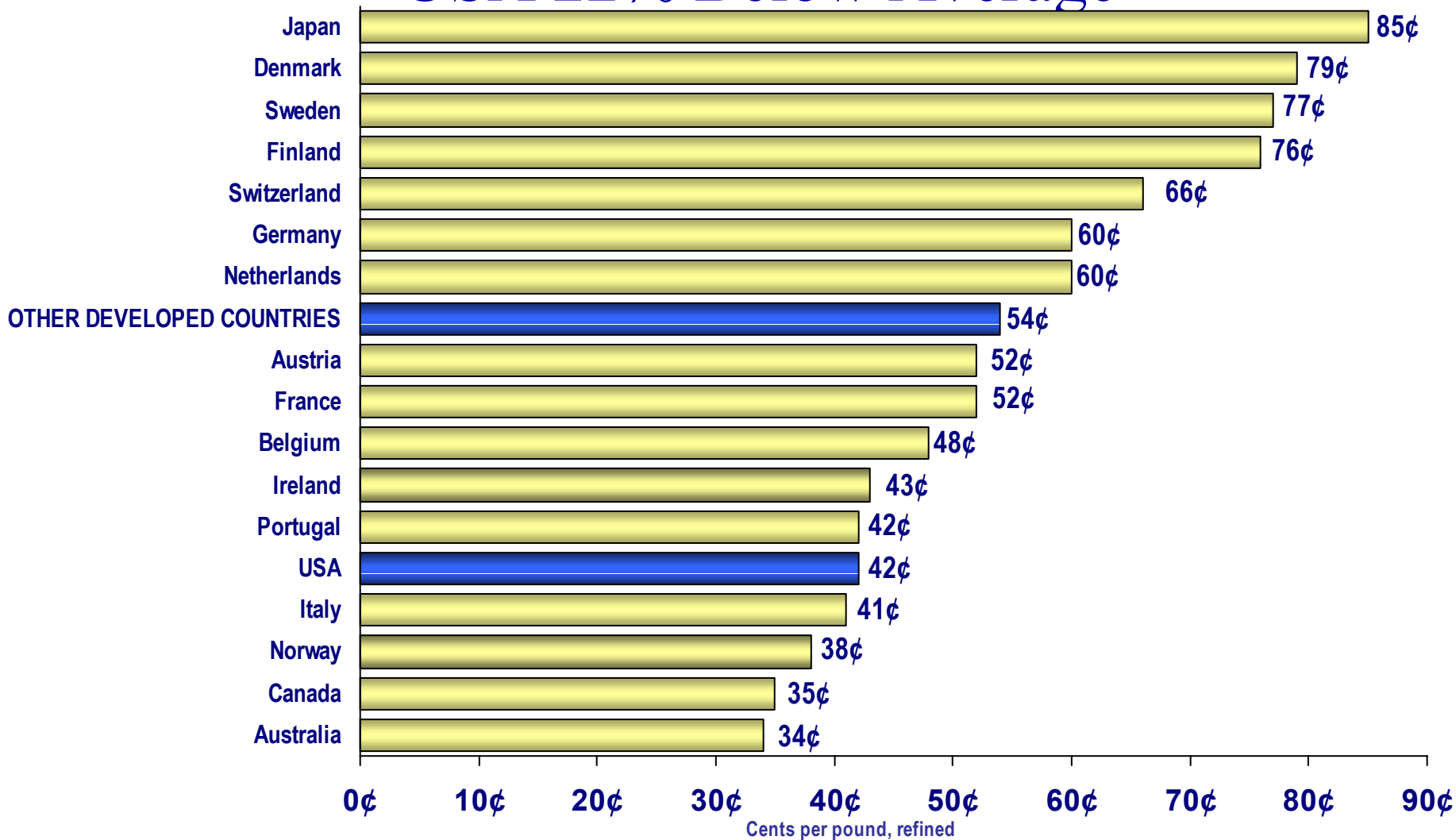
Data sources: USDA, BLS. Wholesale refined beet sugar, Midwest markets. Annual averages, 1985-2002, adjusted by CPI-U.

