

International Sweetener Colloquium
Dana Point, CA
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U.S. Sugar Policy: Producers' Perspective

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U.S. Sugar Policy: Producers' Perspective

- Some thoughts on Coalition for Sugar Reform arguments vs U.S. sugar policy
 - Producers' desire to see our customers are doing well
 - Mutual desire that we stay in business
- Common cause: Defending sugar and sweetened-product consumption
 - Completely unfounded blame for obesity epidemic



Make the Sugar Program Work for America

February 2, 2017

U.S. Sugar Program: A Bad Deal for America

The U.S. sugar program is a bad deal for American manufacturers, workers and hardworking families. That's because, to provide subsidies to a few extremely wealthy sugar processors, the federal government imposes extraordinary costs on everyone else in America.

1

High Sugar Prices = A Bad Deal for Hardworking Families

The sugar program costs consumers \$3 billion per year in the form of government-induced higher prices for sugar by restricting supplies and artificially pushing up U.S. sugar prices.

2

Plant Closures & Lost Jobs = A Bad Deal for Manufacturers & Workers

Higher U.S. sugar prices as a result of the program put undue pressure on U.S. jobs in the sugar-using sector, contributing to the loss of 123,000 American manufacturing jobs over the last 18 years.

3

Government Intrusion & Burdensome Regulations = A Bad Deal for Taxpayers

The sugar program creates a situation where the sugar industry reaps record profits when domestic sugar supplies are tight because of government restrictions, and yet taxpayers must guarantee processors' income when market-control plans fail. Between 2013 and 2014, the sugar program cost taxpayers more than \$250 million.



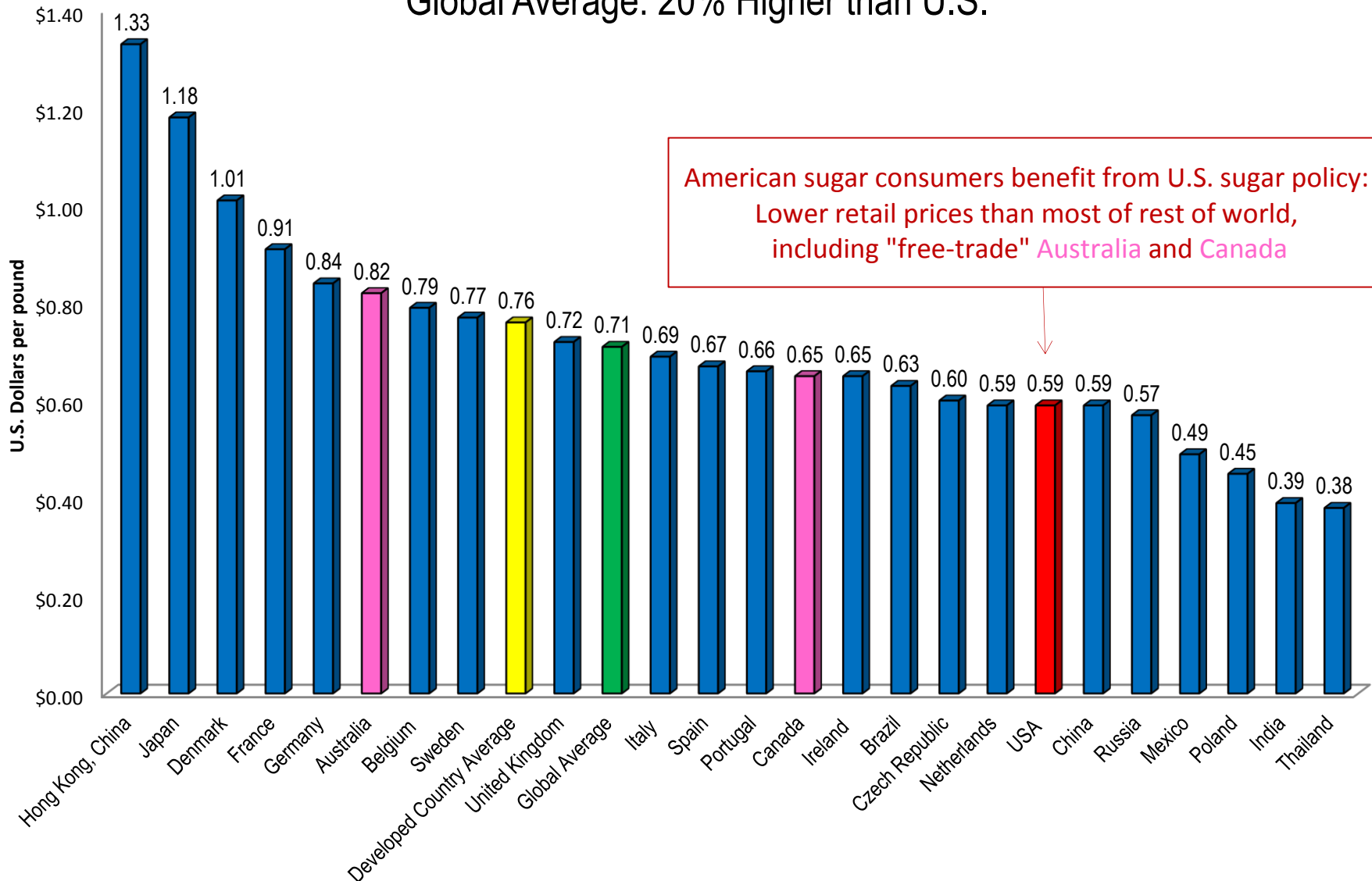
High Sugar Prices = A Bad Deal for Hardworking Families

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- IN FACT:

- Retail: American consumers paying less for sugar than global average; far less than rest of developed world
= Huge savings for American sugar consumers

Developed-Country Average Retail Sugar Price: 29% Higher than U.S.; Global Average: 20% Higher than U.S.



Source: SIS International Research, "Global Retail Sugar Prices," July 2015, from Euromonitor, International Monetary Fund; 2014 prices. Surveyed countries represent 67% of global sugar consumption. Developed countries include OECD member countries and Hong Kong.



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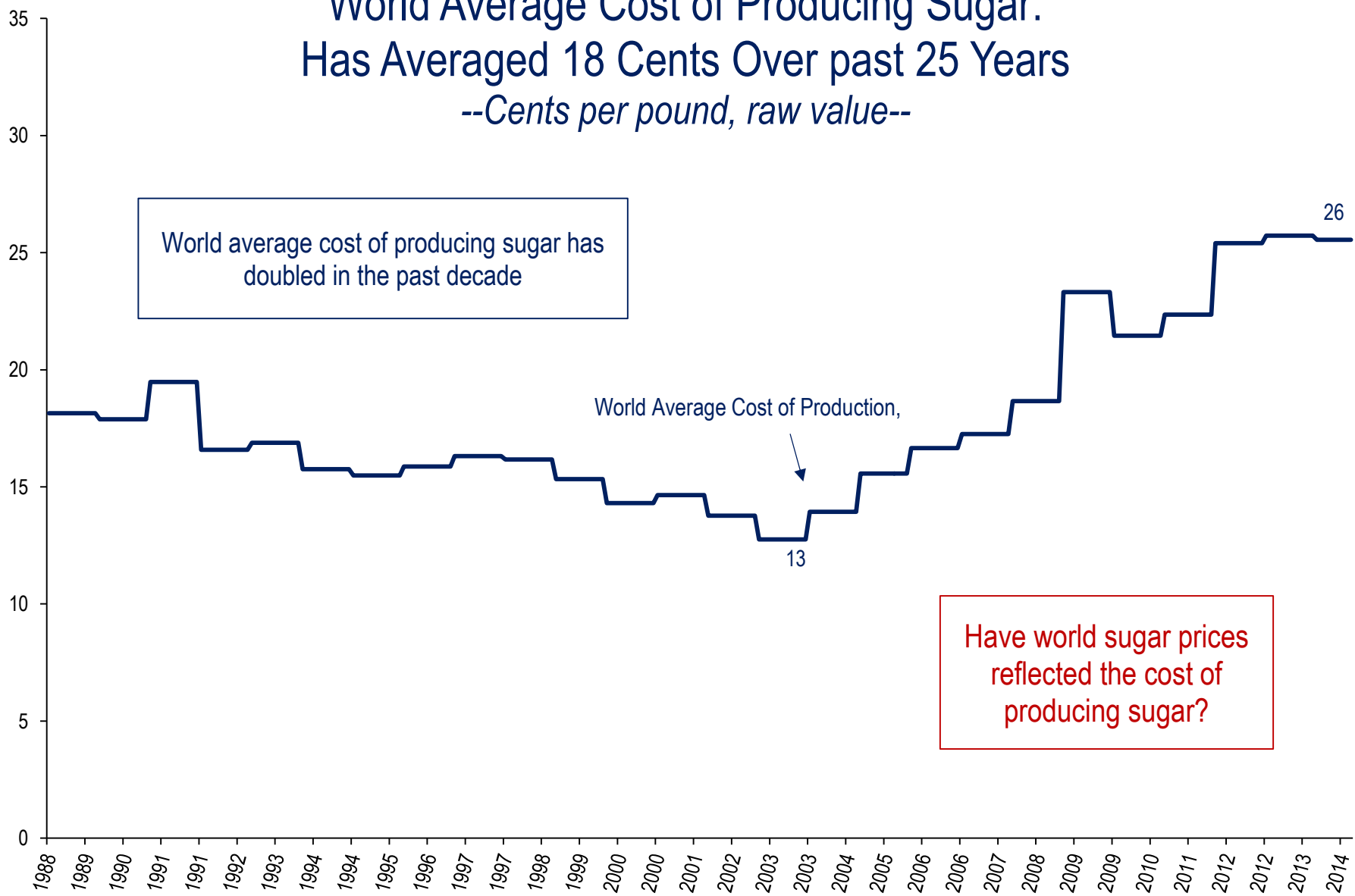
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- Wholesale: Only about one fourth of sugar purchased at world market prices – dumping ground for subsidized surpluses, averaging well below global average sugar production costs

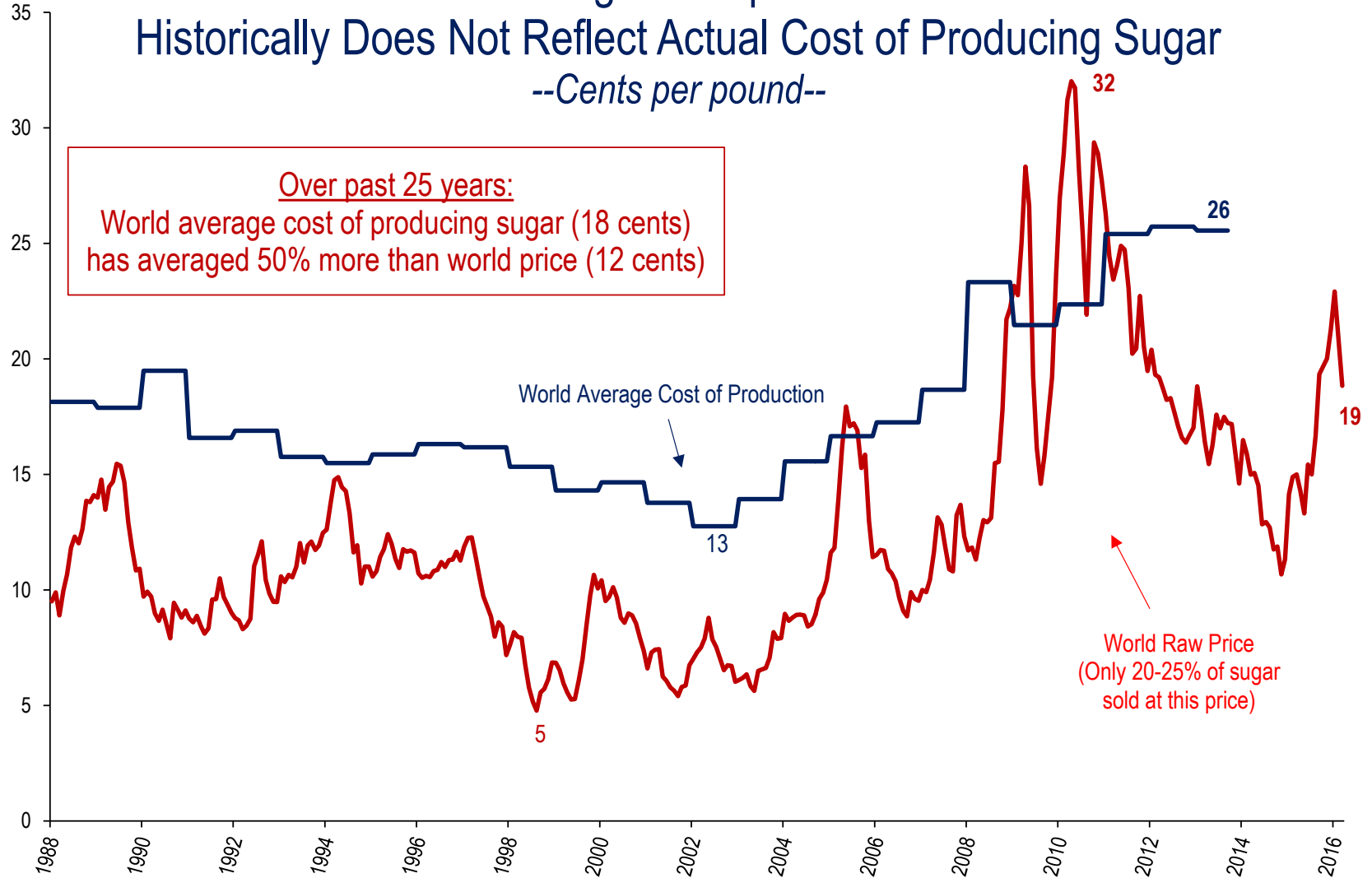
World Average Cost of Producing Sugar: Has Averaged 18 Cents Over past 25 Years

--Cents per pound, raw value--



Source: "Sugar Production Cost, Global Benchmarking Report," LMC International, Oxford, England, July 2014.

