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Toward a Freer Market in Sugar

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THOMAS JEFFERSON INSTITUTE FOR PUBLIC POLICY

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Foreword

By Michael W. Thompson

There are a lot of issues that aren't Virginia specific but which impact every one of us here in the Old Dominion, and the dynamics of public policy from these issues is reflected in our everyday lives.

One of those issues is the price and availability of sugar. Sugar is in so much of what we eat. Take a look at a box of most prepared foods, and sugar is listed as one of the ingredients. So, although we don't produce sugar here in Virginia and we don't refine sugar here, the price of sugar hits us in the pocket book most every day.

So when a long-time friend of mine asked me to take a look at the import/tariffs policy of the U.S. on sugar what I found was pretty interesting. As a free market kind of guy, and one who believes in free trade as a general policy, this issue was one of those that caught my attention.

So this October, the Thomas Jefferson Institute hosted a small breakfast meeting during the annual gathering of the State Policy Network in Nashville to discuss U.S. farm policy and growing rates of agricultural subsidization around the globe. Because all Americans eat and depend on a secure supply of homegrown food, this is an issue that affects each and every one of us.

We zeroed in on the U.S. sugar program and a new concept known as the "zero-for-zero sugar policy," where America would agree to roll back its sugar subsidies in return for commitments and actions by other countries to do the same. In other words, a subsidy cease-fire so a true free market can form. And, as my brief review of this issue showed, the sugar industry here in the U.S. favors such a policy so it is not whetted to the current program and would rather have a level trading field where government subsidies and tariffs were eliminated. The ideal goal by the sugar industry here in the United States is a true trade mechanism for all involved.

We invited state policy leaders from the sugar producing states and the states that refine sugar to come and talk about this issue and a vast majority of those states joined us: California, Florida, Louisiana, Maryland, Michigan, Minnesota, Montana, Nebraska, Oregon, and Texas attended the briefing and contributed to a lively discussion.

We talked about sugar production in our various states. How the sugar producers in many cases also are the refiners. We talked about price fluctuation and how foreign governments subsidize their sugar industry and we do not. We talked about the U.S. revolving loan program used by sugar growers most every year where the growers borrow money from the government for planting and pay back the government with interest after the harvest. And we talked about the politics of working toward a truly free trade mechanism in the world sugar market.

A special thanks also goes to Louisiana Attorney General Jeff Landry, a free-market conservative, who was an early supporter of the "zero-for-zero" idea and offered a unique perspective as someone who grew up working in agriculture. His perspective was most helpful.

Based on these discussion and the limited reading I did earlier, TJI explored this issue in greater detail and drafted this report about the best ways to keep farm subsidies and government policies from manipulating the market. During the research for this study, we found some information that I thought might interest the reader and which is part of this study on the sugar industry and government policy toward it. Here are some links that might be of interest.

- Zero-for-Zero Resolution Pending in Congress.
  https://www.congress.gov/114/bills/hconres20/BILLS-114hconres20ih.pdf
- Study Sponsored by Americans for Limited Government.
  http://getliberty.org/wp-content/uploads/2013/07/Zero-for-Zero-Sugar-Policy-718.pdf
- White Paper by the Institute for Policy Innovation.
  http://www.ipi.org/docLib/20140527_SeekingaGlobalSolutioninSugarTradePolicy.pdf

Sugar is not a "big deal" to Virginia's economy but the price sugar does impact each and every one of us most every day in one way or another. And this study on sugar shows where the text book "free trade" position advocated by many here in the U.S. can come face-to-face with the reality of foreign competitors who subsidize their industries in order to "compete" with a more efficient American farmer. And sometimes, U.S. policy is put into place simply to "level the playing field" so that our farmers are put at a disadvantage.

Oftentimes we think that the industries that get some sort of government "protection" through tariffs or payments for not growing crops, etc. are the ones who don't want freer trade policies and want government subsidies. In the case of sugar, it seems the U.S. policy is one that does not cost the taxpayer in most cases (loans for planting in the spring are paid back when the sugar crop is harvested) and that the industry would like to have government out of the picture – our government and foreign governments as well.

This is an interesting issue and the attached study outlines the issue of government involvement in the sugar industry in an even-handed manner. Nothing in this study is meant to influence pending legislation and is presented solely as educational background to those interested in American farm subsidies and how the sugar industry is one that wants all government subsidies to end.

