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Sugar Policy Issues

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SUMMARY

Authorized through FY2003 by the 1996 omnibus farm act (P.L. 104-127), the modified sugar program continues to protect the incomes of sugarcane growers, sugar beet growers, and those firms that process each crop into sugar. To accomplish this, the U.S. Department of Agriculture (USDA) supports domestic prices by making available loans to sugar processors and restricting sugar imports.

Two changes made by the farm law could inject some uncertainty under certain circumstances about the degree the program operates to support the domestic sugar market price. First, the level of sugar imports now dictates the type of price support that USDA provides processors. Imports equal to or above 1.5 million short tons (MST) require USDA to make available *non-recourse* loans. These give a processor the right — if unable to sell in the marketplace at a price above the "effective" support level (e.g., the loan rate plus certain marketing costs) — to hand over to USDA sugar pledged as loan collateral to satisfy the loan repayment obligation. Under non-recourse policy, USDA will continue to limit imports to the extent necessary to support market prices. For FY2000, USDA set the import quota at 1.501 MST, meaning that non-recourse policy is currently in effect.

However, in any year that USDA announces an import quota less than 1.5 million ST, only *recourse* loans (which require repayment in cash, irrespective of the market price) would be available to processors. Recourse loan policy effectively would transfer all price risk to growers and processors, because a government-protected price would not be available. During such periods, prices could fall below support levels, and sugar processors would face the prospect of selling at the market price.

Second, a processor who "forfeits," or hands over, any sugar to USDA in lieu of paying off a price support loan is now required to pay a penalty. A processor would face this prospect if the market price fell below an "effective" support level at which he could "profitably" sell his sugar. His alternatives then would be to sell at a lower price than planned on, or hold the sugar in inventory until prices rise.

Other major program provisions froze the loan rates for raw cane and refined beet sugar at 1995 levels (18 cents/lb. for raw cane sugar, and 22.9 cents/lb. for refined beet sugar); increased by 25% the marketing assessments paid by U.S. sugar processors (suspended in FY2000-2001, however); repealed the no-cost requirement, and repealed domestic sugar marketing restrictions.

Final action on the 1996 farm bill did not end the ongoing debate over sugar policy. The 9-vote margin in the House that preserved the type of program favored by growers and processors has encouraged program critics (sugar users and cane refiners) to continue in their efforts to reshape the program. In the most recent effort on August 4, 1999, the Senate tabled 66-33 an amendment to its FY2000 agriculture spending bill that would have effectively not allowed USDA to administer the sugar program. Separately, a provision in the farm aid package passed by Congress prohibits USDA from collecting marketing assessments imposed on domestically-produced sugar. This action will save sugar producing companies more than $40 million in each of the next 2 years.

MOST RECENT DEVELOPMENTS

On November 2, 1999, the U.S. Department of Agriculture (USDA) announced that the FY2000 raw sugar tariff-rate quota (TRQ) will be 1.501 million short tons (MST). To meet the U.S. market access commitment made under the terms of the World Trade Organization's (WTO) 1994 Agreement on Agriculture, USDA further announced that 1.251 MST would be allocated immediately to those countries eligible to sell sugar into the U.S. market. Because USDA initially announced the TRQ would be slightly more than 1.5 MST (the trigger level for determining which type of price support loan policy will be in effect), USDA will make non-recourse loans available to eligible sugar processors during the 1999/2000 marketing season. This TRQ decision was made 1-1/2 months later than usual due to differences within the Administration on the import level to set for FY2000. The internal debate reflected concern over the differing consequences that this decision (whether to set the TRQ above or below 1.5 MST) would have on market price levels and the program's budget exposure.

The FY2000 agriculture appropriations measure (P.L. 106-78, H.R. 1906) includes, as part of an $8.7 billion farm aid package, a provision that effectively prohibits USDA from collecting budget deficit marketing assessments from sugar producing companies through FY2001. As a result, these firms will save (i.e., increase their revenues by) an estimated $83 million over the next 2 years.

BACKGROUND AND ANALYSIS

Brief History of the Sugar Program

Governments of every sugar producing nation intervene to protect their domestic industry from fluctuating world market prices. Such intervention is necessary, it is argued, because both sugar cane and sugar beets must be processed soon after harvest using costly processing machinery. When farmers significantly reduce production because of low prices, a cane or beet processing plant typically shuts down, usually never to reopen. This close link between production and capital intensive processing makes price stability important to industry survival.

The United States has a long history of protection and support for its sugar industry. The Sugar Acts of 1934, 1937, and 1948 required the U.S. Department of Agriculture (USDA) to estimate domestic consumption and to divide this market for sugar by assigning quotas to U.S. growers and foreign countries, authorized payments to growers when needed as an incentive to limit production, and levied excise taxes on sugar processed and refined in the United States. This type of sugar program expired in 1974. Following a 7-year period of markets relatively open to foreign sugar imports, mandatory price support only in 1977 and 1978, and discretionary support in 1979, Congress included mandatory price support for sugar in the Agriculture and Food Act of 1981 and the Food Security Act of 1985. Subsequently, 1990 farm program, 1993 budget reconciliation, and 1996 farm program laws extended sugar program authority through the 2002 crop year. Even with price protection available to producers, the United States historically has not produced enough sugar to satisfy domestic demand and thus continues to be a net sugar importer.

