United States International Trade Commission
Investigation No. 332-325
"The Economic Effects of Significant U.S. Import Restraints: Ninth Update"
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Oral Testimony
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Thank you, Commissioners, for the opportunity to testify. I'm Jack Roney and this is my colleague, Don Phillips. The American Sugar Alliance is the national coalition of growers, processors, and refiners of sugarbeets and sugarcane.

We would like to highlight our written testimony today with the following points:

- First, the ITC, rather than theorizing on the scenario of lifting U.S. sugar-import restraints can now examine the *actual market reaction* to that situation, with import restraints on Mexico lifted since 2008.

- Second, events since 2008 confirm, as the ITC found, major injury to American sugar producers; but the data also show *no* discernable benefit to American consumers.

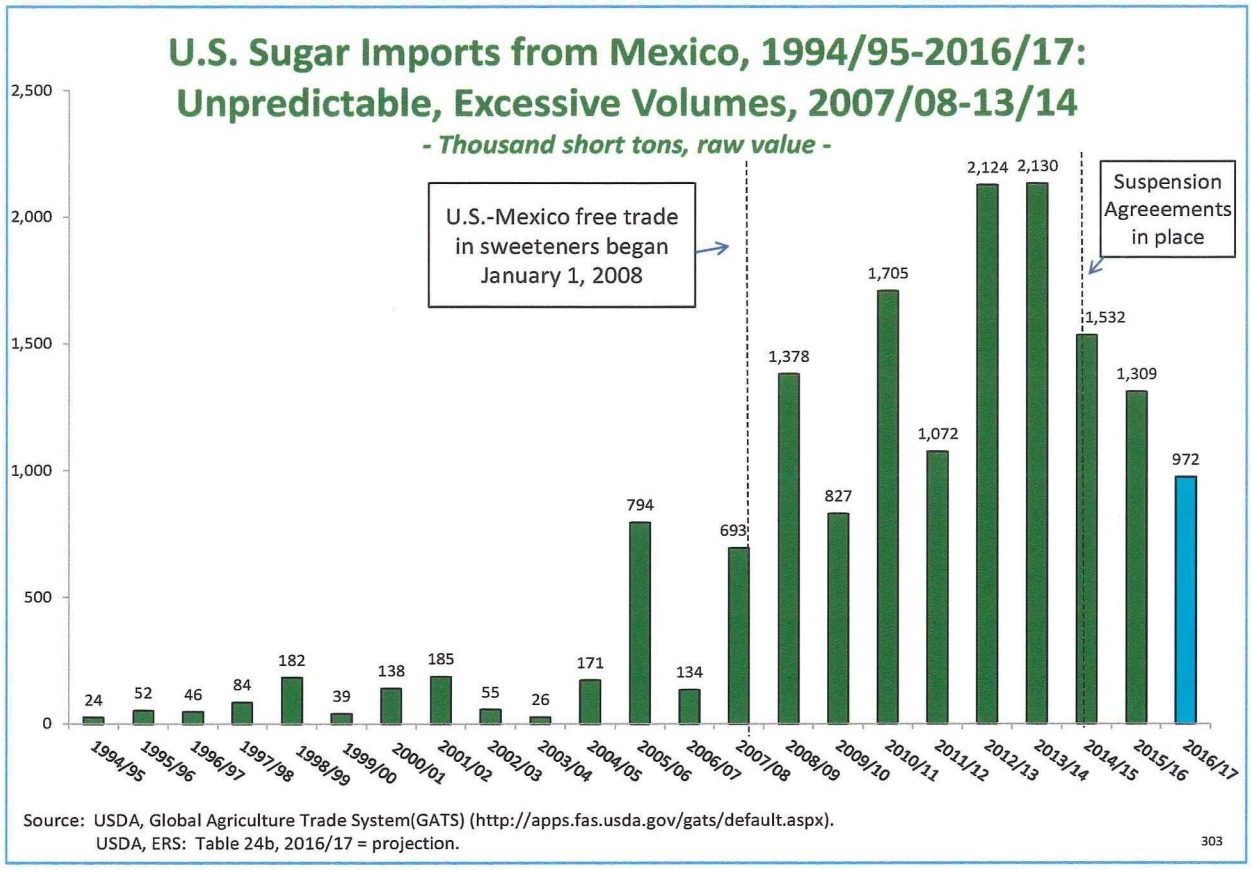
- Third, we will describe some key market realities: the distorted nature of the Mexican and the world sugar markets and American producers' vulnerability to foreign subsidies; also, the prosperous nature of the sweetener-containing-product (or SCP) manufacturing sector, whose profitability is unaffected by sugar prices.

- Finally, we will conclude that sugar-import restraints provide a net *benefit* to the U.S. economy, rather than a cost.

The U.S. sugar market changed dramatically on January 1, 2008. That is when, under NAFTA rules, we transitioned to duty-free, quota-free sugar trade with Mexico – one of the world's biggest sugar producers.

This chart shows what happened next. Mexican sugar exports to the U.S. soared, exceeding U.S. needs about 1 million tons each year in 2013 and 2014.

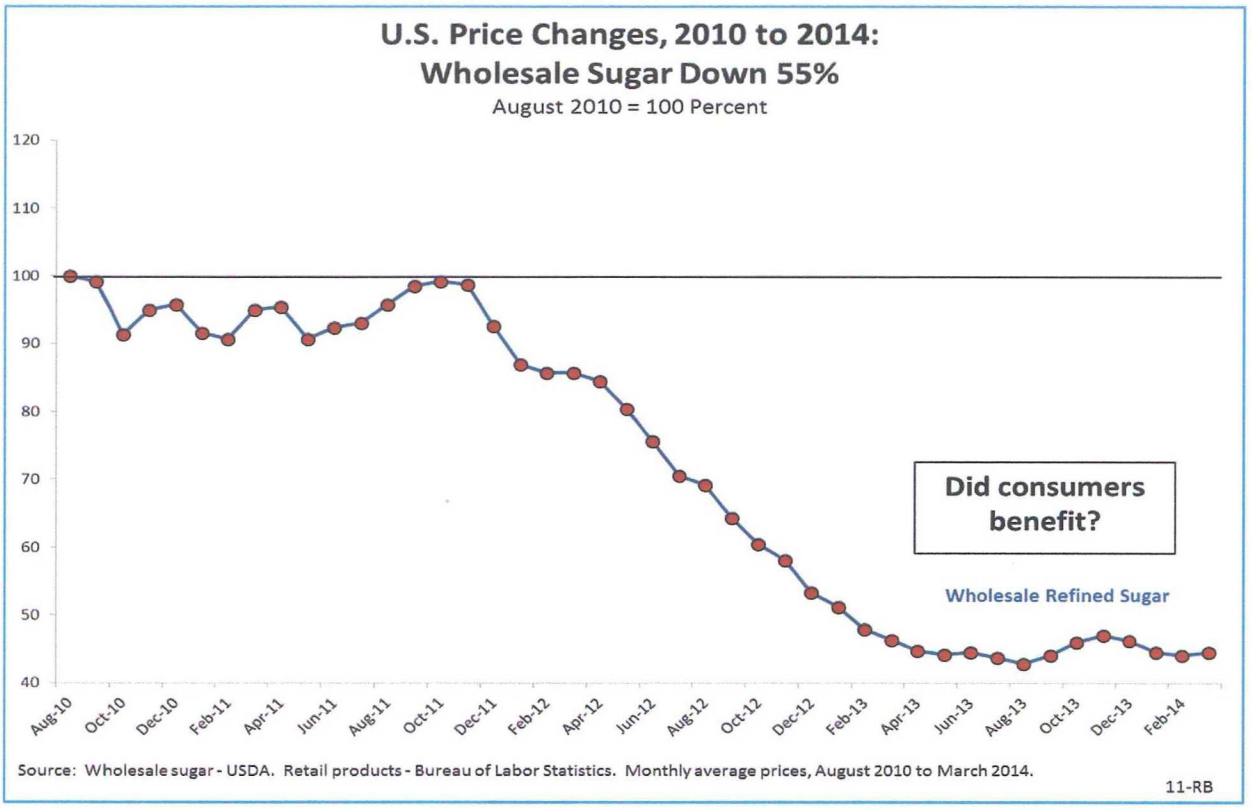
U.S. producer prices plunged to below loan forfeitures levels. This caused government costs and forced our industry to take on the cost of trade remedy cases against Mexico.



