

SWEETENER USERS ASSOCIATION

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February 11, 2011

The Honorable Michael Scuse
Acting Under Secretary
Farm & Foreign Agricultural Services
U.S. Department of Agriculture
Jamie L. Whitten Federal Building
1400 Independence Avenue, S.W.
Washington, DC 20250

Dear Mr. Under Secretary:

The Sweetener Users Association (SUA) believes that USDA should move expeditiously to increase the raw and refined sugar tariff rate quotas (TRQs) for 2010/11. The Department's most recent sugar supply and demand estimates in the February 9 WASDE report show ending stocks of only 1.35 million short tons, raw value, and a stocks/use ratio of only 11.8%. The latter is well below the 15.5% stocks-to-use ratio that past experience indicates results in adequate sugar supplies at reasonable prices for consumers and food and beverage manufacturers. In fact, this level of ending stocks is substantially below the 2009/10 level. During that year, refined sugar prices were at then-record highs and – as explained further below – imports above the TRQ clearly demonstrated that normal sources of supply were exhausted.

The tightness of the sugar supply in the U.S. market is clearly demonstrated by the fact that wholesale and retail sugar prices remain at record levels. Wholesale beet sugar prices have averaged 57 cents per pound the last six months as shown in the attached chart, up 90% from the 2004-09 average of 30 cents. Wholesale beet sugar prices have also averaged 26 cents per pound (82%) *above* the world market price for refined sugar of 31 cents over the same period. Meanwhile, retail sugar prices reached a record 64.4 cents per pound in November, up 30% from the 2004-09 average.

During 2009/10 when USDA declined to increase the TRQs by an amount sufficient to meet market needs, buyers resorted to paying the normally prohibitive second tier duties of 15-16 cents per pound on 207,000 tons of sugar. The world market price for refined sugar has been well above the U.S. price support level since last July. It makes no economic sense for the federal government to restrict imports to the degree that wholesale refined sugar prices are more than double the 23.77-cent price support loan rate.

These “high-tier” imports are a clear sign of policy failure. Without question, buyers would always prefer to source their sugar domestically, through the normal TRQ process, or from Mexico. Unfortunately, those alternatives were unavailable during part of last year. The consequent high-tier imports make a compelling case that USDA did not adequately supply the market. In our view, the presence of high-tier imports indicates conditions consistent with the “emergency shortage” that, under current legislation, triggers a relaxation of TRQ limitations and permits USDA to take more timely action to supply markets adequately.

We are concerned that USDA is already expecting more high-tier imports this year. The February *World Agricultural Supply and Demand Estimates* project 40,000 tons; about 12,000 tons had entered through December, according to data posted by the Foreign Agricultural Service.

There are serious adverse consequences from the current squeeze on sugar supplies. The high prices being paid by food and beverage manufacturers inevitably feed through into product prices, putting an additional burden on consumers, who are also paying higher prices for sugar in the grocery store.

Additionally, the sugar program continues to contribute to the loss of jobs in sugar-using industries. According to the Commerce Department’s Annual Survey of Manufactures, since 1997, employment in those industries that use sugar as an ingredient has fallen by almost 112,000 jobs, while employment in industries that do not has been rising. This trend has been associated with rising net imports of sugar-containing products – products that could be made here at home if sugar prices were reasonable. Some 30% of non-chocolate confectionery, for instance, is now imported. Needless to say, no U.S. sugar was used in these products, so current market-shortening sugar policies are also restricting domestic demand.

Part of the supply tightness is attributable to a natural disaster – the successive freezes in Florida in December that have reduced expected output by 200,000 tons. This is the type of event that the 2008 farm bill clearly includes as a legitimate reason (an “emergency shortage”) for increasing the TRQ before April 1, and SUA recommends that the Department do so.

All of these factors strongly point to the need for a TRQ increase. We respectfully request that you announce an increase in a sufficient quantity to produce a stocks/use ratio of 15.5% in a timely manner.

Sincerely,



Perry Cerminara, Chairman

Attachment

World and US Refined Sugar Price Differential

