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USDA Outlook for Sugar in 2000/2001

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Prepared for
USDA Agricultural Outlook Forum

February 2000

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The Long-Term Agricultural Baseline Projections Report (Baseline) released today includes USDA's outlook for sugar for 2000/2001. The Baseline was prepared in December 1999 based on the November 10, 1999, World Agricultural Supply and Demand Estimates Report (WASDE) and incorporates the assumptions used to generate the FY 2001 President's Budget. USDA still believes that the projections for 2000/2001 in the Baseline are reasonable given the great uncertainty in forecasting the 2000/2001 sugar market this far in advance. USDA will not revise the projections until the May 2000 WASDE report. Some of the projections in the Baseline are based on Federal policy decisions yet to be made. The standard Baseline methodology is to assume that the Government will make the same decision it did when last faced with the issue.

The Main Story

USDA believes that the 2000/2001 (or FY 2001) sugar market will be similar to the 1999/2000 market with 2 notable exceptions which together increase sugar supplies by 476,000 short tons, raw value (STRV). USDA projects that 2000/2001 beginning stocks will be 1.837 million STRV, which is 200,000 STRV above 1999/2000 estimates and the highest beginning stocks since 1979/1980 (Table 1). The Baseline also projects that the TRQ will increase by 276,000 STRV due to an increase in the Mexican access under the North American Free Trade Agreement (NAFTA). The inclusion of the Mexican access in the TRQ for 2000/2001 is an example of a policy decision yet to be made. However, USDA increased the TRQ for the Mexican access under NAFTA in FY 1997, FY 1998, and FY 1999. These changes in the sugar supply and use analysis increase the 2000/2001 stocks-to-use ratio from 16.2 to 20.8 percent.

Some of the 2000/2001 beginning stocks could be held by the Commodity Credit Corporation (CCC). Prices for raw cane sugar and refined beet sugar have fallen below the loan rates but are still above loan proceeds. However, when interest expenses, transportation expenses, marketing costs, and location discounts are taken into consideration, it appears that CCC borrowers could realize economic gains by forfeiting their loans.

A processor's decision to forfeit CCC loan collateral is not just a matter of comparing the net proceeds from the loan to the net proceeds from redeeming the loan and selling the sugar on the market. Taking CCC nonrecourse loans and forfeiting loan collateral creates some problems for sugarcane and sugar beet processors even in the current situation. First, proprietary processors taking CCC loans in low price situations in the past have been forced to receive a smaller share of the net proceeds from the sale of sugar than their grower contract specifies because of the minimum grower payment requirement of nonrecourse loans. However, some proprietary processors have taken CCC loans in 1999/2000. Another impediment to forfeiture is the CCC requirement that forfeiting processors must store the

forfeited sugar until CCC has the sugar removed. Since processors can only forfeit at loan maturity, most processors would be forced to store the forfeited sugar in late summer, just prior to the start of their processing campaign when they need storage for the new crop.

The Baseline (and President's Budget) assumes that the sugar will be sold back into the domestic market because that is what USDA did the last time sugar was forfeited. About 13,950 tons of beet sugar was forfeited to CCC in June and July 1994. Since the beet sugar price was about 25 cents per pound, USDA did not feel the market would be hurt if the sugar was resold. CCC sold the sugar forfeited in June for more than it paid. CCC agreed not to sell the sugar forfeited in July until a court case against CCC was adjudicated. This delay resulted in the selling price of sugar forfeited in July to not quite cover all of USDA's expenses. However, after selling the sugar back into the market the price rose to 25.50 cents per pound, which was probably a consequence of establishing sugar marketing allotments in FY 1995. All options are open if CCC acquires sugar through forfeitures this summer. CCC can store the sugar, resell it back to the sugar market, sell it for restricted uses such as ethanol manufacture, or donate it for humanitarian purposes. All options other than resale back to the domestic sugar market remove the forfeited sugar from 2000/2001 stocks.