Michael W. Thompson, Chairman & President
Thomas Jefferson Institute for Public Policy
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Executive Summary

The United States has had a robust sugar policy nearly continually since colonial times. Current sugar policy is designed to level the world market playing field and provide stability for domestic sugar producers doing business in a world awash in subsidized sugar that foreign countries dump into the market at prices significantly below the cost of production. Significantly, the law requires the U.S. sugar program to work at zero-cost to the federal budget. The policy has been hotly contested in the political arena for many years with sugar farmers and refiners on one side and large confectionary and beverage companies on the other side. To date, the sugar producers have had the better of the political argument and the current policy has been authorized by law to continue several more years.

Critics of the program argue that it flies in the face of free market principles. In textbook terms, the critics are completely correct but they fail to acknowledge that there is no free market in sugar and U.S. policy is a reaction to the highly distorted world market conditions. Claims that the program is an exercise in cronyism and that it is costly to the taxpayer, while superficially appealing, do not withstand closer scrutiny and fail to acknowledge the social costs the U.S. would incur from unilaterally withdrawing support for domestic sugar production. The example of the European Union's experiment with sugar reform is a case study in both the budgetary and human cost of unilateral sugar reform. The European experiment resulted in large price swings, shortages, the loss of jobs, and the businesses which had lobbied for the reforms found themselves in no better position than they had been before the reforms took place. U.S. policymakers would be wise to consider the European experience in making any changes to current law and policy.

Current U.S. sugar policy is set by the 2014 Farm Act, PL 113-79. The law requires the U.S. Department of Agriculture (USDA) to administer the sugar program with a price floor and, crucially, at zero cost to the Federal Budget. USDA has four tools to operate the program:

1. A non-recourse loan program which supports prices at rates set by law (See page 8.)
2. Marketing allotments, which limit the amount of sugar each processor can sell for human consumption (See pages 8 and 9.)
3. Import quotas to limit the amount of foreign sugar allowed into the U.S. market (See pages 9 and 10.)
4. The Feedstock Flexibility Program, which helps to avoid loan defaults by diverting sugar from food use to ethanol production (See page 10.)

U.S. sugar producers have called for a free market in sugar and argue that in a truly free market U.S. farmers and refiners would compete very successfully with their less efficient overseas competitors. The trade association representing sugar producers has called for trade negotiations

that would bring an end to all subsidies in sugar production throughout the world. Legislation has been introduced in Congress to encourage the President of the United States to negotiate such a trade deal and in the process end the current sugar program.

Introduction

This short study will attempt to answer several fundamental questions about the U.S. sugar program; it is not a comprehensive, in-depth, study but a primer. The paper will examine why the U.S. has a sugar program and how it works, whether it fits within free market principles and, if not, why not, and what a real world example looks like when a major world economic power unilaterally decided to reform its program. Finally, the paper will examine how the United States Congress might move U.S. policy toward a freer market in sugar.

Every effort has been taken to compare research from both proponents and opponents of the sugar program. Much of the research into the issue has been commissioned either by the proponents or opponents of the program. This study concludes that there are meritorious arguments on both sides but opponents of the program tend to stop the inquiry either with whether the program fits within textbook definitions of free market policies or whether world market prices are lower than the domestic price in the United States without regard for the reason why and what has happened when large consumers of sugar unilaterally end their sugar program.

One of the great insights of economics is that incentives matter and people both individually and collectively respond to the incentives placed before them. Economic activity does not take place in a vacuum but exists in a dynamic political environment. Both of these insights help to explain why the United States has a sugar policy and why it works as it does.

Why do we have a Sugar Policy and how does it work?

A little history

According to the USDA, a sugar policy has been in effect in North America since before there was a United States of America. Sugar policy began during the colonial period as a product of European rivalries in the New World and, although it has undergone numerous transformations over the centuries, it has been a near constant of economic life both in the U.S. and around the world. Sugar policy first reflected colonial policies of the European Powers and then the policy of the United States government. Indeed, the Sugar Act was one of several laws passed in England that helped to fuel the revolutionary zeal of the thirteen mainland colonies. After the

American Revolution, a sugar tariff was a substantial source of revenue for running the federal government in the early years of the Republic.[1]

In the modern era, the U.S. was ill-prepared for the disruption in the sugar market at the time of World War I but during the Second World War the U.S. worked in concert with the Allies to ensure that sugar was available in the U.S., Britain, and Canada. The U.S. Government also rationed sugar as part of domestic wartime policy. Rationing was rapidly ended after the war but sugar policy remained.

