Oral Statement of Thomas Earley

On behalf of the

SWEETENER USERS ASSOCIATION

To the

U.S. INTERNATIONAL TRADE COMMISSION

Pursuant to

SUGAR FROM MEXICO

INVESTIGATION 701-TA-513 and 731-TA-1249

April 18, 2014

My name is Tom Earley. I am vice president of Agralytica, an economic consulting and market research firm specializing in food and agriculture. I am also the economist for the Sweetener Users Association (SUA) and am here today on their behalf. SUA's membership includes a broad range of food and beverage manufacturers, along with the trade associations that represent these firms.

The panel has given you a great deal of information to absorb. Let me see if I can sum up the competitive environment in North American sweetener markets and the evidence that the domestic sugar industry has not in fact been injured by imports of Mexican sugar.

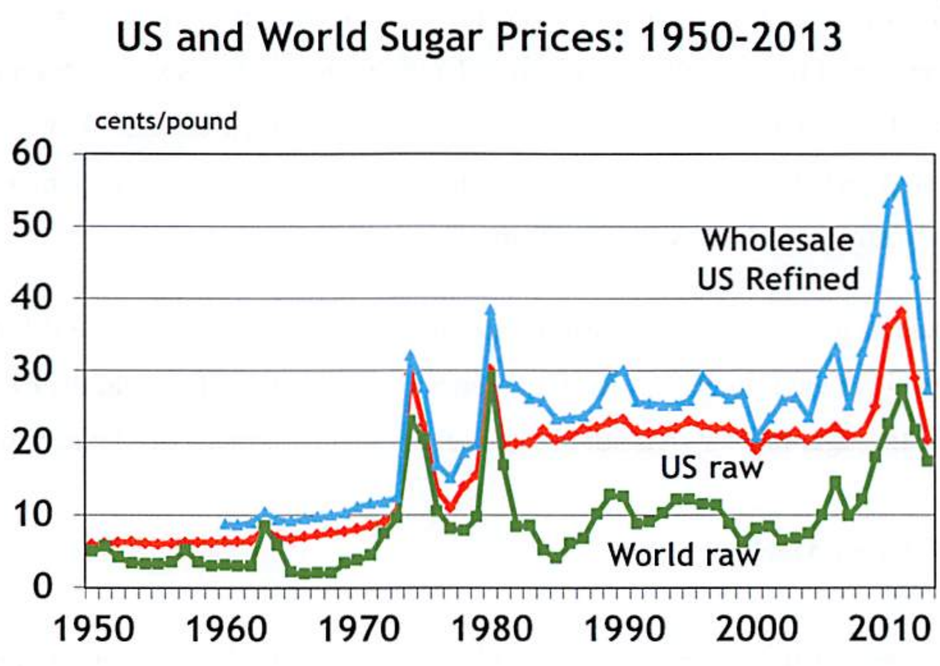
The U.S. Sugar Market

The basic framework of current protection for U.S. sugar producers has been in place since the early 1980s, and the sugar program in various forms dates back to the 1930s. Other panelists have described the current sugar program provisions so I won't replow that ground.

It is important to understand that for more than 25 years, U.S. sugar prices stayed in a high but comparatively narrow range, as shown in Figure 1. USDA officials responsible for the sugar program managed it in a manner designed to insure that it met the standard of providing "adequate supplies at reasonable prices" and avoiding costs to the government. There were inevitably brief periods of higher prices due to market developments or external events. There were also periods of weak prices. In 2000, for example the Commodity Credit Corporation acquired 1.1 million tons of forfeited loan sugar at a cost of hundreds of millions of dollars. But over time, the market stayed more or less in balance.

The last few years have been a departure from that norm due to a tight world sugar market and the way the U.S. sugar program has operated under the 2008 farm bill. But we are now back down to the normal 25-30 cent range in which U.S. refined sugar prices normally fluctuate under the program.

