Sugar Price Survey

August 2012

America’s Sugar Producers… Meeting America’s Needs
Introduction

Nearly two-thirds of continental United States is experiencing moderate to extreme drought, which has affected nearly 90% of the nation’s corn and soybean acres, according to the drought monitor. Weather conditions are expected to worsen and commodity prices are climbing, with one notable exception: Sugar.

Sugar prices have fallen 30% over the past two years and continue a downward march as the U.S. Department of Agriculture (USDA) projects 1.8 million tons of surplus sugar overhanging the U.S. market in 2012—the most in nearly a decade. To put that figure into perspective, it’s enough leftover sugar to provide every man, woman, and child in the country with 12 pounds of sugar on top of what they already consume.

So one would assume that the price of things like candy, cakes, ice cream, or even bags of sugar at the grocery store would be falling right along with wholesale sugar prices. In fact, the opposite has happened as food manufacturers and grocers increase prices to boost profits.

An examination of numerous sweetened products, conducted by the American Sugar Alliance (ASA), uncovered that chocolate bar prices are up 28% since the summer of 2010. Other candy products included in the ASA’s annual price survey have climbed 20%, while cake mixes and frosting are 24% higher, and ice cream costs 48% more.

Higher food prices haven’t seemed to deter consumers from purchasing sugar-containing products. Domestic production in the confectionery business, for example, is steadily growing right along with sales and revenue. There have even been a series of major expansion announcements in the industry to help meet growing demand.

The confectionery business has dubbed itself “recession resistant” and has publicly compared its profitability to that of large oil companies. Data made available by both the candy and oil industries, however, show candy production as being far more profitable.

With so much success and the promise of continued falling sugar costs, why then are large candy companies in the middle of a multi-million-dollar lobbying effort to gut the country’s no-cost sugar policy? They’ve urged lawmakers to imperil U.S. sugar producers and leave the country dependent on foreign suppliers, who they believe can undercut U.S. prices because of foreign subsidies and low labor and environmental standards.

So far, neither the American public nor the United States Congress has supported the big candy makers’ scheme or believed their rhetoric. Since June, there have already been four bipartisan votes in Congress to maintain the current U.S. sugar policy—a policy that has allowed everyone to prosper since taking hold in 2008.
Affordable Sugar Prices are Falling

Most agricultural commodity prices have risen dramatically since 2005 as a mix of increased global demand and adverse weather have tightened supplies. For grains, the ongoing drought in the Midwest—which could trump the unprecedented drought of 1988 that caused $78 billion in damages—has only exacerbated the problem.

But according to a July 23 article by Reuters, escalating grain prices should have little immediate impact because of food makers’ hedging techniques that minimize market volatility and falling prices for non-grain crops. The news service noted, “Right now, about 80% of packaged food companies have lower overall commodity costs compared with last year, according to Janney Capital Markets analyst Jonathan Feeney, due to steep declines in other ingredients like sugar, cocoa, peanuts and durum wheat.”

Under the 2008 Farm Bill, U.S. sugar prices have trended lower than other U.S. crops and did not experience the same volatility of global sugar prices—which skyrocketed because of shortages—thanks in part to sugar policy’s inventory management principles.

In the last two years, many of the gains made in U.S. wholesale sugar prices have dissipated due mostly to surpluses on the domestic market. On July 11, the USDA released its latest World Agricultural Supply and Demand Estimates, which showed 1.8 million tons of carryover sugar stocks for 2012.

That amount represents 15% of the entire U.S. market—a figure commonly called the stocks-to-use ratio. For perspective, it is enough leftover sugar to provide every person in America with an extra 12 pounds of sugar, or enough to produce 86 trillion candy bars.

The USDA is predicting a near 15% stocks-to-use ratio in 2013 as well.
It is little wonder that U.S. wholesale prices are down 30% since the summer of 2010 and are expected to head lower still. And the wholesale prices listed by the USDA are usually much higher than the actual transaction price.

