

# **SWEETENER USERS ASSOCIATION**

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**Oral Statement of Thomas Earley**

**On behalf of the**

**SWEETENER USERS ASSOCIATION**

**To the**

**U.S. INTERNATIONAL TRADE COMMISSION**

**Pursuant to**

**INVESTIGATION NO. 332-325**

**THE ECONOMIC EFFECTS OF SIGNIFICANT U.S. IMPORT**

**RESTRAINTS: EIGHTH UPDATE**

**March 19, 2013**

My name is Tom Earley. I am vice president of Agralytica, an economic consulting and market research firm specializing in food and agriculture. I am also the economist for the Sweetener Users Association (SUA) and am here today on their behalf. SUA's membership includes a broad range of food and beverage manufacturers, along with the trade associations that represent these firms.

The last four years have served as a perfect example of what is wrong with U.S. sugar policy. The restrictive import quotas, and the very high tariffs on any sugar outside of the quotas, have always kept U.S. domestic sugar prices well above world market levels. But in the recent period when world market prices were well above the U.S. support price, the effect of these import restraints was actually magnified, not reduced. The more onerous sugar provisions in the 2008 farm bill have had an extremely adverse impact on consumers and food and beverage manufacturers. For the first four years under the 2008 farm bill, the result was a period of extraordinarily high domestic sugar prices, reaching record levels in 2010 and 2011, with a total adverse impact on consumers of \$14 billion. You will find ample visual evidence of this in the pre-hearing briefs.

Part of the price increase was caused by higher world market prices due to production shortfalls in a number of countries. U.S. raw sugar prices followed the world price upward, but with a differential roughly equal to the high second tier duties under our tariff-rate quota. The gap between U.S. and world refined sugar prices was even wider. Those second tier duties are approximately 16 cents/pound, and are normally prohibitive. But that did not prove to be the

case in 2010. Users actually paid the second-tier duty of about 16 cents on 207,000 short tons to get over-quota raw sugar into the country.

Since mid-2012, domestic sugar prices have fallen sharply as both buyers and sellers began to expect that the 2012/13 marketing year would have a problem not of shortages but of surpluses. This is further proof, if it were needed, that markets really do work. Not surprisingly, a couple of years of record prices stimulated production in both the U.S. and Mexico. Sugar output in both countries is estimated by USDA to be up about 20% since the 2008/09 marketing year, and ending stocks in both markets are projected to be much higher than normal. This is creating the threat of sugar loan forfeitures later this summer that would result in the first budget costs for the sugar program in over a decade, probably more than \$100 million in connection with triggering the so-called Feedstock Flexibility Program, which involves USDA buying surplus sugar and selling it for pennies a pound to ethanol producers.

The ITC's last CGE model exercise concluded there was only a \$49 million welfare cost associated with sugar import barriers. But after 4 years of consumer cost impacts in the \$3-4 billion range, followed now by a year of high taxpayer costs, the staff needs to revisit the modeling effort and try to reflect these real world market conditions.

Both the shortages in the initial years under the 2008 farm bill and the emerging surplus this year are signs of program failure. The current sugar program has destabilized the U.S. market. SUA and partnering organizations in the Coalition for Sugar Reform are therefore trying to at least get the 2008 sugar program changes reversed in the next farm bill.

In 2011, SUA commissioned a study of the effects of reforming the sugar program. The study was conducted by John Beghin, Professor of International Agricultural Economics at Iowa State, and Amani Elobeid, a senior analyst at the same university. The study used the highly-regarded FAPRI econometric model, with adjustments to allow more specific and detailed analysis of some sugar issues. Here are the highlights of the study findings:

- American consumers would gain up to \$3.5 billion a year in savings on a wide variety of food products.
- The food industry would employ as many as 20,000 additional workers each year.
- The sugar-containing products sector – which is now a net importer – would become a net exporter, accounting for part of the employment gain and modestly reducing the U.S. trade deficit.
- Although profit margins in the sugar sector would decline from their inflated 2011 levels, they would actually remain near their historic range, the industry would continue to be profitable, and production would stabilize near 2011 levels.

### **What do sugar users need?**

Food and beverage companies, and the consumers they serve, want a reliable sugar supply at a reasonable price. A viable, economically healthy sugar-producing sector in the United States is important to sugar users. And they also want a viable cane sugar refining industry that can process both domestic and imported raw sugar.

Thus, SUA is not opposed to policies that provide economic support to sugar producers. However, present U.S. policies are poorly designed and both distort and destabilize markets.

Among present U.S. sugar policies, the tariff rate quotas are of course the most relevant to the Commission's present investigation. All independent analyses of the U.S. sugar TRQ have concluded that it constitutes a net cost to society and creates a large transfer of income from consumers to sugar producers. And now half of the quota-holding countries are not even sending us any sugar.

The conventional analyses generally focus on the gap between U.S. and world raw sugar prices. SUA continues to recommend that USITC staff study not only the raw sugar price gap but also the refined sugar price gap. The manner in which sugar import restraints now operate, coupled with the current vertically integrated industry structure, is resulting in an even wider gap between world market and domestic refined sugar prices than for raw sugar. Your modeling effort should also recognize that sugar production here and in Mexico will vary from year to year due to weather and grower responses to price signals, and that this will continue to result in some years of inadequate access to supplemental imports, with large associated consumer price impacts.

### **Job impacts of the sugar program**

Job impacts should be another focus of the ITC review. From 1997 to 2011, sugar-using food industries saw a sharp decline in employment of 17.6% or 127,000 jobs. This was associated with a significant increase in net imports of sugar in sugar-containing products. However, in those parts of the food industry that do not use much sugar, total employment actually grew slightly.

So the alleged 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 more than one-sixth. 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 SUA believes this conclusion is justified. Commerce also concluded that saving one sugar production job comes at the expense of losing three other jobs.

### **Conclusions**

The United States needs a modern, market-based and efficient sugar policy. In many ways, the present tariff rate quota system falls short of those criteria. That need not imply the abandonment of the TRQ structure completely, but it certainly suggests the urgent need for significant improvements in the way it is administered.

The integration of the U.S. and Mexican sweetener markets, with large volumes of HFCS flowing south and large volumes of sugar flowing north, alters the dynamics to some degree, but Mexico imposes the same import barriers as the U.S., and the combined market will continue to be a major net importer of sugar. This means that the two governments will continue to be able

to use TRQs to limit supply and support market prices, transferring large amounts of income from sugar consumers to sugar producers, and reducing total economic welfare.

For purposes of the Commission's present investigation, SUA again urges an assessment of employment impacts and a thorough study of not only the raw sugar price gap maintained by the TRQs, which is no longer their most onerous feature, but also the refined sugar price gap. In addition, SUA encourages the ITC staff to revisit its CGE model and insure that it takes into account the inevitable reoccurrence of years like those we have experienced since 2008.