THE U.S. SUGAR INDUSTRY FROM THE POINT OF VIEW OF A CANE SUGAR REFINER

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First of all, I would like to express my thanks to the U.S.D.A. and the organizers of this conference, especially John Love of the World Board, for inviting me to address you today and for soliciting the comments of an independent cane sugar refiner on the future of our industry.

When this topic was first proposed, a colleague of mine suggested (not entirely tongue in cheek) that I might recast the question as, "Does the U.S. cane sugar refining industry, and with it the sugar industry as we know it, have a future?" Let me explain.

Since its inception, the U.S. sugar program has been prejudicial against the interests of cane refiners -- witness the decline in the number of cane refineries by half since 1981, when the current program began. Additionally, those remaining refineries often operate at far less than full capacity.

I would like to make one thing clear. Absent a sugar support program and with free access to the world market, cane refiners believe we could compete with any sugar producer in the world. And if we could not, it would be our own fault and we would have to bear the consequences.

We do not operate, however, in the mythical free market. Instead various sugar regimes, tariff barriers and so-called free trade associations predominate. Additionally, domestic producer/refiners -- the so-called "white-ends" made possible by the benefits accrued to producers by the sugar program -- challenge the traditional refining industry. With that perspective in mind, independent cane sugar refiners require reform of the sugar program in such a way that our needs are recognized and provided for within the context of the program -- until such time as the programs for sugar and other supported crops disappear.

Such an approach is for the good not only of the cane refining industry, but for the industrial users, consumers and the sugar industry as a whole. We all know that cane refiners provide elasticity in the system, running at full capacity to fulfill domestic needs whenever nature delivers a poor beet sugar outturn. Even more to the point, a further decline in refining capacity will jeopardize the nation's sugar supply more than in the past since beet expansion is taking place in regions that are most susceptible to the vagaries of weather. As reliance on cane white-ends grows, the prospect of a poor domestic cane crop further emphasizes the need for sufficient independent capacity capable of refining imported raws. Without sufficient cane refining capacity, industrial users would be forced to rely on imported refined sugar -- with its inherent problems of timeliness and quality for consumers and in direct competition with domestic beet processors and cane producer/refiners.

In 1996, the Senate and House Appropriations Committees requested that the Secretary of Agriculture file a biannual report on the operation of the sugar program. In his most recent report at the beginning of this year, Secretary Glickman stated that the objective of the program is "... to assure an adequate supply of sugar for the citizens of the United States at reasonable prices."

Recognizing that refiners need two things -- an adequate supply of raw materials at a reasonable price, the U.S.D.A. has made strides in achieving the latter of these two objectives. At the urging of the Appropriations Committees the Department promulgated a formula for determining quota increases based on the stock/use ratio of 15.5% in an effort to depoliticize the quota calculation. Thus far, the system has worked well, with #14 prices moving in a relatively stable and modest band as the quota self-adjusts over time.

The U.S.D.A. is to be commended for this policy. At the same time, it should be recognized that there still remains much room for "politics" in the WASDE (World Agriculture Supply and Demand Estimate) numbers, which determine the size of the quota, particularly in estimates of domestic production early in the quota year and the always elusive estimate of sugar blend imports. (It would be even better for U.S. Customs to prohibit the importation of "designer" blends altogether, such as the current influx of sugar molasses mixtures.) We urge the Department to continue to hew strictly to its goal of keeping quota calculations as objective as possible, especially when the statistics suggest that we are on the cusp of a quota increase, as occurred last month. "Transparency" must be preserved.

The question of an adequate supply of sugar is even thornier than the current issue of WASDE-inspired quota increases. Most disturbing to refiners is the free fall in which the import quota currently finds itself. The reduction of the quota from 2.3 million short tons, raw value, in1995/96 to 2.1 million tons last year, to 1.6 million tons or less this year not only causes current hardship for refiners but presages even more declines if crops in the beet sector continue to grow due to expanded acreage and the use of genetically-modified seeds.

