U.S Sugar Policy and Implementation of the 2008 Farm Bill

Industry Background. The U.S. sugar-producing industry is a large, dynamic one, and is among the most efficient in the world. The U.S. is the world's fifth largest producer and consumer of sugar and the world's third largest net importer. The industry represents 146,000 American jobs in 19 states and about $10 billion in economic activity. These jobs are in urban and rural areas; in many rural areas sugar is the lynchpin of the local economy. Roughly half of U.S. production is from sugarbeets, and half from sugarcane.

Consumer Benefits. American consumers benefit from a reliable supply of high-quality, safe sugar at prices that are stable and a bargain. Consumers in the rest of the developed world pay, on average, 30% more for their sugar than Americans do.

Policy and Restructuring. Sugar is an inventory management, price-support program. There are no subsidy payments to sugar producers and *the program runs at no cost to U.S. taxpayers virtually every year.* The government maintains a stable market price by balancing supply and demand. The government limits imports under a WTO-approved tariff-rate quota system; it limits domestic sales of sugar through a marketing allotment program. If American producers produce more than the government calculates the market needs, the producers store the excess *at their own expense*, not the government's.

The price support level for sugar has not been raised since 1985. Inflation since that time has been over 100% and producers' real price for their product has dropped in half. More than half of U.S. beet and cane mills and refineries have closed in the past 23 years. The remaining operations are the most efficient in the U.S. and among the most efficient in the world. Energy-related input costs for sugar production and processing have skyrocketed the past 2-3 years, but sugar prices – unlike other commodity prices – have not. In fact, sugar prices have been drifting lower. The surviving producers desperately need a price recovery to have a chance to stay in business.

Trade Challenges. Despite American producers' efficiency, trade agreements have guaranteed foreign producers access to the U.S. market that amounts to about a 15% share. Forty countries, virtually all of them developing, enjoy guaranteed access to the U.S. sugar market at the U.S. price. Furthermore, the NAFTA has granted Mexico unlimited access to the U.S. market, though Mexican producers are less efficient and one-fourth of the industry is owned and operated by the Mexican government. And, new sugar import concessions are possible in future bilateral and regional trade agreements and in the Doha Round of the WTO.

2008 Farm Bill Solution. With the enthusiastic support of U.S. sugar farmers, Congress overwhelmingly passed a Farm Bill in 2008 that will give American sugar producers a chance to survive. It provides USDA with an additional tool to manage excess supplies caused by imports – a standby sucrose-ethanol program that could also help reduce U.S. dependence on foreign oil, at minimal taxpayer cost. The Farm Bill also phases in over the next three years a 4% increase in the U.S. support price, the first such increase since 1985. The attached page provides the key elements of the new sugar policy.

Proper implementation of the 2008 Farm Bill and resistance to further import concessions are the sugar industry's major priorities for the incoming Administration.

American Sugar Alliance, December 2008

Key Elements of U.S. Sugar Policy in the 2008 Farm Bill

1. Retains inventory management approach
   - No payments to producers
   - USDA balances sugar supply and demand to avoid sugar loan forfeitures and government cost
     - Controlling domestic sugar sales: When U.S. production exceeds USDA's determination of allowable sales, U.S. sugar producers store surplus at their own expense ("blocked stocks")
     - Controlling imports: Tariff-rate quota (TRQ)
       - *But Mexican imports under NAFTA uncontrolled*

2. New market balancing mechanism: Limited sucrose-ethanol program
   - To be used only when imports oversupply the domestic market
   - Not to be used to clear domestically produced blocked stocks
     - USDA would estimate import-oversupply amount and invite bids from sugar producers to supply sugar and from ethanol producers to buy sugar; bid basis will maximize efficiency, as lowest bidding sugar producers and highest bidding ethanol producers participate
       - Deal with uncertainty of Mexican imports – may not be needed in some years
       - Help to reduce U.S. dependence on foreign oil

3. Minimum Overall Allotment Quantity (OAQ): U.S. producers' allowable sales
   - Set at no less than 85% of domestic consumption – allotments no longer trigger off with import surge
     - Consistent with 86% share during the six years of the 2002 Farm Bill
   - Forty exporting countries retain guaranteed preferential access to U.S. market under WTO and FTA rules; Mexico access unlimited
     - U.S. producers' allowable sales of sugar into the U.S. market drop if U.S. consumption drops; exporting countries sales to the U.S. market do *not* drop if U.S. consumption drops
   - Production in excess of OAQ: Still to be stored at producers' expense

4. Import management
   - Set initial TRQ at trade-agreement-mandated minimum (WTO + CAFTA + Peru); TRQ increase before April 1 (Oct-Sep crop year) only in case of crop emergency
     - Increase TRQ on April 1 if domestic production, plus initial TRQ, plus Mexican imports inadequate to meet domestic demand
     - TRQ can still rise if needed; only timing of added imports affected
     - U.S. likely to remain world's second largest sugar importer

5. Loan rate increase: Three-quarters of a cent per pound, raw value, phased in over four years – no change for 2008 crop; ¼ cent increases in crop years 2009-11
   - Raw cane loan rate rises gradually from 18.00 cents/lb in 2008 to 18.75 cents in 2011 (= 4.2% increase); proportionate increase for refined beet sugar loan rate
   - First loan rate increase since 1985 (Inflation since 1985: 104%)

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