Sugar policy was allowed to lapse for a short period in the mid-to-late 1970s which led to distortions in the market and a determination by the International Trade Commission that imports of subsidized foreign sugar were damaging domestic sugar production.[2] By 1981 Congress was once again responding to constituent requests for relief which resulted in the Agriculture and Food Act of 1981 (PL 97-98) which created the modern sugar program. The 1981 Act required the Secretary of Agriculture to support the prices of sugarcane and sugar beets at minimum levels initially through the purchase of processed sugar and later through non-recourse loans. The sugar program has been reauthorized in subsequent Farm Bills in 1985, 1990, 1996, 2002, 2008 (PL 110-246) and, most recently 2014 (PL113-79).[3] In the ten year period between 2002 and 2012, the number of sugarcane and sugar beet farms decreased but the area harvested per farm has increased and yields have, on average, increased.[4]

Why a sugar policy?

The United States is a large consumer of sugar and domestic production does not satisfy all our needs for human consumption. The U.S. is the world's fifth largest producer of sugar and the fourth or fifth largest sugar consumer depending on the year examined.[5] History indicates the United States has never been self-sufficient in sugar production but we do have a substantial and efficient production process. Sugarcane is grown in four states, sugarbeets are grown in eleven states, and the industry is responsible for over 140,000 jobs spread across twenty-two states.[6]

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[1] "A History of Sugar Marketing Through 1974" Roy Ballenger, at http://www.ers.usda.gov/media/1731272/aer382a.pdf

[2] Coalition for Sugar Reform, History of Sugar Reform, http://sugarreform.org/why-reform/history-of-the-sugar-program/

[3] "Sugar and Sweeteners Policy," Economic Research Service U.S. Department of Agriculture, Michael J. McConnell, October 12, 2016, http://www.ers.usda.gov/topics/crops/sugar-sweeteners/policy.aspx

[4] "Sugar and Sweeteners Background," Economic Research Services, U.S. Department of Agriculture, Michael J. McConnell, October 12, 2016, http://www.ers.usda.gov/topics/crops/sugar-sweeteners/background/

[5] U.S. Sugar Policy, Sugarcane.org, http://sugarcane.org/global-policies/policies-in-the-united-states/sugar-in-the-united-states

[6] House Committee on Agriculture 114th Congress, Hearing, Foreign Subsidies: Jeopardizing Free Trade and American Farmers, Jack Rooney testimony, October 21, 2015

The U.S. is the second largest importer of sugar and provides guaranteed access to our market to forty-one countries making the U.S. one of the most open markets in world.[7]

The answer to the question why the U.S. has a sugar policy given our need for imports is straight forward. The world market in sugar has been warped by subsidies and foreign sugar is frequently sold at prices far below the cost of production. In fact, the twenty-five year average cost of production for foreign producers is 50% higher than the average price.[8] U.S. sugar producers are not in competition with sugar producers in other countries so much as they are in competition with foreign governments. The governments of Brazil, which alone controls more than 50% of the world sugar production, Thailand, India, and Mexico provide billions of dollars-worth of subsidies to their less efficient producers for domestic political reasons. Their own markets cannot use the massive over-production and their governments do not want the cost of storing the sugar so it is put into the marketplace for sale well below production costs.[9]

The reaction to this warping of the marketplace by the actions of these foreign governments resulted in U.S. constituents seeking the support and assistance of their government to level the playing field. Hence the need for a sugar policy to level the playing field, in fact, and provide predictability to the market by smoothing out market fluctuations.

