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

U.S. sugar policy stands on four pillars -- price supports, marketing controls, import quotas and a requirement to buy surplus sugar as an ethanol feedstock.

Price Supports: The government offers price support loans at 18.25¢ per pound of raw cane sugar and 23.45¢ per pound of refined beet sugar. (Under the 2008 farm bill, these loan rates increase to 18.75¢ and 24.09¢ by 2011.) 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 been in effect under the 1990 farm bill but were then abandoned. The 2008 farm bill continued allotments.

- Allotments are **limits on how much sugar can legally be sold** by cane and beet processors. The government sets an overall allotment quantity for the entire country, and assigns a portion of the allotment (called the "allocation") to each processor. The overall allotment cannot be less than 85% of domestic demand.

- 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 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. (Imports from Mexico are not subject to quotas.)

- The **TRQ** 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.

Sugar for Ethanol: The 2008 farm bill created a new **"Feedstock Flexibility Program."** Under this program, the Department of Agriculture must estimate the sugar supply-demand balance and offer to purchase surplus sugar, which can then only be sold to biofuel plants as an ethanol feedstock.

- USDA is supposed to gauge its purchases by the amount that will **prevent any "forfeitures"** of sugar under price support *(see "Price Supports" above).*

- Ethanol plants are not obliged to buy the sugar, and so will only be likely to purchase it **if its cost is competitive with that of corn**, the major ethanol feedstock in the U.S.

- In practical terms, this is likely to mean that the government will buy surplus sugar for around 20¢ and sell it for 5-10¢, at a taxpayer loss that is estimated by the **Congressional Budget Office at $992 million** over the next 10 years.