Sugar policy bitter for food giants

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SOME of the biggest food companies in the US say the country could "virtually run out of sugar" if the Obama administration does not ease import restrictions amid soaring prices for the key commodity.

In a letter to Agriculture Secretary Thomas Vilsack, the big brands — including Kraft Foods, General Mills, Hershey and Mars — bluntly raised the prospect of a severe shortage of sugar used in chocolate bars, breakfast cereal, biscuits, chewing gum and thousands of other products.

The companies threatened to jack up consumer prices and lay off workers if the Agriculture Department did not allow them to import more tariff-free sugar. Current import quotas limit the amount of tariff-free sugar the food companies can import in a given year, except from Mexico, suppressing supplies from major producers such as Brazil.

While agricultural economists scoff at the notion of the US bereft of sugar, the food companies warn in their letter to Mr Vilsack that, without freer access to cheaper imported sugar, "consumers will pay higher prices, food manufacturing jobs will be at risk and trading patterns will be distorted".

Officials of many food companies — several of which are enjoying rising profits this year, despite the recession — declined to comment on how much they might raise prices if they do not get their way in Washington.

The letter is the latest salvo fired in a long-simmering dispute between US food companies and the sugar industry over federal policy that artificially inflates the domestic price of US-produced sugar in order to support the incomes of politically savvy sugar-beet farmers on the northern plains and cane-sugar farmers in the south.

Most years, the price food companies pay for US sugar is twice the world level.

Ron Lucchesi, head of procurement for Gonnella Frozen Products in Chicago, which signed the letter, said current US sugar policy distorted pricing. Though sugar accounts for only 0.5 per cent of total costs at Gonnella, soaring sugar prices are "part of the equation" that already has led the company to raise prices for hamburgers and hot dogs, all of which include sugar.

Costly: Sugar prices have soared and show little sign of easing **Picture: Bloomberg**

The issue is coming to a boil again because sugar prices, in the US and globally, have soared to unusually high levels for more than a year and show little sign of easing. Prices of sugar futures contracts have risen 95 per cent so far this year, hitting a 28-year high in recent days. Raw-sugar futures yesterday jumped 4.8 per cent to US22.97c a pound at the Intercontinental Exchange.

Prices are up because the world is consuming more sugar than farmers are producing. One big factor: the world's largest sugar producer, Brazil, is diverting huge amounts of its cane crop to making ethanol fuel. Likewise, the food industry has complained bitterly in recent years about the US ethanol industry's ravenous appetite for corn, which helped push up prices for that key ingredient, too.

More than half of Brazil's sugarcane crop is processed into ethanol, while about one-third of the US corn crop is made into the alternative fuel.

An erratic monsoon season in India also has led sugar analysts to reduce their production forecasts for the world's second-largest sugar producer. At the same time, US sugar supplies are tight. In its monthly report on global farm markets, the Agriculture Department said it expected US sugar supplies by September next year to drop 43 per cent from this year. According to USDA estimates, the food industry will import about 1.4 million tonnes of sugar under the tariff rate quota system during the crop year that ends in late September.

An economist for the Sweetener Users Association, a food industry trade group, said food executives wanted to be able to import an additional 450,000 tonnes of tariff-free sugar by September 30.

Some big brands are not jumping into the sugar fight. The big US beverage companies, for example, did not sign the letter to Mr Vilsack. Although Coca-Cola and PepsiCo use sugar in their international beverage business, both companies generally rely on high-fructose corn syrup to sweeten drinks in the US, their biggest market.

Coke said it had not yet felt the impact of the sugar price rise because of continuing hedges on commodities. PepsiCo declined to comment.

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