March 11, 2013

Submission from the American Sugar Alliance to the
United States International Trade Commission
Investigation No. 333-325
“The Economic Effects of Significant U.S. Import Restraints: Eighth Update”

SUMMARY

The American Sugar Alliance is the national coalition of the growers, processors, and refiners of sugarbeets and sugarcane. We are pleased to have the opportunity to participate in this investigation. The following are some of the key points in our submission.

- The ITC, in its last several updates, has moved encouragingly toward the ASA’s long-held position that U.S. sugar policy and import restraints provide a net benefit to the U.S. economy, and not a net cost.

- ITC has consistently underestimated the number of jobs involved in U.S. sugar production, and therefore has underestimated the number of jobs lost if that industry is harmed. Moreover, ITC does not take adequately into account the volatility of the world dump market for sugar and the potentially devastating effect on U.S. producers of the depressed prices that have more often than not afflicted that market.

- The ITC overestimates the number of jobs that would be created in sweetened-product production, because it overestimates the effect on consumer prices and on sweetened-product demand if producer prices for sugar were to fall.
  - Price behavior since 2010 is the most recent proof of the lack of passthrough of lower ingredient costs to consumers. Producer prices for sugar plummeted, but consumer prices for sugar and sweetened product prices did not fall at all; in fact, consumer prices rose significantly.

- The opening of the U.S. sugar market to duty-free foreign sugar has already been in place since 2008, when Mexico gained duty-free access for its production.
  - The harm to U.S. producers from resulting oversupplies and falling prices has become all too apparent over the past year, but consumers have seen no benefit on lower sugar or product prices. The benefit has been limited to food manufacturers and retailers, who have absorbed the lower sugar costs as increased profits.

- World sugar prices, long depressed by subsidized dumping, rallied the past two years and are currently at or above U.S. market prices. With the current harmony between U.S. and world sugar prices, unlimited access to the world market can provide no benefit to the U.S. economy.
INTRODUCTION

The American Sugar Alliance has participated in each of the USITC updates of the Import Restraints series. We have consistently argued that the ITC’s work on the effect of lifting sugar import tariffs is fundamentally flawed. As we have noted before, the ITC underestimates the number of jobs in the U.S. sugar producing industry and, thus, the potential harm to this industry and the U.S. economy. Furthermore, ITC has overestimated the job creation and help to the U.S. economy if sugar import restraints were to be lifted.

Nonetheless, we would note that the ITC’s work over the course of this series has improved, bringing the results ever closer to ASA’s long-held contention: That U.S. sugar policy and import restraints provide a net benefit to the U.S. economy, rather than a net cost.

The table below illustrates the positive movement in ITC assessments in recent years, reflecting a better understanding of the dynamics of the world and U.S. sugar markets and, in the case of the 2011 investigation, a recognition that world sugar prices, temporarily, at least, came closer to reflecting the actual cost of producing sugar. ITC’s estimate in 2011 of a $49-million net economic benefit from removal of sugar import restraints was less than 5% of the 2004 estimate.

<table>
<thead>
<tr>
<th>USITC: Net U.S. Economic Benefit from Removal of U.S. Sugar Import Restraints (Investigation No. 333-325)</th>
<th>Million Dollars</th>
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PROFOUND CHANGE IN U.S. SUGAR MARKET ACCESS

The ITC, in its Seventh Update (Investigation No. 332-325, August 2011) makes only a passing reference (page 2-22) to the transition, on January 1, to duty-free access to the U.S. market for sugar produced in Mexico. This, however, was no minor development.

The opening of our market to a 6-million-ton sugar producer, aided by government ownership and control of one fifth of the country’s sugar production, and situated on our southern border, marks a profound change in the U.S. sugar market. U.S. sugar imports are, effectively, no longer restrained.

Mexican sugar exporters are also aided by a NAFTA loophole\(^1\) that would permit Mexico to import sugar from the world dump market for their own use and export all the domestic production they wish to the U.S. For example, after a then-record 1.4 million metric tons of exports to the U.S. in

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\(^1\) Each subsequent FTA the U.S. has entered into has corrected his error by inserting a “net trade surplus” caveat into sugar market access provisions. Essentially, the exporting country’s preferential access to the US is limited to the difference between its sugar exports to the world market less its imports from the world market.
2009/10 reduced Mexican stocks to perilously low levels, Mexico imported nearly 900,000 tons of sugar in 2010/11 to rebuild stocks and facilitate a new record of 1.5 million tons of exports to the U.S. in 2011/12.\textsuperscript{2}

The uncertainty concerning the level of Mexican sugar exports into the U.S. market has greatly complicated USDA’s management of the U.S. sugar program, particularly given the deficiencies in Mexican data collection.

