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Agricultural Outlook Forum 2008
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February 22, 2008

*“What Lies Ahead for the Sugar Market?
Problems with the Re-Export and
IMMEX Programs in an Integrated
U.S.-Mexican Sweetener Market”*

Jack Roney
Director of Economics and Policy Analysis
American Sugar Alliance

Problems with Re-Export and IMMEX Programs

1. U.S. Sugar Industry Status

- Effects of 22 years of steady prices
 - Concentration, increased efficiency
- Flat consumption in recent years

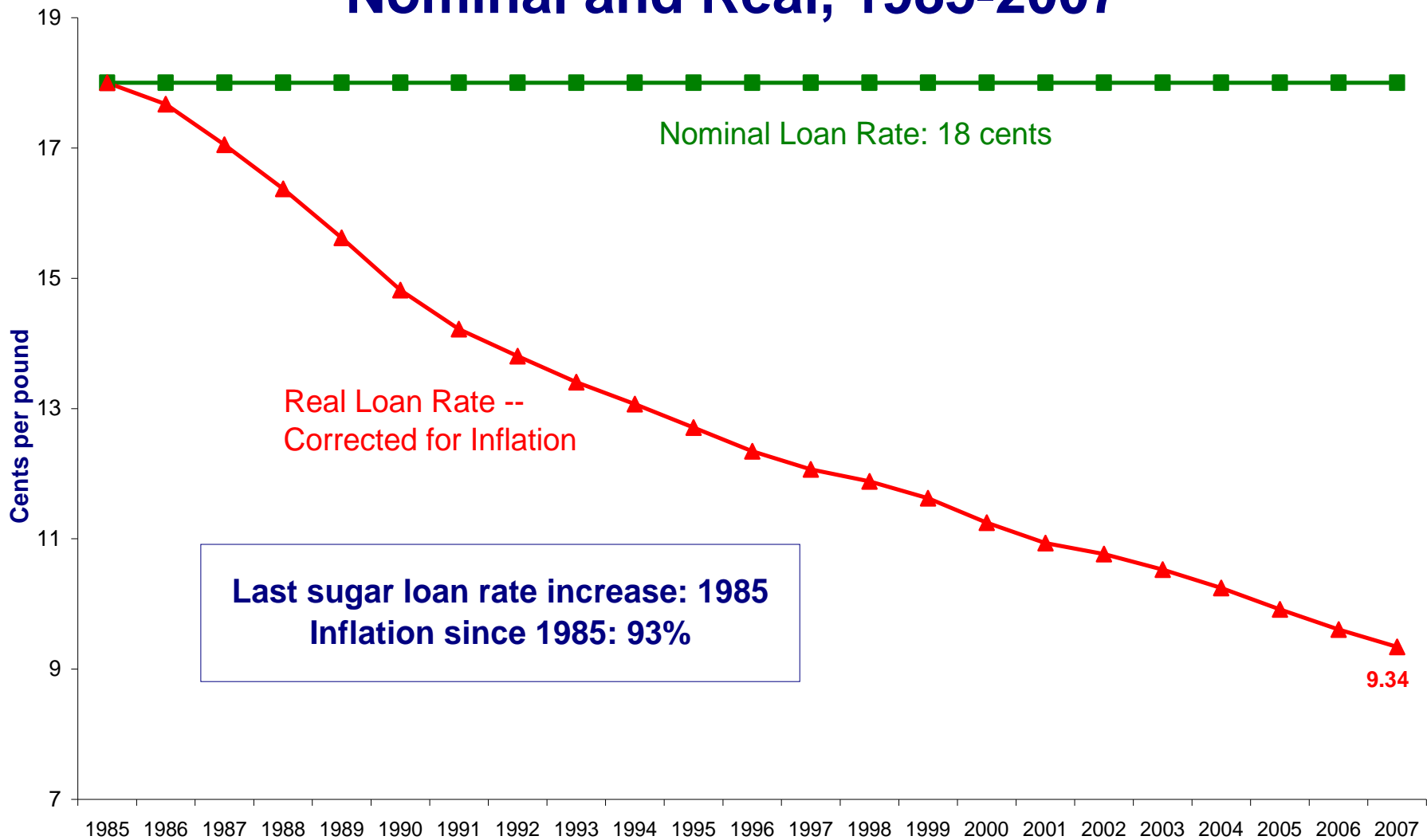
2. Sugar and Products

- Relationship between wholesale producer prices for sugar and retail prices for sugar and products
- Factors in sweetened-product costs, location decisions

3. Erosion of U.S. and Mexican Sweetener Markets because of Re-Export and IMMEX Programs

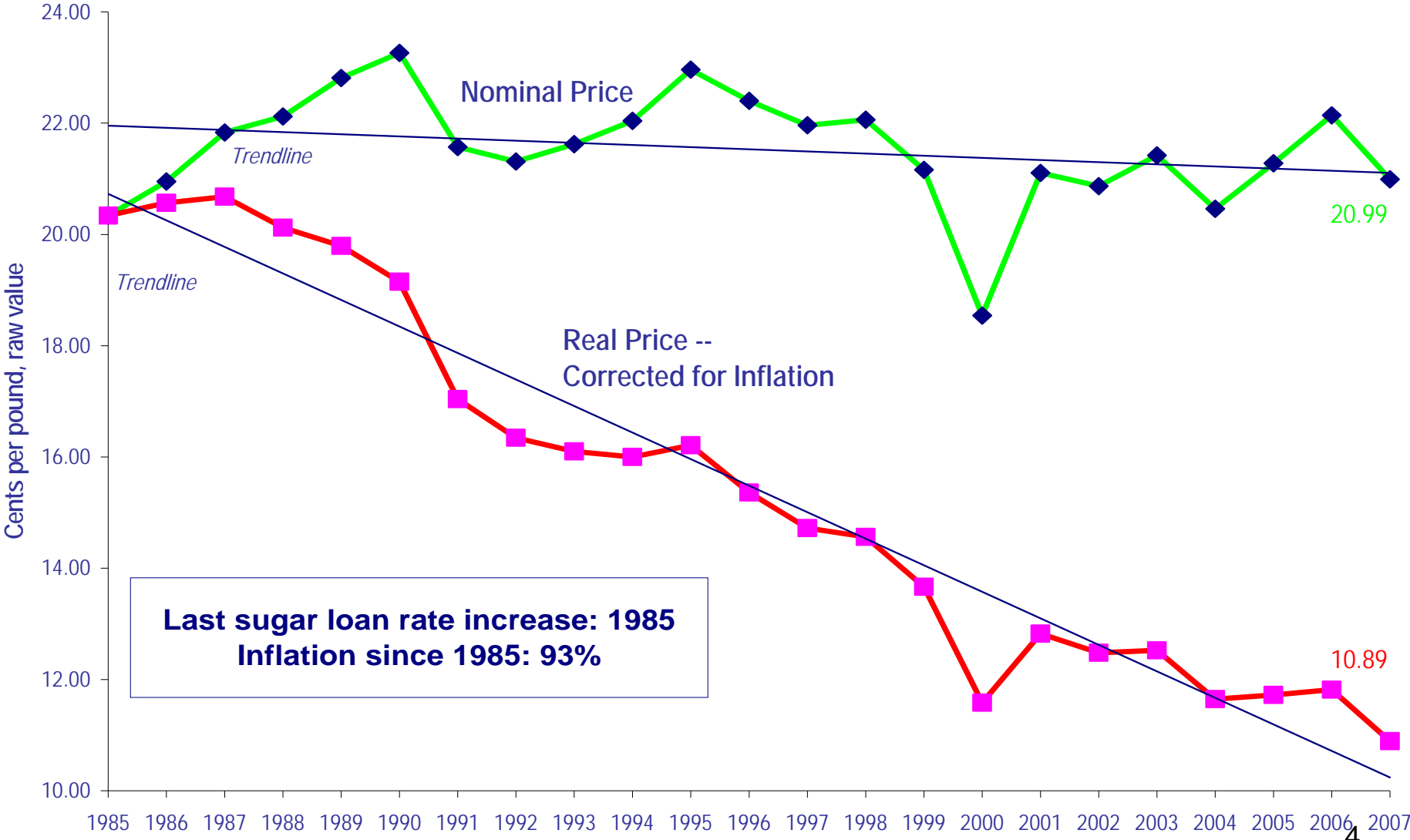
- Encroachment of third-country sugar
- Contrary to NAFTA intent
- US and Mexican sugar industries concur the programs are disruptive to the NAFTA market and need modification

