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Commodity Outlook 2003: U.S. and World Sugar Markets¹

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This paper provides an overview of U.S. sugar policy and the importance of the European Union (E.U.) and Brazil in the world sugar market. Both U.S. and E.U. sugar policies support sugar prices for growers well above world levels. Brazilian sugar producers are supported by their government sugar-ethanol program in which over 50 percent of the sugarcane grown in Brazil is converted into fuel. Sugar prices for U.S. and E.U. producers should remain at the current levels. World sugar prices should remain at near record low levels.

In the United States, a price floor is provided for U.S. sugar growers under the U.S. sugar program. The sugar program in the 2002 U.S. Farm Bill (in effect for the next five to six years) contains the following broad provisions:

- price supports.
- payments in-kind (PIK).
- tariff rate quotas (TRQ).
- storage facility loan programs.
- reporting requirements.

There were only minor changes made from the 1996 Farm Bill, which were incorporated into the

Farm Security and Rural Investment Act of 2002. Under the 1996 Farm Bill, the raw cane sugar loan rate was fixed at 18 cents per pound and the refined beet sugar loan rate at 22 cents per pound. Under the new program, the non-recourse loan provision has been reauthorized through 2007 for the same amounts. Marketing assessments are terminated, as are forfeiture penalties. The producer PIK program continues, and TRQs have been retained. Under the TRQ arrangements, the United States has to import a minimum of 1.23 million short tons of raw cane sugar. The key component of the U.S. sugar policy is the import quota provision that protects U.S. producers from low world sugar prices.

There are two major sugar exporters: the European Union and Brazil.

- Although the European Union does not export raw sugar, it is the leading exporter of white sugar, followed by Brazil and Thailand. For the period 1995-1996 through 2001-2002, E.U. exports exceeded four million metric tons. Sugar production in 2002-2003 is forecasted at 16.3 million metric tons, which could result in near record sugar exports. The European Union continues its high price support policy through the use of A, B, and C quotas. Exports under C quotas enter world markets without subsidies.

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Sugar producers in the European Union receive prices in excess of 30 cents per pound for raw sugar. Recently, increased exports from the European Union under the C quota have, in part, caused world sugar prices to drop to near record low levels.

- Brazil continues to be the largest raw sugar exporter. Brazilian production of sugarcane has increased by more than 50 percent since 1990-1991 and is expected to total 340 million metric tons in 2002-2003. Record exports of over 10 million metric tons of raw sugar are also expected in 2002-2003 even though half of its sugar is used for the production of fuel. Brazil's fuel policy of mandating the use of fuel from sugarcane provides an implicit subsidy to Brazilian sugar producers (in excess of 100 million U.S. dollars annually).

In view of U.S. farm policy, U.S. sugar prices at the farm level will not drop below the guaranteed minimum of 18 cents per pound for raw cane sugar and 22 cents per pound for refined beet sugar. It is unlikely that marketing allotments will be needed in 2003 to achieve these minimum prices. Domestic sugar prices have strengthened. As of December 4, 2002, March sugar futures closed at 22.13 cents per pound in contrast to a contract low of 19.92 cents per pound. September futures closed at 22.25 cents per pound in contrast to a contract low of 20.40 cents per pound. For 2003, futures prices are expected to stay above 22 cents per pound.

World sugar prices are much lower than producer prices in either the European Union or the United States. As of December 2002, world prices were below 10 cents per pound on a raw basis. As of December 4, 2002, March futures for "world sugar" traded at 6.90 cents per pound, compared to a contract low of 5.20 cents per pound. October futures closed at 6.16 cents per pound. World sugar prices are at near record lows and will remain so unless significant reductions in sugar exports occur. However, this is unlikely since the European Union has no intention of changing its sugar policy. Likewise, the U.S. sugar policy has been set for at least five years. Also, unless there is drought in regions such as Australia and Brazil, there will be

little reduction in sugar exports. The so-called sugar market (often referred to as a "dumping market") will remain saturated throughout 2003.

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