Negative Brief: Sugar

By “Coach Vance” Trefethen

AFF plan reforms US trade policies on sugar importation, which protect the domestic sugar industry with quotas and tariffs on foreign imports. There are probably several variations of this plan. Some may simply abolish the sugar quota/tariff program. Others may pass a bill that was proposed in Congress, known as the "Fair Sugar Policy Act," which does most of the same thing.

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Negative: Sugar

NEGATIVE PHILOSOPHY / OPENING QUOTES

Alternative Approach: Don't do the plan until foreign exporting countries stop subsidizing their sugar industry

We should adopt a "zero for zero" policy: Once foreign sugar exporters stop subsidizing their sugar exports, we can stop our import restrictions

John Adamy 2021 (journalist) FARM NEWS MEDIA 4 Aug 2021 Resolution calls for zeroing out foreign sugar subsidies (15 Nov 2021) https://www.michiganfarmnews.com/resolution-calls-for-zeroing-out-foreign-sugar-subsidies

Brazil provides direct and indirect subsidies of at least $2.5 billion/year; India provides at least $1.7 billion/year in subsidy supports for its sugar industry, and Thailand has more than tripled its sugar exports since 2004 with $1.3 billion/year in subsidies and government price-fixing. Add that on to subsidies from countries including Russia and Mexico and it’s clear that the playing field isn’t exactly level. That’s why U.S. Reps. Dan Kildee (D-MI) and Kat Cammack (R-FL) introduced their resolution this week, calling on the president to “seek elimination of all direct and indirect subsidies benefiting the production or export of sugar” from foreign countries. If that were to happen, the resolution calls for putting reforms in place for U.S. sugar policy, referred to as a “zero for zero” approach, which is widely supported by Michigan's sugarbeet farmers. “American sugar farmers are the best in the world, and they want to be able to compete fairly to sell their products. Unfortunately, other countries like Brazil, Thailand and India have unfair sugar subsidies and regularly dump their surplus sugar on the world market, posing a constant threat to American family farms,” Kildee said. “That’s why we need an American sugar program to support our farmers.

Fair Sugar Policy Act is anything but fair

Jim Simon 2019. (manager of the American Sugar Cane League, a non-profit organization of Louisiana sugarcane growers and processors) 8 Oct 2019 "American Sugar Policy: It Works!" (accessed 15 Nov 2022) https://www.amscl.org/american-sugar-policy-it-works/

The American sugar industry that was born in Louisiana in 1795 continues to this day to be a major economic driver for the Bayou State as well as the other sugarcane and sugarbeet growing states. But a new bill sponsored by the congressional legislators from Hershey, Pennsylvania and other candy-making states would destroy the American market if allowed to become law. The legislation, dubbed the Fair Sugar Policy Act is anything but fair.

SIGNIFICANCE

1. No job losses from federal sugar program

U. of Maryland Study: Sugar policy not hurting the sugar-containing products industry. Jobs and profits are growing!

Jerry Hagstrom 2016 (publishes [THE HAGSTROM REPORT](http://www.hagstromreport.com/), a news service providing original national and international agricultural news to its subscribers) “Free Market Sugar, a product of Citizen Outreach, “Study: Sugar policy OK for sugar-containing products industry” April 16 2016 (accessed 15 Nov 2022) <http://freemarketsugar.com/study-sugar-policy-ok-for-sugar-containing-products-industry/>

 The American Sugar Alliance, which represents cane and beet growers, today released a study showing that U.S. sugar policy has not hurt the sugar-containing products industry. The study, prepared for the ASA by University of Maryland Business School Dean Alex Triantis, says that between 2009-2014 — a period that included a U.S. economic recession and unusually high world and U.S. sugar prices — sugar-containing industry jobs rose by 3 percent, while non-sweetened-food industry jobs were flat. The report also said that sugar-containing products (SCP) companies have also experienced strong revenue growth, high profitability and high returns on equity “even when sugar prices increase.”

Misleading numbers on job losses in the 2006 Commerce Report on sugar industry

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Furthermore, the press release evidence provided is one-sided, in that the Commerce Report discusses only jobs lost and not jobs added. As companies compete in a particular industry, some companies’ operations will contract, while others will expand, or a changing mix of products within a company will result in specific plants closing down while others open up. The net impact on employment is what needs to be measured, and this can only be gauged by examining both positive and negative changes.

