

SWEETENER USERS ASSOCIATION

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Congress Should Reform the U.S. Sugar Program

The Sweetener Users Association includes confectioners, bakers, cereal makers, beverage companies, dairy food manufacturers and other industries. For all of them, a healthy U.S. sugar industry is important. Sugar producers, processors and refiners are our suppliers, and we are their customers. Unfortunately, current sugar policy imposes unnecessary and counterproductive costs on sweetener users and other groups in society. By eroding the U.S. demand base for sugar, current policy is not in producers' long-term interest, either.

Current U.S. sugar policy relies on (1) limiting imports through strict country-by-country quotas; (2) supporting domestic prices through a loan program that makes the government the buyer of last resort; and (3) controlling domestic production by giving each sugar processor an "allotment" and making it illegal for the processor to sell more than that amount of sugar, regardless of supply and demand conditions, until and unless the U.S. Department of Agriculture increases the allotment. **This system needs reform:**

- The sugar program interposes the government between buyers and sellers.

2005 sugar markets became turbulent in the wake of three hurricanes, but the rigidity and inflexibility of current policy made matters worse. Even after U.S. prices spiked and buyers were experiencing unprecedented logistical difficulties in obtaining sugar, thousands of tons of perfectly good U.S.-produced sugar were isolated from the marketplace by the U.S. sugar program – "blocked," in industry parlance. Although USDA ultimately made the sugar available to the market, the Department was essentially a prisoner of policies – not of its making – which compel buyers and sellers to have government permission for what should be normal business transactions.

"[L]ast year's problem also was a matter of timing, many market watchers contend, in which the U.S. Department of Agriculture acted too late to increase domestic market allocations and import quotas."

-- "Sugar market outlook to remain volatile," Milling & Baking News, February 21, 2006.

- The sugar program costs jobs in food manufacturing and cane refining.

Historically, U.S. sugar prices have been two to three times as high as world prices. The gap has narrowed in the current, turbulent market, but the price difference has been cited in several high-profile decisions to move confectionery facilities to Canada, Mexico and other countries. Meanwhile, the number of U.S. cane refineries fell from 23 to 8 since the current sugar program was adopted, while jobs in that industry declined by more than 5,000. Imports of raw sugar are a vital

throughput for cane refineries, and as the sugar program ratcheted imports down, the imports fell and refinery closures were the result.

“The Commerce Department today reported that more than 10,000 jobs were lost between 1997 and 2002 at sugar-consuming companies, such as confectioneries. The study suggests high sugar costs are a major factor in U.S. companies’ decisions to relocate to other countries ... For every sugar growing and harvesting job saved through high U.S. sugar prices, approximately three confectionery-manufacturing jobs are lost.”

-- U.S. Department of Commerce, *“Valentine’s Day Sweetness Comes at a Price for U.S. Industry.”* March 13, 2006

- The sugar program harms the trade interests of export-oriented U.S. farm commodities and non-agricultural U.S. industries.

By pressuring U.S. negotiators to keep our sugar markets closed, even in free trade agreements, sugar program advocates make it more difficult for our negotiators to gain access to our trading partners’ markets. By opposing even modest amounts of sugar access – for example, in the recent Dominican Republic-Central America Free Trade Agreement – sugar advocates complicate Congressional passage of trade agreements and erode U.S. trade policy credibility.

“Sugar was virtually alone in its quest to stop CAFTA among ag groups. It was at odds with pro-market-access farm groups such as the National Pork Producers Council and the International Dairy [Foods] Association, which led an ag coalition supporting CAFTA.”

-- *“Big Sugar Look to Heal CAFTA Wounds,”* Legal Times, January 16, 2006

- The sugar program encourages companies to source increasing amounts of sugar from offshore.

Imports of sugar itself are strictly limited, but many products containing large amounts of sugar are not and cannot be restricted through import quotas. The design of current sugar policy thus creates an incentive to import more sugar-containing products, and net imports of these products are now around 800,000 tons, and will soon approach 10% of total U.S. demand. Ironically, the current sugar program is displacing what would otherwise be demand for domestically produced sugar.

“Regression analysis strongly supports the hypothesis that imports of sugar-containing products have been an important factor for explaining reduced sugar deliveries to all industrial endusers except for baking and cereal manufacturers.”

-- S. Haley, *“Measuring the Effect of Imports of Sugar-Containing Products on U.S. Sugar Deliveries.”* USDA/ERS SSS-237-01, September 2003.

- The sugar program in its present form is incompatible with future U.S. trade obligations.

Although the program tries to manage supplies by controlling domestic production and restricting imports, in 2008 Mexico will be permitted free access to the U.S. market. The U.S. will have neither the ability to impose quotas on Mexican sugar, nor the power to regulate Mexican output. The sugar program in its current form will quickly become unsustainable. At the same time, if there is a successful conclusion to current World Trade Organization talks, the U.S. sugar import quota will have to increase – making it all the more urgent to consider broad-based reforms now.

“NAFTA mandates the complete opening of the U.S. market to sugar from Mexico (and vice versa) by 2008. It is not possible that the current U.S. sugar program could be manageable in such a situation ...”

- Jim Grueff, former USDA trade official, quoted in Feedstuffs, Vol. 77, No. 41, October 3, 2005

- The sugar program is costly to consumers.

Despite longstanding debates about how costly the U.S. sugar program is to retail consumers, virtually all independent studies concur that consumers do pay a price. That is the verdict of the U.S. International Trade Commission, the World Bank, the Organization for Economic Cooperation and Development and other authoritative sources.

“An estimate by the OECD found that the cost of U.S. sugar policies to U.S. sugar consumers due to increased sugar prices was \$1.5 billion in 2004.”

-- Council of Economic Advisers, Economic Report of the President 2006, Ch. 8, p. 182.

- The sugar program will soon be costly to taxpayers.

Traditionally advertised as “no net cost,” the sugar program is forecast by the Congressional Budget Office to incur taxpayer costs beginning in 2008, with costs averaging \$248 million from 2008-16.

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016
Outlays (\$ mln)	32	130	214	259	294	305	321	335	340

-- Congressional Budget Office, “Commodity Credit Corporation Outlays, March 2006 CBO Baseline.”

- **Congress should reform the sugar program in the 2007 farm bill.**

Sweetener users and independent cane refiners favor a broad-based industry dialogue to agree on reforms to the U.S. sugar program. Sugar policy can be made more market-oriented, transparent and compatible with our trade obligations, while supporting farm incomes and maintaining a healthy, viable domestic production base. The Sweetener Users Association wants to work with U.S. sugar and sweetener industries to strive for a policy consensus. Members of Congress can help by supporting sugar reform in the 2007 farm bill.