

# SWEETENER USERS ASSOCIATION

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

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March 31, 2009

The Honorable Tom Vilsack  
Secretary of Agriculture  
Washington, D.C. 20250

Dear Mr. Secretary:

On behalf of the Sweetener Users Association, I respectfully request that you take immediate action to increase import quotas for raw and refined sugar. Today's *Prospective Plantings Report* shows a much lower increase in sugar beet plantings than earlier projected by the Department of Agriculture. The resulting lower beet sugar output will mean continued tight markets for refined sugar next season. Coming on top of below-normal beet sugar production this season, along with the reduction in cane sugar refining capacity as a result of last year's tragic industrial accident at the Imperial Sugar facility in Georgia, today's report signals clearly that supplies will be inadequate in the months ahead.

USDA has been vigilant to avoid forfeitures of raw sugar, but the rise in raw sugar futures in recent days has brought price levels to the point where such forfeitures would not likely occur. Moreover, USDA can further reduce the chances of raw sugar forfeitures by developing the administrative tools to implement refined sugar tariff-rate quotas (TRQs) with integrity, so that functionally raw sugar cannot be entered under those quotas as has occurred this season.

The marketplace risks are overwhelmingly on the side of excessively tight rather than overly burdensome supplies. According to Promar International, the respected sugar analytical firm, risks that could lead to inadequate supplies include the following:

## **Risks of additional refined sugar tightness**

1. Sugar demand could be 100,000-200,000 short tons, raw value (STRV), *higher* than USDA is forecasting, due to food and beverage manufacturers switching from high fructose corn syrup (HFCS) to sugar.
2. Restart of Imperial Sugar's Port Wentworth refinery could be further delayed, and/or refined sugar output could be constrained by start-up problems.
3. There is the normal risk of adverse weather affecting sugar beets and limiting early harvest in September that might otherwise ease late summer tightness.

4. Hurricanes pose known risks to Gulf and East Coast refineries, and to the sugarcane crop itself in Florida, Louisiana and Texas.
5. Until USDA obtains the ability to properly administer the refined TRQ, any such quota announced by USDA to meet immediate needs for refined sugar may be entirely or partially filled with Mexican *estandar* (or similar high-polarity raw sugars from other origins) destined for a cane sugar refinery.
6. Any significant delay in expanding import quotas could mean that there will not be sufficient time for shipments to arrive in time to meet user needs.

The last point is an important one, because some supporters of the sugar program have asserted that supplies are adequate. The problem is that sugar inventories will not be adequate later in the season, and it takes time to allocate an import quota increase among 40 countries, more time for sales to be lined up, and still more time for sugar to move by ocean transport to U.S. ports and refineries. That is why we see the need for immediate action. After all, USDA's own projections are that ending stocks this September 30 will be only 9% of total demand – a dangerously low level by historical standards.

Promar also identified potential risks in the opposite direction – that supplies later in the year might be unduly burdensome. But these risks all seem low:

#### **Risks that additional sugar supplies will materialize**

1. Mexico might export more sugar to the U.S. than expected, due to the depressed value of the peso relative to the U.S. dollar. The outside limit of speculation about Mexico's exports has been 1 million metric tons, or about 1,170,000 STRV. Even with that level of exports, however, the U.S. would still need 450,000-550,000 STRV of *additional* TRQ imports, beyond what has been announced to date. This would also mean that Mexico would have to import this fall from the U.S. or elsewhere to make up its domestic deficit, tightening U.S. supplies this fall.
2. U.S. beet sugar production could rebound more strongly on higher acreage and above trend yields. However, this would primarily affect next season's sugar supplies and have only a limited impact on this year through more early harvest. And of course, today's planting report suggests that this risk is low.
3. Prices for raw sugar could weaken again if too much Mexican *estandar* shows up at refineries under a TRQ increase.

In our view, the balance of risks clearly points toward the need for a significant and immediate TRQ increase. Allowing for the normal shortfalls (i.e., not all of an announced quota is actually imported), we recommend an additional 750,000 STRV in raw and refined sugar import quotas.

We will be happy to provide any additional information that you and your staff may find helpful in making the important decisions before you. Thank you for your consideration of our views.

Sincerely,

A handwritten signature in blue ink that reads "Fred Hensler". The signature is written in a cursive style with a large initial "F" and "H".

Fred Hensler  
Chairman