Alternate causes: Job losses came from increasing productivity & labor costs, not material input costs

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Job losses in the confectionery industry, as in other SCP industries, are more likely to be attributed to factors other than material costs in any event. Decreases in food manufacturing employment have been driven in large part by increasing productivity, as well as relocation of facilities abroad due to labor cost differentials, and other supply chain, regulatory, and tax advantages.

SCP (sugar containing products) industry experience high profitability with status quo sugar program

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The SCP industry has been faring very well under current US sugar policy. SCP companies have experienced strong revenue over time. These companies have high profitability and high Returns on Equity, even when sugar prices increase. Coupled together with low risk and therefore a low cost of capital, SCP companies have generated impressive Total Shareholder Return since 2001, and their stocks are priced to reflect strong expectations for the future.

No correlation between U.S. sugar prices & job loss in the SCP industry

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Figure 3.3 presents another perspective to examine whether there is any relationship between U.S. sugar prices and employment loss in the U.S. SCP industry. The figure juxtaposes the yearly percentage change in U.S. wholesale refined sugar prices (the scale is on the left vertical axis) with the yearly change in SCP employment (the scale is on the right vertical axis) over the past twenty-five years. There appears to be no relationship that would support a link between increases in sugar price and decreases in jobs in the SCP industry (or vice versa). In fact, the correlation between these contemporaneous movements is slightly positive (that is refined sugar prices and SCP-manufacturing employment rise or fall together more so than the opposite direction), which would run counter to this claim.

No need for corporate flight: SCP companies faring well under current US sugar policy

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Shareholder views no doubt also reflect corporate management’s views of their industries’ potential. The global sales growth potential, the large profit margins, the continuous productivity improvements, and the relatively low risk that these companies are exposed to, all lead management to be confident investing in growth. This confidence is displayed in the fact that Total Capital Expenditure made by Confectionery industries (NAICS 31132-34) soared to $1.2 billion in 2011, even as sugar prices peaked. Since then, investment has remained strong, with $1.1 billion in capital expenditures in 2013. Overall, SCP companies are faring very well under current U.S. sugar policy.

SCP companies enjoy stability & strong returns under status quo U.S. sugar program

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Overall, it is clear that owners of these SCP companies, which include corporate insiders and large institutional investors, have enjoyed both stable and strong returns over time on their equity investment. The low risk of the SCP companies’ stocks ensures that these companies can access capital at a relatively low cost. With a beta close to 0.5, the cost of equity for these companies is currently averaging about 5-6%. This is considerably below the ROE of between 20-35% in recent years (shown above in Figure 4.5), indicating that these firms are creating considerable value for their shareholders.

SCP Industry doing great under status quo sugar policy

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SCP companies have high profitability, even when sugar prices rise

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While revenues may be increasing at a strong pace for SCP companies, it is also important to examine profit earned on each dollar of revenue generated. The Net Margin measures the New Earnings of a company divided by its revenues. This is a key measure of the profitability of companies. Figure 4.3 shows the net margins over the time for the portfolio of the SCP companies, and for the food processing industry in general, over the period 2001-2015. The SCP companies appear to be highly successful at generating profits from their revenues, consistently and significantly above the food processing industry in general. The average Net Margin for the SCP portfolio companies over the recent period was 8.5% as compared to 5.1% for the food processing industry overall, and 6.2% for the U.S. public companies in general. By plotting the Net Margin for the SCP company portfolio against U.S. refined sugar prices, Figure 4.4 shows that changes in sugar prices do not seem to have a negative effect on SCP company's’ net margins. In fact the correlation between sugar prices and margins over the past fifteen years is somewhat positive, not negative-profits have on average risen when sugar prices have increased (and vice-versa).

 

SCP companies experiencing high revenue growth, regardless of sugar prices

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Figure 4.2 shows the growth in annual revenue for the portfolio of nine large SCP companies. Revenue grew approximately 131% over the fifteen-year period between 2001 and 2015. In contrast, nominal GDP growth in the US over this same period was roughly 69%. Therefore, these SCP companies were able to grow their revenue almost twice as much as the rest of the US economy during this period. It is also interesting to compare the growth in revenues in Figure 4.2 against the percentage change in U.S. refined sugar prices during this period. The period growth in revenues continues to remain strong even when sugar prices rose to levels much higher than the historical average. This suggests that high sugar prices do not seem to hinder SCP companies’ ability to grow their revenues faster than the economy at large.



