SWEETENER USERS ASSOCIATION

ONE MASSACHUSETTS AVE. NW • SUITE 800 • WASHINGTON, DC 20001 • (202) 842-2345 • (202) 408-7763 FAX

May 8, 2017

The Honorable Wilbur Ross
Secretary of Commerce
U.S. Department of Commerce
1401 Constitution Avenue, N.W.
Washington, D.C. 20230

The Honorable Sonny Perdue
Secretary of Agriculture
U.S. Department of Agriculture
1400 Independence Avenue, S.W.
Washington, D.C. 20250

Dear Secretary Ross and Secretary Perdue:

The Sweetener Users Association (SUA) appreciates the efforts of the Department of Commerce (DOC), in consultation with the Department of Agriculture (USDA), to renegotiate agreements with Mexico that have suspended antidumping and countervailing duties that would otherwise be imposed on sugar imported from that nation. The current suspension agreements, negotiated by the previous Administration, have proven unworkable and have actually been detrimental to the interests of U.S. sugar users, as well as the U.S. cane refiners upon whom we rely for supplies of refined sugar.

SUA's members are the companies that use sugar and other caloric sweeteners in manufacturing foods and beverages, as well as trade associations representing these companies. Food companies that use significant amounts of sugar in their operations employ 600,000 Americans directly, and account for many more jobs when economic multiplier effects are taken into account.

Need for Renegotiation of Suspension Agreements

Both DOC and USDA are well aware of the importance of Mexican sugar supplies to the U.S. market. According to USDA, in the current fiscal year, sugar from Mexico will account for 37% of all imports and 8% of total supply, domestic and imported. A near-total cutoff of this sugar – as would occur in the event that AD and CVD duties are actually imposed – would cause significant disruptions to long-established supply chains, even if USDA moved immediately to replace the sugar through an increase in the tariff-rate quota (TRQ) for other countries.

Therefore, we share your goal of improving the suspension agreements and stand ready to work with you and your respective teams. However, we wish to express in the strongest terms that some proposals being advanced by U.S. sugar companies would exacerbate the existing harm caused by the suspension agreements, and should be completely unacceptable to USDA and DOC. Suspension agreements incorporating these provisions would, in fact, be a worse outcome than simply canceling the present agreements and imposing duties.

Objectionable Suspension Agreement Proposals

In particular, it has been reported that U.S. sugar interests are proposing further increases in the agreements' reference prices, which have already distorted the domestic raw sugar futures market and have kept prices at historically high levels that are in no way justified by market fundamentals. A purported 21% increase in the reference price for raw cane for the new suspension agreements is well beyond the price support of 18.75 cents per pound approved by Congress in the 2014 Farm Bill (i.e., the Agricultural Act of 2014).

In addition, some proposals evidently would place the U.S. government in the position of picking winners and losers in the cane refining industry by, in effect, limiting raw Mexican sugar shipments to only certain companies, to the exclusion (and possible business failure) of others. It is absolutely the case that coastal refineries must enjoy greater access to Mexican raw sugar, but there are ways to achieve this objective that do not involve anti-competitive market manipulation. For example, increasing the ending stocks-to-use ratio from 13.5% to 15.5% provides U.S. cane refiners with more sugar.

Sugar Reference Prices

With respect to the reference prices, the original October 27, 2014 DOC/Government of Mexico proposed agreements would represent an appropriate resolution. These originally proposed reference prices were based on the price support levels approved by Congress only a short time before the 2014 Farm Bill. They would have prevented Mexican imports from undercutting the price support program, a goal we share with growers.

However, the higher reference prices ultimately incorporated into the current suspension agreements have caused several problems, and further increases would exacerbate all of these:

- Because Mexican sugar is such a significant portion of a fungible commodity market, the reference prices effectively set a floor under the entire market, not just sales of Mexican sugar.
- This impact amounts to a significant back-door price support increase, which has dramatically impacted the domestic market and is inconsistent with at least the spirit of the 2014 Farm Bill. Congress consciously chose to approve price support levels of 18.75 cents per pound for raw

cane sugar, and 24.09 cents for refined beet sugar. It should not be DOC or USDA policy to raise price supports when Congress had the opportunity to do so and did not.