Figure 1



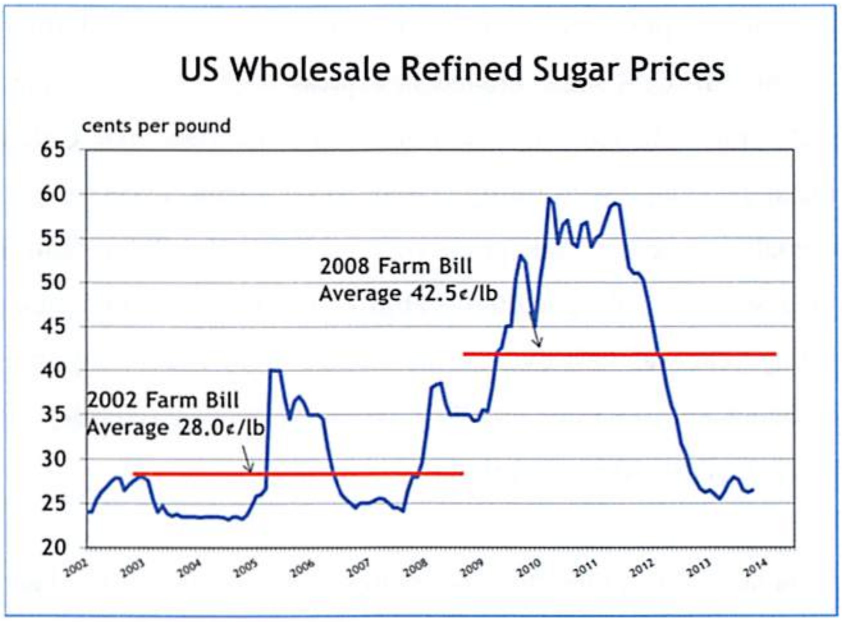
Source: http://www.ers.usda.gov/data-products/sugar-and-sweeteners-yearbook-tables.aspx

One key reason for the price spike in recent years was the 2008 farm bill. During consideration of the bill, U.S. sugar producers expressed concern about the potential for increased imports from Mexico, and from new FTA partners like Colombia. So the industry convinced the Congress to fortify U.S. defenses against excess sugar supplies. In addition to a small increase in the price support level, the 2008 farm bill included restrictions on the Secretary of Agriculture's ability to increase the minimum import quota until the marketing year was half over. This created great uncertainty, prevented some refineries from being able to fully use their capacity, and caused some foreign quota holders to sell their sugar to other countries.

The bill also contained a new program to divert any excess sugar to fuel ethanol production (the so-called Feedstock Flexibility Program). Finally, the farm bill required that any sugar acquired by USDA through the price support loan program or other means be disposed of through non-food channels.

Despite the minimal change in the support level, wholesale market prices for sugar the last five and a half years have averaged 42.5 cents, 50% higher than the 28-cent average under the provisions of the 2002 farm bill, as illustrated in Figure 2. The average refined sugar price under the 1996 farm bill was even lower at 25.0 cents per pound. Prior to the filing of the American Sugar Coalition case, U.S. beet sugar prices were 26.5-27 cents per pound, i.e., within the traditional range experienced under the U.S. sugar program when world sugar prices are below U.S. support prices.

