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Farm Bill Primer: Sugar Program

Congress reauthorized the sugar program in the 2014 farm bill (P.L. 113-79) with no changes from the version it authorized in the 2008 farm bill (P.L. 110-246), making it an anomaly among major commodity programs. The U.S. sugar program also stands out compared with other farm bill commodity programs in that it combines a price support feature with a supply management structure that limits both sugar production for domestic human use and imports. The objectives behind this market intervention are to support domestic sugar prices without incurring budgetary costs to the federal government while also ensuring that adequate supplies of beet and cane sugar are available to sugar users.

A significant development that occurred after Congress reauthorized the sugar program is two bilateral agreements with Mexico that limit imports of Mexican sugar. These exist outside of the sugar program but have had significant implications for the sugar market, as Mexican sugar represents a significant share of U.S. sugar needs.

Four Pillars of the Sugar Program

The U.S. Department of Agriculture (USDA) employs four basic mechanisms to keep domestic sugar prices above support levels in order to avoid incurring program costs as directed by Congress. These are price support loans, marketing allotments, import quotas, and various policy mechanisms to counter low prices.

1. Price support loans. USDA price support loans are available to processors of a sugar crop, not to producers. They provide short-term, low-cost financing until a raw sugar cane mill or sugar beet processor sells the refined sugar while also supporting sugar prices. The loans are made at statutory rates of 18.75 cents/lb. for raw sugar cane and 24.09 cents/lb. for refined beet, pledging sugar as the collateral against the loan. The loans are "nonrecourse," meaning that when the loan comes due, the sugar processor has the option of forfeiting the sugar to USDA. Forfeitures would typically occur when market prices fall below the effective support level (i.e., the sum of the loan rate plus accrued interest over the nine-month term of the loan plus certain marketing costs). In this circumstance, USDA would incur a budgetary cost (i.e., an outlay), gain title to the sugar, and be responsible for disposing of it.

2. Marketing allotments. Each year, USDA establishes marketing allotments that limit the quantity of sugar that U.S. processors can sell for domestic human use. The allotments do not limit how much sugar beet and cane that growers can produce, nor do they limit how much sugar beet refiners and raw cane sugar mills can process. Sugar produced in excess of a processor's allotment may be sold for export or to another processor to allow it to meet its allocation for domestic human use. The farm bill directs that USDA calculate an overall allotment quantity (OAQ) of not less than 85% of estimated U.S. human consumption of sugar for food. The OAQ is divided between the beet and cane sectors and is then allocated among processors based on previous sales and processing capacity. Any shortfalls between the OAQ and what processors are able to supply may be reassigned to imports. Such shortfalls have been a regular feature of the sugar program, averaging 26% of U.S. sugar consumption between FY2015 and FY2017.

3. Import quotas. In recent years (FY2015-FY2017), domestic production of sugar has met about 74% of U.S. food use of sugar on average, with the balance supplied by imports. The quantity of foreign sugar entering the U.S. market reflects U.S. tariff rate quota (TRQ) imports under various trade agreements, as well as duty-free sugar from Mexico under bilateral suspension agreements.

TRQ sugar imported under various trade agreements at low or zero tariff rates is shown in **Table 1** below. In addition, for FY2017, Panama and Peru have TRQs of 7,628 and 2,205 short tons, raw value, respectively. High tariffs are applied to non-TRQ sugar, amounting to 15.36 cents/lb. for raw sugar and 16.21 cents/lb. for refined sugar. The tariffs effectively discourage over-quota imports, thus supporting market prices and facilitating the farm bill objective of avoiding program costs as a result of loan forfeitures.

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

Trade Agreement	FY2018 Quantity
World Trade Organization	1,432,118
CAFTA-DR	149,319
Colombia	60,076

Source: U.S. Customs and Border Protection.

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

4. Policy tools for countering low prices. In the event that price support loans, marketing allotments, and import quotas and tariffs are insufficient to prevent the government from incurring costs through loan forfeitures, the farm bill provides several mechanisms that USDA can employ to remove price-depressing surpluses of sugar. USDA may offer processors sugar owned by the Commodity Credit Corporation in exchange for surrendering rights to TRQ sugar. USDA may also purchase sugar from processors in exchange for giving up TRQ sugar. Under the Feedstock Flexibility Program, USDA may purchase sugar for domestic human use from processors for resale to ethanol producers for fuel ethanol production.

Program outlays have been essentially zero over the past 10 years with the exception of the 2012/2013 crop year, when a supply glut depressed prices, triggering loan forfeitures and government intervention measures costing $259 million.

Sugar from Mexico a Complicating Factor

A development that is outside the purview of the farm bill, but affects the operation of the sugar program, is imported sugar from Mexico. Until 2014, sugar from Mexico represented the only unmanaged source of duty-free sugar in the U.S. market, access that Mexico obtained beginning in 2008 under the North American Free Trade Agreement. In the three most recently completed marketing years, Mexican sugar has represented between 11% and 18% of U.S. sugar production plus imports, making it the largest source of imported sugar.

