SWEETENER USERS
ASSOCIATION

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February 18, 2020

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 February 11 *World Agricultural Supply and Demand Estimates* provide a stark forecast of the shortages that the U.S. sugar market may experience later this year. The Sweetener Users Association believes the Department of Agriculture should move expeditiously to ensure adequate supplies of refined sugar throughout the year.

We laid out the market situation at some length in our letter of January 17 and need not repeat everything here, though it is worth noting that while sugar prices remain nominally at the equivalent of 44 cents per pound, Sosland Publishing has reported buyers paying 50 cents per pound and even higher. Ultimately the issue is not only prices, though these are historically high, but the signal they send that sugar availability is severely constrained.

We were gratified that the Office of the U.S. Trade Representative reallocated a portion of the 2019-20 raw sugar tariff-rate quota, and we appreciate the role that you and your colleagues no doubt played in communicating market needs to USTR. At the same time, we are confident you are aware that the ability of the marketplace to supply adequate refined sugar in coming months remains in doubt. Ample supplies of raw sugar are a necessary but not a sufficient condition for adequate refined sugar availability.

The current dilemma is captured in a single statistic from the WASDE: 2019/20 imports from Mexico were revised downward by 110,000 short tons, raw value (STRV), compared to January estimates. As a result of this and other balance sheet adjustments, ending stocks are now estimated at just 12.4 percent of use, clearly an inadequate level.

Ordinarily this number would be restored to 13.5 percent in March by an increase in U.S. Needs and Mexico's Export Limit as calculated under the countervailing duty suspension agreement. But the February WASDE also reduces estimated production in Mexico by 100,000 metric tons, raw value, and projects zero exports to third countries beyond those that have already taken place. With this adjustment, USDA is now projecting sugar production in Mexico to fall 12 percent from 2018-19. Projected ending stocks in Mexico are well below last year's level, and, though calculated by USDA as a residual, likely represent the lower bound of what is required to meet Mexican domestic needs prior to the 2020-21 campaign.

It is difficult to escape the conclusion that Mexico will not have sufficient sugar to meet U.S. needs. Barring a near-miraculous recovery in production from the current campaign, Mexico's production is unlikely to climb significantly from current estimates and could fall further. We note reports in the Mexican press that production in San Luis de Potosi may be down 40 percent due to widespread drought.

Further signs that we need more sugar from third countries include the WASDE estimate of 100,000 STRV of high-tier imports, up from 2018-19 and far above normal levels of around 10,000 STRV. In addition, the consulting firm Agralytica reports that imports of sugar in sugar-containing products rose 2.9 percent in the first quarter of the fiscal year, with most of the increase comprising confectionery for retail sale. Overall, net imports of sugar-containing products have exceeded the equivalent of 1 million STRV for the past two years and are on track to do so again in 2019-20. Needless to say, these products are made with foreign sugar and foreign labor because U.S. policies constrain supplies so tightly in the U.S.

In the current environment, USDA should aim, at a minimum, for the high end of its historic target range for the stocks-to-use (S/U) ratio, or 15.5 percent. The pricing provisions of the suspension agreements ensure that there is zero risk of loan forfeiture. The higher ratio is needed because stocks that look adequate on paper may actually be associated with shortages due to the profound logistical adjustments the market will be compelled to make this year.

To reach a 15.5 percent S/U ratio, the market needs an additional 385,000 STRV of actual sugar imports. We respectfully urge you to move expeditiously to supply that amount, taking into account likely shortfall levels, which would imply an announced quantity closer to 425,000 STRV. We also urge you to include a substantial increase in the refined sugar TRQ as part of that quantity. A higher refined sugar TRQ is needed to account for constraints in domestic refining capacity that may occur later in the year. Any increase in the refined TRQ should be accompanied by specifications that will guard against the quota being filled by high-polarity raw sugar that requires further refining, since that would defeat the purpose of the TRQ increase.

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