House Committee on Agriculture
Subcommittee on General Farm Commodities and Risk Management

Hearing:
"The Next Farm Bill: Commodity Policy, Part II"

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U.S. Sugar Policy: Why We Have It and How It's Working

Summary

The American Sugar Alliance (ASA) is the national coalition of sugarbeet and sugarcane growers, processors, and refiners. The U.S. sugar-producing industry generates 142,000 jobs in 22 states and $20 billion in annual economic activity.[1]

American sugar policy is working well for American consumers, food manufacturers, and taxpayers. It can provide an adequate economic safety net for American sugar producers, as long as there is an effective response to Mexican subsidizing and dumping.

The U.S. International Trade Commission, in 2014 and 2015, voted unanimously that the Mexican government and sugar industry had injured the U.S. sugar industry. The U.S. Department of Commerce calculated subsidy and dumping margins totaling more than 80%. Rather than imposing those duties, the U.S. and Mexican governments negotiated Suspension Agreements (SAs) to resume duty-free trade, but eliminate harmful dumping.

These SAs have proven ineffective. The dumping continues and U.S. refined sugar prices are hovering near loan-forfeiture levels. Hawaii has ceased cane sugar production and a beet factory in Wyoming is about to close. Many other American sugar producers are financially vulnerable.

We are encouraging the U.S. and Mexican governments to correct the shortcomings of the SAs or, failing that, to impose the subsidy and dumping duties.

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[1] LMC International, "*The Economic Importance of the Sugar Industry to the U.S. Economy – Jobs and Revenues*," Oxford, England, August 2011.

As long as an adequate response to foreign subsidies and dumping exists, U.S. sugar policy can function effectively.

Background

The U.S. sugar industry is a major player in the world sugar market. The United States is the world's fifth largest sugar-producing country and is among the most efficient.

The U.S. is the 20th lowest cost among the 95 largest sugar-producing nations. Most of these are developing countries with far lower government-imposed costs for worker, consumer, and environmental protections. U.S. beet sugar producers, mostly in northern-tier states, are the lowest-cost beet producers in the world.[2]

The United States is also the world's fourth largest sugar-consuming country and the third largest sugar importer. We provide guaranteed, essentially duty-free, access to 41 countries. This makes the U.S. one of the world's most open markets to foreign sugar. The amount of duty-free access is determined under the World Trade Organization and other trade agreements to which the United States is a party.

American food manufacturers and consumers depend on a reliable, dynamic, geographically-dispersed domestic sugar-producing industry to provide safe, high-quality, responsibly-produced sugar at a reasonable price. Despite a well-designed sugar policy in the 2014 Farm Bill, the low prices caused by Mexican subsidizing and dumping threaten the economic viability of American sugar producers.

Justification for U.S. Sugar Policy

Since U.S. sugar producers are among the lowest cost in the world, one might ask why the industry requires a sugar policy at all. The answer is found in the distorted, dump nature of the world sugar market.

Foreign governments subsidize their producers so egregiously that many of these countries produce far more sugar than their markets demand. Rather than store these surpluses, or close mills and lose jobs, as the United States has done, these countries dump their subsidized sugar onto the world market for whatever price it will bring. This subsidized dumping threatens further harm to American farmers.

As a result of these dumped surpluses, the so-called "world price" for sugar has been rendered essentially meaningless. Rarely in the past few decades has the world price reflected the actual cost of producing sugar – a minimal criterion for a meaningful market price.

The world price is so depressed by subsidies and dumping that, over the past 28 years, the world average cost of producing sugar has averaged nearly 50% more than the world price *(Figure 1)*. [3]

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[2] LMC International, "*Sugar & HFCS Production Costs: Global Benchmarking*," Oxford, England, August 2011.

[3] LMC International, *"World Sugar Prices vs Costs of Production,"* Oxford, England, March 2017.

One European market expert noted: “The world market price is a ‘dump’ price…(it) should never be used as a yardstick to measure what benefits or costs may accrue from free trade in sugar.”[4]

And researchers at Texas A&M University’s Agricultural and Food Policy Center wrote: “Policymakers in the United States have long recognized that the world sugar market is heavily distorted by foreign subsidies and market manipulations and have provided U.S. sugar farmers with some form of safety net for more than 200 years. Major exporters of sugar do not respond to the signals of the world market but rather to the policies of their governments that enable them to export sugar below their costs of production and their own domestic prices.”[5]

But how can a world sugar industry exist if the price received for the product is just a fraction of the cost of producing it? The answer is twofold:

1. Only about 20-25% of the sugar produced each year is actually traded at the so-called “world price.”
2. The other 75-80% of sugar is consumed in the countries where it is produced, at prices considerably higher than the world price, and higher than production costs.

