SWEETENER USERS ASSOCIATION

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March 13, 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 Sweetener Users Association very much appreciates the prompt action you took, following publication of this week's *World Agricultural Supply and Demand Estimates,* to make an additional 200,000 short tons, raw value (STRV), of refined sugar available to the U.S. market from Mexico. This sugar will be exempt from limits that would otherwise apply to refined sugar from Mexico, which should facilitate entry.

The Department's announcement of this action stated that "today's increase in Mexico's refined sugar export limit will only change the mix between refined and other sugar." Thus, while the move is positive and helpful, it does not in and of itself increase the total tonnage of imports available. Since the WASDE numbers indicate Mexico already would be unable to meet the full calculated amount of U.S. Needs, we assume that even after this week's announcement, total imports from Mexico would still be projected at the WASDE number of 1.165 million STRV.

This means that there is an enormous gap between the amount of sugar currently available from domestic production, imports from Mexico and imports from third countries, and the amount of sugar needed by the marketplace. USDA's statement correctly said: "Current market conditions point to a sugar shortage."

This statement is fully justified by the WASDE numbers. Taking the March projections at face value, there is a gap of more than 1 million STRV between a target stocks-to-use ratio of 15.5 percent, and the projected ratio of 7.2 percent. It is critical that USDA act to supply this sugar to the market.

As we have stated previously, it makes sense for USDA to aim for the upper end of its historic stocks target range, i.e., 15.5 percent, because of the severe logistical problems that are likely to get worse as the fiscal year goes on. At a lesser stocks level, there might appear on paper to be enough sugar, but much of it will have to travel to customers from unaccustomed origins, and often in less-than-optimal packaging and transport mode. It is important to have enough slack in the system to avoid availability gaps that may lead to plant shutdowns, layoffs, price gouging and other consequences. Moreover, the chances of loan forfeiture at today's elevated prices are not substantially greater than zero – there is no danger of higher imports triggering taxpayer costs.

We believe a combination of increases in the raw and refined sugar-tariff rate quotas will be necessary. Combined, the increases should enable the import of an additional 1.013 million STRV to attain a 15.5 percent stocks-to-use ratio. The increase in the refined TRQ should include conditions to facilitate imports of true refined sugar, e.g., specifications about transport mode, polarity, packaging or other parameters.

In calculating the amount of TRQ increases, USDA should keep two factors in mind. First, there will always be some shortfall, so the announced quantity should exceed the target import quantity. Second, the Department should avoid making overly optimistic assumptions about the ability of U.S. cane refiners to maximize capacity and operate problem-free throughout the year. We know that refiners are producing as much refined sugar as they can, and we appreciate and value their efforts. Certainly, it is in their economic interest to maximize output, given current prices. However, recent refinery operating issues make us uncertain that the industry can actually maintain throughout the year the phenomenal capacity utilization that would be required to meet some recent projections. These considerations argue for larger rather than smaller TRQ increases, and for a substantial portion of the increase being given to the refined TRQ.

We believe these actions are needed as soon as possible in order to maintain inventories at healthy levels through the year. USDA should not be held prisoner by the artificial pre- and post-April 1 constructs that were included in the 2008 farm bill during a very different time. We believe USDA has ample authority under the Harmonized Tariff Schedules of the United States, which were not amended in any way by the farm bill, to increase TRQs freely. Nevertheless, we also note that the current situation amply justifies the farm bill's stipulation of an "emergency shortage." Therefore, we encourage USDA to use its emergency shortage authority, along with its other legal authorities, to act promptly to secure additional sugar for the U.S. market.

Thank you for the hard work that you and your colleagues continue to devote to sugar market stability.

Sincerely,

Rick Pasco
President