U.S. Raw Sugar Loan Rate, Nominal and Real, 1985-2007



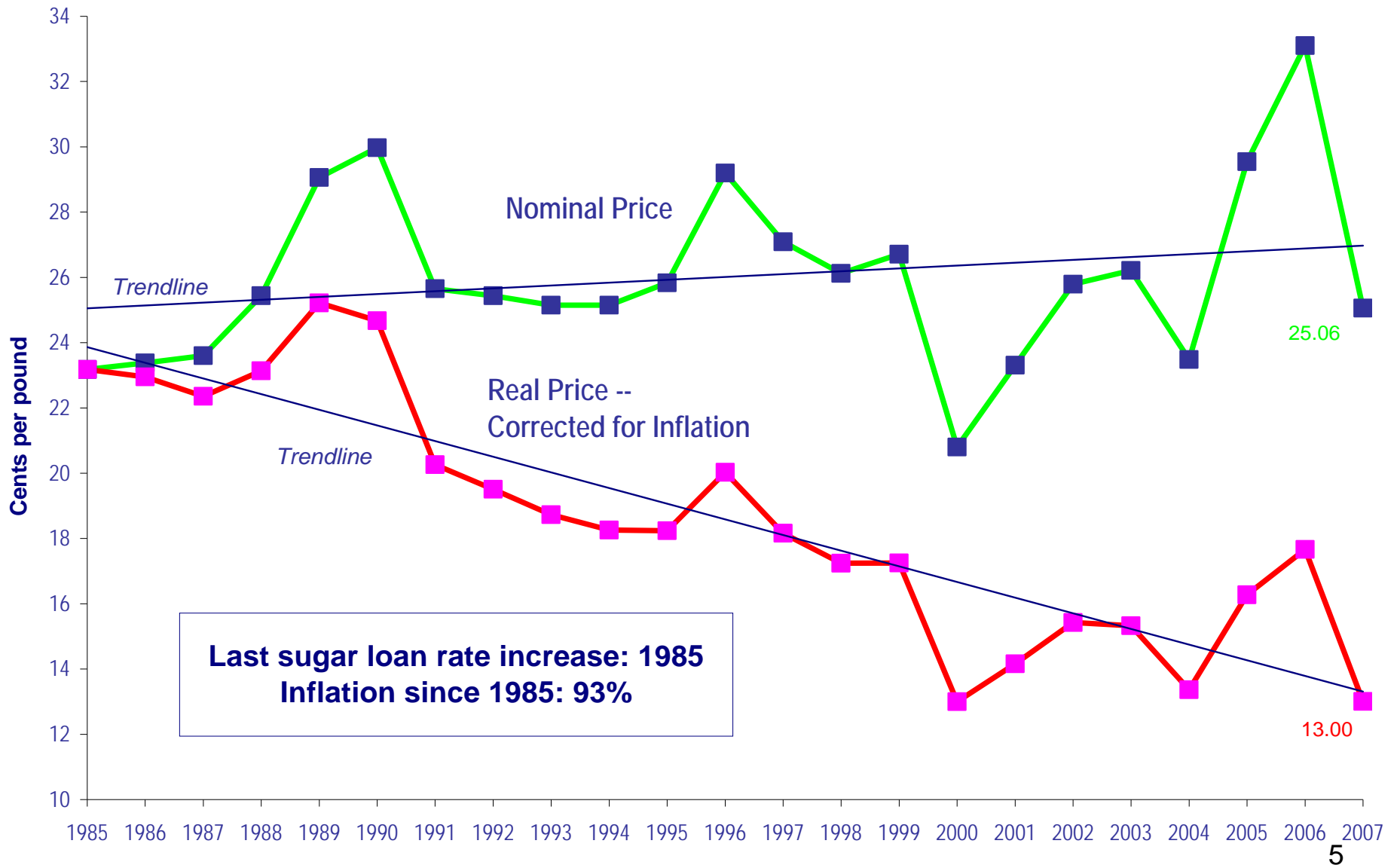
Data Source: Bureau of Labor Statistics --CPI-U. Annual averages, 1985-2007.

U.S. Raw Sugar Prices, Nominal and Real, 1985-2007



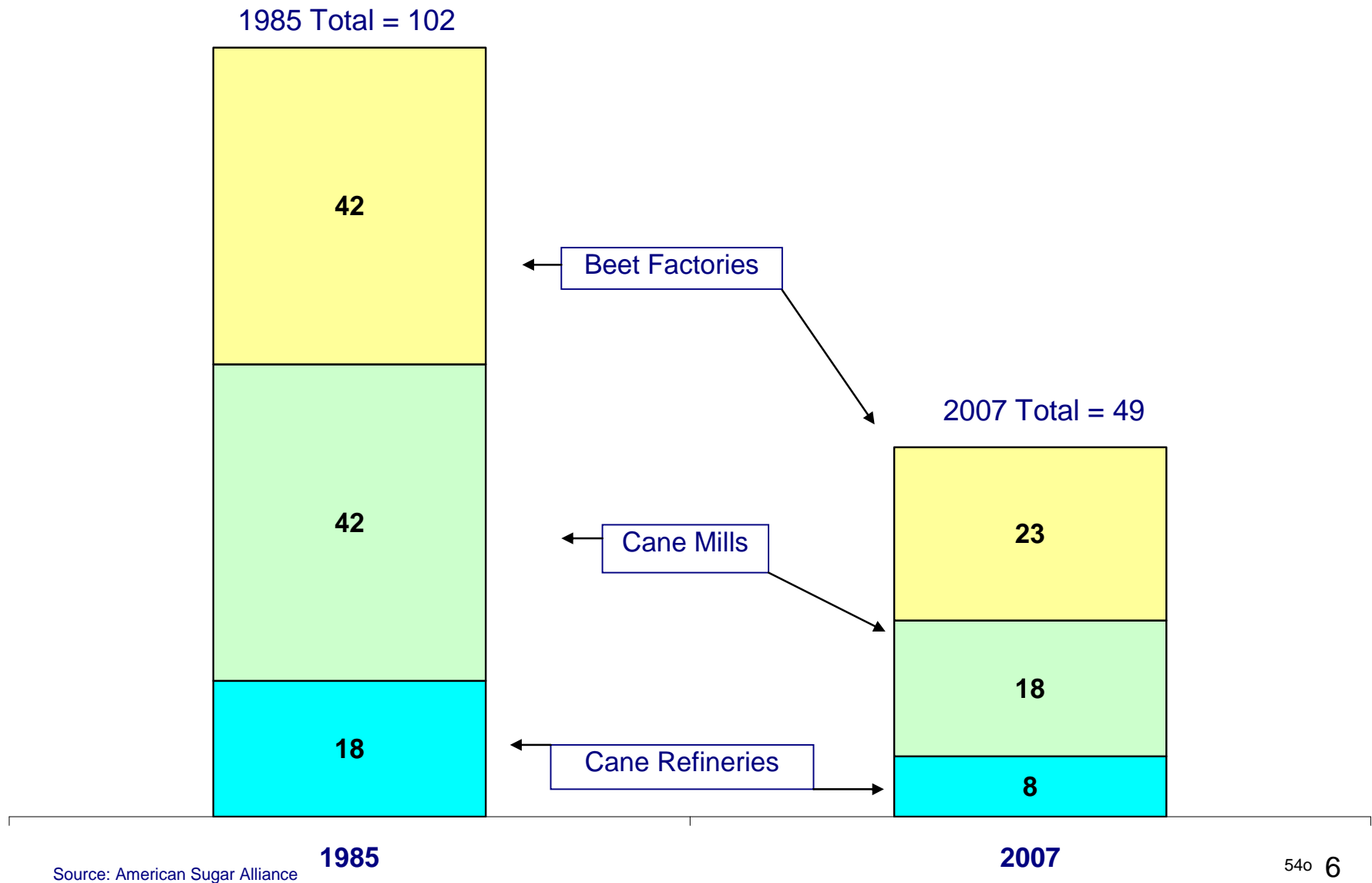
Data Sources: BLS--CPI-U. USDA: Price delivered New York, duty-fee paid; Annual averages 1985-2007.

U.S Wholesale Refined Sugar Prices, Nominal and Real, 1985-2007



Data sources: BLS -- CPI-U. USDA - wholesale refined beet sugar, Midwest markets; Annual averages 1985-2007.