The International Sugar Organization (ISO) surveyed 78 countries to learn actual wholesale prices – the price producers in those countries receive for their sugar. The ISO documents that, globally, actual wholesale refined sugar prices have averaged 46% higher than the world price over the past decade. Prices in developed countries have been nearly double the world dump market price – averaging 94% higher *(Figure 2)*.[6]

This, then, explains how we can have a vast world sugar industry: Governments shield their producers from the world dump market sugar and maintain prices high enough – above the dump market and above production costs – to sustain a subsidized domestic industry and generate and defend jobs.

Further, this explains why we require a U.S. sugar policy – even with American sugar producers among the lowest cost, and most responsible, in the world. Generous domestic pricing encourages over-production in many countries, whose governments then seek to export their surplus. Absent U.S. sugar policy, those subsidized and dumped surpluses would wreck the U.S. market and displace efficient American sugar farmers.

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[4] Patrick Chatenay, “*Government Support and the Brazilian Sugar Industry*,” Canterbury, England, April 2013.

[5] Dr. Joe Outlaw and Dr. James Richardson, “*Analysis of the Coalition for Sugar Reform Amendments to U.S. Sugar Policy: Potential Effect on Policy and Industry*,” Agricultural and Food Policy Center, Texas A&M University, May 2016.

[6] International Sugar Organization, "*Domestic Sugar Prices - a Survey*," MECAS (15)06, May 2015.

Recent exposure of the U.S. sugar market to Mexican subsidies and dumping provides a disconcerting case in point. And Mexico is by no means unique. Its behavior is typical of foreign sugar exporters who subsidize their exports and shift the burden of their surpluses from their domestic markets onto the world market.

Damage from Mexican Subsidized Dumping

When the NAFTA went into effect in 1994, the Mexican sugar industry was struggling financially and an occasional exporter of small volumes of sugar. In 2001, the Mexican government expropriated half of all its country's sugar mills, rather than allowing them to go out of business. With government help, Mexican sugarcane plantings exploded – up about 60% since NAFTA was signed – though Mexican sugar demand was flat or declining *(Figure 3)*.

Mexico became one of the world's largest sugar exporters, with the group of Mexican government mills by far the country's leading sugar producer and exporter. Virtually all those exports have been aimed at the U.S. market – which opened fully to Mexican sugar in 2008 under NAFTA rules.

Though the Mexican government recently officially divested itself of its mills, the government remains closely involved in the Mexican sugar industry. In addition to government ownership, Mexican growers and processors have benefitted from federal and state cash infusions, debt restructuring and forgiveness, government grant programs to finance inventory, exports, and inputs, and a cane-grower payment system that effectively subsidizes exports.[7]

In 2013, Mexican sugar production soared to an all-time high, a stunning 38% higher than the previous year's production. Yet, despite the huge domestic market surplus, Mexico was able to sustain sugar prices higher than in the U.S. How did they manage to balance their market? By dumping their subsidized surplus on the U.S. market. Mexico doubled its exports to the U.S., shipping about 1 million more tons than the U.S. market could bear (*Figure 4*). Mexican exports to the U.S. in 2013 and 2014, at 2 million tons each year, were about 250 times greater than their pre-NAFTA levels.

The subsidized and dumped Mexican surpluses collapsed the U.S. sugar market and caused the first government cost for U.S. sugar policy in a dozen years, as American farmers struggled to repay loans they normally repay fully, principal plus interest.

The U.S. sugar industry filed antidumping and countervailing duty cases against Mexico in 2014, and won. The ITC ruled unanimously that Mexico had injured the U.S. sugar industry and the Department of Commerce calculated subsidy margins of 6-44% and dumping margins of 41-42% *(Figure 5)*.[8]

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[7] https://sugaralliance.org/mexican-export-subsidies-injuring-u-s-sugar-producers/4990

[8] U.S. Department of Commerce https://www.usitc.gov/publications/701_731/pub4577.pdf

U.S. producer prices plummeted by more than half from 2010 to early 2014, recovered somewhat in late 2014, and have fallen by a fourth since then. Mexican subsidized imports continue to harm the U.S. sugar industry despite Suspension Agreements the U.S. and Mexican governments implemented in late 2014 with the intention of preventing further damage. Much of American sugar production cannot survive under current market conditions.

