



## **The True Story About US Sugar Prices**

**A report prepared for  
Sweetener Users Association**

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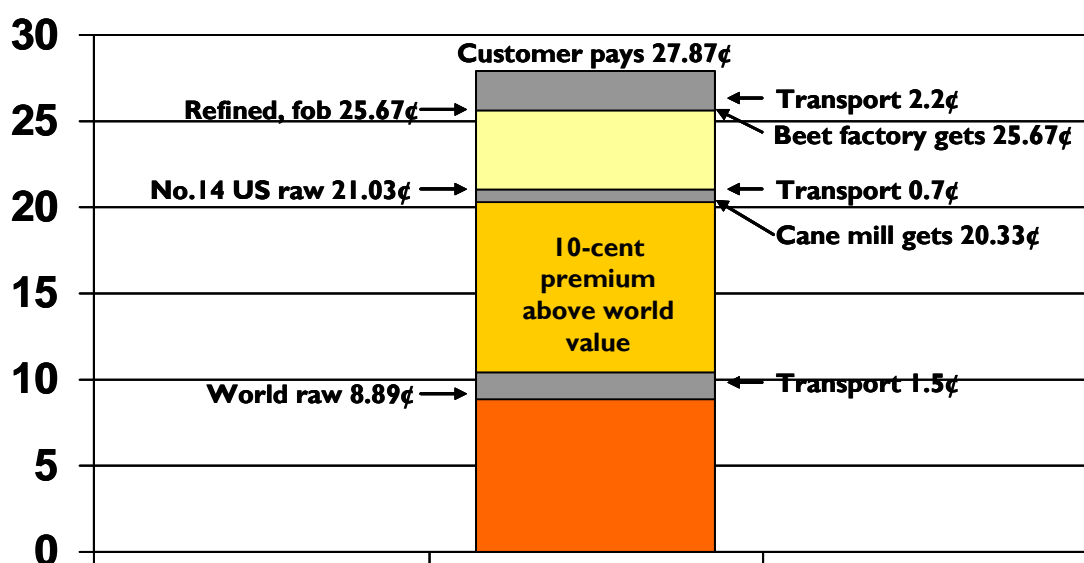
## What do sugar producers claim?

In the periodic debates about the US sugar program, the truth has sometimes been a casualty as the PR machine selectively sifts the historical information for only those data points that support the argument being advanced. So it is with the American Sugar Alliance’s “Sugar Price Survey” released in August 2006. Here are their headlines:

- “American Sugar is Not Expensive”
- “Sugar Price Spikes After the Hurricanes Didn’t Cripple Food Manufacturers”
- “Shoppers Wouldn’t Benefit and Consumption Wouldn’t Rise if Sugar Prices Were Even Cheaper”
- “Sugar Prices Aren’t Forcing Candy Company to Flee America”

We will take these one at a time, examine their supporting evidence, and then look at the actual facts. As we do that, keep in mind how the price that food and beverage manufacturers pay for sugar is arrived at. The chart below documents the average 10-cent premium that US producers received during the last five years above the equivalent world market value of raw sugar. (Raw sugar is the light brown sugar from a sugarcane mill that is subsequently refined to produce our familiar white sugar.) Consumers pay that same premium and more when they purchase sugar at retail in the supermarket.

### Average Sugar Price Structure: 2001-2005



## Is sugar expensive in the United States?

The retail price for sugar in 2006 averaged 50 cents per pound and during the first quarter of 2007 it rose further to an average of 51.7 cents. These days it might be hard to find many Americans that would describe something costing less than a dollar a pound as expensive. Nevertheless, sugar in the United States is more expensive than it needs to be and more expensive than it ought to be due to the government price support program. For the last 25 years, the government has restricted imports and at times limited the quantities of sugar that US companies are permitted to sell in order to keep prices high. This has pushed up the incomes of sugar crop growers and processors at the expense of consumers.