Inder Mathur, the CEO of Western Sugar Cooperative, served as a featured speaker at the USDA’s annual Outlook Forum held in March 2010. Mathur noted during his presentation that reported asking prices are just that: asking prices. Although company sales data is proprietary, he estimated that sugar companies sell sugar for 25 to 30% cheaper than the reported USDA asking price.

Industry experts also estimate that only between 20 to 25% of sugar sold in the country is actually traded at this asking price, with three-quarters of inventory trading below that ceiling.

So what does the affordability of wholesale sugar mean for U.S. grocery shoppers? Unfortunately, not much because large food manufacturers pocket the savings as profit instead of sharing the windfall by lowering the price of sweetened foods.

According to McKeany-Flavell Company, a well-respected commodity research firm that works for industrial sugar buyers and sellers, “food manufacturers historically have not passed savings from lower input costs along to consumers.”

Grocery shoppers have taken note. A national poll conducted by Harris Interactive in July found that 76% of Americans believe that food manufacturers will pocket the savings from falling sugar prices to boost profits rather than lowering food costs.

The lopsided findings are surprising because the Harris poll also showed that Americans believe sugar makes up a much larger percentage of a food product’s cost than it really does, and they think sugar is much costlier than it actually is. Americans, on average, said they believed 22 percent of a candy bar’s cost was sugar, whereas the actual make up is 2 percent.

Asked how much a pound of sugar costs, the average answer was $4.80, with more than half of respondents answering more than $2 a pound. Food makers paid less than 45 cents for a pound of sugar in June, according to government data, and retail sugar prices are about 68 cents.

Harris Interactive Also Found

- 90% of U.S. adults believe it is important to produce food domestically instead of relying on foreign suppliers.
- 65% of U.S. adults said they’d rather buy sugar grown in the United States than overseas, even if U.S. sugar were to cost more.
- 78% of U.S. adults don’t believe there have been shortages of sugar in the United States. That is noteworthy because other countries have experienced short supplies.
Not only are current sugar prices cheaper than Americans think, but U.S. retail sugar prices are also cheaper than world averages. A June study conducted by SIS International Research shows that grocery shoppers in the rest of the world pay, on average, 14% more for sugar than American consumers. Shoppers in other developed countries are forking over 24% more.

Major candy companies have pointed to Canada as a model for how the U.S. sugar market should operate. But according to the SIS sugar price study, Canadians pay 10% more than their American counterparts. Mexican shoppers are paying 12% more.

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

Source: SIS International Research, "Global Retail Sugar Prices," May 2012, from Euromonitor, International Monetary Fund; 2011 prices. Surveyed countries represent 60% of global sugar consumption. Developed countries include OECD member countries and Hong Kong.
Candy Prices are Rising

The Harris Interactive poll released on July 11 also noted that 81% of Americans have noticed that the price of food and candy has gone up since the summer of 2010, when sugar prices started to fall. They are correct.

Despite a drop in both raw and wholesale sugar prices, the cost of sweetened products has steadily climbed. Prices of ice cream, in particular, have soared, increasing 12% over the past two years.

Most surprising in the above chart, may be the cost of retail sugar on grocery store shelves, which has climbed 13% amid falling wholesale prices. Nearly 70% of Americans told Harris that they’ve noticed an increase in retail sugar prices as well, and that increase is hard to justify.

Bags of retail sugar include one ingredient, sugar, and that ingredient’s price is falling fast. Furthermore, sugar producers package the sugar and ship it directly to the grocery store, taking transportation and much of the labor out of the equation.

As the chart on the following page shows, that translates to pure profit for the grocers.
To see how these national food trends played out in local stores, ASA took a shopping trip to the store nearest its offices—the same grocery store visited on a near annual basis to gauge consumer prices. We found rising prices for sugar-sweetened products, in some cases much larger increases than the national average changes shown on the previous page.

