SWEETENER USERS ASSOCIATION

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September 19, 2014

The Honorable Michael Scuse
Under Secretary
Farm and Foreign Agricultural Services
U.S. Department of Agriculture
1400 Independence Avenue, S.W.
Washington, D.C. 20250

Dear Mr. Secretary:

Recent developments in the sugar market support the case for prompt and decisive action by the Department of Agriculture to assure adequate supplies of sugar during the new fiscal year, when the potential for disruption of imports from Mexico looms large.

Days after the Department of Commerce announced preliminary countervailing duties on Mexican sugar on August 26, a major seller increased its quoted price by nearly 10% to 40 cents per pound. Prices quoted by *Milling and Baking News,* which are used by the Department as the official price series for refined sugar, are now at or even above this level, depending on location. This represents a two-year high for beet sugar and is up about 50% from March 28, when the antidumping and countervailing duty petitions against Mexico were filed by U.S. producers.

Contrasted with current prices of refined sugar in the world market, and taking account of both domestic and offshore transportation costs, prices are at a level where it would theoretically be profitable to import world refined sugar even after paying the normally prohibitive over-quota duty. This is illustrated in the attached chart. Such a situation occurred in 2009/10, at that time because of a particular program management approach, and the result was around 200,000 tons of over-quota imports.

Current domestic price levels are clearly inconsistent – on the basis of established supply-price relationships – with the relatively balanced supply situation in the 2013/14 fiscal year. Rather, since prices are always forward-looking, the higher prices are an indication of marketplace expectations for disrupted, unreliable supplies during 2014/15, and markets that may be distorted by high tariff levels. For example, the September *World Agricultural Supply and Demand Estimates* projects 2014/15 ending stocks at only 8.5% of total use, far below even minimal pipeline stocks – yet even this level of supply assumes the import of about 1.1 million short tons, raw value, from Mexico, and whether any or all of this quantity will actually be imported is the market's chief source of uncertainty. Even if it all did, more sugar is clearly needed during the coming year.

In particular, the current market reflects a significant potential for inadequate supplies during the winter months, given the interaction between domestic production, normal imports and industry capacity to refine cane sugar and manufacture beet sugar.

It is very important that cane sugar refineries operate at a reasonable rate of capacity utilization throughout the year. Unused capacity is lost capacity. For the coming year, the market needs 7 million tons of sugar from either cane refiners or imports from Mexico. The uncertainty about Mexico leaves us more heavily dependent on cane refiners.

While there is an adequate supply of raw sugar in the short term, that is not the case for the winter months. Some refineries are more dependent on imported raw sugar than others, and it is critical that their needs be met.

Three ways of assuring adequate access to raw sugar are: 1) increase the 2013/14 tariff-rate quota (TRQ) and to allow late entry through the end of the calendar year or further into the winter; 2) permit late entry of all unshipped 2013/14 TRQ quantities, including both originally announced and reallocated amounts, through the same period; and 3) increase the 2014/15 TRQ from the current level.

At a minimum, a clear statement that USDA will use its emergency powers to make more TRQ sugar available this winter if necessary would be beneficial. But announcement of a bigger TRQ would be best.

We would be happy to discuss these ideas further with you or your staff. Thank you for your consideration of our views.