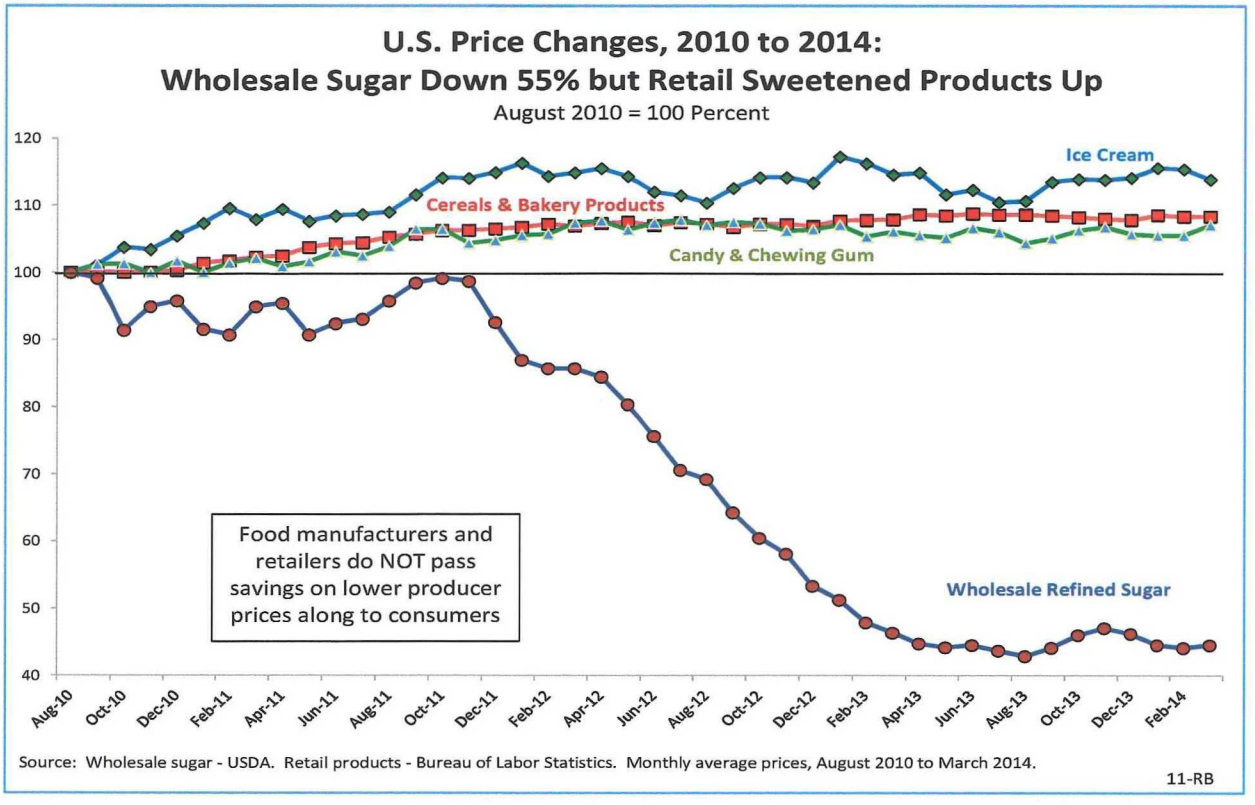
The aftermath:

- The ITC ruled unanimously that Mexico had injured the U.S. industry, and the Department of Commerce found combined subsidy and dumping margins of 48-84%.
- By dumping its surplus on the U.S., Mexican producers benefitted from stable prices, higher than prices in the U.S.
- Lower prices cost American sugar producers about $2 billion in lost revenues in 2013 and 2014 and more sugar mills have permanently closed.
- USDA incurred its first cost to operate U.S. sugar policy in more than a decade.

Who in the U.S. benefitted from the producer-price plunge? Did American consumers?



No. Consumers saw zero benefit. SCP manufacturers absorbed the lower sugar prices as profit. Retail prices for highly sweetened products continued to rise over this 4-year period.

