International Sweetener Colloquium
Orlando, Florida
February 14, 2018

Producers' Perspective on U.S. Sugar Policy and the 2018 Farm Bill

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U.S. Sugar Policy in the 2018 Farm Bill

Premise #1

Sweetener Users would prefer to see the domestic sugar-producing industry survive, and not shrink any further

- Continue reliable, timely, high-quality sugar supplies to Users
- Geographically dispersed sugar producers, competing on service and price

U.S. Sugar Policy in the 2018 Farm Bill

Premise #2

Lower sugar prices, loss of economic safety net, would drive lenders, processing mills, and beet and cane farmers out of the sugar-producing business

= Less reliable, timely, nearby, high-quality supply

= Fewer sugar-producer competitors

U.S. Sugar Policy in the 2018 Farm Bill

Questions

- Why would U.S. Sweetener Users prefer a stable, dynamic U.S. sugar industry?
- Which policies could help to achieve stability; which would have the opposite effect?

Advantages to U.S. Sweetener Users from stable, geographically dispersed U.S. sugar industry

1. Timing
2. Quality
3. Safety
4. Sustainability

Advantages to U.S. Sweetener Users from stable, geographically dispersed U.S. sugar industry

1. Timing
    - Just-in-time delivery:
        - Precise timing of delivery
        - Producers absorb the cost of storing sugar for their customers

Advantages to U.S. Sweetener Users from stable, geographically dispersed U.S. sugar industry

2. Quality

- 40+ specifications on crystal size, color, etc.

Advantages to U.S. Sweetener Users from stable, geographically dispersed U.S. sugar industry

3. Safety

- American standards for food safety

Advantages to U.S. Sweetener Users from stable, geographically dispersed U.S. sugar industry

4. Sustainability

- American standards for treatment of:
  - Workers: Wages & safety
  - Water quality & conservation
  - Air quality
  - Soil quality & retention

What if U.S. sugar industry shrinks further and U.S. sugar production declines?

Alternatives to U.S. production:

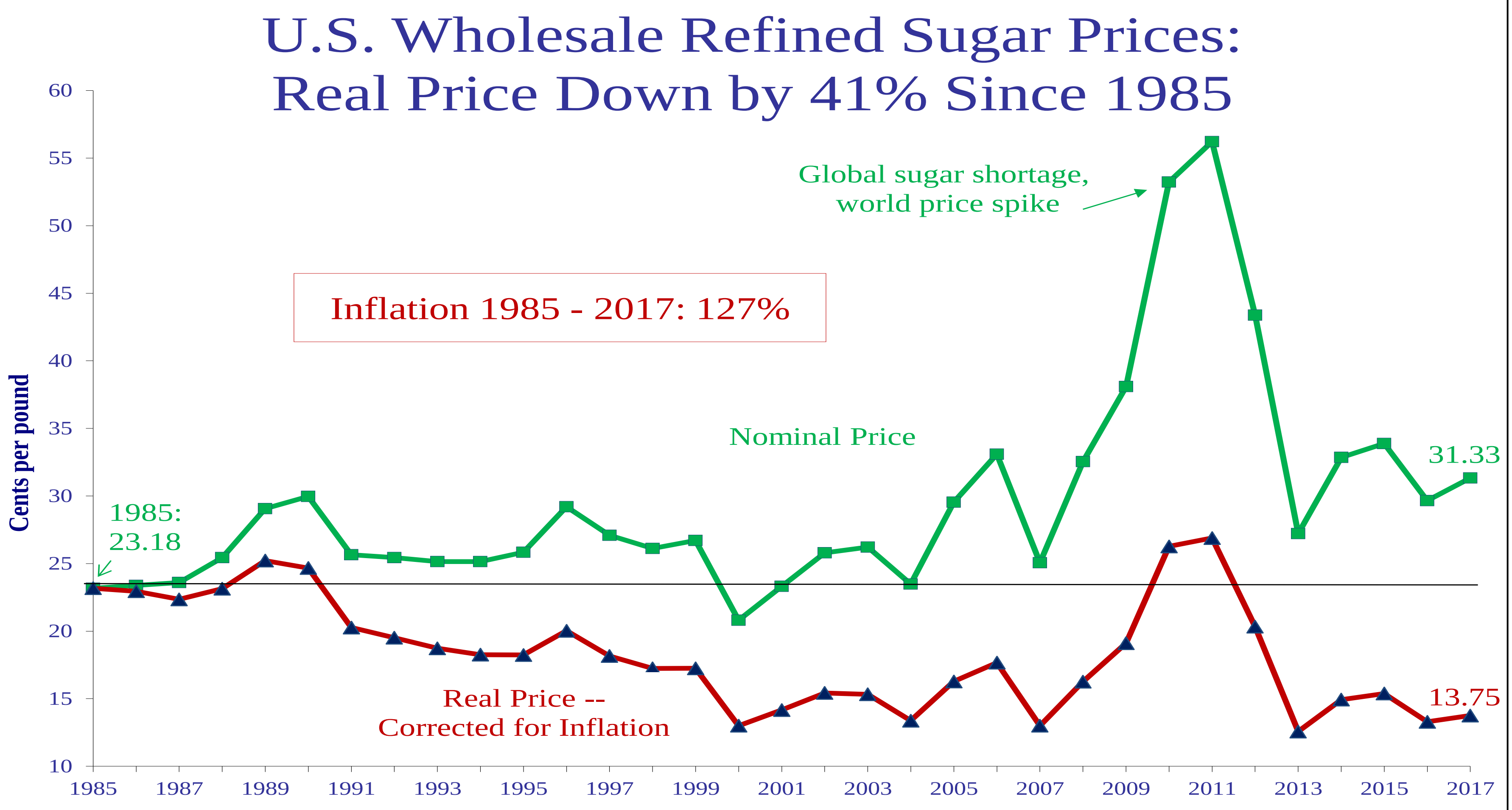
- Mexico: Supplies limited – could not replace major share of U.S. production
- Distant, developing countries dominate world sugar trade
  - Brazil, Thailand biggest exporters by far