Unfortunately, the SAs are not working as intended. Mexico, basically, has sent the U.S. too little raw sugar and too much refined sugar, relative to U.S. market needs. U.S. cane refiners have been starved for raw sugar to process and refined beet sugar prices are so low that loan forfeitures are a serious threat.

The U.S. and Mexican governments are working on modifications to the SAs and the U.S. government will need to impose duties on Mexican sugar if the two sides cannot reach a resolution. American sugar producers are committed to working with our government to find a negotiated solution but it will taking a willing Mexican government and industry to correct the flaws in the SAs.

How U.S. Sugar Policy is Working

U.S. sugar policy has had the same structure since the 2008 Farm Bill and, with the exception of the effect of Mexican dumping in 2013, has been a successful policy.

- American consumers and food manufacturers continue to have access to high-quality, safe, affordable, responsibly-produced sugar supplies.

- American taxpayers benefit from a policy than has run at zero cost in all but one of the past 14 years and is projected to remain zero cost for years to come if the Mexican dumping problem is resolved.

- American sugar farmers have retained an economic safety net that has helped many, though not all, to survive an extended period of low prices and the catastrophic effects of Mexican dumping.

American Consumer Benefits. With U.S. wholesale prices at or below world average levels, one would expect American consumer prices, too, to be low. They are. World average retail sugar prices are 20% higher than U.S. prices; developed-country prices are 29% higher *(Figure 6)*. With a stable U.S. sugar policy and industry, American consumers get a great deal on high-quality, safe, responsibly-produced sugar.

American Taxpayer Benefits. Farm Bills have long instructed the USDA to operate sugar policy at no cost to taxpayers by avoiding sugar loan forfeitures. Sugar policy requires USDA to

administer U.S. sugar policy to ensure sugar processors can repay their operating loans at principal plus interest.

USDA has consistently met this no-cost requirement, except in 2013 when Mexico dumped subsidized sugar into the U.S. market. USDA took action, as directed by law, to minimize loan forfeitures, taxpayer costs, and long-term harm to American sugar producers.

With Suspension Agreements in effect the CBO projects zero cost as long as the agreements are in place, with modest costs in the unlikely event the SAs, and/or duties, are terminated in five years and Mexican dumping resumes. USDA and FAPRI project zero cost over the next 10 years *(Figure 7)*.

Sugar policy opponents, led by major sugar-containing product manufacturers, have urged opening the U.S. market to greater quantities of subsidized foreign sugar. But additional, unneeded sugar would threaten USDA's ability to administer a zero-cost policy. The Texas A&M researchers wrote:

> Our analysis leads us to conclude that food manufacturers' reforms would undermine the no cost requirement of the law, resulting in taxpayer costs, jeopardizing the viability of U.S. sugar farmers and processors, and leading to higher sugar costs for consumers as domestic suppliers are lost and the volatile world sugar market is increasingly relied upon to meet domestic demand. Meanwhile, food manufacturers may benefit in the short term from depressed domestic sugar prices but, in the long-run, they would suffer from the loss of what they say they need: a viable, healthy, and geographically diverse supply of domestic sugar.[9]

Sugar Producer Safety Net. With the exception of the year of excessive Mexican dumping, when prices fell below loan forfeiture levels, U.S. sugar policy has provided an economic safety net for American sugar producers. But not for all producers, and there have been numerous casualties.

Since the loan support price was established in 1985 at 18 cents per pound of raw cane sugar, the loan rate has risen only 4%, to 18.75 cents. General price inflation since 1985 has been 123%. Real producer prices, corrected for inflation, have fallen 43% since the 1980s.

Producers who could not reduce production costs enough to keep pace with falling real prices for their product have gone out of business. We have lost 57 beet and cane operations – more than half of all those operating in 1985. Hawaii has ceased growing sugarcane after nearly two centuries of high-yielding production that was at the core of Hawaii's economic and social

[9] Outlaw and Richardson, op. cit.

development. Another beet factory, in Wyoming, is expected to close permanently this year *(Figures 8-11)*.