The harm to the U.S. sugar market from essentially unlimited duty-free access for Mexican sugar, combined with an untimely USDA increase in tariff-rate quota imports in April 2012, have become apparent this year. After several years of less-than-stellar U.S. and Mexican sugar crops, excellent weather has facilitated extraordinarily large crops of U.S. beet sugar and U.S. and Mexican cane sugar in 2012/13\textsuperscript{3} (Charts 1, 2).

The combined U.S. Mexican sugar market, after five years of deficit, has transformed this year to a market oversupplied by nearly 1 million tons (Chart 3). The consequences for the U.S. market have been terrible. U.S. raw and refined prices have plunged about 50\% from their 2011 peak. Raw cane sugar prices are now below the national average loan forfeiture level; wholesale refined prices are falling very near forfeiture levels (Charts 4, 5). The threat now looms of significant loan forfeitures, and government costs for sugar policy, for the first time since 2000.

The effect on producer economic stability is considerable. Producers who had survived flat nominal prices and sharply rising costs for decades had the brief opportunity in 2010-2011 to buy down some debt and re-invest in their farms and farmer-owned processing cooperatives. Each one-cent-per pound decline in the market price represents a $190 million loss of revenues on this year’s 9-million-short-ton crop. Comparing current prices, at 28 cents per pound refined, with the 2012 average of 43 cents, represents a nearly $3 billion reduction in potential revenues for the 2012/13 U.S. sugar crop of 9.2 million short tons.

The lower prices may reduce acreage and, consequently beet and cane mill throughput and efficiency. A low-price outlook could also have a chilling effect on the agricultural lending community. Bankers are risk averse. The prospect of lower volume and lower returns could quickly dry up financial resources for the sugar-producing industry.

Young farmers, with limited equity to back up loans, would be particularly vulnerable. Without an adequate number of growers, cooperatives cannot survive.

Facing volume and price reductions and potential liquidity problems, beet and cane plants may have to close. Resulting job losses would be substantial and irrevocable.

These developments only hint at the disastrous consequences that could result from the removal of remaining restraints on imports from the volatile world market, should world sugar prices begin to tumble as they have so often done in the past.

\textsuperscript{2} USDA/ERS, Table 56: http://www.ers.usda.gov/Briefing/Sugar/data.htm
\textsuperscript{3} USDA/ERS Tables 24b and 56: http://www.ers.usda.gov/Briefing/Sugar/data.htm
FUNDAMENTAL FLAWS

The following are comments on some particular flaws in the Seventh Update (Investigation No. 332-325, August 2011).

Sugar Producer Jobs. The ITC estimates there were 16,871 American jobs in farming and processing sugar in 2010 (page 2-21). These estimates are a fraction of those in independent analysis by an esteemed international sugar research company that has been studying the world and U.S. sugar industries for decades.

In its most recent of four studies on this subject, dating back to 1989, LMC International estimated 39,958 direct jobs in sugar production in 2009/10. LMC’s survey was based on an exhaustive survey of beet and cane growing, processing, and refining operations, and carefully cross-checked by industry experts.

LMC applied widely accepted U.S. Department of Commerce (DOC) multipliers to calculate an additional 64,272 indirect jobs, and 38,228 induced jobs, for a total of 142,457 American jobs. Any realistic assessment of the economic importance of an industry should take at least conservative multipliers, such as those used by the DOC, into effect.

LMC estimates that about 11% of these jobs are in the cane refining industry, which is the lone portion of the U.S. sugar industry which ITC claims would benefit from the removal of import restraints. ITC projects a 36% surge in raw sugar imports, but also a 17% increase in refined imports (page E-9). The latter would harm the U.S. cane sugar refining industry, not help it.

Even the help to the cane refining sector cannot be isolated from the expected harm to producers, because of vertical integration. The American Sugar Alliance calculates that approximately 73% of U.S. cane refining capacity is fully or partially owned by cane growers and grower cooperatives.

