

Sugar Program Alternative

Concept

This proposal addresses some of the problems in current sugar policy, but without using the direct payments that are common in other commodity programs. Instead, this option eliminates domestic supply controls and introduces greater program transparency.

Program Description

- **Marketing Allotments** would be abolished.
- **Loan Rates** would be established for raw cane sugar and refined beet sugar at current support levels. The Commodity Credit Corporation would be mandated to sell any sugar acquired through forfeiture as soon as possible at the highest price available in the marketplace. A processor who forfeited sugar to the government would not be eligible to buy back that same sugar.
- As under the current sugar program, all **price support loans** would be made to cane and beet processors. To be eligible for loans and payments, processors would have to guarantee their producers the level of support provided by the loan rate.
- To improve **market information**, the Agricultural Marketing Service would begin to collect and report prices for raw and refined sugar.
- **Tariff Rate Quotas (TRQs)** would continue to be used to regulate imports.
 - Shipping patterns would be prohibited.
 - Certificates of quota eligibility (CQEs) would be freely tradable among quota-holding countries after March 31 of each fiscal year.
 - Reallocation of unused quotas would be mandatory beginning July 1 of each fiscal year.
 - For countries that exported no sugar to the United States in three of the previous four years, quotas would be permanently reassigned to other exporters.
- To assure **throughput in the cane refining sector**, USDA would be instructed to insure that all countries with which the United States has trade relations are eligible destinations for the refined sugar and sugar-containing product re-export programs.
- If necessary to meet **fiscal targets of no net taxpayer cost**, USDA would impose a forfeiture penalty of one cent per pound for raw cane sugar and an equivalent amount for refined beet sugar.

Discussion

The best way to reform the U.S. sugar program would be to make it more closely resemble other farm programs, with marketing loans, direct payments and countercyclical payments like those for grains, oilseeds, cotton and rice. However, this proposal presents another alternative in the event that fiscal limitations do not permit Congress to immediately convert

the sugar program to the standard commodity model. Modifying the current program, as this proposal does, will not address all the problems that arise from the sugar program's structure, but it does permit some improvements. This alternative, for example, would eliminate marketing allotments, which distort markets and prevent willing buyers and sellers from doing business.

This option would also improve administration of the tariff rate quota (TRQ) for imports by mandating reallocation and permitting the trading of certificates of quota eligibility (CQEs), the documents that allow sugar to be imported under the preferential quota. Tradable CQEs would allow more efficient exporting countries, or those with more ample supplies at a given time, to sell into the U.S. market, while still giving the initial quota-holding country a way to capture a major portion of the quota rent – a benefit for the many small quota-holders that are low-income developing countries in the Caribbean, Africa, Oceania and elsewhere.

The use of a forfeiture penalty responds to concerns expressed by some, including sugar producers, that the sugar program should remain budget-neutral. Sugar users could support reforms that might actually *increase* spending if that was necessary to protect producer income while increasing the role of market signals. However, sugar users have repeatedly been told by sugar program advocates that the program must remain “no-net-cost.” It is important to note that according to the Congressional Budget Office, the current sugar program is not expected to be “no-net-cost” in the future, with projected taxpayer expenditures of \$1.3 billion over the next 10 years. Therefore, restoration of a forfeiture penalty responds to the budgetary concerns of those who support the sugar program's current structure.

Advantages

- Marketing allotments would not be in effect, allowing producer-processors to sell sugar freely in response to market demand.
- TRQ administration would be simplified, more market-oriented.
- Since imports from Mexico can enter the U.S. market freely beginning in 2008, the elimination of marketing allotments will ensure that U.S. sugar producers do not become residual suppliers in their own market.
- This option should fit within the current budget baseline.