

THE MYTH OF HIGH U.S. SUGAR PRICES

Critics of U.S. sugar policy frequently complain along the lines of: "American consumers pay triple the world price for sugar."

Is it true? Is it an exaggeration? The record of actual retail sugar prices strongly suggests the latter.

Global Retail Refined Sugar Prices

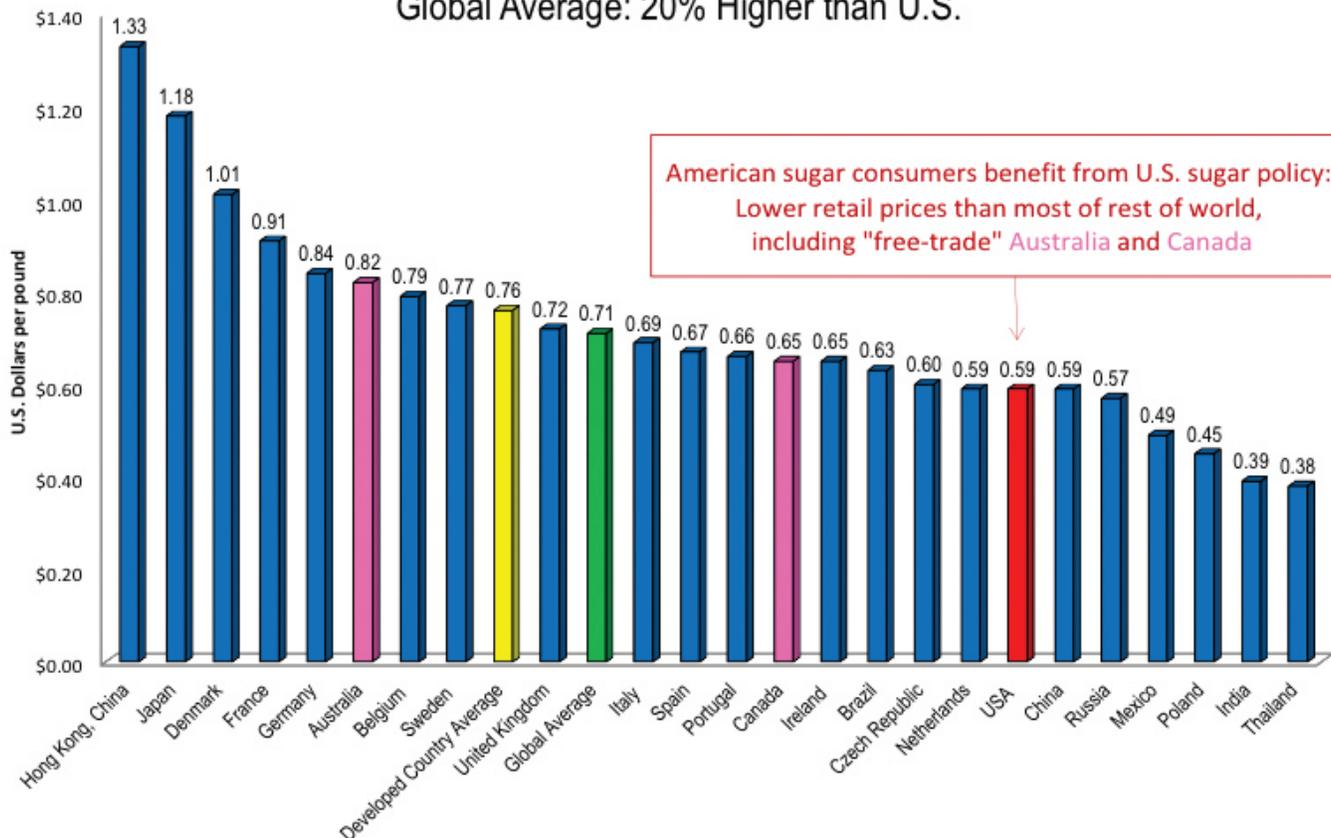
A survey by SIS International, New York-based researchers, tracked grocery store prices for nearly 70% of global sugar consumption. It revealed that American consumers actually pay a good deal less than most other consumers around the world.

The global average consumer price – which includes developing countries – was found to

be 20% higher than the U.S. price, while the developed-country average was 29% higher.

Critics who lament that American consumers don't benefit from the kind of openness featured in the Australian and Canadian sugar markets might pause to notice that consumers in those countries pay considerably more for sugar than American consumers do (*see chart below*).

