Agralytica

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Mexico Trade Cases Costing US Consumers Billions

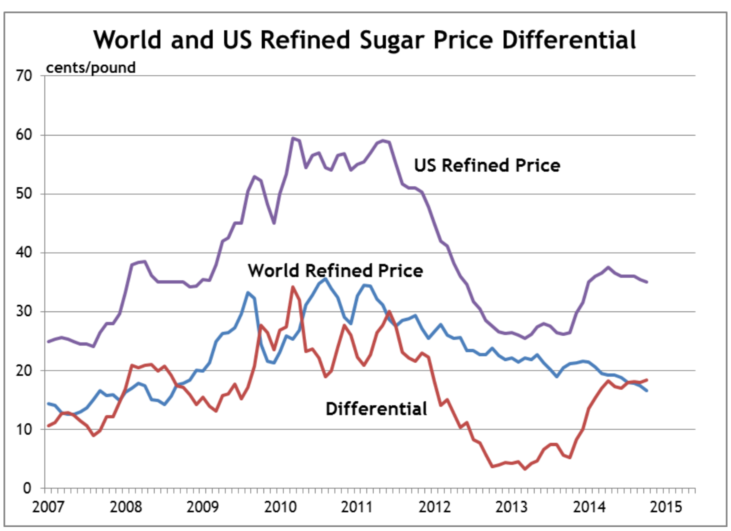
Summary

In March 2014, U.S. sugar producers filed antidumping and countervailing duty cases against Mexican sugar exporters and the Mexican government. While the final resolution of the trade cases is still in process, the market reaction was swift. Within weeks, U.S. wholesale sugar prices rose by approximately 10 cents per pound. Consequently, over the last 12 months, U.S. consumers and food manufacturers were forced to spend an additional $2.2 billion on sugar. The likely final disposition of these trade cases is expected to cost consumers an extra $1 to $2 billion annually for years into the future, above and beyond the normal burden imposed by the U.S. sugar program.

Analysis

As a result of the North American Free Trade Agreement, barriers to sugar and corn sweetener trade between Mexico and the United States were gradually reduced and finally fully eliminated at the beginning of 2008. Over the subsequent six years, the sugar markets in the two countries became well integrated, and Mexican sugar producers played an important role in meeting U.S. needs, supplying 1 to 2 million tons of the 11 million tons we need in the U.S. market each year.

The U.S. sugar program keeps domestic sugar prices well-above prices in the world market. The difference grew particularly large from 2009 to 2012 due to changes made in the 2008 farm bill as domestic prices shot up to record levels. In 2013/14, wholesale refined sugar prices had finally fallen back to the historic average of about 27 cents, and it was at this point that U.S. sugar producers, already protected by a generous price support program, resorted to filing the trade cases against Mexico to force prices back up. And it worked – prices shot up about 10 cents per pound, as shown in the chart below.



To estimate the costs that U.S. sugar policy imposes on consumers, we compare prices in the United States to the cost of importing refined sugar from the world market. According to the United States Department of Agriculture (USDA), about 20 million metric tons of refined sugar are traded internationally each year. The wholesale price in the United States is the price of refined beet sugar at the factory, published weekly by an industry publication.

Refined sugar is traded on the London International Financial Futures and Options Exchange, so there is a ready source of price information. The basis of the price is at point of origin in Europe, so we add three cents to get to an equivalent value delivered to a U.S. Atlantic coast port.

In the table below, we compare prices during the first half of the 2013/14 marketing year, before the trade cases were filed, to the prices in the 12 months since then. The U.S. price is in line A. From that we subtract the adjusted world market price in line D. That differential rose from just 3 cents per pound during the October 2013 to March 2014 period to an average of 12.8 cents in the 12-month period just ending. If we apply those price differences to the 11 million short tons of refined sugar consumed annually (line G), the annualized increase in consumer costs due to the sugar program rose from $660 million before the trade cases were filed to $2.84 billion per year afterwards (line H). Thus, the additional consumer cost attributable to the trade cases has been $2.18 billion.