Sourcing sugar from distant, developing countries?

- Uncertainty of –
  - Timing: Sweetener Users must invest in refined sugar storage facilities
  - Quality and Safety: Sweetener Users must invest in technology to bring sugar to plant's production specifications and American safety standards, or contract with others to do so
  - Sustainability: How to respond to consumer demand to source food from regions with high standards for worker and environmental protections and safety?

The future: How stable is U.S. sugar industry?

- Challenges, consequences of sharply declining real price for sugar over past three decades



Data sources: BLS -- CPI-U. USDA - wholesale refined beet sugar, Midwest markets; annual averages 1985-2017.

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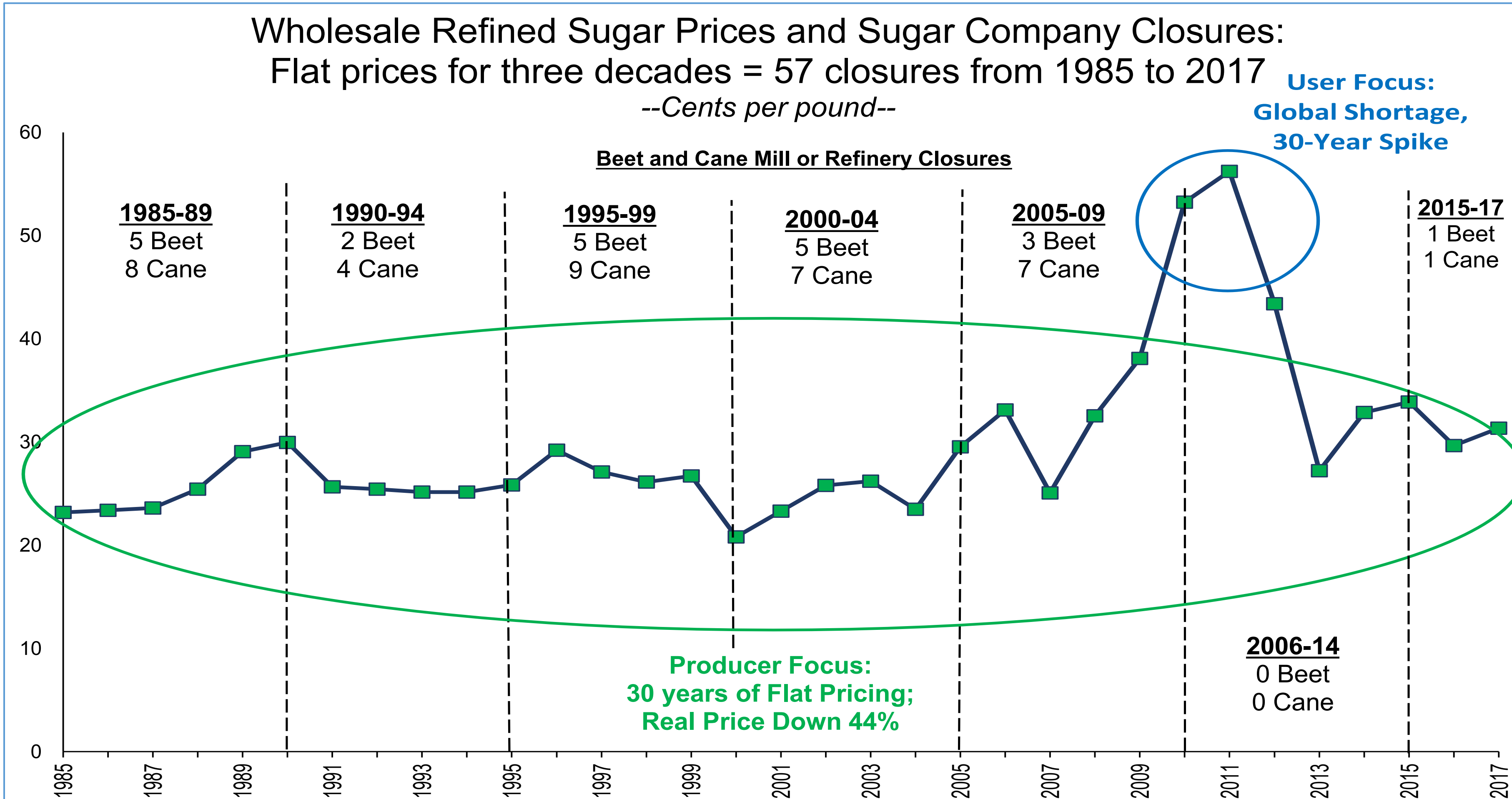
The future: How stable is U.S. sugar industry?

- Strong prices = lender confidence = ability to re-invest = no closures
- Low prices = loss of lender/farmer confidence = more mill closures



Source: USDA, annual average wholesale refined sugar prices, Midwest markets, 1985-2017 (2017 year to date average). More operations would have closed had farmers not organized cooperatively to purchase independent beet and cane processing and refining facilities. User access to domestic sugar would have suffered more.

