

Recent Sugar TRQ Reallocation: More Supply Still Needed

June 25, 2019

USTR Reallocates Raw Sugar TRQ

On June 24, 2019, the Office of the U.S. Trade Representative announced a reallocation of part of the fiscal year 2019 tariff-rate quota for raw sugar. USTR's authority to reallocate TRQ amounts is specified in Additional U.S. Note 5 to the Harmonized Tariff Schedule of the United States, and has been used frequently, though in FY 2018 there was no reallocation for the first time in several years.

The amount reallocated was 100,071 metric tons, raw value, which is equal to 110,309 short tons, raw value (STRV). The reallocation, by definition, does not increase the total amount of the raw sugar TRQ, which is set by law at the first of the fiscal year at 1,117,195 MTRV or 1,231,497 STRV. This TRQ is usually called the "WTO TRQ" because its quantity is bound under international agreements and is enforceable at the World Trade Organization.

Potential Reallocation Impact on TRQ Shortfall

In the June *World Agricultural Supply and Demand Estimates*, USDA projected a 121,000 STRV shortfall in the WTO TRQ. This implies that assumed WTO imports in this WASDE were 1,231,497 – 121,000 or 1,110,497 STRV. If accurate, that would be a shortfall of approximately 10 percent. (The TRQ line in the WASDE also includes various TRQs pursuant to bilateral regional free trade agreements, refined TRQs and TRQs for specialty sugars.)

In recent years when the government has reallocated the TRQ or combined a reallocation with a TRQ increase, the final WTO TRQ entries have tended to be above 90 percent of the final TRQ. By contrast, in 2018 there was, as noted above, no reallocation and only 85 percent of the quota was filled.

Specifically –

- In FY 2015, there was only a reallocation (June 8); final entries were 94 percent of the TRQ.
- In FY 2016, with both a reallocation (March 8) and a TRQ increase (May 18), final entries came in at 91 percent.
- FY 2017 saw both a reallocation (August 2) and an increase (July 25), resulting in final entries at 94 percent of the TRQ.

Estimating Net Import Increase

If we assume the same final fill rate of 94 percent seen in both 2015 and 2016, then total WTO TRQ entries would be expected to be $1,231,497 \times 0.94 = 1,157,607$. That is only a net increase in TRQ imports of 47,110 STRV, but it would be consistent with recent experience. (The rate of

entry for the reallocated amounts alone might be higher, but there could still be shortfalls among countries that did not receive a reallocation.)

On the other hand, when constructing the upcoming July WASDE, it is possible that USDA could make a more aggressive assumption that the entire reallocated amount will enter, reducing the shortfall to virtually nothing (121,000 estimated shortfall – 110,309 reallocated = 10,691 remaining shortfall). This seems an unlikely outcome and would go against the pattern of recent years, but it provides an upper bound for gauging the impact of USTR's action, with the 94 percent final entry rate perhaps supplying a reasonable lower bound.

Under these two assumptions, 2018/19 imports in the June WASDE increase by 47,110 STRV on the low end and 110,309 STRV on the upper end. Holding everything else constant, ending stocks would be somewhere between 1,573,000 and 1,636,000 STRV. Then the stocks-to-use (S/U) ratio becomes 12.8 percent on the low end and 13.3 percent on the high end.

Sugar Stocks Remain Inadequate

In neither case does the reallocation alone bring stocks up to even the low end of USDA's traditional 13.5-15.5 percent S/U target range. To hit 13.5 percent, ending stocks need to be 1,661,175 STRV. To hit the midpoint of USDA's range, stocks should be 1,784,225 STRV. Finally, to reach 15.5 percent, the level advocated by users, a stocks level of 1,907,275 STRV would be required.

Whatever the desired stock level within the traditional range, a reasonable conclusion is that USDA should take steps to increase supplies further, with the amount needed dependent on how high the department wants to take stock levels. USDA has stated that its first step would be to offer additional access to Mexico, with a TRQ increase following only if Mexico has insufficient supplies.

If USDA assumes no shortfall in reallocated amounts, and therefore ending stocks post-reallocation at 1,636,000 STRV, then the additional amounts needed would be –

- 25,000 STRV to hit 13.5 percent;
- 148,000 STRV for 14.5 percent; and
- 271,000 STRV for 15.5 percent.

These amounts would be larger if the reallocated amounts do not enter at 100 percent. Conversely, they would be smaller if USDA revised downward its forecast for deliveries, which is not impossible though the department has proved reluctant to do so.

Timing of Potential USDA Action

A case can be made for USDA to act quickly, and that may prove to be the case. On the other hand, the Department might decide to wait until after the July WASDE to supply Mexico with any additional access for the current fiscal year. The July WASDE is important because not only does it occasion the first calculation of "U.S. Needs" for 2019/20 under the U.S.-Mexico suspension agreements, but the amount of 2019/20 access for Mexico in July becomes an

absolute floor for allowed imports from that country. Under the suspension agreements, the quantity calculated in July can increase but not decrease.

Some at USDA might therefore want to have an opportunity to view all the WASDE balance sheet items for both fiscal years before making a decision that would increase carry-in stocks for 2019/20. However, one can respond that the July WASDE will take into account any additional 2018/19 access provided to Mexico between now and then, and would therefore reduce 2019/20 U.S. Needs by the same amount, other things being equal. From that perspective, USDA need not wait.