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May 8, 2015

Fundamentals of the U.S. Sugar Program

Overview

The U.S. sugar program is singular among major farm commodity programs in that it combines a floor price guarantee with a supply management structure that encompasses both domestic production for human use and sugar imports. Historically, the U.S. sugar market has been managed to help stabilize supplies and support prices. The current sugar program provides a price guarantee to the processors of sugarcane and sugar beets and, by extension, to the producers of both crops. The 2014 farm bill (P.L. 113-79) reauthorized the sugar program that expired with the 2013 crop year through crop year 2018 with no changes. As before, it directs the U.S. Department of Agriculture (USDA) to administer the program at no budgetary cost to the federal government by limiting the amount of sugar supplied for food use in the U.S. market (see CRS Report R43998, *U.S. Sugar Program Fundamentals*, by Mark A. McMinimy). To achieve the dual objectives of providing a price guarantee to producers while avoiding program costs, USDA uses four tools to keep domestic market prices above guaranteed levels. These are:

- **Price support loans**—the basis for the price guarantee;
- **Marketing allotments** to limit the amount of sugar that each processor can sell for domestic human use;
- **Import quotas** to control imports of foreign sugar; and
- **A sugar-to-ethanol backstop** (Feedstock Flexibility Program)—to remove sugar from food channels to help keep market prices above loan forfeiture levels.

In addition, agreements with Mexico that were finalized in late 2014 impose important limits on a hitherto substantial and unrestricted supply of sugar to the U.S. market.

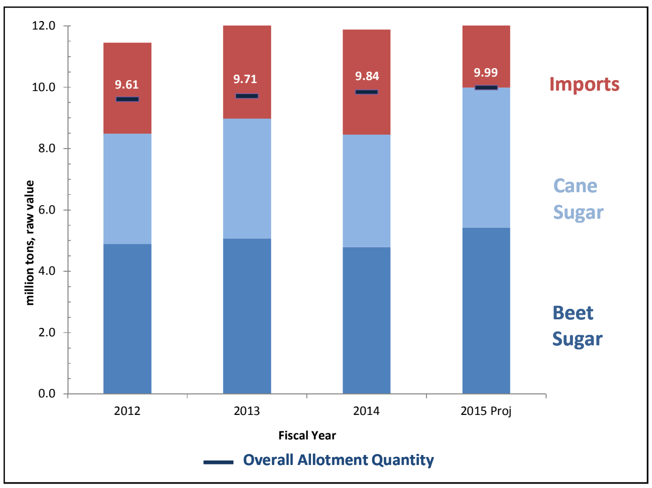
Key Program Element: Price Support Loans

Nonrecourse loans taken out by a processor of a sugar crop, not producers themselves, provide a source of short-term, low-cost financing until a raw cane sugar mill or beet sugar refiner sells sugar. The "nonrecourse" feature means that processors—to meet their loan repayment obligation—can forfeit sugar offered as collateral to USDA to secure the loan, if the market price is below the effective support level when the loan comes due. The "loan rate" is the amount processors receive for placing sugar under loan. For 2014 crops (FY2015), the national average raw cane sugar loan rate is 18.75¢/lb; that of refined beet sugar is higher at 24.09¢/lb. The loan rate for raw cane sugar is lower because raw cane must be further processed to have the same value and characteristics as refined beet sugar for food use.

The minimum market price that a processor requires to repay the loan instead of forfeiting sugar is higher than the loan rate. This "effective support level," also called the "loan forfeiture level," represents all of the costs that processors need to offset to make it economically viable to repay the loan. These costs equal the loan rate, plus interest accrued over the nine-month term of the loan, plus certain marketing costs. The effective support level for 2014-crop raw cane sugar is 20.95¢/lb, and from 24.4¢ to 26.1¢/lb for refined beet sugar, depending on the region.

If market prices are below these loan forfeiture levels when a price support loan usually comes due (i.e., from July to September), and a processor hands over sugar pledged as collateral rather than repaying the loan, USDA records a budgetary expense (i.e., an outlay). USDA then gains title to the sugar and is responsible for disposing of it. To avoid loan forfeitures that could result in costly government outlays, USDA sets annual limits on the quantity of domestically produced sugar that can be sold for human use. It also restricts the level of imports that may enter the domestic market through tariff-rate quotas and via an import limitation agreement with Mexico.

Figure 1. U.S. Supply and Overall Allotment Quantity



Source: Derived by CRS from USDA sugar program announcements and USDA's World Agricultural Supply and Demand Estimates.

Key Program Element: Marketing Allotments

Sugar marketing allotments limit the amount of domestically produced sugar that processors can sell each year. They do not limit how much beet and cane farmers can produce, nor do they limit how much sugar beets and sugarcane that beet refiners and raw sugar mills can process. The farm bill requires USDA each year to set the overall allotment quantity (OAQ) at not less than 85% of estimated U.S. human consumption of sugar for food as illustrated in **Figure 1**. Sugar production in excess of a processors' allotment may only be sold for human use to allow another processor to meet its allocation or for export.