SCP employee benefits have risen under the current Sugar Policy

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Benefits have also increased considerably in the Confectionery industry over recent years. The Annual Survey of Manufacturers and the Economic Census collect information about the total benefits paid for each industry. Taking the benefits amount in each year and dividing by the number of employees in that year, the benefit per employee has increased by 20% over the nine years between 2005 and 2014. A more detailed breakdown of the benefits spending became available starting in 2007. During the most recent five years (2010-2014), the money spent on the health benefits per employee has increased by 6% in the Confectionery industry. During this same period, the cost for defined benefit contributions by these companies (per employee) increased by 12% per employee.

No Exodus: Industry is growing, companies are moving into the U.S. Example: 6 recently moved here from Canada

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Proponents of abandoning the existing U.S. sugar policy have alluded to a migration of confectionery jobs from the U.S. to Canada. This allegation is quite contrary to the evidence of employment changes in the sugar and confectionery manufacturing industries in the U.S. and Canada. Looking at the most recent two years of data, from 2011-2012, the U.S. confectionery industry has been experiencing employment growth of 2.2%, while the confectionery employment in Canada declined by 2.8%. This contrasting employment situation holds for administrative jobs in the industry (1.3% growth in the U.S. vs 1.0% decline in Canada), and even more so for production jobs (3.1 growth in US vs 3.4% decline in Canada). Some of the explanation for these employment changes may well lie in the migration of jobs from Canada to the U.S. For instance, Heinz, Kellogg, Ferrere Candy, Nestle, Sensient Flavours, and Unilever have recent closed plants in Ontario, and most have consolidated this volume into plants in the U.S. or Mexico.

Turn: US sugar policy maintains stable accessible sugar, avoiding negative consequences to the SCP industry

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However, despite other potential advantages, food manufacturing has still retained a strong footprint in the U.S., and this true for SCP manufacturing as well. The ability of the companies to access reliable sources of commodities has been an important factor in this regard. The cost of the sugar has generally been quite stable, other than the recent few years that were unusually high and largely driver by weather-related production problems in foreign markets. The reliability of having high quality and readily accessible sugar has been important to companies in the SCP industry given the significant financial consequences of supply chain disruptions. Chatenay (212, 2015) identifies higher price and supply volatility as important negative consequences of the change in EU sugar policy in 2006. Similar issues could well arise here in the U.S. if the current sugar policy were to be changed.

2. No consumer price problem

US sugar producers are producing more sugar today, but at the same price as in the 1980s

Jim Simon 2019. (manager of the American Sugar Cane League, a non-profit organization of Louisiana sugarcane growers and processors) 8 Oct 2019 "American Sugar Policy: It Works!" (accessed 15 Nov 2022) https://www.amscl.org/american-sugar-policy-it-works/

Senator Toomey, et al., are mistaken. The American sugar market would collapse under their proposal. Here’s why. The domestic market for American sugar is stable and, while we’re basically getting the same price we received in the 1980s, we’ve been able to produce more sugar because of technological improvements and overcome flat pricing by the slimmest of margins.

Long-term trend shows sugar prices are falling

Jerry Hagstrom 2016 (publishes [THE HAGSTROM REPORT](http://www.hagstromreport.com/), a news service providing original national and international agricultural news to its subscribers) “Free Market Sugar, a product of Citizen Outreach, “Study: Sugar policy OK for sugar-containing products industry” April 2016 (accessed 15 Nov 2022) (brackets added) <http://freemarketsugar.com/study-sugar-policy-ok-for-sugar-containing-products-industry/>

[U. of Maryland Prof. Alexander] Triantis also said that, while companies making products containing sugar are largely insulated from fluctuation in the cost of sugar, U.S. sugar producers are vulnerable to policy changes that would affect prices. Over the past 25 years, he said, sugar-growing industry employment has dropped roughly 40 percent because sugar prices have fallen by 40 percent over that same period, when corrected for inflation.