Critics of the policy argue that it runs counter to free market principles, it is cronyism, and it is too costly.[10] This critique is correct in part, the program clearly is not a free market program but, given the massive intervention in the marketplace by foreign governments on behalf of their domestic industries, there simply is no free market in sugar. The U.S. program is an effort to address the lack of a free market and the industry itself argues for change in the way world trade in sugar operates calling for an end to all subsidies for all producers.[11] If there were a free market in sugar there would be no need for the current sugar program. Sugar industry representatives have said that U.S. sugar producers are among the most efficient in the world despite the level of regulation the domestic industry faces in contrast to foreign competitors.[12]

Critics also suggest that the U.S. should simply end its own sugar program and buy sugar at the world market price allowing consumers to benefit from the subsidies other countries pay. In some ways this argument is attractive on the surface. However, an important reason behind the subsidies provided by foreign governments to their industries is to gain market share, drive

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[7] ibid
[8] ibid
[9] "Seeking a Global Solution in Sugar Trade Policy", Institute for Policy Innovation, Tom Giovanetti, May 2014
[10] "The Federal Sugar Racket Should Be Broken Up", Veronique de Rugy, Mercatus Center at George Mason University, December 9, 2015 https://www.mercatus.org/publication/federal-sugar-racket-should-be-broken
[11] House Committee on Agriculture 114th Congress, Hearing: Review of Agricultural Subsidies in Foreign Countries, statement for the record by the American Sugar Alliance
[12] ibid

competitors out of business and put consumers at the mercy of monopoly-seeking producers. The U.S consumer would also become subject to the caprices of other countries' domestic politics.[13]

The European Union (EU) learned important lessons from trying to simply allow their sugar producers to go it alone. Before the EU attempted sugar policy reform in 2006, its program was similar to the U.S. sugar policy. After an attempt to reform its "Sugar Regime" the EU found that price volatility and supply instability, which sometimes led to sugar shortages, did not help consumers in the confection and beverage industries which had lobbied for the regime change. The EU also suffered a loss of nearly 120,000 jobs, which inflicted serious social costs on the communities which had been involved in sugar production. The EU has since changed the reform and now, unlike the U.S., its program is not budget neutral.[14]

Cronyism is another frequent charge leveled against the U.S. sugar program.[15] This argument also has a superficial appeal but does not withstand closer scrutiny. Cronyism involves a benefit conferred on a close friend, a crony, based on that relationship. The benefits of the sugar program are not based on personal relationships nor are they given to some firms and not to others in the same industry. The law treats all U.S. sugar producers the same way and does not favor the larger co-operatives over the smaller ones. The larger co-operatives receive a larger benefit from the program in much the same way that a 10% tax cut for all taxpayers puts more dollars into the pockets of those who pay the most dollars in taxes.[16]

The other argument that is frequently made is the program is cost prohibitive. The facts simply do not support this conclusion. The Congressional Budget Office (CBO) scores the sugar program as zero cost to the Federal Budget now through 2018, the period for which it is authorized.[17] The USDA Farm Services Agency projects the sugar program will have zero cost to the federal budget through 2026.[18] While nobody wants to waste any federal resources, the excessive cost argument is spurious and a distraction from the main drivers of spending in the Federal Budget.[19]

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[13] See "Seeking a Global Solution in Sugar Trade Policy", supra
[14] "Lessons from the 2006 EU Sugar Regime Reform", Pro Sunergy Ltd, Patrick H. Chatenay, August 6, 2012
[15] Compare "The Global Sugar Racket Should Be Broken Up" supra with "A Valentine's Day Gift to Consumers: Dumping the U.S. Sugar Program", Americans for Tax Reform, James Morrone, Jr., February 12, 2016
[16] See generally PL 113-79
[17] "CBO's March 2016 Baseline for Farm Programs", Congressional Budget Office, March 2016, https://www.cbo.gov/sites/default/files/51317-2016-03-USDA.pdf
[18] "Commodity Estimates Book FY 2017 President's Budget Commodity Credit Corporation" Farm Services Agency, U.S. Department of Agriculture, February 9, 2016, http://www.fsa.usda.gov/Assets/USDA-FSA-Public/usdafiles/AboutFSA/Budget/pdf/ebooks/FY%202017%20Commodity%20Estimates%20Book%20-%20Web%20Version.pdf
[19] "The Need to Control Automatic Spending and Unauthorized Programs," House Budget Committee Working Paper, August 9, 2016, http://budget.house.gov/uploadedfiles/direct_spending.pdf

How does the U.S. Government's sugar policy work?