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Consumer Benefits

- Low stable prices
- Should be lower still:
 - Lack of passthrough when producer prices fall

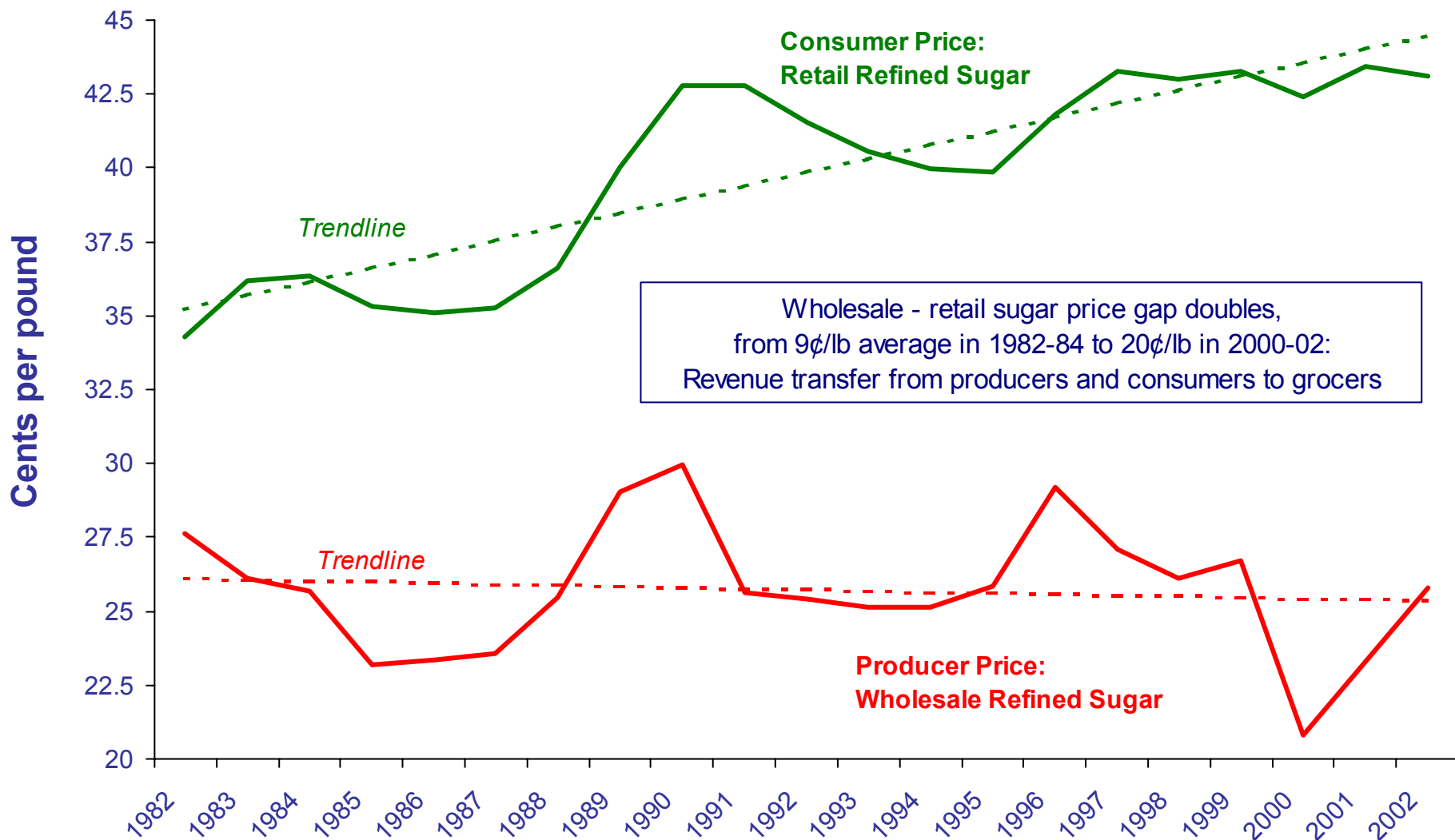
Developed Countries' Retail Sugar Prices: USA 22% Below Average



Source: LMC International Ltd., Oxford, England, February 2003; 2002 prices.

