

Sugar and U.S. Trade Policy

Sugar has been controversial in several recent U.S. trade agreements, most notably the Central America-Dominican Republic Free Trade Agreement (CAFTA-DR). To understand why, it is important to start with an understanding of U.S. trade policies for sugar.

How Sugar Trade is Regulated

The United States is a net importer of sugar. In an average year, imports account for about **15% of total sugar supplies** (an average of 14.56% during the five fiscal years from 2001 through 2005).

Most agricultural products can be imported to the United States merely by paying a fairly low tariff. However, sugar imports are also subject to **tariff rate quotas (TRQs)**. A TRQ is a quantity of goods that can be imported at a low duty. It is legal to import goods above the TRQ, but they are subject to a prohibitive duty.

Under World Trade Organization (WTO) rules, the U.S. TRQ for **raw cane sugar** must be at least 1,117,195 metric tons, and the TRQ for **refined sugar** must be at least 22,000 metric tons. In recent years, the TRQs have often been set at the minimum, but since the hurricanes of 2005 damaged the sugarcane industry, the U.S. Department of Agriculture has increased both the raw and refined quotas. For fiscal **2006**, the total raw sugar quota announced by USDA through February 27, 2006, is 1,725,008 metric tons. The total refined sugar quota announced through the same period is 479,913 metric tons.

Consequences of Current U.S. Sugar Trade Policy

The design of the current sugar program puts a premium on managing imports. Otherwise, the existing price support program would be too expensive. Other commodities such as wheat, feed grains, cotton, oilseeds and rice also receive support from the federal government, but do not rely heavily on import controls because their market prices are allowed to move in tandem with world prices. Thus, there is not a strong incentive to bring in cheaper world-price imports, as there is in the sugar sector.

This imperative to limit imports has certain consequences for U.S. trade policy.

- **Exclusions:** Sugar producers have sought to have sugar excluded from free trade agreements (FTAs). However, if one party to a trade deal refuses to include a product in the pact, the other party may also exclude products from the agreement. In several recent FTAs, countries with whom the United States was negotiating were reluctant to liberalize such products as poultry, corn, rice and other commodities where the U.S. has an export advantage. Had sugar been excluded from these FTAs, it seems likely our trading partners would have insisted on their own exclusions, limiting the export gain for U.S. crop and livestock producers.
- **Export Potential:** For many developing countries, sugar is an important export crop and therefore a valuable source of foreign exchange. One benefit of including

sugar in trade agreements is that it permits trading partners to generate more foreign exchange that can be used to buy U.S. agricultural and industrial products.

Conversely, excluding sugar, or liberalizing sugar trade only minimally, may eliminate or reduce any such gains for U.S. exports.

- **“Amber Box” Subsidies:** The current U.S. sugar program does not usually involve direct government outlays. However, the United States is required to “notify” the WTO of its subsidy for sugar. The WTO considers this subsidy to be the gap between U.S. support prices and the world price during an earlier base period. Under this procedure, the U.S. sugar program is worth over \$1 billion a year. This \$1 billion is included in the WTO’s “amber box” of trade-distorting subsidies – those that are related to current output and prices. With the prospect that current WTO talks might ultimately require a reduction of 60% or more in the U.S. “amber box,” the sugar program would be in competition with the other U.S. programs in that box, chiefly the dairy program and loan deficiency payments (LDPs) for major crops. Conversely, if the sugar program were totally or partially converted to the non-trade-distorting “green box,” more of the “amber box” would remain for LDPs or dairy supports. (Of course, conversion to a “green box” program could occur without reducing the level of income support for U.S. sugar producers.)

The Future

Trade policy and import flows may create increasing pressure to change the U.S. sugar program in the years ahead.

- **Mexico:** In 2008, the North American Free Trade Agreement (NAFTA) will be fully implemented, and there will be no duties or quotas on imports of Mexican sugar. If Mexico chooses to export its surplus not to the lower-priced world market but to the higher-priced U.S. market, U.S. sugar producers could be locked into a declining share of their own market. They would be subject to marketing allotments but the Mexican industry would not. If the current sugar program could operate at all in that environment, it would only be through ever-stricter limits on U.S. domestic output.
- **Doha Round:** The prospects for world trade talks are uncertain, but already-agreed provisions make it clear that any eventual WTO deal will require an increase in the U.S. sugar TRQ. It also seems likely that any Doha Round agreement would require cuts in U.S. domestic support, especially trade-distorting “amber box” support – the category into which the sugar program falls.
- **Imports of Sugar-Containing Products:** A wide range of products contain sugar, and many are not and cannot be restricted by import quotas under WTO rules. The historic gap between U.S. and world sugar prices creates an incentive to import these products, and they have risen rapidly in the past decade. Cumulatively, these products now amount to about 8% of domestic demand and may soon reach 10% -- about 1 million tons of sugar demand that could be efficiently served with domestic production but is not, chiefly because of the way the U.S. sugar program operates.