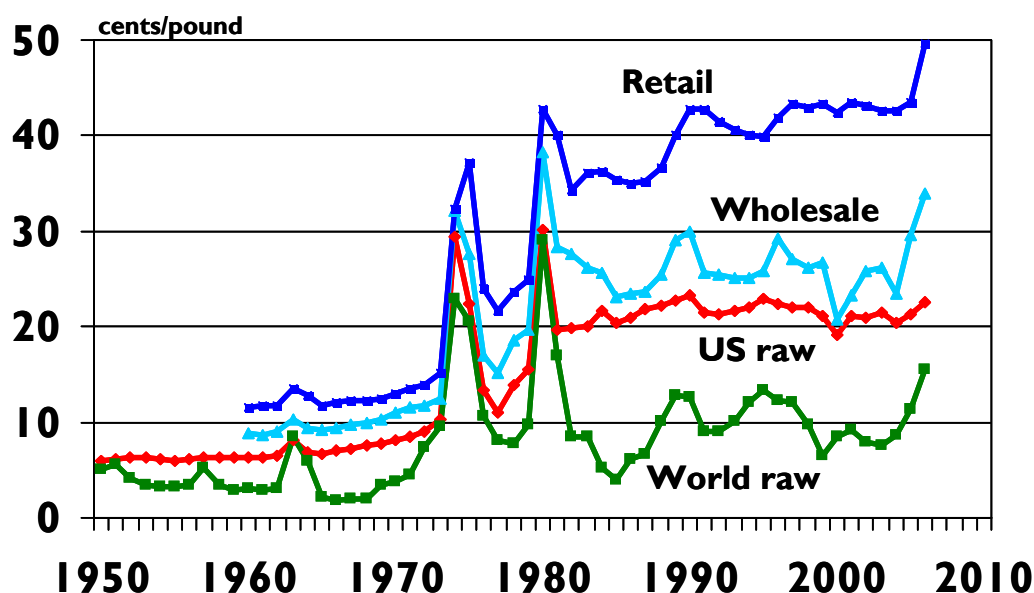
### Price changes over time

The evidence that the American Sugar Alliance (ASA) cites in arguing that sugar is not too expensive in the United States is a perfect illustration of selective use of statistics to make a case that really is not there. First, their August paper asserts that sugar prices are a good deal because they have been unchanged while the cost of such things as automobiles or houses have gone up a great deal. The historical years they pick to illustrate this are 1980 and 1990 – the two years in which there were sugar shortages that pushed prices up above normal levels. To illustrate what is wrong with that trick, let's just go back in 10-year increments from the current year for comparison.

ASA paper		Every 10 years	
Year	Price	Year	Price
		1976	24
1980	43		
		1986	35
1990	43		
		1996	42
2005	43		
		2006	50

Which is the truer picture – unchanged prices or a doubling of prices since 1976? We leave it to the reader to judge, but the chart below showing the annual average retail price for every year over that period is instructive. The bottom two lines are the prices of raw sugar in the United States and on the world market. The wholesale price is the price that food and beverage manufacturers pay to US beet sugar producers. It does not include the cost of transporting that sugar to their factories. The retail price is the price that the Bureau of Labor Statistics collects for calculating the Consumer Price Index. It is the average for all package sizes.

## US and World Sugar Prices



### International comparisons

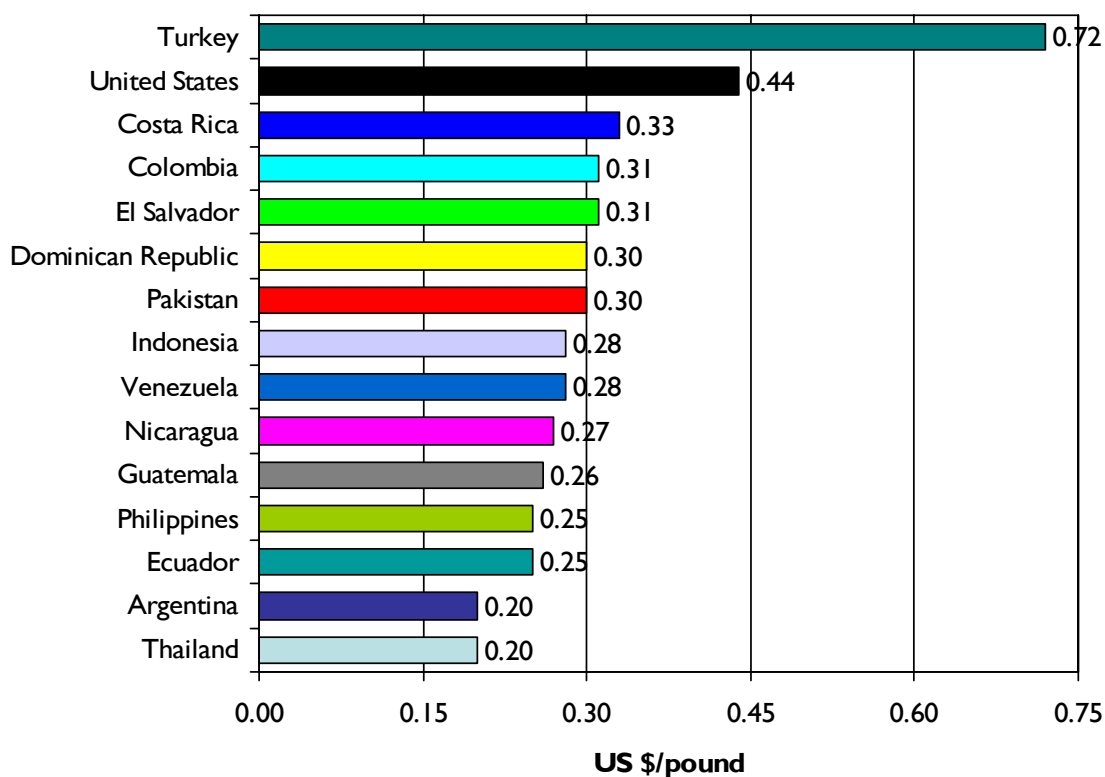
The second case of selective use of facts is ASA's international comparison of 2004 sugar prices. They conveniently choose mostly European countries with a sugar policy that is even worse for consumers than the US price support program. Of the 24 countries chosen for comparison, 16 are members of the European Union which has had a very high support price. The EU this year began implementing a 3-year 36% reduction in its support level that will likely bring retail prices down closer to the US level. Two other countries are very high cost producers of beet sugar – Japan and Turkey. The remaining four include Australia, New Zealand, Canada and Mexico.