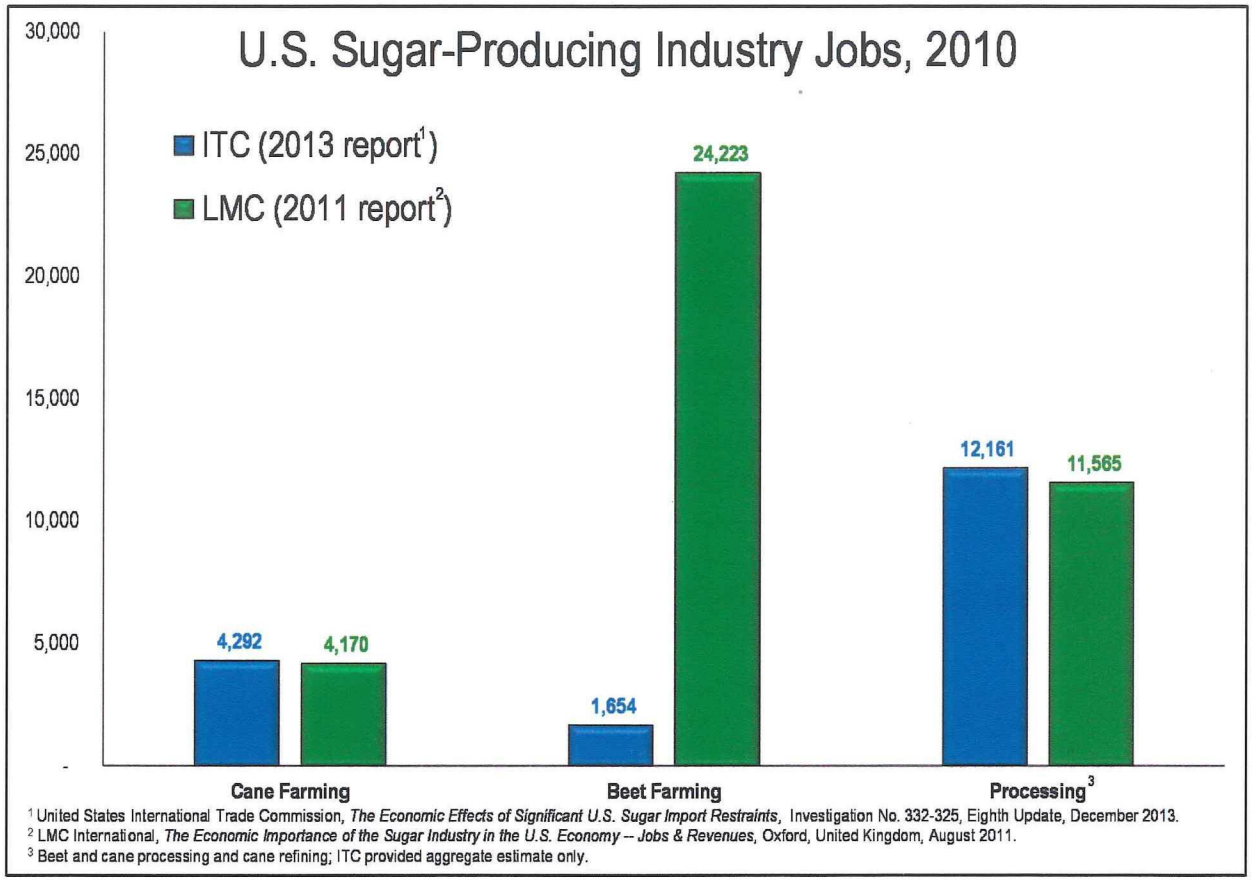


Why is the lack of passthrough important?

The ITC appears to assume lower sugar prices will result in lower sweetened-product prices, and higher demand – with sufficient SCP-sector job gains to offset producer-job losses.

But we question how there could be a boost in demand for sweetened products if consumer prices for those products are rising, not falling.

We compared the ITCs most recent estimate of existing sugar-producer jobs (the blue bars) with LMC International's latest study (the green bars). There is agreement on cane-farming and on cane- and beet-processing jobs. But there is a huge difference on beet-farming jobs.

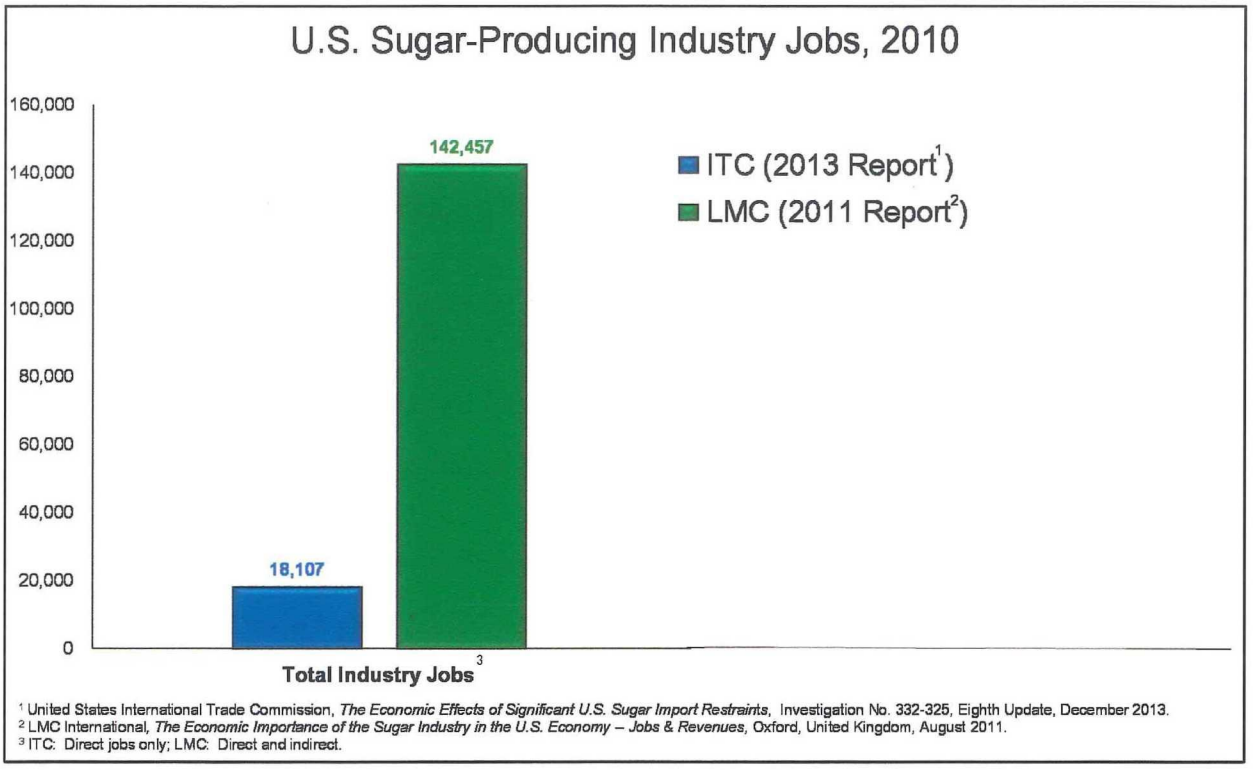


The other big difference is that LMC takes into account the indirect and induced jobs generated by U.S. sugar producers – the businesses that support the industry.

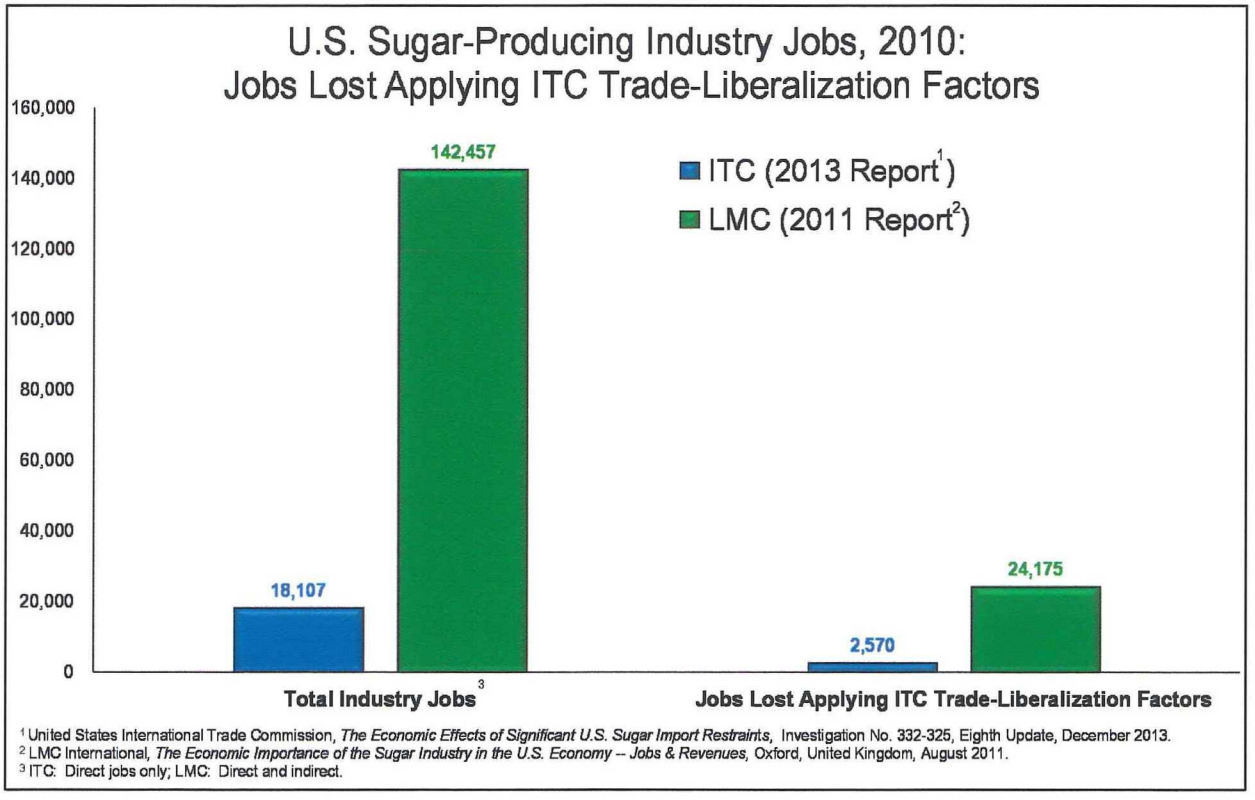
While the ITC looked at only about 18,000 jobs directly generated by the U.S. sugar industry, LMC found more than 142,000 direct and indirect jobs.