World Raw Sugar Dump Market Price: Historically Does Not Reflect Actual Cost of Producing Sugar --Cents per pound--



Over past 25 years:
World average cost of producing sugar (18 cents)
has averaged 50% more than world price (12 cents)

Sources: World Price: USDA, #11 raw contract, Caribbean ports. monthly average prices, 1970-2016.
Cost of Production: "Sugar Production Cost, Global Benchmarking Report," LMC International, Oxford, England, July 2014.



High Sugar Prices = A Bad Deal for Hardworking Families

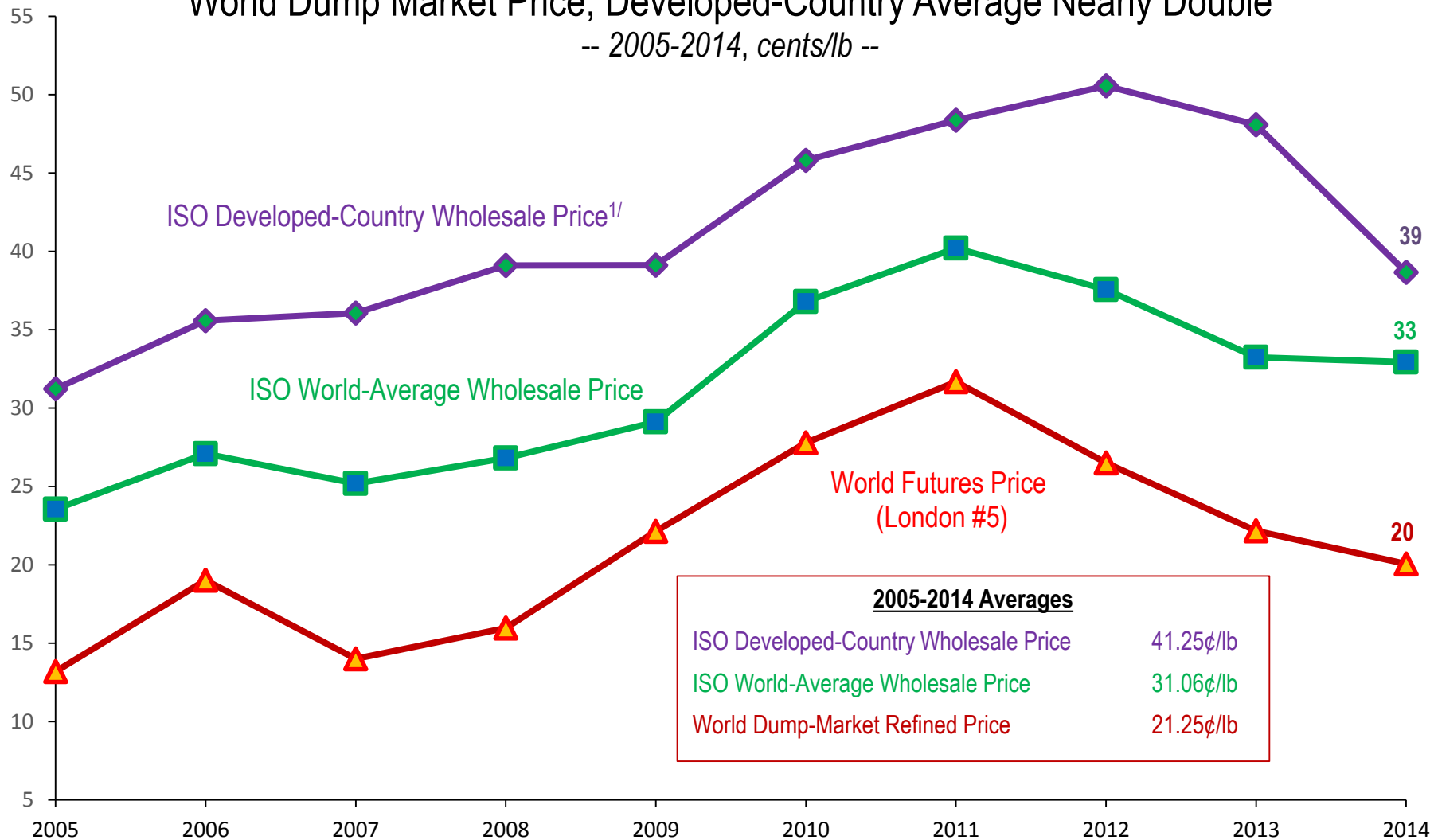
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 - = Huge savings for American sugar consumers
- Wholesale: Only about one fourth of sugar purchased at world market prices – dumping ground for subsidized surpluses, averaging well below sugar production costs
- Actual wholesale prices well above production costs and world prices, and above U.S. price
 - ❖ Since mid-2016, U.S. wholesale refined sugar actually cheaper even than world dump market refined sugar

World Average Wholesale Refined Sugar Price Nearly 50% Higher than World Dump Market Price; Developed-Country Average Nearly Double

-- 2005-2014, cents/lb --



Source: International Sugar Organization (ISO), "Domestic Sugar Prices - a Survey", MECAS(15)06, May 2015. A survey of 78 countries, representing 79% of world sugar consumption. U.S. 2005-14 average: 37 cents. January 2017 prices: U.S., 28 cents; World #5, 24 cents. 1/ EU-28 and other OECD countries in ISO survey.

Since mid-2016: U.S. sugar cheaper than world dump-market sugar to Midwest U.S. food manufacturers

-- Cents per pound --

U.S. wholesale refined price, Midwest markets	28.50
World market price, #5 contract, London	25.00
Plus shipping, Europe to Midwest U.S.	6.00
Delivered cost of world market sugar	31.00
U.S. sugar discount to world market	-2.50

Data source: USDA



High Sugar Prices = A Bad Deal for Hardworking Families

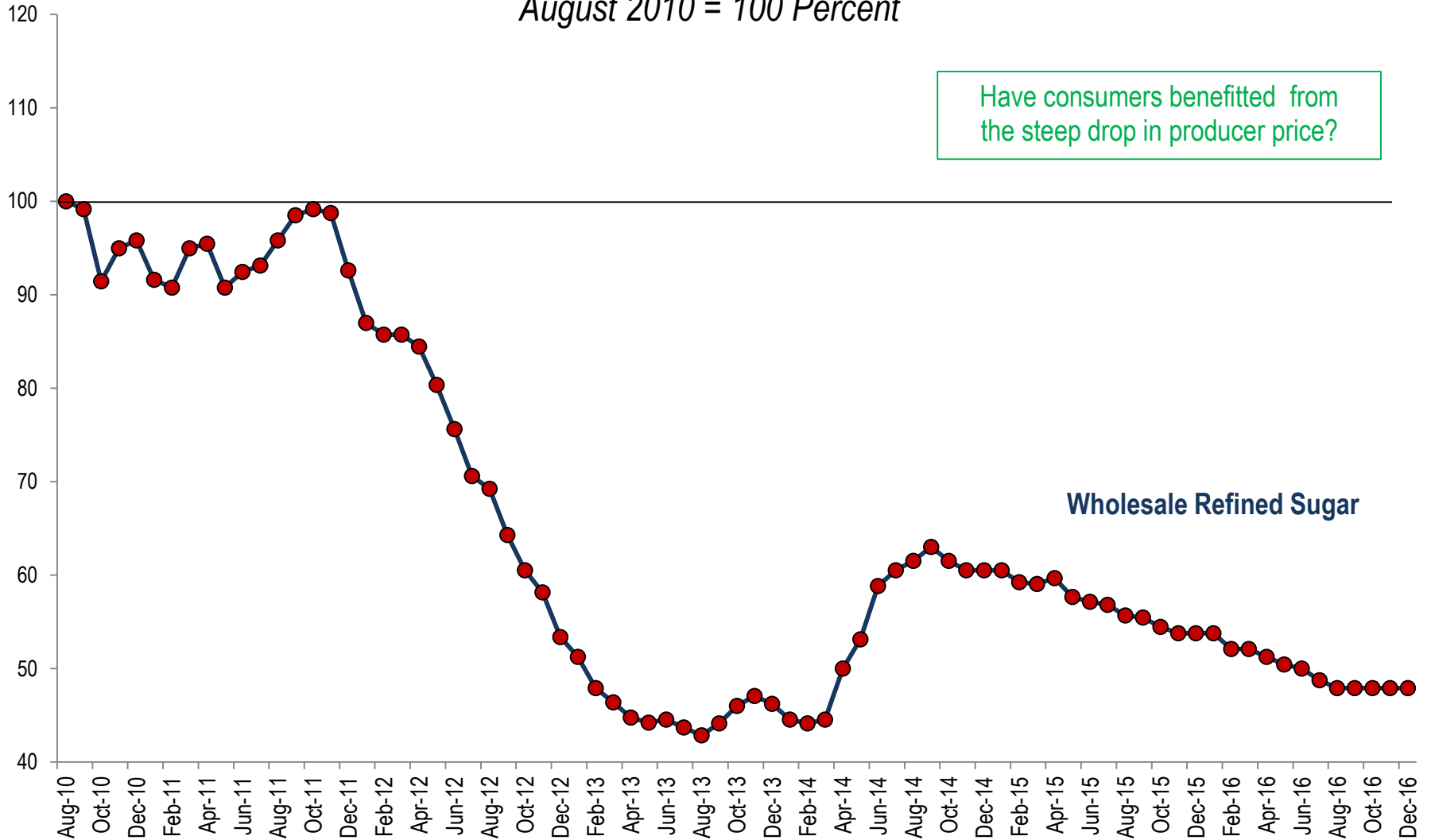
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 - = Huge savings for American sugar consumers
- Only about one fourth of sugar purchased at world market prices – dumping ground for subsidized surpluses, averaging well below sugar production costs
- Actual wholesale prices well above production costs and world prices, and above U.S. price
- History shows: Food manufacturers and retailers pass none of their savings on cheaper sugar along to consumers in lower retail sugar and sweetened-product prices