Somehow we doubt we will see an update of this comparison any time soon, now that the US price has risen more than 10% and the EU support level is being reduced. In the meantime let's look at a comparison to some other countries. We reviewed all the 2006 reports on sugar from USDA attaches and compiled all the retail and wholesale price information in those reports (see appendix table).

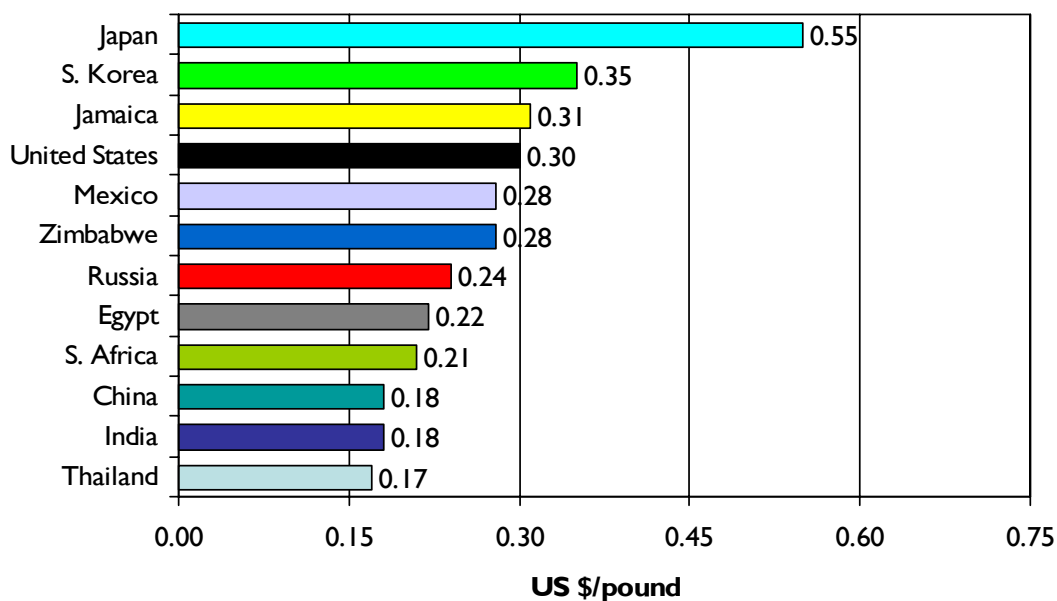
The two charts below paint a very different picture than the ASA tabulation of how the US sugar price compares to prices in other countries. Note that we have used 2004/05 prices for the United States rather than the abnormally high 2005/06 prices. The first chart shows the retail prices that were available. 13 out of 14 countries had prices below the US level, mostly by a considerable margin. The second chart compares wholesale or ex-factory prices for those

countries for which a retail price was not reported. Again, 8 out of 11 countries had prices well below those in the United States.

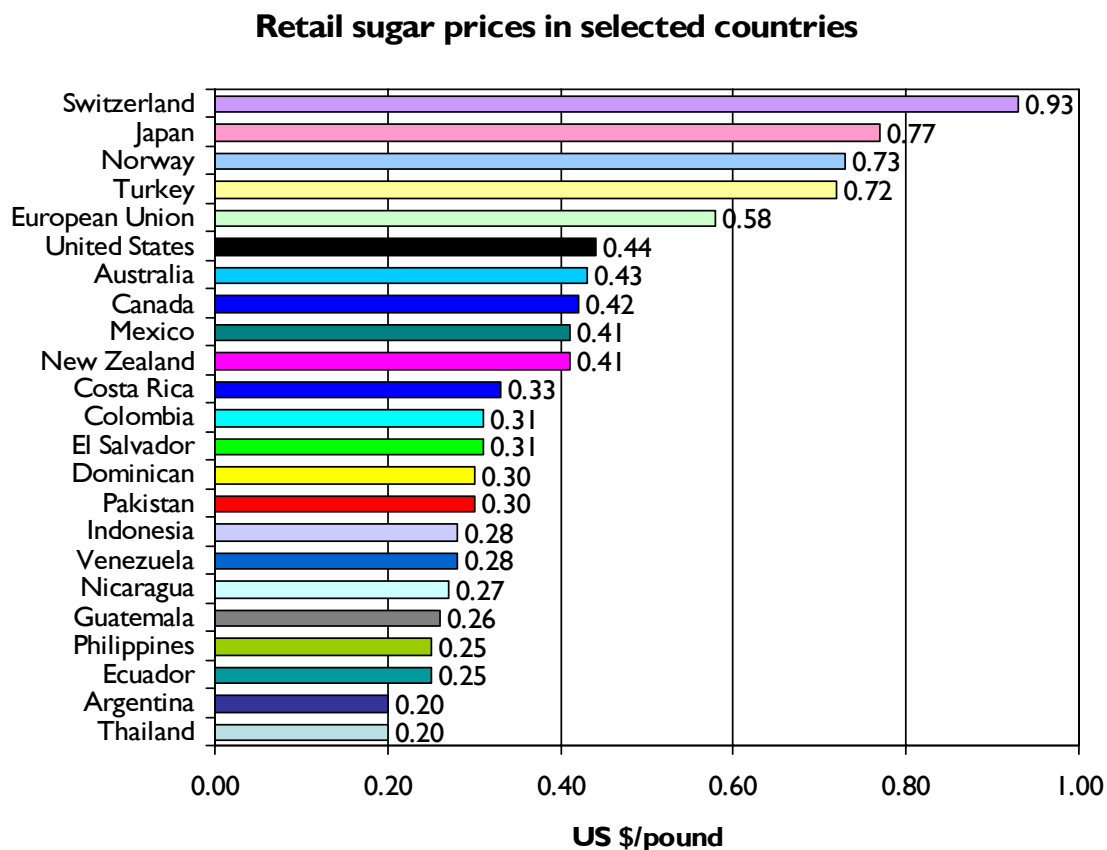
### Retail sugar prices in USDA Attache Reports



