SWEETENER USERS ASSOCIATION

1100 New Jersey Ave., SE
Suite 910
Washington, DC 20003
Phone: (202) 842-2345

July 9, 2019

The Honorable Ted McKinney
Under Secretary
Trade and Foreign Agricultural Affairs
U.S. Department of Agriculture
Washington, DC 20250

The Honorable Bill Northey
Under Secretary
Farm Production and Conservation
U.S. Department of Agriculture
Washington, DC 20250

Dear Under Secretaries McKinney and Northey:

The Sweetener Users Association commends the Administration for taking action to augment supplies of sugar in the U.S. market. The reallocation of the raw sugar tariff-rate quota by the Office of the U.S. Trade Representative and the Commerce Department's increase in Mexico's Export Limit, as requested by the Department of Agriculture, are necessary and welcome steps toward supply adequacy.

While helpful and deeply appreciated, these steps by themselves are insufficient to ensure adequate supplies for the balance of this fiscal year, and if not augmented by additional steps, will also risk inadequate supplies during FY 2020. More action is still needed.

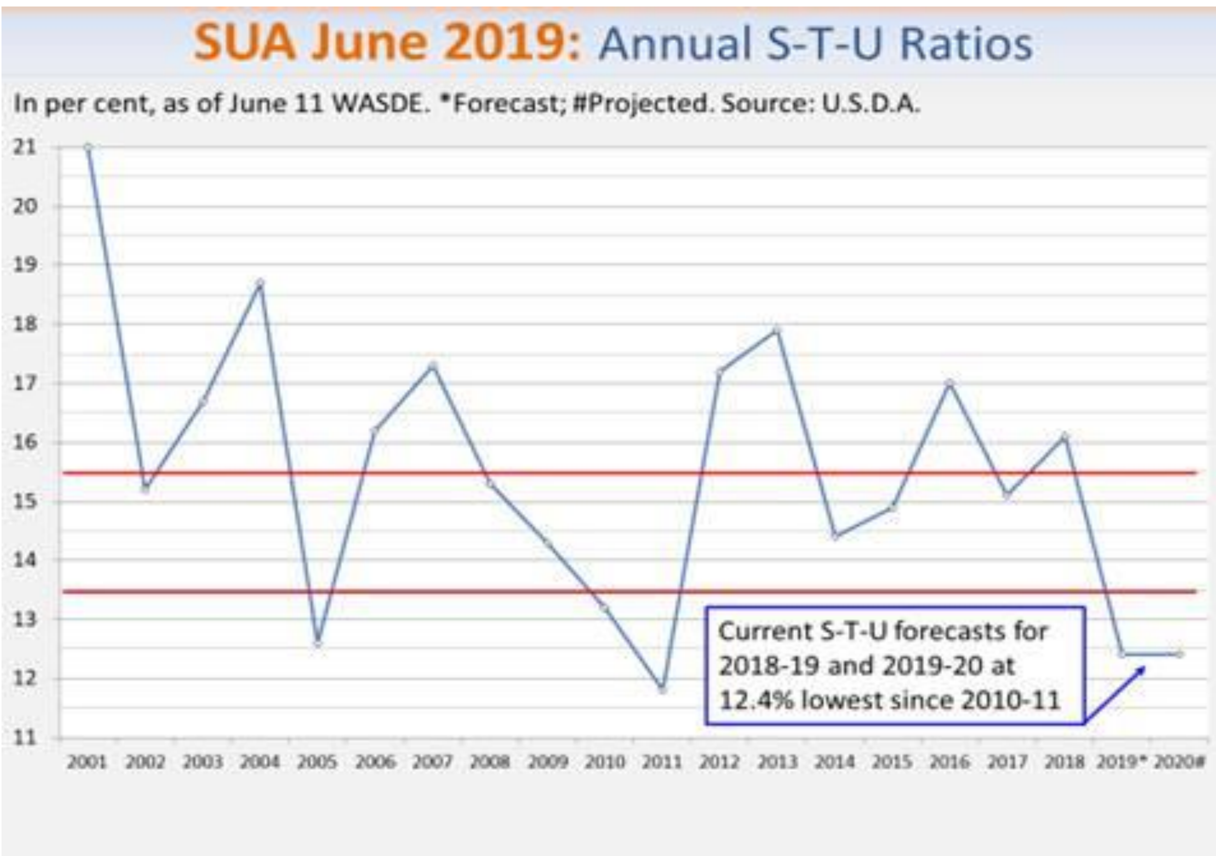
The June *World Agricultural Supply and Demand Estimates*, which was issued prior to the reallocation and Export Limit increase, projected a 12.4 percent stocks-to-use ratio (S/U) on September 30, 2019, a level which is clearly inadequate, as recognized by the subsequent policy actions. Leaving all other lines in the balance sheet unchanged, we assume that all of the additional Export Limit will enter the marketplace. Based on USDA's recent reassignment of 50,000 short tons, raw value (STRV), to entries under the reallocation, we assume that the department expects the TRQ shortfall to change by that amount. Thus, the two policy actions together increase imports, total supplies and ending stocks by 150,000 STRV.