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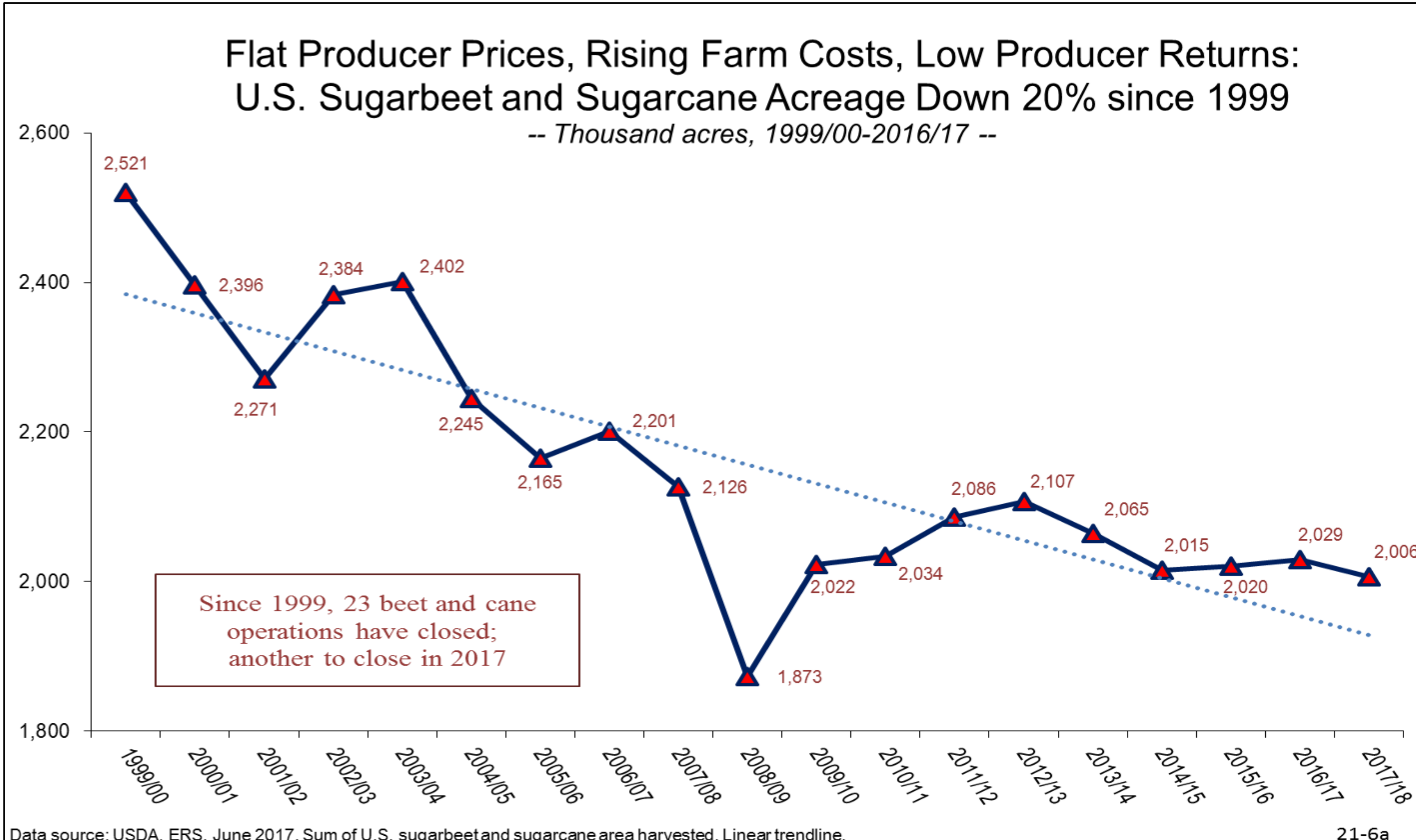