The Agriculture Act of 2014, PL 113-79, commonly known as the 2014 Farm Act, or simply the Farm Bill, authorized numerous agricultural programs through 2018. That authorization means the Appropriations Committees of the House and Senate are empowered to spend federal funds to implement the programs in the Farm Act. The sugar price support program was one of these provisions and the law essentially left the program unchanged from previous authorizations. A crucial aspect of the law specifically stipulates that the sugar price support program is to operate at no cost to the Federal Budget. This is an important distinction from many other programs that involve direct payments to farmers engaged in producing other crops. It should also be noted that 80% of the federal budgetary outlays in the Farm Act will support nutrition programs not commodity programs.[20] Where sugar policy costs are concerned, the American Sugar Alliance, the trade organization representing sugar producers, even argues that the sugar program has operated below the costs that the CBO has projected for the out-years, those years beyond the program's authorization.[21]

The U.S. sugar program is administered by the U.S. Department of Agriculture (USDA) which uses several tools to support the domestic production of sugar. These tools are designed to keep prices above certain guaranteed levels through use of the following:

- Non-recourse price support loans – the basis of the guaranteed price
- Marketing allotments which limit the amount of sugar each processor sells for human consumption
- Import quotas which control the amount of foreign sugar entering the U.S. market
- A backstop program – Feedstock Flexibility – a sugar-to-ethanol program to prevent a sugar surplus from developing should the other tools prove insufficient

The U.S. also has negotiated separate agreements with Mexico to alter the terms of the North American Free Trade Agreement (NAFTA) to put import limits on Mexican sugar and set a minimum price for sugar coming from Mexican producers.[22] From 2008 until these agreements were reached in late 2014, Mexico had been allowed unrestricted, duty-free access to the U.S. sugar market. The U.S. Department of Commerce determined that the Mexican government was

[20] "Agriculture Act of 2014:Highlights and Implications", USDA Economic Research Service, http://www.ers.usda.gov/agricultural-act-of-2014-highlights-and-implications.aspx
[21] "Sugar Policy Has Operated $634 Million Below Budget Since '08," American Sugar Alliance, January 27, 2016, https://sugaralliance.org/sugar-policy-has-operated-634-million-below-budget-since-08/12712
[22] See Agreement Suspending Countervailing Duty Investigation on Sugar from Mexico, http://enforcement.trade.gov/agreements/sugar-mexico/CVD-agreement.pdf
See also, Agreement Suspending the Antidumping Duty Investigation on Sugar from Mexico, http://enforcement.trade.gov/agreements/sugar-mexico/Ad-agreement.pdf

subsidizing the export of sugar into the United States below the cost of production and below the Mexican sale price.[23]

Non-recourse Loans

The non-recourse loan is taken by the processor of sugar, not the sugar producers themselves. In other words, the loan is taken out by the sugar refiner not the farmer. The processors use their sugar as collateral to secure the loan and the "non-recourse" provision means the borrower, the sugar processor, can forfeit the collateral without penalty, or recourse, if the market price is below the effective support level set by the government at the time the loan comes due. To qualify for the loan, processors must agree to make payments proportional to the value of the loan they receive to the producers of sugarcane and sugar beets for the delivered sugar. Also the processor is required to process domestically grown sugar, agree to the terms and conditions of the loan and sign a loan note, security agreement, and storage agreement with the Commodity Credit Corporation (CCC).[24]

The loans have a term of nine months and must be repaid in-full plus interest and certain marketing costs by the end of the fiscal year in which the loan was taken. The most recent Farm Bill, PL 113-79, set the loan rates for Fiscal Years 2014 - 2018 at 18.75 cents per pound of raw cane sugar and 24.09 cents per pound for refined beet sugar.[25] The difference in loan rates reflects the difference in the amount of refining needed for sugarcane versus sugar beets. Raw sugarcane requires further processing to have the same value and characteristics as refined beet sugar for human consumption. In other words, the different loan rates reflect the different costs associated with the refining process. Sugarbeets are turned into the sugar that we eat in one step, whereas sugarcane is a two-step process: 1) milling sugarcane juice into raw sugar, 2) then refining out the molasses. Milling cane juice is less expensive than turning a beet into edible sugar.

Under the terms of the law, the USDA must accept the sugar pledged as collateral as payment in-full if the processor defaults on the loan. The USDA is then responsible for disposing of the asset.