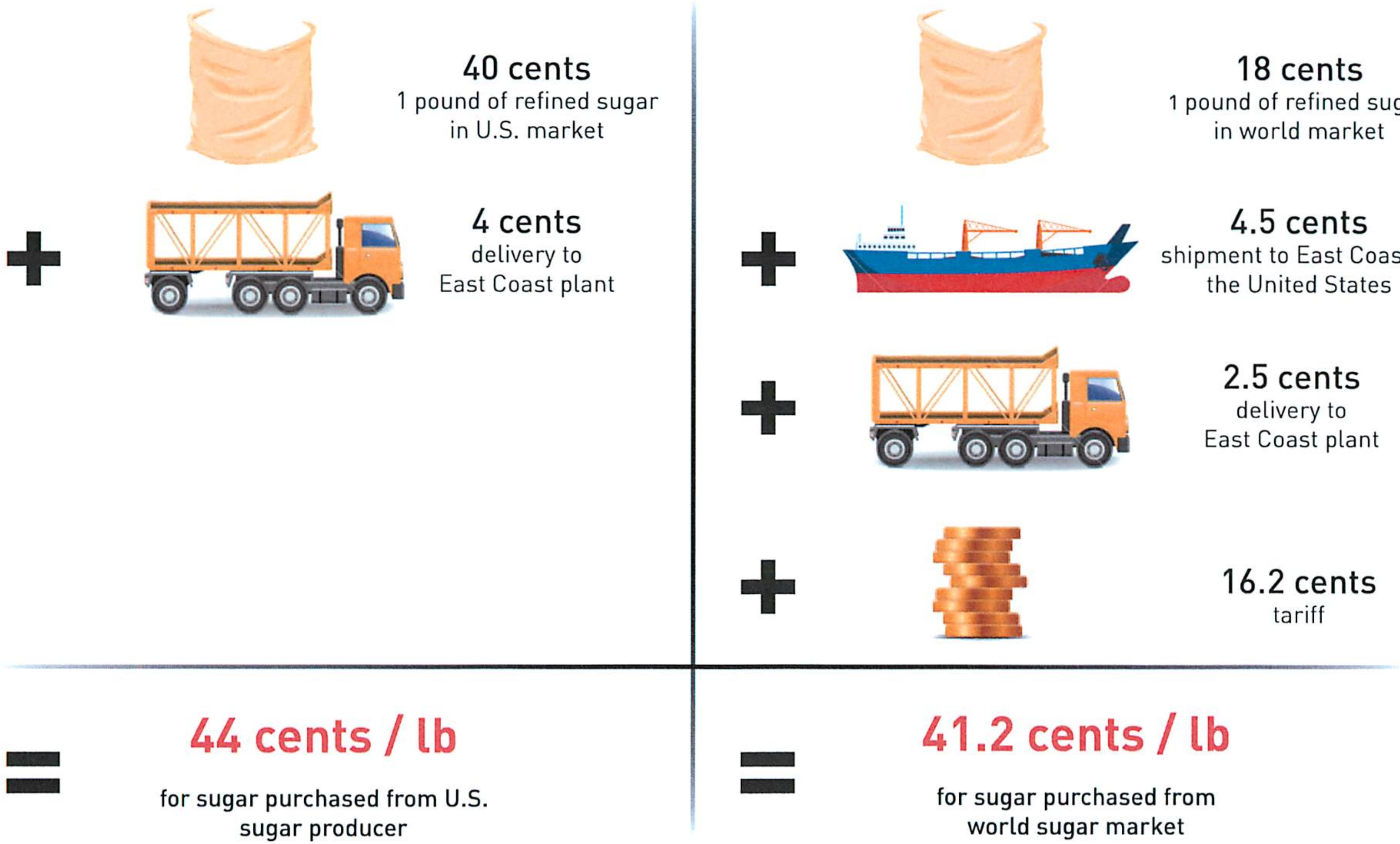
Sincerely,

Perry Cerminara

Perry Cerminara
Chairman

Attachment

U.S. Sugar Prices VS. World Sugar Prices



Tariffs on U.S. sugar imports, coupled with the current antidumping and countervailing duty cases against Mexico, have the potential to create a situation reminiscent of 2009 and 2010 when U.S. sugar prices were significantly higher than world sugar prices. That incentivized U.S. sugar users to import sugar from the world market despite having to pay more for transportation.

For U.S. manufacturers who use sugar as a key ingredient, a repeat of that market situation would be detrimental both for the competitiveness of their businesses and all American consumers.