

## **Sugar Provisions of the 2008 Farm Bill**

The 2008 farm bill extends the structure of the current sugar program, but also contains a number of major changes:

**Price Supports:** The farm bill raises the price support loan rate for raw cane sugar from 18 cents per pound by 1/4 cents per pound starting with the 2009 crop and ending at 18.75 cents per pound for the 2012 crop. Therefore, the raw cane loan rate increases to 18.25 cents per pound in 2009, 18.5 cents in 2010, and 18.75 cents in 2011 and 2012. The refined beet sugar loan rate is raised from the 22.9 cents per pound, with the new beet loan rates at 128.5% of cane rates. This translates to an increase of just over 4% in the loan rates for raw and refined sugar.

**Domestic Allotment Floor:** The farm bill establishes a permanent Overall Allotment Quantity (OAQ) that cannot be less than 85% of estimated domestic consumption. Any cane sugar deficits are reallocated for raw and not refined sugar. The bill also eliminates the 1.532 million ton sugar import trigger for suspension of marketing allotments.

**TRQ Restrictions:** The farm bill imposes new restrictions on the Secretary of Agriculture's authority to establish and adjust sugar import quotas to meet domestic needs. Specifically, the bill requires the Secretary of Agriculture to initially set the sugar import quotas (except of specialty sugars) each year at the minimum required to comply with international trade agreements. At the beginning of the quota year, TRQ's for raw and refined sugar are to be established at the WTO minimum, which is 1,231,484 short tons (raw value) and 24,251 short tons (raw value) respectively. However, provisions establishing restrictive shipping patterns on quota imports were dropped from the farm bill.

**OAQ and TRQ Adjustments:** The farm bill also limits the Secretary of Agriculture's authority to increase the refined sugar import quota to the period prior to April 1, except generally in the event of a natural disaster. If there is an emergency shortage of sugar before April 1, the OAQ and TRQs can be increased. On or after April 1, the TRQs can be increased if it will not threaten to result in CCC loan forfeitures.

**Sugar-to-Ethanol Program:** The farm bill mandates that USDA purchase surplus sugar (or sell any CCC-owned sugar that has been forfeited) to producers of fuel ethanol or other forms of bioenergy if necessary to prevent sugar loan forfeitures. The Secretary must announce his initial estimate of the quantity to be diverted to ethanol by September 1 of each year and publish re-estimates prior to the beginning of the second, third and fourth quarters of the fiscal year. The sugar is to be domestic allotment sugar and counts against a producer's allotment. Blocked domestic stocks of sugar are not eligible for USDA purchase for ethanol production.

## **Problems with the 2008 Sugar Provisions of the Farm Bill:**

- **The 2008 farm bill makes a bad sugar program worse**
  - The new sugar price support program is forecast to cost taxpayers \$1.3 billion over the next 10 years, contrary to previous sugar grower claims that the sugar program was “no net cost.”
  - Therefore, the new farm bill will further distort markets, jeopardize jobs and penalize consumers.
  
- **The farm bill imposes an 85% “domestic content” requirement on the U.S. sugar market**
  - The sugar program continues to restrict sugar supplies by imposing “marketing allotments” – legally binding sales limits – on sugar processors.
  - In a new twist, the 2008 farm bill provides that these allotments can never be lower than 85% of domestic sugar demand.
  - Trade experts believe this 85% “domestic content” requirement for the U.S. sugar market may violate U.S. obligations under international law.
  - The 85% marketing allotment “floor” removes USDA’s main cost-control lever – the government can no longer prevent costly surpluses by controlling domestic output. Taxpayers will pay the price.
  - The 85% floor will also encourage greater use of an expensive sugar-for-ethanol scheme mandated in the energy title of the farm bills, further ensuring that the sugar program will fail to operate anywhere near “no net cost.”
  
- **The farm bill raises price supports, spurring surplus production in the U.S. and Mexico**
  - The farm bill raises price supports over three years to 18.75 cents a pound for raw cane sugar and 24.1 cents per pound for refined beet sugar.
  - Now that there are no barriers to U.S.-Mexico sugar trade, the higher U.S. price support will encourage more production in both countries, generating costly surpluses.
  
- **The farm bill mandates a costly and unworkable sugar-for-ethanol scheme that could cost U.S. taxpayers \$4 billion**
  - USDA would have to buy surplus sugar and sell it to ethanol plants at a tremendous loss.
  - Ethanol makers will not pay more for sugar as a feedstock than they could pay for the equivalent amount of corn. This means that USDA will buy sugar for over 20 cents a pound and sell it for less than 5 cents a pound.

- On that basis, taxpayer costs could easily exceed \$4 billion over 10 years, and could be \$5 billion if imports from Mexico are more than forecast, according to the respected economics firm Promar International.
- **The farm bill violates U.S. trade obligations by further restricting sugar imports**
  - The farm bill's restrictions on administration of the tariff rate quota (TRQ) for sugar imports will invite World Trade Organization challenges from exporting countries.
  - Guaranteeing 85% of the U.S. market for domestic producers also raises trade issues.
  - A study by the former chief U.S. farm trade negotiator showed in detail how the sugar program of the new farm bill could violate WTO rules.
  - If the U.S. lost a sugar program WTO case, export commodities such as U.S. wheat, corn, soybeans, beef and pork could face retaliatory tariffs in their overseas markets.