Historically, domestic sugar growers and foreign suppliers shared the U.S. sugar market in a roughly 55/45% split. This, though, has not been the case in recent years. In FY1998, domestic production filled 82% of U.S. sugar demand for food and beverage use; imports covered 18%. As high fructose corn syrup (HFCS) displaced sugar in the United States during the early 1980s, and as domestic sugar production increased in the late 1980s, foreign suppliers absorbed the entire adjustment and saw their share of the U.S. market decline.

1996 Farm Act: Sugar Program

To support U.S. sugar market prices, the USDA will (for the 1996-2002 crops) continue to extend short-term loans to processors and limit imports of foreign sugar. New provisions, though, change the nature of the "loan" made available. The nature of price support extended will be determined largely by the domestic demand/supply situation and USDA's subsequent decision on what the fiscal year level of sugar imports will be. The new parameters could at times inject more-than-usual price uncertainty into the U.S. sugar marketplace. The details of the modified program are laid out in the **Provisions of the 1996-2002 Sugar Program** section below.

General Overview

The 1996-enacted sugar program continues to differ from the grains, rice, and cotton programs in that USDA makes no income transfers or payments to beet and cane growers. In contrast, the program is structured to indirectly support the incomes of domestic growers and sugar processors by limiting the amount of foreign sugar allowed to enter into the domestic market using an import quota - a policy mechanism that lies outside the scope of the program's statutory authority. Accordingly, USDA decisions on the size of the import quota affect market prices, and are made carefully to ensure that growers and processors do realize the benefits of price support they expect to receive as laid out in program authority.

Price Support. USDA historically has extended price support loans to processors of sugarcane and sugar beets rather than directly to the farmers who harvest these crops. Growers receive USDA-set minimum payment levels for deliveries made to processors who actually take out such loans during the marketing year — a legal requirement. Other growers negotiate contracts that detail delivery prices and other terms with those processors that do not take out loans.

Two levels of price support are available. The loan rate for raw cane sugar is statutorily set. The loan rate for refined beet sugar historically was set in relation to raw sugar under a prescribed formula; however, under the new program, this rate is fixed for 7 years at the 1996 level. Loan support for beet sugar is set higher, largely reflecting its availability as a product ready for immediate industrial food and beverage use or for human consumption (unlike raw cane sugar) and a difference in how it is marketed. By contrast, raw cane sugar must go through a second stage of processing at a cane refinery to be converted into white refined sugar that is equivalent to refined beet sugar in end use.

Loan Rates and Forfeiture Levels. The FY2000 loan rates are set at 18 cents/lb. for raw cane sugar, and 22.9 cents/lb. for refined beet sugar. These loan rates, though, do not serve as the price floor for sugar. To illustrate, USDA in FY1998 sought to support the raw cane sugar price (depending upon the region) at not less than 19.2 to 20.9 cents/lb. (i.e., the price support level in a region *plus* an amount that covers a processor's cost of shipping raw cane sugar to a cane refinery *plus* the interest paid on any price support loan taken out *less* a forfeiture penalty applicable under certain circumstances (see pages 6-7)). These "loan forfeiture," or higher "effective" price support, levels are met by limiting the amount of foreign raw sugar imports allowed into the United States for refining and sale for domestic food and beverage consumption.

Import Quota. To meet the program's no-cost requirement in effect during FY1987-FY1996, USDA restricted the amount of foreign sugar allowed to enter the United States to ensure that market prices do not fall below the "effective" price support levels. By maintaining prices at or above these levels, USDA for the most part succeeded in ensuring that it would not acquire sugar due to a loan forfeiture. A loan forfeiture (turning over sugar pledged as loan collateral) occurs if a processor concludes that domestic market prices at the time of a desired sale are lower than the "effective" sugar price support level implied by the loan rate.

The U.S. market access commitment made under World Trade Organization (WTO) rules means that a minimum of 1.256 million short tons (ST) of foreign sugar must be allowed to enter the domestic market each year. While the commitment sets a minimum import level, no other provision limits the ability of U.S. policymakers to allow additional amounts of sugar to enter if needed to meet domestic demand (e.g., no cap exists on imports). Under WTO rules, foreign sugar (including imports from Mexico under NAFTA-negotiated provisions) enters under two tariff-rate quotas (TRQ), with the amount entering within each year's announced quotas subject to a zero or low duty. Sugar entering in amounts above these quotas is subject to a tariff that declines 15% during the 1995-2000 period (for raw cane sugar, from 16 cents to 14.5 cents/lb., raw value). One exception is that the tariff on above-quota imports from Mexico is lower than that applicable to sugar from other countries. This fact has become a significant issue for USDA in deciding on the FY2000 TRQ level (see below). Since the world sugar price is currently low (about 6 cents per pound, down from about 10 cents in mid-1998), above-quota imports from Mexico (subject to the lower tariff under NAFTA) are currently competitive in price with domestically-produced sugar.

