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GOVERNMENT POLICY CONCERNS

**Tom McKenna
President
United Sugars Corporation**

(See Chart 1)

Thank you for the introduction John. Good morning Ladies and Gentlemen.

My goal for the next 10 minutes is to share with you a Sugar Marketers perspective regarding Government Policy Concerns for the Domestic Sugar Industry.

I plan to review the type of market attributes both buyers and sellers should expect for Agricultural Commodity Product markets, like sugar.
And we will follow that review with discussion about the Crisis the domestic sugar industry finds itself in today.

I will also address why the government has a role and a responsibility to restore order to the domestic sugar market along with an itemized list of Major Policy Concerns and how they should be addressed in the near future.

Commodity Market Needs: (See Chart 2)

I am proud to be a part of one of the world's most efficient and sophisticated sugar production and delivery systems that is highlighted with "just-in-time" delivery of large quantities of high-quality sugar.

But, I am very concerned about the crisis the domestic sugar industry is in due to problems with government domestic and foreign trade policies.

As this chart shows, Efficient Commodity Markets demand that buyers and sellers have a reasonable understanding of: 1) Product Availability 2) Price Predictability 3) Opportunities for efficient participants to invest in their businesses 4) and lastly but most importantly, the need for sound, well thought out, government policy that supports stability in these market attributes.

Domestic Sugar Industry "Period Of Extreme Uncertainty": (See Chart 3)

The domestic Sugar Industry is in a Period of Crisis and Extreme Uncertainty. The primary underlying reason for the problem is that Government Policy, as it relates to the sugar industry, is not effective.

The results are evident: 1) last year we experienced the lowest market price for sugar in close to 20 years. 2) as a result, at least 50 % of the domestic sugar industry is in a radical "shake out" while 3) most all participants have put facility reinvestment needs on hold.

Current domestic and foreign trade policy, relating to sugar, is not providing needed supply and price stability. As a result, buyers have an increased risk of uncertainty of supply, reduced dependability of delivery and future expectations for lower quality sugar from foreign suppliers in the absence of effective U.S. Sugar policy

Role of Government in Restoring Order to U.S. Market: (See Charts 4&5)

Some ask “Why should the Government play a role in restoring order to the U.S. Sugar market?”

Marketers believe that the government needs to recognize the uniqueness of all domestic agriculture, including sugar cane and beet growers.

Government’s role is:

- 1) to supply basic food needs
- 2) to provide economic viability to rural crop growing areas
- 3) and, to correct failed government policy that contributed significantly to the current crisis in the domestic sugar industry.

Government policy oversupplied the domestic market with foreign sugar by agreeing to:

- 1) overly generous foreign trade agreements
- 2) by failing to control U.S. borders
- 3) and by lacking realistic consideration for the negative impact of their foreign trade policies on domestic sugar growers and processors

Major Sugar Policy Concerns: (See Charts 6&7)

Noted on the next two charts are 4 major policy concerns:

- 1) “Stuffed Molasses” which is the illegal entry of foreign sugar
- 2) uncertainty of Mexican Sugar imports under the NAFTA Agreement
- 3) the threat of Tier II Mexican imports
- 4) and continued increases in the importation of foreign sugar containing finished products that the government does not account for under its current policies.

Sugar Policy Actions: (See Charts 8&9))

To restore reasonable order to the industry, now in severe distress, government policy needs to:

- 1) close the illegal entry of foreign sugar called “stuffed molasses”
- 2) resolve the NAFTA issues so Mexican imports can be defined
- 3) eliminate the Tier II threat from Mexico

- 4) account for the foreign sugar that enters this country in finished products and lastly
- 5) to keep these types of issues in mind when entering into new foreign trade agreements

Summary: (*See Chart 10*)

In summary, the domestic sugar industry is in a severe crisis caused by problems with failed government domestic and foreign trade policies.

The government does have a role and a responsibility to restore order.

The steps they need to take very soon include:

- 1) correcting the overly generous foreign trade agreements
- 2) eliminating the illegal entry of foreign sugar in “stuffed molasses”
- 3) accounting for all foreign sugar imports to U.S.
- 4) and last but not least, learning from past mistakes so it never happens again.



Government Policy Concerns

Sugar Marketers Perspective

*Tom McKenna, President
United Sugars Corporation*



Commodity Market Needs

- ◆ Product Availability
- ◆ Price Predictability
- ◆ Adequate returns to allow re-investment for efficient buyers and sellers
- ◆ Supportive Government/Regulatory Policy



Domestic Sugar Industry

“Period of Extreme Uncertainty”

- ◆ ***Government Policy is not effective***
 - Lowest market price in about 20 years
 - Rapid “shake-out” in domestic industry
 - Re-investment on hold for many processors



Role of Government in Restoring Order to U.S. Market

- ◆ Recognize uniqueness of domestic agriculture
 - Supply food needs
 - Provide economic viability to rural areas
 - Failed government policy contributed to current domestic sugar crisis



Role of Government in Restoring Order to U.S. Market

- ◆ Government Policy oversupplied domestic market with foreign sugar
 - Overly generous foreign trade agreements
 - Failed to control U.S. borders
 - Lacked realistic consideration of negative impact on domestic growers and processors



Major Sugar Policy Concerns

- ◆ **Increased Entry of Foreign Sugar in the Domestic Market**
 - “Stuffed Molasses” imports containing foreign sugar
 - Mexican Sugar Import Uncertainty



Major Sugar Policy Concerns

- ◆ *Increased Entry of Foreign Sugar in the Domestic Market*
 - Threat of Tier II from Mexico
 - Finished Product Imports containing foreign sugar



Sugar Policy Actions

- ◆ Close illegal entry of foreign sugar
 - “Stuffed Molasses”
- ◆ Resolve NAFTA issues
- ◆ Eliminate Tier II threat



Sugar Policy Actions

- ◆ Account for foreign sugar in imported finished products
- ◆ Take into account impact when entering new foreign trade deals



Summary

- ◆ Domestic Industry is in Crisis
 - Failed Government Policies

- ◆ Government has a role to restore order
 - Correct overly generous foreign trade agreements
 - Eliminate illegal entry of foreign sugar
 - Account for all foreign sugar imports
 - Learn from past mistakes