Retail price of sugar-containing products (SCP) doesn’t depend on wholesale sugar price. Consumers would not benefit from abolishing the sugar program

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Furthermore, retail SCP prices do not appear to depend on the wholesale sugar price, and don’t typically fall when the sugar price decreases. The general conclusion of this study is that US sugar policy has not inflicted hardship on the U.S. SCP industry. The industry is thriving, and employment is stronger than in non-SCP food manufacturing industries. Furthermore, if the U.S. sugar policy were to be altered in any significant way, a large number of jobs by the sugar industry would be lost, and there is no evidence that consumers would benefit through lower SCP prices.

SOLVENCY

1. No help to consumers

Consumers wouldn’t benefit: A decrease in wholesale sugar prices doesn’t lower the consumer price

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Figure 5.2a also illustrates that the price of retail sugar appears to be following the price of wholesale sugar when the price of sugar increases, albeit with a slight lag, but does not seem to trend back down nearly as significantly when there are decreases in the wholesale refined sugar price. For instance, during the 2007-2013 period, the wholesale refined sugar price increased significantly and then subsequently decreased to close to the 2007 level. In contrast, the retail refined sugar price increased roughly 25% during this time without experiencing any declines. Similarly, Figure 5.2b shows that during this same period, the price of retail sugar containing products increased by between 15-30%. The most recent year is another case in point. Figures 5.3a and 5.3b illustrate price changed during this period using monthly prices. While the wholesale refined sugar price dropped roughly 11% during the most recent period, the prices of retail products have remained relatively constant (with the one exception being Flour and Prepared Flour Mixes, which has the lowest sugar content out of the products shown). Clearly, decreases in sugar prices have not been passed onto consumers in the form of lower retail prices for sugar containing products.

2. Won’t solve job relocations

Those jobs that left the US won’t come back: They left because of other factors and won’t come back if sugar program is canceled

Prof. Alexander J. Triantis 2012 (served as the Chair of Univ of Maryland’s Finance Department from 2006-2011; has consulted on a variety of issues to Fortune 500 companies, as well as to government and multinational organizations) Commentary on 2006 U.S. Department of Commerce report entitled “Employment Changes in U.S. Food Manufacturing: The Impact of Sugar Prices <https://sugaralliance.org/wp-content/uploads/2015/08/Triantis_Commentary_on_2006_U.S._Department_of_Commerce_Report.pdf>

Furthermore, the likelihood of jobs being lost if the sugar program were terminated appears to be much higher than the possibility of regaining U.S. jobs from abroad and preventing further foreign relocations that are driven by so many other factors than just sugar prices.

DISADVANTAGES

1. Lost jobs

Evidence from the European Union: 120,000 jobs lost

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An alternative economic research methodology involves observing a similar experiment in a related setting. The recent sugar reform in the EU in 2006 provides the closest evidence. According to Chatenay (2012, 2015), sugar production plummeted following a large drop in wholesale sugar prices in the EU, and as a result, he estimates 120,000 jobs have been lost (20,000 direct and 100, 000 indirect), and the number of European sugar beet growers has decreased from 300,000 to 160,000. This experience highlights that a change in sugar policy can have a dramatic negative effects on employment supported by the sugar industry.

When Europe did the plan, they lost over 120,000 jobs and consumers saw no benefit

Jim Simon 2019. (manager of the American Sugar Cane League, a non-profit organization of Louisiana sugarcane growers and processors) 8 Oct 2019 "American Sugar Policy: It Works!" (accessed 15 Nov 2022) https://www.amscl.org/american-sugar-policy-it-works/

Just look at what happened to Europe. Thirteen years ago, the European Union changed its sugar policy and exposed Europe’s market to the government-subsidized, oversupplied and chronically depressed global sugar market. The result? 83 sugar mills closed, and more than 120,000 sugar jobs were lost because their prices fell below the cost of production. Who profited? You got it: the large industrial sugar buyers and food processors who have pocketed more than $2.5 billion annually with no discernable benefit to the average grocery shopper.