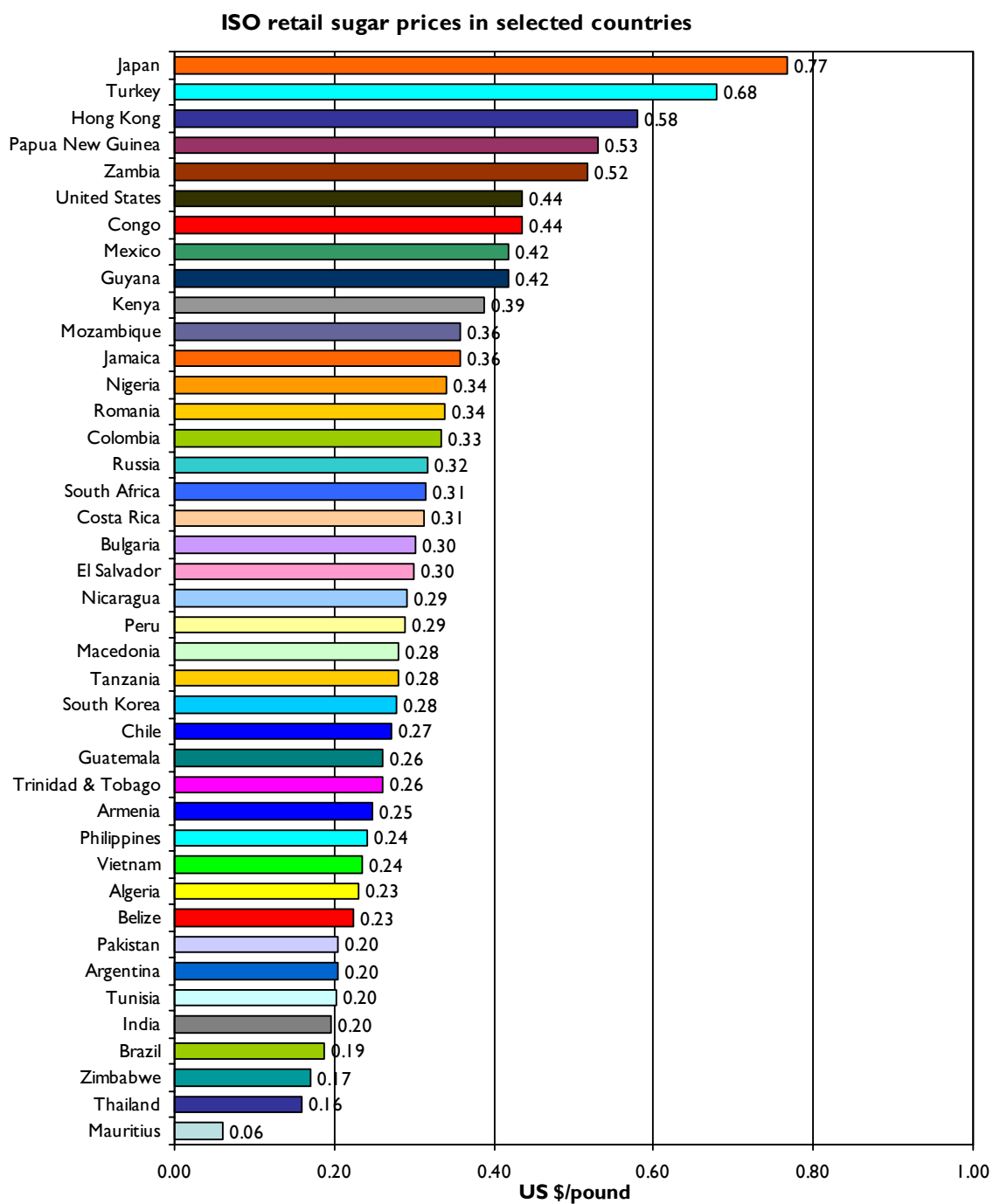
### Wholesale sugar prices in USDA Attache Reports



If we combine the information from the attaché reports with that from the ASA paper, treating the EU for the single entity that its sugar program entails, the picture is as shown below. 17 out of 22 countries have lower sugar prices than the United States.



