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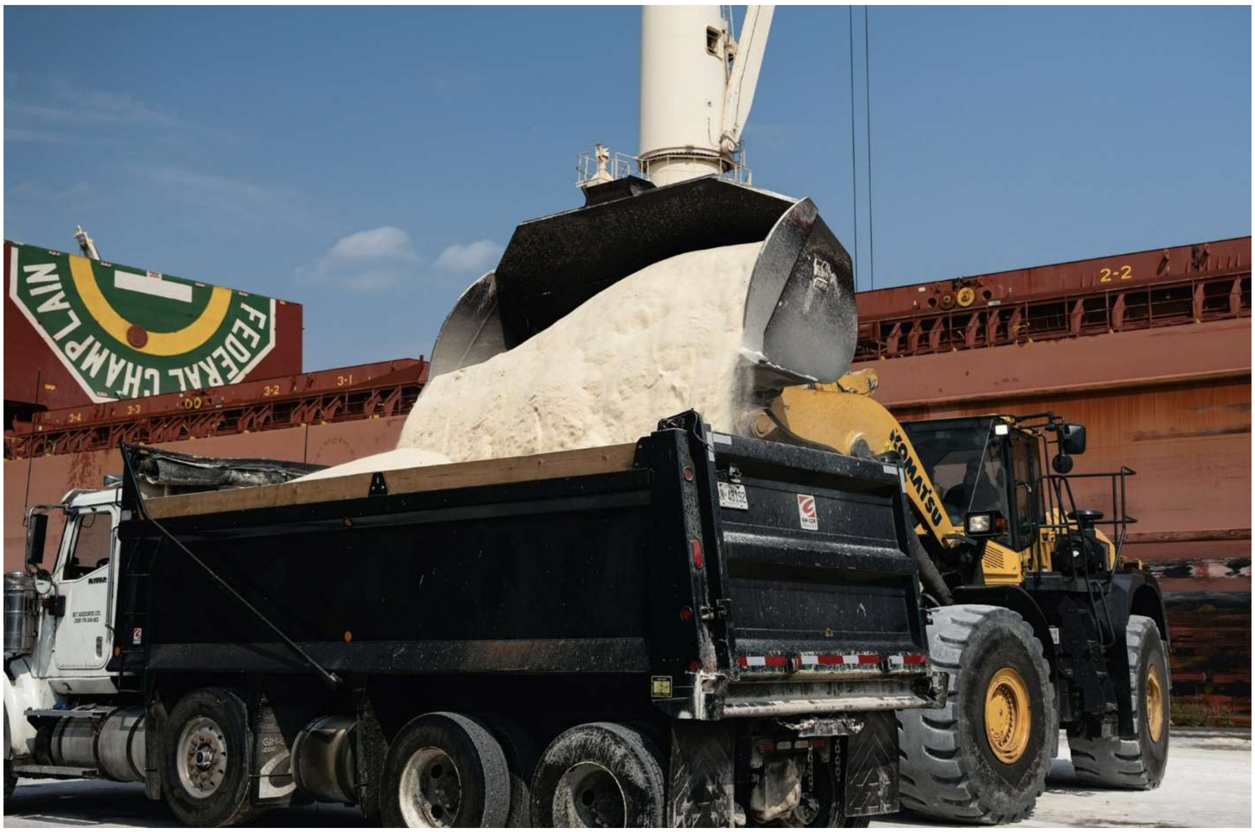
Costly US Sugar Tariffs Drive Candy Makers Over the Border to Canada

Sweets production has expanded in Canada as companies look to supply sugar-hungry North American households while avoiding US protectionist policies.



Raw sugar is unloaded at the Port of Hamilton in Canada.Source: Hand-out/Hamilton-Oshawa Port Authority

By Ilena Peng - June 8, 2024

Last fall, Hershey Co. repurchased a factory outside Ottawa that it closed more than a decade earlier. Blommer Chocolate Co., a US rival, is expanding in Ontario while it shutters an 85-year-old Chicago plant. Oreo-maker Mondelez International Inc. says it has invested $250 million in Ontario manufacturing facilities just in the last few years.

Although Canada is far too cold to grow enough sugar for its candy industry, it has managed to attract hundreds of millions of dollars of investment in recent years to expand capacity. Some of that can be attributed to a rising population, but many in the industry say it's the long-standing protectionist measures in place south of the border that are sweetening Canada's appeal.