Sidelines

Baseline forecasts are generally limited to perceived market trends by their developers because no one can accurately forecast important determinants like weather or policy changes next month, much less 10 years from now. A comparison of the 2000 Baseline to the 1996 Baseline projection for 2000/2001 will indicate the change in perceived trends by USDA analysts. Table 2 also includes a 1994/1995-1996/1997 average for each item to represent the domestic sugar market at the end of the 1990 Farm bill. 1996/1997 was actually included in the 1996 Farm Bill but sugar marketed in 1996/1997 was extracted from the 1996 crop which was contracted before the 1996 Farm Bill was implemented.

The most significant changes in USDA expectations for the 2000/2001 sugar market from 1996 are the increase in projected beginning stocks, 436,000 STRV, the increase in domestic cane production projections, 745,000 STRV, and the increase in projected domestic deliveries, 335,000 STRV. The increase in the 2000/2001 beginning stocks projection is due to the oversupply in 1999/2000. The 1996 Baseline was established under the assumption that sugar supplies from sources other than the TRQ would not be enough to adequately supply the U.S. market and increases above the GATT/NAFTA minimum would be required. However, the current sugar Baseline assumes that USDA will establish the TRQ at the minimum throughout the forecast period.

USDA expects domestic raw sugar production in 2000/2001 to be more than 25 percent above the FY 1995- FY 1997 average. Projected raw sugar production is expected to increase more than twice as much as beet sugar production from the 1994/1995-1996/1997 period. USDA expects raw cane sugar production, which was relatively stable in the early 1990s, to increase as acreage, yields, and sugar recovery rates increase. USDA expectations of the increase in beet sugar production have been

reduced as sugar recovery is less than expected, but sugar beet acreage is more than expected.

Sugarcane and sugar beet acreage have increased more than anticipated because the sugar crops are relatively more profitable than alternative crops due to reduced prices of other crops and increased sugar per acre from sugarcane. Sugarcane and sugar beet acreage is responsive to returns from other crops. Acreage in both crops substantially dipped in 1996, by 5.1 percent, in response to the high prices of other crops in 1995 and 1996. The recent low prices of grains and cotton are at least partially responsible for the increase in acreage in sugar crops. Acreage in sugar crops increased in 1997, 1998, and 1999 by 5.1 percent, 2.3 percent, and 4.4 percent, respectively. USDA does not expect acreage in most production areas to decline in 2000/2001 despite of the reduced returns to sugar crops because the returns from alternative crops are low.

Figure 1 shows the correlation between the average cotton revenue per acre and the acreage of sugarcane in Louisiana from 1993 to 1999. Although cotton revenue per acre is much more variable than sugarcane acreage, the changes appear correlated. The 2 increases in the value of cotton per acre have been associated with a reduction in sugarcane acreage. The 4 decreases in the value of cotton per acre have been associated with increases in Louisiana sugarcane acreage.

Sugarcane is also projected to be relatively more profitable than other crops because of the dramatic increase in sugar per acre (Table 2). Sugar per acre from sugarcane is projected to increase by 15 percent from the average 1994/1995-1996/1997 period, which is much larger than the 1 percent increase in sugar per acre USDA projected back in 1996. However, the revenue per acre from growing sugarcane on the average has fallen because raw sugar prices have fallen about 20 percent since the 1994/1995-1996/1997 period.

Figure 2 shows the dramatic increase, over 50 percent, in sugar per acre in Louisiana since 1992. At the relatively stable prices until this year, this type of productivity increase meant increasing revenues and profitability. Revenues per acre should still be higher in 1999/2000 than the average for the 1994/1995-1996/1997 period.

Sugar deliveries have grown faster than USDA expected. 2000/2001 sugar deliveries are now projected to be considerably above, by 355,000 STRV, the 2000/2001 deliveries forecast in 1996. Americans consume the most sweeteners per person in the world. As USDA keeps expecting per capita sugar use to level off, it continues to grow. The delivery projections do not have a formal recognition that use may increase as price declines, but future baselines may incorporate a demand price elasticity.