For ***FY1999***, USDA on September 16, 1998, set the TRQs for raw, refined and specialty sugar at 1.808 million ST. Under an administrative plan followed for the third year in a row, the Office of the U.S. Trade Representative (USTR) initially allocated only 1.312 million ST of this total quota amount among 41 eligible countries. According to this plan, USTR planned to allocate additional amounts in 165,347 ST increments if USDA projected at three specified times during the year that FY1999 ending stocks will be equal to or below 15.5% of projected use. Any additional quota allocations, if triggered, were to occur in January 1999, March 1999, and May 1999. A quota increase would be triggered if domestic production turns out to be higher, and/or consumption is lower, than USDA's September 1998 supply/demand projections used to announce the TRQ amounts.

In implementing the FY1999 plan, USDA in mid-January 1999 did not announce any increase to the initially allocated quota for raw cane sugar, because ending stocks then were projected at 18.8%. Subsequently, USDA projected ending stocks at 15.9% in mid-March, and at 16.0% in mid-May. As a result, there were no increases made to the FY1999 raw sugar TRQ initially set in September 1998.

For ***FY2000***, USDA on November 2, 1999, set the TRQ for raw cane sugar at 1.501 million ST, but announced that only 1.251 million ST will be available immediately for allocation by the USTR to quota-holding countries. USDA's press release added that the unallocated quantity "will be made available to USTR, if needed, as the administration reviews market conditions and the operation of the sugar program" - an unlikely prospect at this time considering projected high U.S. sugar output this year. Earlier, USDA on October 1 announced the TRQ for a small amount of refined sugar (66,139 ST) allowed to enter this year.

The delay in announcing this year's raw sugar TRQ reflected an internal debate within the Administration over the price, budgetary, and trade impacts of the import level to be set. Because USDA in early October 1999 forecasted domestic sugar production to be 586,000 ST (7%) higher than last year's, USDA faced a dilemma in setting this TRQ level. If USDA, in order to bring supply in line with projected demand, decided to set the TRQ at the minimum level that the United States accepted as its WTO commitment (1.256 million ST), a 1996 farm bill provision would have required USDA then to offer price support loans on a recourse basis (e.g., price protection is not available to processors). On the other hand, if USDA set the TRQ at or above 1.5 million ST in order to offer non-recourse loans (e.g., provide processors with a price floor), processors faced the possibility of forfeiting on loans taken out if market prices fell below "effective" support levels. If this were to occur, the sugar program would record budget outlays. Complicating this decision for USDA were uncertainties associated with the amounts of two categories of non-TRQ imports that might enter during FY2000, which would increase the supply above that needed to meet domestic demand: above-quota sugar imports from Mexico, and sugar syrup imports from Canada. For perspective, see the **Recourse/Non-Recourse Loan Policy** section below.

The General Accounting Office (GAO) in late July 1999 issued a report on USDA's administration of the tariff-rate quota (TRQ) for raw cane sugar. It stated that USDA, in administering the quota to protect the domestic sugar price, increased the cost of sugar to sugar users by about $400 million annually. The American Sugar Alliance, representing a large portion of the domestic sugar production sector, countered that USDA's response to the GAO report lists "numerous errors, misinterpretations, and omissions and explains why USDA's '[TRQ] management plan has been successful.' "

Marketing Assessments. Though it will not be collected in FY2000 and FY2001 (see below), the budget deficit marketing assessment applies to marketings of sugar produced from domestic cane and beet crops. Imports are not subject to this levy. Assessments collected have represented the sugar production sector's contribution to budget deficit reduction. (The peanut sector still pays a similar assessment; authority to collect an assessment from the dairy and tobacco sectors expired in 1996 and 1998, respectively.) The assessment rate on raw cane sugar is 1.375% of the 18 cent loan rate (0.2475 cents per pound, or 24.75 cents per 100 pounds (cwt.)). The rate on marketings of refined beet sugar is 1.47425% of the raw cane sugar's 18 cent loan rate (equal to 0.2654 cents/lb, or 26.54 cents per cwt.). In FY1999, this assessment generated to USDA's Commodity Credit Corporation (CCC) an estimated $40 million in receipts from cane and beet processors. In a just-enacted policy change, a provision in the FY2000 agriculture appropriations measure (section 803(b) of P.L. 106-78) effectively prohibits USDA from collecting this assessment in FY2000 and FY2001. This will save the domestic producing sector an estimated $83 million over the 2-year period.

