SWEETENER USERS ASSOCIATION

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

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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 market situation is placing an unnecessary burden on sugar users for 2021/20022, which calls for urgent action by the U.S. Department of Agriculture to allow additional imports. The May *World Agricultural Supply and Demand Estimates* (WASDE) indicate a tightening of the 2020/21 sugar balance sheet but very likely understate the tightness in the current market. As always, the market itself is the best indicator of actual supply-demand conditions. **On May 14, the #16 domestic sugar futures market closed above 32 cents per pound, a nine-year high.** Clearly, current prices are inconsistent with the 14.7 percent stocks-to-use ratio shown in the WASDE.

As we will explain below, this disparity reflects both **balance-sheet items that the WASDE likely misstates, and the effective isolation or "stranding" of raw sugar stocks in Louisiana** due to limited refining capacity in that region. The Sweetener Users Association (SUA) urges the USDA to increase the availability of supplies in the market through authorities at its disposal, and to encourage a reallocation of the current tariff-rate quota by the U.S. Trade Representative.

Based on discussions with market analysts and marketplace participants in different segments of the sugar and food industries, SUA believes the May WASDE is overstating the adequacy of current supplies and understating demand in the following respects:

- **Imports are likely overstated** by about 100,000 short tons, raw value (STRV) through a combination of lower-than-projected imports for re-export, tariff-rate quota (TRQ) imports and imports from Mexico.
    - There are questions about the likelihood that some countries, notably the Philippines, will fully ship their **TRQ shares**;
    - **Imports for re-export** are far behind the pace that would be needed to realize USDA's projection; and
    - To reach USDA's forecast, **imports from Mexico** would need to average 114,000 STRV per month for the remainder of the quota year, at a time of the year when they typically begin to taper off.

- **Domestic production is likely overstated** by slightly less than 50,000 STRV, according to market analysts and sugar processors.
- The combination of these factors means that **available supplies are about 150,000 STRV less than the May WASDE indicates**, which in itself would lower the stocks-to-use ratio to **13.5 percent**, at the bottom of USDA's traditional target range and with no margin of error to account for demand increases.
- Analysts believe that **demand may expand rapidly** during the balance of the year as pandemic restrictions ease. The reopening of restaurants and venues for sports and other large gatherings during the summer may lead to higher deliveries. If USDA's current forecast is off by even 100,000 STRV, the stocks-to-use ratio would shrink to an unsustainable **12.6 percent**.

How likely is such a scenario? Based on current pricing, the marketplace appears to find it quite plausible. Indeed, even if one takes USDA's May numbers at face value, available supplies are less than advertised because of the phenomenon of **"stranded" raw sugar in Louisiana**. Accounting for this sugar would drive the *de facto* stocks-to-use ratio even lower than 12.6 percent.

In these circumstances, it would be irresponsible for USDA to delay action further. Supplies of raw sugar need to be made available so that U.S. refineries can refine them in a timely fashion. **The alternative is for prices to compel the import of high-tier refined sugar, further encouraging the offshoring of the U.S. sweetener supply.**

Therefore, SUA urges USDA to take the following actions:

1. Encourage an **immediate reallocation of the raw sugar TRQ** by USTR, consistent with normal practice.
2. Make available **sufficient additional supplies to bring the stocks-to-use ratio to 15.5 percent**. We calculate that this would require an additional **285,000 STRV** through a combination of Additional U.S. Needs to be filled by Mexico, an increase in the raw sugar TRQ and a lower TRQ shortfall due to reallocation.

We believe that a TRQ increase clearly must be part of the solution and likely a major part. The pace of imports from Mexico pursuant to current U.S. Needs does not encourage the belief that most of the needed relief can come from there. A TRQ reallocation, while necessary, would be highly unlikely to reduce the shortfall enough to meet market needs. Therefore, it is imperative that USDA increase the TRQ and take other steps to supply the U.S. market with adequate amounts of sugar.

We would note that this is not a concern of users alone. You have received letters from the U.S. Sugar Corporation, a major domestic sugar producer, and Imperial Sugar that make points about market conditions similar to those in this letter, while arriving at slightly different bottom-line numbers. Action is needed now, not later, and we appreciate your attention to this urgent matter.

Sincerely

Rick Pasco
President