Since Last Sugar Loan Rate Increase in 1985: More Than Half of U.S. Sugar-Producing Operations Have Shut Down



Problems with Re-Export and IMMEX Programs

Sugar and Products

Misconceptions:

- Sugar as primary production cost
 - Key driver of factory location decisions?
- Reduce sugar prices to give consumers a break

Reality:

- Sugar only a relatively minor sweetened-product cost
- Key drivers: Other factors (wages, benefits, taxes, rent, construction costs, environmental compliance costs)
- Proximity to sources of other inputs, efficient transportation system, customers
- Disconnect between producer and consumer prices for sugar and products: Lack of passthrough when producer prices fall

Cost Comparisons for Confectionery Industry: Many Costs Lower in Mexico, Canada

Cost Item	Unit ¹	United States		Mexico	Canada
		Chicago, IL,	Holland, Mi.	Juarez	Montreal
Labor:					
Wages	\$ / hr	14.04	15.50	0.56	12.50
Health Care Insurance	\$/worker/yr.	2,400	2,256	360	605
Taxes:					
Federal & State	%	42%	40%	9%	31%
Electricity:²					
Demand	\$/KW/mo.	11.00	8.60	2.38	11.97
Use	\$/KW/hr.	0.042	0.048	0.04	0.0372
Land:					
Construction	\$/sq.ft.	50.0	30.0	25.5	37.0
Rental	\$/sq.ft.	10.0	2.5	4.0	4.6
Refined Sugar³	Cents/lb.	28.30	27.60	18.03	21.00

¹ \$ Pesos 9.48 to U.S. \$ 1.00; \$ Canadian 63.8 to U.S. \$ 1.00.

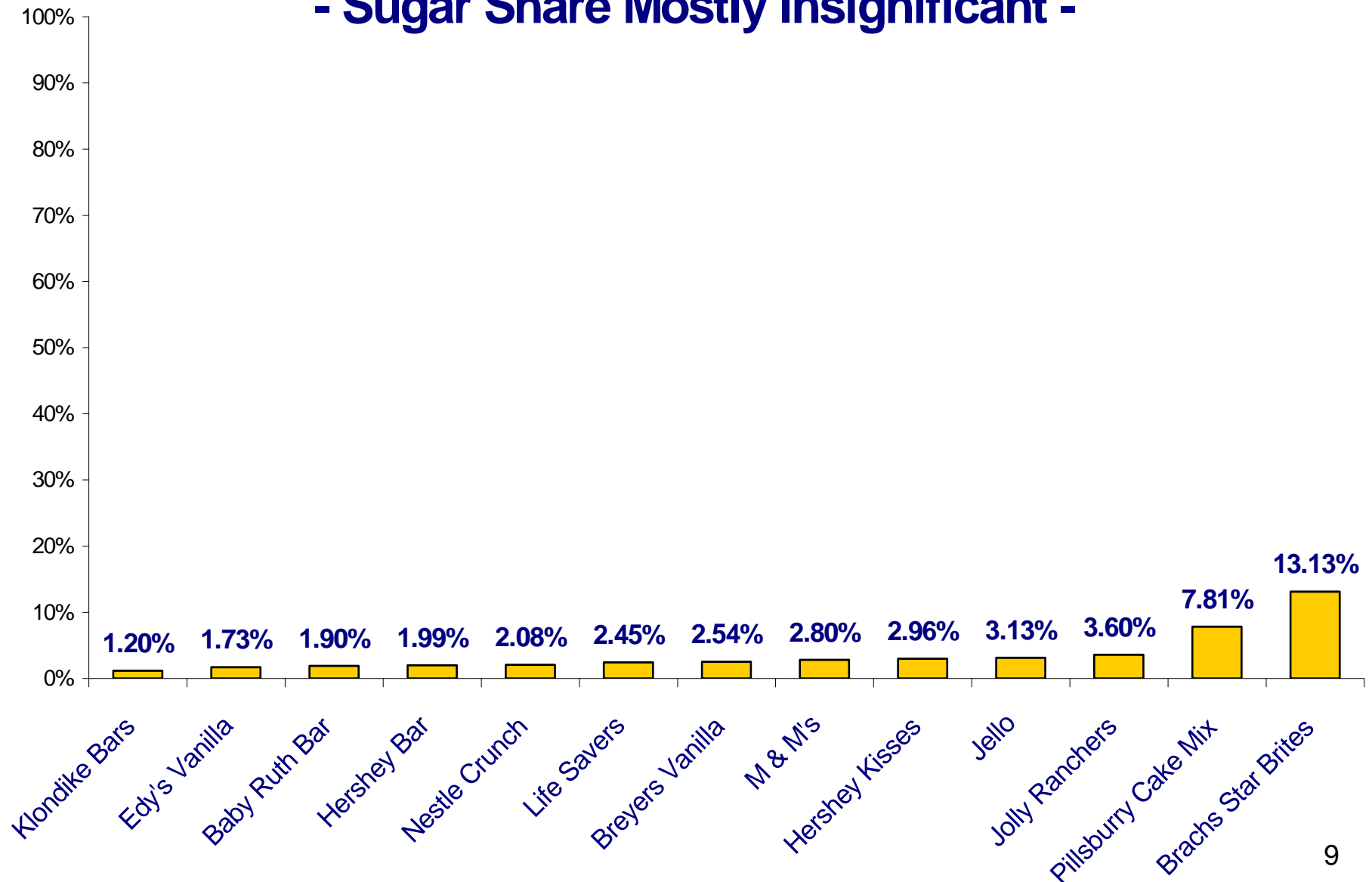
² KWh is a measure of use of 1,000 watts of electricity for one hour; KW is a measure of demand during a specific time period, such as a month.

³ Mexico: *Maquiladora* and re-export program price; actual domestic price about 28 cents/lb.

Source: "North America's Confectionery Industries: Structure, Trade, and Costs and Trends in Sugar Demand," Peter Buzzanell & Associates, Inc., March 24, 2003.

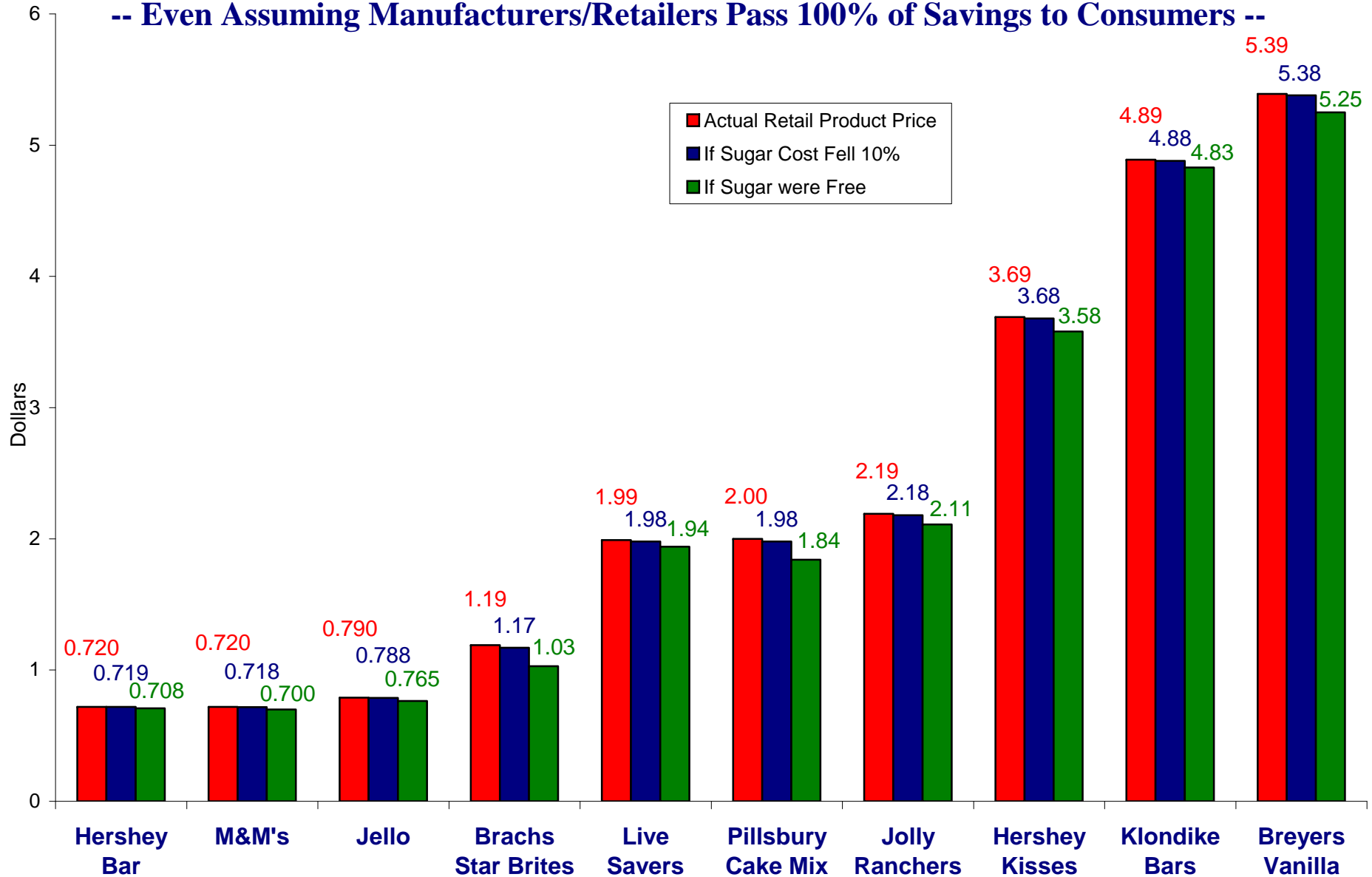
Sugar Cost as % of Retail Product Price

- Sugar Share Mostly Insignificant -



Source: American Sugar Alliance survey of retail products at a Safeway store in Arlington, VA, July 2006.