Administrative Costs. While sugar program loan-making operations do not result in any recorded budget outlay, there are some incidental program costs. USDA estimates that administrative costs (salaries and expenses, which are accounted for separate from commodity program costs) associated with sugar loan making activity totaled $36,000 in FY1999. Loan operations are carried out by the county offices of USDA's Farm Services Agency. Additional costs incurred by USDA's Foreign Agricultural Service in administering the sugar TRQs totaled $107,000 in FY1999.

Provisions of the 1996-2002 Sugar Program

The enacted sugar program incorporates the provisions agreed upon in the 1995 budget reconciliation's conference with one addition. The modified program keeps intact the broad outlines of previous U.S. sugar policy, but adopts for the first time since 1981 new features that could inject some price uncertainty into the domestic sugar market under certain supply and demand conditions. The degree to which the sugar sector actually becomes more subject to market forces and to the prospect of a higher degree of price uncertainty, though, will depend in large part on the amount of sugar allowed to be imported under quota.

Program provisions:

(1) reauthorize the sugar program for 7 years (through 2002 — the same as for all other commodity programs).

(2) freeze the support price at 1995 crop levels — 18 cents per pound for raw cane sugar and 22.9 cents/lb. for refined beet sugar — for the entire period.

(3) repeal the program's "no-cost" requirement.

(4) repeal marketing restrictions ("allotments") on the amount of domestically produced sugar that raw sugar processors and beet refiners can sell into the U.S. market when USDA projects imports fell below a statutory minimum level. Allotments were triggered three times during the FY1992-FY1996 period.

(5) increase by 25% the budget deficit assessment paid by raw cane processors and beet refiners on domestically-produced sugar (to 1.375% on raw cane sugar and to 1.47425% on refined beet sugar, set relative to the 18 cent loan rate in effect for raw sugar). However, a provision in the FY2000 agriculture appropriations measure (section 803(b) of P.L. 106-78) means that processors and beet refiners will not pay this assessment in FY2000 and FY2001 (see ***FY2000*** section of **House and Senate Floor Amendments** below for additional explanation).

(6) retain the 9-month term for price support loans taken out by processors and beet refiners.

(7) require that *recourse* loans be made available whenever USDA announces a fiscal year import quota of less than 1.5 million short tons (ST). If USDA announces an import quota of 1.5 million ST or more, *non-recourse* loans (the type of loan available under pre-FY1996 policy) automatically would become available to processors. "Recourse" means processors are obligated to repay the loan with

interest in cash, rather than exercise the legal right (under "non-recourse" policy) to hand over sugar offered as collateral in full payment of the loan.

(8) require USDA to impose about a 1 cent/lb. penalty on any processor who forfeits sugar (applicable when pledged as collateral for a "non-recourse" loan) to the CCC.

(9) require a reduction in domestic sugar price support if USDA determines that negotiated reductions in sugar export and domestic subsidies made by the European Union and other major sugar growing, producing, and exporting countries in the aggregate exceed WTO commitments.

Analysis of 1996-Enacted Sugar Program Provisions

The final sugar program compromise struck by House and Senate farm bill conferees in November 1995 did not fully satisfy the three most affected and competing interest groups — growers and sugar processors, cane refiners, and sugar users. The *sugar production sector* contended that considerable price uncertainty will exist when "recourse" loan policy is in effect and will result in a reduced level of price support if "loan forfeitures" occur. It did indicate, though, that it could accept most other provisions. *Sugar users* contended that the proposed program offered little change from previous policy and did not lower price support levels. *Cane sugar refiners* feared that retaining current price support levels will close more refineries, further shrinking U.S. cane refining capacity.

Recourse/Non-Recourse Loan Policy

Under the enacted program, the level of projected imports determines the nature of price support to be made available to sugar processors. The 1.5 million ST trigger level must be compared to expected import levels to attempt to answer the questions that naturally arise: will the sugar program operate on a "recourse" or "non-recourse" loan basis during the FY1997-FY2003 period, and what might the nature of price support provided mean for market prices?

Tying "recourse" loan policy to the level of sugar imports was intended to inject some degree of market orientation into the U.S. sugar market. Each interest group's stance on this provision sought to protect and/or to enhance its position in the marketplace. The sugar production sector, in initially raising the recourse/non-recourse issue for Agriculture Committee consideration, proposed that the trigger level be set just one ton higher than the U.S. minimum sugar import commitment made under WTO rules (1.256 million ST). In other words, the sugar production sector sought to set the import level as low as possible so that all price support loans would be available on a "non-recourse" basis, and thus guarantee that a price floor exists. By contrast, sugar users and cane refiners sought to have the import level set as high as possible in order to increase the likelihood that recourse loan policy does come into effect at some point in time. This position reflected the users' and refiners' desire to gain from lower sugar prices likely to occur under "recourse" policy.