More closures would certainly have occurred over time if not for vertical integration by beet and cane growers and investment in biotechnology and other breeding and processing advancements.

Crop Insurance

Crop insurance is an essential risk management tool for beet growers and is usually a requirement by their bankers. Historically, crop insurance has served beet growers with minimal but adequate coverage. However, this past year many beet growers were plagued by low sugar contents in their beets that insurance needed to cover but did not. Beet growers are assessing the problem and will work with the Risk Management Agency (RMA) to find a solution. RMA has always worked well with our growers and we appreciate their attention to our concerns. Beet growers will brief the Committee in the weeks and months ahead to achieve an effective solution.

Louisiana growers are encouraged by changes in the sugarcane policy that will fill a significant hole in coverage in Louisiana. These changes will be effective for the 2017/18 marketing year. Crop insurance policies for sugarcane in Florida and Texas will need to realize large scale improvements before most acres can expect to be covered with adequate buy-up coverage.

U.S. Sugar Policy in the Next Farm Bill

As long as there is an adequate response to Mexican subsidizing and dumping, U.S. sugar policy, in its current form, can continue to be effective for American consumers, food manufacturers, taxpayers, and sugar producers.

The response to Mexican dumping is most likely to take either of two forms:

1. Anti-dumping and countervailing duties, as calculated by the Department of Commerce, that would severely limit sugar imports from Mexico; or,
2. Effective Suspension Agreements, that would permit continued duty-free sugar imports from Mexico, but limit those imports to the amount, and type, of sugar the U.S. market needs, and at minimum reference prices designed to prevent further dumping.

The U.S. and Mexican governments are attempting to negotiate modifications to the Suspension Agreements that have been in place since late 2014 but that have proven ineffective. We support these government efforts.

Zero-for-Zero

U.S. sugar producers recognize that subsidies and other market-distorting polices must be addressed in order for the world dump market to recover and better reflect free market principles.

Therefore, American producers have publicly pledged to give up U.S. sugar policy when foreign producers agree to eliminate their subsidies.

The American Sugar Alliance has endorsed a Congressional resolution introduced by a Member of the House Agriculture Committee, Representative Ted Yoho of Florida. This "zero-for-zero" resolution explicitly calls for the U.S. to surrender its sugar policy when other major producers have done the same.[10]

However, to weaken or surrender sugar policy without any foreign concessions, as some critics of U.S. sugar policy have called for, would amount to foolish unilateral disarmament. We would be sacrificing good American jobs in a dynamic, efficient industry in favor of foreign jobs in the countries that continue to subsidize.

Conclusion

U.S. sugar policy is working well for American consumers, food manufacturers, and taxpayers. U.S. sugar policy can continue to operate at zero cost to taxpayers, and provide a genuine economic safety net for American sugar farmers, as long as Mexican dumping on the U.S. market does not persist.

American sugar producers will work hard for an effective 2018 Farm Bill for all American farmers. And we strongly support U.S. government efforts to put an end to Mexican dumping of subsidized sugar on the U.S. market.