Price Change Since 2010: Producers' Wholesale Refined Sugar Price Down 52%

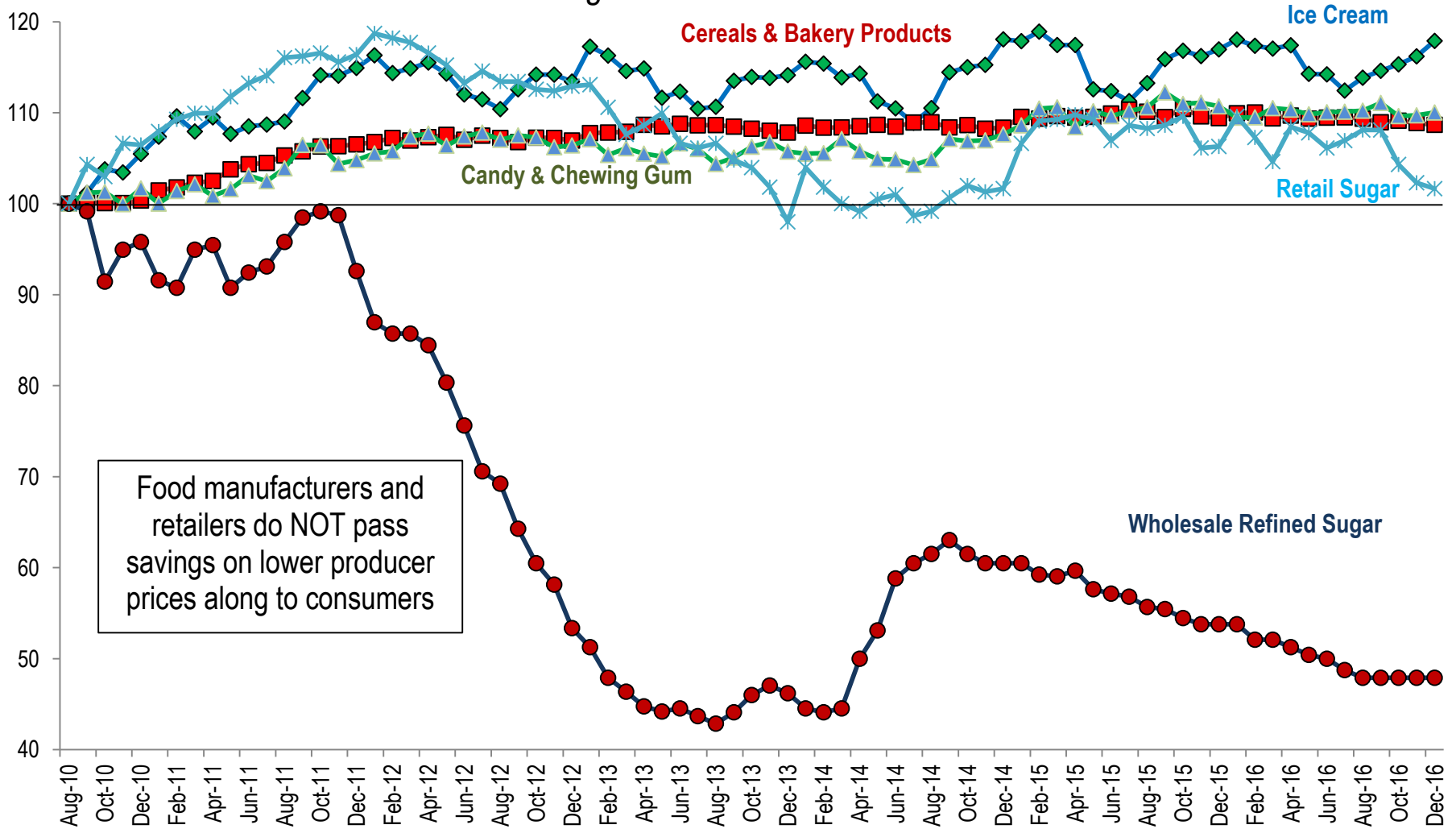
August 2010 = 100 Percent



Source: Wholesale sugar - USDA. Retail products - Bureau of Labor Statistics. Monthly average prices through January 2017.

U.S. Price Changes Since 2010: Wholesale Sugar Down 52% but Retail Sugar & Sweetened Product Prices Up

August 2010 = 100 Percent



Food manufacturers and retailers do NOT pass savings on lower producer prices along to consumers

Source: Wholesale sugar - USDA. Retail products - Bureau of Labor Statistics. Monthly average prices through January 2017.

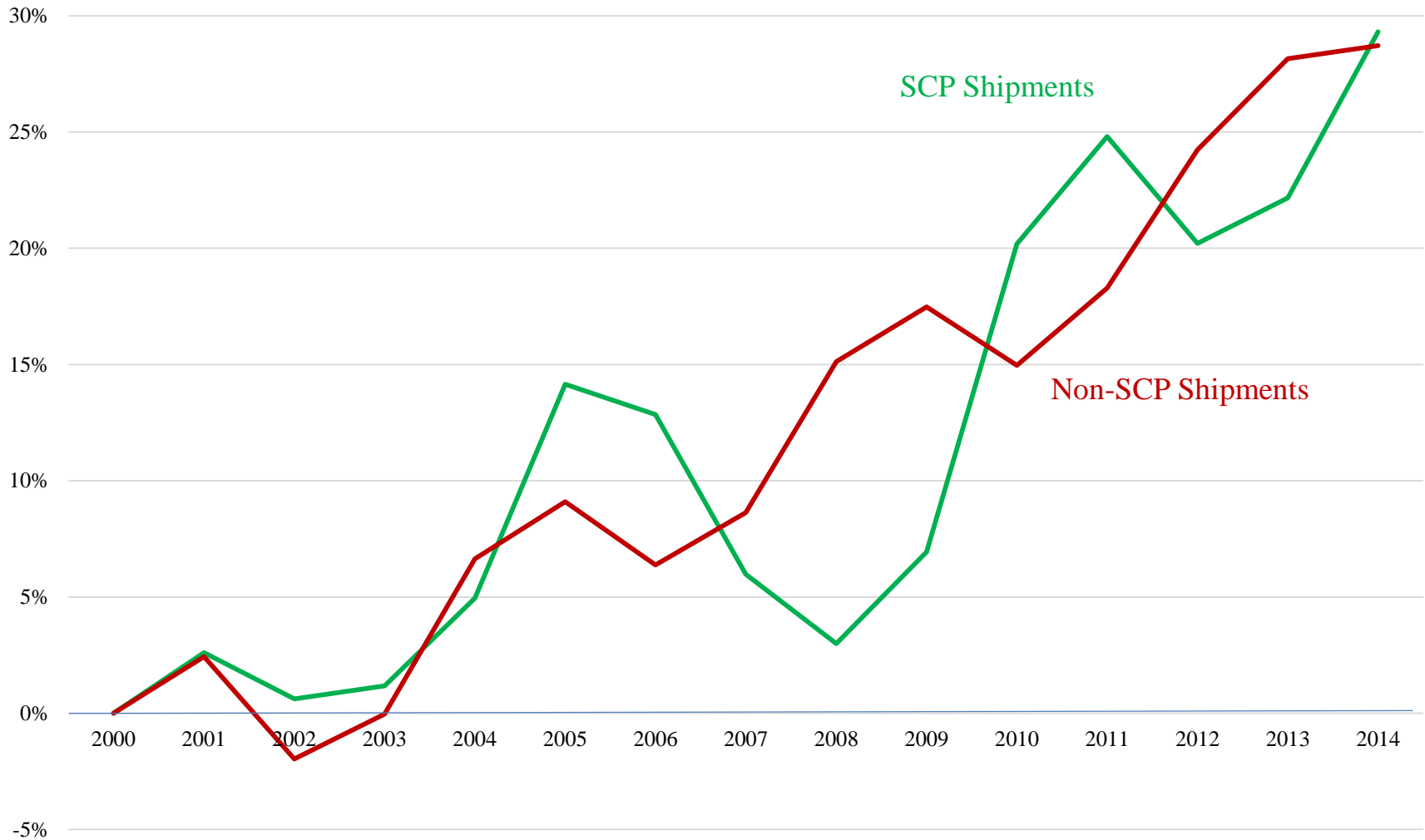


Plant Closures & Lost Jobs = A Bad Deal for Manufacturers & Workers

Higher U.S. sugar prices as a result of the program put undue pressure on U.S. jobs in the sugar-using sector, contributing to the loss of 123,000 American manufacturing jobs over the last 18 years.

- IN FACT:
- Sweetener-containing-product (SCP) shipments rising, not falling
 - = Job cuts due to automation, not industry contraction
 - SCP job growth outstripping non-SCP food sector
 - ❖ “*Economic Effects of U.S. Sugar Policy*,” Professor Alexander Triantis, Dean, University of Maryland School of Business, April 2016

Strong Growth in Total Value of Shipments by Sweetener-Containing-Product (SCP) Sectors: All SCP Output Up Almost 30% since 2000



Note: Confectionery Total Value of Shipments includes Chocolate and confectionery manufacturing from cocoa beans (311351), Confectionery manufacturing from purchased chocolate (311352), Nonchocolate confectionery manufacturing (31134). SCP Total Value of Shipments includes shipments from Breakfast Cereal (31123), Confectionery (31132-31134), Bread and bakery product manufacturing (31181), and Cookie, cracker manufacturing (31182).
Source: Economic Census and Annual Survey of Manufacturers.

Cumulative Percentage Change in Employment in Food Manufacturing Industry (2004-2014): SCP Jobs Up, Non-SCP Jobs Down

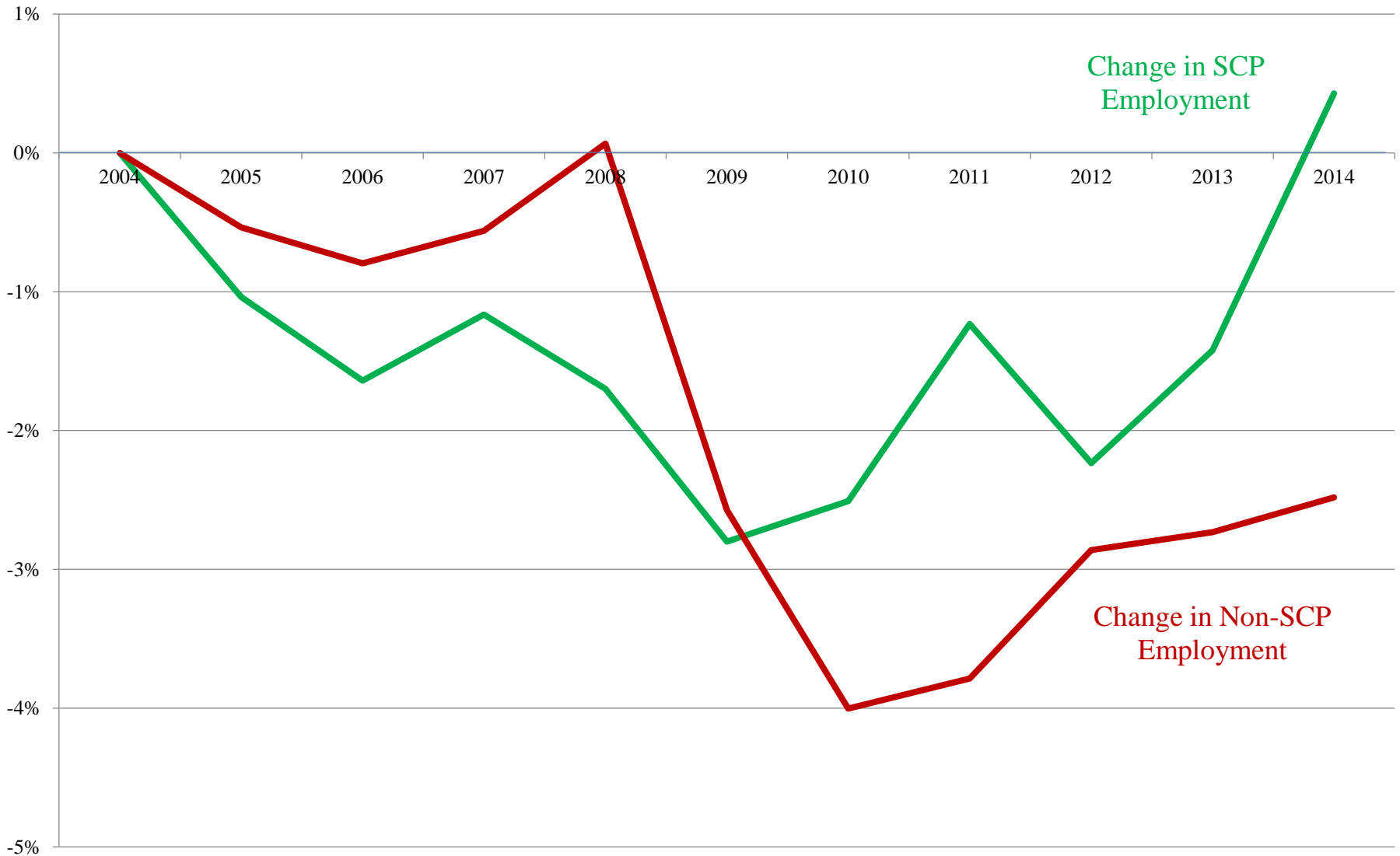


Chart Source: "Economic Effects of U.S. Sugar Policy," Alexander Triantis, University of Maryland, April 2016.

Data Source: BLS data for NAICS 311; industries are sorted into sugar-containing-product (SCP) and non-SCP based on Materials Consumed from 2012 Economic Census.