Sugarbeet growers, too, are vulnerable to low refined sugar prices. 100% of U.S. beet refining capacity is owned cooperatively by growers. With their huge investment in beet-processing factories, sugarbeet farmers cannot simply adjust to low refined sugar prices by switching to other crops.

Thus, at least 90% of the 142,457 sugar-producing jobs would be in danger. The total of 128,000 or more endangered jobs is 7-1/2 times greater than the mere 16,871 jobs ITC identifies in U.S. sugar production.

ITC projects the sugar-import surge, absent restraints, would cause a 14% drop in raw cane sugar prices and 6% drop in refined beet sugar prices from levels that would have prevailed with the remaining U.S. sugar import restraints still in place (page E-9). ITC projects price drops would cause a 2-3% drop in sugar farming and processing jobs over 10 years – a loss of only about 400 jobs. As indicated previously, this analysis ignores the extreme volatility of the world dump market for sugar, the severely depressed prices that have more often than not characterized it and, thus, the potentially ruinous consequences that could result from the removal of import restraints.

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In contrast, LMC compared its 2009/10 jobs assessment with their figures for 1993/94. During this 16-year period, producer prices were mostly flat, rising significantly toward the end of the period.\(^5\) Despite the stable-to-improving prices, LMC discovered actual U.S. sugar-job loss to be 41%, or 109,130 jobs.

Based on this history, it would appear that the job loss from significantly lower producer prices would be far greater in proportion, and in the total number of jobs lost, than the modest effect ITC predicts.

**Food Manufacturer Jobs.** Sugar policy critics make the argument that U.S. confectionery manufacturers are struggling, contracting, and shedding jobs, and that the primary reason they are doing so is U.S. sugar prices.\(^6\) On the contrary, this sector has been profitable and is expanding; furthermore, sugar represents only a tiny share of sweetened-product costs and food manufacturer location decisions.

- U.S. production of chocolate and non-chocolate confectionery products is rising, not falling. According to U.S. Census data, 2010 confectionery production, at 2.75 billion kilograms (6.06 billion pounds), is up 9% from 2004 (Chart 6).\(^7\) Any job loss in this sector must, therefore, be attributed to increased efficiency, such as automation, rather than to shrinking production.

- The National Confectioners Association boasts how profitable it is, claiming profit margins of 35%.\(^8\) Certainly, access to slightly less expensive sugar would have little effect on such high profit levels, nor on consumer prices and demand for confectionery products.

- Sugar constitutes a relatively insignificant share of the retail cost of sweetened products. A 2012 survey, even during a period when U.S. sugar prices were unusually high, revealed sugar input costs as a share of many major sweetened-product prices in a range of just 1-5% (Chart 7).

- Candy companies that have relocated to other countries, such as Mexico, have done so to take advantage of huge cost savings on labor, health care, taxes, land, infrastructure, and environmental compliance; the relative cost of sugar has played little if any role. For example, a candy manufacturer that was paying union wages averaging $18.78 per hour at an aging facility in Pennsylvania relocated to a new facility in Monterrey, Mexico, where it pays non-union wages averaging 51 cents/hour and enjoys a host of other lower costs (Chart 8).\(^9\)

- The author of that 2009 study, Peter Buzzanell, wrote that any candy company flight appeared to be reversing itself, with relocations to the U.S. and expansions of existing

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\(^5\) USDA/ERS Sugar price Tables 4 and 5: http://www.ers.usda.gov/Briefing/Sugar/data.htm

\(^6\) One recent example is this press release from the office of Sen. Pat Toomey (R-PA), *Stop Sugar’s Sweet Deal* http://www.toomey.senate.gov/?p=press_release&id=883

\(^7\) U.S. Bureau of the Census: http://www.census.gov/manufacturing/cir/historical_data/ma311d/index.html


Operations.\textsuperscript{10} Events since then have proven Mr. Buzzanell correct. Appendix A provides a sampling of press reports on U.S. sweetened-product company expansions and relocations, including a Mexican company’s decision (Bimbo) to build a bakery in Pennsylvania.

**Passthrough.** We have in the past argued that the ITC has overestimated any willingness of food manufacturers and grocers to pass along to consumers their savings on the lower sugar prices predicted to result from the lifting of import restraints.