[10] https://www.congress.gov/115/bills/hconres40/BILLS-115hconres40ih.pdf

Figure 1

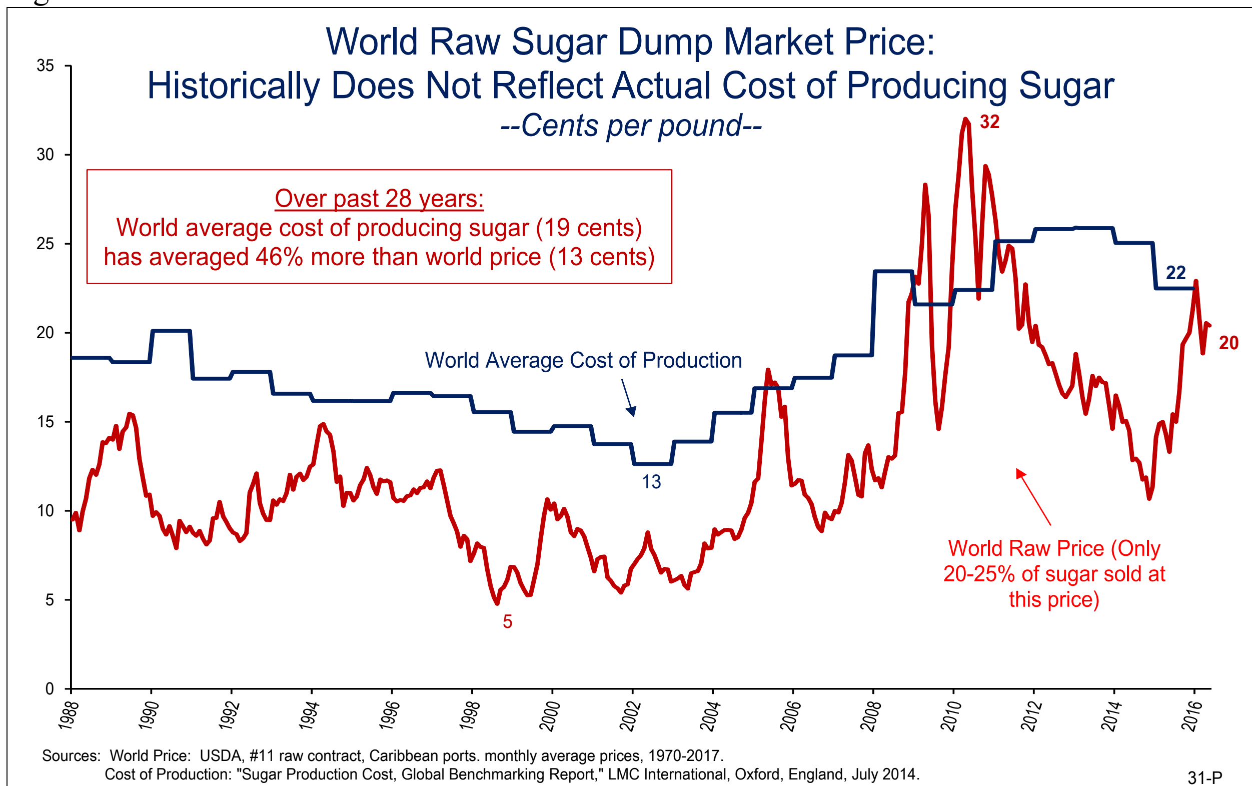

Figure 2

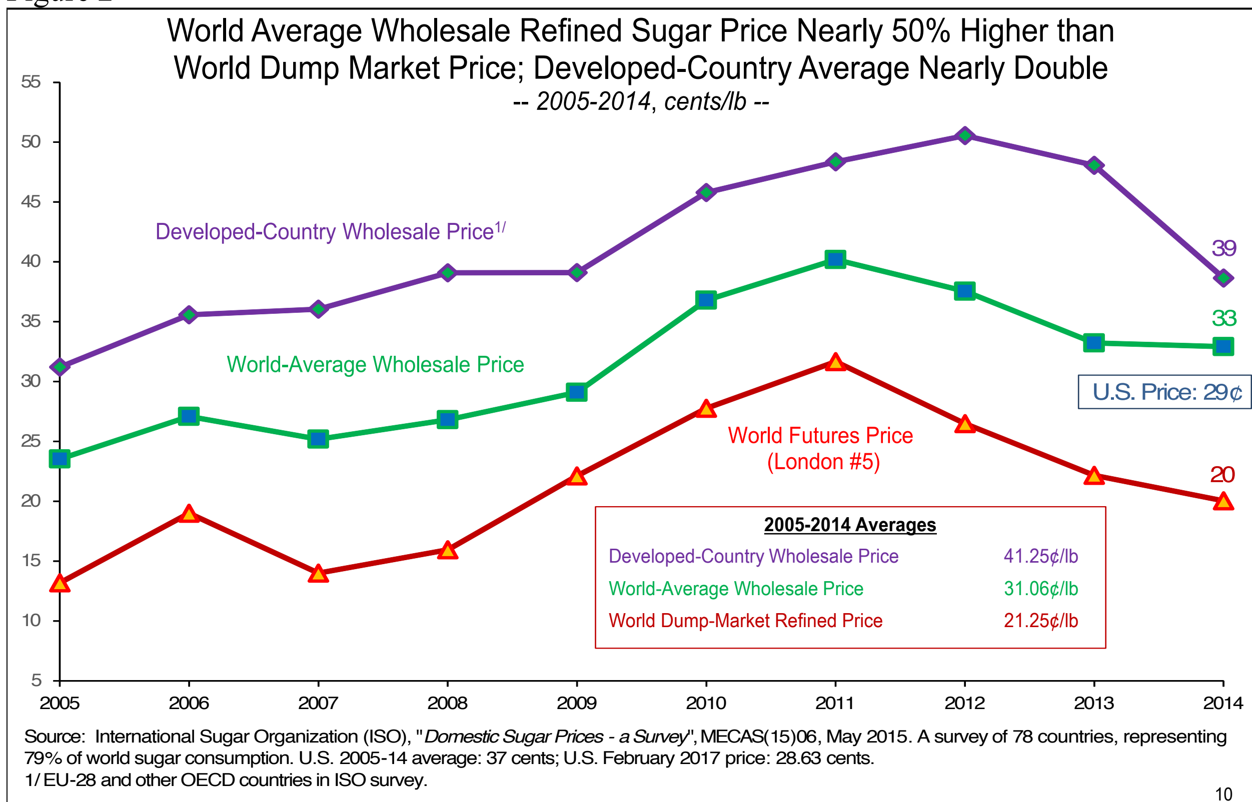

Figure 3

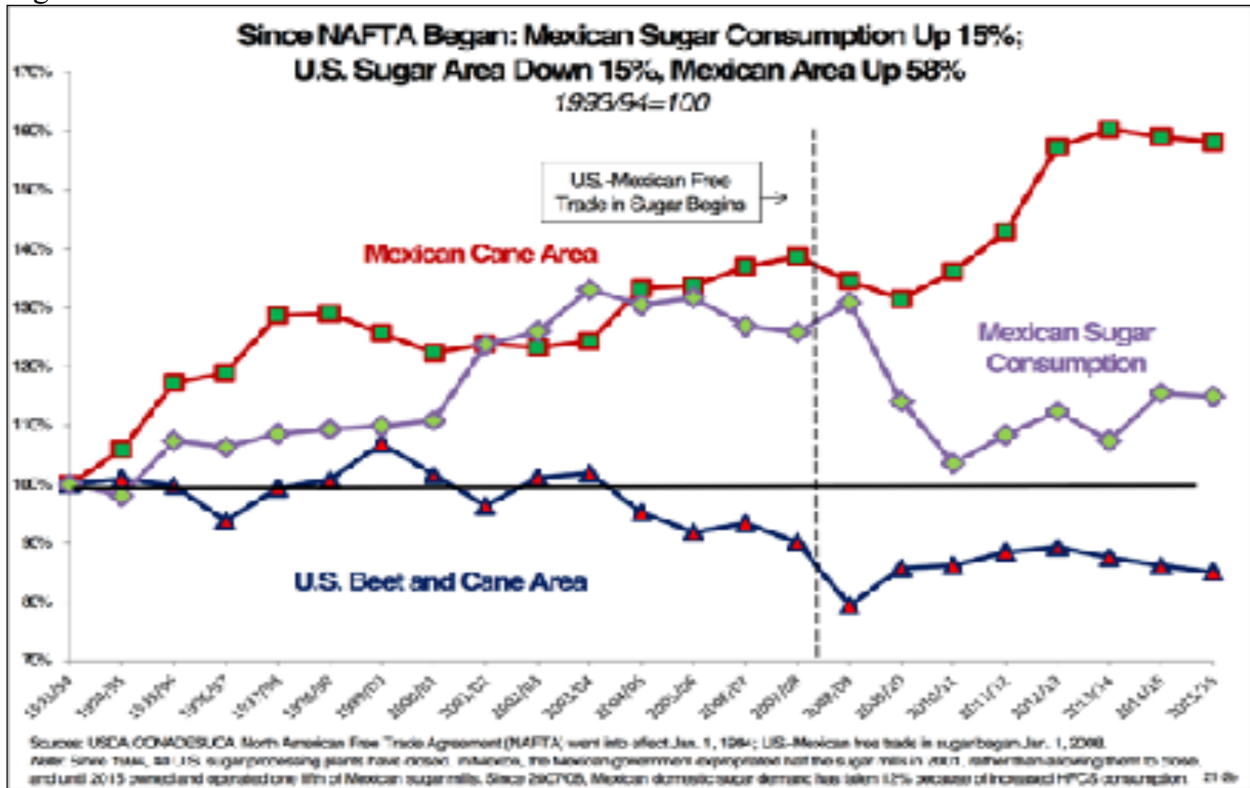

Figure 4

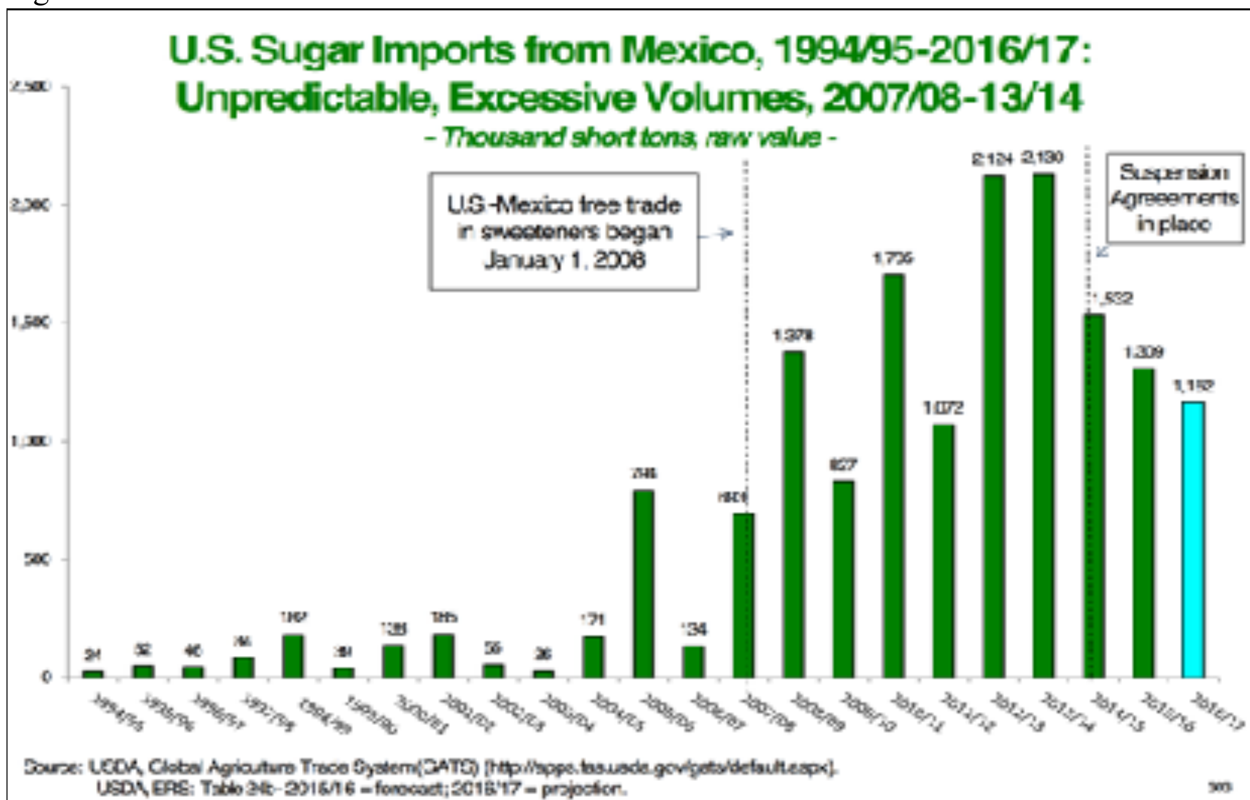

Figure 5

	U.S. Anti-Dumping (AD) and Countervailing-Duty (CVD) Cases vs. Mexican Sugar
2012/13	Mexican sugar production rises by 38%; Mexican sugar exports to the U.S. double (to 2 million tons); U.S. sugar price collapses.
2014	
March	U.S. files AD/CVD cases vs. Mexican sugar.