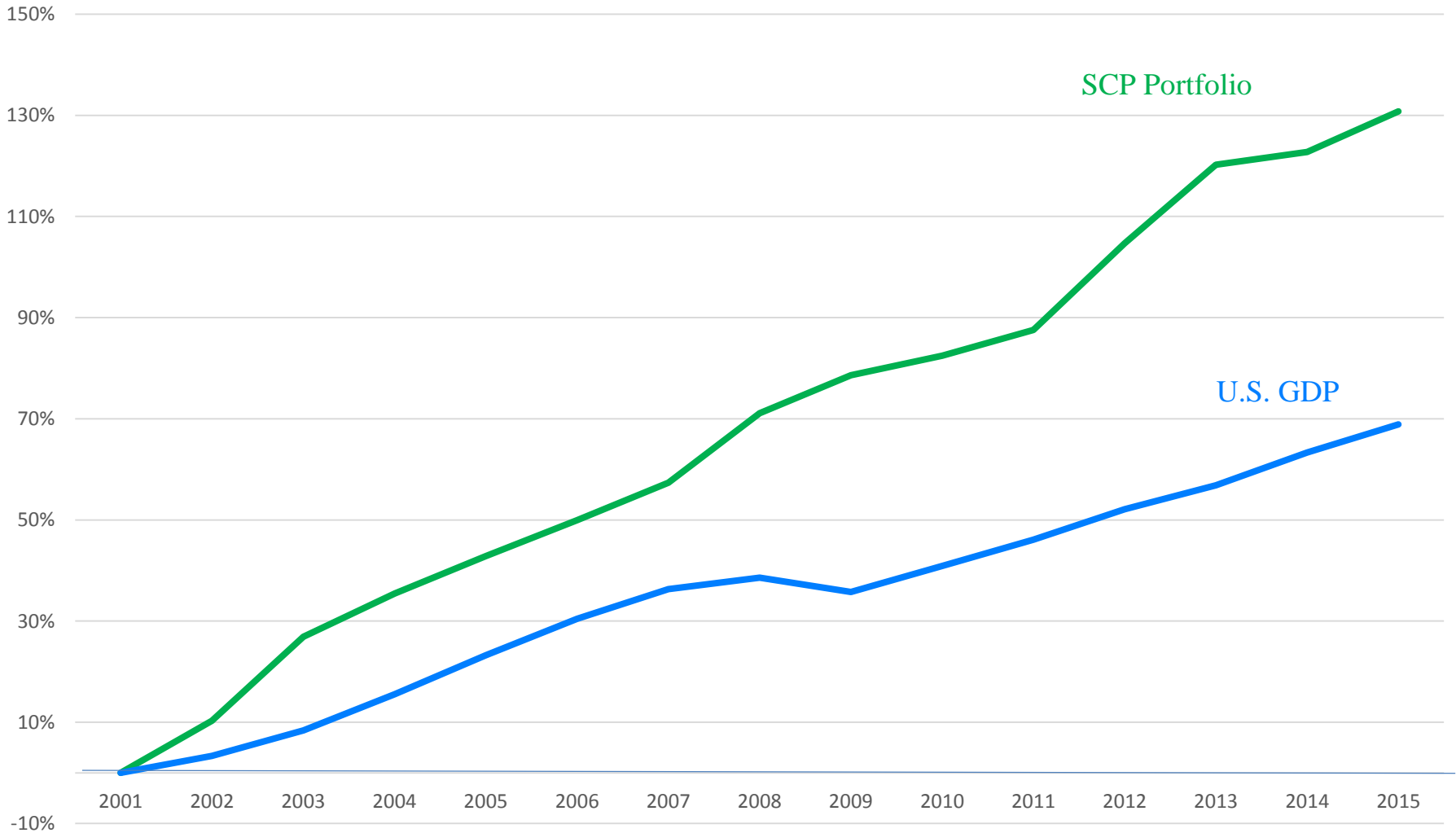
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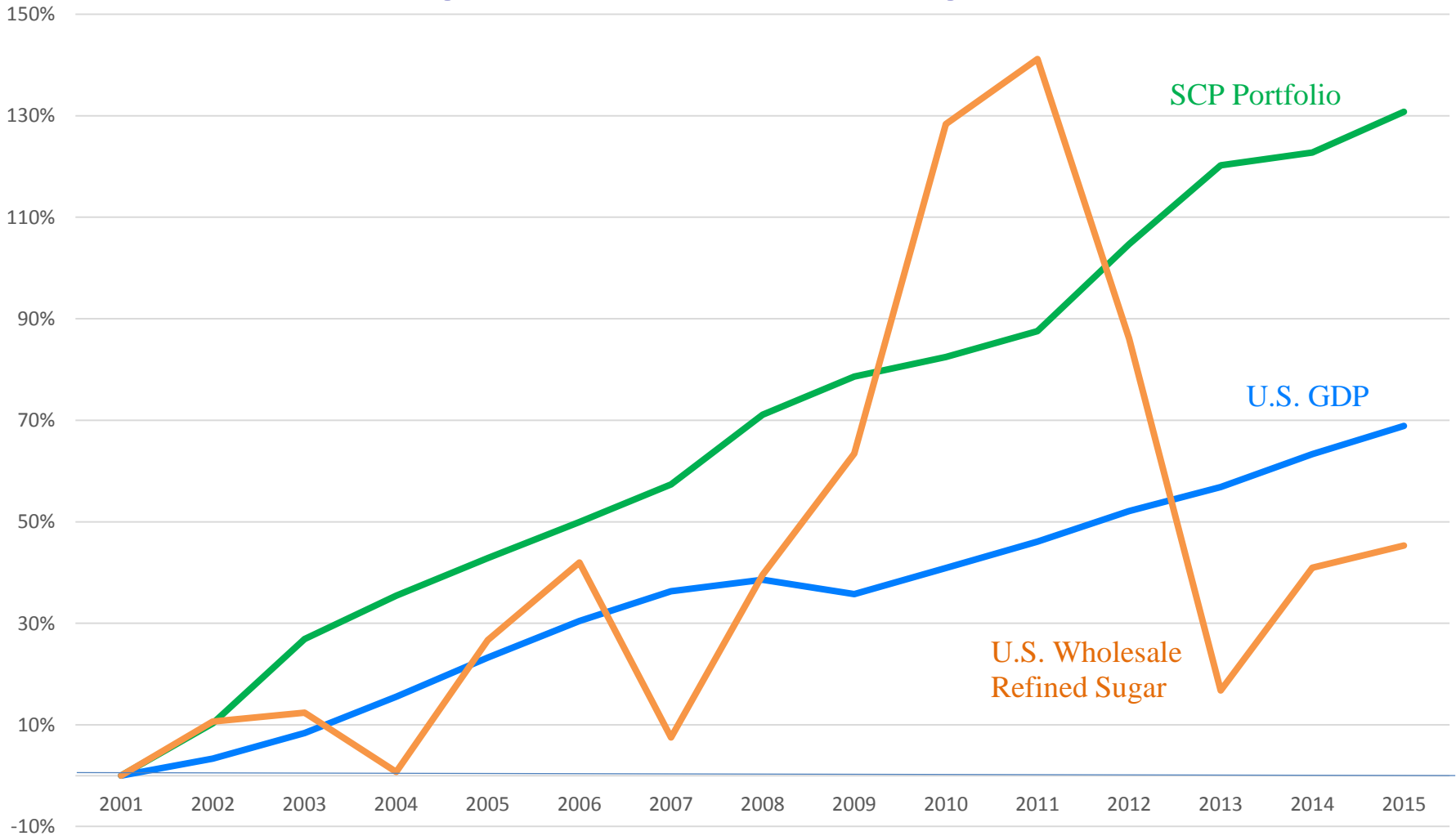
- IN FACT:
- Sweetener-containing-product (SCP) shipments rising, not falling
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 - SCP job growth outstripping non-SCP food sector
- SCP industry flourishing: Growth, profits well in excess of rest of U.S. economy
 - Performance unrelated to changes in sugar prices – tiny fraction of product costs

Large SCP Companies' Revenue Growth Outstrips U.S. Nominal GDP Growth (2001-2015)



Notes: Large SCP Companies' Annual Revenues and U.S. Nominal GDP are expressed in cumulative percentage change relative to 2001, shown against the left axis. U.S. Wholesale Refined Sugar Price is in cents/pound as shown on the right axis. SCP = sugar-containing product.
Sources: U.S. Refined Sugar Price from USDA ERS Table 5; U.S. Nominal GDP from Bureau of Economic Analysis; Annual Revenues: YCharts.

Large SCP Companies' Revenue Growth Outstrips U.S. Nominal GDP Growth, Even with Rising U.S. Wholesale Refined Sugar Prices (2001-2015)



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Largest Sweetener-Containing-Product (SCP) Manufacturers Outperform U.S. Economy Overall: -- Key Financial Measures, 2001-2015 --

	SCP Manufacturers ¹	U.S. Economy	SCP Advantage vs. U.S. Economy
Revenue Growth ²	131%	69%	90%
Net Margins ³	8.5%	6.2%	37%
Returns on Equity ⁴	23.8%	12%	98%
Volatility ⁵	21%	66%	68%
Market Risk ⁶	0.48	1.14	58%
Total Share Returns ⁷	136%	50%	172%
Price to Earnings Ratio ⁷	33.20	20.90	59%

Source: "Economic Effects of U.S. Sugar Policy," Alexander Triantis, University of Maryland, April 2016.

¹ Portfolio of nine largest publicly held U.S. SCP companies (Campbell Soup Co., Flowers Foods, Inc., General Mills Inc., Hain Celestial Group Inc., The Hershey Co., J&J Snack Foods Corp., Kellogg's Co., J.M. Smuckers Co., and Tootsie Roll Industries, Inc.).

² U.S. Economy = U.S. nominal GDP growth.

³ Net earnings divided by revenues. U.S. Economy = all U.S. public companies.

⁴ U.S. Economy = overall U.S. stock market.

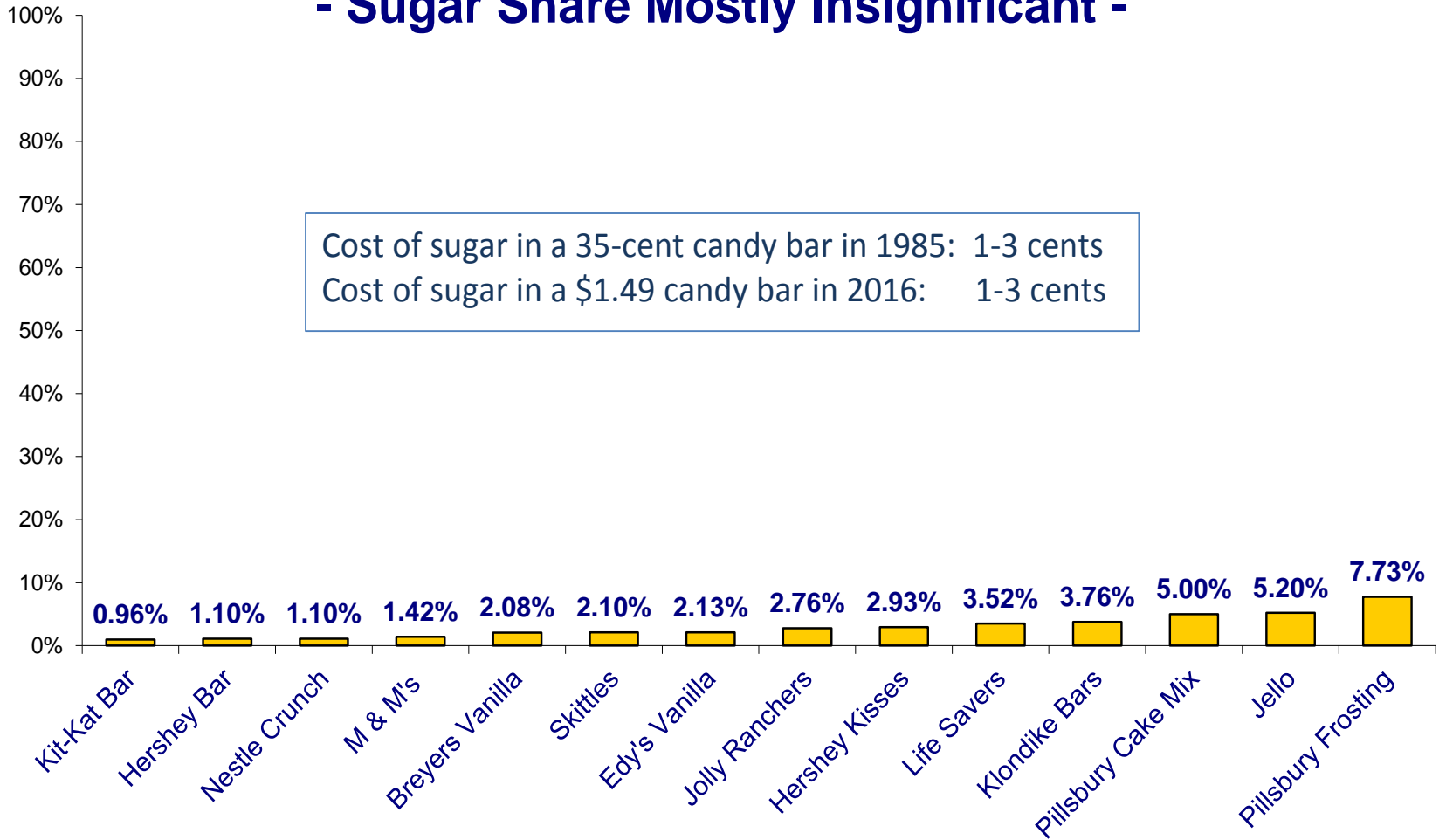
⁵ Volatility is the standard deviation of the rate of returns on a stock. The lower the volatility, the more valuable the stock is, other factors being equal. U.S. Economy = overall U.S. stock market.