We note though, in the Seventh Update, that the ITC predicts a substantial drop in producer prices for sugar, but only a 1.0\% drop in consumer sugar prices (page 2-25). We appreciate this recognition that just a fraction of the decrease in producer prices will be passed along to consumers, though even this fractional passthrough prediction is probably too generous.

ITC makes no prediction on retail prices for sugar-containing products (SCPs), but does state: “Because of the reduced cost of sugar, production of SCPs would increase slightly (page 2-25).” This would seem to be a fairly clear indication that ITC presumes lower SCP retail prices and higher demand, to which the larger production would be a response.

Price behavior of the past 2-3 years re-enforces an argument we have long made: That no passthrough to consumers of lower producer prices for sugar can be proven. In fact, recent price behavior clearly indicates the persistence of a past pattern of negative passthrough: As producer prices fall retail prices for sugar and for SCPs actually rise.

Charts 9 and 10 depict price behavior since August 2010, a period of 2-1/2 years – ample time for even a delayed passthrough to become apparent. Raw sugar prices have plummeted 39\% and refined price by 52\%. Strikingly, retail sugar on the grocery store shelf – with no added costs from ingredient or further processing – have risen, not fallen, by 13\%. The wholesale-to-retail price spread for refined sugar has exploded since 2010, from one cent per pound to 40 cents (Chart 11).

Meanwhile, highly sweetened product prices continued their relentless rise, by 5 to 17\% during this time period.\textsuperscript{11}

The ITC’s contention that lower producer prices will lead to lower consumer prices for sugar and products remains indefensible.

Even if some modest passthrough were to occur, it is puzzling that ITC would predict $36 million in “increased household consumption of sugar SCPs (page 2-25)” – three-quarters of the net welfare gain the ITC predicts from removal of sugar import restraints. Given high U.S. income levels and low price elasticity of demand for most food products, it is perplexing that ITC would project substantial gains in consumer demand for products whose prices have dipped almost imperceptibly.

The ASA surveyed consumer prices for popular sweetened products in July 2012, noted the sugar content from the nutrition labels, and calculated the wholesale refined sugar cost as a percentage of the retail cost. For example, a popular chocolate bar that retailed for $1.39 contained $0.024 worth of sugar (purchased at the first-half 2012 average wholesale refined sugar price of 50 cents/lb – current prices are 28 cents), or 1.73\% of the retail cost of the product (Chart 11).

\textsuperscript{10} Ibid.

\textsuperscript{11} USDA/ERS Sugar price Tables 6 and 11: http://www.ers.usda.gov/Briefing/Sugar/data.htm
If, as ITC projects, wholesale refined sugar prices decline by 4.6% absent sugar import restraints (page E-11), the cost of sugar in the chocolate bar would dip from $0.0240 per bar to $0.0229 per bar, a savings of $0.011. If the chocolate retailers passed 100% of their savings along to the consumer, which as previously argued is unlikely, the retail price of the chocolate bar would dip by just one tenth of one cent, from $1.390 to $1.389.

Such a difference would, of course, be imperceptible to consumers. There is, therefore, no justification for predicting demand growth because of it.

Likewise, such an indiscernible price difference could not be argued to spur any measurable increase in U.S. chocolate production and jobs, let alone enough job growth to offset the significant job losses in the sugar-producing sector.

**Exports.** The U.S. sugar re-export program provides U.S. cane sugar refiners and food manufacturers access to world dump market raw sugar for the manufacture of refined sugar and sweetened products for export.\(^\text{12}\) According to USDA data, the U.S. exports about 150,000-200,000 tons of sugar per year in products under the re-export program, as well as about 200,000 tons exported annually as refined sugar.\(^\text{13}\)

Since U.S. food manufacturers already have access to world-price sugar for exports, there can be no justification for the ITC assertion that: “Confectioners, benefitting from the decline in refined sugar prices, would increase production and exports (page xiii).” ITC must not continue to ignore the product-re-export element of U.S. sugar policy.

Unfortunately, ITC bases its prediction of job growth in the SCP sector on domestic demand and export increases that will almost certainly not materialize because of lower U.S. sugar prices.

**RECENT DEVELOPMENTS**

**Comparative Retail Prices.** The most basic, straightforward measure of the effect of U.S. sugar policy and import restraints on American consumers is to compare the price they pay for sugar with the price paid by their counterparts in other countries.

A survey done by SIS International in 2012, utilizing primarily Euromonitor reports on a large number of developed and developing countries, representing 60% of global sugar consumption, revealed that American consumers are faring quite well (Chart 12).