### Sugar-Containing Product Prices Rose Even Though Sugar Prices Fell

<table>
<thead>
<tr>
<th>Item</th>
<th>Manufacturer</th>
<th>Item Price in 2010</th>
<th>Item Price in 2012</th>
<th>Price Increase</th>
<th>Cost of Sugar in Item</th>
<th>Sugar Share of Product Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chocolate</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hershey Bar</td>
<td>Hershey</td>
<td>$1.09</td>
<td>$1.30</td>
<td>27.5%</td>
<td>$0.02</td>
<td>1.73%</td>
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<tr>
<td>M &amp; M's</td>
<td>M&amp;M Mars</td>
<td>$1.09</td>
<td>$1.39</td>
<td>27.5%</td>
<td>$0.03</td>
<td>2.43%</td>
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<tr>
<td>Crunch</td>
<td>Nestle</td>
<td>$1.09</td>
<td>$1.39</td>
<td>27.5%</td>
<td>$0.03</td>
<td>2.16%</td>
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<tr>
<td>Butterfinger</td>
<td>Nestle</td>
<td>$1.09</td>
<td>$1.39</td>
<td>27.5%</td>
<td>$0.03</td>
<td>2.16%</td>
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<tr>
<td>Other Candy</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jolly Ranchers</td>
<td>Hershey</td>
<td>$2.70</td>
<td>$3.00</td>
<td>10.80%</td>
<td>$0.13</td>
<td>4.27%</td>
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<tr>
<td>Starburst</td>
<td>M&amp;M Mars</td>
<td>$1.09</td>
<td>$1.39</td>
<td>27.5%</td>
<td>$0.04</td>
<td>2.87%</td>
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<tr>
<td>Skittles</td>
<td>M&amp;M Mars</td>
<td>$1.08</td>
<td>$1.39</td>
<td>27.5%</td>
<td>$0.05</td>
<td>3.66%</td>
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<tr>
<td>Lifesavers</td>
<td>Nabisco</td>
<td>$2.49</td>
<td>$2.79</td>
<td>12.0%</td>
<td>$0.18</td>
<td>6.45%</td>
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<tr>
<td>Cakes/Frosting</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pillsbury Yellow Cake</td>
<td>Kraft</td>
<td>$2.09</td>
<td>$2.39</td>
<td>14.4%</td>
<td>$0.27</td>
<td>11.49%</td>
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<tr>
<td>Duncan Hines Chocolate</td>
<td>Proctor &amp; Gamble</td>
<td>$1.79</td>
<td>$1.99</td>
<td>11.2%</td>
<td>$0.26</td>
<td>13.15%</td>
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<tr>
<td>Duncan Hines Frosting</td>
<td>Proctor &amp; Gamble</td>
<td>$1.79</td>
<td>$2.69</td>
<td>50.3%</td>
<td>$0.31</td>
<td>11.59%</td>
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<tr>
<td>Ice Cream</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Ben &amp; Jerry's Vanilla</td>
<td>Ben &amp; Jerry's</td>
<td>$2.99</td>
<td>$4.99</td>
<td>66.9%</td>
<td>$0.08</td>
<td>1.66%</td>
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<tr>
<td>Safeway Chocolate</td>
<td>Safeway, Inc.</td>
<td>$2.99</td>
<td>$4.99</td>
<td>66.9%</td>
<td>$0.18</td>
<td>3.67%</td>
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<tr>
<td>Breyers Strawberry</td>
<td>Good Humor</td>
<td>$4.99</td>
<td>$6.99</td>
<td>40.1%</td>
<td>$0.20</td>
<td>2.81%</td>
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<tr>
<td>Klondike Bars (6pk)</td>
<td>Unilever</td>
<td>$2.99</td>
<td>$3.49</td>
<td>16.7%</td>
<td>$0.12</td>
<td>3.37%</td>
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</tbody>
</table>

Source: Safeway.com, June 2010 and July 2012.

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

Wholesale sugar prices down 36% from Summer 2010 to Summer 2012.
ASA found in its comparison of prices between 2010 and 2012 that chocolate bar prices are up 28%. Other candy products included in the annual price survey have climbed 20%, while cake mixes and frosting are 24% higher, and ice cream costs 48% more.

The rapid increase in prices for chocolate and candy becomes even more noticeable when you compare these same prices to product costs in 2008 when the current Farm Bill went into effect.