⁶ Market Risk is a "Beta" measure of how closely and how much a stock moves with the overall stock market. The lower the market risk, the more valuable the stock is, other factors being equal. U.S. Economy = overall U.S. stock market.

⁷ U.S. Economy = the S&P 500 Index.

Sugar Cost as % of Retail Product Price*

- Sugar Share Mostly Insignificant -



Source: American Sugar Alliance survey of retail products, Safeway store, Washington, DC, June 2016.

*Sugar content computed from nutrition label. Assumes USDA-reported 2016 Jan-May average wholesale refined sugar price of 30.90 cents per pound. Some products contain sugar, HFCS, and other caloric sweeteners ("sugars"), but all are included under sugar's cost.



Government Intrusion & Burdensome Regulations = A Bad Deal for Taxpayers

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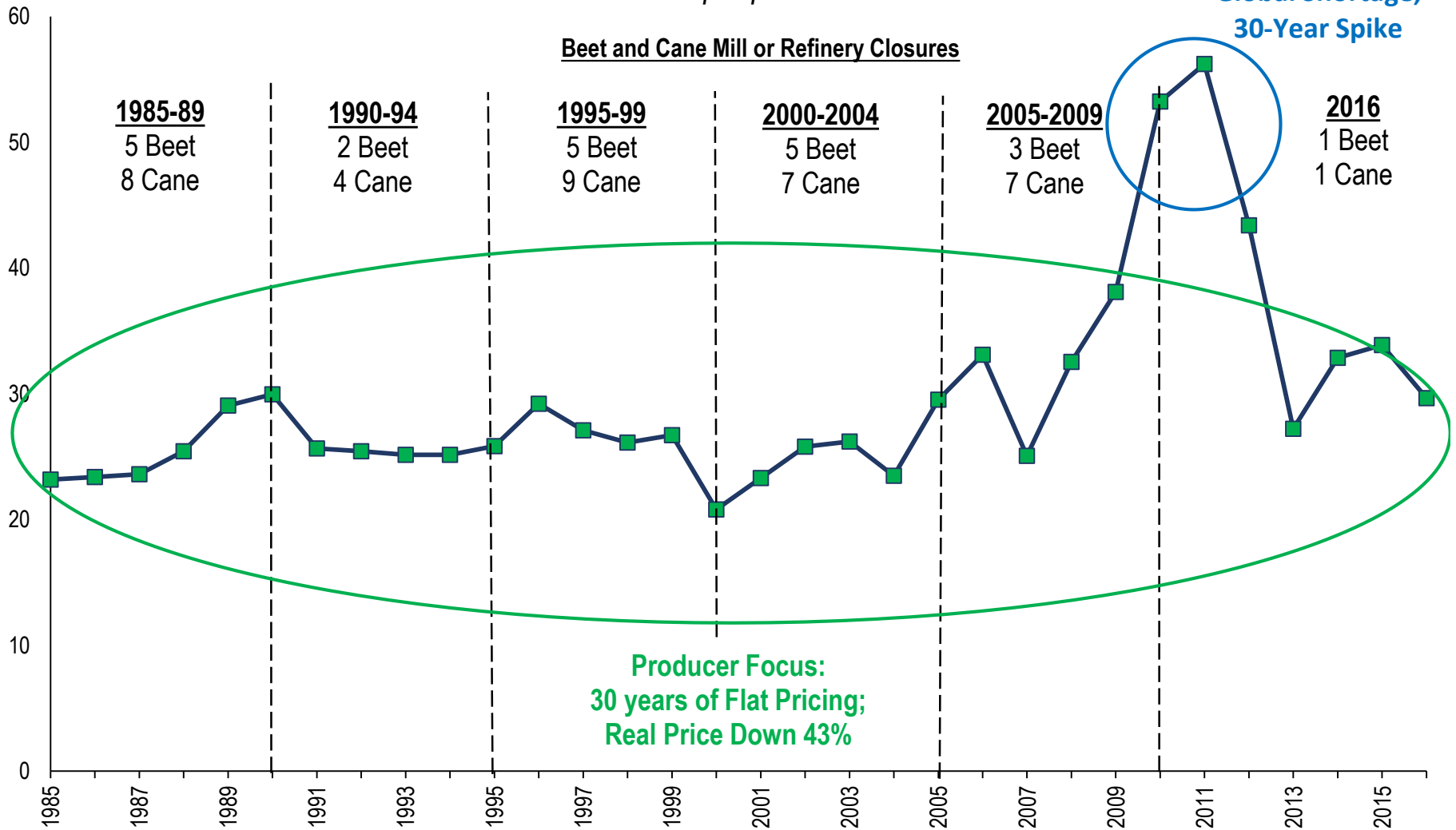
IN FACT:

- If “record profits” and “guaranteed income” why has real sugar price declined 43% and more than half of all sugar operations operations closed since 1985?
 - 100,009 jobs lost, 1994-2010 (LMC International studies)
 - Two more mills closing or closed in 2016 (Wyoming, beet; Hawaii, cane)

Wholesale Refined Sugar Prices and Sugar Company Closures: Flat prices for three decades = 57 closures from 1985 to 2016

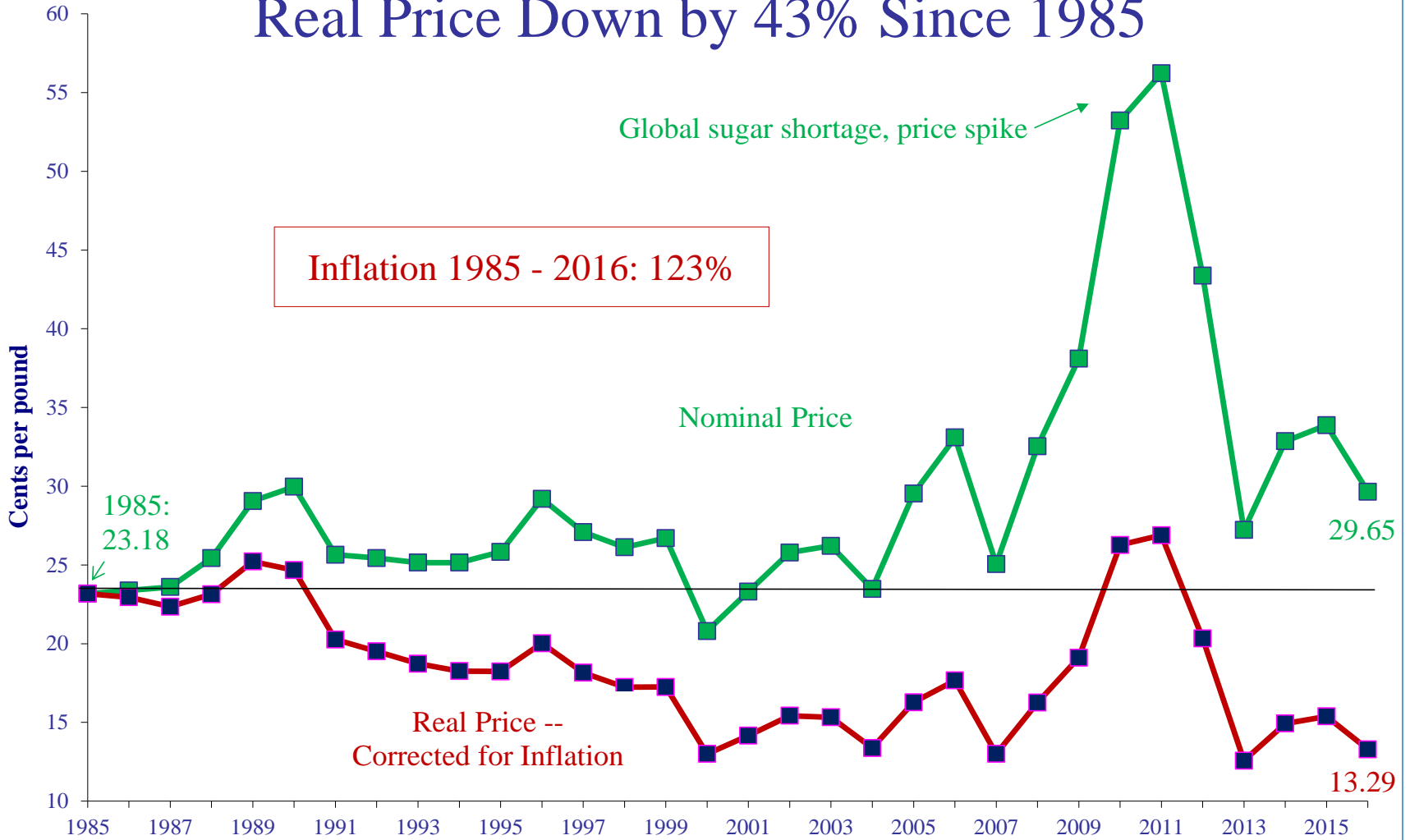
--Cents per pound--

User Focus:
Global Shortage,
30-Year Spike



Source: USDA, annual average wholesale refined sugar prices, Midwest markets, 1985-2016. More operations would have closed had farmers not organized cooperatively to purchase independent beet and cane processing and refining facilities. User access to domestic sugar would have suffered more.

U.S. Wholesale Refined Sugar Prices: Real Price Down by 43% Since 1985



Data sources: BLS -- CPI-U. USDA - wholesale refined beet sugar, Midwest markets; annual averages 1985-2016.



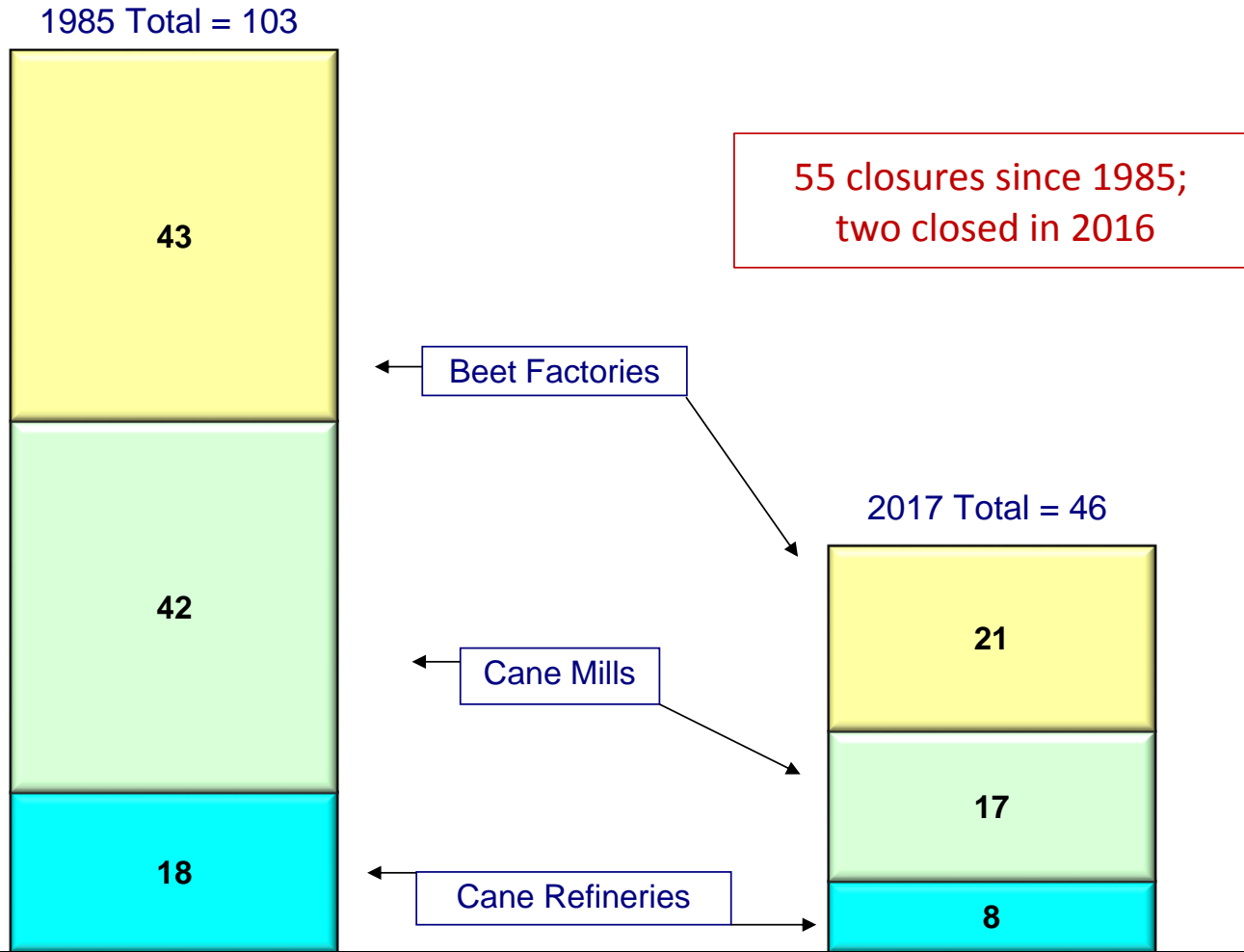
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 - 100,009 jobs lost, 1994-2010 (LMC International studies)
 - Two more mills closing or closed in 2016 (Wyoming, beet; Hawaii, cane)
- Because of low returns, independent beet processors, cane refiners have exited the business – all of beet industry, most of cane industry now owned by farmers
 - Farmers are the highly-leveraged owners of last resort
- Warning signs of further contraction:
 - Beet farmers surviving only because of yield gains from biotech
 - Young farmers exiting the business with low prices for sugar and other commodities – threatens existence of beet co-ops