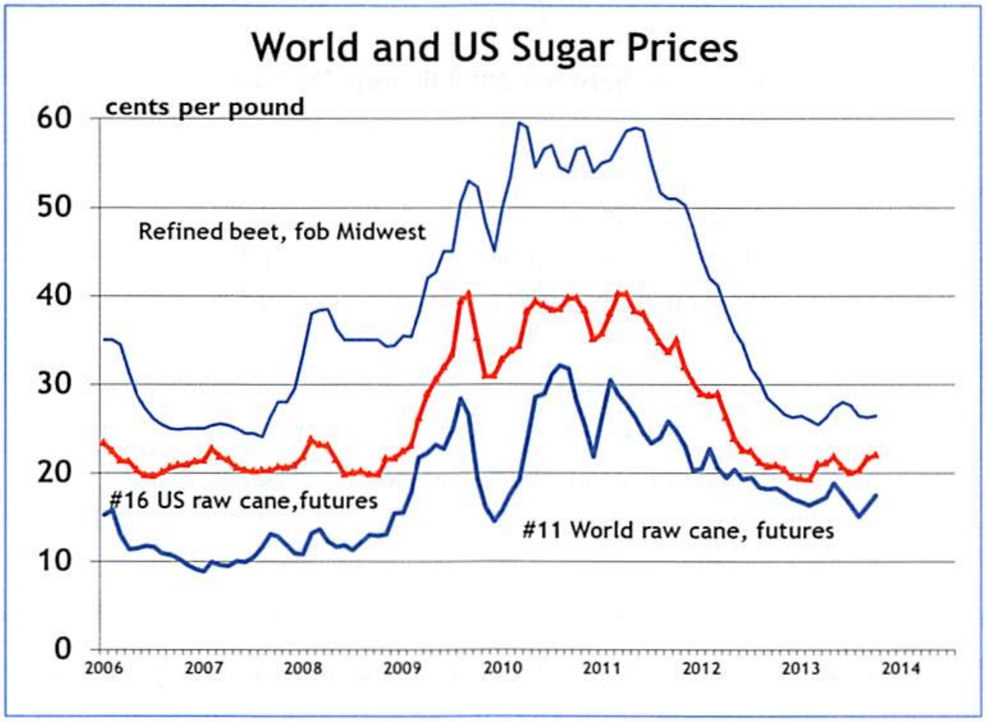
Figure 2



USDA's management of this new program starved the market of sugar the first few years. In 2010, some importers even resorted to paying normally prohibitive import duties to get access to 200,000 tons of sugar needed by their companies. The result was record high prices for refined sugar in the U.S. market, particularly in 2011 and portions of 2012, as shown in Figure 3. And those prices were on a rising volume of U.S. production.

U.S. and Mexican farmers responded to those extremely high prices by expanding production.

Figure 3



U.S. sugar producers did very well the last few years, and will undoubtedly prosper in the future judging from the "OECD-FAO Agricultural Outlook 2013-2022" publication. It forecasts that world raw sugar prices the next few years will average 19 cents per pound, roughly equivalent to the U.S. price support level. With the normal variability around such averages, U.S. sugar producers will likely benefit from more upward spikes in prices while being protected from any downside risk by the sugar price support loan program. This suggests there is little if any threat of future injury to the domestic industry.

Quantitative impacts on the U.S. sugar balance

It has been demonstrated time and time again that farmers respond to price signals. As others have commented, between the 2008/09 and 2012/13 seasons we saw a significant increase in U.S. sugar production in response to favorable prices, as shown in Table 1. Acreage and production of sugar beets and sugarcane rose. Beet sugar production increased about 20%. And cane sugar output went up about 18%. Acreage and production might have expanded further except for constraints on processing capacity.

Table 1

Increases between 2008/09 and 2012/13

Beet sugar industry	
Acreage planted	12.7%
Sugar beet production	31.1%
Beet sugar production	20.5%
Cane sugar industry	
Acreage harvested for sugar	4.1%
Sugarcane produced for sugar	16.7%
Cane sugar produced	17.7%

Since the Mexican and U.S. sugar markets were one and the same during this period as a result of NAFTA, Mexican sugarcane producers responded to the same price signals. They too expanded their production, based on the higher prices as well as the availability of excess processing capacity in Mexico.

The U.S. market share of domestic sugar producers actually increased through this period and only declined slightly in the current 2013/14 marketing year. This is illustrated in Figure 4 which shows U.S. producers' share of new supplies to the market, where new supplies equal production plus imports. That share increased from 68% in 2007/08 to almost 74% in 2012/13 and only declined modestly in the current marketing year to 73% according to USDA's latest estimates.