- The Hershey bar that costs $1.39 today was 90 cents in 2008—a 54% increase.
- M&M’s and other chocolate bars increased by an identical amount to the Hershey bar from 2008 to 2012.
- The biggest price increase, a 100% jump, was seen in Werthers Original candy, which spiked from $1.25 in 2008 to $2.50 today.
- Milk Duds likewise took a hefty jump, rising to $3.69 from 2008’s price of $2.59.
- Jolly Ranchers were not on the ASA shopping list in 2008, but in 2009 a bag cost $2.49 instead of today’s price of $2.79—a 12% difference.
- Starburst and Skittles candies likewise didn’t make the cut during the 2008 shopping trip, but in 2009, packages cost 99 cents. That’s 40 cents cheaper than the current $1.39 price.
- Lifesavers, at $2.79 in 2012, are 14% more expensive than they were in 2009.

With ingredient costs falling and grocery store prices rising, it’s easy to see why profits are high for confectioners.
Candy Companies Are Thriving

On July 10, a radio station out of Greeley, Colorado, summed up the state of affairs pretty well and repeated a story that’s played out time and time again across this country since 2008.

“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,” the radio station reported.

The story noted job growth in the candy business and stated, “the U.S. candy manufacturing industry grew by 5% last year and has a total annual revenue of around $20 billion.”

This piece hit home with sugar producers for two reasons. First, Greeley is a major sugarbeet-producing area. Second, Colorado’s sugar producers and the more than 5,000 jobs they support are under attack by the powerful candy business in the halls of Congress, all while candy makers are claiming financial hardship as the reason they are attacking sugar growers.

Alan Welp is among the Colorado sugar producers being targeted by the confectioners’ multi-million-dollar lobbying blitz. In an article he penned earlier this winter, Welp explained that the attack on sugar producers and their no-cost policy isn’t sitting well because candy companies have clearly profited under the 2008 Farm Bill.

Since current sugar policy was approved, “the U.S. Census Bureau notes that production of confections in America have remarkably climbed 2.5%,” Welp wrote.

And if you don’t believe Welp, you don’t have to look much further than the candy industry’s own National Confectioners Association (NCA) for signs of prosperity. Here’s a sampling of what they’ve had to say since 2008 about their profitability.

- “Not only is confectionery a large product category…it is a high profit category.”
  National Confectioners Association, January 2008

- “The retail profit margin is approximately 35% for the confectionery category.”
  National Confectioners Association, May 2009

- “Confectionery [is] seen as a recession resistant category.”
  National Confectioners Association, February 2010

- “Despite a shaky economy for the past two and half years, sales continue to increase an average of 3% per year, with a nearly 4% gain this past year.”
  National Confectioners Association, March 2011

- “Despite a difficult economy, consumer dollars spent on confectionery products at retail continue to rise... Confectionery retail sales have grown steadily since 2007, increasing from $27.4 billion to $32.1 billion in 2011.”
  National Confectioners Association, May 2012
Perhaps most remarkable was a quote by NCA President Larry Graham that boasted of besting the oil industry in recent years.

“So many people and so many companies still are entering into this [U.S. candy] business,” he said during a November 2011 television appearance. “A lot of people think that it’s oil and energy that drives this economy, but it’s candy, it’s chocolate that’s doing well in this economy.”

Graham is correct. The 35% profit margin his association cited for confectioners trounces the 6.7% profit margin realized by the world’s five biggest oil and gas companies.

Why then would the NCA and its member companies be so aggressive in an anti-sugar lobbying effort? Because they want to squeeze higher profit margins, even if it means outsourcing U.S. sugar jobs to pocket a few extra pennies a pound in ingredient costs.

And they seem willing to say anything to achieve their end goal. The most blatant example of the misinformation effort is the accusation that candy makers are losing jobs because of sugar policy.

Such claims make for a convenient soundbite in today’s economy but are patently false.

Peter Buzzanell, a former USDA official and expert in the confectionery business found in 2009 that candy company flight to low-wage countries “has run its course and that trend of job loss may be reversing itself.”

