SWEETENER USERS ASSOCIATION

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The Honorable Robert Bonnie
Under Secretary
Farm Production and Conservation
U.S. Department of Agriculture
Washington, DC 20250

Dear Mr. Under Secretary:

Thank you for the time you and your staff gave to the Sweetener Users Association recently. We appreciated your concern for current sugar markets and would like to take this opportunity to provide an overview and additional detail on the serious problems currently affecting the U.S. sugar market.

The Problem: Among several other market factors, high-polarity raw sugar is being imported to fill the tariff-rate quota (TRQ) for refined specialty sugar. This sugar is not available to end users without further processing and makes usable supplies appear greater than they actually are. This seems to be discouraging policy actions to increase supplies even though market prices are at historic highs, trading at parity with high-tier imports.

Background: A whole host of market developments have changed the volume of sugar that is physically available in different parts of the U.S. Accessing sugar throughout the U.S. market has become a serious challenge for both end users and traditional East Coast cane refineries due to current USDA policies that have effectively limited raw sugar supplies to only seven weeks of stocks at any given time. High-tier duty sugar imports are likely to reach record highs for 2022.

- Because of demand for organic sugar, the specialty sugar TRQ has steadily increased: The total 2022 specialty TRQ is more than double the quota in 2013 *(see exhibit 1)*.
- Under international tariff standards, any sugar with a polarization (or polarity, a measure of purity) of 99.5 or greater is considered refined sugar, but U.S. **food manufacturers typically need 99.8 or 99.9 polarity** to make their products.

- **High-polarity raws (typically around 99.5 or 99.6 polarity) are being imported** in an attempt to fill tranches of the specialty sugar TRQ. The high-polarity raws that do not fill the tranches may subsequently be entered as high-tier sugar.
- These high-polarity raws **are most likely being used by organic sugar-containing product manufacturers, but effectively work to reduce the overall supply of raw sugar available to coastal cane refineries and ultimately to end users**. USDA counts them as part of the domestic sugar supply when calculating its monthly ending **stocks-to-use (S/U) ratio**, a parameter on which policy decisions are made to increase or not increase TRQs and access for Mexican sugar.
- It is clear that **supplies in the U.S. market are tight**, since both raw and refined sugar are priced near **equivalence to buying world-market sugar outside the TRQ and paying the supposedly prohibitive "high-tier" tariff**.
- Cash prices for refined cane sugar are trading at a **historically unprecedented premium to refined beet sugar**, indicating the tightness of raw sugar supplies that cane refiners need *(see exhibit 2)*.
- High-tier imports should be disfavored as a matter of USDA policy, since –
    - They deprive developing countries, which hold nearly all the WTO raw sugar TRQ, of additional sales opportunities and quota rents;
    - They likewise deprive Mexico of additional export opportunities, calling into question U.S. compliance with the terms of the U.S.-Mexico sugar suspension agreements;
    - By signaling market prices generally to rise to high-tier equivalence, these imports feed consumer price inflation; and
    - To the extent such imports comprise refined sugar, the associated refining jobs will be sustained in other countries, not the U.S.

Potential Solutions: USDA needs to make it clear to the marketplace that the Department does not favor high-tier imports and that prices which incentivize these imports are not reasonable. Options (which are not mutually exclusive and would in fact be complementary) include:

1. **A statement of policy** that U.S. price levels should reflect a balance in supply and demand and that high-tier imports, along with prices which encourage these imports, are inconsistent with USDA policy goals.
2. Making **adjustments to the presentation of supply and demand** in the *World Agricultural Supply and Demand Estimates* to separate stocks that are available to the marketplace from those that are not, and calculating the S/U ratio only on the basis of available stocks. (A precedent for this adjustment is the historical separation of free stocks from stocks owned by the Commodity Credit Corporation, a convention that was used for a variety of commodities in the past.)
3. **Increase the S/U target beyond 15.5 percent** as an offset to current marketplace distortions, until prices return to levels well under high-tier equivalence.
4. **Requiring that all refined sugar imports be suitable for final consumption** and not require further refining. Such a requirement was contained in 1990 regulations governing the allocation of TRQs, but several provisions in the current regulations are fully

consistent with imposing the requirement again, even though it is no longer explicit in the text.

a. Although the regulations are established by the Office of the U.S. Trade Representative, they vest the power to set conditions in the "Certifying Authority," which is defined as the team leader for import quotas in USDA's Foreign Agricultural Service.
b. 15 CFR 2011, among other provisions, states that "The certificate may contain such **conditions, limitations or restrictions** as the Certifying Authority, in his discretion, deems necessary" (§2011.203(b)) and that "Entry of specialty sugars shall be allowed only in conformity with the description of sugars and **other conditions**, if any, stated in the certificate" (§2011.204). In addition, the Certifying Authority may "**add limitations** to any certificate which has been issued if he or she determines that such action or actions is necessary to ensure the effective operation of the quota." (§2011.206(a)) (Emphasis added.)

Thank you again for your consideration of our views.

