THE GLOBE AND MAIL

Bitter battle rages over Canada’s sugar industry

SEAN SILCOFF

Suffice to say, production manager Rudy Doerwald keeps close tabs on the price of the sweetener, but with just two suppliers to choose from, he has no choice but to take what’s offered.

“The price they dictate is unfortunately the price I have to pay,” he said. “I am just held hostage and there’s not much I can do.”

Mr. Doerwald’s gripe is simple, but finding a solution for Canadian sugar users like Greaves has proven next to impossible due to the peculiar way the world’s two most powerful economies protect their sugar industries.

For 15 years, Rogers Sugar and Redpath Sugar had the Canadian refined sugar business to themselves, protected by trade barriers that kept out subsidized sugar from the United States and Europe. For bakers, drink makers and confectioners such as Greaves, that has meant having to pay about 10 per cent to 15 per cent more than the world price.

After years of complaining to Canadian trade authorities, businesses that rely on refined sugar thought they had scored sweet relief in 2010 when the Canadian International Trade Tribunal broke from past rulings by allowing sugar from Europe to enter Canada duty-free.

But that victory was short-lived: Last month, the Federal Court of Appeal ruled the tribunal failed to show how it reached its decision to drop a 78-per-cent duty on the price of sugar from the U.K., Germany, Denmark and the Netherlands and another 22-cent-per-kilogram duty on all European sugar. It set aside the 2010 decision, asking the tribunal to reopen the case.

It’s the first time in the tribunal’s 23-year history such a decision has been overturned, and it came as good news for Rogers and Redpath, who argue they need protection from European producers who dump their product – selling it abroad for far less than at home.

“Everyone agrees the Europeans dump sugar,” Redpath president Jonathan Bamberger said. “The issue is whether there is a likelihood of material injury to the Canadian industry as a result of dumped sugar coming in. We believe there is.”

The case underscores the tricky business of balancing the interests of users and producers in one of world’s most warped industries. U.S. and European governments protect their cane and beet growers and refiners with import quotas, restrictions and price supports, leaving captive, closed markets paying well above world prices. “Sugar is probably the most protected, coddled and subsidized agricultural crop of any” in the U.S., said Chris Edwards, director of tax policy studies with the Cato Institute, a U.S. libertarian think-tank.

The policies compel U.S. and EU producers to refine millions of tonnes more per year than needed – enough to supply Canada many times over. That spectre convinced the CITT in 1995 that low-priced sugar would be dumped in Canada without trade protections, after foreigners captured a 15 per cent share. That decision was extended in 2000 and again in 2005.

With the trade barriers, Canadians typically pay more than the world price, Mr. Bamberger acknowledged. He added, though, that the availability of non-subsidized sugar from Latin America keeps prices here in check: “The discipline of the world market severely limits the possibility of [Rogers or Redpath] charging an economic rent because of a duopoly. It’s not zero, but it’s a very narrow amount.”

While the U.S. system has changed little – the U.S. Senate last week voted down a proposal to reduce the scope of protections, and exports remain subject to a 78 per cent Canadian duty – the EU in 2006 cut production quotas and lowered support prices for raw sugar. Production, exports and prices fell – at first.

The CITT felt the reforms would moderate EU exports, and ruled producers would likely send spare sugar to closer markets in the Middle East and Asia, not Canada.

But Rogers and Redpath appealed, saying the evidence instead suggested the EU would crank up exports, particularly to Canada, and harm the domestic refiners, which only operate at about 75 per cent of capacity. That could mean closing one of Canada’s four refineries and losing jobs, said Sandra Marsden, president of the Canadian Sugar Institute, the refiners’ lobby group.

The refiners’ fears appear to have been borne out. In the past two years, European prices have soared to the point where refined sugar recently cost 60 per cent more than the world price. Production has surged, leaving the EU with 5 million tonnes of surplus sugar. Producers have exceeded by hundreds of thousands of tonnes the EU’s trade commitment to limit subsidized exports, a move sanctioned by Brussels. “It’s better than it has been, but sugar is still heavily subsidized and production is being dumped on world markets,” said Fredrik Erixon, director of the European Centre for International Economic Policy, a free-market think tank in Brussels.

That’s hardly encouraging to Mr. Doerwald. “Everything I do, I always try to double or triple-source,” he said. “I really can’t go anywhere else [for sugar]. This is the only way I know.” If the CITT reverses its earlier decision and restores the duty on European sugar that will remain the case for years to come.

SWEET TALK

Refineries:

Rogers Sugar Inc. (Brands: Rogers Sugar, Lantic)

Vancouver: Cane sugar refinery

Montreal: Cane sugar refinery

Taber, Alta.: Sugar beet processing plant

Redpath Sugar Ltd.

Toronto: Cane sugar refinery and blending facility

Niagara Falls, Ont.: Blending facility

BY THE NUMBERS

85%: Approximate share of Canadian-produced sugar used for food manufacturing and food service

70%: Increase in price of raw sugar, 2007-2011

1,000: Approximate number of workers involved in sugar production, including about 240 involved in sugar beet farming in Alberta

$3.26: Average retail price of a 2 kg bag of sugar in April, 2012, a 37-per-cent increase over April, 2008

Sources: Canadian Sugar Institute, Statistics Canada, U.S. Department of Agriculture, Agriculture Canada