Figure 4

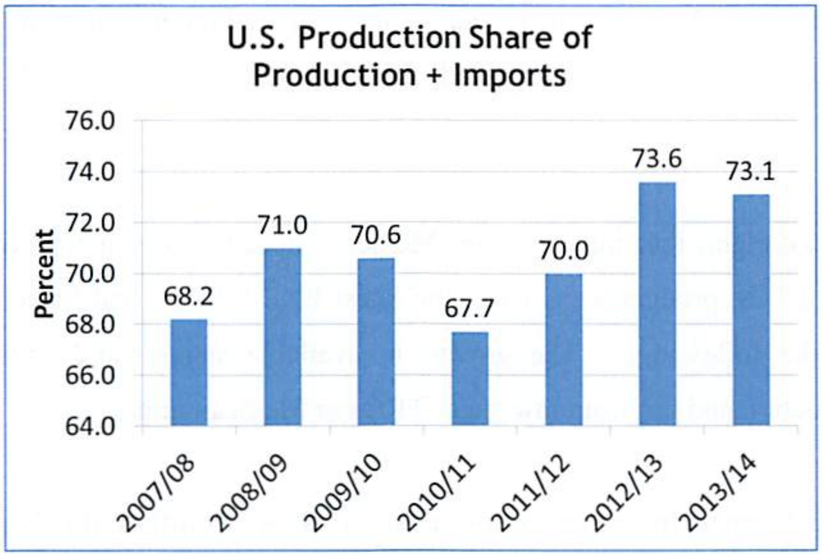
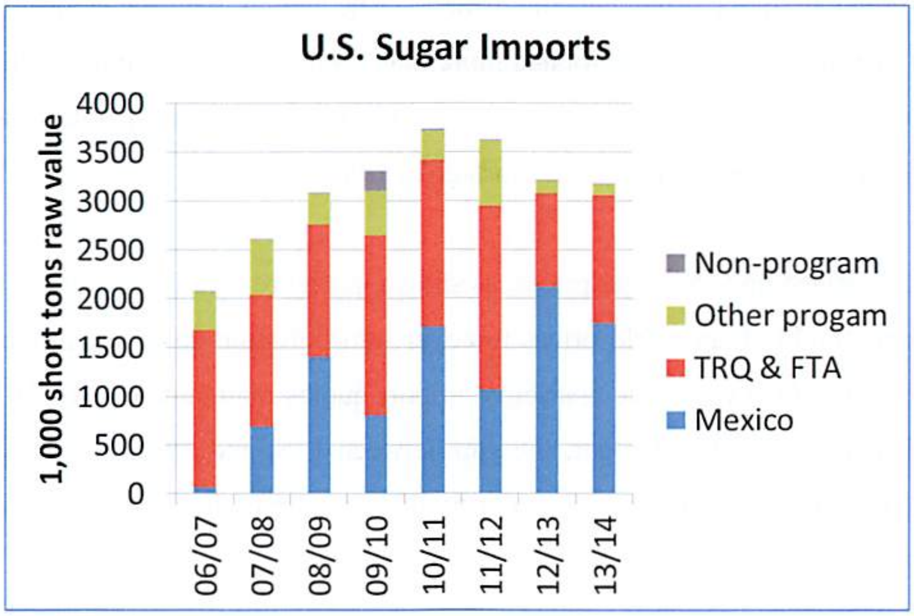


Figure 5 shows the broad composition of U.S. sugar imports in recent years. There are four broad categories: imports under the tariff rate quotas and free trade agreements, imports from Mexico, other program imports (for re-export or polyhydric alcohol), and tiny amounts of non-program imports (except in 2009/10) that mostly pay the second tier duties to enter outside the quota.

Figure 5



Since 2010/11, imports have actually declined 15% in absolute terms, and their share of new supplies to the market fell from 32% to an estimated 27% in 2013/14. While imports from Mexico in 2012/13 and the current marketing year are higher than during the previous 2-4 years, they have actually displaced other imports rather than domestic sugar production.

Thus one cannot claim that imports from Mexico reduced U.S. sugar production or the market share of U.S. producers. In fact the latest USDA Sugar and Sweetener Outlook report stated the following: "The growth in available sugar supply has come from domestic production and not from raw sugar TRQs or Mexican imports."