- Worldwide, foreign consumers paid on average 14% more for sugar than American consumers.
- Developed-world consumers paid 24% more.

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\(^\text{12}\) See USDA/FAS: “The USDA’s Sugar-Containing Products Re-Export Program is designed to put U.S. manufacturers of sugar-containing products on a level playing field in the world market. U.S. participants in the Sugar-Containing Products Re-Export Program may buy world priced sugar from any of the refiner participants or their agents for use in products that will be exported onto the world market.” http://www.fas.usda.gov/itp/imports/Sugar/sugarreexport.asp

\(^\text{13}\) USDA/ERS U.S. sugar supply demand Table 24a: http://www.ers.usda.gov/Briefing/Sugar/data.htm
 Aside from modeling theoretical situations with future policy and price scenarios, this measure—actual relative consumer prices—would appear to provide the most straightforward proof that American consumers are being helped by U.S. sugar policy, and not harmed by it.

**Industry Contraction.** American sugar producers are vulnerable to lower prices. From 1985, the year of their last support price increase, until 2009, the year when a modest phase-in of a 0.75-cent increase in their 18.00-cent-per pound loan rate began, more than half of all U.S. sugar producing operations closed, 54 closures in all (Charts 13).

**Industry Competitiveness.** The surviving U.S. sugar producers are among the most efficient in the world, even while complying with arguably the world’s highest worker, consumer, and environmental standards. LMC International recently found American producers to be the 20th lowest cost of 95 sugar-producing countries or regions (Chart 14).\(^{14}\)

**World Dump Market.** Despite their low costs of production, U.S. producers cannot compete on a volatile world sugar market that remains distorted by foreign subsidies and generally does not reflect the global average cost of producing sugar. During 1988–2008, the world average cost of producing sugar averaged 51% more than the so-called world market price (Chart 15). This seems count-intuitive: How could the world sugar industry exist with market prices so far below average production costs?

The answer lies in the actual prices received by sugar farmers around the world, plus the extensive government subsidy and support programs provided to sugar industries in virtually all sugar-exporting countries. Wholesale sugar price reporting is difficult to come by, but the International Sugar Organization does maintain a series of wholesale prices in the seven largest consuming countries, who combined account for about half of world sugar consumption. The ISO series shows that producers are, in fact, receiving prices that allow them to stay in business. Over a 10-year period tracked by the ISO, wholesale refined prices in these countries—including large developing countries China, India, and Brazil—averaged 61% higher than the world market refined price (Chart 16).

We would also note that the most recent ISO wholesale average refined price, for November 2012, was 36 cents per pound. The current U.S. average wholesale refined is considerably lower, at 28 cents.

**Converging U.S. and World Prices.** The swift decline in U.S. raw and refined sugar prices has brought them to, or below, world prices levels, despite the fact that world prices have also declined over the past year. To compare the world raw prices, basis Caribbean, and world refined prices, basis London, market analysts typically add three cents per pound transportation to the United States to the price of raw sugar and six cents per pound to refined sugar. As charts 17–20 illustrate, world and U.S. raw and refined sugar prices have effectively converged, with world prices, adjusted for transportation, currently a bit higher than U.S.

This is a critical development relative to any potential finding that increased U.S. access to world-priced sugar would represent any savings to U.S. buyers.

EU Experience. The European Union sought to “reform” its sugar regime in 2006 by reducing producer support prices 36% (to a level still higher than the U.S. support price), cutting sugar production, and making the region more dependent on imports. The results proved to be fairly disastrous, but perhaps instructive.

Production fell by 20%, 83 mills closed, and 120,000 jobs were lost. The foreign sugar that was to enter the EU to make up the production shortfall did not materialize because EU prices were too low. Sugar shortages became widespread, some rationing was reported, and EU sugar prices rose dramatically as a result – to levels 10% above those before the “reform.” Consumer prices for sugar and products continued to rise throughout this period. European sweetener users who had lobbied for the reform now complain about the results.15

Sustained low producer prices in this country could yield similar undesirable results.

Sugar Import Quality, Availability, Dependability. Though U.S. food manufacturers were generally pleased with the NAFTA-mandated opening of the U.S. market to Mexican sugar, they have generally not been pleased with the quality of Mexican refined sugar. Though quality is improving, gradually, much of the imported Mexican “refined” sugar has not met U.S. safety and quality standards and has had to be redirected to cane refiners and other operations for further processing – cleaning, re-refining, repackaging.