The prospect of recourse loans below 1.5 million tons and a WTO-mandated minimum quota of 1.25 million tons provides cold comfort for refiners. Since many beet processors do not use the loan program, the Department may not feel constrained from setting the quota below1.5 million tons in future years. A calculation indicates that the independent refining industry would sustain a capacity utilization level of no more than about 65% by 2000, given a beet crop of 4.5 million tons, white-end production of 1.0 million tons and an import quota of even as much as 2.0 million tons. Such a scenario would presage still more refinery closings, unless a solution to the supply problem is found. Some alternative must be found to provide the cane refining industry with sufficient raw material to keep us afloat -- for the good of consumers, industrial users and the program itself.

Let me turn now to two subsidiary, but nonetheless important, issues about the import quota: shortfalls and quality.

Each year between 4%and 6% of the import quota fails to enter because countries are unable or unwilling to fulfill their allocations. Most countries on this list have not filled their quotas for many years, if ever. With refiners, of necessity, chasing every pound of raw material available within the system, it is imperative that the Department develop an automatic mechanism for the annual redistribution of shortfalls, preferably on a global basis. This approach was adopted on a trial basis for one year, with excellent results.

The quality issue is a much neglected, but an equally important problem. The import quota system by its very nature provides an incentive for exporters to ship their poorest quality sugar to the United States, while reserving better cargoes for choosier world market destinations. Incentives need to be built into the program that reward better quality shippers, even going as far as quota reallocations if need be.

Two important issues remain to be considered, namely, the NAFTA and trade with our other hemispheric neighbors such as the MERCOSUR countries and Cuba.

At present, it appears that talks have broken down between the U.S.T.R. and Mexico's Ministry of Commerce over the HFCS/sugar dispute, following Mexico's issuance of its final determination on countervailing duties for HFCS. Leaving aside the demand by U.S. manufacturers of HFCS that Mexico honor the original terms of the NAFTA which call for declining duties on high fructose corn syrup, cane refiners as well as other elements of the U.S. sugar industry have a keen stake in this issue as well.

With Mexico seeking a *quid pro quo* in terms of greater sugar access into the United States in return for freer HFCS entry into Mexico, U.S. refiners view this issue as an ideal opportunity to clarify the original NAFTA sweetener side-letter of November 1993 by seeking agreement from Mexico that all additional sugar imports above the current 25,000 ton per annum level consist only of raw cane sugar. We, therefore, call upon U.S.T.R. to pursue a negotiated settlement to the current dispute for the sake of the U.S. sugar industry as well as HFCS producers.

Even if Mexico and the United States do not agree to increased sugar access between now and 2001, it is imperative that a "raws only" understanding be reached before Mexico's sugar quota increases tenfold, to 250,000 tons, in three years' time. Additionally, it must be made clear to all parties that Mexican *estandar* sugar be permitted to enter the United States "for further refining only" to preserve quality standards for U.S. consumers and industrial users as well as preserving throughput for U.S. refiners.

Under the terms of the NAFTA, free trade in sugar is supposed to commence between the United States and Mexico in 2007, but it is often forgotten that such free trade is to take place within the context of the harmonization of sugar programs between the two countries. Debate should begin soon as to possible to determine whether such harmonization should take place in a free trade or a supported environment.

Regarding Cuba, the embargo will be lifted at some time in the future -- although we do not know when or under what circumstances this will occur. We urge the relevant agencies within the Administration as well as the appropriate Congressional committees to enter into talks with the U.S. sugar industry, especially the cane refiners, to develop a contingency plan for the time when trade with Cuba resumes. Independent cane refiners are obviously the linchpin of any such plan since we will provide the market for Cuban sugar exports, which -- as in the case of Mexico -- must be raws. The same criteria applies to MERCOSUR and other free trade regions.

To sum up: Going into the twenty-first century, a healthy U.S. sugar industry depends on the elasticity provided by independent cane refiners. Yet, cane refiners are an endangered species due to restricted access to raw cane sugar caused by the import quota system. While the U.S.D.A. is to be commended for its stock/use ratio formulation and should be encouraged to make the system a permanent part of the administration of the program, the supply question still needs to be addressed.

Attention to the size of the quota, shortfalls, quality problems, blends from Canada and longer range issues regarding the NAFTA and Cuba all point to a much larger issue -- the need for a fresh look at and a complete revamping of the quota system.

As independent refiners adapt to the challenges posed by the new realities of white-ends, we do not need to do so with one hand tied behind our backs. It is time to take a hard look at the restrictive and outmoded import quota system.