Candy companies have put out plenty of press releases recently that seem to confirm Buzzanell’s finding. Here’s just a sampling of the recent good news:

• “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

• “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

• “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
• “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

• “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

• “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

• “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

• “Confectionery job growth trumps green energy job growth in Michigan.”
  Michigan Capitol Confidential, May 8, 2011
Sugar Policy

Seeking legislative handouts to further boost profit margins is nothing new for candy makers. Fights over no-cost sugar policy are decades old. What has changed though, is the legislative wish list for confectioners.

Throughout the ‘90s, and until about 2006, sugar policy opponents lobbied for a complete repeal of sugar policy—an action that would leave the United States entirely dependent on subsidized foreign sugar. During that time, sugar producers and their bipartisan supporters on Capitol Hill successfully turned back nearly annual attempts to eliminate the policy.

Calls for elimination temporarily subsided during the 2008 Farm Bill. Shortly before that bill was debated, Hurricanes Katrina, Wilma, and Rita harmed domestic supplies, temporarily reduced U.S. sugar refining capacity, and gave food manufacturers what they had been clamoring for—a supply of refined sugar from mostly foreign sources.

Those foreign sugar shipments were often late, and when they arrived the refined sugar wasn’t fit for human consumption. Much of it had to be re-refined by U.S. companies to remove metal shavings, hunks of burlap, and even rat feces. Delays and refining issues added to the sugar’s cost and ultimately created problems for confectioners.

Realizing it needed a strong, vibrant domestic sugar industry, candy companies turned their attention in 2008 to transforming no-cost sugar policy into a subsidy-check system modeled after other commodities.

This proposed overhaul was meant to use taxpayer money to buy down ingredient costs, but its $1.3 billion-a-year price tag found few supporters and was quickly dismissed. Congress instead continued the no-cost sugar policy that had worked so well for decades.

2012 brought yet another policy change by confectioners. They began by lobbying for complete repeal of sugar policy, but such extreme actions were unpopular on Capitol Hill—especially amid growing deficits and sugar policy’s $0 cost. In fact, the Senate formally rejected this idea during a vote on June 13.

Opponents then presented a proposal to slowly chip away at the very foundation of sugar policy. This “reform” proposal would mandate chronic oversupplies on the sugar market, artificially lower market prices, and impair the USDA’s ability to maintain the policy’s no-cost attributes.
ASA’s spokesman said in a July 20 interview with the Capital Press, "That [proposal] would have been a slow, painful death, whereas the first [repeal] amendment would have been a very quick death." But the final outcome, he said, would be the same: bankrupting U.S. sugar farms and outsourcing U.S. sugar jobs.

The Senate rejected this “reform” proposal as well during a vote on June 19. The House Agriculture Committee followed suit on July 11 and voted against the candy company plan by a three-to-one margin.

The 2012 Farm Bill still must pass the full House of Representatives, and the ASA fully expects additional amendments as the process unfolds. Before upcoming votes, sugar producers are working hard to educate Congress about the ramifications of foreign sugar dependence.

In a July 16 email to all Capitol Hill offices, the ASA explained:

"Europe “reformed” its sugar policy in 2005, and the end result has been an unpleasant surprise.

- Since the “reform,” sugar prices in Europe have skyrocketed.
- Grocery shoppers in Europe pay 19% more for sugar than Americans.
- A recent SugarOnline.com article quotes a major industrial sugar buyer saying, “EU sugar users have seen an increase of 40% in sugar prices within the last year, leading to significant financial instability for many food manufacturers across Europe.”
- Europe lost much of its domestic sugar industry as a result of “reform.”
- Europeans are having trouble finding sugar, with press reports of rationing in Germany.

No wonder EU sugar producers told their American counterparts, “Don’t make the same mistake.”

Europe hasn’t been alone in issuing stern warnings about foreign dependence.

McKeany-Flavell explained in a March 2009 paper, “[W]e must recognize the value U.S. sugar producers offer to consumers. Providing consistent quality and supply, in the requested packaged form, and through just-in-time deliveries…is a very complex and difficult process that cannot be recreated overnight, if at all, through a 100-percent sugar import program.”

Seems like sound advice. Will Congress listen?