The ITC did not address the challenges U.S. food manufacturers might face in locating foreign refined sugar to replace domestically sourced sugar. The refined share of world sugar exports has declined, from 47.3% in 2005 to 39.5% in 2011.16 In particular, the quantity of high-quality refined sugar on the world market has fallen dramatically. The European Union, the major source of high-quality refined sugar for decades, reduced its refined exports from 5-6 million metric tons per year (peaking above 8 million tons in 2005/06) to only about 1.5 million tons currently.17

Refined sugar imports from developing countries, such as Brazil, face quality issues like Mexico’s, plus dependability uncertainties because of the distances and other ocean-shipping challenges involved. Moving food-grade product is very different than moving a raw commodity. Raw sugar can be moved relatively cheaply, in bulk, in the hulls of ships. U.S. cane refiners remove all impurities. Foreign refined sugar must be shipped in moisture-tight containers. Food safety is a much bigger issue for sugar not refined here.

In its projection of an apparently smooth and economically beneficial transition of U.S. food manufacturers from U.S.-sourced to foreign-sourced refined sugar, the ITC did not make any reference to the considerable challenges, and cost, of locating sources of refined sugar as prompt, dependable, safe, and high-quality as U.S. suppliers.

For example, U.S. refined sugar suppliers routinely provide “just-in-time” delivery so reliable that food manufacturers have shed storage facilities and shifted their inventory costs to nearby U.S. producers. Food manufacturers would be far less able to exist on just minimal inventories if they are depending on shipments from distant foreign countries.

The U.S. is already of the world’s largest sugar importers. Further reliance on foreign sugar, predominantly from developing countries with lower food safety standards than in the United States, would raise important food security issues for this country.

A study by the U.S. commodity research firm McKeany-Flavell examined the effect on U.S. sugar buyers if the U.S. were fully exposed to duty-free imports of foreign sugar. The authors detailed a myriad of logistical challenges for buyers and concluded: “Our recommendation: be careful. Significantly greater United States dependence on imported sugar may not guarantee lower sugar pricing over the long term.”

CONCLUSION

The ITC’s calculation of a net economic benefit to the United States from the possible lifting of sugar import restraints is fundamentally flawed. The ITC has underestimated the number of jobs involved in the sugar producing industry and potential losses to the U.S. economy and the damage that could result from lifting the remaining restraints on imports from the world dump market. The ITC has also over estimated the potential benefit to food manufacturers, and the economy, of gaining access to cheaper world market sugar.

This investigation needs to take into account that:

- There are far more American jobs dependent on the U.S. sugar-producing industry than the ITC has previously estimated and that the volatility and severely depressed prices that have historically characterized the world dump market could be more harmful than ITC’s previous analyses projected.
- Consumers are extremely unlikely to see lower retail prices for sugar and sweetened products if producer prices fall. Even if retail prices were to decline, the reduction in product prices would be far too small to spark increased demand, and the resulting confectionary job growth that ITC has previously projected.
- The experience of the United States and European Union the past several years demonstrates the danger of lower prices to producers, as well as the absence of any passthrough of those lower prices to consumers.
- American consumers already pay significantly less for sugar than their counterparts abroad.
- U.S. food manufacturers’ access to world price sugar that is priced roughly the same as U.S. sugar will provide them no measurable benefit.

As a result of these factors and experiences, we urge the ITC to find there would be a net cost to U.S. society absent U.S. import restraints, rather than a net benefit.

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Chart 1

U.S. Sugar: Production and Consumption*
1996/97 - 2012/13
-- Thousand Metric Tons, Raw Value--

Consumption

Production

Steady consumption rise

Strong production recovery

Chart 2

Mexico Sugar: Production and Consumption*
1996/97 - 2012/13
-- Thousand Metric Tons, Raw Value--

Production

Consumption

Beverage industry transition from sugar to HFCS: Complete?

* Domestic Food Use
Data Source: USDA, 2012/13 forecast.
Chart 3

U.S. and Mexico Sugar: Combined Production and Minimum Imports and Consumption*
1996/97 - 2012/13

-- Thousand Metric Tons, Raw Value --

* Domestic Food Use
Data Source: USDA, 2012/13 forecast.

