

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

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** maintain the minimum price through loans to sugar processors.
- **Marketing controls** regulate sales and indirectly regulate production, in an effort to prevent a price-depressing surplus of sugar.
- **Import quotas** regulate the flow of sugar into the United States, since our domestic prices are normally twice as high as world-market prices.

## Price Supports

In U.S. farm policy, the government offers loans to producers of several commodities, including sugar. U.S. law sets a **price support loan rate** of 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.

- The **loan rate** is the per-unit value at which the government makes price support loans available (usually for nine months). Sugar must be pledged as the loan collateral. The owner of the sugar gets a loan equal to the loan rate multiplied by the amount of sugar pledged as collateral, and must either repay the loan with interest, or “forfeit” the collateral to the government in settlement of the loan.
- A rational borrower will **forfeit** (sell the sugar to the government) only if he or she cannot obtain a better return by selling in the marketplace. This means that forfeitures should only occur when market prices are near or below the loan rate. Forfeited sugar is temporarily unavailable to the marketplace, restricting available supplies – which should then increase prices. In theory, the program should **keep market prices at or above the loan rate** most of the time.
- Loans are made to producers of many farm commodities. However, in the sugar program, **loans are made to processors** – the cane mills and beet processing plants that turn sugarcane and sugar beets into sugar. The reason is that loan collateral needs to be storable for nine months or more, but sugarcane and sugar beets are not storable for long periods in their natural state, while after processing, raw cane sugar and refined beet sugar are storable.
- Sugarcane and sugar beets are agronomically different plants which are used to produce an identical end product, refined (or “white”) sugar. However, **the manufacturing process is somewhat different for the two crops**. Sugar beets become refined beet sugar through processing at a single location, a beet processing plant or factory. Sugarcane is processed at a mill, becoming raw cane sugar. The

raw sugar is then refined at a cane refinery, usually at a separate location from the cane mill.

- Raw sugar has less value than refined sugar, so **the price of raw cane sugar will normally be less than the price of refined sugar**, whether derived from beets or cane. The difference between raw and refined sugar prices is often called the “refining margin.” (The different prices also reflect the fact that it takes 107 pounds of raw sugar to make 100 pounds of refined sugar.) This price differential explains why the loan rate for (raw) cane sugar at 18¢ per pound is lower than the loan rate for (refined) beet sugar at 22.9¢ per pound.

## Marketing Allotments

The 2002 farm bill reinstated marketing allotments, which had previously been in effect under the 1990 farm bill but were then abandoned. Thus, the sugar program – which in its present form dates to 1982 – has operated both with and without controls on output.

- Allotments are **established by complex formulae** which require the U.S. Department of Agriculture to establish an allotment (called the “overall allotment quantity”) for the entire country, then divide it according to a fixed ratio between beet and cane sugar, and finally assign a portion of the allotment (called the “allocation”) to each company or cooperative that markets raw cane sugar or refined beet sugar.
- Allotments **do not directly regulate how many acres of sugarcane and sugar beets farmers may plant**. However, they achieve that result indirectly because contractual arrangements govern farmers’ deliveries to mills and processing plants, and allotments help determine the amount of these deliveries.
- USDA **can increase or decrease allotments during the year**, and has done so regularly. More frequent adjustments have occurred during unsettled markets, such as the summer and early fall of 2005, when three hurricanes affected both cane production and cane refining capacity, and USDA reacted by increasing the amounts that companies were permitted to sell.
- 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)**. Under U.S. obligations to the World Trade Organization, the TRQ must allow access for at least **1,117,195 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. The United States has maintained tariff or quota barriers to sugar imports from the earliest days of the republic, but in recent decades, quotas were introduced in 1982 after a period of relatively unfettered trade

in sugar from 1975 to 1981. The quota system has been modified since then, notably by establishment of the minimum import quota after the Uruguay Round Agreement on Agriculture in 1994. (Before that, there was no minimum level for imports.)

- 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 tariff designed to be prohibitive, i.e., to make it uneconomical to import. This over-quota tariff on raw sugar is over 15¢ per pound, enough to prevent any significant imports under normal market conditions. (In late 2005, U.S. markets were so short of supplies that measurable quantities of over-quota imports did, in fact, occur.)
- **The sugar TRQ is allocated among countries** that shipped sugar to the United States during the 1975-81 period of unrestricted trade. Since world production patterns have changed over the past 25-30 years, these allocations among 40 different countries do not necessarily reflect the relative exporting potential of the quota-holding countries today. (In fact, several are now net importers of sugar.)
- **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. This is a higher price than the sugar quota-holding countries can obtain in the world market; the trade-off is that the quantity of sugar they can sell at this price is limited by the quota. The European Union maintains similar preferential import policies, although these are changing (and will become less attractive) with planned reforms in EU sugar policy.

## How is U.S. Sugar Policy Different?

The United States maintains farm programs for many different crops. The sugar program operates quite differently from most of these other programs.

- **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. Farmers are guaranteed to receive at least the loan rate for their crop, since the government makes up any difference with a direct payment. The sugar program does not make direct payments, but instead provides support through a price floor. Critics say the price floor prevents markets from clearing in times of surplus, whereas commodities with “marketing loans” do have a market-clearing mechanism.
- **Most other commodity programs do not rely significantly on import restrictions.** Since U.S. prices for most of these commodities are near the world price, import flows are generally governed by supply and demand conditions rather than by a large gap between U.S. and world prices, as in the case of sugar.
- **Other commodity programs have generally abandoned production controls.** As with price supports, there was a time when nearly all supported commodities had

some mechanism to control production, but since 1996 these mechanisms have ceased to apply to one commodity after another, with the exception of sugar.

- **Under World Trade Organization 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. “Amber box” subsidies are tied to current prices and production, while “green box” policies are less price- and production-dependent. The current sugar program accounts for over \$1 billion of U.S. “amber box” payments.

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