USDA's announcement in November 1999 of an import quota above the 1.5 million ST trigger level means that non-recourse loan policy will be in effect during FY2000. Though

USDA's long-term projections (laid out in its February 1999 baseline) show TRQ imports will be above the trigger, rising from 1.6 million ST in FY2001 to 1.7 million ST in FY2003, there could be a repeat of the internal debate over the TRQ level in future years if domestic production is higher than last projected. With this uncertainty and likely continued pressure from the domestic sugar production sector to have USDA administer a non-recourse program, the 1999 TRQ decision-making process suggests that non-recourse policy most likely will apply during the life of the currently authorized sugar program.

Nevertheless, since projections cannot predict the inevitable fluctuations that occur from year to year, the possibility exists that import needs might fall below USDA's import projections, and even below the "non-recourse/ recourse" trigger level. This could occur in a year when domestic sugar output turns out to be higher-than-average due to good weather and optimal processing conditions. To accommodate for higher domestic sugar output under such a scenario, USDA may need to set a quota import level below the 1.5 million ST trigger level. If this happens, then USDA could implement "recourse" loan policy.

However, if U.S. sugar imports closely match USDA's import projections, any annual import quota (set equal to or higher than the statutory 1.5 million ST trigger) would require USDA to implement "non-recourse" loan policy. In years that this occurs, USDA would be pressured by the domestic sugar producing sector to carefully manage the amount of sugar allowed to enter under the quota in order to maintain prices within some "acceptable" range above loan forfeiture levels. At the same time, USDA likely would face pressure from cane refiners and sugar users to not restrict imports so much so that market prices are considerably higher than forfeiture levels.

As farm bill debate concluded in 1996, *sugar producers and processors* viewed the enacted 1.5 million ST trigger level as too high and based much of their concern on their view that USDA (in light of the then domestic sugar output forecast) would keep quota imports below this level. This led to their conclusion that if "recourse" loan policy came into effect, they would be subject to market price uncertainty, a prospect they had not faced since 1981. They were concerned for the following reasons. Under "recourse" policy, no price floor would exist, because all loans taken out would have to be repaid in cash. With no need for USDA to maintain minimum prices, domestic sugar prices would be free to fluctuate more than usual (i.e., prices could even fall below forfeiture levels with no price floor available). Second, a "recourse" policy would transfer the responsibility for responding to price signals from USDA to growers and processors, which would have to become more cautious in making crop production, processing, and investment decisions. Since most processors would prefer not to conduct business in such an uncertain production and marketing environment, the production sector's proposal sought to preclude the prospect that "recourse" policy would ever be in effect (i.e., accomplished by proposing initially to set the import trigger as low as legally possible).

Sugar users expected that imports would be higher than the 1.5 million ST trigger level. This would mean that USDA would have to implement "non-recourse" policy, which supports prices at specified levels and restricts imports to ensure that market prices are at least above forfeiture levels. Users expected that in having to meet the "no-cost" mandate then in effect, USDA would continue as before to provide the price floor guarantee that growers and processors want. They contended that the enacted provisions offered little change from previous policy: the federal government continues to micromanage program operations and the price of sugar is not allowed to decline.

Cane refiners feared that as refined beet sugar output is allowed to expand under the proposed program (with marketing restrictions repealed), USDA would have little choice but to restrict raw sugar imports. Cane refiners argued that both developments, plus the lack of any price support reduction, place them at a competitive disadvantage and undermine their long-term viability to cover U.S. sugar needs whenever a beet production shortfall occurs.

Penalty on Sugar Loan Forfeitures

Some growers and processors argued in 1996 that the new monetary penalty imposed on a processor that forfeits collateral rather than repaying a "non-recourse" loan would constitute a reduction in the sugar price support level (from 18 to 17 cents/lb. for raw cane sugar, from 22.9 to 21.83 cents/lb for refined beet sugar). This provision would give USDA, according to some observers, more latitude in allowing market prices at times to fall lower than would be the case under previous sugar program authority. Others, though, pointed out that some processors might contemplate loan forfeiture if faced with the prospect of prices falling below forfeiture levels. Some mentioned that processors would likely be prompted more to threaten forfeiture for strategic and political reasons to pressure USDA to administer the program conservatively (i.e., limiting imports to keep prices above forfeiture levels). For this reason, program opponents argued that in practical terms, this penalty will mean little change in price levels relative to continuing past policy.

Louisiana grower and raw sugar processors have had concerns about USDA's use of this penalty to calculate the loan forfeiture level, a critical factor used to set the level of sugar imports. Consequently, they worked to secure a policy change in the latest appropriations round. They argued that USDA operated the program in a way that assumed that all domestically produced sugar could be put under loan and forfeited. In their view, the USDA, by deducting the penalty from the sum of the other components used to derive the loan forfeiture level, was providing for a lower level of price support than they believed Congress in the 1996 farm bill intended. Reflecting their concerns, the joint explanatory statement of the conferees on the agriculture appropriations portion of the FY1999 Omnibus Consolidated and Emergency Supplemental Appropriations Acts (P.L. 105-277) directed USDA to administer the loan forfeiture penalty provision differently. The statement called for the penalty to apply only when a sugar processor, instead of repaying a price support loan, actually hands over to USDA sugar pledged as collateral for that loan. Report language further directed that USDA is not to consider this penalty in calculating the loan forfeiture level.