Finally, one can also examine the prices reported by the International Sugar Organization. Each year the ISO publishes a Sugar Year Book that contains supply, demand and trade statistics by country and for the world as a whole. It also contains retail prices for selected countries. The 2005 Sugar Year Book has retail prices for that year for 41 countries. Five countries have prices above the United States' 43.54 cents per pound, and 35 countries have prices that are lower. On average, prices in those countries are lower by a third at just under 28 cents per pound. The ISO price data for 2005 are presented in the chart on the next page.



## How have food manufacturers been affected?

The ASA paper quotes annual reports of some food manufacturers that discounted the effects of commodity market price increases on the basis that use of hedging instruments and forward contracts minimize such impacts. This is of course true for the major manufacturers, who have seasoned ingredient procurement staff. It is not so true of small and mid-size companies, not to mention the local bakery. Nor is it so true of the food service industry or grocery retailing sector.

Many sugar buyers had little forward coverage when the hurricane hit in 2005. And even if one had contracted for the sugar, that does not mean that it was easy to obtain in the weeks and months after Domino's Chalmette refinery in New Orleans was shut down by the storm. New suppliers had to be found, and new logistical channels established to handle imported refined sugar.

The supply shortage was acutely felt by food and beverage manufacturers because sugar sellers gave priority to keeping store shelves well-stocked with consumer-sized packages. The last thing the sugar industry wanted was panic buying by consumers that might trigger a political backlash against the sugar program.

The effects continued to be felt by sugar users throughout 2006. The prices at which food companies were able to extend their sugar coverage through the end of the year and into 2007 were well above normal. Many feared the potential impacts that another intense hurricane season might have on sugar supplies and were anxious to be well-covered. As it turned out, no major hurricanes hit the mainland and wholesale sugar prices finally dropped below 30 cents per pound in October. But most food and beverage manufacturers will have sugar costs for the 2006/07 October-September marketing year that are well above historical norms.

## How do shoppers benefit from lower sugar prices?

Consumer prices for foods and beverages eventually reflect changes, whether positive or negative, in the cost of sugar. If food manufacturers could ignore changes in the cost of sugar, they could ignore changes in the cost of other ingredients, labor, energy and other inputs; set prices wherever they want; and be immensely profitable. Yet according to the respected *Value Line Investment Survey*, food industry profitability is about in the middle range for all US industries.

It is difficult to see price adjustments. The way in which cost savings get passed on to the consumer depends on the type of product and how it is marketed. Cost savings to consumers can be through increased couponing, more frequent specials, or an outright price reduction. In many cases, the savings just offset rising costs for labor, energy or other inputs. Labor costs

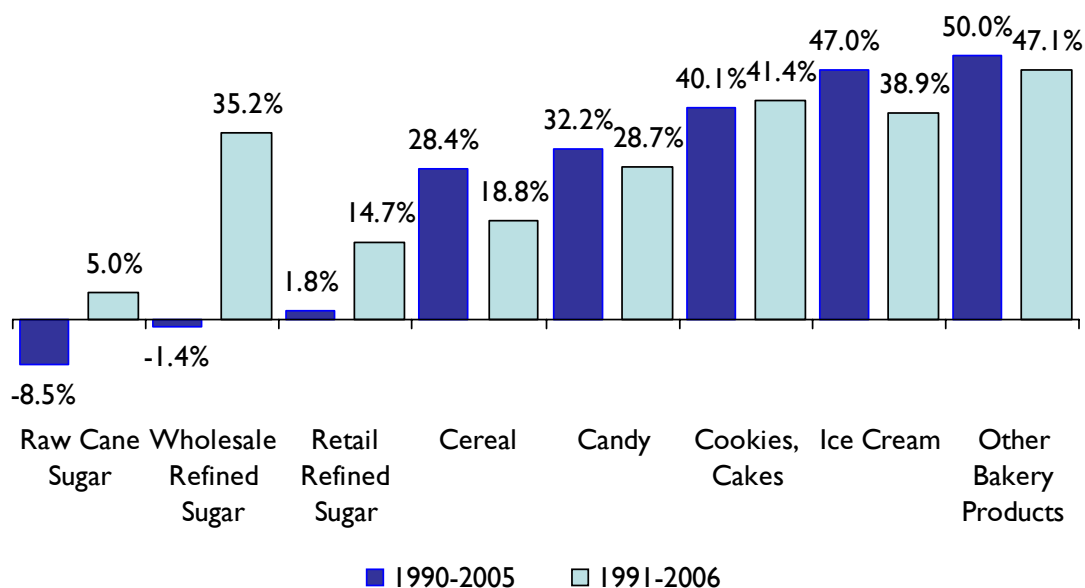
account for the largest share of the retail food dollar – 37% – and as wages go up with the underlying 2-3% inflation rate, food prices go up even if some ingredient costs are declining.

About 27% of the sugar used in the United States is purchased at retail, mostly in five-pound bags. Both the longer-term Consumer Price Index for sugar and sweeteners, which has risen more slowly than the total CPI for food, and the retail prices graphed in a prior chart indicate that consumers can benefit directly from any reduction in sugar prices.

The available price data for sugar-containing products also support the conclusion that downward changes in sugar prices are passed through to consumers. While rising costs for labor, energy, packaging and other inputs have continued to push food prices up, the increases in the price indexes for sweetened foods and beverages between 1996 and 2004 were well below the increases for other food categories due to the decline in wholesale sugar prices during that period. For these products, lower sugar costs offset increases for other inputs.