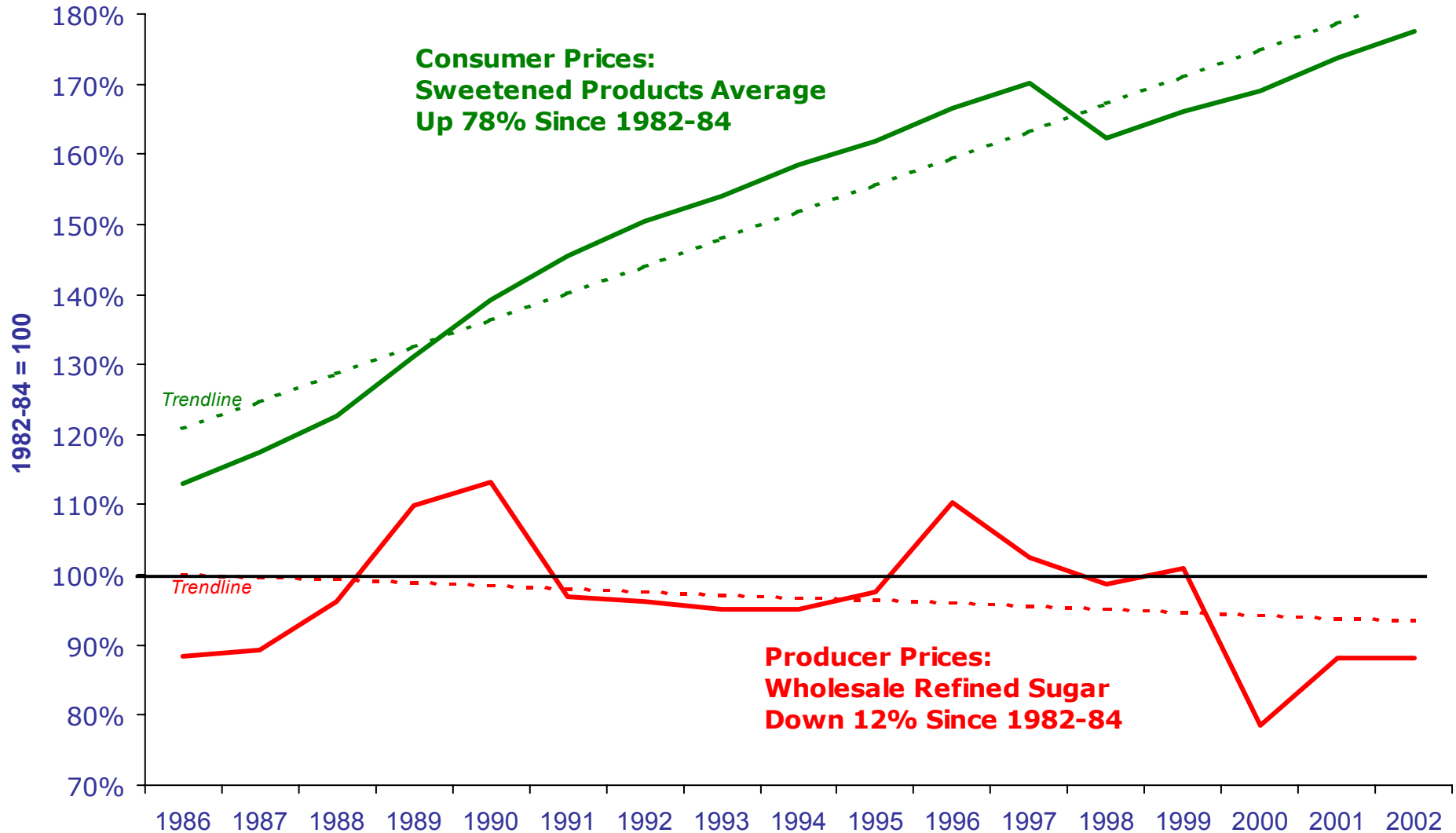
"Other Developed Countries" represents the weighted average of 21 foreign developed countries.

The Price Gap Widens Between What Sugar Producers Receive And Consumers Have to Pay (1982-2002)