[23]"Commerce Preliminarily Finds Dumping of Imports of Sugar from Mexico", U.S. Department of Commerce Fact Sheet, October 27, 2014, http://enforcement.trade.gov/download/factsheets/factsheet-mexico-sugar-ad-prelim-102714.pdf

[24] "2014 Farm Bill Fact Sheet", Farm Service Agency, USDA, October 2016, https://www.fsa.usda.gov/Assets/USDA-FSA-Public/usdafiles/FactSheets/2016/sugar_loan_program_oct2016.pdf

[25]See "Sugar and Sweeteners Policy," Economic Research Service, USDA supra

Flexible Marketing Allotments

The federal government sets annual limits on how much domestically produced sugar can be sold in the U.S. for human consumption. It does not limit how much the sugar farmer can produce nor does it limit how much refiners can process. The main tool for enforcing this limit is the flexible marketing allotment. The marketing allotment tool is designed to help ensure the sugar program operates at a zero-impact on the Federal Budget by limiting the likelihood of loan forfeitures. The government sets an overall allotment quantity (OAQ) based on two goals:

1. Domestic U.S. sugar price stays above the loan forfeiture level to prevent any costs to the federal budget
2. The OAQ covers a minimum of 85% of domestic human consumption

These allotments cover the full year but the USDA is required to adjust allotment quantities throughout the year to avoid loan forfeitures to the CCC.[26]

Because domestic producers cannot always meet their allotment, USDA is empowered to reassign allotments to other producers in the state or if they are not able to meet the allotment, to reassign the allotment to other producers in the United States. In the event that a production deficit is still likely to occur, the level of imported sugar is allowed to compensate for the deficit in domestic production.[27] Such reassignments go only from sugarcane processor to sugarcane processor or sugar beet processor to sugar beet processor. If a processor knowingly sells above its allotment for any reason other than assisting another processor in meeting its allotment, or for export, the CCC may impose a civil penalty of up to three times the U.S. market value at the time of commission of the violation.[28]

The Farm Bill provides that the CCC can dispose of sugar it owns in specific ways that will not increase the risk of future loan forfeitures. It allows the CCC to provide a payment-in-kind of sugar back to the processors in exchange for a reduction in production through reduced crop planting. If an area is already under cultivation, the crop can only be used as feedstock for bioenergy. To further diminish the risk of loan forfeiture, the law prohibits the CCC from selling the sugar for human consumption.[29]

[26] ibid
[27] See "2014 Farm Bill Fact Sheet," supra
[28] ibid
[29] See "Sugar and Sweeteners Policy," Economic Research Service, USDA, supra

Import Quotas

The United States has separate tariff-rate quotas (TRQs) for imported raw cane sugar and refined sugar. Before the start of the U.S. fiscal year, which runs from October 1- September 30, the Secretary of Agriculture announces how much sugar can be imported under the preferential "in-quota" tariff rate during the coming fiscal year.[30]

The U.S. has negotiated numerous trade agreements which touch on sugar imports including the Uruguay Round Agreement on Agriculture, the Dominican Republic-Central American Free Trade Agreement and suspension agreements dealing with imports from Mexico. The Secretary of Agriculture is empowered to modify quantitative limitations on sugar imports if he believes that the domestic supply of sugar will be inadequate to meet domestic needs. The Secretary may not lower the quantitative limits. This means that the Secretary may determine that the U.S. producers will not produce enough sugar to meet demand and the amount of in-quota sugar that can come into the U.S. under the preferential tariff rate, the rate designed to allow foreign sugar into the U.S. market versus the higher rate designed to make it virtually impossible for foreign sugar to enter the U.S. market, can be increased to off-set the domestic deficiency.[31]

The Office of the U.S. Trade Representative sets the allocation of the raw cane sugar TRQ for forty (40) countries and the refined sugar TRQ is applied to Canada and Mexico. Importantly, most countries have their tariff waived under the Generalized System of Preferences, the Caribbean Basin Initiative, or other free trade agreements. Since January 2015, Mexican sugar imports have been governed by two agreements signed by the Government of Mexico and the U.S. Department of Commerce.[32] These agreements were reached in response to a determination of the Department of Commerce that Mexico was dumping sugar into the U.S. market and the suspension agreements set terms for Mexican sugar to enter the market in a manner that will preserve the zero-cost basis of the U.S. sugar program.[33]