This whole topic is another one where ASA cherry picks the data to present a distorted view of reality. If one starts from the unusually high sugar prices of 1990, of course one can say they fell while prices of sugar-containing products rose. But if one starts from the more typical price level of 1991, the story turns out to be much different. The chart below compares the price behavior in 1991-2006 to ASA's 1990-2005 numbers. Both are 15-year periods. (For 2006, January-September data were used for this chart.) Obviously the rise in product prices has not been much different than the rise in what food companies are paying for sugar.

### Change in prices: Comparison of change between 1990-2005 and 1991-2006



ASA's other debating point on this topic is that when one goes into the grocery store, the price for sugar-free products is the same as the price for sugar-containing products. If ASA thinks that the only difference is that they took the sugar out of the former, so they should be cheaper, perhaps they should read the ingredient labels. We did.

When you take the sugar out, you have to put other things in, and in general they cost more per pound than sugar – usually much more. For sweetness, the two basic choices products like the ones ASA identified are high intensity sweeteners or polyhydric alcohols. The high intensity sweeteners most often used are aspartame, acesulfame potassium and sucralose, ranging in price from \$12 to \$200 per pound. While used in small quantities, they generally have to be coupled with gums or bulking agents costing \$1.00-4.00 per pound. So it is hard to see any savings there.

The alternative route to sweetness is via sorbitol, maltitol, mannitol and other polyhydric alcohols. They too are mostly in the \$1.00-4.00 per pound range.

<b>Ingredient</b>	<b>Cost per pound</b>
High intensity sweeteners	
Saccharine	\$3
Aspartame	\$12
Acesulfame potassium	\$22
Sucralose	\$200
Neotame	\$300
Polyhydric alcohols	
Sorbitol, mannitol, maltitol	\$1-4
Erythritol	\$20
Gums and bulking agents	
Cellulose, guar, carob bean, xanthan	\$1-4
Polydextrose	\$4
Corn refinery products	
Maltodextrin,	\$1

The real question is why the sugar-free products don't cost more than the sugar-containing ones.

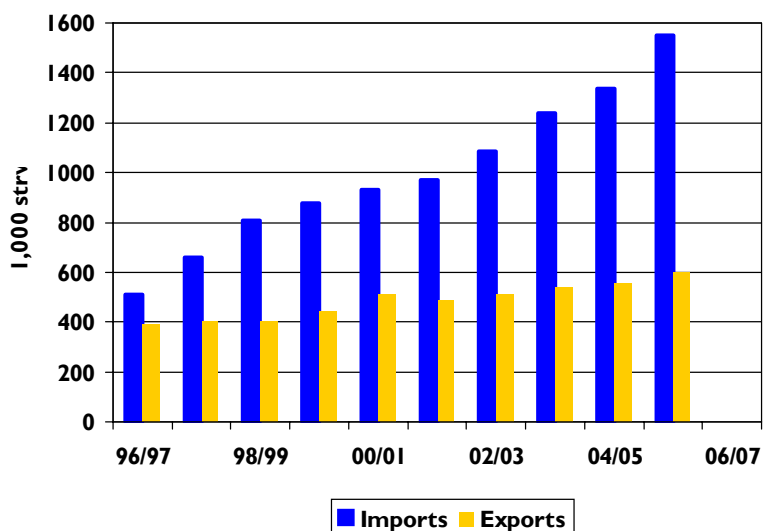
## How do high sugar prices destroy US jobs?

The United States used to be a net exporter of sugar in products. But beginning in the mid-1990s, the balance of trade in sugar-containing products began to shift, and today this country is a major net importer of sugar in products. There were three reasons for this. The first was nothing new – simply the fact that US sugar prices were significantly above sugar prices available to manufacturers in some other countries. The second was the accumulating effects of trade liberalization. While the US and other countries have kept in place trade barriers on some basic agricultural commodities like sugar, the trade in manufactured food products is less and less subject to tariffs, quotas or other trade barriers. Third, the globalization of the food business has led manufacturing companies to think more broadly about where it makes the most sense to locate production facilities, and led retailers to think more broadly about how to source the products they sell.