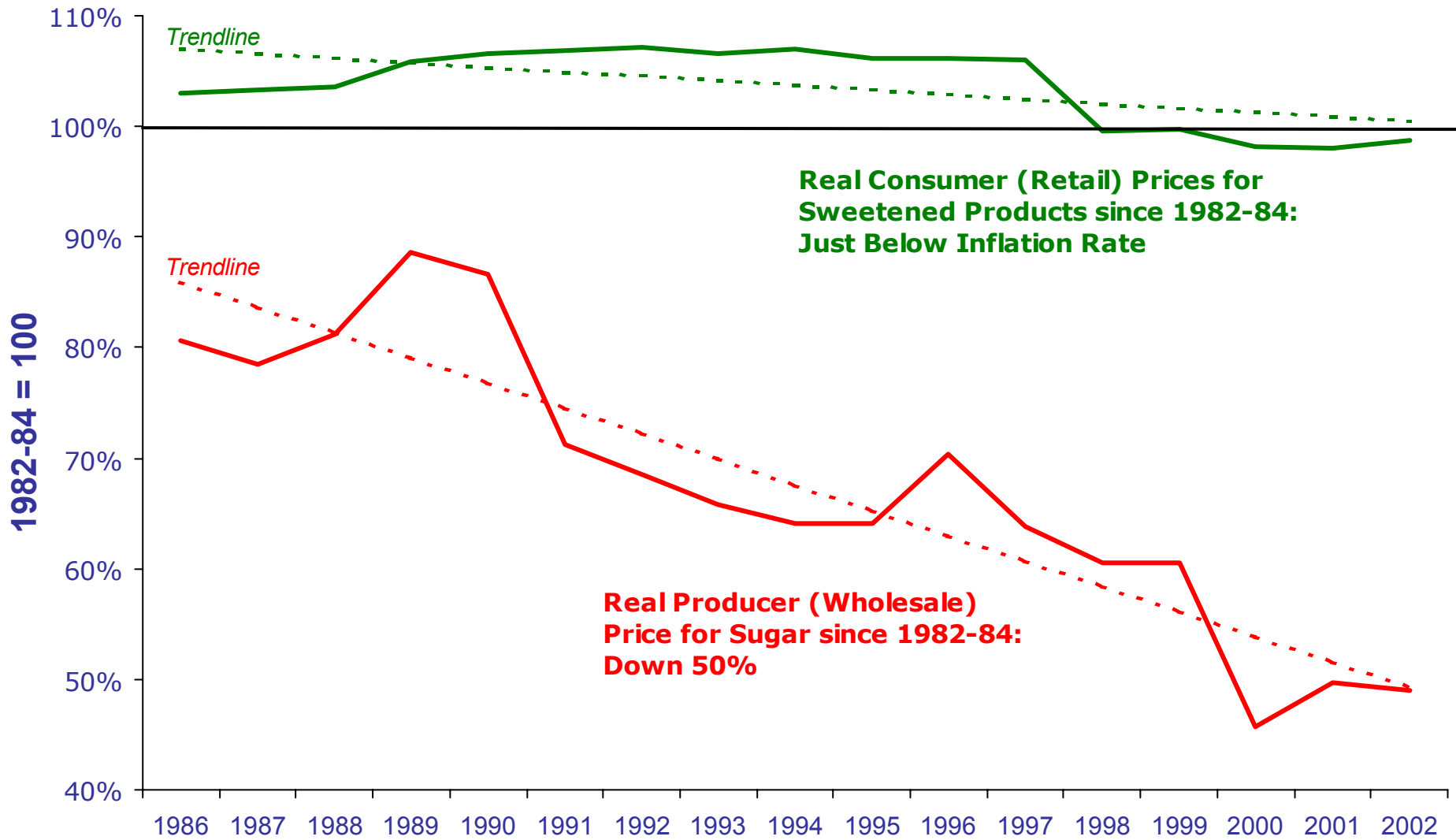
Sources: USDA, BLS. Wholesale refined beet sugar, Midwest markets; U.S. retail refined sugar. Annual average prices 1982 - 2002. Linear trendlines.

The Price Gap Widens Between What Sugar Producers Receive and Sweetened-Product Consumers Have To Pay (1982-2002)



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)



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.

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Future Implementation Challenges

- TRQ Circumvention
- Mexican Tier-2 Sugar
- Pressure to Increase Minimum TRQ
 - WTO
 - Bilateral and Regional FTA's

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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.

U.S. Sugar Imports: Second Tier Duties		
(Cents per pound of raw cane sugar, 96 pol)		
	Most Countries	Mexico
Base	18.08	16.00
1994	--	15.60
1995	17.62	15.20
1996	17.17	14.80
1997	16.72	14.40
1998	16.27	14.00
1999	15.82	13.60
2000	15.36	12.09
2001	15.36	10.58
2002	15.36	9.07
2003	15.36	7.56
2004	15.36	6.04
2005	15.36	4.53
2006	15.36	3.02
2007	15.36	1.51
2008	15.36	0.00
Source: USDA		

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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.

**Potential U.S. Free-Trade Agreement Countries/Regions:
Sugar Production and Exports and
Share of U.S. Sugar Import Quota
2000/01 - 2002/03 Average**

<u>Country</u>	<u>Production</u>	<u>Exports</u>	<u>U.S. TRQ Allocation</u>
	<i>-Metric Tons-</i>		
Mexico	5,128,000	246,000	7,258
Canada	94,000	5,000	---
Caribbean*	864,000	487,000	237,760
Central America	3,633,000	2,168,000	168,486
South America	25,917,000	12,376,000	313,579
FTAA Total	<u>35,636,000</u>	<u>15,282,000</u>	<u>727,083</u>
South Africa	2,741,000	1,388,000	24,221
Swaziland	537,000	253,000	16,850
SACU Total	<u>3,278,000</u>	<u>1,641,000</u>	<u>41,071</u>
Australia	4,600,000	3,456,000	87,402
Thailand	6,030,000	4,085,000	14,743
FTA Total	<u>49,544,000</u>	<u>24,464,000</u>	<u>870,299</u>
* Excluding Cuba			
Data Source: USDA/FAS, November 2002			

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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.

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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.