The TRQs are a particular point of criticism from the standpoint of the confectionary and beverage industries. They argue that the current system is outdated and although the Sweetener Users Association does not call for abandoning the TRQ system, it does advocate updating the way the structure is administered to better reflect the current market.[34]

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[30] ibid
[31] ibid
[32] ibid
[33] "Impacts of the U.S.-Mexico Antidumping and Countervailing Duty Suspension Agreement," Food and Agriculture Policy Research Institute, University of Missouri, March 27, 2015, https://fapri.missouri.edu/wp-content/uploads/2015/03/FAPRI-MU-Bulletin-07-15.pdf
[34] See Thomas Early, Oral Statement on behalf of the Sweetener Users Association to the U.S. Internal Trade Commission, March 19, 2013, http://www.sweetenerusers.org/Tom%20Earley%20ITC%20SUA%20Oral%20statement%20-%203-19-13%20FINAL.pdf

Feedstock Flexibility Program

The Feedstock Flexibility Program operates as a further backstop to prevent loan forfeitures. The program diverts sugar from human consumption to use in the production of biofuel in the form of ethanol. On September 1 of each year, which is one month before the end of the federal fiscal year, the Secretary of Agriculture determines the amount of sugar, if any, which the CCC must purchase and make available for ethanol production. The sugar purchased under this program counts as part of the sugar processor's annual marketing allotment.[35]

A Path Toward a Free Market

Critics and proponents of the current sugar policy should be able to find common ground in supporting a path toward a free market in sugar. Legislation was introduced in the 114th Congress in the U.S. House of Representatives by Congressman Ted Yoho (R-FL) to address the issue by calling for a "zero-for-zero" policy in sugar, which means that no producers of sugar would use any subsidies. The legislation, which currently has twelve bi-partisan co-sponsors, does not have a Senate companion. House Concurrent Resolution 20 expresses the sense of Congress that all subsidies, direct and indirect, for the production or export of sugar should be eliminated by all sugar producing and consuming countries.[36] In other words, the U.S. sugar regime should end along with all other sugar subsidies employed by other countries.

The legislation further calls on the president to seek agreements under the auspices of the World Trade Organization (WTO) to eliminate sugar subsidies with any country with which the U.S. has a free trade agreement. The president is then called upon to report back to Congress when such an agreement is reached and to propose to Congress appropriate legislation to implement the so-called zero-for-zero policy.[37]

While the 114th Congress expired before it could act on this measure, the legislation has laid down an important benchmark and shows a clear path forward for the 115th Congress. The concept behind the legislation provides a rallying point for conservatives, and free market supporters of all stripes. Indeed, the American Conservative Union and a host of other conservative and market-oriented organizations have signaled their support for the zero-for-zero policy concept.[38]

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[35] See "Sugar and Sweeteners Policy," Economic Research Service, USDA, supra
[36] H.Con. Res. 20, 114th Congress of the United States, introduced February 27,2015. https://www.congress.gov/bill/114th-congress/house-concurrent-resolution/20/all-info?r=1
[37] ibid
[38] "Support the Zero for Zero Sugar Policy" letter to Congress, American Conservative Union et al., July 13, 2013. http://conservative.org/support-the-zero-for-zero-sugar-policy/

Supporters of repeal of the current sugar regime should consider options for reintroducing the similar legislation now that the new 115th Congress has convened. In addition to the House legislation, the timing should be ripe to raise the issue in the Senate especially with trade agreements likely to be on the agenda for the new Congress and president. The zero-for-zero policy approach should appeal to free trade advocates, budget hawks worried about potential future costs, and even liberals seeking to end agricultural subsidy programs. At a time when common ground is lacking in so much of government policy, the zero-for-zero policy in sugar offers a rare oasis of agreement with which all parties can be pleased.

Conclusion

Neither those in the sugar industry nor their largest consumers are pleased with the status quo in the world sugar market. All parties also agree current sugar policy is not ideal and violates free market principles. However, there is no free market in sugar and the current sugar program is a means of ensuring market stability and a secure domestic supply of this vital ingredient. We have also learned from the EU experience that unilaterally ending a sugar program does not necessarily yield desirable results for either producers or consumers.

