SWEETENER USERS ASSOCIATION

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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:

Despite constructive steps taken by the Department of Agriculture, the U.S. sugar market remains undersupplied, as reflected in the extremely high prices for both beet and cane sugar in the current year. Sosland Publishing, whose price series are those used and reported by USDA, states that as of January 13, the nominal price of refined beet sugar was 44 cents per pound f.o.b., but the market was characterized by "limited offers and tight supply for 2019/20." If a buyer could identify sugar for purchase, they would be paying 26 percent more than a year earlier. Similarly, the price of refined cane sugar delivered to Pacific Coast locations was 47 cents per pound, 15 percent above a year ago. Sosland notes that these prices are "seven-year highs."

However, in the current market, price is less important than the ability to obtain sugar, which is limited by factors not of USDA's making: the lowest sugarbeet crop in a decade and, more recently, sugarcane production in Louisiana far below recent years. Sosland reports that beginning this month, "delivery restrictions kicked in" and there were "indications some cane refiners were sold out through the end of 2019-20." (Sosland reports this may be true of "at least two cane refiners.") The "delivery restrictions" Sosland cites reflect the fact that two major sellers of beet sugar have declared *force majeure,* so that sugar users are not able to obtain all the sugar for which they previously contracted.

Numerous market analysts and participants have observed that this year will be characterized by difficult and abnormal logistics and distribution: Both sellers and buyers will struggle to get sugar from source to end use by atypical routes, and perhaps in unaccustomed packaging, simply because many users who normally get beet sugar from the Midwest will have to supplement these deliveries from other sources. Continued challenges in the U.S. transportation sector, including trucking, may exacerbate these problems. Delivery times are also an issue; for example, to get refined sugar from Mexico to the Midwest would likely take up to a month from the time of purchase.

Severe supply shortages are possible and even likely later this year unless USDA takes action to ensure adequate supplies. To be sure, USDA did not cause the current problems, and in fact has already taken action to address them. But developments since then – including the major reduction in projected cane sugar production in Louisiana in the January *World Agricultural Supply and Demand Estimates* – constitute a strong argument for additional actions.

In order to meet our supply needs, the United States will depend on Mexico to provide the largest amount of sugar since 2013/14. The January WASDE projects that imports from Mexico will account for 13 percent of all U.S. sugar supplies in 2019/20. But Mexico's production is forecast down 10 percent from a year ago, and Sosland reports that production through December was 32 percent below a year ago, with sugarcane acres harvested so far similarly down 30 percent. Mexico's sugar yields were also reported lower.

We implore USDA to independently verify any representations that Mexico can fully supply our domestic market this year. Market participants are quite skeptical that this will be the case. It follows that sugar from other sources must be made available. We note that compared to a year ago, production is down sharply in the United States, Mexico and Canada alike. It is especially disconcerting that supplies are short in all three countries that comprise the North American sugar market at the same time.

We believe that conditions this year will require additional imports of refined sugar. We do not reach this conclusion lightly, since we support the maintenance of a robust cane refining sector. The value of this sector to the entire sugar complex is vividly illustrated in a year like this, when beet sugar availability has been significantly reduced. However, in the short term, cane refining capacity is fixed, and it is questionable at best whether refiners will be able to operate at a pace that supplies the market adequately in the second half of the year. The widening gap between refined sugar prices and the #16 raw cane sugar futures contract is evidence that market participants widely share this view: Whereas refined prices are up as much as 26 percent from a year ago, nearby domestic raw sugar futures are up significantly less, though still at historically high levels.

The need for additional refined sugar is also apparent from USDA's sharp increase in its estimate of so-called "high-tier" sugar imports. In the January WASDE, the department increased its full-year estimate to 100,000 short tons, raw value, attributing the increase to the current "pace and … favorable margins between U.S. and world refined sugar prices." For these margins to be "favorable," importers must be able to pay the normally-prohibitive tariff on these imports, on top of the world price, and still be competitive with U.S. domestic prices. The increase is evidence that this is, in fact, what is happening. Normally, a significant quantity of high-tier imports would be seen as program management failure because it means the intended operation of the over-quota tariff system is being frustrated. In this instance, the increase may be more a reflection of the sharp spike in U.S. refined prices. Nevertheless, it still serves as a signal that we are operating in an abnormal market that is more distorted than usual, and is strong evidence for the need for corrective USDA action.

SUA recommends that USDA take the following steps, some of which involve cooperation with the Office of the U.S. Trade Representative and the Department of Commerce:

1. Once the March WASDE provides a clear indication of Mexico's access to the U.S. market, USTR should reallocate portions of the raw sugar tariff-rate quota unlikely to be filled by the original quota-holders.
2. USDA and colleagues at Commerce should work with the government of Mexico to ensure that the operation of the sugar suspension agreements does not restrict or delay the flow of refined sugar to the U.S. market.
3. USDA should request an increase in U.S. Needs of refined sugar from Mexico, but because that nation's ability to supply all reasonably foreseeable U.S. supply needs is questionable, USDA should also use its authorities to increase the refined sugar TRQ.

We note two important aspects of the steps outlined above, particularly the third one. First, whereas the suspension agreements require the use of a 13.5 percent target for the ending stocks-to-use ratio, USDA remains completely free to aim for a higher target in its operation of domestic sugar policy. This is a year in which such a higher target – at least 15.5 percent if not higher – is appropriate because of the mismatch between raw sugar supplies and eventual needs for refined sugar. Simply put, the stocks-to-use ratio will not tell the entire story this year, and the market is highly likely to be tighter than indicated by that ratio alone.

A second point is that, in our view, USDA could use its authority under Additional U.S. Note 5 of the Harmonized Tariff Schedules of the United States (HTSUS) to increase the refined TRQ at any time, regardless of provisions in agricultural law that differentiate between increases prior to and after April 1. Nothing in these provisions states that they override the HTSUS authorities.

Through a combination of increased access for Mexico and the rest of the world, we urge USDA to aim for an increase of 345,000 short tons, raw value, in the total supply of sugar available to the marketplace. This is the quantity required to bring the stocks-to-use ratio to 15.5 percent, the upper end of USDA's traditional range and a level long supported by SUA. Since the danger of loan forfeitures is zero and given the logistical challenges we have already noted, as well as the North America-wide production decline, a deliberate policy of aiming for the top of the Department's range is more than justified.

To obtain actual imports of 345,000 STRV, it is necessary for the increased access to exceed that number because there will be a shortfall in filling any quota or quota-equivalent. In the current WASDE, USDA projects a shortfall in the raw sugar TRQ of 9 percent. At that rate, an announced quantity of about 380,000 STRV would be necessary to achieve actual imports of 345,000 STRV.

A sizeable portion, and potentially all, of this increased access needs to be refined sugar. We are aware that USDA has access to detailed information about cane refining capacity, utilization to date and other data necessary to make reasonable projections of U.S. refineries' ability to supply refined sugar needs for the balance of this year. Using that information, USDA is in the best position to determine the exact mix needed between additional access for refined and raw sugar.

With respect to any portion of these supplies that constitutes an increase in the refined sugar TRQ or additional access for refined sugar from Mexico, we urge USDA to establish parameters that will ensure the sugar actually enters in refined form. These might take the form of a specified polarity (e.g., 99.8 or above), stipulations about packaging, susceptibility to further refining, or a combination. In the past, higher refined quotas have sometimes been frustrated by the importation of higher-polarity raw sugar that was not usable without additional refining but entered under the refined quota.

We appreciate your consideration of these recommendations and your prompt action to ensure adequate supplies of sugar in a difficult year.

Sincerely,

Rick Pasco
President