Developed-Country Average Retail Sugar Price: 29% Higher than U.S.;
Global Average: 20% Higher than U.S.



American sugar consumers benefit from U.S. sugar policy:
Lower retail prices than most of rest of world,
including "free-trade" Australia and Canada

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.

U.S. Prices vs World Dump Market Prices

How, then, can critics complain that U.S. consumers pay more for sugar than consumers abroad?

That complaint is usually supported by unfairly comparing raw sugar prices on the world futures market with U.S. retail prices for refined sugar. Such a comparison is an exaggeration and would be like comparing the price of rubber with the price of a tire.

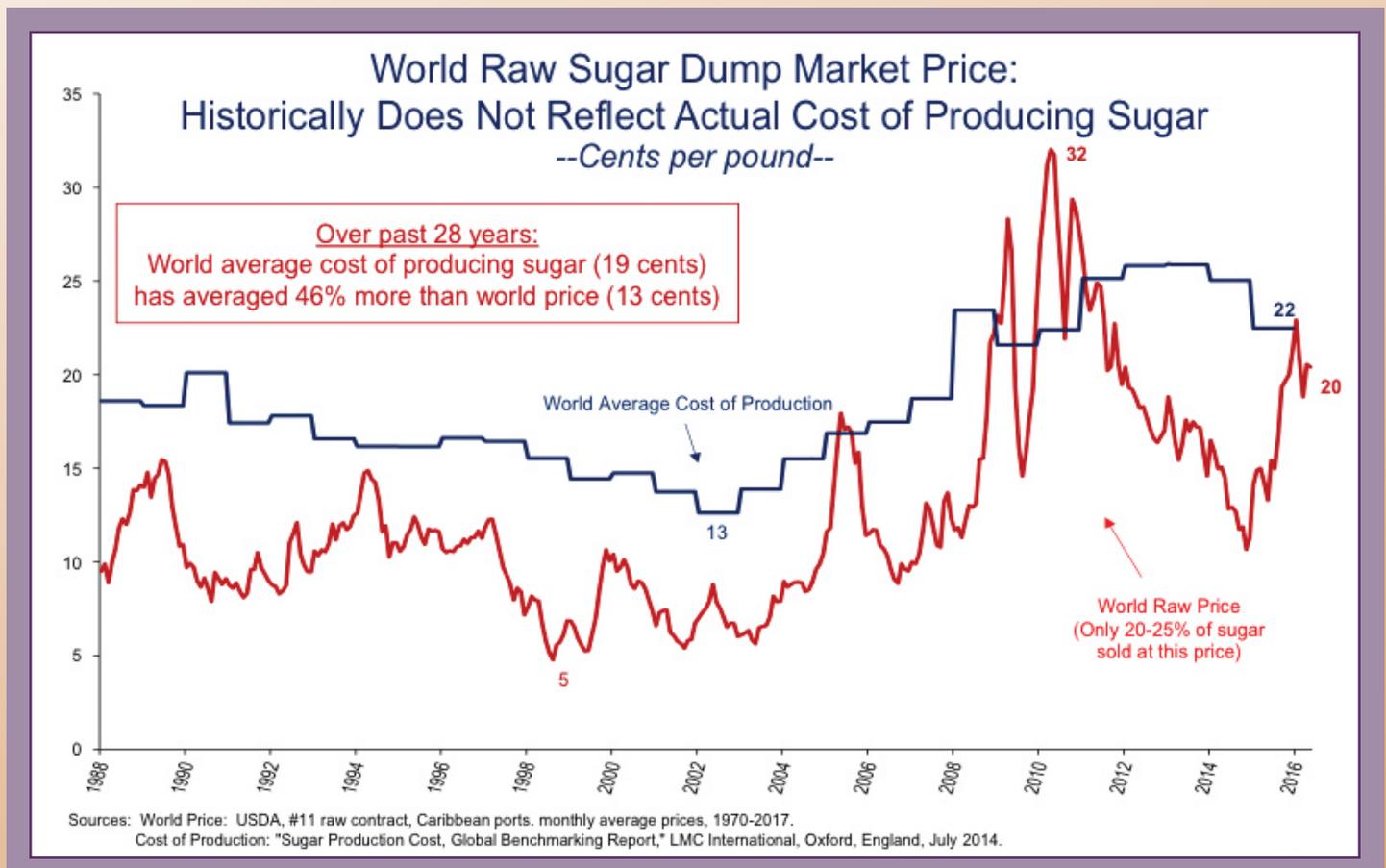
First of all, consumers don't buy raw sugar. Whether it's grocers buying five-pound bags to put on their store shelves or candy manufacturers buying railcar loads for a batch of gumdrops, they are buying refined sugar. About 4% of raw sugar is molasses and other impurities, and raw sugar can be shipped in bulk. Cane sugar refineries melt and centrifuge out the molasses and impurities and package the pure, white sugar consumers are accustomed to seeing.

