

U.S. Sugar Policy: How Does It Work?

Executive Summary

U.S. sugar policy stands on three pillars -- price supports, marketing controls and import quotas -- that support a minimum price for sugar in the United States

Price Supports

The government offers price support loans at 18¢ per pound of raw cane sugar and 22.9¢ per pound of refined beet sugar. The sugar loan program sets a floor under market prices.

- **Processors receive nine-month loans**, with sugar as the collateral. If processors cannot sell the sugar at a price greater than the loan rate, they can repay the loan by turning the sugar over to the government (called a **“forfeiture”**).
- If the program works as intended, it **keeps market prices above the loan rate**.

Marketing Allotments

The 2002 farm bill reinstated marketing allotments, which had previously been in effect under the 1990 farm bill but were then abandoned.

- Allotments are **limits on how much sugar can legally be sold** by cane and beet processors. The U.S. Department of Agriculture sets an overall allotment quantity for the entire country, and assigns a portion of the allotment (called the “allocation”) to each processor.
- Any sugar that a cane or beet processor holds in excess of its allotment cannot be sold, but must be stored at the processor’s expense. **These supplies are called “blocked stocks”** because the sugar program blocks their sale.

Import Quotas

Sugar imports into the United States are governed by a **tariff-rate quota (TRQ)** that must be at least **1,117,195 million metric tons of raw sugar, and at least 22,000 metric tons of refined sugar**. Imports represent about one-eighth of U.S. sugar consumption.

- A **tariff-rate quota** sets a quantity of imports that may enter at a low or zero duty. Imports above the TRQ are legal, but are subject to a prohibitive tariff.
- **The sugar TRQ is allocated among 40 countries** that shipped sugar to the United States during the 1975-81 period.

- **Quota imports receive approximately the U.S. domestic price.** Since the U.S. is a net importer of sugar, domestic demand exceeds domestic supply and import prices will generally be bid up to the domestic price level.

How is U.S. Sugar Policy Different?

The sugar program operates quite differently from most other U.S. commodity supports.

- **In the sugar program, the loan rate sets a price floor. For most other commodities such as corn, cotton or soybeans, this was once true but is not the case today.** Instead, these commodities have “marketing loans,” which permit market prices to move freely even if they go below the loan rate.
- **Most other commodity programs do not rely significantly on import restrictions.** U.S. prices for most of these commodities are near the world price.
- **Other commodity programs have generally abandoned production controls.** Since 1996 supply management has been phased out for nearly all commodities, with the exception of sugar.
- **Under World Trade Organization (WTO) rules, the sugar program is completely “amber,” or trade-distorting.** Other commodity programs have moved some subsidies into the “green” box, which means they are judged to distort trade much less under WTO rules.

Draft revised 4/9/06