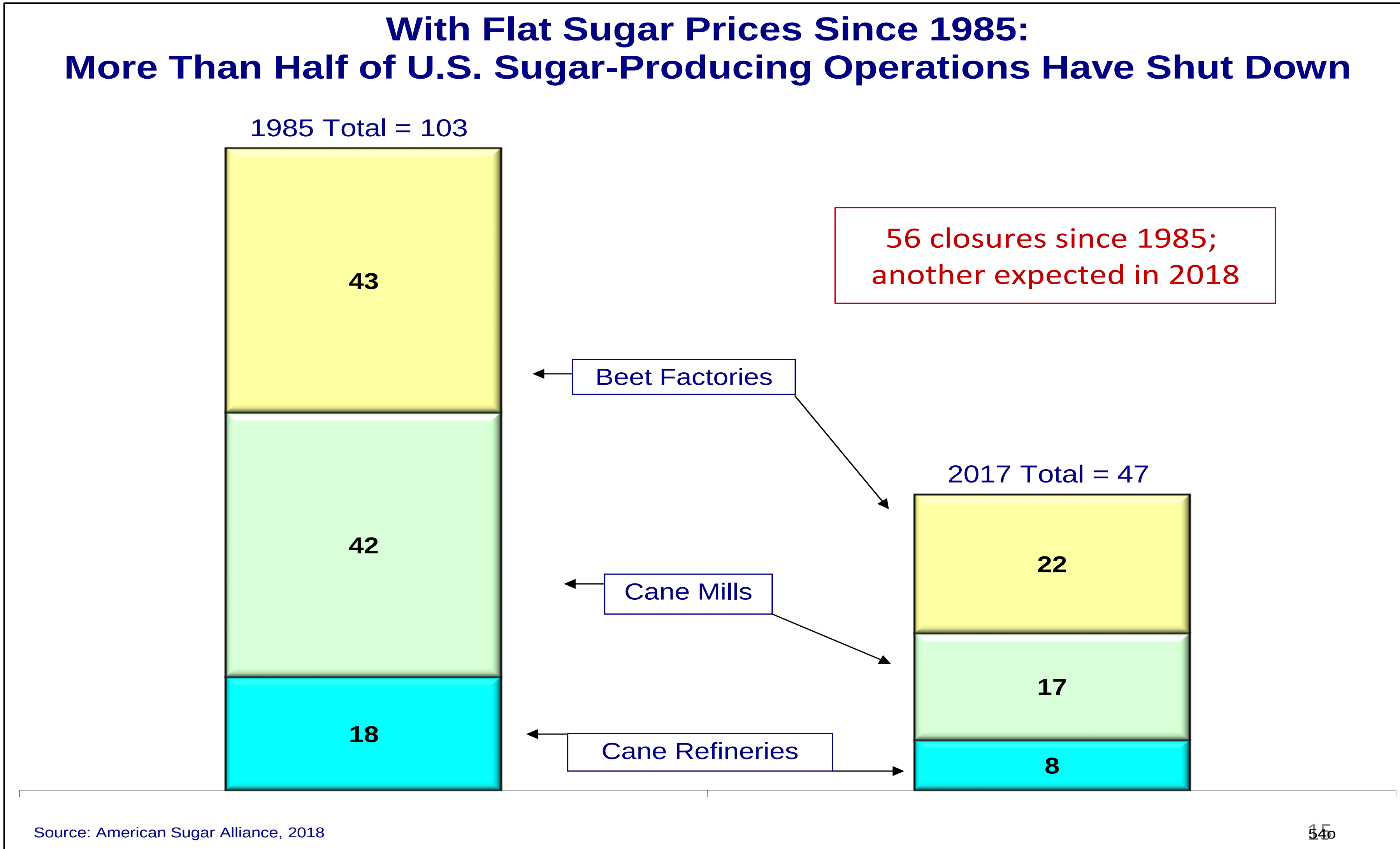
Challenges, consequences of sharply declining real price for sugar over past three decades