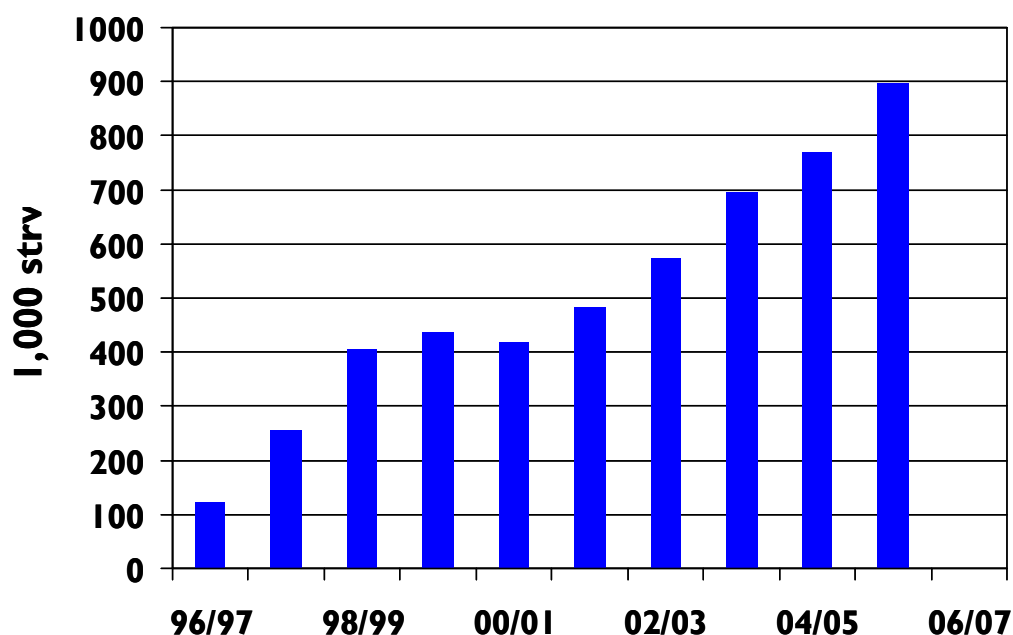
The upshot is that trade in manufactured food and beverage products is growing. Even US exports of sugar-containing products (SCPs) are slowly rising, but this has been more than offset by dramatic increases in imports of SCPs. The first chart below shows total imports of sugar in SCPs. The second chart shows net SCP sugar imports after taking into account the export of sugar in US SCPs.

Based on Commerce Department trade for 2005/06, we estimate that US imports of sugar in products was almost 1.5 million short tons, raw value (strv). Net imports of sugar in SCPs reached 898,000 strv this year, up from 770,000 strv in 2004/05 and up from virtually zero in the early 1990s.

**US Imports & Exports of Sugar in Products**



## US Net Imports of Sugar in Products



The amount of sugar imported in sugar-containing products now accounts for about 13% of domestic sugar consumption, and this trend has had a negative impact on domestic sugar-using industries. The Commerce Department's Annual Survey of Manufacturers indicates that from 1997 to 2004, total employment in US food and beverage industries fell 2.4%, from over 1.60 million jobs to about 1.57 million. But that overall decline masked a vastly different performance in those food segments that use sugar, compared to those that do not.

Sugar-using industries – from confectioners and breakfast cereal makers to syrup and concentrate manufacturers – saw a sharp decline in employment of 9.8%, which represents a loss of more than 70,000 jobs. However, in those parts of the food industry that do not use much sugar – from flour milling and seafood products to vegetable fats and oils and coffee companies – total employment grew 4% over the 1997-2004 period. Details by industry are provided in the table below.

ASA asserts that food manufacturers are relocating to foreign countries more because of labor and other costs than because of US sugar prices. But the supposed quest for cheap labor did not prevent non-sugar-using industries from *adding* American workers at the same time that sugar-using industries were *reducing* employment by over 70,000 jobs. It appears that something other than labor costs was driving the very different results in these industry sectors. The U.S. Department of Commerce concluded in a recent study that sugar costs were probably a major factor, and we believe this conclusion is justified.

Employment in US Food & Beverage Industries

Industry	1997	2004	Absolute Change	Percent Change
<b>Sugar-using industries</b>				
Breakfast cereal mfg	14,396	12,294	-2,102	-14.6
Choc.& confec. mfg from cacao beans	9,946	8,308	-1,638	-16.5
Confec. mfg from purchased choc.	32,871	28,041	-4,830	-14.7
Nonchocolate confectionery mfg.	25,512	19,740	-5,772	-22.6
Frozen food mfg.	94,192	83,546	-10,646	-11.3
Fruit & veg canning, pickling, & drying	97,384	80,554	-16,830	-17.3
Ice cream & frozen dessert mfg	19,786	17,799	-1,987	-10.0
Bread & bakery product mfg	222,596	225,430	2,834	1.3
Cookie, cracker & pasta mfg	64,401	49,397	-15,004	-23.3
Snack food mfg	46,609	45,827	-782	-1.7
Flavoring syrup & concentrate mfg	6,243	5,482	-761	-12.2
Soft drink & ice mfg	83,256	70,247	-13,009	-15.6
Sub-total	717,192	646,665	-70,527	-9.8
<b>Other food and beverage</b>				
Animal food mfg.	46,651	43,339	-3,312	-7.1
Flour milling & malt mfg	17,877	15,071	-2,806	-15.7
Starch & veg fats & oils mfg	26,970	24,421	-2,549	-9.5
Dairy product (except frozen) mfg	112,082	107,802	-4,280	-3.8
Animal slaughtering & processing	464,991	493,376	28,385	6.1
Seafood product prep & packaging	40,763	38,804	-1,959	-4.8
Tortilla mfg	11,303	11,988	685	6.1
Coffee & tea mfg	12,895	11,163	-1,732	-13.4
Seasoning & dressing mfg	26,055	29,931	3,876	14.9
All other food mfg	56,886	81,951	25,065	44.1
Breweries	34,251	24,471	-9,780	-28.6
Wineries	18,193	23,163	4,970	27.3
Distilleries	6,417	5,085	-1,332	-20.8
Sub-total	875,334	910,565	35,231	4.0
<b>Sugar manufacturing</b>				
Sugar manufacturing	16,547	13,864	-2,683	-16.2
<b>Total food &amp; beverage</b>	<b>1,609,073</b>	<b>1,571,094</b>	<b>-37,979</b>	<b>-2.4</b>