Wholesale Sugar Price Declines Have Little, If Any, Effect on Retail Sweetened Product Prices -- Even Assuming Manufacturers/Retailers Pass 100% of Savings to Consumers --



Source: American Sugar Alliance calculations based on survey of retail products, July 2006. Assumes CY2005 average wholesale refined sugar price of 29.54 ¢/lb, as reported by USDA.

Department of Commerce Candy Study¹: Questionable Findings

	<u>DOC</u>	<u>LMC International²</u>
Number of U.S. jobs in sugar industry	2,260	146,140
		<u>Promar International⁴</u>
Value of SCP imports in 2004	\$18.7 billion ³	\$5.4 billion
		<u>ASGA retail-product survey⁵</u>
Sugar share of candy cost	No figure given	4.52% average
		<u>Buzzanell study⁶</u>
Candy company wages	"Hard to compare"	-per hour-
Chicago	?	\$14.04
Mexico	?	\$0.56

¹ "Employment Changes in U.S. Food Manufacturing: The Impact of Sugar Prices," U.S. Dept of Commerce, February 14, 2006.

² "The Importance of the Sugar and Corn Sweetener Industry to the U.S. Economy," LMC International, Oxford, England, August 2001.

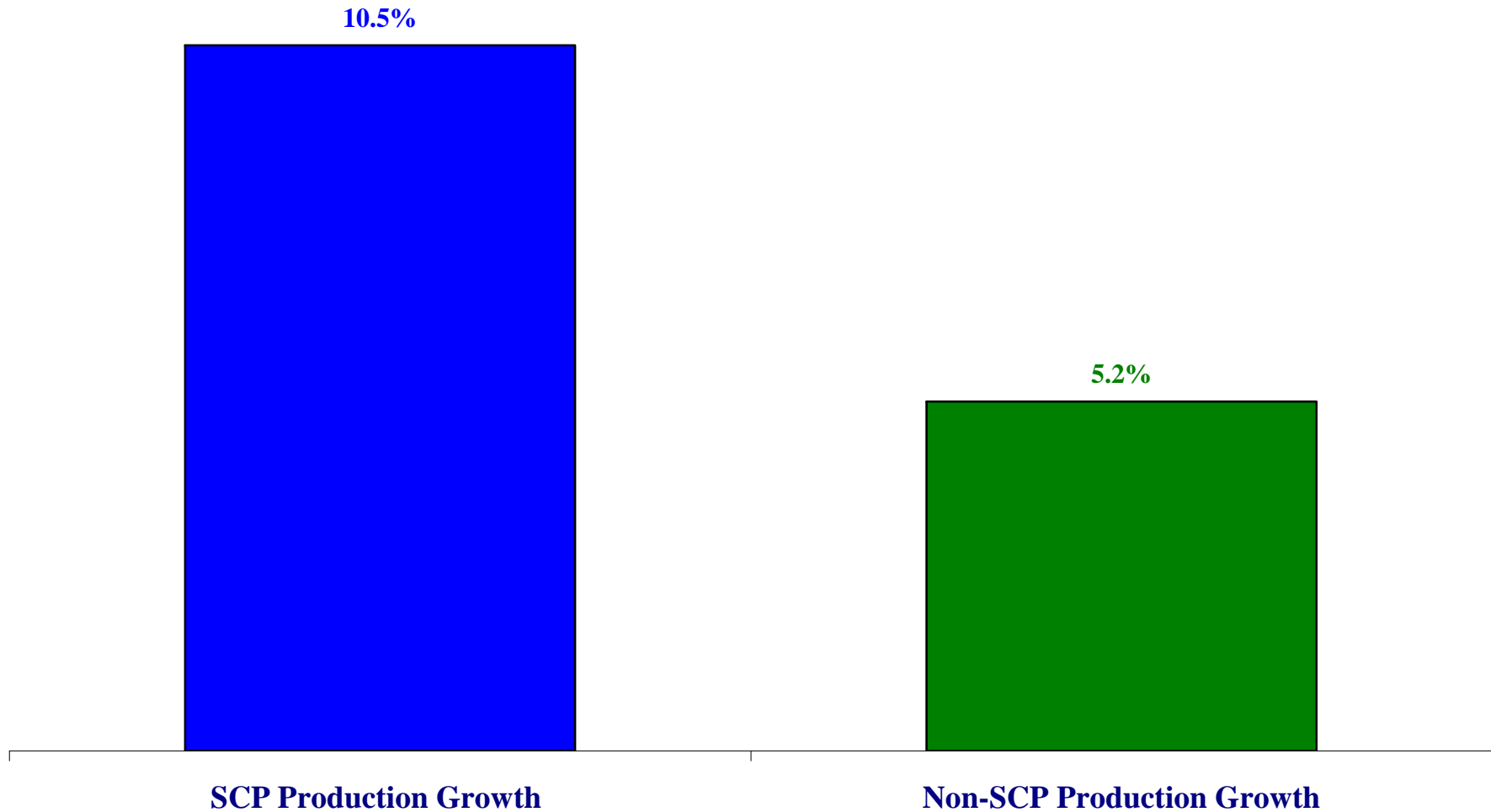
³ DOC cites a USDA report that contains no value figures, only volume.

⁴ Promar International compilation of Customs data for more SCP-product imports than covered by USDA, March 2006.

⁵ Survey of retail candy products, American Sugarbeet Growers Association, 2000.

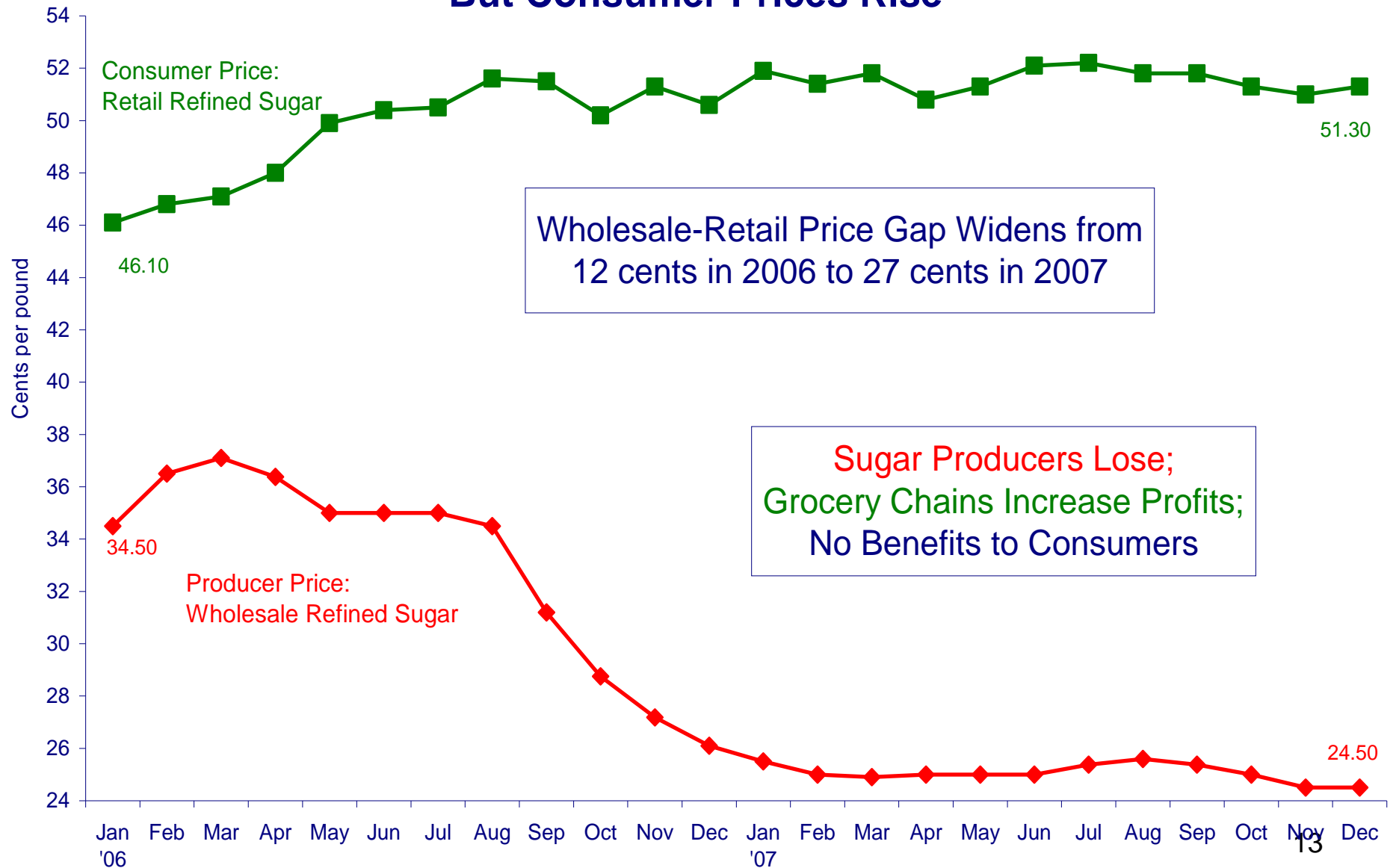
⁶ "North America's Confectionery Industries: Structure, Trade, and Costs and Trends in Sugar Demand," Peter Buzzanell & Associates, Inc., March 24, 2003.