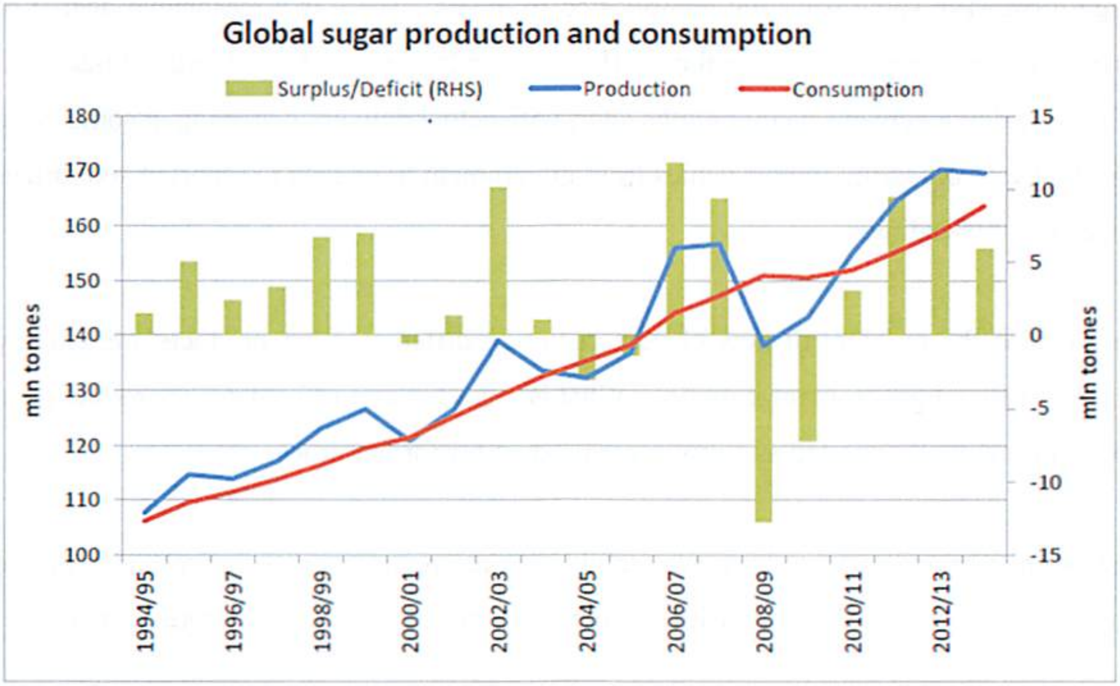
Mexican sugar imports have been a minor factor in the evolution of U.S. prices

Petitioners observe that U.S. sugar prices have been lower during the past year when compared to prices in prior years. This ignores the fact that U.S. sugar prices in the 2009-2012 period spiked higher due to the combination of a world sugar shortage, the more stringent sugar provisions in the 2008 farm bill, and the way in which that sugar program was initially administered by USDA.

The world sugar supply tightened sharply in 2008/09 and 2009/10 due to unusually small sugarcane crops in India, Thailand and Brazil. The deficit between consumption and production over those two seasons totaled more than 20 million metric tons as illustrated in Figure 6. World stocks fell by that amount and world market raw sugar prices rose to their highest level since the last major world shortage in 1980.