The sugar industry's representatives advocate for a system of zero-for-zero arguing that U.S. sugar producers would fare well against foreign competitors in a truly free market where all subsidies and price supports were set at zero for all producers.

All parties should be able to find common ground in the approach proposed in Congress by Representative Ted Yoho (R-FL), along with a group of bi-partisan co-sponsors, which calls on the president to engage in negotiations through the World Trade Organization to end all direct and indirect subsidies in the production and export of sugar. The approach in this legislation would truly move the world toward a freer market in sugar.

Appendix

114TH CONGRESS
1ST SESSION

H. CON. RES. 20

Expressing the sense of Congress that all direct and indirect subsidies that benefit the production or export of sugar by all major sugar producing and consuming countries should be eliminated.

IN THE HOUSE OF REPRESENTATIVES

FEBRUARY 27, 2015

Mr. YOHO (for himself, Mr. HASTINGS, Mr. SCHRADER, Mr. ROONEY of Florida, Mr. HUDSON, Mr. POE of Texas, Ms. FRANKEL of Florida, Mr. THORNBERRY, and Ms. WILSON of Florida) submitted the following concurrent resolution; which was referred to the Committee on Ways and Means, and in addition to the Committee on Agriculture, for a period to be subsequently determined by the Speaker, in each case for consideration of such provisions as fall within the jurisdiction of the committee concerned

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CONCURRENT RESOLUTION

Expressing the sense of Congress that all direct and indirect subsidies that benefit the production or export of sugar by all major sugar producing and consuming countries should be eliminated.

Whereas every major sugar-producing and sugar-consuming country in the world maintains some form of direct or indirect subsidy to support its sugar growers, processors, or consumers;

Whereas virtually all of the more than 100 countries that produce sugar maintain market distorting subsidy programs, including—

(1) the Government of Brazil which provides direct and indirect subsidies of at least $2,500,000,000 per year for programs to promote its sugar and ethanol industry and has increased subsidies in recent years in the form of preferential loans, debt forgiveness, increased ethanol usage mandates, and direct subsidies to cane farmers;

(2) the Government of India which supported its highly regulated sugar industry by granting WTO-illegal export subsidies for 2,000,000 metric tons of sugar in 2014 and has announced plans for increased export subsidy rates in 2015;

(3) the Government of Thailand which has more than tripled its sugar exports since 2004 by providing extensive subsidies to its sugar industry and by maintaining domestic prices well above export prices; and

(4) the Government of Mexico which has direct and indirect subsidies to keep open 9 government-owned sugar mills accounting for 22 percent of Mexican sugar production as well as direct payments to sugarcane growers;

Whereas the world sugar market is the most volatile commodity market in the world;

Whereas the foregoing clauses provide ample evidence there is no undistorted, free market in sugar in the world today; and

Whereas if such a free market did exist, United States sugar farmers and processors could compete effectively in that market: Now, therefore, be it

Resolved by the House of Representatives (the Senate concurring), That it is the sense of Congress that—

(1) the President, by agreements negotiated under the auspices of the World Trade Organization, should seek elimination of all direct and indirect subsidies benefitting the production or export of sugar by the government of—

(A) each country that exported more than 200,000 metric tons of sugar during 2014; and

(B) any other country with which the United States has in effect a free trade agreement;

(2) if the President determines that all such subsidies by all such countries have been eliminated, then the President should report to Congress detailed information about how each of the countries has eliminated such subsidies; and

(3) after submitting such report, the President should propose to Congress legislation to implement a “zero for zero” sugar subsidy policy.

About the Author

James C. Musser is a senior fellow with the Thomas Jefferson Institute for Public Policy. Musser has spent over twenty years in the public policy arena serving as Senior Staff Counsel to the Honorable Jim Bunning of Kentucky and most recently acting as Special Advisor to the Chairman of the House Budget Committee where his work focused on reforming the federal budget process. Musser previously served as Vice President at the Mercatus Center at George Mason University in Arlington, Virginia.

Musser holds his Juris Doctor degree from the University of Kentucky and his B.A. from Marshall University.

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"… a wise and frugal government, which shall restrain men from injuring one another, shall leave them otherwise free to regulate their own pursuits of industry and improvement, and shall not take from the mouth of labor the bread it has earned. This is the sum of good government, and this is necessary to close the circle of our felicities."

Thomas Jefferson, 1801

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