** Mexico and U.S. Production plus U.S. Minimum Imports (WTO, CAFTA, Colombia, & Panama)

In 2012/13: 1,098,000 mt regional surplus projected -- first surplus in six years;
Trade speculation Mexican crop could be 500,000-600,000 mt higher than USDA's March forecast

Chart 4

U.S. Raw Cane Sugar Prices, 1997-2013: Price Falls Below Loan Forfeiture Level

-- Cents per pound --

February average price below sugar loan forfeiture level = potential government cost for first time since 2002

2012/13-Crop Forfeiture Level: 20.94 cts/lb

Source: USDA. Raw cane sugar, nearby #14 and #16 contracts, delivered New York. Monthly average prices, Jan 1997-Feb 2013. FSA-calculated forfeiture range31A
Chart 5

**U.S. Wholesale Refined Beet Sugar Prices, 1997-2013**

*Prices Falling to Near Loan Forfeiture Levels*  
--- Cents per pound ---

Note: Spot market asking prices. Bulk actual sales to large buyers often at substantially lower price levels.


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Chart 6

**U.S. Chocolate and Non-Chocolate Confectionery Production**  
--- 1,000 Kilograms ---

Chart 7

Sugar Cost as % of Retail Product Price*
- Sugar Share Mostly Insignificant -

*Sugar content computed from nutrition label. Assumes USDA-reported January - June 2012 average wholesale refined sugar price of 49.47 cents per pound. February 2013 wholesale sugar price: 28.50 cents per pound.

Chart 8

Real Reasons Some Candy Companies Have Left the U.S.

Chart 9

U.S. Price Changes Since 2010:
Wholesale Sugar Down 52% but Retail Sugar and Sweetened Products Up
August 2010 = 100 Percent

Food manufacturers and retailers do NOT pass savings on lower producer prices along to consumers


Chart 10

Producer Prices for Sugar Fall, But Retail Prices for Sugar and Sweetened Products Rise
-Price changes from Summer 2010 to January/February 2013-

Producer Prices

-39.3%
-52.1%
13.1%
5.4%
7.1%
7.8%
8.1%
17.3%

Consumer Prices

Chart 11

Producer Prices for Sugar Falling Sharply, But Consumers See No Benefit; Gap Widens Over Past Two Years

Since summer 2010:
Producer prices down 52%
but consumer prices up 13%

Gap = 40 cents
Grocery chain profits, harm to producers, no help to consumers

Gap = 1 cent

Chart 12

Developed-Country Average Retail Sugar Price: 24% Higher than U.S.; Global Average: 14% Higher than U.S.

American sugar consumers benefit from U.S. sugar policy: Lower retail prices than most of rest of world
Since Last Sugar Loan Rate Increase in 1985: More Than Half of U.S. Sugar-Producing Operations Have Shut Down

1985 Total = 102

Beet Factories
42

Cane Mills
42

Cane Refineries
18

2011 Total = 48

54 closures since 1985; 1 since 2008

Source: American Sugar Alliance, 2013

U.S. costs of production ranking among the world’s sugar producers, 2010/11

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<td>All sugar</td>
<td>95</td>
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LMC International Ltd, August 2011
World Sugar Dump Market Price: Historically Does Not Reflect Actual Cost of Producing Sugar
--- Cents per pound, raw value ---

World average cost of producing sugar averaged 51% more than world price during 1989-2008

Sources:
- Price: USDA, New York Board of Trade/ICE, Contract #11, raw cane sugar, stowed Caribbean port; Monthly avg prices through Jan 2013.

Actual Wholesale Sugar Prices in Major Consuming Countries
Much Greater than World Dump Market Price
--- Cents per pound of refined sugar, 2003-2012 ---

2003-2012 averages: ISO actual wholesale (31.48 cents) exceeds #5 London contract (19.51 cents) by 61%. ISO average reflects actual costs and sales for most sugar; world market futures price does not.

* Brazil, China, European Union, India, Mexico, Russia, United States -- represent approximately half of world sugar consumption.
**World and U.S. Raw Sugar Prices Converge**

--- Cents per pound, raw value ---


*Gap = U.S. price minus sum of world price plus 3 cents transportation.

