

The U.S. Sugar Program and Consumer Costs

- The U.S. sugar program imposes costs on consumers -- \$1.9 billion a year, according to the Government Accountability Office.
- The U.S. sugar program increases prices in three different ways. First, the program establishes a minimum market price called the “support price.” This price is substantially higher than prices in the world sugar market.
- Second, the sugar program restricts domestic sugar supplies by imposing legally-binding “marketing allotments” on domestic sugarbeet processors and sugarcane mills.
- Third, the U.S. government restricts sugar imports. Forty sugar-exporting countries are assigned quotas and can sell only that amount in the U.S. market each fiscal year.
- A simple look at market prices shows that the U.S. sugar program succeeds in keeping domestic prices elevated. Over the past decade, U.S. raw cane sugar prices averaged 21.02 cents per pound. In the same period, world raw cane sugar prices averaged 9.94 cents per pound. In other words, U.S. prices averaged twice the world price.
- The sugar lobby argues that if its subsidies were reformed, consumers would see no benefit because food and beverage companies would simply pocket the difference.
- This claim assumes that manufacturers can ignore changes in their import costs and do not compete on price. In fact, the food business is highly competitive and historical data show changes in sugar costs are reflected in retail prices, usually with a lag.
- The price of a finished product will not change by the same percentage as a single input’s price changes. For example, suppose sugar was 15% of the cost of making a food product, and the price of sugar fell 10%. The change in the manufacturer’s total cost is not 10%, but 10% of 15% -- or 1.5%. That is the expected eventual price change, not 10%.
- Virtually every independent study of the sugar program has found that it raises consumers’ costs. The Government Accountability Office estimated the sugar program’s annual consumer impact at \$1.9 billion. Estimates in the same range have come from the U.S. International Trade Commission, the OECD and other authoritative bodies.
- A report commissioned by the industry reports 2008 U.S. retail sugar prices at 53 cents per pound, 47% higher than the average of countries in the sample. It is true that most *developed* countries’ prices were higher than those of the U.S., but that is because the sample included a large number of European Union countries, where sugar policy is even more anti-consumer than in the United States.
- In two developed countries *without* major sugar import barriers or subsidies – Australia and Canada – retail prices were in fact lower than in the United States: 11% lower in Canada, 15% lower in Australia.
- Unlike other farm programs, the sugar program is designed to impose its costs on consumers. This is why advocacy groups like the Consumer Federation of America are in favor of reforming the program.