Ending stocks become 1,676,000 STRV, or 13.6 percent of use. While technically within USDA's traditional target range of 13.5-15.5 percent, a 13.6 percent S/U ratio remains just above levels that would signal shortage and is inadequate. It is worth recalling that in setting the target range, USDA has traditionally aimed for the midpoint of that range. It remains sound policy for USDA to target a level no lower than the midpoint.[1]

[1] A strong case can be made for aiming at the upper end of the range, as SUA has long advocated. Historically, a chief reason for avoiding S/U ratios above 15.5 percent was the danger of loan forfeitures. However, this is no longer even a remote risk because the U.S.-Mexico suspension agreements establish floor prices in the U.S. market that are significantly above levels at which forfeiture would be an attractive option.

The chart below shows S/U ratios during the present century. In most cases, not only have S/U ratios exceeded 13.5 percent, but most have been near 14.5 percent or above. Until now, the only fiscal years when the ratio was near or below 13.5 percent were 2005, 2010 and 2011. In 2010 and 2011, the average Midwest beet sugar price was 55.81 and 49.26 cents per pound, respectively. In 2005, the year of Hurricane Katrina, the price averaged 25.63 cents for the full year, but was above 40 cents for September-November and only slightly below that in December. In the aftermath of the hurricane damage, prices remained elevated for most of 2006, and the annual average price for that year was over 36 cents. In short, inadequate S/U ratios are associated with excessive prices.

By contrast, in recent years when the S/U ratio exceeded 15.5 percent, prices were not depressed. The final S/U ratio for 2018 was 16.1 percent, yet refined sugar prices averaged 35.53 cents per pound. In 2016, the S/U ratio was 17 percent, and prices averaged 30.72 cents. Needless to say, neither price level presented a significant risk of forfeitures.[2]



Using the June WASDE as a basis for our estimates, SUA shows below the amount of additional supply that is needed to attain both 14.5 and 15.5 percent S/U ratios (assuming the June WASDE ending stocks estimate is adjusted upward by 150,000 STRV, as discussed above). These additional supplies can be

[2] It is true that the substantially higher 2013 S/U, which reached approximately 18 percent, was associated with forfeitures, but this preceded the suspension agreements, which establish floor prices well above forfeiture-equivalent prices, as noted elsewhere.

obtained through an additional adjustment to Mexico’s export limit, if supplies are available, or through an increase in the TRQ, or a combination. In the case of a TRQ increase, the amount announced would need to substantially exceed the target addition to supplies because at this late date in the fiscal year a substantial shortfall in any announced quantity would be expected.

Desired S/U Ratio	Total Ending Stocks Needed (000 STRV)	Supplies to Be Added to Current Ending Stocks Projection (000 STRV)
14.5%	1,784	108
15.5%	1,907	231

SUA appreciates USDA’s consideration of these recommendations, which will alleviate concerns about the impact that continued supply inadequacy will have on the companies and workers in our industry.

Sincerely,

Perry Cerminara
Chairman