With Flat Sugar Prices Since 1985: More Than Half of U.S. Sugar-Producing Operations Have Shut Down



Source: American Sugar Alliance, 2017

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Government Intrusion & Burdensome Regulations = A Bad Deal for Taxpayers

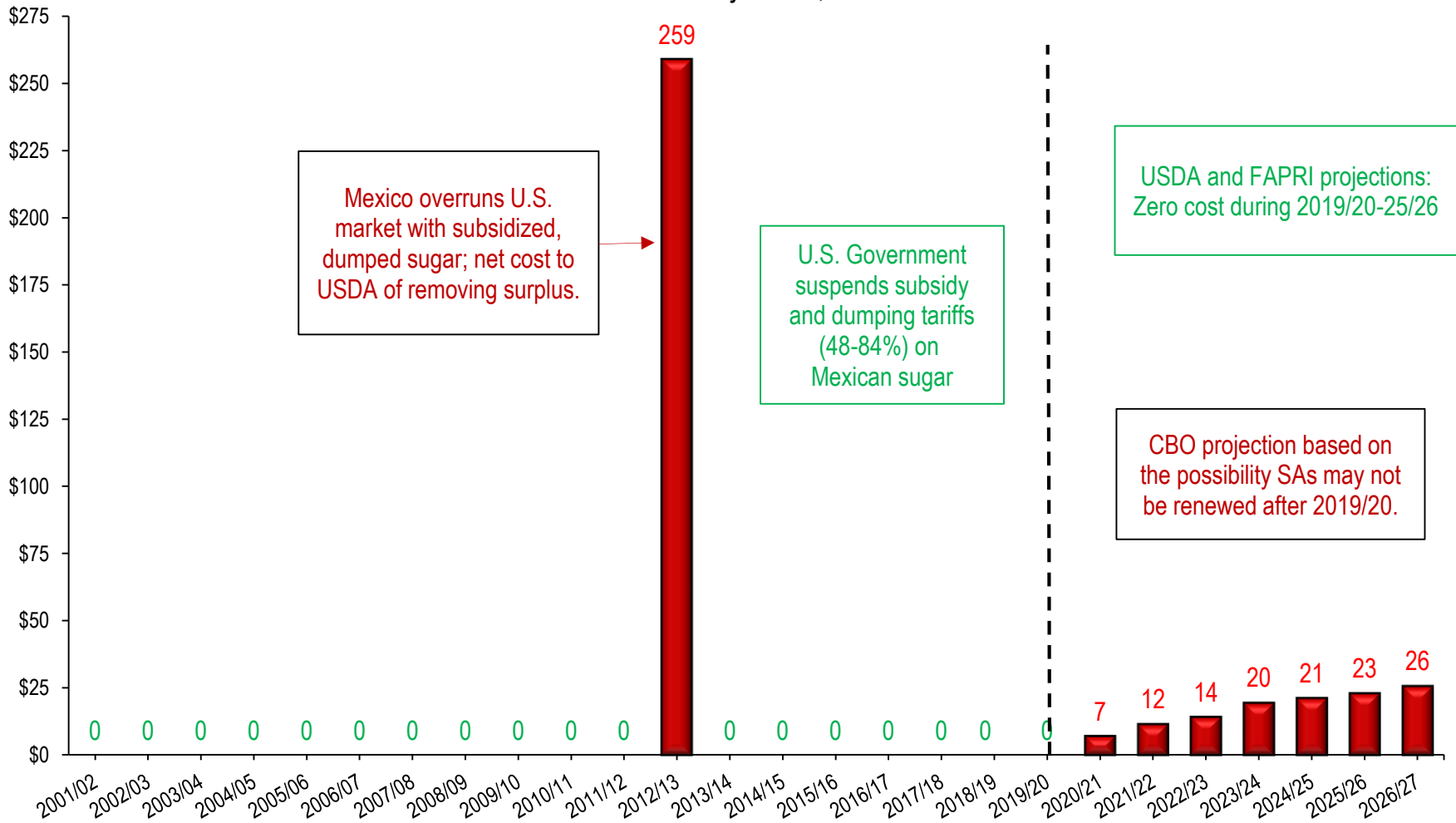
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IN FACT:

- Cost for sugar policy operation in 2013 was only one in past 15 years and was because of Mexican subsidizing, dumping:
 - U.S International Trade Commission's unanimous votes that Mexico injured the U.S. industry; U.S. Department of Commerce determination of massive subsidy and dumping margins, totaling 48-84%.
 - Only zero-cost commodity program, 14 of past 15 years; projected to remain zero.

U.S. Sugar Policy Cost: Zero Net Cost Before Mexican Subsidizing and Dumping; Zero with the Cases/Suspension Agreements (SAs)

-- CBO Projections, Million Dollars --

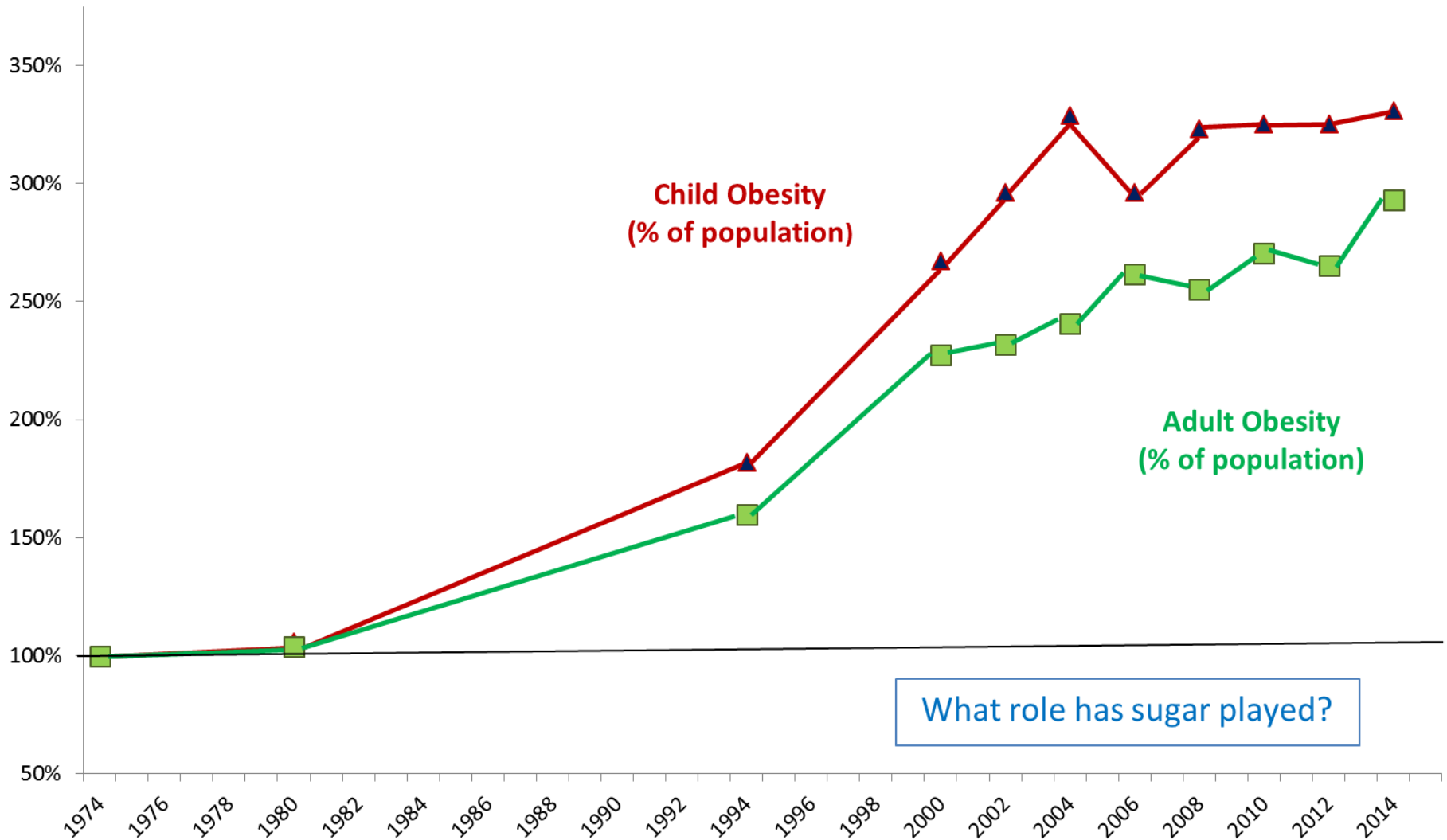


Sources: USDA, 2001/02 - 2014/15 (2012/13 is net cost for 2012/13-13/14); CBO, 2015/16 -2026/27, January 2017.
FAPRI = Food and Agricultural Policy Research Institute.

U.S. Sugar Policy: Producers' Perspective

- Common cause: Defending sugar and sweetened-product consumption
 - Completely unfounded blame for obesity epidemic
 - How can sugar be singled out for blame when sugar's share of per capita caloric consumption is declining?

Since 1974: U.S. Child Obesity Has More than Tripled, Adult Obesity Nearly Tripled (1974=100%)

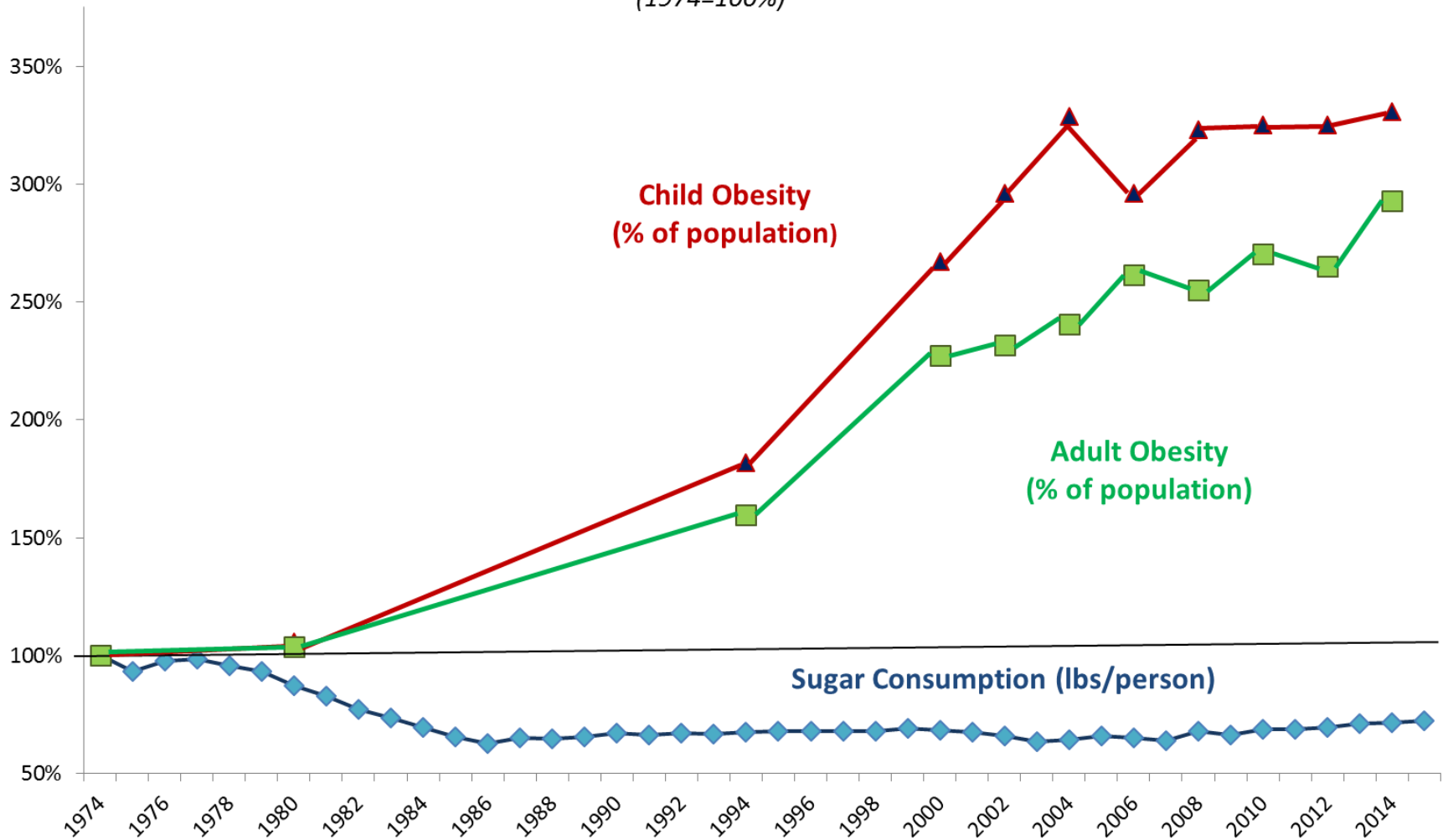


Source: Centers for Disease Control and Prevention/HHS.

