

Do U.S. Sugar Growers Really Need Additional Subsidies When They Are Already Guaranteed Twice the World Price?

September 25, 2007

Dear Senator:

As companies facing increased global competition, as consumers facing increased sugar prices, as public interest groups concerned about bad policy and as trade associations representing these interests, we urge you to not follow the course of the House Agriculture Committee's proposed sugar program for the 2007 Farm Bill. Under the House farm bill passed last month, the federal government would be forced to buy any surplus sugar and sell it to ethanol producers. Also problematic are new sugar program features that would act as additional restraints on sugar trade and a new higher guaranteed price support for U.S. sugar growers.

The House-Passed Sugar Program is Much Worse

The House farm bill mandates a higher guaranteed price for sugar of another one-half cent per pound, adds new restrictions on sugar imports that violate World Trade Organization (WTO) commitments, and perhaps the most egregious feature is a scheme to divert any additional sugar into ethanol as part of a new taxpayer-funded subsidy to sugar growers estimated to cost in excess of \$1 billion over the five-year life of the farm bill.

Mandating that the U.S. Department of Agriculture purchase surplus sugar for use as an ethanol feedstock will not solve the sugar program's underlying problems. This new program is designed to have the federal government short the market and thereby further restrict the availability of sugar for food use in the U.S. market. Such a program is wasteful of taxpayer resources, since sugar is not even remotely price-competitive as an ethanol feedstock, and will require a large subsidy to ethanol makers to induce them to accept the sugar. If USDA is forced to buy surplus sugar from U.S. sugar producers, and sell it to ethanol plants, all economic analysis indicates the sale will take place at a huge loss, which will be covered by taxpayers. In fact, USDA tried to sell 100,000 tons of sugar for ethanol in 2001, but it was only able to sell 10,000 tons – at a significant cost.

Increasing the loan rates to 18.5 cents per pound for raw cane sugar and 23.5 cents per pound for refined sugar, if approved by the Senate, will encourage production increases in both Mexico and the United States, and make both consumer and taxpayer costs far higher. By widening the gap between U.S. and world sugar prices, a higher loan rate would also encourage a further exodus of food manufacturing jobs from the United States, as documented by the U.S. Department of Commerce.

Finally, the House farm bill places new restrictions on administration of the tariff-rate quota (TRQ) for sugar imports. These restrictions include limits on when and how much of the sugar TRQ may be made available – both through constraints on the Secretary of Agriculture’s ability to set the TRQ on the basis of supply and demand, and through mandated “shipping patterns” that will micromanage the timing of TRQ imports by calendar quarter. These legislatively mandated TRQ restrictions threaten the ability of the cane refining sector to utilize its production capacity efficiently and could make supplies in the marketplace seriously deficient during some periods of the year. Moreover, new sugar subsidies – especially a higher loan rate – will be considered additional spending in the WTO’s “amber box” of trade-distorting subsidies.

The Current Sugar Program is Already Too Restrictive

Do we really need to have the U.S. government further restrict the supply of a basic commodity and a valuable food ingredient? The lack of sugar in the U.S. market as a result of Hurricane Katrina and other sugar crop and refinery damage in 2005 demonstrated how restrictive the current sugar program operates in limiting USDA’s options. USDA did everything possible to accommodate domestic needs in the face of artificial sugar program constraints, and now the House-passed farm bill would make it even more difficult to ensure adequate sugar inventories each year into the future.

The Current Sugar Program is Already Costly for Consumers

It should be noted that the current sugar program already guarantees U.S. sugar growers a support price that is twice the world price, but somehow this is not enough. Keep in mind, the new subsidy program in the House farm bill is on top of the current sugar grower subsidy that has been estimated to cost consumers an additional \$1.9 billion per year, according the Government Accountability Office (GAO). Aren’t consumers already paying enough toward subsidizing sugar growers? Should Congress even be in the business of creating artificial food ingredient shortages, when the cost of food is already going through the roof?

The Current Subsidy Program for Sugar Growers is Generous

Congress has done an excellent job in taking care of the **953 sugarcane and the 5,027 sugar beet farms in the United States** (source: USDA Economic Research Service data for 2002). If the GAO-estimated subsidy of \$1.9 billion annually is divided among the 5,980 total sugar farms, the current subsidy is \$317,725 per year on average to each sugar farm. Instead of pouring new subsidies on sugar growers, now is the time for the Senate to show some balance in looking out for the needs of those who are employed in the sugar-using food sector.

Actual Job Losses Caused by the Current Sugar Program

Over time, by reducing the availability of sugar supplies in the U.S. market, this legislation will encourage just the opposite of what its authors intend. It will provide

incentives to develop cane refining capacity offshore, source additional sugar-containing products from other countries, and boost imports of finished food products with higher sugar content. In all of these cases, demand for U.S.-produced sugar will be sacrificed. The jobs involved in getting that sugar processed, refined and incorporated into finished products will also be sacrificed. This assessment is not speculation, it is an established trend clearly identified by the U.S. Department of Commerce.

According to the Commerce Department, more than **75,000 jobs were lost** in American companies that use sugar in their products over the eight-year period between 1997 and 2005. Additionally, since the sugar program was adopted, the number of U.S. sugarcane refineries has dropped from 23 to 8 facilities, **costing American refinery workers more than 5,000 jobs**. If the Senate follows the path of the House and makes a bad sugar program even worse, it could cause the loss of more U.S. manufacturing jobs as companies are forced to move offshore.