"High US sugar prices over the long term is the driver of chocolate and candy production in Canada," said Sébastien Pouliot, an agricultural economist and consultant based in Québec.

The US sugar industry is heavily protected, and buyers such as confectioners and processed-food makers can only import certain amounts of raw and refined sugar before incurring hefty tariffs. The decades-old regulations are intended to protect US farmer profits and prevent other countries from flooding the country with sugar. But critics say it also keeps US sugar prices artificially high, burdening American sweets companies and refineries trying to operate at home.

In 2013, the difference between US and global sugar prices was only a couple of pennies per pound. But production challenges at home and in neighboring Mexico have driven US sugar futures to almost twice the global benchmark price. That makes it increasingly attractive for companies to make candy and cookies in Canada instead, then ship some of their production to US consumers. Many of those finished goods can enter the US and avoid quotas that dictate the more "tightly managed" trade in refined and raw sugar, said Alex Smith, a project leader at consulting firm Agralytica.

The Canadian industry's growth "is a direct result of the price that's well beyond any reasonable price in the US," said Rick Pasco, president of the Sweetener Users Association, which has pushed for reforms to the US sugar program. "We're paying twice as much for sugar. That's a great stimulus for operations offshore — Canada being the closest."

The volume of sugar contained in finished goods flowing from Canada to the US last marketing year was the highest in close to two decades, Agralytica data show. Last year, $1.98 billion in chocolate and $615 million in other sugar confectioneries were shipped from Canada to the US for consumption — both all-time highs — according to data from the US Department of Agriculture. Although some of that increase can be attributed to higher chocolate prices due to cocoa's rally, chocolate imports into the US from Canada last year were still the second-highest ever in data going back about 35 years, surpassed only by the volumes recorded for 2022.

Each time the US Farm Bill comes up for reauthorization (it's due to happen this year), critics of the country's sugar policies lobby for changes to the import quotas. They got new ammunition in October when the US Government Accountability Office's review of the program found that it costs American consumers more than it benefits producers, resulting in an estimated net economic loss of as much as $1.6 billion per year. The agency also said in its report that the policies can incentivize companies to move abroad, including to Canada.

A cheaper sugar price is "the main difference" between having operations in Canada and the US, said Gary Hufbauer, a senior fellow at the Peterson Institute for International Economics. "I don't think there's any secret sauce there."

To be sure, sugar isn't the only input cost for manufacturing. John Boyd, the founder of a consultancy that helps companies select site locations, also points to Canada's labor force, energy costs and exchange rate as factors to consider. And not all of the sugar and candy being produced in Canada is flowing into the US. Canada's population has been steadily rising, with the country on track to consume in the 2024-2025 marketing year the most sugar in records going back to 1960. Still, its sugar consumption is less than 14% of what's eaten by its larger southern neighbor, US Department of Agriculture data show.

The influx of spending in Canada's confectionery sector doesn't mean suppliers are throwing in the towel in the US just yet. In addition to its $60 million Canadian expansion, Blommer will also spend a combined $40 million to upgrade manufacturing facilities in Pennsylvania and California, while Hershey has been building its first new US chocolate manufacturing facility in more than 30 years. Mondelez last May opened a research and development center in New Jersey that cost almost $50 million. Spokespeople for Blommer, Mondelez and Hershey didn't respond to requests for comment.

But for sugar users with older manufacturing facilities that require major investment, it makes sense to move north of the border and install new capacity, said Pouliot, the consultant in Québec. And as Canada produces more sweets, sugar refiners there are also ramping up capacity. Redpath Sugar, part of ASR Group, just boosted annual production at its Toronto refinery by 65,000 tons, while Rogers Sugar Inc.'s Lantic subsidiary is spending C$140 million to grow capacity at its Montreal plant by 100,000 tons. Florida-based Sucro Can Sourcing LLC is spending C$135 million to construct Canada's largest sugar refinery with the ability to process as much as 1 million metric tons every year.

"I don't want to sort of slam the illiquidity of the US domestic market, but I would say it's a much more welcoming environment to be supplied with world market sugar," said Oliver Hire, vice president and head of trading at Sucro. Canada is "a pretty amicable home for the relocation of those production facilities."