An independent analysis by Professor Alexander Triantis, dean of the University of Maryland's School of Business, concurred with the LMC figures.

In his view, the ITC had missed thousands of non-paid family workers and seasonal jobs on beet farms. Triantis also argued indirect jobs cannot be ignored, because of the important ripple effects in rural economies.



Working off the more realistic base of sugar producer jobs, the ITC would have found a producer job loss from trade liberalization of closer to 24,000 than to the roughly 2,600 that the ITC predicts.



How likely is it the SCP sector could generate thousands of additional jobs with lower sugar prices? For such job generation to occur, either, or both, of these circumstances would need to be true:

1. That the SCP sector is so sensitive to ingredient costs that a modest dip in sugar prices would enable it to become more profitable, expand production and add jobs in the U.S.; and/or,

2. That the SCP sector would pass *all* its savings on lower sugar prices along to consumers, who would react by consuming more and thus generate SCP-sector job expansion.

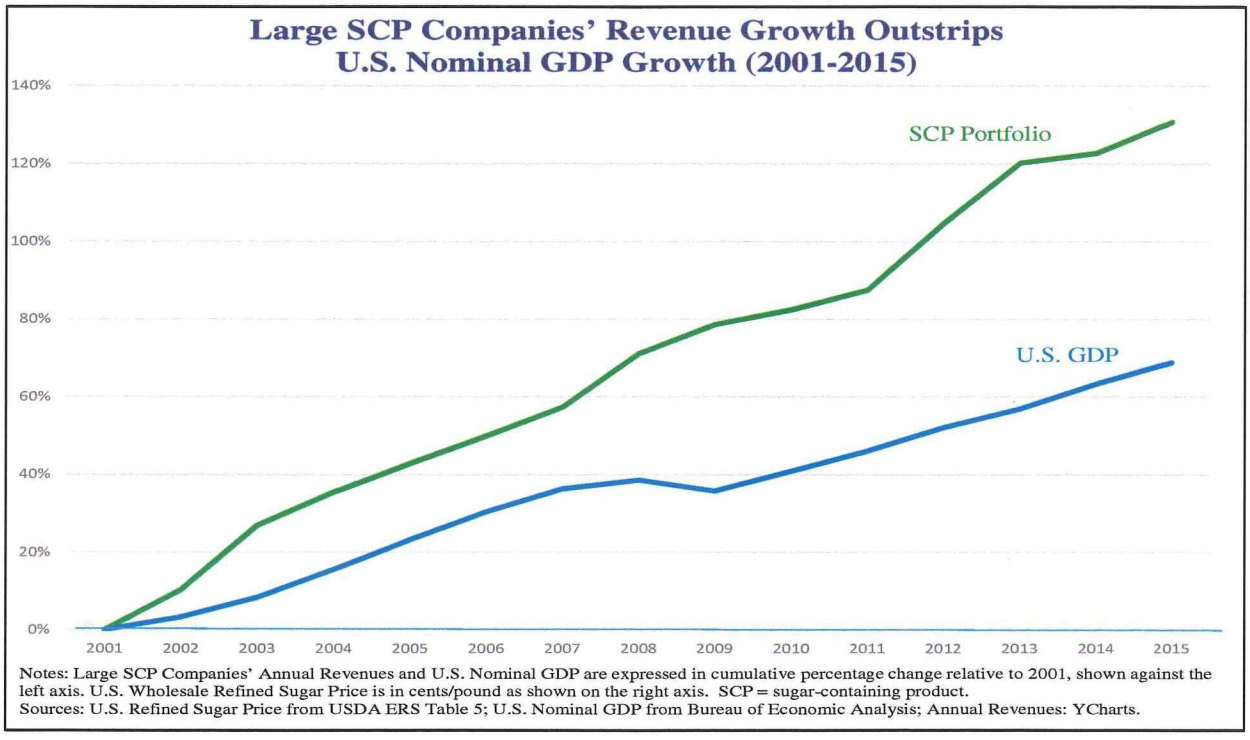
Triantis found, however, that neither of these circumstances reflect reality:

1. The SCP sector is flourishing and expanding in this country regardless of sugar prices; and,

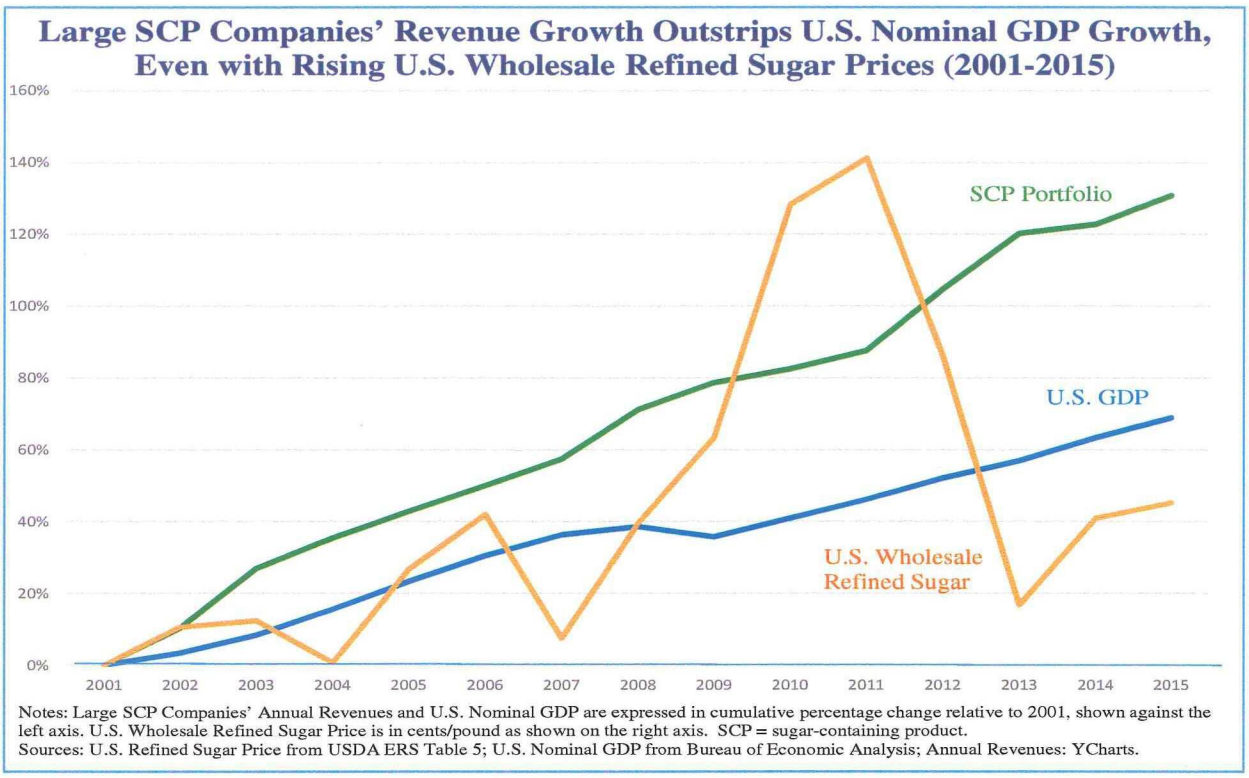
2. There is no evidence of pass-through of lower ingredient prices along to consumers.

Triantis found the SCP sector to be growing and to be extremely strong financially. He assembled a portfolio of the nine largest publicly traded companies that specialize in making highly sweetened products, and examined their major financial indicators relative to the rest of the U.S. economy.

He found for example, that since 2001, the SCP portfolio's revenue growth (the green line) nearly *doubled* the growth in the U.S. GDP (the blue line).



And, Triantis found the spectacular growth in SCP-company revenues to be unrelated to changes in the U.S. wholesale refined sugar price (the orange line). Revenues grew whether sugar prices were rising or falling.



This table shows the many other measures by which Triantis found the SCP sector to be outperforming, by far, the rest of the U.S. economy: high stock-market values, high net margins, high returns on equity, and high price-to-earnings ratios; low volatility and low market risk.

Largest Sugar-Containing-Product (SCP) Manufacturers Outperform U.S. Economy Overall:
-- Key Financial Measures, 2001-2015 --

	SCP Manufacturers[1]	U.S. Economy	SCP Advantage vs. U.S. Economy
Revenue Growth[2]	131%	69%	90%
Net Margins[3]	8.5%	6.2%	37%
Returns on Equity[4]	23.8%	12%	98%
Volatility[5]	21%	66%	68%
Market Risk[6]	0.48	1.14	58%
Total Share Returns[7]	136%	50%	172%
Price to Earnings Ratio[7]	33.20	20.90	59%

Chart Source: "Economic Effects of U.S. Sugar Policy," Alexander Triantis, University of Maryland, April 2016.

[1] Portfolio of nine largest publicly held U.S. SCP companies (Campbell Soup Co., Flowers Foods, Inc., General Mills Inc., Hain Celestial Group Inc., The Hershey Co., J&J Snack Foods Corp., Kellogg's Co., J.M. Smuckers Co., and Tootsie Roll Industries, Inc.).

[2] U.S. Economy = U.S. nominal GDP growth.

[3] Net earnings divided by revenues. U.S. Economy = all U.S. public companies.

[4] U.S. Economy = overall U.S. stock market.

[5] Volatility is the standard deviation of the rate of returns on a stock. The lower the volatility, the more valuable the stock is, other factors being equal. U.S. Economy = overall U.S. stock market.

[6] Market Risk is a "Beta" measure of how closely and how much a stock moves with the overall stock market. The lower the market risk, the more valuable the stock is, other factors being equal. U.S. Economy = overall U.S. stock market.

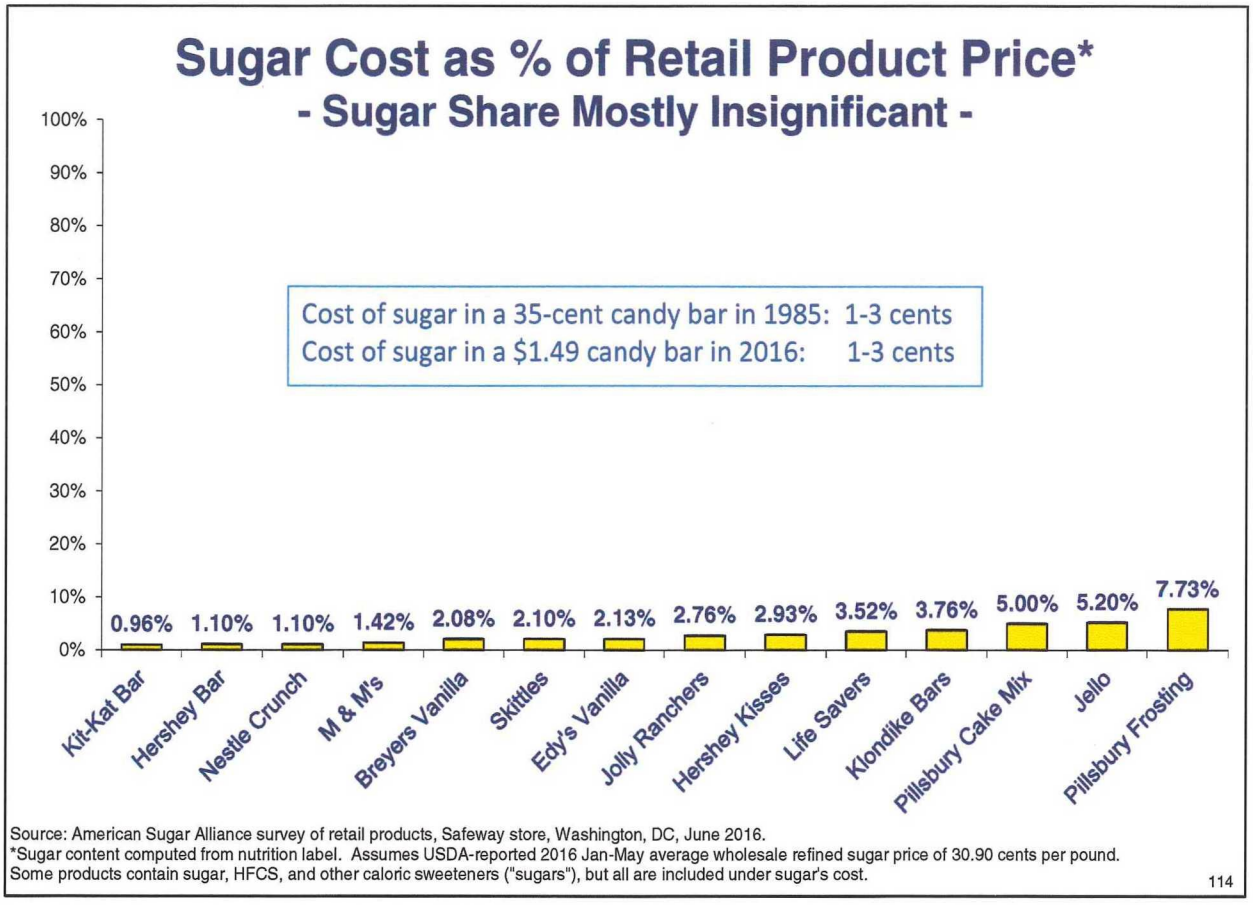
[7] U.S. Economy = the S&P 500 Index.

