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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 Montaña 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 Montaña Greene:

Recently, you have received conflicting letters from sugar market participants discussing potential changes to how the specialty sugar tariff-rate quota (TRQ) is administered. The Sweetener Users Association (SUA) appreciated the chance to discuss these potential changes with your staff recently and would like to convey a few thoughts for your consideration.

1. **There should be an opportunity for public comment.** We believe significant administrative changes that could have a measurable market impact and may affect competing companies in different ways should be undertaken only after a reasonable opportunity for public comment. We would not necessarily argue that formal rulemaking is required, but there should be some type of public comment opportunity so that everyone, not just a small number of companies, can provide input into your decisions.
2. **The arguments over the specialty sugar TRQ are symptoms of the larger problem that the market is inadequately supplied.** We reiterate our previous request that the Department of Agriculture (USDA) move immediately to increase supplies of sugar by encouraging the Office of the U.S. Trade Representative (USTR) to reallocate the raw sugar TRQ and by identifying Additional U.S. Needs pursuant to the sugar suspension agreements with Mexico, increasing the raw sugar TRQ, or a combination.
3. **The unusually large oversubscription of recent specialty sugar tranches may reflect, in part, the current market dynamic that incentivizes high-tier imports.** USDA and USTR's failure to make timely supply adjustments has exacerbated the spread between

U.S. and world prices, resulting in virtually unprecedented quantities of imports that pay the supposedly prohibitive high-tier duty and are still more affordable than domestic supplies. The importer of specialty sugar likely captures the quota rent under the first-come, first-served system, and so can acquire sugar at the world market price plus an organic premium. The importer may be able to profit by filling the specialty TRQ with a pro-rated portion of its imported supplies and selling the remainder at the artificially high U.S. price. Though the importer would incur the high-tier tariff on the latter portion, the cost of the tariff would effectively be spread over the entire amount imported, thus making it potentially more economical than a simple import of high-tier sugar.

4. **In the alternative, the oversubscriptions may have the effect of withholding supplies from the U.S. market, creating stocks that are not available for immediate use and further driving up the #16 domestic futures market.** This effect would be similar to the ongoing problem of “stranded raws” in Louisiana, contributing to a stocks-to-use ratio that appears adequate but is obviously not the whole story since domestic prices are at multi-year highs.
5. **Moreover, some sugar imported against the specialty sugar TRQ is functionally raw sugar.** Bulk shipments of sugar near 99.5 polarity will require further processing and are not “refined sugar” capable of meeting typical U.S. commercial specifications for that product, even though they are considered refined by USDA because of the outdated definition of raw sugar in the Harmonized Tariff Schedules of the United States.

Given these considerations, SUA makes the following recommendations to USDA:

- As the first priority, move immediately to increase the raw sugar TRQ, identify Additional U.S. Needs, or utilize a combination of these steps, and work with USTR to achieve an immediate reallocation of the raw TRQ.
- Announce an informal comment or consultation period on potential changes to administration of the specialty sugar TRQ.
- Following that period and taking into account input received, require that sugar entered under the specialty sugar TRQ be usable without further processing; this might involve provisions for packaging, mode of transportation, polarity or other parameters.

It is important to understand that the requirements we propose for administering the specialty sugar TRQ are necessary only because of the highly convoluted and arbitrary structure of sugar trade policies. In a normal commodity market, domestic and import sales would occur on the basis of market forces. In the case of the sugar market, this is not possible because of trade barriers. We do not blame USDA for these barriers, but the fact is that they currently operate in such a way as to encourage refined sugar quotas to be filled by what is functionally raw sugar. *Thus, the changes we advocate – which we have previously advanced with respect to increases in the overall refined sugar TRQ – will lead to a greater supply of immediately usable organic*

refined sugar for a growing market segment. Some other administrative proposals you have received, such as quantitative restrictions on the ability of importers to attempt to fill tranches of the TRQ, would risk anti-competitive impacts and should be approached with extreme caution.

Thank you for your consideration of SUA's views.

Sincerely

A handwritten signature in black ink, appearing to read "Rick Pasco". The signature is fluid and cursive, with a long horizontal stroke at the end.

Rick Pasco
President