DOC Candy Study*: U.S. Sweetened-Food Production Growing Twice as Fast as Non-Sweetened Food Products, 1997-2002



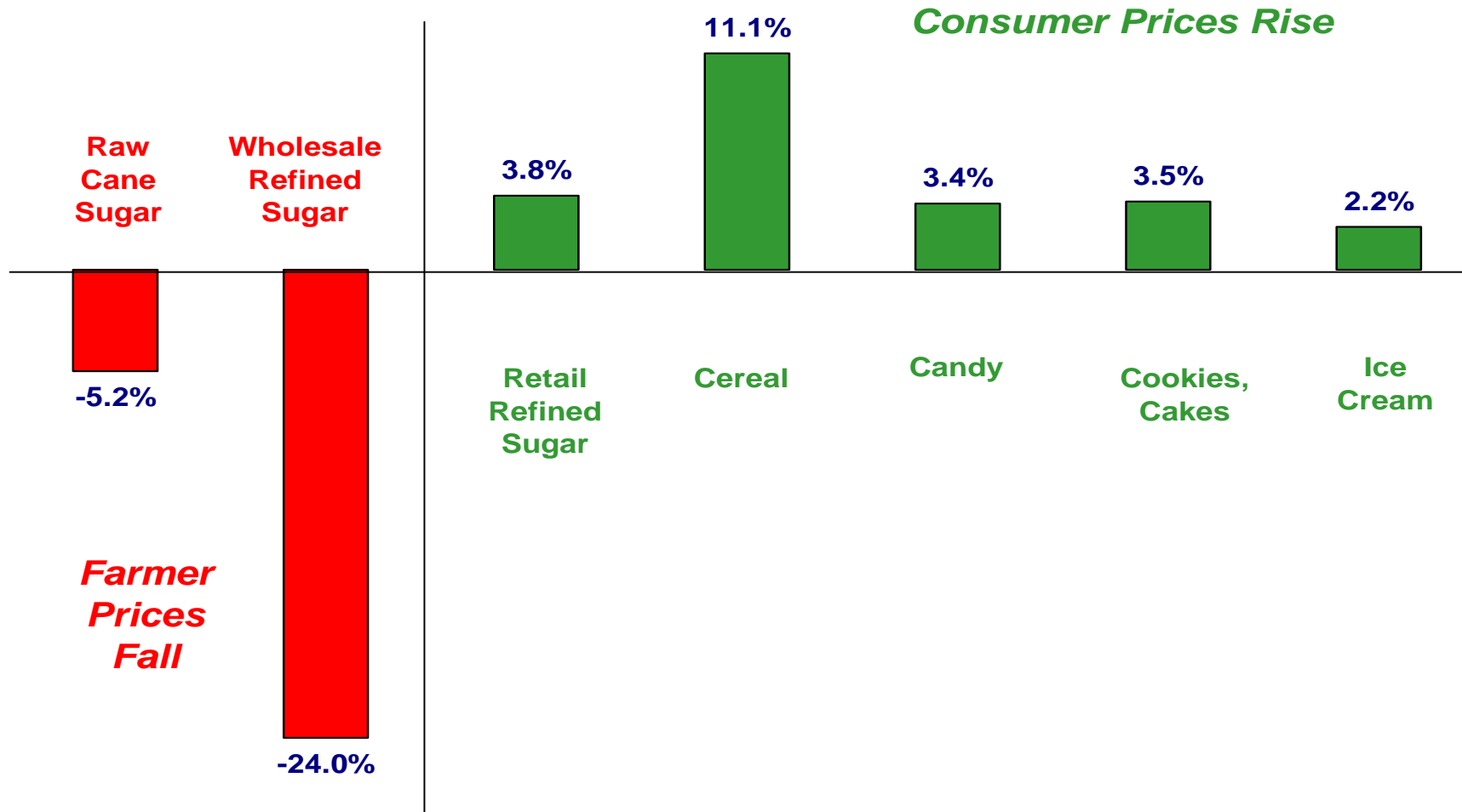
* "Employment Changes in U.S. Food Manufacturing: The Impact of Sugar Prices," U.S. Department of Commerce, International Trade Administration, 12 February 14, 2006.

From 2006 to 2007: Producer Prices for Sugar Fall, But Consumer Prices Rise



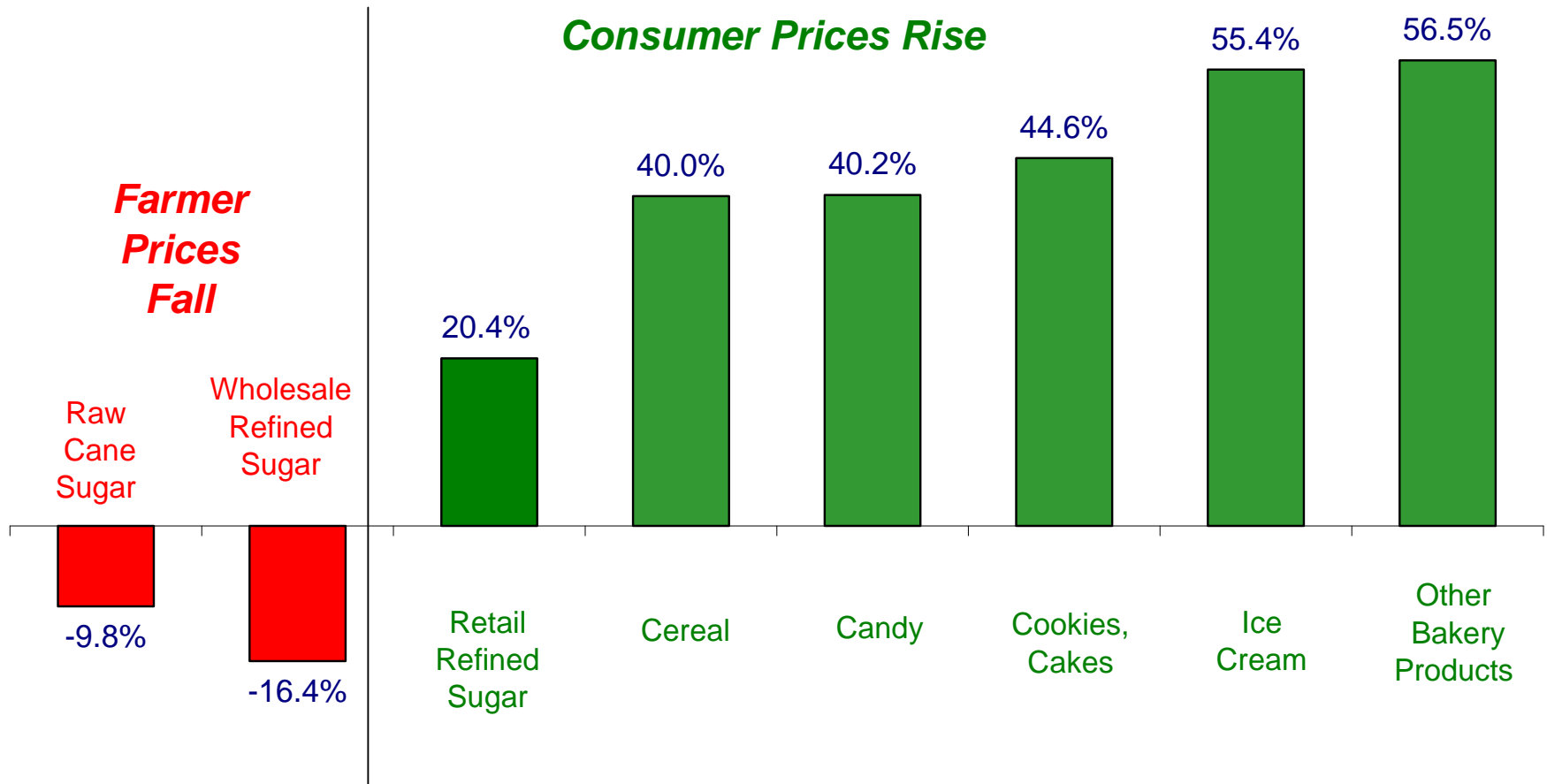
Data: USDA/ERS

From 2006 to 2007: Farmer Prices for Sugar Fall, But Consumer Prices for Sugar & Products Rise



