

U.S. Sugar Prices: What's the Real Story?

U.S. and world sugar markets alike are in turbulent times. Supplies are tight and prices are high. But first, some history ...

U.S. vs. World Prices

- The U.S. sugar market is normally **insulated from world prices** through domestic price supports and import quotas.
- U.S. sugar prices have been **substantially higher than world prices** for many years. From 1990-2005, the annual average price of raw cane sugar was **10.00¢/lb.** in the world market, but **21.56¢/lb.** in the United States.¹

Prices in Today's Market

The horrific **hurricane season** of 2005 did major damage to U.S. sugar production and refining. Cane crops in Florida and Louisiana suffered, and a major cane sugar refinery near New Orleans was closed for several months. Meanwhile, other weather problems affected sugar beet production in some regions of the United States.

Prices would have risen sharply no matter what policies were in place, but two aspects of current U.S. sugar policy made a bad situation worse.

- It is illegal for processors to sell more sugar than their USDA-administered "marketing allocations," so **some perfectly good U.S.-produced sugar sat in warehouses while buyers experienced major logistical and supply-chain problems**, until USDA eventually released it. **In a normal marketplace, buyers and sellers would have simply come together and transacted business without waiting for government permission.**
- Sugar imports are subject to quotas, and USDA increased quotas for refined sugar several times – an important step because a major Louisiana refinery was shut down. But because of U.S. Customs procedures, **these quotas were often filled by the functional equivalent of raw sugar:** The sugar required more refining to be usable, and therefore defeated USDA's purpose of allowing refined imports! **In a normal marketplace, buyers would be able to select the type of sugar they wanted and import it, instead of worrying about which quota it could fit into.**

Over the past year, world sugar markets have also rallied sharply. The U.S. price rise has been one factor, but more important reasons include the run-up in energy prices, which has diverted sugarcane into ethanol production, especially in Brazil. Weather problems in Thailand, Australia and elsewhere have also played a role.

The result is that while there is still a gap between U.S. and world prices, it is much narrower than in the past. For March 2006, the world price of raw sugar averaged 18.01¢/lb., while

the U.S. raw price averaged 23.10¢/lb. That gap of about 5¢/lb. is about half the long-term average.

Both of these March 2006 prices were extremely high by historical standards: On an annual basis, the world price of sugar has been above 18¢/lb. only four times since 1960. The U.S. annual average price for raw sugar has also been above 23¢/lb. only four times since 1960.²

What's the Impact on Sugar Users and Consumers?

Tight sugar supplies are raising consumer sugar prices.

- Starting in October 2005, the Consumer Price Index (CPI) for sugar and other sweeteners began rising, and accelerated in the first two months of 2006. **The sugar CPI for February 2006 was 8.1% higher than a year ago.** By contrast, the corresponding change for all foods and beverages was just 2.7%.³

Buyers of sugar have seen large cost run-ups.

- Beginning in September 2005, the Producer Price Index for refined sugar products and byproducts has risen every month.
- Compared to February 2005, the February 2006 Producer Prices Indices were –
 - Up 23.0% for all refined sugar products and byproducts;
 - Up 20.0% for refined cane sugar; and
 - Up 26.8% for refined beet sugar.⁴
- The wholesale price of refined beet sugar averaged 25.81¢/lb. for 1990-2005. But the price spiked in the fall of 2005, rising 49.9% from August to September 2005.
- The average refined sugar price from September 2005-March 2006 was 37.87¢/lb. – 46.7% higher than the fiscal 1990-2005 average annual price, and 55.7% higher than in the first 11 months of fiscal 2005.⁵
- The gap between refined and raw sugar prices in the U.S. market is abnormally wide, and shows few signs of narrowing. From 1990-2005, the annual average margin between refined and raw prices was 4.48¢/lb., and varied from a low of 1.04¢/lb. in fiscal 2001 to a high of 6.85¢/lb. in 1990. But from September 2005 through March 2006, refined prices averaged 15.42¢/lb. more than raw prices – more than twice as great as the highest previous gap between these two prices in the 1990-2005 period. U.S. industrial users pay the refined price, not the raw price.⁶

Summing Up

U.S. sugar prices are often twice as high as world prices. Today, the gap is narrower. However, today's market environment is one of extreme tightness in both the U.S. and world markets. U.S. prices have risen sharply and remained high, even after USDA increased import quotas and a hurricane-damaged cane refinery returned to production. And the markup between raw and refined prices has widened to more than twice its previous high. The current U.S. sugar program did not cause these price run-ups, but made it more difficult for both buyers and sellers of sugar to respond appropriately in the aftermath.

¹ SOURCE: U.S. Department of Agriculture/Economic Research Service, “Sugar and Sweeteners Yearbook Tables,” Tables 3 and 4 (updated April 3, 2006).

² *Ibid.*

³ SOURCE: U.S. Department of Labor/Bureau of Labor Statistics, Consumer Price Index – All Urban Consumers.

⁴ SOURCE: U.S. Department of Labor/Bureau of Labor Statistics, Producer Price Index – Commodities.

⁵ SOURCE: U.S. Department of Agriculture/Economic Research Service, “Sugar and Sweeteners Yearbook Tables,” Table 5 (updated April 5, 2006).

⁶ SOURCE: U.S. Department of Agriculture/Economic Research Service, “Sugar and Sweeteners Yearbook Tables,” Table 4, updated April 3, 2006, and Table 5 (updated April 5, 2006).