Additional Consumer Cost of the US Sugar Program
Since Trade Cases Were Filed

		Oct-Mar 2013/14	Apr-Mar 2014/15	Added Cost
		cents per pound		
A	**US wholesale refined price**	26.8	35.1	8.3
B	**World refined price**	20.8	19.3	-1.5
C	**Transport cost**	3.0	3.0	0.0
D	**Delivered to US**	23.8	22.3	-1.5
E	**Price difference**	3.0	12.8	9.8
		million short tons		
F	**Annual consumption: raw**	11.8	11.9	
G	**Annual consumption: refined**	11.0	11.1	
		billion dollars		
H	**Consumer cost difference**	0.66	2.84	2.18

A longer history of the consumer cost impact is provided in the next table, comparing the experience under the 2002 and 2008 farm bills. The analysis shows that the additional restraints that the 2008 farm bill imposed on the Secretary of Agriculture's ability to adequately supply the domestic market raised the average U.S. refined price by 50 percent, from 28 cents/pound under the 2002 farm bill to 41.9 cents/pound under the 2008 legislation. In some years the consumer cost of the sugar program exceeded $4 billion.

Comparison of Consumer Cost of US Sugar Policy Under 2002 and 2008 Farm Bills

	2002 Farm Bill		**2002/03**	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**2007/08**	**6-year Average**
						cents per pound			
A	**US wholesale refined price**		27.0	23.7	25.6	36.0	25.7	29.9	28.0
B	**World refined price**		10.1	10.3	12.5	18.3	14.9	15.5	13.6
C	**Transport cost**		3.0	3.0	3.0	3.0	3.0	3.0	3.0
D	**Delivered to US**	B+C	13.1	13.3	15.5	21.3	17.9	18.5	16.6
E	**Price difference**	A-D	13.9	10.4	10.2	14.7	7.8	11.3	**11.4**
						million short tons			
F	**US consumption: raw**		10.0	10.2	10.0	10.2	9.9	10.5	10.1
G	**US consumption: refined**	F/1.07	9.4	9.5	9.4	9.5	9.3	9.8	9.5
						billion dollars			
H	**Consumer cost difference**	E*.02*G	2.60	1.98	1.90	2.79	1.45	2.22	**2.16**
	2008 Farm Bill		**2008/09**	**2009/10**	**2010/11**	**2011/12**	**2012/13**	**2013/14**	**6-year Average**
						cents per pound			
A	**US wholesale refined price**		35.9	50.3	55.8	49.3	28.8	30.7	41.8
B	**World refined price**		18.9	26.5	32.7	27.8	22.8	20.7	24.9
C	**Transport cost**		3.0	3.0	3.0	3.0	3.0	3.0	3.0
D	**Delivered to US**	B+C	21.9	29.5	35.7	30.8	25.8	23.7	28.7
E	**Price difference**	A-D	14.0	20.8	20.1	18.5	3.0	7.0	15.3
						million short tons			
F	**US consumption: raw**		10.4	10.9	11.2	11.1	11.5	11.8	11.0
G	**US consumption: refined**	F/1.07	9.8	10.2	10.5	10.4	10.7	11.0	10.3
						billion dollars			
H	**Consumer cost difference**	E*.02*G	2.74	4.24	4.21	3.84	0.64	1.54	3.15

Source: Agralytica analysis of USDA price and consumption data

Prices in the United States for the raw sugar on which cane sugar refineries rely were also pushed up several cents by the filing of the trade cases. Over the last 12 months, the 25-cent average price of raw sugar in the United States exceeded the cost of world market raw sugar delivered to a U.S. port by approximately 40 percent (or 7 cents/pound).

This points to another key development resulting from the filing of the trade cases. In order to avoid the imposition of antidumping and countervailing import duties in excess of 50 percent, the Mexican and U.S. governments negotiated so-called “suspension agreements” that limit the quantity of sugar that Mexican firms can export to the United States and require that the sales be at certain minimum prices. The effect has been to raise the floor price in the United States by 3 to 5 cents per pound. The chart below shows how the minimum market prices for U.S. raw and refined sugar (the horizontal red lines) associated with our price support loan program have risen due to the minimum prices set for the Mexican exports to the United States.

This virtually guarantees an additional consumer cost of $1 billion due to the trade cases. And to the extent that they limit competition among sugar sellers, the consumer cost impact will be closer to the $2 billion range seen over the past year. Since the suspension agreements stay in place for at least five years, and perhaps indefinitely, U.S. consumers will face a $1 to $2 billion annual bill for many years into the future.