Sugar Program Reform Recommendations

We urge you to support American jobs and American consumers by bringing some balance to the U.S. sugar program as the Senate crafts a new sugar program for the 2007 Farm Bill. The Senate should seize the opportunity to reform American sugar policy as part of the 2007 farm bill and make it more balanced for all stakeholders affected by the program. The sugar program can and should be made more flexible, more market-oriented, less costly to American taxpayers, less damaging to American job growth, and more compatible with the nation's global trade obligations. In that regard, we have attached a sugar program reform alternative for your consideration.

Sincerely,

American Bakers Association
American Beverage Association
Aunt Millie's Bakeries
Barth Packaging
Biscomerica Corporation
Blommer Chocolate
Burdette Beckmann, Inc.
Cadbury Schweppes
Chocolate Manufacturers Association
Claeys Candy, Inc.
The Coca-Cola Company
Competitive Enterprise Institute
ConAgra Foods, Inc.
Consumer Federation of America
Council for Citizens Against Government Waste
Dawn Food Products, Inc.
Dean Foods Company
East Balt, Inc.

Emergency Committee for American Trade
Enstrom Candies, Inc.
Ferrara Pan Candy Company
Ford Gum & Machine Company, Inc.
General Mills, Inc.
Georgia Nut Company
Gimbal's Fine Candies
Grocery Manufacturers/Food Products Association
The Hershey Company
Independent Bakers Association
International Dairy Foods Association
Jelly Belly Candy Company
LeMatic, Inc.
The Long Company
Kellogg Company
Kraft Foods, Inc.
Mars Snackfood US
McKee Foods Corporation
National Confectioners Association
National Foreign Trade Council
Nestle USA
O&H Danish Bakery
Palmer Candy Company
Penton Media – Baking Group
Primrose Candy Company
The Promotion in Motion Companies, Inc.
Retail Bakers of America
Rich Products Corporation
RM Palmer Company
Sahagian & Associates, Inc.
Sara Lee Corporation
Snack Food Association
Sweetener Users Association
Unilever United States, Inc.
U.S. Chamber of Commerce
Wisconsin Bakers Association
World Business Chicago
Wm. Wrigley Jr. Company
WRH Industries, Ltd.

Enclosure

Sugar in the 2007 Farm Bill: Don't Make a Bad Program Worse

- The House of Representatives passed the 2007 farm bill, H.R. 2419, and attention is now focused on the Senate.
- The House farm bill makes the sugar price support program even more onerous for sugar refiners, industrial users, consumers and other stakeholders. The Senate should reject the sugar program changes embodied in the House bill.

CURRENT SUGAR PROGRAM

- The current sugar program has three main components:
 - **Price supports** that set minimum prices for sugar in the U.S. market;
 - **Import quotas** that put strict limits on imports; and
 - **Marketing allotments** that prohibit U.S. processors from selling more than a government-determined amount of sugar.
- This program needs to be reformed because ...
 - By maintaining artificially high domestic sugar prices, it boosts **consumer costs** and encourages foreign food manufacturers, using cheaper offshore sugar, to ship finished food products here. This displacement has cost tens of thousands of **jobs in the U.S. food industry**.
 - The Congressional Budget Office expects the program to **cost taxpayers \$1.3 billion** in the next decade because of surplus production; and
 - The program will become unworkable once NAFTA is fully implemented in January 2008, since **Mexican sugar will enter the U.S. market freely, despite import quotas**.
- Unfortunately, H.R. 2419 not only maintains the current sugar program structure ... but makes it even worse.

THE HOUSE FARM BILL (H.R. 2419)

H.R. 2419 will harm users, refiners, workers and consumers by –

- **Increasing the price support rate** for raw cane sugar and refined beet sugar.

- This will encourage **excess production in both the United States and Mexico**, since the two markets will be integrated. As a result, the U.S. government will buy more surplus sugar through the price support program.
- **Mandating that the government buy up surplus sugar for use in ethanol production**, supposedly as a surplus-control measure.
 - This requirement could easily be used to further limit the availability of sugar for the domestic market and will displace U.S. corn from use in ethanol plants. Even if the program works – no certainty – it will require that **the government spend taxpayer money to buy sugar at the high domestic price, and then sell it to ethanol plants at a fraction of that price. So much for the “no-net-cost” mantra that is constantly repeated by sugar program advocates.**
- **Imposing new restrictions on imports**, including a requirement that import quotas be established at the bare legal minimum unless there is an “emergency shortage” (which is not defined). Another requirement (called “**shipping patterns**”) would put quarter-by-quarter limits on how much of the already-limited sugar quotas can enter the United States.
 - These new restrictions will further short the domestic market but will also **harm cane sugar refiners** by compromising their ability to operate their facilities at optimum capacity and time their receipt of import shipments. The arbitrary limits on how much sugar can be imported during specific portions of the fiscal year, plus the mandate for bare-minimum quotas, will not match the market conditions to which cane refiners must try to respond. The Administration has pointed out that the import restrictions may **violate U.S. obligations in the World Trade Organization**, potentially leading to retaliation against other U.S. farm products.

The Senate should reject all three major changes to the current sugar program. The Senate should not repeat the House’s mistakes and make a bad program even worse.