- Fewer sugarbeet and sugarcane acres



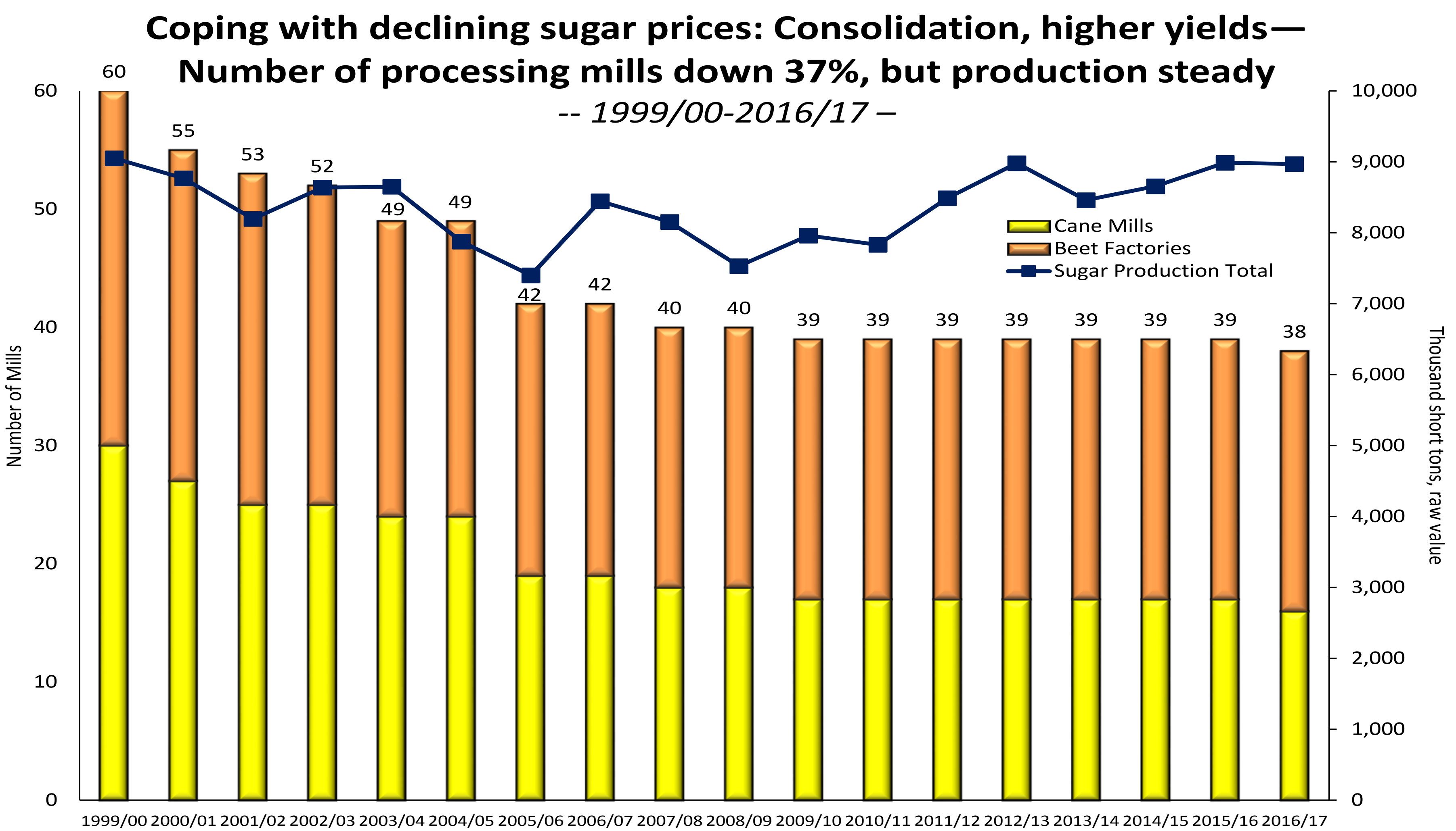
Challenges, consequences of sharply declining real price for sugar over past three decades