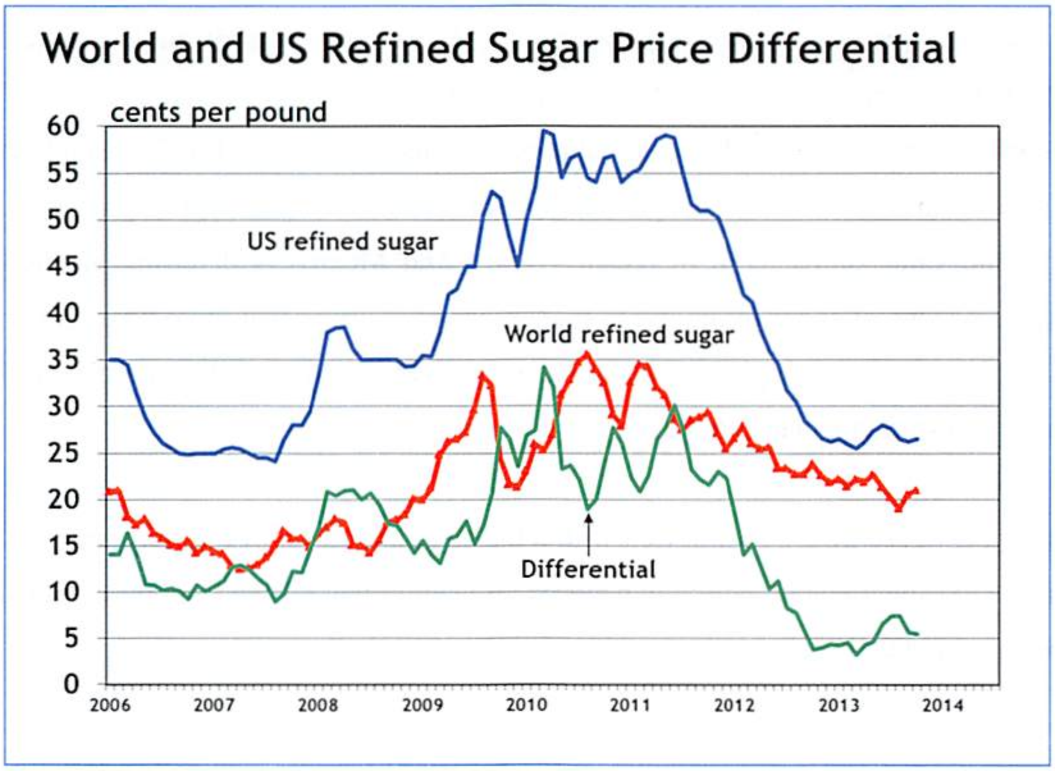
This by itself pushed up U.S. sugar prices, as shown in Figure 7. But U.S. prices only need to be 3-5 cents higher than world prices to cover transportation costs and attract sugar to the U.S. market. However, since restrictive import quotas maintained by USDA kept out much needed raw and refined sugar, the gap between U.S. and world prices widened to about 20 cents per pound, giving U.S. sugar producers an extremely large windfall several years in a row.

Figure 6



Source: ED&F Man Commodities Research

Figure 7



As you have heard from other panelists, pricing of sugar in the U.S. market is straightforward in some ways but complicated in others. There is a reasonable degree of transparency in sugar pricing over time. However, volumes may be forward contracted at one point, pricing agreed several months later, with actual delivery occurring at some point in the future. Comparing import values from government trade data to reported spot prices can be very misleading.

There is also the problem of how characteristics of different sugar products are actually tracked in official government statistics. What is recorded as a refined sugar product from Mexico may actually be used as a raw sugar product for further processing.

The Commission will need to be very careful in its interpretation of the government data it collects and insure that it accords with commercial realities in the U.S. sweetener market.

Imports of Mexican sugar are a consequence of agreed market integration

Both governments have taken steps to deal with excess supplies stemming from the production response to years of high prices. USDA spent a net $259 million to remove 1,047,000 tons of sugar from the U.S. market over the course of two marketing years. That represents about 4% of the wholesale value of food use of sugar in FY13, a significantly smaller ratio than government budget support for wheat, rice or cotton – typically about 10% of the value of the crop in recent years. And Mexico is diverting hundreds of thousands of tons of sugar to the world market at lower prices than it could obtain in the U.S. These moves, coupled with the future grower response to lower prices in both countries is restoring balance to the market.

In summary, where we are now is well within the parameters of how the government-managed U.S. sugar market normally behaves. It is important for the Commission to keep this broader context in mind as it considers the petitioners' allegations.