

SWEETENER USERS ASSOCIATION

ONE MASSACHUSETTS AVE. NW • SUITE 800 • WASHINGTON, DC 20001 • (202) 842-2345 • (202) 408-7763 FAX

Remarks of

Randy Green
Sweetener Users Association

2006 Agricultural Outlook Forum
Arlington, VA

February 17, 2006

It is an honor to be part of USDA's Agricultural Outlook Forum and speak to you on behalf of the Sweetener Users Association (SUA). Our members are the companies that use sugar and other caloric sweeteners in their business operations – they're confectioners, bakers, cereal makers, food manufacturers, beverage companies and dairy food firms, as well as the trade associations that represent those diverse industries.

Sugar is a unique commodity in several ways. One thing that certainly sets sugar apart is how strong and seemingly irreconcilable are the policy views of the buy side and the sell side. Frankly, I am not aware of another commodity where the gap between suppliers' and customers' policy preferences has historically been any wider. I am going to suggest to you a little later that perhaps it does not have to be that way, but it's certainly true that sugar policy disputes are not marked by a deep and rich tradition of compromise.

This history of sharp division has many causes, and both growers and users bear some responsibility. For example, it's possible that we as users have not always articulated the mutual dependence that the different parts of our industry have on each other. And I did say "our industry," because the people who buy sugar and turn it into hundreds and even thousands of different products are part of the sugar industry, every bit as much as growers and processors. An agricultural commodity has value only to the extent that someone transforms it into a product that the ultimate consumer wants to buy.

Within SUA, we spent considerable time in recent months talking about our interests and our interdependencies, as part of getting ready for the next farm bill. Our conclusion is that the different segments of the U.S. sugar industry, from producers and processors to refiners and industrial users and consumers, depend on each other. As users, we need a stable, reliable, high-quality supply of sugar at competitive prices. Suppliers, in turn, rely on us to transform their commodity into a product with value to the ultimate consumer.

It is in sugar users' interest to have a viable, healthy sugar-producing and sugar-processing industry. Because crop failures and other supply disruptions are always possible – as we have painfully been reminded this year – it is also in our interest as users to have a production sector that is geographically diverse.

Now, we also have a need for imports because U.S. production does not fully meet demand, and because fair competition always makes for a better marketplace. Since much of world trade is in raw sugar, this in turn gives us a need for a viable independent cane refining sector. Taking it one step further, both the need for geographic diversity and the need for a viable cane refining industry suggest that, from users' standpoint, it is in our interest for the United States to produce both sugarbeets and sugar cane.

Users need producers, and producers must recognize that they need us. Users also recognize producers' need for an economic safety net. There are, however, some real problems with the policy we have now.

Today's sugar policy is unbalanced. It does not take the needs of the entire industry into account. That is true not only for users but for independent cane refiners as well. Although over a long period of time existing policies have tended to encourage a surplus – which should not be a policy goal – more recently they have demonstrated that they do not respond very well to shortages either. Doesn't a policy which left many sellers with blocked stocks in the turbulent market of last summer – a policy which reportedly *still* leaves a few sellers with blocked stocks, even today – stand in need of serious review, even from producers' standpoint? When a policy operates through import restrictions that, in today's marketplace, create powerful economic incentives to improve the quality and logistics of *Mexican* sugar – is that policy really operating in U.S. growers' long-term interest? And don't we have to ask some tough questions about a policy that has certainly been a factor – no, not the only factor, but *a* factor – in decisions to relocate food production facilities offshore? Whereas employment in non-sugar-using segments of the U.S. food industry grew 4.0% between 1997 and 2004, employment in parts of the industry that use significant amounts of sugar fell by 9.8% -- a pretty stark difference.

The underlying structure of current sugar policy guarantees problems that other commodities simply do not have to face. There will be a WTO agreement, and there will be more Free Trade Agreements – and producers of other supported commodities simply do not perceive these trade pacts as a mortal threat. The reason, of course, is that the sugar program is an odd fit in a world where rigid price supports and import quotas are slowly but inexorably going away. To insist that the current sugar program must remain exactly as it is, sacrosanct and unchanged, is to ignore the changes that lie ahead.

With most of U.S. agriculture being export-oriented, the natural order of things is for U.S. negotiators to stress market access around the world, and they have done this consistently. This dynamic – and the broader U.S. push for more international constraints on policies that are seen as trade-distorting – has been a trend in place for decades. It shows no signs of reversing course. This means programs that rely heavily on import restrictions are increasingly difficult to sustain, because the United States will only gain market access by giving market access. That is the way the world works, and the market access we give will certainly involve sugar.