Why does the price of sugar have no effect on the SCP sector's financial performance?

It's because sugar constitutes only a tiny share of sweetened-product costs. A typical $1.49 chocolate bar has only about 1.5 cents worth of sugar.

If trade liberalization drove the sugar price down by a third, to 1 cent, and the chocolate manufacturers passed 100% of their savings along to consumers (which has never happened), the price of the chocolate bar would drop from a dollar and 49 cents to a dollar and 48.5 cents.

Consumers could *never* notice the price difference. Consumption would *not* rise.



Source: American Sugar Alliance survey of retail products, Safeway store, Washington, DC, June 2016.
*Sugar content computed from nutrition label. Assumes USDA-reported 2016 Jan-May average wholesale refined sugar price of 30.90 cents per pound.
Some products contain sugar, HFCS, and other caloric sweeteners ("sugars"), but all are included under sugar's cost.

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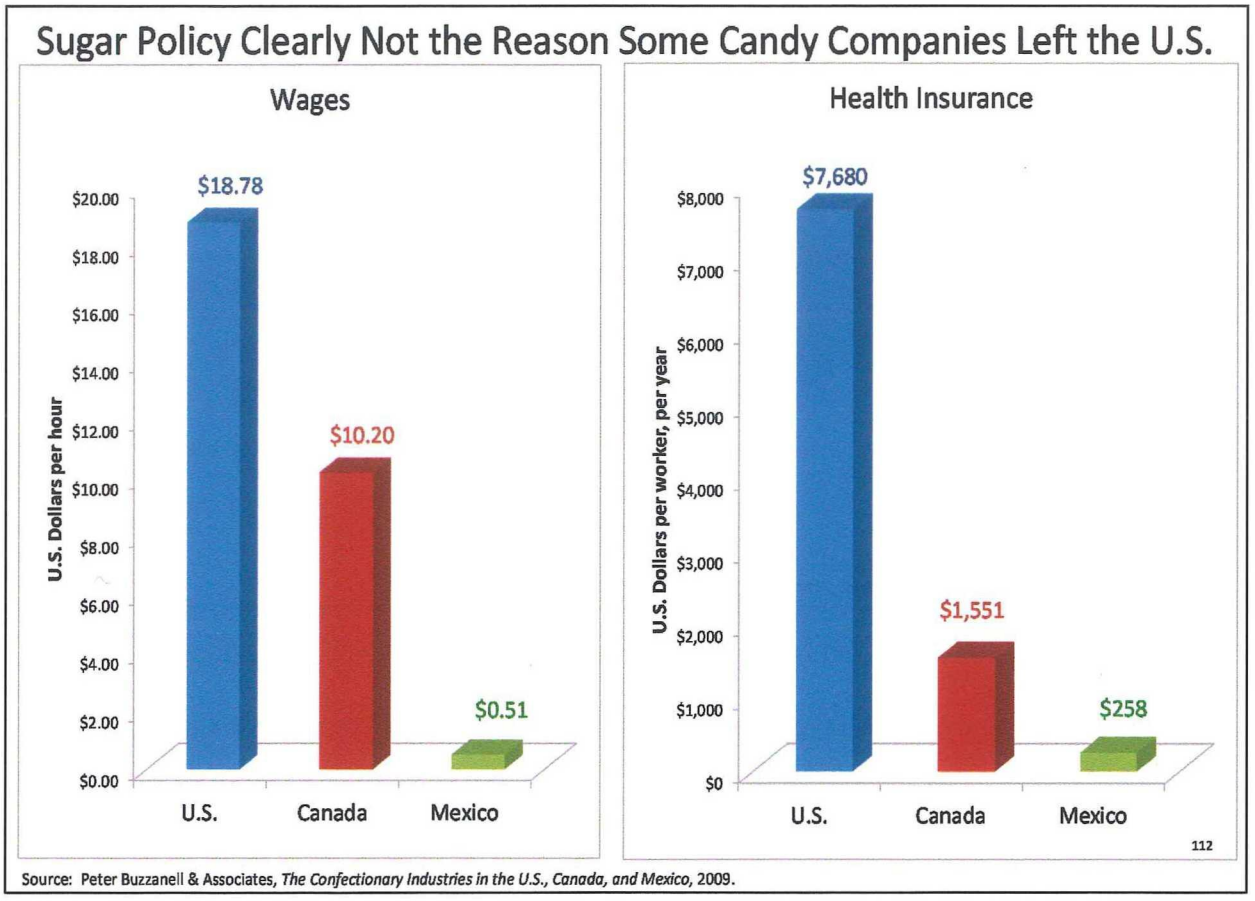
By the same token, Triantis and others have found that sugar prices also do not matter in SCP-company decisions on whether to locate in the United States or elsewhere. Other costs are much more important and the differentials can be enormous.

This 2009 study, for example, showed wages at a unionized U.S. candy operation (the blue bar) to be nearly double the non-union wages in a similar operation in Canada (the red) and many times greater than the non-union wages at the same company's operation in Mexico (the green). The foreign health care and other costs were much lower, as well.