Should USDA decide to follow this directive, it would appear in the import quota level announced for FY2000. Implementation of such a decision (as compared to FY1997-FY1999 policy) likely would mean the adoption of a more restrictive sugar import policy (i.e., setting a lower TRQ level), and the likelihood of slightly higher market prices.

Status of "No-Cost" Requirement

Though most observers expected the "no-cost" requirement to continue as part of the newly authorized sugar program, the "no-cost" provision (codified as a note to 7 U.S.C. 1446g) was repealed by section 171 (b)(2)(H) of the 1996 farm act. Though there was initial uncertainty as to how to interpret this deletion, USDA upon further investigation determined that the "no-cost" provision no longer applies. Questions that then arise are: will USDA still seek to maintain prices above forfeiture levels to preclude the possibility of loan forfeitures?

if so, by how much? will other federal departments take advantage of this change to push for increased imports in interagency discussions? These questions regarding program implementation mean that all affected parties will press hard to have their views considered during USDA's bureaucratic decision making process on sugar import levels.

Legislative Proposals Considered Since 1996 Farm Act

Since enactment of the 1996 farm bill, sugar users and cane refiners have sought to make changes (during congressional consideration of the last four agriculture spending bills) to the enacted sugar program in order to attain their lower market price objective. A 1996 provision that effectively would have capped the raw cane sugar price at 21.15 cents per pound (accepted by the House in passing the FY1997 agriculture appropriations bill - H.R. 3603) was dropped in the subsequent conference agreement with the Senate. Separately, an amendment offered in the Senate in July 1996 to H.R. 3603 that effectively would have eliminated for most sugar processors the price support guarantee provided by non-recourse loans was tabled on a 63-35 vote. In July 1997, the House rejected on a 175-253 vote a floor amendment to the FY1998 agriculture spending bill (H.R. 2061) that would have required USDA to implement the sugar program on a recourse loan basis in FY1998. The House on June 24, 1998, rejected on a 167-258 vote a floor amendment to the FY1999 agriculture appropriations measure (H.R. 4101) that effectively would have reduced sugar price support levels by one cent/lb. Most recently, the Senate on August 4, 1999, tabled 66-33 an amendment to S. 1233 (FY2000 agriculture appropriations) that would have effectively not allowed USDA to administer the program next year.

Bills Introduced in 106th Congress

On May 18, and on May 25, 1999, Representative Dan Miller and Senator Schumer, respectively, introduced identical bills (H.R. 1850 and S. 1118) to change the current program. Their proposal is similar to H.R. 1387 that both members introduced in the 105th Congress. Their bills would: (1) lower sugar price support levels (starting with the 1999 sugar beet and sugar cane crops); (2) require USDA to make only recourse loans to sugar processors; (3) terminate processor access to recourse loans after the 2002 crops; and (4) require the President to use all available authorities to enable USDA (starting in FY2000) to supply the domestic market with raw cane sugar at prices not greater than the higher of: the world sugar price (adjusted for delivery to the U.S. market), *or* the raw cane sugar loan rate in effect, plus interest. Starting in 1999, the recourse loan rate for raw cane sugar would decline 1 cent per pound in each crop year (i.e., to equal 17 cents/lb. in 1999, 16 cents/lb. in 2000, 15 cents/lb. in 2001, and 14 cents/lb. in 2002). Loan rates for refined beet sugar would decline in tandem with the reduction in the raw cane sugar loan rate. No CCC-financed loans would be available after the 2002 crops.

Under this proposal, starting with the 2003 crops, decisions made by the Executive Branch in exercising its authority to administer the sugar import quota would effectively determine U.S. sugar policy. This year's proposal (and H.R. 1387 introduced in April 1997) are similar to the amendment offered by Representative Miller during debate on the 1996 farm bill in February 1996, which the House defeated on a 208-217 vote.

Those advocating changes contend that the sugar provisions in the 1996 farm bill do not provide for a transition to a free market similar to that established for other farm commodities. They argue that this proposal would reduce the price that consumers pay for sugar products and limit environmental damage where sugar is harvested (e.g., the Florida Everglades). Current program supporters counter that this type of proposal would devastate an efficient U.S. sugar industry by driving producers out of business, wreak havoc on consumers and industrial users who rely on critically timed shipments of sugar at prices below those found elsewhere in the developed world, and ignore the reforms in sugar policy already adopted by the 1996 farm bill.

House and Senate Floor Amendments

During House floor debate on the ***FY1998*** agriculture appropriations measure (H.R. 2160), Representative Miller on July 24, 1997, offered an amendment that in effect would require USDA to administer a recourse loan sugar program (i.e., no price guarantee available) in FY1998. This amendment drew from a provision in his bill (H.R. 1387 — see above). The House rejected this amendment on a vote of 175-253.