Most sugar is consumed in the country where it is produced. So, although there is a world futures market for raw sugar, only about a quarter of the world's sugar is traded on that market.

One would expect prices on a futures market to reflect production costs. But, in sugar's case, they do not. In fact, most years, they don't even come close. The chart below depicts the world average cost of producing sugar over the past three decades. It's 19 cents a pound, slightly more than the U.S. raw sugar support price under U.S. sugar policy.

Surprisingly, the world average price on the raw sugar futures market over the same period has been only 13 cents. That means the average cost of producing sugar is nearly 50% higher.

How could the market price for this



product be so much less than the cost of producing it?

There are two parts to the answer:

1. The futures market only accounts for a fraction of the sugar traded each year, and that tends to be sugar produced in excess of needs in that country. Brazil, for example, produces far more sugar than it needs and, with decades of government support, accounts for about half of all sugar exported each year.

2. Major exporters can afford to unload their surplus sugar at low prices because they have covered their costs by selling most of their sugar for much more in domestic markets, where prices are supported by governments.

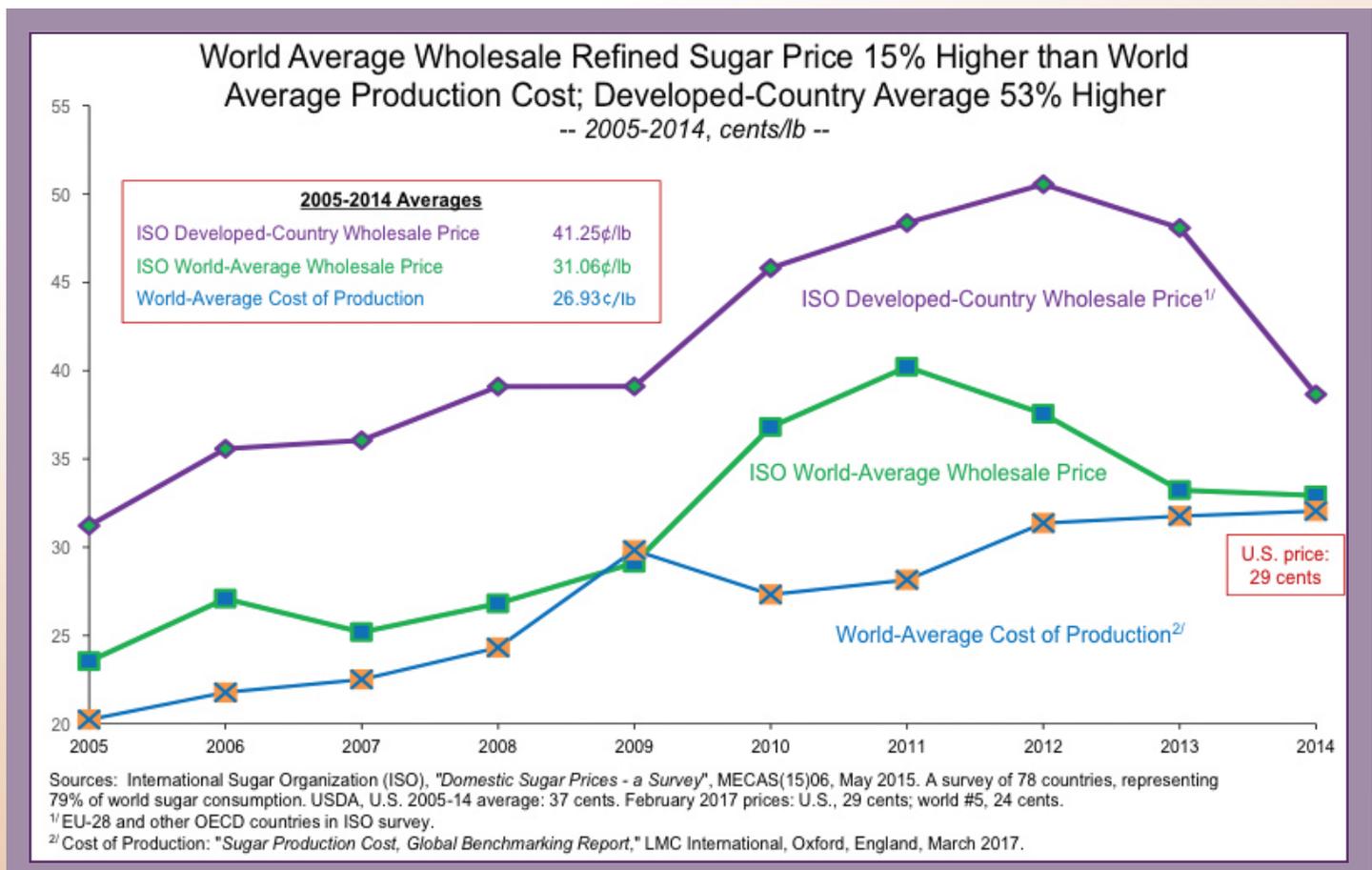
How high are those domestic prices? Since grocers and food manufacturers don't buy raw sugar, we'll compare wholesale refined sugar prices around the world with the world average cost of producing refined sugar.