**World and U.S. Raw Sugar Price Gap:**

World Price Exceeds U.S. in 2013

--- Cents per pound, raw value ---


*Gap = U.S. raw price minus sum of world raw price plus 3 cent transportation.
World and U.S. Refined Sugar Price Gap:*
World Price Exceeds U.S. in 2013
--Cents per pound, raw value--

Refined Price Gap:
U.S. Minus
World Plus
6 Cents Shipping


*Gap = US refined price minus sum of world refined price plus 6 cents transportation.
Appendix A

U.S. Candy Companies: Profitable, Expanding, and Adding Jobs
(excerpts from press reports)

“Tootsie Roll Industries reported higher earnings for 2012 as improving sales offset higher ingredient costs. For the full year, the Chicago company earned $52 million, or 89 cents per share, compared with $43.9 million, or 74 cents per share, in 2011. Sales rose to nearly $546 million from $528.4 million a year earlier.”

Chicago Tribune, March 4, 2013

“Taste of Nature Inc. is opening a new manufacturing facility in an effort to grow its panned chocolate confections and increase its cotton candy production and the capacity of its Shari Candies peg bag line. The company has purchased a 60,000-sq.-ft. facility in Chicago…[and] also expanded its workforce hiring 40 additional workers in the facility.”

Candy Industry.com, February 8, 2013

“US-based candy manufacturer American Licorice is set to invest $10m to expand its manufacturing facility at La Porte, Indiana… The company is planning to create additional jobs in the forthcoming year.”


“Bimbo Bakeries USA has purchased 30 acres of land in Macungie Township, Pa., to build a new $75 million bakery that will bring more than 100 jobs to the area and produce bread and buns for the Northeast, the company said.”

BakingBusiness.com, January 8, 2013

“[Kimmie Candy] has been growing 30 percent a year since [company owner Joe] Dutra relocated it from Sacramento, Calif., to Reno in 2007. He is finishing plant expansion now and anticipates he will need a larger building in 18 months.”

Las Vegas Review-Journal, November 1, 2012

“While most industries overall saw marked declines during the recent economic recession, people in the confectionery industry -that's right, candy- say their business was and remains recession proof…[Hammond’s Candies] has a workforce of 120 employees and has recently acquired a taffy company.”

KUNC Radio, July 10, 2012

“The founder and chief executive officer of candy maker and marketer Promotion in Motion Inc. plans to add as many as 100 jobs at the company's Somerset [NJ] factory by early 2013 to keep up with anticipated growth.”

NorthJersey.com, June 5, 2012
“The Chocolate Chocolate Chocolate Company soon will have more space space space. The St. Louis-based chocolatier has announced plans to open a new state-of-the art 30,000-sq.-ft. chocolate factory in the heart of its hometown later this year. Their new facility will double production on the first day and will increase production tenfold, the company says.”

*CandyIndustry.com, May 2, 2012*

“The Wrigley Manufacturing Company will add 54 new jobs locally when a $409,244 expansion of its existing facility is completed.”

*Nooga.com, December 5, 2011*

“Topeka received some sweet news when Mars Inc. selected the capital city of Kansas for a new $250-million, 200-worker chocolate factory.”

*Site Selection magazine, November 2011*

“The Hershey Company West Hershey plant expansion will add 340,000 square feet to the existing production plant. ‘We’re building for the next 50 or 100 years,’ said Wade Latz, vice president-global engineering operations, as he toured the facility Wednesday. ‘This is a quarter-billion dollar investment.’”

*The Patriot-News, September 22, 2011*

“Spangler Candy Co. is embarking on a $400,000 expansion of its factory in northwest Ohio to make more candy canes… The company will add 20 to 30 jobs to handle the extra work.”

*Columbus Business Journal, August 31, 2011*

“Richardson Brands in Canajoharie, N.Y., which makes 80% of the world's rock candy, has seen sales rise 5% a year during the economic downturn and expects to add 80 jobs in 2012.”

*WRGB-TV Albany, August 23, 2011*

“BestSweet, a confectionery products manufacturer, is investing $6.4 million over three years to expand its Mooresville [NC] operation… The company recently invested $14 million in its Mooresville operation to add 40,000-square-feet in manufacturing space, and a 140,000-square-foot warehouse and distribution facility. The company also recently added 70 new jobs.”

*The Charlotte Observer, July 21, 2011*

“Confectionery job growth trumps green energy job growth in Michigan.”

*Michigan Capitol Confidential, May 8, 2011*