SWEETENER USERS ASSOCIATION

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The Honorable Jason Hafemeister
Acting Under Secretary
Trade and Foreign Agricultural Affairs
U.S. Department of Agriculture
1400 Independence Avenue, SW
Washington, DC 20250

The Honorable Gloria Montaño Greene
Deputy Under Secretary
Farm Production and Conservation
U.S. Department of Agriculture
1400 Independence Avenue, SW
Washington, DC 20250

Dear Acting Under Secretary Hafemeister and Deputy Under Secretary Montaño Greene:

The Sweetener Users Association (SUA) wishes to reiterate our strong recommendation that the U.S. Department of Agriculture act expeditiously to **increase supplies of sugar** available in the domestic market through an increase in the Export Limit for Mexico, an increase in the raw sugar tariff-rate quota (TRQ), or a combination; and by working with the Office of the U.S. Trade Representative to reallocate quantities within the current TRQ. These actions are needed because current market conditions are harming American businesses, workers and consumers and **encouraging the offshore sourcing of both sugar and sugar-containing products.**

On its face, if USDA's *World Agricultural Supply and Demand Estimates* are taken at face value, sugar supplies appear adequate. They are not, because the WASDE **fails to convey the unavailability of some sugar stocks for current commercial use**. As always, the actual marketplace is the best indicator of true supply and demand, and current domestic prices of raw sugar are **trading at multi-year highs**.

There are several reasons for current price levels, but as we have previously written, the most important factor is that **supplies of raw sugar in Louisiana exceed the ability of Gulf Coast refineries to refine that sugar in a timely fashion**, while high waterborne freight rates under the Jones Act make it costly to transport the raw sugar to East Coast refineries.

In addition to impacts on consumer costs, the current market situation creates **two perverse incentives that will undermine U.S. sugar policy in the longer term.**

First, prices of raw sugar are nearing the level where it would be economical to **import world-market sugar outside the TRQ,** pay the normally prohibitive over-quota duty, and substitute this sugar for U.S.-produced supplies. With respect to refined sugar, the domestic-world price gap has been high enough to encourage over-quota imports for some time. As your staff can confirm, USDA has increased its estimate of 2020/21 over-quota imports as the year has progressed, and that estimate now stands at **200,000 short tons, raw value (STRV).** If confirmed, this number will follow the high level of 275,000 STRV in 2019/20. Historically, in contrast, over-quota imports have often been no more than 5,000-10,000 STRV.

Even if – perhaps especially if – one is a supporter of current U.S. sugar policies, over-quota imports should be troubling. Over-quota imports do not displace TRQ sugar from other countries: TRQ sugar will continue to enter the U.S., given how attractive our market is compared to the world market. Only a small portion of the various TRQs fails to enter in any given year. Nor does over-quota sugar displace imports from Mexico, at least not this year, since the operation of the U.S. Needs formula under the U.S.-Mexico suspension agreements has resulted in an Export Limit for Mexico that cannot be further reduced during the balance of this year.

Instead, in the current situation, **over-quota imports directly displace U.S.-produced sugar.** It is difficult to see how that benefits American sugar farmers and processors.

The artificially high domestic prices we are experiencing also exacerbate a long-standing trend: The United States is a net importer of **sugar-containing products**, which by definition are made from world-market sugar. Our net import position has been growing, and the consulting firm Agralytica estimates that net imports of sugar in these products are now around 1 million STRV – **about one-ninth of annual U.S. sugar production.** These products, classified in Chapters 17, 18, 19 and 21 of the Harmonized Tariff Schedules of the United States (HTSUS), are not subject to import quotas and therefore reflect the competitive advantage that offshore food manufacturers obtain from sourcing sugar in the world market.

Imported sugar-containing products are made offshore, with non-U.S. labor and non-U.S. sugar. Again, it is quite difficult to see how this phenomenon is in the interest of the domestic sugar industry.

Modest steps to augment supply will mitigate the current perverse market incentives and restore some balance to the market. A first step should be **an immediate reallocation by USTR of the raw sugar TRQ**. In addition to the multiple countries with TRQ shares that no longer produce or export sugar, we note that the Philippines Sugar Regulatory Administration has announced that it will not fill its quota of approximately 157,000 STRV this year, reserving all sugar for its domestic market. Therefore, the reallocation needs to make up for the total loss of the 2020/21 Philippines quota as well as other anticipated shortfalls.

The reallocation should be followed by an expansion of available supplies through **an increase in Mexico's Export Limit, an increase in the raw sugar TRQ, or a combination**. Because of the lag time for shipments, this second step needs to happen as soon as possible. It should be equal to approximately the amount of raw sugar that is "stranded" in Louisiana, estimated by most trade sources at approximately 250,000 STRV.

We again urge you to move expeditiously. **The last time USDA delayed a needed increase in supplies in order to prolong unsustainably high prices, in 2009/10, the result was a strong incentive to Mexican sugarcane producers and mills to expand acreage.** Coupled with strong yields, the acreage expansion led directly to the import surge that disrupted markets in 2012/2013 and caused loan forfeitures in the U.S. market. That same 2009/10 period was also associated with a surge in over-quota imports. We respectfully submit that USDA needs to act, and act now.

Sincerely,

Rick Pasco

Rick Pasco
President