Wholesale Refined Sugar Prices

The International Sugar Organization (ISO) in London did a survey of wholesale refined prices that covered nearly 80% of global consumption from 2005 to 2014. It revealed wholesale domestic prices well above production costs (*see chart below*).

This helps to explain how the world sugar industry can actually exist in the face of absurdly low "world market" prices: When producers cover their costs in strong domestic markets, they can afford to dump their surpluses on the world market for whatever price it brings.

Note that current U.S. prices, averaging under 29 cents per pound, are below



the world's 31 cents, and well below the developed-country average of 41 cents.

And as this table shows, U.S. prices are below the averages seen in most regions around the globe,

according to ISO's study. Again, the notion that American prices are triple world prices is pure fiction.

American wholesale sugar prices – the price that sugar producers receive from food manufacturers and grocers – are not only low, but have been remarkably stable over time. As the table below shows, going all the way back to the 1980s, U.S. wholesale refined sugar prices have averaged in the narrow range of just 27 to 29 cents.

While sugar-producer prices have been flat, inflation over that period has been well over 100%, and the resulting economic squeeze has taken its toll. More than half of all

American sugar mills have closed since 1985.

Have consumers benefitted as much as they might from the low producer prices for sugar? Sadly, no. Consumer prices have risen

rapidly as grocers raised retail sugar prices to increase margins.

Grocers buy bags of sugar that producers deliver to the back of their stores and need only cover their cost of moving those bags of sugar to the grocery shelf. For that service, grocers' markup has more than tripled, from 10 cents to nearly 35 cents per pound, since the 1980s.

Grocers are not alone. Manufacturers of

sweetened products, such as confectioners and bakeries, have also dramatically increased consumer prices despite stagnant sugar costs. For example, a candy bar's cost has risen from 35 cents in the 1980s to \$1.49 today.

Sugar Prices Paid By Food Manufacturers Globally 2005-2014

Global Avg.	31.1 cents/lb.
Africa	32.6 cents/lb.
Asia	35.0 cents/lb.
Central Amer.	30.2 cents/lb.
Europe	35.9 cents/lb.
Oceania	21.5 cents/lb.
N. America	36.1 cents/lb.
S. America	30.5 cents/lb.
Current U.S.*	28.7 cents/lb.

Sources: International Sugar Organization

* USDA Sugar and Sweetener Yearbook, Q1 2017 Average

Sugar Prices Today and Yesterday

	Wholesale price	Consumer price	Retail markup
1980s Avg.	27.1 cents/lb.	37.2 cents/lb.	10.1 cents/lb.
1990s Avg.	26.7 cents/lb.	41.9 cents/lb.	15.2 cents/lb.
2000s Avg.	27.8 cents/lb.	46.9 cents/lb.	19.1 cents/lb.
Today	28.7 cents/lb.	63.5 cents/lb.	34.8 cents/lb.

Source: USDA Sugar and Sweetener Yearbook

Conclusion

The allegation that American consumers pay far more for sugar than others around the world does not stand up to a factual examination. Comparisons of U.S. retail refined sugar prices with world raw dump-market prices are highly misleading. In fact, both wholesale and retail sugar prices in this country – for food manufacturers, grocery chains, and end consumers – are well below world averages.