Emerging Issues in the U.S. Sugar Industry

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Topics

• Benefits of U.S. sugar policy
• Sugar industry efficiencies, economic impact
• Sugar industry position on the 2012 Farm Bill
• Response to consumer cost argument
• Developments in the sugar market
U.S. Sugar Policy

- Only commodity program that operates at no-cost to taxpayers
  - Zero cost since 2002; USDA and FAPRI project no cost to 2021
- Consumers benefit
  - Dependable supplies, affordable prices
- Food manufacturers benefit
  - High quality product; just-in-time deliveries
- 100% WTO compliant
- Supported by developing countries
U.S. Sugar Policy

- If sugar policy were eliminated...
  - U.S. swamped with less safe, subsidized sugar from world dump market
  - U.S. industry would collapse
  - Prices likely to spike as U.S. demand thrown onto world market
  - U.S. consumers subject to less dependable foreign sugar
  - U.S. would lose over 100,000 jobs
Feedstock Flexibility Program

- Designed to ensure sugar program runs at no-cost to the Treasury
- Proposed regulations recently released
- Addresses flaw in trade policy
A Success Story

- Sugar industry generates $20 billion in annual economic activity and 142,000 jobs
- In Red River Valley, $3 billion per year; 30,000 jobs
  - Updated NDSU study to be completed soon
- Industry is efficient
  - U.S. Beet: 1\textsuperscript{st} among 35 beet producing countries
  - U.S. Cane: 35\textsuperscript{th} among 61 cane producing countries
- Overall, 20\textsuperscript{th} among 95 sugar producing countries
World Sugar Dump Market Price, 1970 - 2011:
World's Most Volatile Commodity Market

-- Cents per pound, raw value --

World market price generally well below world average cost of producing sugar.

World Average Cost of Production,
1988/89 - 2010/11

Sources: Price - USDA, New York Board of Trade/ICE, Contract #11, raw cane sugar, stowed Caribbean port; Monthly average prices through October 2011.
Message to Congress: Continue No-Cost Sugar Policy

- Optimistic Congress will again renew sugar policy
  - Typically two-thirds of both parties, both Houses support sugar
- Super committee:
  - Will it achieve its objective?
  - Will it include the 2012 Farm Bill?
Response to Consumer Cost Argument

• Flawed premise: Comparing U.S. prices to world dump market prices
  • No sugar-producing country covers cost solely from world market; all have government intervention
• Flawed assumption: U.S. production wouldn’t fall at long-term average dump price levels
• Flawed sales pitch: Food companies would pass through savings
  • History shows rapid passthrough of high prices, little or no passthrough of low prices
1990 = 100 Percent

Wholesale refined sugar prices: Flat or lower most of past two decades

During 1990-2007 low-price period 40 beet or cane operations closed--40% of all operations

Did consumers benefit?

Wholesale Refined Sugar

Sources: Wholesale Sugar - USDA. Retail Products - Bureau of Labor Statistics. Annual averages
No evidence that retailers pass their savings on farmers' lower sugar prices along to consumers on grocery store shelf.
Developments in Sugar Market

• Prices increased...finally
  • Flat prices for 30 years until lately
• EU converted from net-exporter to net-importer
  • But had some problems
• Mexico’s share of U.S. market explodes
  • The substitution problem
World Sugar Market Boosting U.S. Raw Sugar Prices

U.S. - World Average Raw Gap
1996-2011: 11.7 cents/lb
2010: 13.5 cents/lb
Current: 11.9 cents/lb

Don’t Copy the E.U.

• E.U. 2005 sugar reform
  • Transformed E.U. from sugar exporter to sugar importer
  • Lost significant E.U. production; expected to replace with imports from least-developed countries
  • LDCs exported elsewhere, creating shortages, rationing in Germany
  • Cautionary tale for U.S.
European Union Net Sugar Trade
1996/97-2011/12
--Million metric tons, raw value--

"Reform" transforms EU from net exporter of 5-6 mmt/yr to net importer of 2-3 mmt

Effects of NAFTA

- Pre-NAFTA: virtually no access
- Post-NAFTA phase-in: unrestrained access
- Mexican government still owns 25% of industry
- Substitution an issue
  - Not permitted in subsequent free trade agreements
  - Unfair incentive to less efficient, less environmental friendly industry
  - “We can always sell the surplus in the U.S.”
U.S. Sugar Imports from Mexico, 1994/95-2011/12
- Thousand metric tons, raw value -

Import surge since 2008 -- accommodated without long-term price disaster by:
-- U.S. sugar production problems
-- Strong U.S. sugar consumption

Import response to beet area drought, cane area hurricanes

Recent import levels well above WTO & CAFTA commitments; Mexico share much higher

Data Source: USDA; 2010/11 and 2011/12 forecast
Other Trends

- Thankfully, sugar demand rising in U.S.
- HFCS demand falling in U.S.
- HFCS exports to Mexico growing dramatically
- Mexico converting soft drinks to HFCS
U.S. Consumption of Sugar and High Fructose Corn Syrup
-- 1,000 metric tons, raw value --

Sugar regaining market share from HFCS

Source: USDA, *Sugar and Sweeteners Outlook*/ SSS-266 (October 2011) and monthly WASDE reports. Sugar deliveries for domestic food use, raw value; HFCS domestic disappearance, dry basis; 2011/12 forecast.
Mexican Consumption of Sugar and High Fructose Corn Syrup

-- 1,000 metric tons, raw value --

**Sugar**

4,301, 4,391, 4,422, 4,445, 4,481, 5,004, 5,097, 5,380, 5,279, 5,326, 5,133, 5,090, 5,065, 4,615, 4,277, 4,332

**High Fructose Corn Syrup (HFCS)**

402, 409, 480, 580, 600, 263, 130, 135, 355, 667, 698, 782, 653, 1,418, 1,600, 1,609


HFCS taking market share from sugar
• U.S. sugar policy isn’t broken, doesn’t need fixing
• If super committee succeeds, should include farm bill
• U.S. price increases largely driven by world prices
• Let’s not copy the E.U. model
• Increased Mexican exports
• Growing demand for pure, natural, low-calorie, fat-free, reasonably-priced sugar