Note: Official obesity data available only for years shown. Percents of population: Child (age 2-19) obesity rose from 5.2% in 1971-74 to 17.2% in 2013-14; Adult (age 20-74) obesity rose from 15.8% in 1971-74 to 46.3% in 2013-14.

Since 1974: U.S. Child Obesity Has More than Tripled, Adult Obesity Has Nearly Tripled; U.S. Per Capita Sugar Consumption Has Fallen By More Than A Fourth

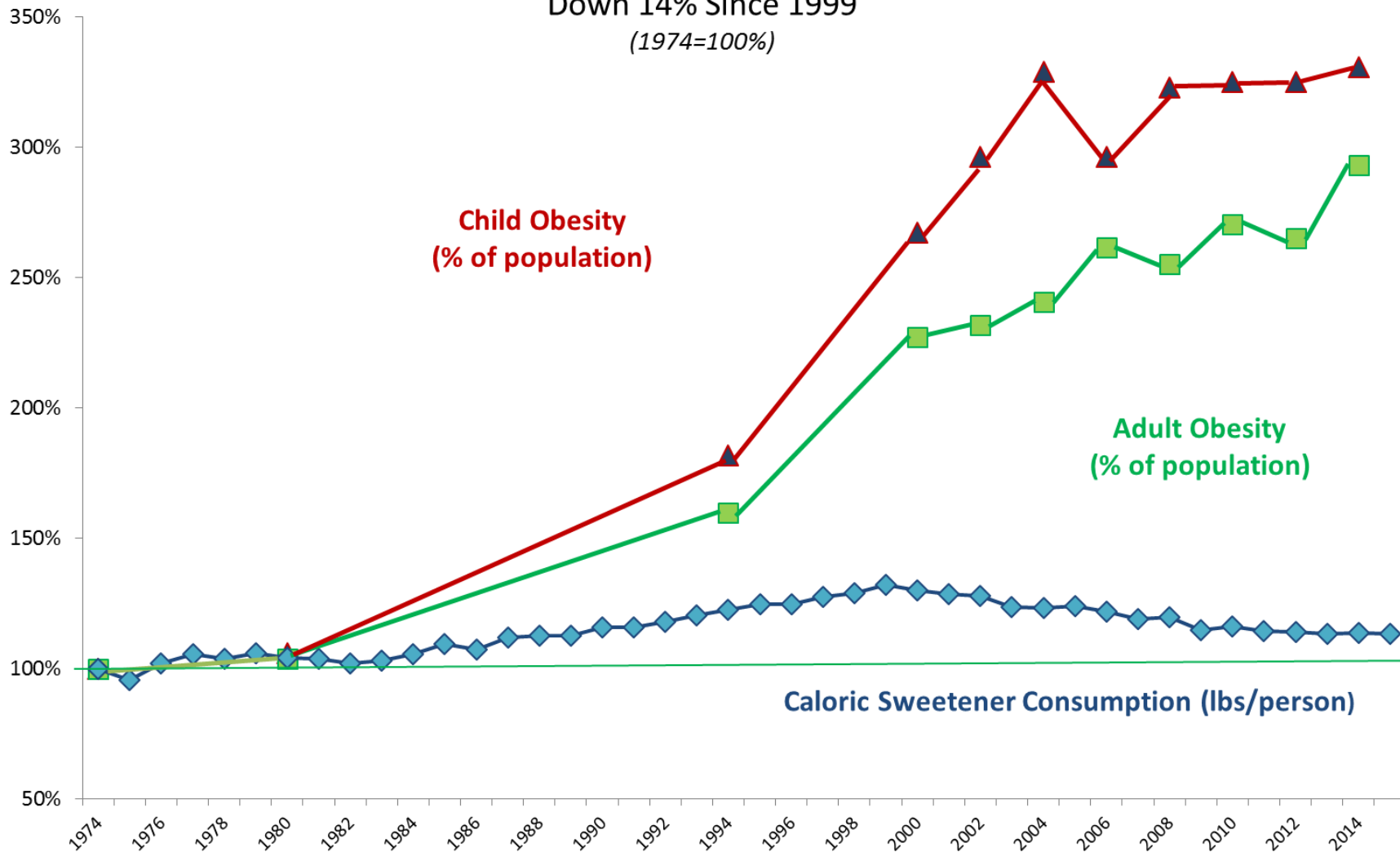
(1974=100%)



Source: Sugar Data -- Economic Research Service/USDA: <http://www.ers.usda.gov/Briefing/sugar/data.htm>

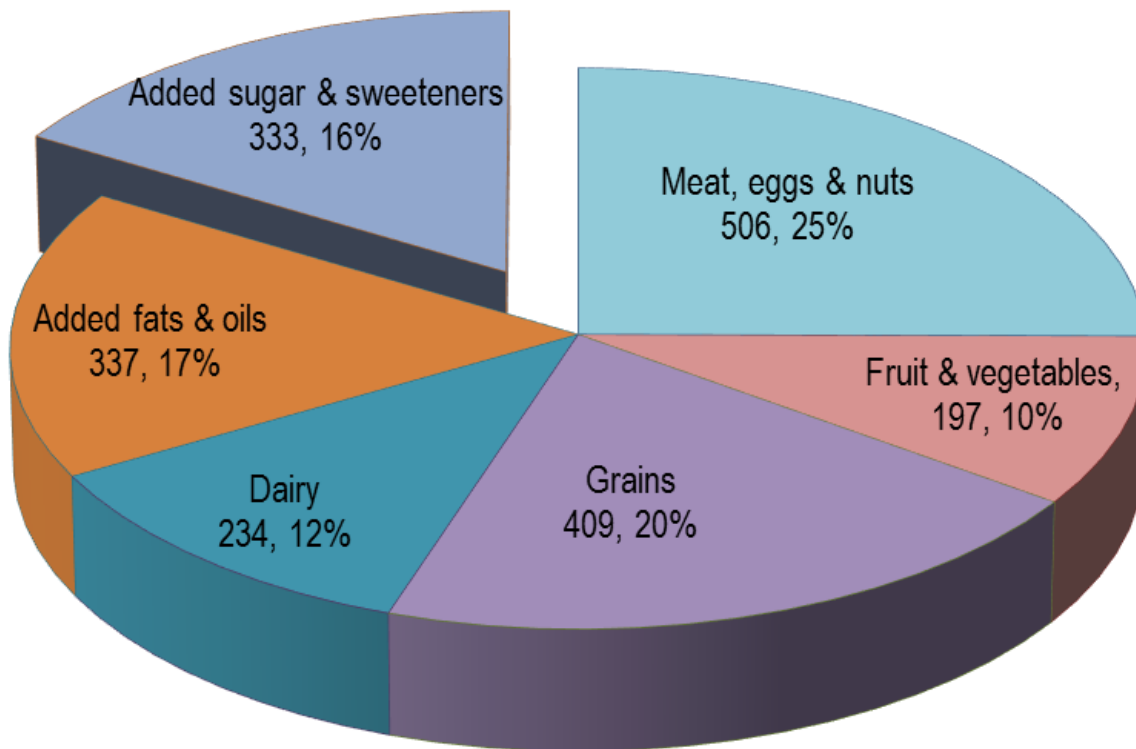
Obesity Data -- Centers for Disease Control and Prevention/HHS. Note: Official obesity data available only for years shown. Percents of population: Child (age 2-19) obesity rose from 5.2% in 1971-74 to 17.2% in 2013-14; Adult (age 20-74) obesity rose from 15.8% in 1971-74 to 46.3% in 2013-14.

Since 1974: U.S. Child Obesity Has More than Tripled, Adult Obesity Has Nearly Tripled;
 U.S. Per Capita Caloric Sweetener Consumption Up Only Slightly,
 Down 14% Since 1999
 (1974=100%)



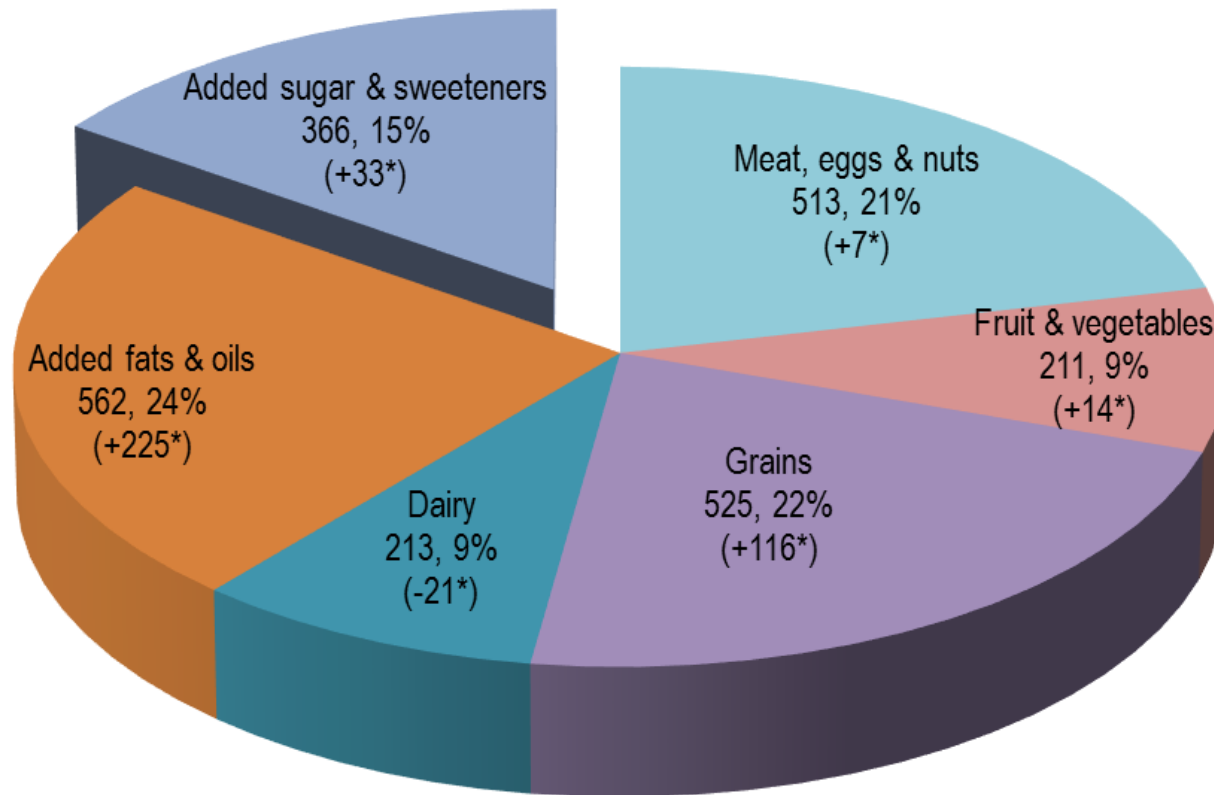
Source: Caloric Sweetener (Sugar + High Fructose Corn Syrup) Data -- Economic Research Service/USDA: <http://www.ers.usda.gov/Briefing/sugar/data.htm>
 Obesity Data -- Centers for Disease Control and Prevention/HHS. *Note:* Official obesity data available only for years shown. Percents of population: Child (age 2-19) obesity rose from 5.2% in 1971-74 to 17.2% in 2013-14; Adult (age 20-74) obesity rose from 15.8% in 1971-74 to 46.3% in 2013-14.