During House floor debate, supporters of the amendment argued that the 1996 farm bill did not "reform" the sugar program as it did for the other commodity programs. Further, they argued that the program benefits a few wealthy growers, keeps the cost of sugar high, and supports sugar cane production in Florida with adverse environmental consequences for the Everglades. Opponents countered that the proposed change would undercut the seven-year contract made with agriculture that Congress adopted with passage of the 1996 farm bill. Moreover, it would expose producers and processors to unreasonable risk, because they made planting and investment decisions on the expectation that sugar policy would remain unchanged through 2002. Opponents further argued that the amendment would harm farmer-owned cooperatives that process sugar beets and cane, while "padding" the profits of multinational food companies.

During House floor debate on the ***FY1999*** agriculture appropriations measure (H.R. 4101), Representative Miller on June 24, 1998, offered an amendment that stipulated that no funds may be used during FY1999 to offer price support loans to a sugar processor in excess of 17 cents/lb. for raw cane sugar and 21.9 cents/lb. for refined beet sugar. This proposal would have the effect of reducing the 1996-enacted support levels by one cent per pound (an objective laid out for FY1999 in H.R. 1387 introduced last year -- see above). The House rejected this amendment on a vote of 167-258.

This congressional debate on sugar policy covered many of the same points made last year, focusing primarily on who gains and loses under such a proposed change. Amendment supporters argued that consumers would pay less for sugar and sugar products, benefitting from an estimated annual savings of about $200 million. Opponents countered that the reduction in sugar support levels would hurt farmers, arguing that food companies would not pass on any savings to consumers.

During Senate floor debate on the ***FY2000*** agriculture appropriations measure (H.R. 1906/S. 1233), Senators McCain and Gregg on August 4, 1999, offered an amendment to prohibit USDA from spending appropriated funds to cover the salaries and expenses of employees who administer the current sugar program. If enacted, this would have had the effect of not allowing USDA to administer the program in FY2000. After debate, the Senate tabled this amendment 66-33. The arguments offered by proponents and opponents were similar to those made in earlier debates.

Separately, the Senate, in adding a farm aid package to H.R. 1906, included a provision that effectively prohibits USDA from collecting the marketing assessment from sugar producing companies through FY2001, if the Office of Management and Budget determines that the federal budget is in surplus in FY2000. House and Senate negotiators retained this language, but dropped the condition that there be a budget surplus for the prohibition to be effective, in amending the farm aid package in conference (section 803(b) of H.Rept. 106-354). The House and Senate agreed to the conference agreement that contains this provision on October 1, and October 13, respectively. Signed into law on October 22, 1999, this provision means that the raw cane sugar mills and beet sugar processors that have paid this assessment will save (i.e., increase their revenues by) an estimated $83 million over the next 2 years.

LEGISLATION

P.L. 106-78 (H.R. 1906)

Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act, 2000. During floor debate on August 4, 1999, Senators McCain and Gregg offered an amendment to prohibit the use of appropriated funds for the sugar program, other than the marketing assessment. The Senate tabled this amendment on a 66-33 vote. Separately, in adopting a farm aid package (S.Amdt. 1499, as modified) on a vote of 89-8, the Senate approved a provision (Section 748(b)(3)) that prohibits USDA from collecting the marketing assessment from raw cane sugar processors and beet sugar refiners through FY2001, if OMB determines that the federal budget is in surplus in FY2000. On August 4, the Senate passed S. 1233, amended, then vitiated its action on its passage, and subsequently passed its version in lieu of H.R. 1906, as passed by the House on June 8. The conference agreement (H.Rept. 106-354), filed September 30, included the Senate language (as section 803(b)), but dropped the proviso that OMB make a budget surplus determination for this provision to be in effect. The House agreed to the conference report (240-175) on October 1; the Senate adopted it (74-26) on October 13. Signed into law by the President on October 22.

H.R. 1850 / S. 1118 (Miller, Dan / Schumer)

Sugar Program Reform Act. A bill to amend the Agricultural Market Transition Act to convert the price support program for sugarcane and sugar beets into a system of solely recourse loans and to provide for the gradual elimination of the program. H.R. 1850 introduced May 18, 1999; referred to the Committee on Agriculture. S. 1118 introduced May 25, 1999; referred to the Committee on Agriculture, Nutrition, and Forestry.

CONGRESSIONAL HEARINGS, REPORTS, AND DOCUMENTS

U.S. Congress. House. Committee on Agriculture. *Review the 1999 World Trade Organization Multilateral Negotiations on Agricultural Trade*. 105th Congress, 2nd

Session. Testimony of Rick Roth, representing Sugar Cane Growers Cooperative of Florida and American Sugar Alliance. Washington, D.C. March 18, 1998. Serial no. 105-57. pp. 50-52, 83-95 (oral remarks available on the Web at [http://commdocs.house.gov/committees/ag/hagmulti.000/hagmulti_0.HTM#79]; written statement also available at [http://www.sugaralliance.org/testimony/roth3_98.html]).