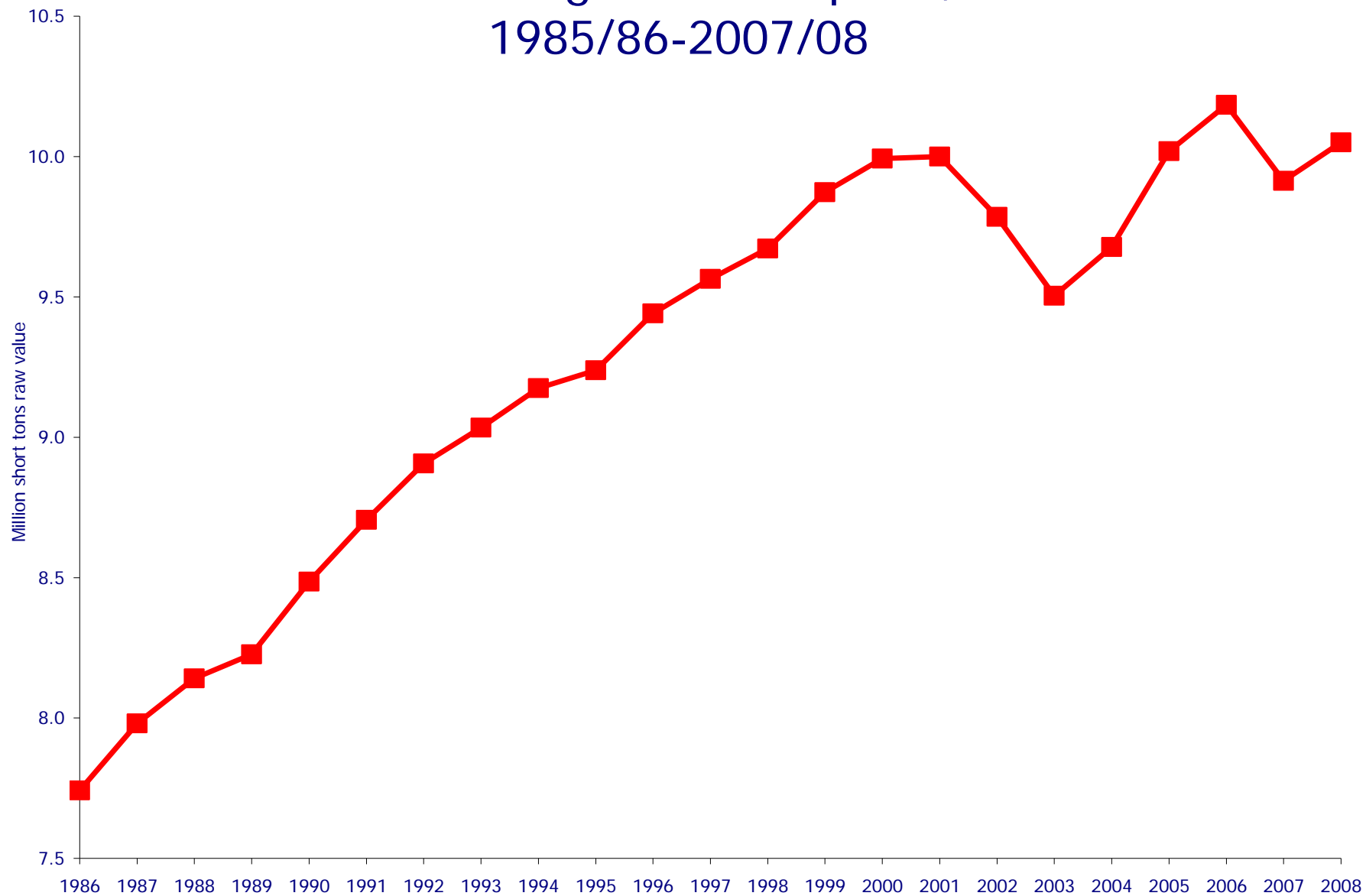
Changes in prices from 2006 annual average to 2007 annual average. Raw cane: duty-free paid, New York. Wholesale refined beet sugar: Midwest markets. Retail prices: Bureau of Labor Statistics consumer price indices. Data source: USDA.

From 1990 to 2007: Farmer Prices for Sugar Fall, Consumer Prices for Sugar & Products Steady or Higher*



* Change in annual average prices from 1990-2007. Raw cane: duty-free paid, New York. Wholesale refined beet sugar: Midwest markets. Retail prices: Bureau of Labor Statistics consumer price indices. Data source: USDA.

U.S. Sugar Consumption, 1985/86-2007/08



Data source: USDA Sugar Situation and Outlook Reports and February 2008 WASDE

16 Proj.

Problems with Re-Export and IMMEX Programs

How the programs work:

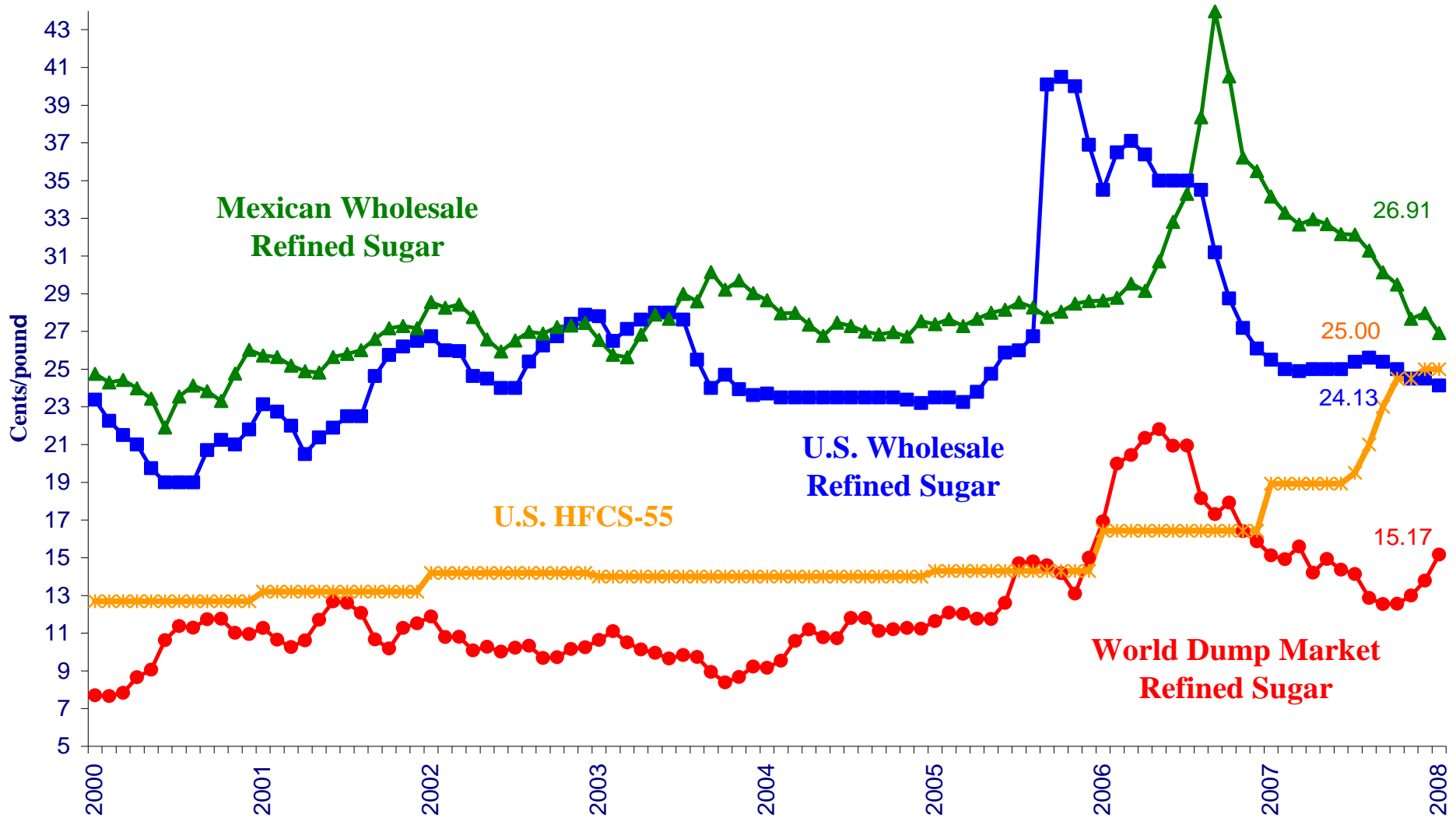
US Re-Export Program:

- US cane refineries import subsidized world market sugar for re-export as refined sugar or as products. US refined sugar is substituted for most of these imports and exported to Mexico
 - The imported world market sugar is sold in the US
 - The “re-exported” US sugar is sold to Mexican maquiladora plants at a price higher than the world market price but lower than the Mexican market price
- US beet processors export blocked stocks to Mexico via swaps with cane refiners

Mexican IMMEX Program

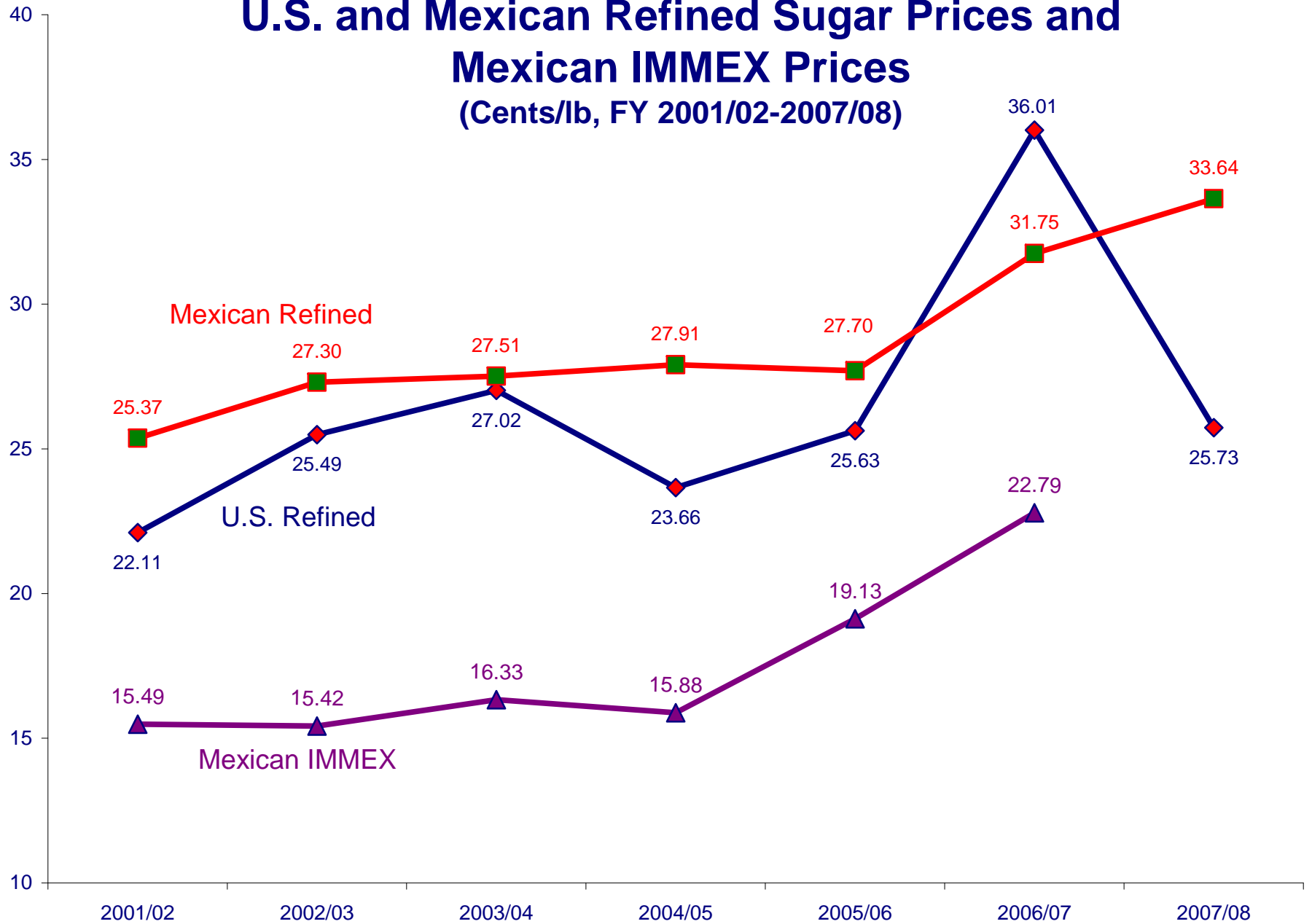
- Mexican sugar producers balance the Mexican market by selling sugar to maquiladora plants as a higher-priced alternative to selling surplus sugar on the world market
- Maquila plants convert US and Mexican sugar to products, export to the US
- Some re-export and IMMEX sugar and maquila products leak into Mexican market

Mexican Sugar Prices Generally Higher than U.S.; World Dump Market Sugar Prices Generally Lower than U.S. HFCS



Data Sources: Mexican sugar -- Servicio Nacional de Informacion de Mercados SNIIM-ECONOMICA, USDA/ERS; U.S. sugar -- Midwest markets; world sugar -- London #5 contract; HFCS -- Industry estimates; dry (sugar equivalent) basis, Midwest market. Prices through January 2008.

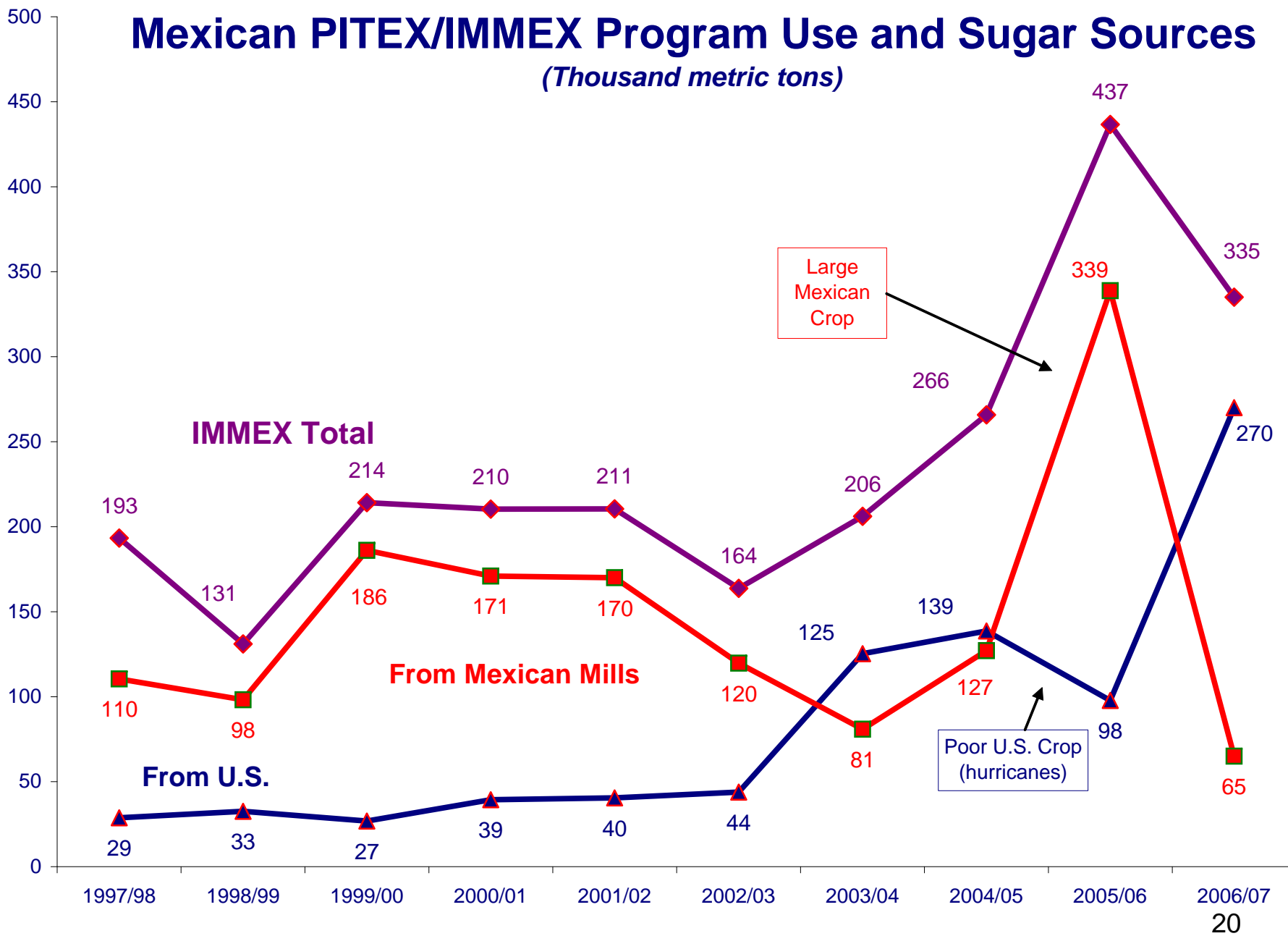
U.S. and Mexican Refined Sugar Prices and Mexican IMMEX Prices (Cents/lb, FY 2001/02-2007/08)