Big regrets in Europe. When they did the plan, it caused big problems and didn't solve for sugar prices

Elaine Watson 2012 (journalist) 19 Sept 2012 "Bakers: US sugar prices are still 50-75% higher than world prices" (accessed 15 Nov 2022) https://www.bakeryandsnacks.com/Article/2012/09/20/Bakers-US-sugar-prices-are-still-50-75-higher-than-world-prices#



Europe experience would happen here too: Decrease in sugar price results in loss of large fraction of sugar industry jobs

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Given the historical link between profitability of operations and employment in the sugar industry in the US., and the recent experience in Europe, it is thus reasonable to expect that any disruption to U.S. sugar policy that will result in a decrease in the price of sugar will result in the loss of a large fraction of the roughly 142, 000 jobs supported by the sugar industry.

Jobs disappear if US sugar program is significantly modified or rescinded

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One of the key benefits of U.S. Sugar Policy on the U.S. economy has been the ability to limit job losses during a period of high unemployment and uncertain economic conditions. While employment in sugar growing and processing has declined significantly over the past two decades, as will be detailed below, the sugar sector still supports a large number of jobs that would be at a high risk of disappearing if the current US sugar policy were to be significantly modified or rescinded.

Negative Net Benefits: Jobs lost by canceling the sugar program would outweigh jobs gained

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2. Poverty in sugar exporting countries

**["Dumping" occurs when a country subsidizes its industries so they can export commodities at prices less than it costs to make them, driving other nations' producers out of business with this unfair competition.]**

Link: AFF promotes importing more sugar because they claim it's cheaper

That's where their theory of "cost savings" comes from.

Link: Sugar exporting countries subsidize their industries and want to "dump" sugar on the US market below its actual cost

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The big candy makers (and congressional members who represent them) want to change U.S. sugar policy and allow more “world market” sugar into the country. The problem is the world market is a dump market. The dump market is supplied by countries that heavily subsidize their sugar industry with direct payments to producers. What that means is any country who produces more sugar than they can profitably sell in normal markets dump their excess sugar at unsustainable prices.

Examples: Brazil, India and Thailand subsidize billions of dollars annually to their sugar industry for export

John Adamy 2021 (journalist) FARM NEWS MEDIA 4 Aug 2021 Resolution calls for zeroing out foreign sugar subsidies (15 Nov 2021) https://www.michiganfarmnews.com/resolution-calls-for-zeroing-out-foreign-sugar-subsidies

Brazil provides direct and indirect subsidies of at least $2.5 billion/year; India provides at least $1.7 billion/year in subsidy supports for its sugar industry, and Thailand has more than tripled its sugar exports since 2004 with $1.3 billion/year in subsidies and government price-fixing. Add that on to subsidies from countries including Russia and Mexico and it’s clear that the playing field isn’t exactly level.

Impact: Poverty. AFF incentivizes countries to grow their subsidized sugar exporting operations, but developing countries don’t grow out of poverty until they move away from agriculture toward industrialization

Dr. Adam Szirmai 2009 (Professorial Fellow at UNU-MERIT and Professor of Development Economics at the Maastricht Graduate School of Governance of Maastricht University) May 2009 Is Manufacturing Still the Main Engine of Growth in Developing Countries? (accessed 15 Nov 2022) https://www.wider.unu.edu/publication/manufacturing-still-main-engine-growth-developing-countries

First, there is an empirical correlation between the degree of industrialisation and per capita income in developing countries. If one plots the share of manufacturing in commodity production against per capita incomes, there is a clear relationship between the two. The correlations are not perfect, but the poorest countries are invariably the least industrialised ones and the more successful developing countries are at the upper end of the scale.

Backup [Disad Uniqueness]: Status Quo policy provides stable markets and fair prices to sugar exporting countries

Jim Simon 2019. (manager of the American Sugar Cane League, a non-profit organization of Louisiana sugarcane growers and processors) 8 Oct 2019 "American Sugar Policy: It Works!" (accessed 15 Nov 2022) https://www.amscl.org/american-sugar-policy-it-works/

Under the terms of the North American Free Trade Agreement (NAFTA), Mexico has the first right to fulfill the unmet U.S. demand. We also have treaties with 40 countries, mostly from Central America, South America and the Caribbean, to supply the U.S. with sugar. Many sugar-producing countries in tropical regions produce more sugar than they can consume and try to sell their excess sugar for the best price. Countries that have sugar treaties with the U.S. get the best price because American buyers don’t overbuy. That’s why the United States market is stable.