

SWEETENER USERS ASSOCIATION

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January 17, 2006

Honorable J.B. Penn
Under Secretary for Farm and Foreign Agricultural Services
U.S. Department of Agriculture
Washington, D.C. 20250

Dear Mr. Secretary:

The most recent monthly issue of the Department of Agriculture's *World Agricultural Supply and Demand Estimates* (WASDE) underlines the need for additional supplies of sugar in the U.S. market. The Sweetener Users Association supports a further **increase in the tariff rate quota (TRQ)** for sugar, along with **incentives to import the sugar promptly**. Without such incentives, there is a danger of imbalances between available supplies and cane refiners' needs as the year progresses.

The need for increased imports is widely recognized. For example, *The Wall Street Journal* of January 16, 2006, reports that the Sugar Cane Growers Cooperative of Florida "ask[ed] the USDA to allow in more foreign sugar, to prevent domestic shortages this season. Sugar producers expect to have idle refining capacity this season and have customers to supply."

The January WASDE pegs 2005/06 ending stocks at 1.320 million short tons, raw value (STRV). This is 27,000 STRV *below* the level of stocks on September 30, 2005 – a period marked by virtually unprecedented tightness in available supplies. However, even this estimate may be too high.

Current USDA projections rely on substantial quantities of second-tier imports from Mexico, but so far Mexican production is lagging last year substantially. To rely on these imports as a substitute for a further TRQ increase is to take risks with supply adequacy during the remainder of this year. USDA projections also assume quota imports under the Dominican Republic-Central America Free Trade Agreement (DR-CAFTA), but these imports are also uncertain because of delays in implementing the agreement.

The respected analytical firm Promar International believes that total supplies and ending stocks are likely to be lower than USDA's most recent projections. Specifically, Promar expects that –

- The **shortfall in TRQ entries** will exceed USDA's estimate by 40,000 STRV;

- Cane sugar production will be less than USDA's estimate because of **lower September 2006 production in Louisiana**, while beet production may be marginally higher, for a net estimated 13,000 STRV reduction in total supplies; and
- Based on performance to date, the category of "other imports," primarily **Mexican second-tier shipments** along with a few other products, will likely be closer to 230,000 STRV than USDA's 305,000 STRV.

Promar also differs slightly from USDA's use estimates, but the differences are marginal and largely offsetting. In all, Promar believes **the current supply-demand balance sheet is 113,000 STRV tighter than USDA's latest estimate**, with ending stocks just 1.207 million STRV. A comparison of Promar's balance sheet with USDA's is attached to this letter.

An **ending stocks level of 15.5%** is, as you know, an appropriate policy goal in the view of SUA members. That goal would translate to either 1.610 or 1.612 million STRV, depending on whether one uses USDA's or Promar's estimate of total use – obviously not a measurable difference. More significantly, this stocks goal is actually **more than 100,000 STRV lower than the average stocks level** (1.738 million STRV) in the nine seasons from 1996/97 through 2004/05. If one omits from this average the two years 2000/01 and 2001/02, when stocks were excessive, the remaining seven seasons saw **average ending stocks of 1.607 million STRV** – almost exactly the same as the goal we are suggesting. In other words, the use of a 15.5% stocks-to-use goal is consistent with those years when supplies have not been in massive surplus, and is substantially below the simple average long-term level of stocks. Thus, **a goal of approximately 1.612 million STRV in ending stocks is an eminently reasonable one.**

To attain this goal, more supplies must be made available in a timely manner, and because of domestic limitations can only come through imports. USDA's current WASDE would suggest **additional imports of 290,000 STRV** (1.610 million STRV *minus* 1.320 million STRV). The Promar International balance sheet would imply a need for **additional imports of 405,000 STRV**. In both cases, allowance needs to be made for anticipated shortfalls in filling the additional TRQ.

Based on these considerations, SUA believes **USDA should increase the TRQ by 300,000-400,000 STRV**. Because we believe Promar's estimates more closely track the current supply-demand situation than the January WASDE, we urge USDA to **announce a TRQ increase at the upper end of this range.**

Announcing a quota increase is a crucial step, but we believe it is also appropriate to take **additional steps that will encourage prompt entry of the TRQ**. In the currently tight world sugar market, the risk of various countries failing to ship their quotas is considerably greater than usual. In addition, the expectation of continued tightness in the U.S. market may also serve as an incentive for exporting countries to delay shipments. In any case, U.S. cane refiners need to be assured of access to supplies in an orderly fashion. Recognizing that TRQ allocation is under the jurisdiction of the Office of the U.S. Trade Representative (USTR), SUA suggests that USDA work with its sister agency to take the following steps:

1. **Reallocate, by April 1, any portion of the 2005/06 TRQ that is unlikely to be shipped**, giving sales opportunities to exporting countries that have sugar available. This reallocation needs to occur by that period in order to allow adequate time for ocean shipment and inland

transport. A reallocation very late in the quota year will not benefit U.S. refiners or their customers (nor, for that matter, sugar-exporting countries).

2. With respect to the **increase** in the 2005/06 TRQ that SUA has requested, **take steps to encourage timely shipment**. SUA supports the use of a **first-come, first-served procedure** for this quota increase. That process would assure that all the quota would actually be shipped, that sales would occur promptly, and that sales would be made by countries with ample supplies of sugar. As a somewhat less desirable alternative, SUA could also support the issuance of **certificates of quota eligibility (CQEs) with an expiration date** that would provide an incentive to ship the sugar quickly – e.g., April 30, 2006. (This latter mechanism would be within USDA’s jurisdiction rather than USTR’s.)

As always, SUA members appreciate your and your colleagues’ interest in the sugar market and your desire to make sound, balanced policy decisions. We respectfully request your timely consideration of our requests and will be happy to supply any information you may need.

Sincerely,

A handwritten signature in black ink that reads "Randy Green". The signature is written in a cursive, flowing style.

Randy Green, President

Enclosure

US Sugar Balance, Fiscal Year (1,000 strv)

	2001/02	2002/03	2003/04	2004/05	2005/06 (USDA)	2005/06 (Promar)
Beginning stocks	2,180	1,528	1,670	1,897	1,347	1,347
Production						
Beet	3,915	4,462	4,692	4,611	4,435	4,440
Cane	<u>3,985</u>	<u>3,964</u>	<u>3,957</u>	<u>3,266</u>	<u>3,158</u>	<u>3,140</u>
Total	7,900	8,426	8,649	7,877	7,593	7,580
Imports						
Quota entries	1,158	1,210	1,231	1,404	2,140	2,100
Quota exempt	296	488	464	500	325	350
Non-program	<u>81</u>	<u>32</u>	<u>60</u>	<u>192</u>	<u>305</u>	<u>230</u>
Total	1,535	1,730	1,755	2,096	2,770	2,680
Total availability	11,615	11,684	12,074	11,870	11,710	11,607
Disappearance						
Deliveries	9,973	9,712	9,862	10,215	10,215	10,200
Exports	137	142	288	259	175	200
Miscellaneous	<u>-24</u>	<u>160</u>	<u>27</u>	<u>49</u>	<u>0</u>	<u>0</u>
Total use	10,086	10,014	10,177	10,523	10,390	10,400
Ending stocks	1,528	1,670	1,897	1,347	1,320	1,207
CCC stocks	212	0	43	0		0
"Blocked" stocks	0	0	495	?		0
Free stocks	1,316	1,670	1,356	?		1,207
Stock/use ratio (%)	15.1	16.7	18.6	12.8	12.7	11.6