Sources: USDA; McKeany-Flavell Company, Inc., "U.S.-Mexican Re-Export Sugar Programs," June 2007.

Mexican PITEX/IMMEX Program Use and Sugar Sources

(Thousand metric tons)



Source: McKeany-Flavell Company, Inc., "U.S.-Mexican Re-Export Sugar Programs," June 2007.

Problems with Re-Export and IMMEX Programs

Consequences for US and Mexican Markets

“The Mexican IMMEX program and U.S. participation within it (through the U.S. re-export program) have become a disruptive influence to the domestic markets for sugar in the United States and Mexico. Sugar sellers have used this program to liquidate burdensome stocks. The result of these sales has been a growing speculative interest by a few companies to take advantage of buying cheap sugar and passing along some of these savings to customers while reaping large profits themselves.”

*--McKeany-Flavell Company, Inc.
Analysis for American Sugar Alliance
June 2007*

Problems with Re-Export and IMMEX Programs

Consequences for US and Mexican Markets

“Ending the IMMEX/Re-Export programs between the U.S. and Mexico would remove this speculation and provide a competitive environment for all sugar suppliers to participate. Keeping with the intent of NAFTA.”

*--McKeany-Flavell Company, Inc.
Analysis for American Sugar Alliance
June 2007*

Problems with Re-Export and IMMEX Programs

Consequences for US and Mexican Markets

Amount of sugar consumption that would move from the IMMEX program back to the general market:

- In a balanced market: +250,000 metric tons
- When US or Mexican market is in surplus: +400,000 mt

- Additional US sugar consumption: 100,000-200,000 mt
- Additional Mexican sugar consumption: 150,000-250,000 mt

*--McKeany-Flavell Company, Inc.
Analysis for American Sugar Alliance
June 2007*

Problems with Re-Export and IMMEX Programs

US and Mexican Sugar Industries' Joint Recommendation

Modify, not eliminate, re-export and IMMEX programs.

- Programs continue, but re-export and IMMEX sugar, and products produced with that sugar, can be exported only to third countries.

Consistent with NAFTA intent: NAFTA designed to benefit U.S. and Mexican sweetener producers, not subsidized third-country producers

- Reclaim 250,000-400,000 tons of US-Mexican sugar market for US-Mexican sugar producers.

US cane refiners still able to use re-export program to maintain throughput; will have larger US-Mexican market to sell into.

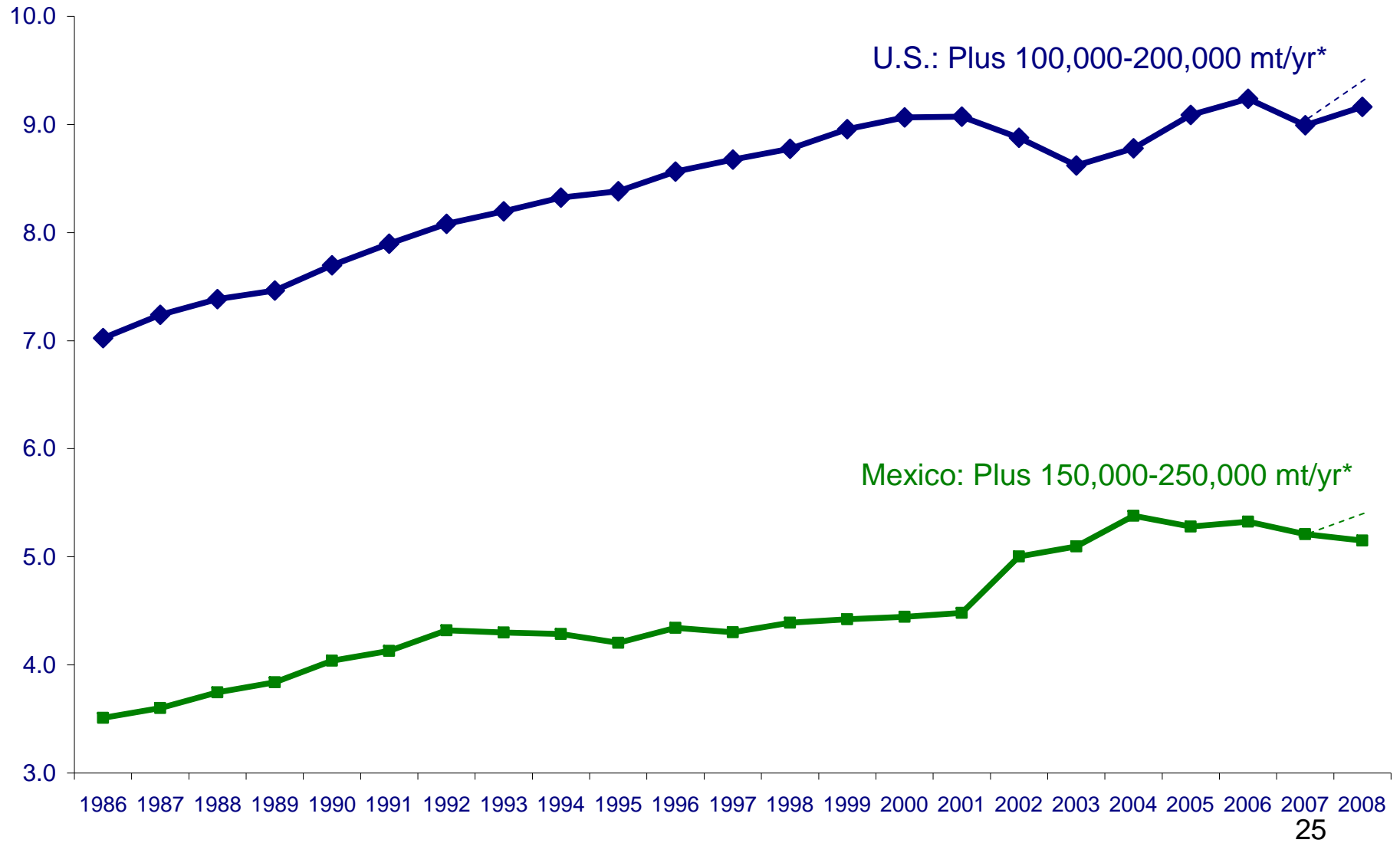
Maquilas can still:

- Take advantage of re-export and IMMEX sugar, and of lower costs, such as cheap labor, to export products to third countries;
- Use US or Mexican sugar, at US and Mexican market prices, to sell products into the US and Mexican markets under NAFTA rules.

– Sugar's small share of production costs: Maquilas should continue to operate

U.S. and Mexican Sugar Consumption; Potential Gains Absent Re-Export/IMMEX Trade

(Million metric tons, raw value)



* Sources: Historical Data, USDA; Potential gains, McKeaney- Flavell estimates., "U.S.-Mexican Re-Export Sugar Programs," June 2007

Problems with Re-Export and IMMEX Programs

Conclusion

1. US sugar industry more concentrated, efficient, following 22 years of flat prices
2. Lack of growth in US consumption a concern
 - Leakage of third-country sugar via re-export/IMMEX programs a factor
3. Modifying re-export/IMMEX to operate as NAFTA intends = Reclaim 250,000-400,000 tons of US-Mexican market for US and Mexican producers
 - Should not harm sweetened-product manufacturers
 - Cane refiners grow domestic market; retain re-export program for third-country exports