- Fewer beet and cane processing operations



Challenges, consequences of sharply declining real price for sugar over past three decades

- Producers need major capital investment to squeeze out efficiencies



Data sources: USDA, American Sugar Alliance, January 2018

Challenges, consequences of sharply declining real price for sugar over past three decades

- Fewer producing regions, less geographic dispersion, sugar supply chain more vulnerable to regional problems

- Since 1980’s:
  - Cane refineries in Boston, Brooklyn, Philadelphia, Honolulu gone
  - Texas beets, Ohio beets, Kansas beets, Arizona beets, gone; California beet factories down from nine to one
  - Hawaii cane gone, after 170+ years.

Fragile state of U.S. rural economy

- With low sugar and other commodity prices, farm bankruptcies in general on the rise

- Dangerous time to reduce support prices, endanger safety net

News article, January 23, 2018:

OMAHA (DTN) -- More farmers likely will be filing Chapter 12 bankruptcy in 2018, as they continue to struggle with costs of production exceeding commodity prices, ag lender CoBank said in a new report.

The CoBank report, "Forces that will shape the U.S. rural economy in 2018," said commodity price depression from surpluses around the world will make for another belt-tightening year for farmers who will continue to see working capital diminish.

As a result, CoBank said, more producers are likely to turn to Chapter 12. "Farmer solvency is an increasing concern in some regions," the report said.