Mexico's unrestricted access to the U.S. sugar market ended in December 2014 when the Department of Commerce (DOC), Mexico, and Mexican sugar exporters signed antidumping duty (AD) and countervailing duty (CVD) suspension agreements (SAs) that imposed several limitations on this trade. The SAs prevented steep duties from being imposed on U.S. imports of Mexican sugar after the U.S. government concluded that Mexican sugar was being subsidized by the government and dumped in the U.S. market and that these actions had injured the U.S. sugar industry. The CVD duties ranged from 5.78% to 43.93%, while the AD duties were between 40.48% and 42.14%. The duties were to be applied cumulatively.

Since the SAs took effect in late 2014, U.S. imports of Mexican sugar have been limited based on an annual calculation of U.S. needs once U.S. production and imports of TRQ sugar have been subtracted from projected U.S. food use of sugar. Under the SAs, Mexican exporters also agreed to observe minimum reference prices for sugar exported to the United States that were higher than U.S. loan support levels and to cap exports of refined sugar to no more than 53% of the total bilateral trade.

Over time, the SAs came under increasing criticism from major stakeholders in the U.S. sugar industry who asserted they had not worked as intended. To address these shortcomings, the DOC, the Mexican government, and the Mexican sugar industry signed amendments to the SAs in June 2017 that became effective on October 1, 2017.

In general, the amendments aim to increase the share of imported Mexican sugar that requires processing by U.S. refiners. It does so, in part, by raising to at least 70% the proportion of Mexican sugar that must be shipped as raw cane, thereby further restricting Mexican shipments of refined sugar, among other changes. The revised SAs also further raise the minimum prices of Mexican sugar imports so as to avoid undercutting U.S. producer prices. If additional sugar imports are needed after May 1, Mexican sugar is given priority to supply this additional need over sugar imports from other origins.

The Farm Bill and the Sugar Program

On April 18, 2018 the House Agriculture Committee reported out a farm bill, H.R. 2, the Agriculture and Nutrition Act of 2018. The bill extends the current sugar program intact through the 2023 crop year.

One alternative to extending the current program is the Sugar Policy Modernization Act of 2017 (S. 2086, H.R. 4265), which would (1) lower loan rates progressively, reducing the rate for raw cane sugar from 18.75 cents/lb. currently to 18 cents/lb. by crop year 2021, while the rate for sugar beets would be reduced proportionally; (2) direct USDA to recover from domestic sugar processors the net cost of the program beginning in crop year 2019; (3) terminate flexible marketing allotments that limit the quantity of U.S. sugar that domestic processors can sell into the U.S. market for human consumption beginning in FY2021; (4) direct the Secretary of Agriculture to adjust sugar tariff-rate quota imports to achieve an ending stocks-to-use ratio of 14.5% in FY2019, 15% in FY2020, and 15.5% in FY2021-FY2023, which is at or above the 13.5-14.5% that USDA normally targets; (5) allow countries with TRQ rights to the U.S. market to transfer quota to other countries without affecting their allocation in subsequent years in order to achieve higher stocks-to-use ratios; and (6) terminate the surplus sugar-to-ethanol Feedstock Flexibility Program after FY2019.

Possible Issues for Congress

Controversy has long been a hallmark of the sugar program within Congress, among sugar industry stakeholders, and with businesses that operate in the sugar market. In part, this reflects the supply-management aspect of the program, which is distinctive among major commodity programs.

Critics of the sugar program, such as the Sugar Users Association, contend that it has eroded the competitiveness of U.S. food and beverage companies vis-á-vis foreign firms, costing the U.S. industry jobs and resulting in consumers paying higher prices for sugar-containing products. They cite insufficient flexibility to administer the program, outdated TRQ import allocations, and an overly restrictive supply-demand balance that USDA aims to achieve as problems. In support of the sugar program, the American Sugar Alliance (ASA) counters that while U.S. sugar producers are cost competitive, subsidized and dumped foreign sugar would undercut U.S. growers without the program. ASA further contends that the program facilitates a stable supply of affordable sugar while avoiding federal outlays.

In the upcoming farm bill debate, Congress could consider whether the sugar program strikes an equitable balance among the interests of sugar growers, beet processors, and cane refiners facing subsidized foreign sugar; the needs of food processors and consumers for adequate supplies at reasonable prices; and the interests of taxpayers.

Since Congress reauthorized the sugar program in early 2014, the suspension agreements have added another dimension to the sugar market—one that exists outside the sugar program but is intended to operate in tandem with it. In view of the importance of Mexican sugar to the U.S. market and the divided opinion about the SAs within the U.S. industry, Congress could also consider whether the sugar program, together with the SAs with Mexico, is likely to provide a successful framework for meeting its policy objectives for the sugar market in the years ahead.

Mark A. McMinimy, Section Research Manager

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