Even before the coming trade agreements, there are real-world consequences to having the kind of sugar policy that we do. Sugar demand has been paying a price for several years. The United States both imports and exports products that contain sugar, and the exports used to outweigh the imports. But for some years, there has been a sharp uptrend in imports, while exports have grown less. I don't think any of us imagines this is unrelated to the sugar program. In 1996/97, the sugar content of imports exceeded that of exports by a little over 100,000 tons. But by 2004/05, that net import position was nearly 800,000 tons of sugar. Those net imports were equivalent to 8% of domestic deliveries. Unlike sugar itself, these imports are predominantly in tariff lines that have never been subject to quotas and, under both WTO rules and U.S. law, cannot be.

Other commodities that combined price supports with production controls have found that this kind of thing can continue only so long. For example, the U.S. peanut program faced implosion, partly because of commitments in existing trade agreements that created the prospect of additional imports. Peanut producers may not have liked these commitments, but they were real and they had an impact on a program where U.S. prices were far above world levels. From negligible amounts before the mid-1990s, imports of peanuts grew to around 70,000 metric tons in the last year of the marketing quota system, 2001/02. Since the peanut program was changed, imports have dropped back to levels of the mid-1990s, around 10,000 tons. At the same time, peanut demand has responded to the new program that was adopted in the last farm bill: Food demand for peanuts had been relatively flat for most of the 1990s, but went into a sharp uptrend since 2002 – in fact, it's grown about 30%.

Like the sugar program, the peanut program at one time operated so that its supporters could assert that it had no cost to the government. But it's not clear that the sugar program will have this talking point for long. The Congressional Budget Office does not see the sugar program as "no net cost" in the future. CBO's new 2006 baseline projects that starting in 2009, sugar program outlays will exceed \$100 million each year, and will average \$247 million in the period through 2015, with outlays above \$300 million in the latter part of that period.

This is far from the most costly program in the federal government, but it is forecast to cost real money at a time after sugar producers and processors found themselves on the losing side of a bitter CAFTA fight. My purpose is not to re-open that debate, only to say that its aftermath should be a factor in producers' political calculus.

Likewise, any look ahead at the next farm bill's sugar section has to come to grips with Mexico. NAFTA transitional mechanisms will expire on January 1, 2008. After that date, there will be no restrictions on Mexican sugar entering the U.S. I have been hearing for several years that a bilateral deal was going to change the post-2008 ground rules, but it hasn't happened yet and there is no clear sign that it will. Meanwhile, one of the ironies of this year's turbulent market has been that people have discovered they can import significant quantities of second-tier Mexican sugar and nothing terrible happens. This sugar may not enter in the quantities that USDA projects, but once imports become real instead of a theoretical possibility, shutting them off becomes substantially more challenging for those who might want to do so (we would not, of course) – to say nothing of the retaliation against other U.S. products that would probably follow.

In any case, the legislators who write the 2007 farm bill will not be able to craft a sugar title without taking post-2008 Mexican access into account.

This brings us back to my earlier observation about the distance that often seems to separate growers and users on policy. And yet, I hope that when I laid out users' interests, it was apparent that our mutual dependence holds out some hope for common ground.

There are plenty of examples elsewhere in agriculture of producers and their customers working together in support of a common policy that they see as helping everyone. Cotton is probably the classic example, but there are others, such as eggs, where both the producers and the processors belong to the same trade association even though they certainly have their differences from time to time. More and more in the peanut industry, cooperation is the rule rather than the exception.

SUA members would like to work with all segments of the industry to develop a common approach to the next farm bill. I have already said that we recognize producers' need for a sugar policy. We also feel strongly that the status quo does not work for us and will not work long for producers.

We believe that greater cooperation is in everyone's mutual interest as we prepare for the farm bill. The entire industry should begin to discuss how it can work together. As SUA members have thought about an industry dialogue, it seems to us that it would be important to involve farmers; beet and cane processors and refiners; sugar buyers at our companies; and maybe even some of the hired help in Washington like me. For our policy discussions to be as wide-ranging – and detailed – as they need to be, it will be essential to have people who are actually farming, selling and buying sugar sitting at the table.

SUA members believe it's possible to put together a sugar policy that better meets the needs of the entire industry, and that will better secure the U.S. demand base for the long haul. We think future policies need to emphasize the role of market needs in delivering an ample supply of sugar to refiners, industrial users and consumers, and support producer incomes without distorting market signals. It is also important that future policies be more transparent, administratively flexible and responsive to market needs, as well as consistent with our trade obligations. We do not say that we have a precise blueprint for such a policy today. But we are convinced that working together will benefit all segments of our industry, and we hope that others will agree.