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 assuring 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. As such, they could become a discussion topic in the next farm bill.

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 typically would 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), would gain title to the sugar, and would 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 29% of U.S. sugar consumption between FY2014 and FY2016.

3. **Import Quotas:** In recent years (FY2014–FY2016), domestic production of sugar has met about 71% 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 7,562 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>
<thead>
<tr>
<th>Trade Agreement</th>
<th>FY2017 Quantity</th>
</tr>
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<tbody>
<tr>
<td>World Trade Organization</td>
<td>1,410,062</td>
</tr>
<tr>
<td>CAFTA-DR</td>
<td>146,628</td>
</tr>
<tr>
<td>Colombia</td>
<td>59,249</td>
</tr>
</tbody>
</table>

**Source:** U.S. Customs and Border Protection.

**Notes:** CAFTA-DR includes Costa Rica, 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 also may 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.

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Program outlays have been essentially nil 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 (NAFTA). 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 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. In its review of the SAs, DOC concluded that some transactions of Mexican sugar may not have complied with the SAs, and that the SAs might not have met their statutory requirements. Thereafter, negotiations initiated by DOC with Mexico and the Mexican sugar industry resulted in a series of amendments to the SAs that were signed in June 2017.

**Amended Terms for Mexican Sugar Imports**

The amended agreements become effective October 1, 2017. In general, they aim to increase the share of imported Mexican sugar that requires processing by U.S. refiners, and to raise minimum prices of Mexican sugar imports so as to avoid undercutting U.S. producer prices.

The amended SAs attempt to address the multiple criticisms of U.S. stakeholders, in part, by (1) raising the minimum prices for imports of Mexican sugar, (2) significantly increasing the proportion of imported Mexican sugar that must be shipped in the form of raw cane, or “other sugar” as compared with refined sugar, (3) lowering the purity threshold for refined sugar, and (4) requiring that raw sugar must be shipped free-flowing in bulk in oceangoing vessels.

Under the amended SAs, annual quantitative limits as determined by USDA would continue to apply to Mexican sugar imports. If additional sugar imports are required after May 1 (based on the October-September U.S. marketing year), the minimum purity for refined sugar (a measure of purity) is raised to 99.5 degrees from 99.2. Also, after May 1, USDA is to specify whether any additional sugar needs are for raw or refined. Mexican sugar has priority to supply additional sugar needs over imports from other origins.

Reactions to the amended SAs from major stakeholders have been mixed. The American Sugar Alliance (ASA), representing sugar beet and U.S. sugar growers, processors, refiners and workers, has voiced its support for the amendments. In contrast, the Sweetener Users Association (SUA), representing companies that use sweeteners in their businesses, strongly opposes the amendments, asserting they will lead to higher sugar prices and thereby inflict harm on manufacturers and consumers of U.S. food and beverages.

**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 SUA, contend it has eroded the competitiveness of U.S. food and beverage companies vis-a-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, 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 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 SAs have added another dimension to the sugar market—one that exists outside the sugar program but that is intended to operate in tandem with it. In view of the importance of Mexican sugar to the U.S. market, and the controversy surrounding the SAs within the U.S. industry, Congress could also consider whether the sugar program, together with the suspension agreements with Mexico, is likely to provide a successful framework for meeting its policy objectives for the sugar market in the years ahead.

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