——. *The Administration's Preparations for the 1999 World Trade Organization Ministerial Testimony*. 106th Congress, 1st Session. Testimony of Jack Roney, for the American Sugar Alliance. Washington, D.C. June 23, 1999. (available on the Web at [http://www.sugaralliance.org/testimony/wto6_99.htm]).

——. Subcommittee on Risk Management and Specialty Crops. *Specialty Crop Agricultural Issues Relating to the 1999 World Trade Organization Multilateral Trade Negotiations*. 105th Congress, 2nd Session. Testimony of Antonio L. Contreras, Jr., Sugar Cane Growers Cooperative of Florida, at a field hearing held in West Palm Beach, Florida. January 22, 1998. Serial no. 105-38. pp. 18-20, 39-41. (available also on the Web at [http://www.sugaralliance.org/testimony/1999wto.html])

——. House. Committee on Ways and Means. Subcommittee on Trade. *Hearing on U.S. Efforts to Reduce Barriers to Trade in Agriculture*. Testimony by Doreen Brown, Consumers for World Trade, on the sugar program. Washington, D.C. February 12, 1998. (available on the Web at [http://www.house.gov/ways_means/trade/testmony/2-12-98/2-12brow.htm]).

——. *Importance of Trade Negotiations in Expanding Trade and Resisting Protectionism*. Statement submitted for the hearing record by James W. Johnson, Jr., chairman of the American Sugar Alliance. "Concerns and Recommendations Regarding Future Trade Negotiations." Washington, D.C. March 4, 1999. (available on the Web at [http://www.sugaralliance.org/testimony/wm_3_99.htm]).

For Additional Reading

Grocery Manufacturers of America. Testimony of Mary Sophos, Senior Vice President, at hearing held by the U.S. Office of the United States Trade Representative's Trade Policy Staff Committee. Washington, D.C. May 19, 1999 (available on the Web at [http://www.gmabrands.com/news/docs/Testimony.cfm?docid=337]).

Landell Mills Commodities Studies. *The Importance of the Sugar and Corn Sweetener Industry to the U.S. Economy*. Prepared for American Sugar Alliance, Washington, D.C. August 1994. 35 p. (selected facts from this report are available on the Web, for the United States and by state, at [http://www.sugaralliance.org/economic_impact.htm]).

U.S. Department of Agriculture. Agricultural Outlook Forum 1999. Sweeteners Luncheon. "Sweeteners Industry Trade Policy issues on the Horizon – Dangers, Opportunities," by

Jack Roney, American Sugar Alliance. Washington, D.C. February 23, 1999. (available on the Web at [http://www.sugaralliance.org/testimony/roney2_99.htm]).

——. Economic Research Service (ERS). *Agricultural Outlook*. September 1997. "Restoring the Everglades: Challenges for Agriculture," by Marcel Aillery, Robbin Shoemaker, and Margret Caswell. pp. 16-19. (available in published format on the Web at [http://www.econ.ag.gov/epubs/pdf/agout/sept97/ao244d.pdf])

——. ERS. Commercial Agriculture Division. *Sugar: Background for 1995 Farm Legislation*, by Ron Lord. Agricultural Economic Report No. 711. April 1995. 68 p.

——. Foreign Agricultural Service (FAS). WTO Listening Session at Winterhaven, Florida, June 4, 1999, statements by (1) Ardis Hammock, sugarcane grower and member of the Agricultural Trade Advisory Committee (available on the Web at [http://ffas.usda.gov/itp/wto/florida/hammock.html]), (2) Robert Underbrink, vice president of King Ranch ([http://ffas.usda.gov/itp/wto/florida/underbrink.html]); (3) Miller Couse, President of First Bank of Clewiston ([http://ffas.usda.gov/itp/wto/florida/couse.html]), (4) George Cooper, Glade Grove Supply Company ([http://ffas.usda.gov/itp/wto/florida/cooper.html]), and (5) McKinsley Chatman, International Association of Machinists and Aerospace Workers ([http://ffas.usda.gov/itp/wto/florida/chatman.html]).

——. WTO Listening Session at St. Paul, Minnesota, June 7, 1999, statements by (1) Shelden Melberg, sugarbeet grower representing the Minnesota/North Dakota sugarbeet industry ([http://www.fas.usda.gov/itp/wto/minnesota/melberg.html]), and (2) Mark Froemke, Bakery, Confectionery, Tobacco and Grain Millers Union, AFL-CIO, representing workers in sugarbeet refineries ([http://ffas.usda.gov/itp/wto/minnesota/froemke.html]).

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——. WTO Listening Session at Sacramento, California, June 29, 1999, statement by Ben Goodwin, executive manager of the California Beet Growers Association ([http://www.fas.usda.gov/itp/wto/california/goodwin.html]).

——. WTO Listening Session at Richland, Washington, June 30, 1999, statement by Perry Meuleman, representing the Idaho Sugar Beet Association ([http://www.fas.usda.gov/itp/wto/washington/meuleman.html]).

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