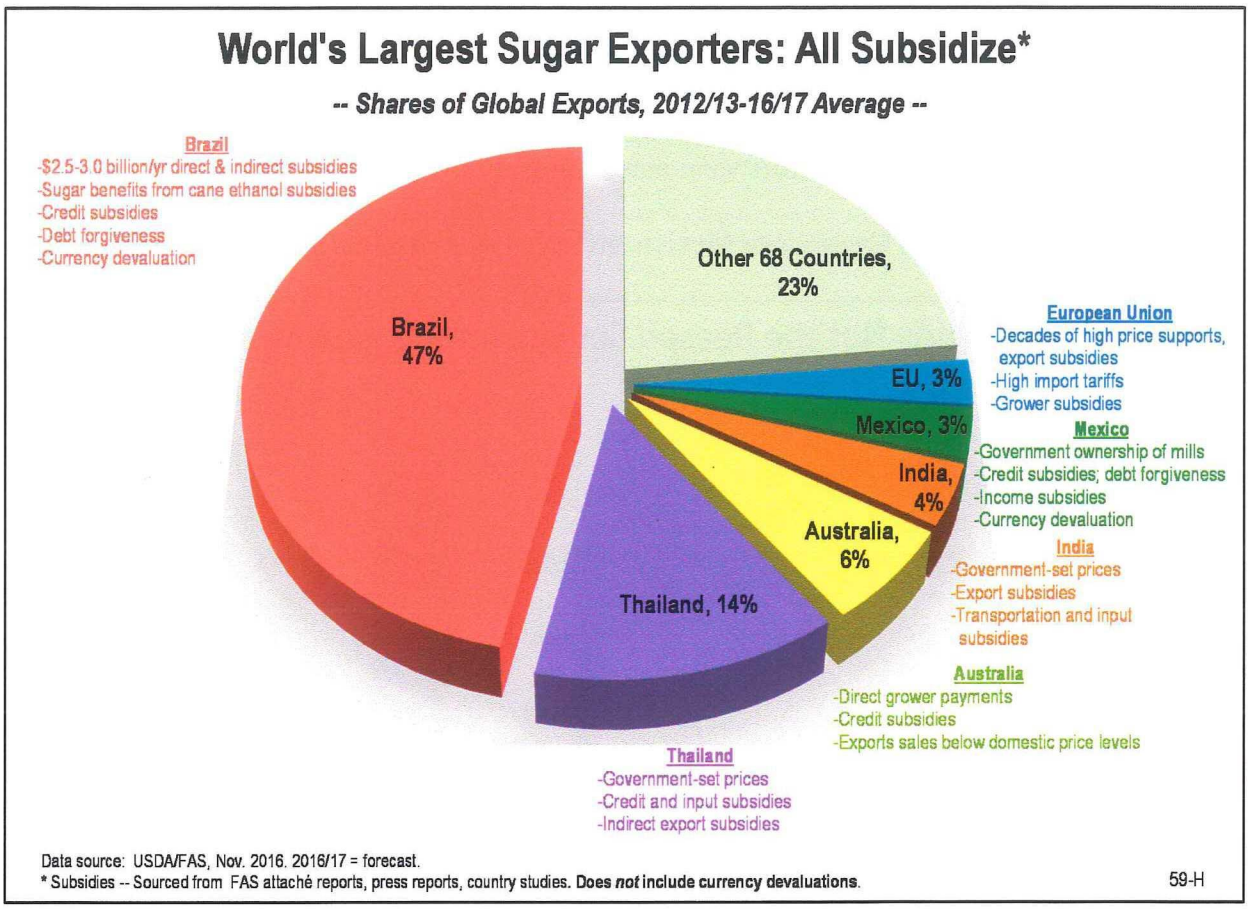
Meanwhile, sugar prices in Canada and Mexico, are only marginally different from U.S. prices.



While we have focused on the effect of Mexican subsidizing and dumping on the U.S. market, it is critical we not ignore the fact that Mexico is typical of world sugar exporters, and by no means unique.

Absent U.S. sugar-import restraints, American producers would be vulnerable to dumping by *all* countries. We could not bring trade remedy cases against all of them.

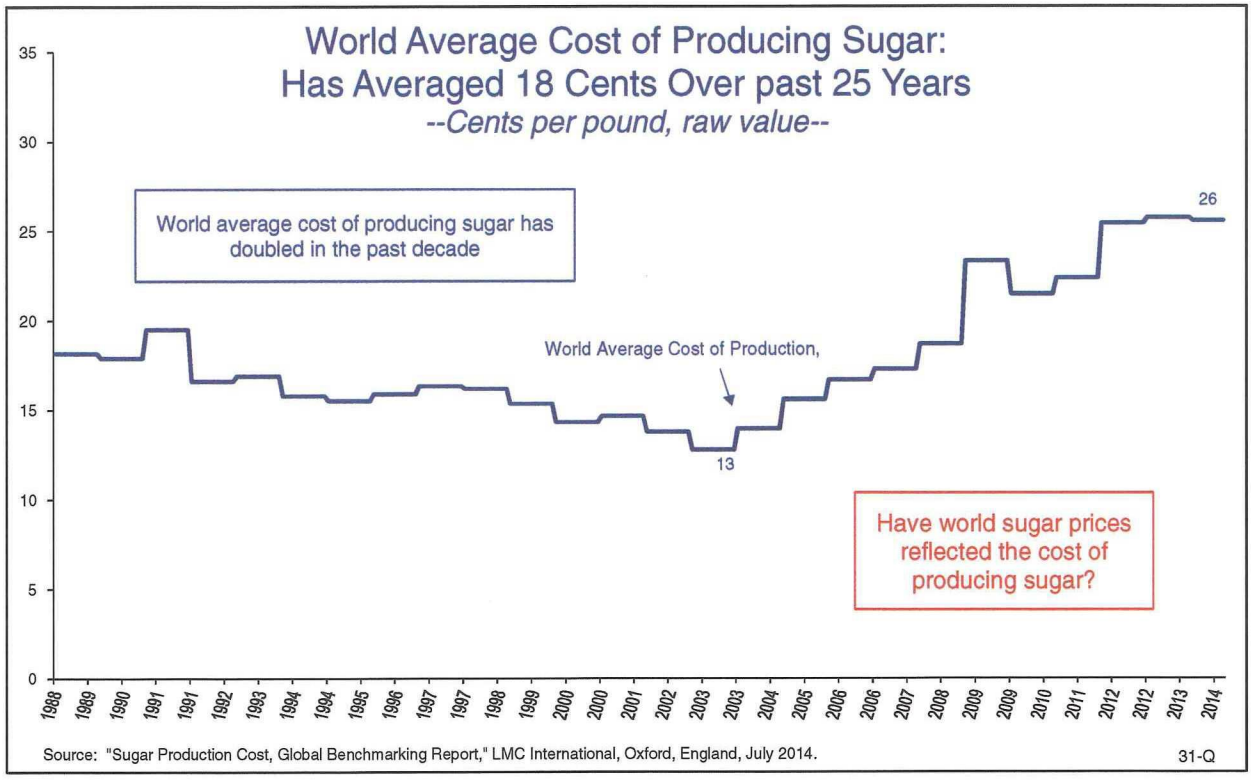
This chart identifies the major sugar exporters and provides just a sampling of their subsidy methods.