Source: Department of Commerce, Annual Survey of Manufactures

Appendix

Global sugar prices 2.20462

Country	Type	Retail	Unit of measure	Retail in \$/uom	Retail in \$/lb	Wholesale	Unit of measure	Wholesale in \$/uom	Wholesale in \$/lb	Ex-factory	Unit of measure	Ex-fac in \$/uom	Ex-fac in \$/lb	Currency	Exchange rate (currency/\$)	Year
Nicaragua	local processed	26.5	100 lb	26.5	\$ 0.27									\$	1	2005/2006
El Salvador	white	0.31	lb	0.31	\$ 0.31	24.25	cwt	24.25	\$ 0.24					\$	1	2005/2006
Colombia	refined	1541.08	kg	0.6733518	\$ 0.31									Col. Peso	2288.67	2005
Jamaica	raw imported					503	MT	503	\$ 0.23					\$	1	2005/2006
Jamaica	raw local					509	MT	509	\$ 0.23					\$	1	2005/2006
Jamaica	G. crystal					560	MT	560	\$ 0.25					\$	1	2005/2006
Jamaica	refined					682	MT	682	\$ 0.31					\$	1	2005/2006
Jamaica	icing					809	MT	809	\$ 0.37					\$	1	2005/2006
South Africa	refined									0.58	kg	0.58	\$ 0.26	\$	1	2005/2006
Pakistan	sugar	40	kg	0.6606111	\$ 0.30									PK Rs.	60.55	2005/2006
Turkey	crystal sugar	2.15	kg	1.5925926	\$ 0.72					1.6956	kg	1.256	\$ 0.57	YTL	1.35	2005/2006
Turkey	cube									1.841	kg	1.363704	\$ 0.62	YTL	1.35	2005/2006
Thailand	white	16.5	kg	0.4102437	\$ 0.19	1498	100 kg	37.24515167	\$ 0.17					Baht	40.22	2005/2006
Thailand	refined	17.5	kg	0.4351069	\$ 0.20									Baht	40.22	2005/2006
Guatemala	sugar	0.26	lb	0.26	\$ 0.26	0.23	lb	0.23	\$ 0.23					\$	1	2006
Venezuela	refined	0.61	kg	0.61	\$ 0.28									\$	1	2005
Indonesia	local	590.6	MT	590.6	\$ 0.27									\$	1	2005
Indonesia	imported	608	MT	608	\$ 0.28									\$	1	2005
Indonesia	refined					425	MT	425	\$ 0.19					\$	1	2005
Argentina	sugar	0.44	kg	0.44	\$ 0.20	230	MT	230	\$ 0.10					\$	1	2005
Ecuador	cane sugar	28	50 kg	28	\$ 0.25	22.66	50 kg	22.66	\$ 0.21					\$	1	2005
Mexico	standard					299.37	50 kg	27.46513761	\$ 0.25					Pesos	10.9	2005
Mexico	refined					335.82	50 kg	30.80917431	\$ 0.28					Pesos	10.9	2005
Dominican Republic	raw	8.1	lb	0.2454545	\$ 0.25	736	100 lb	22.3030303	\$ 0.22	675	100 lb	20.45455	\$ 0.20	DR pesos	33	2006
Dominican Republic	refined	9.9	lb	0.3	\$ 0.30	890	100 lb	26.96969697	\$ 0.27	810	100 lb	24.54545	\$ 0.25	DR pesos	33	2006
India	centrifugal					18177.5	MT	404.844098	\$ 0.18					Rupees	44.9	2005
China	Grade I granulated					3339	MT	404.2372881	\$ 0.18					RMB	8.26	2005
Philippines	raw	22.62	kg	0.4417106	\$ 0.20	897.23	50 kg	17.52060145	\$ 0.16					Ph. Peso	51.21	2004/2005
Philippines	refined	27.94	kg	0.5455966	\$ 0.25	1259.1	50 kg	24.58699473	\$ 0.22					Ph. Peso	51.21	2004/2005
Costa Rica	white	0.33	lb	0.33	\$ 0.33									\$	1	2005/2006
South Korea	refined					0.776	kg	0.776	\$ 0.35					\$	1	2006
Egypt	local					2750	MT	479.930192	\$ 0.22					LE	5.73	2006
Zimbabwe	raw					38050	kg	0.3805	\$ 0.17					Z\$	100000	2006
Zimbabwe	refined					60900	kg	0.609	\$ 0.28					Z\$	100000	2006
Zimbabwe	semi-refined					54840	kg	0.5484	\$ 0.25					Z\$	100000	2006
Japan	centrifugal					137	kg	1.212389381	\$ 0.55					Yen	113	2005
South Africa	refined									3.5	Kg	0.457516	\$ 0.21	Rand	7.65	2006
Russian Federation	refined					15.05	kg	0.53180212	\$ 0.24					Ruble	28.3	2005