

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