Fragile state of U.S. rural economy

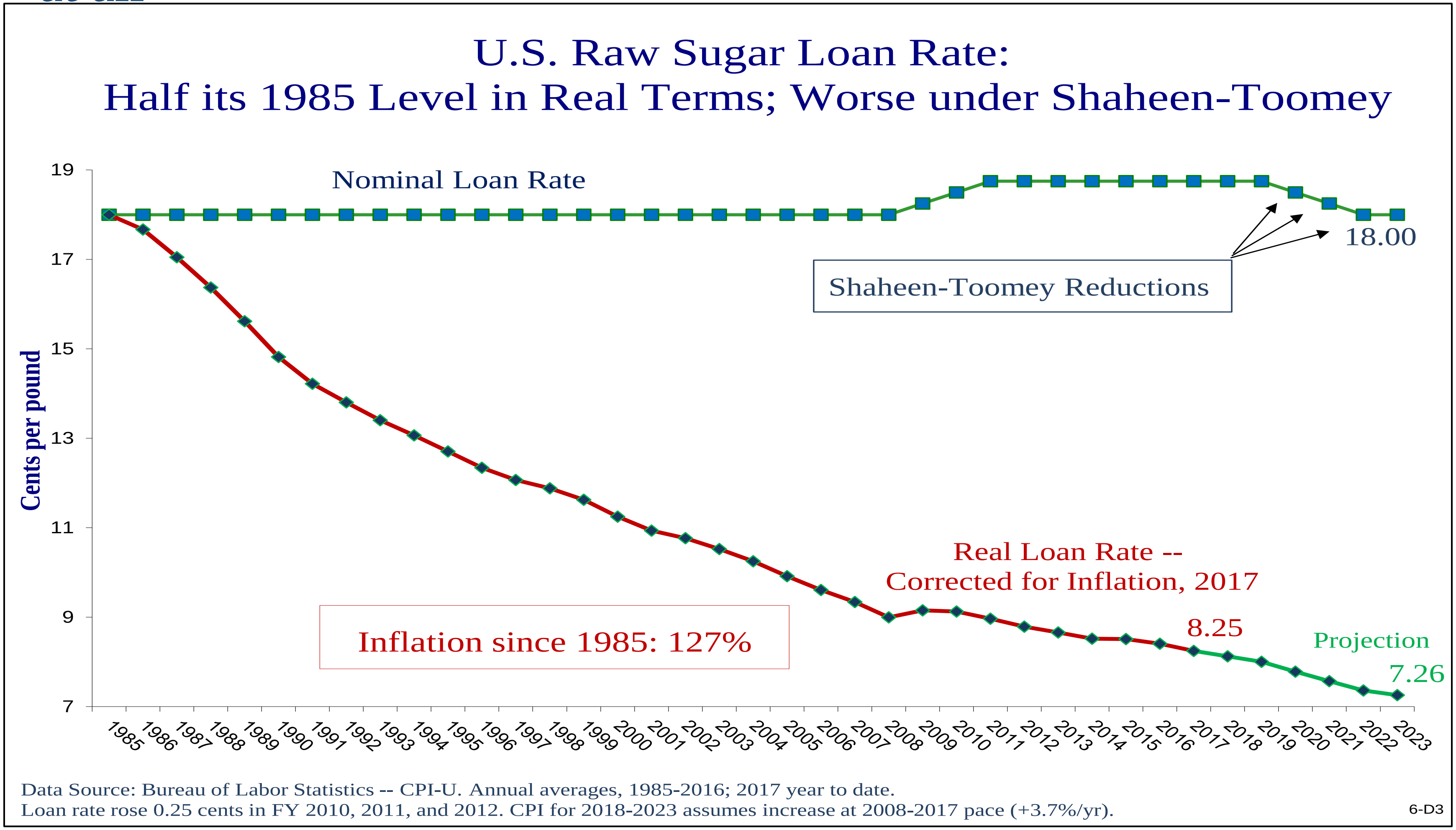
- What do sugar farmers, all farmers, need?
  - Adequate returns – to re-invest in farm and factory and stay in business
  - Economic safety net in case of natural disasters, catastrophically low prices

What would the sugar policy legislation supported by the Sweetener Users do?

- Eliminate, for sugar farmers, and sugar farmers only, the economic safety net that government programs afford to all major ag commodities through non-recourse loans
- Reduce the sugar support price to 1985 level
- Mandate excessive imports of subsidized foreign sugar to drive U.S. sugar prices down and U.S sugar farmers out of business

What would the sugar policy legislation supported by the Sweetener Users do?

- Loan rate at 1985 level; but really, no support price, no safety net at all



Absent safety net assurance: Consequences for Sugar Producers?

- Lenders lose confidence in sugar producers – reluctant to extend loans
- Producers lack capital to plant, cultivate, harvest and process beets and cane, *and to store sugar until their customers need it*
- Inability of young farmers, in particular, to obtain financing, stay in business, and replace retiring farmers
- Threat to entire cooperatives, and their growers, if processing volumes dip below capacity
- Farmer and processor bankruptcies

Absent producers' safety net assurance: Consequences for Sweetener Users?

- Instead of just-in-time delivery, build storage facilities
  - Rather than railcar from neighboring state, waiting for the slow boat from Brazil or Thailand?

- Lower quality: Increased cost to improve, customize

- Less confidence in safety, purity: Higher risk

- Consumer doubts about sustainability: Cost of improving social standards in supplier countries

Best hope for American Sugar Producers, and Sweetener Users?

- No further reduction in producer prices for sugar
- Continued economic safety net in 2018 Farm Bill
- Continued buffer to volatile world dump market, predatory dumping by foreign countries
- Capable enforcement of U.S.-Mexican-government Suspension Agreements – to prevent further dumping/injury from Mexico

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