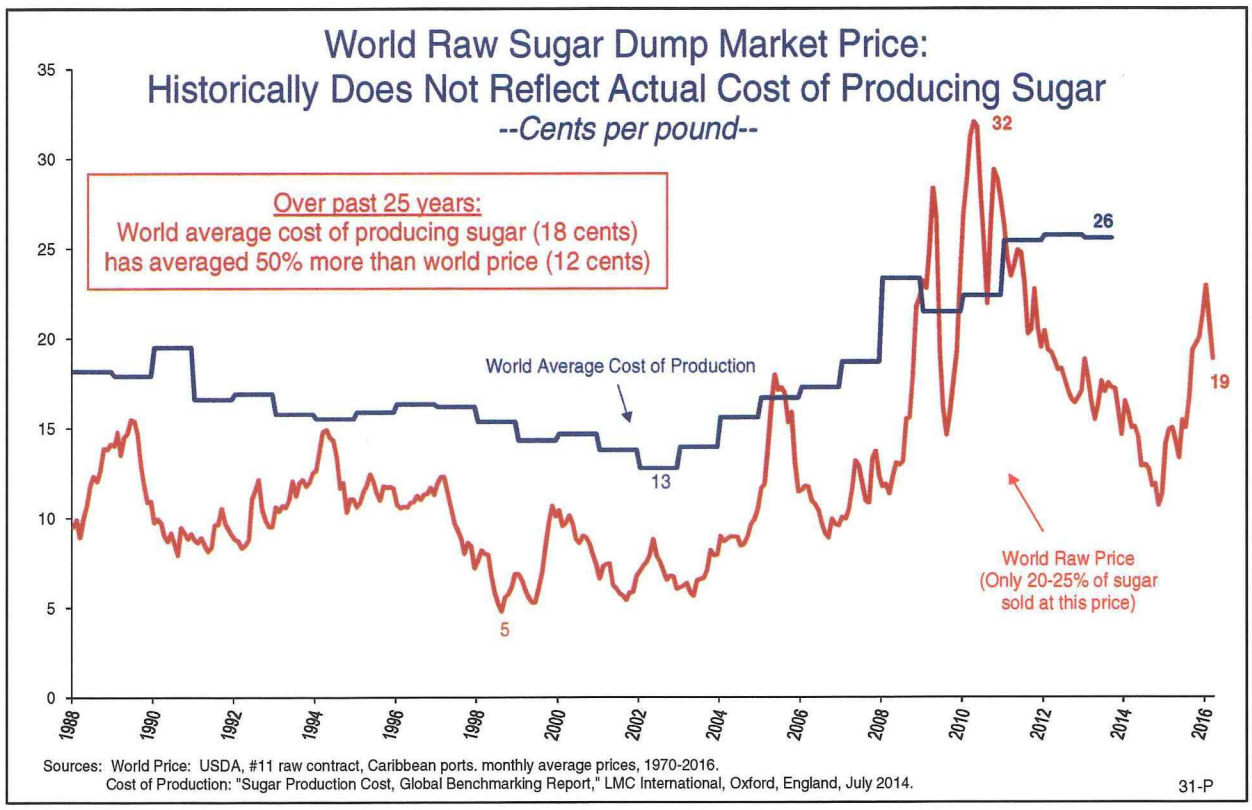
The effect of these subsidies, and routine dumping, on the so-called world market is profound.

This chart shows the world average cost of producing sugar over 25 years – averaging about 18 cents per pound.

You would expect world sugar prices to average at least that level, to sustain a global sugar-producing industry.



Shockingly enough, though, world market prices (the red line) averaged just 12 cents per pound over the same 25 years.

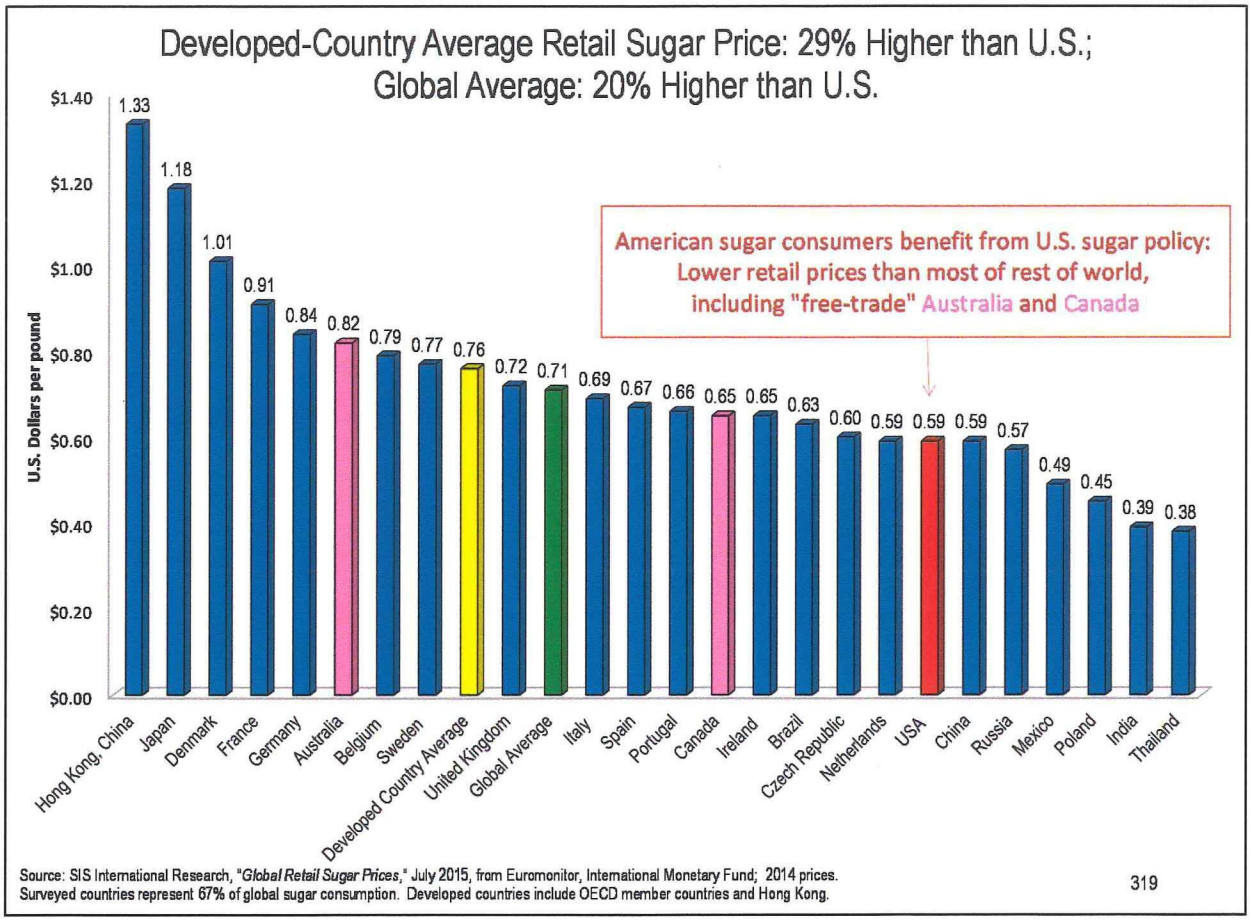


How could the global industry survive? The answer is that about three-quarters of the world's sugar is sold *not* on the world market, but in the country where it is produced. Combinations of subsidies and dumping sustain domestic prices in these countries that are well above the world price, and comfortably above production costs.

Finally, a simple measure of the U.S. sugar policy effect on consumers is to compare retail sugar prices here with the rest of the world.

A global survey revealed that foreign consumers, on average (the green bar), pay 20% more for sugar than American consumers do (the red bar). Developed-country consumers (the yellow bar) pay 29% more.

These actual data reveal, in a straightforward manner, the significant benefit to American consumers accruing from U.S. sugar policy and import restraints.



Source: SIS International Research, "*Global Retail Sugar Prices*," July 2015, from Euromonitor, International Monetary Fund; 2014 prices.
Surveyed countries represent 67% of global sugar consumption. Developed countries include OECD member countries and Hong Kong.

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In conclusion:

U.S. sugar policy provides a net *benefit* to the U.S. economy

Empirical data have shown the real-world effects of a loss of import restraints:

- Huge American-producer job losses and taxpayer costs;
- *No* American consumer benefits;
- Benefits that accrue only to:
  - ➢ Foreign subsidized producers, and to
  - ➢ The already highly profitable U.S. SCP-manufacturing sector.

Any possible marginal sweetened-product-sector job gains could not possibly offset the certain and substantial producer-sector job losses from eliminating U.S. sugar-import restraints.