Sincerely,

Richard Pasco
President

Exhibit 1

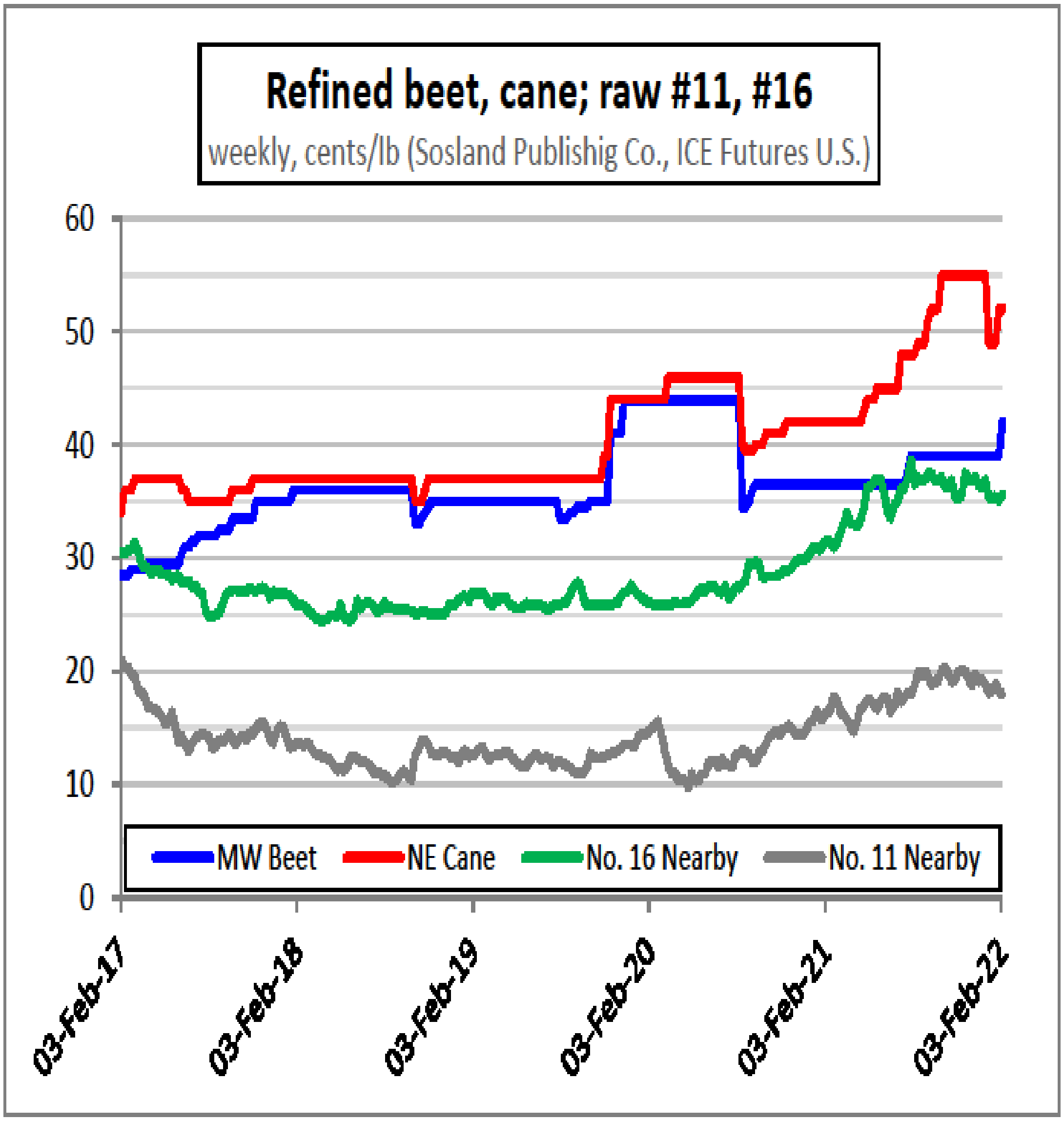
Special Sugar Quotas and Imports, FY 2015-2022 (Metric Tons, Raw Value)

Fiscal Year	Total Specialty Sugar TRQ (WTO Minimum + Additional)	Total Specialty Sugar Imports
2013	96,910	96,910
2014	101,656	101,656
2015	126,656	126,656
2016	131,656	131,656
2017	181,656	181,641
2018	161,656	154,866
2019	171,656	170,614
2020	171,656	171,330
2021	181,656	179,391
2022	201,656	*61,161

* Of 61,656 made available via tranches through December 2021

SOURCE: Diaby S and Janis B. U.S. Sugar Monthly Import and Re-Exports, various fiscal years.

Exhibit 2



Refined beet, cane; raw #11, #16
weekly, cents/lb (Sosland Publishig Co., ICE Futures U.S.)
60
50
40
30
20
10
0
MW Beet
NE Cane
No. 16 Nearby
No. 11 Nearby
03-Feb-17
03-Feb-18
03-Feb-19
03-Feb-20
03-Feb-21
03-Feb-22