The national OAQ is split between the beet and cane sectors and then allocated to processing companies based on previous sales and production capacity. If either sector is not able to supply sugar against its allotment, USDA has authority to reassign such a "shortfall" to imports. **Figure 1** illustrates the persistent gap between domestic sugar production, the higher levels of the OAQ, and U.S. domestic consumption for human use. As a result, substantial quantities of sugar have been imported to cover shortfall between domestic output and human consumption.

Key Program Element: Import Quotas

The United States imports sugar in order to meet total food demand. From FY2012 through FY2014, imports accounted for 31% of U.S. sugar used in food and beverages. The amount of foreign sugar supplied to the U.S. market reflects U.S. tariff-rate quota (TRQ) import commitments under various trade agreements at low, or zero, tariff rates (**Table 1**), as well as sugar imported from Mexico.

Table 1. Major U.S. Tariff-Rate Quota Commitments
(Quantities are in short tons, raw value)

Trade Agreement	CY2015 Quantity
World Trade Organization	1,256,000
CAFTA-DR	138,100
Columbia	52,250

Source: U.S. Customs and Border Protection.

Notes: CAFTA-DR includes Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras and Nicaragua.

Panama and Peru have smaller TRQs of 6,740 and 2,000 short tons, raw value, respectively, for 2015. High tariffs discourage imports of over-quota sugar to help fulfill the farm bill directive to avoid incurring program costs.

Policy Mechanisms to Counter Low Prices

In addition to domestic marketing allotments, import quotas, limits and tariffs, USDA has several policy tools to help prevent prices from slipping below effective loan forfeiture levels that could result in budget outlays. These include offering Commodity Credit Corporation-owned sugar to processors in exchange for surrendering rights to import tariff-rate quota sugar; purchasing sugar from processors in exchange for surrendering tariff-rate quota sugar; and purchasing sugar for domestic human use from processors for resale to ethanol producers for fuel ethanol production under the Feedstock Flexibility Program (FFP).

Agreements Recast Sugar Trade with Mexico

Events subsequent to the reauthorization of the sugar program in the 2014 farm bill have materially altered the U.S. sugar market. In December 2014, the U.S. government signed so-called "suspension agreements" with the Mexican government and with the Mexican sugar industry that have fundamentally altered bilateral trade in sugar with Mexico, with implications for the sugar program and sugar users.

The suspension agreements stem from parallel countervailing duty (CVD) and antidumping (AD) investigations initiated in the spring of 2014 by the U.S. government at the behest of U.S. sugar industry interests. Duties were applied to Mexican sugar imports in the fall of 2014, when preliminary findings in the investigations concluded that Mexican sugar was being subsidized by the government and dumped in the U.S. market and that these actions were injuring the U.S. sugar industry. The suspension agreements suspended the CVD and AD investigations and removed the duties in exchange for a number of concessions from Mexico, among which:

- Mexico agreed to relinquish the unlimited, duty-free access to the U.S. sugar market it achieved in 2008 via the North American Free Trade Agreement (NAFTA);
- Mexican sugar exports to the United States would be subject to minimum references prices (at Mexican plants) of 26¢/lb for refined sugar and 22.25¢/lb for all other sugar, levels well above U.S. loan support.

Prior to the suspension agreements, imports of sugar from Mexico amounted to about 15% of the sum of U.S. sugar production plus imports during the three most recent years, from FY2012 through FY2014, and represented the only unmanaged source of supply under the sugar program. The agreements impose an annual export limit on Mexican sugar based on an assessment by USDA of U.S. needs after taking into account domestic production and TRQ imports.

Suspension Agreements: Looking Forward

The changes ushered in by the suspension agreements are expected to greatly facilitate USDA's task of operating the sugar program at no cost to the government. Also, prior to the agreements, Mexican officials had suggested that retaliation could follow if the duties on Mexican sugar remained in place. Critics, including the Coalition for Sugar Reform, representing sugar user groups, contend the agreements will result in higher sugar prices for sugar users and consumers. Alternatively, the American Sugar Alliance, which represents many elements of the U.S. sugar industry, has voiced support for the agreements, contending they will foster free and fair trade in sugar, while benefiting farmers, sugar workers, consumers and taxpayers. A measure of uncertainty has settled around the agreements because two U.S. sugarcane refiners have persuaded the Department of Commerce to continue the CVD and AD investigations to final determinations, which are expected by mid-September 2015. If the final determinations reverse the preliminary findings that Mexican sugar was subsidized and dumped, or if the International Trade Commission finds the U.S. sugar industry was not injured by these actions, then the suspension agreements would be terminated.

Mark A. McMinimy, mmcminimy@crs.loc.gov, 7-2172

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