FAPRI FAPRI-MU Bulletin #07-15 March 27, 2015

Impacts of the U.S.-Mexico Antidumping and Countervailing Duty Suspension Agreement

Summary:

This FAPRI-MU bulletin explores how the recent agreement between the U.S. and Mexico regarding sugar trade could have an effect on the likelihood of potential sugar program payments under the farm bill.

The U.S. sugar program, as it is laid out in the 2014 farm bill, is supposed to operate at no cost to taxpayers. The USDA has tools at its disposal, including the feedstock flexibility program, to limit government costs should domestic sugar prices fall to support levels. This FAPRI-MU bulletin explores how the recent agreement between the U.S. and Mexico regarding sugar trade could have an effect on the likelihood of such government payments occurring.

The agreement in a nutshell

In April 2014, the U.S. Department of Commerce (DOC) began investigating imports of sugar from Mexico amid allegations that Mexico was engaging in unfair trade practices that were harming U.S. sugar producers. The preliminary findings supported the industry's claims that Mexican sugar was "dumped" into the U.S. market, and the DOC began pursuing remedies in the form of antidumping (AD) and countervailing (CV) duties. At the same time, U.S. and Mexican trade officials brokered an agreement in which the U.S. would suspend the AD/CV investigations if Mexico agreed to certain restrictions on their exports of sugar. The suspension agreement was signed by officials from both countries in December 2014.

As part of the agreement, Mexico faces two basic restrictions. First, their exports to the U.S. are capped at a certain percentage of U.S. sugar "needs", which are calculated and adjusted using the World Agriculture Supply and Demand Estimates (WASDE) reports prepared each month by USDA. Second, their exports are subject to price floors of 26 cents/pound for refined sugar and 22.25 cents/pound for other sugar.[1]

Alternative agreement scenarios in the FAPRI-MU baseline and their effect on sugar program costs

The baseline scenario for this bulletin accounts for current farm and biofuel policies, which include the AD/CV suspension agreement, and additional information that has become available since the 2015 FAPRI baseline was prepared in January. The stylized representation of the agreement calls for sugar imports from Mexico to respond to U.S. price signals relative to the minimum prices set forth in the agreement. In low-price outcomes, which might occur due to better than average weather in a given year, for example, the implicit U.S. needs would be lower. As per the agreement, imports of sugar from Mexico would decline, as well, in those simulations. By limiting this additional inflow of sugar to the U.S.

1. The minimum prices in the agreement are f.o.b. Mexico and do not include the transportation costs necessary to get sugar from Mexican mills to the U.S. We assume those costs would add approximately 3-6 cents/pound to the minimum prices.

For more on this topic, see this FAPRI-MU publication:

Report #01-15
2015 U.S. Baseline Briefing Book

Additional FAPRI-MU publications can be found at http://www.fapri.missouri.edu.

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market, the agreement makes it less likely for U.S. sugar prices to fall low enough to trigger loan forfeitures or government outlays through the feedstock flexibility program.

Alternatively, if there were no suspension agreement in place, then unrestricted imports from Mexico would continue. In the majority (87%) of stochastic outcomes, domestic sugar prices still would not fall low enough to trigger government outlays. Without the suspension agreement, domestic sugar prices average about 0.50 cents/pound less than the baseline, and in some extreme cases, prices fall low enough to cause sugar program outlays. As a result, the average annual sugar outlays are nearly 16 million dollars between 2016[2] and 2018 and roughly half that amount later in the projection period.

Sugar supply and use

October-September year	2016-2018 Average			2019-2024 Average		
	Base	**No Agreement**	**Change**	**Base**	**No Agreement**	**Change**
Supply and use			(Thousand tons)			
Production	9,221	9,141	*-80*	9,459	9,405	*-54*
Cane sugar	3,741	3,710	*-31*	3,636	3,612	*-24*
Beet sugar	5,479	5,431	*-48*	5,823	5,794	*-30*
Imports	3,181	3,384	*203*	3,431	3,603	*172*
Domestic use	12,161	12,261	*101*	12,622	12,706	*84*
Exports	250	250	*0*	249	249	*0*
Ending stocks	1,696	1,708	*12*	1,771	1,783	*11*
Prices			(Cents per pound)			
N.Y. spot raw sugar	26.7	26.3	*-0.40*	27.34	26.96	*-0.38*
Refined beet sugar	35.53	34.97	*-0.56*	36.14	35.61	*-0.53*
Net government outlays			(Million dollars)			
Sugar, feedstock flexibility	0	16	*16*	0	8	*8*

2. In both the baseline and the “No Agreement” scenario, the sugar outlays for 2015 were zero in all 500 stochastic simulations.

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