- The reference prices have artificially raised prices of domestic raw sugar, with the July futures contract closing on May 4 at 28.68 cents per pound, and having traded at times above 30 cents per pound. Independent market analysts not affiliated with SUA have stated that in the absence of the suspension agreements, the futures market would likely be closer to 23 cents per pound, so U.S. food companies have already experienced a 30% increase over where the market should be trading.
- Because raw sugar is the primary input cost for cane refineries, the high price of that commodity has harmed cane refiners, who have also experienced extreme difficulties in getting enough raw Mexican sugar to fill their needs.
- In addition, the higher prices amount to a direct U.S. subsidy paid to the Mexican sugar industry. Such subsidies and artificially high prices can only encourage excess production in the Mexican sector. We find it highly ironic that the Mexican industry, found by DOC to have dumped sugar and benefited from subsidies, is now the recipient of a different subsidy – paid by the United States.

Danger of Further Increases in Sugar Reference Prices

Efforts to push further increases in reference prices reflect an assumption, common among sugar program advocates – that higher prices are always good, and no price is too high. History has repeatedly shown this to be false. Notably, the previous Administration – by repeatedly refusing to modify the TRQ – allowed sugar prices in 2009/10 to reach such absurdly high levels that some 200,000 short tons, raw value, of world-market sugar were imported *above the TRQ* – meaning that buyers not only paid transportation costs to import the sugar, but also paid an over-quota (or "high-tier") tariff of 15.36 cents per pound, and yet found this to be a lower-cost solution than buying domestically produced sugar. It is widely agreed that these high-tier imports were a clear sign of program management failure by the previous Administration, which indeed did act subsequently in a more sensible manner and eventually increased the TRQ.

The economics of high-tier imports is a function of the interaction of world and domestic sugar prices, but there is no doubt that further arbitrary increases in an effective price floor would make such imports substantially more likely than would otherwise be the case. Instead, DOC and USDA should return to the original October 2014 proposals and not make them worse to the further detriment of food companies that need to be competitive to keep jobs in the United States.

Picking Winners and Losers

As noted earlier, the second concept which should be unacceptable to DOC and USDA is to arbitrarily restrict which companies can purchase Mexican sugar. We realize that interest in this approach is motivated in part by legitimate concerns that insufficient amounts of raw sugar flowed to coastal refineries, especially in the initial period of the suspension agreements. We share these concerns and believe it is critical to maintain current capacity in the cane refining industry.

However, we believe the solution to this problem is not for government to pick winners and losers, but rather to take two much simpler steps: first, increase the proportion of Mexico's export limit that must be raw sugar; and second, base the calculation of U.S. needs on a higher ending stocks target than the current 13.5% of total use.

The latter step would be consistent with normal USDA sugar program administration. The Department has not, in fact, traditionally targeted 13.5% ending stocks, but a range of 13.5-15.5%, with a midpoint of 14.5% normally seen as the actual target. Given the constraints on supplies introduced by the suspension agreements, it makes sense to aim for the upper end of the traditional range. A 15.5% stocks-to-use target would generate additional market access for Mexico and additional throughput for all cane refiners, both traditional coastal refineries and the newer refineries that now constitute a significant part of the sugar supply chain.

In summary, any new suspension agreements should include the following features:

- Reference prices equivalent to the support prices legislated by Congress in the farm bill, which is 18.75 cents per pound for raw cane sugar and 24.09 cents per pound for refined beet sugar;
- Ensure a 15.5% stocks-to-use ratio; and
- Allow Mexico to export adequate supplies of cane sugar to the United States in the range of 70% raw and 30% refined.

Thank you for your consideration of the views expressed in this letter. SUA stands ready to assist you and your respective teams in all appropriate ways as you attempt to resolve this difficult situation.

Sincerely,

Emily Russell
Chairwoman