1970 U.S. Per Capita Daily Caloric Consumption; Sugar & Sweeteners' Share 16%



1970: Total calories: 2,016

2014 U.S. Per Capita Caloric Consumption Up 19% (374 Calories) from 1970; Sugar & Sweeteners' Share Drops from 16% to 15%

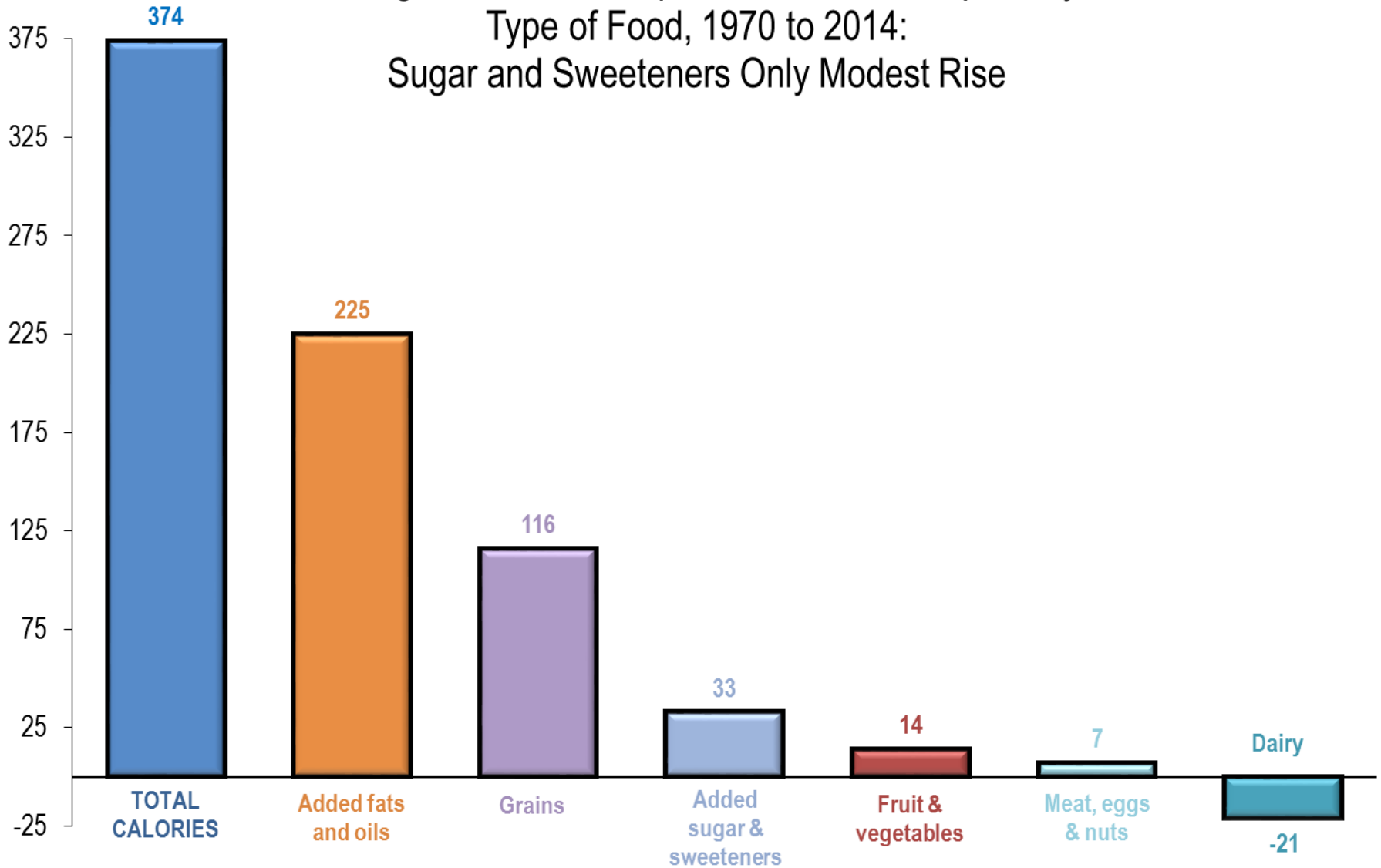


2014: Total calories: 2,390 (+374*)

Source: USDA, U.S. Trends in Food Availability and a Dietary Assessment of Loss-Adjusted Food Availability, 1970-2014, January 2017
<https://www.ers.usda.gov/webdocs/publications/eib166/eib-166.pdf?v=42762>

*Change from calories consumed in 1970.

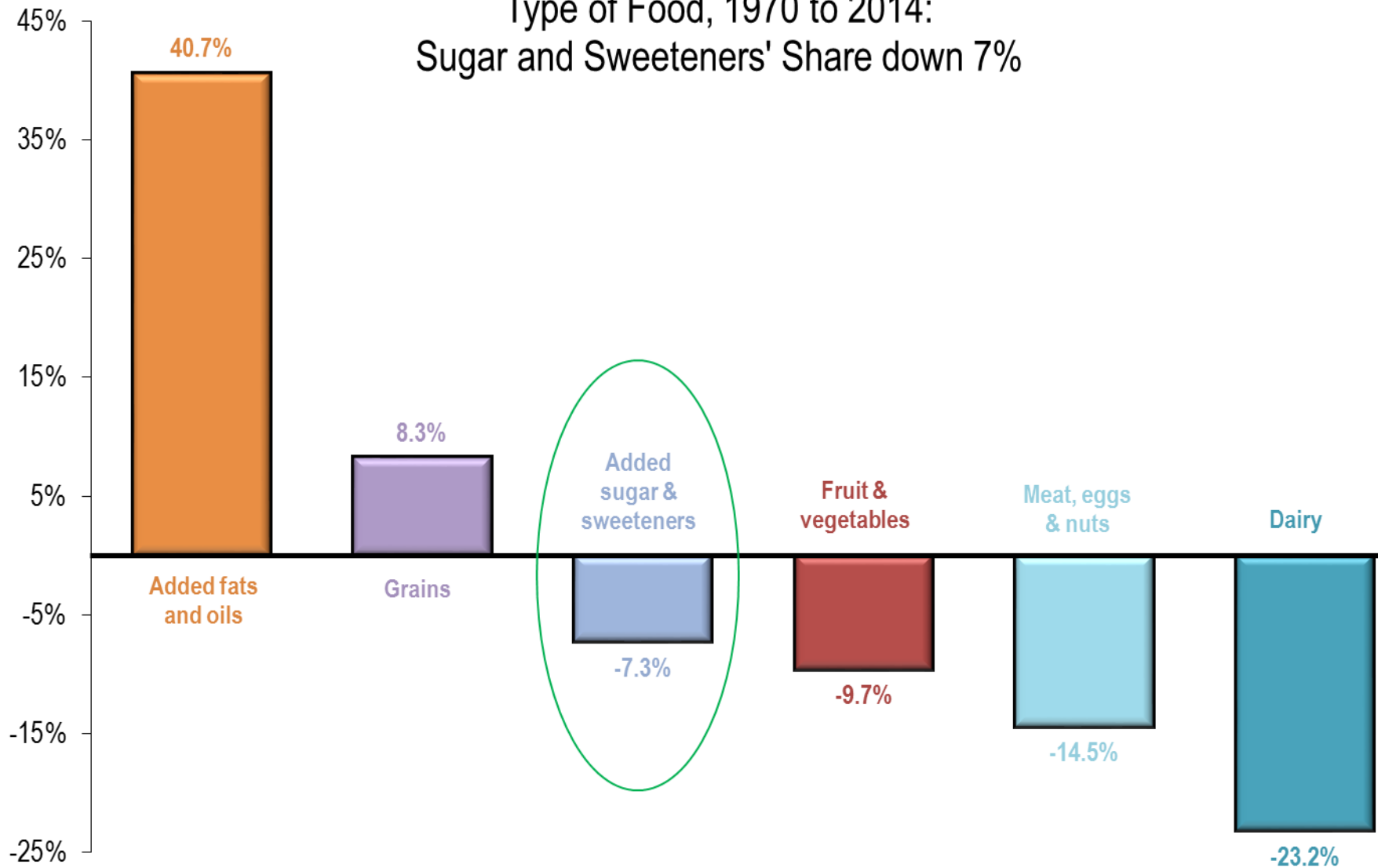
Change in U.S. Per Capita Caloric Consumption by Type of Food, 1970 to 2014: Sugar and Sweeteners Only Modest Rise



Source: USDA, U.S. Trends in Food Availability and a Dietary Assessment of Loss-Adjusted Food Availability, 1970-2014, January 2017
<https://www.ers.usda.gov/webdocs/publications/eib166/eib-166.pdf?v=42762>

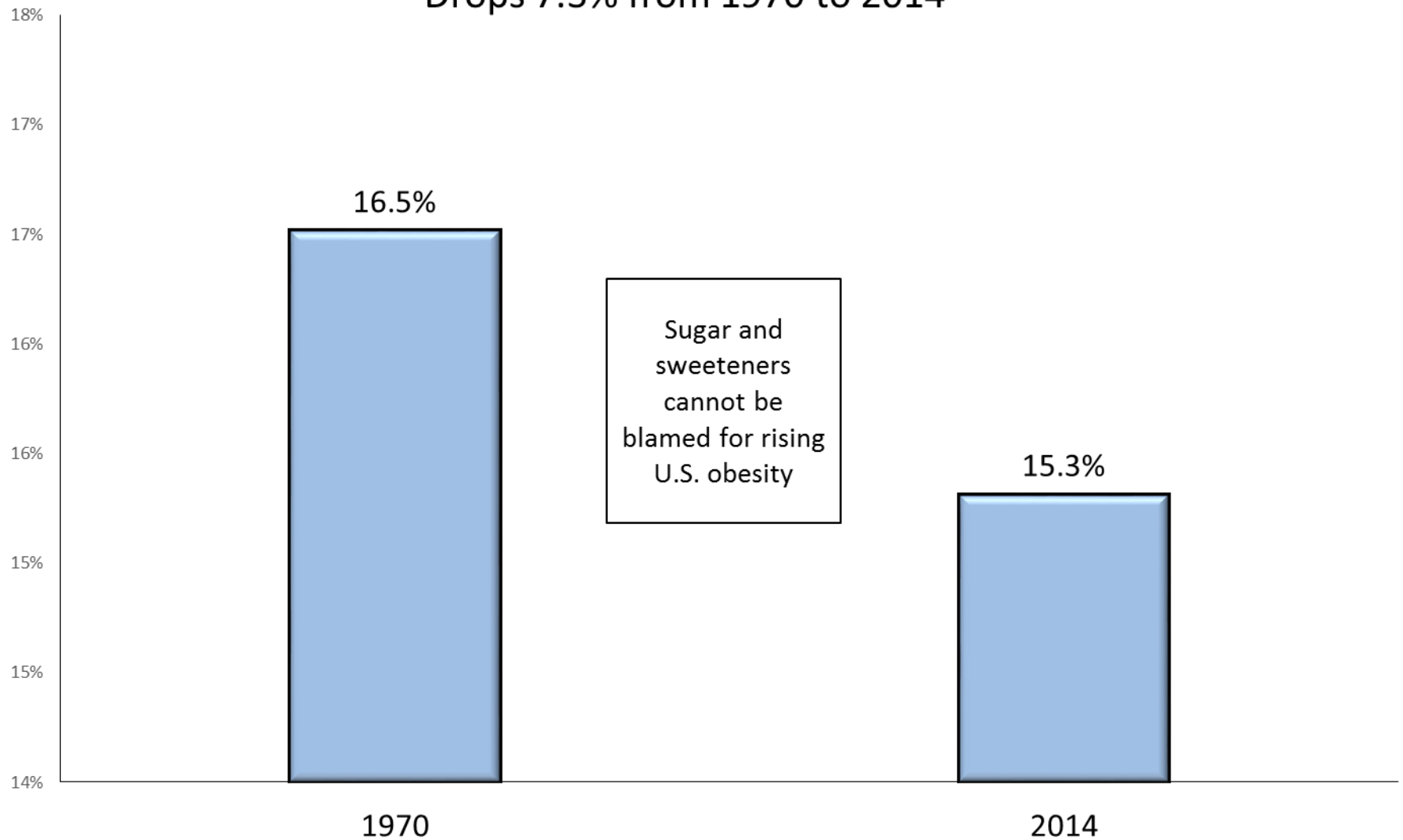
Change in Shares of U.S. Per Capita Caloric Consumption by Type of Food, 1970 to 2014:

Sugar and Sweeteners' Share down 7%



Source: USDA, *U.S. Trends in Food Availability and a Dietary Assessment of Loss-Adjusted Food Availability, 1970-2014*, January 2017. Total caloric consumption up 19%, 1970-2014. <https://www.ers.usda.gov/webdocs/publications/eib166/eib-166.pdf?v=42762>

Sugar and Sweeteners' Share of U.S. Caloric Consumption Drops 7.3% from 1970 to 2014



U.S. Sugar Policy: Producers' Perspective

Conclusion

- Producers want to see customers doing well
 - But producer industry shrinking because of low prices – not in the interest of sugar buyers
- Common cause
 - Prevent further contraction of sugar-producing industry and any contraction of SCP sector
 - Defend sugar and sweetened-product consumption
 - ❖ Please join us at annual International Sweetener Symposium, San Diego, August 5-9, 2017



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Omni San Diego San Diego, California August 4-9, 2017



www.sugaralliance.org/symposium