May	U.S. International Trade Commission (ITC) preliminary finding, by 5-0 vote, that Mexico has injured the U.S. sugar industry.
August	U.S. Department of Commerce (DOC) finds that Mexico has been subsidizing and imposes preliminary CVDs at 3-17%.
October	DOC finds that Mexico has been dumping (selling below domestic cost of production or prices) and imposes preliminary ADs at 40-47%.
	U.S. & Mexican governments announce draft Suspension Agreements (SAs) to suspend duties and resume duty-free sugar trade, with Mexican exports to the U.S. no longer to exceed U.S. needs.
December	U.S. & Mexican governments sign the SAs. Mexico may fulfill 100% of U.S. import needs above trade commitments; reference prices and limit on refined share of imports set.
2015	
March	ITC finds, by 6-0 vote, that the SAs eliminate the injurious effect of Mexican dumping on the U.S. industry.
September	DOC finds final dumping margins of 41-42%.
October	DOC finds final subsidy margins of 6-44%. Combined final subsidy and dumping margins total 48-84%.
	ITC final finding, by 6-0 vote, that Mexico injured U.S. sugar industry.
2016	
October	U.S. Court of International Trade (CIT) denies the Imperial Sugar appeal of the ITC determination that SAs eliminate the injurious effect of Mexican dumping and subsidies.
December	DOC preliminarily determines in an administrative review of the SAs, covering 2015, that some companies may not be in compliance with the SAs and that not all statutory requirements for the SAs are still being met.
	Imperial Sugar appeals the CIT decision to the U.S. Court of Appeals for the Federal Circuit.
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Figure 6

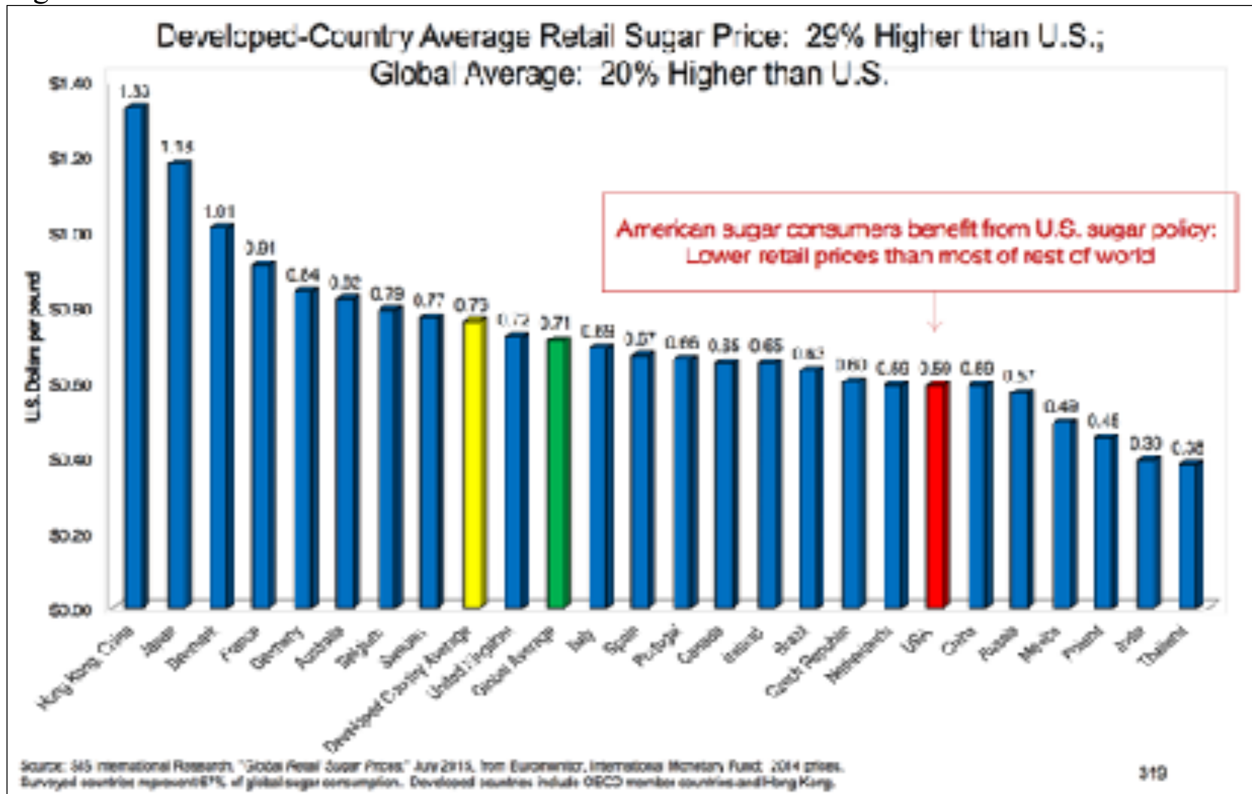

Figure 7

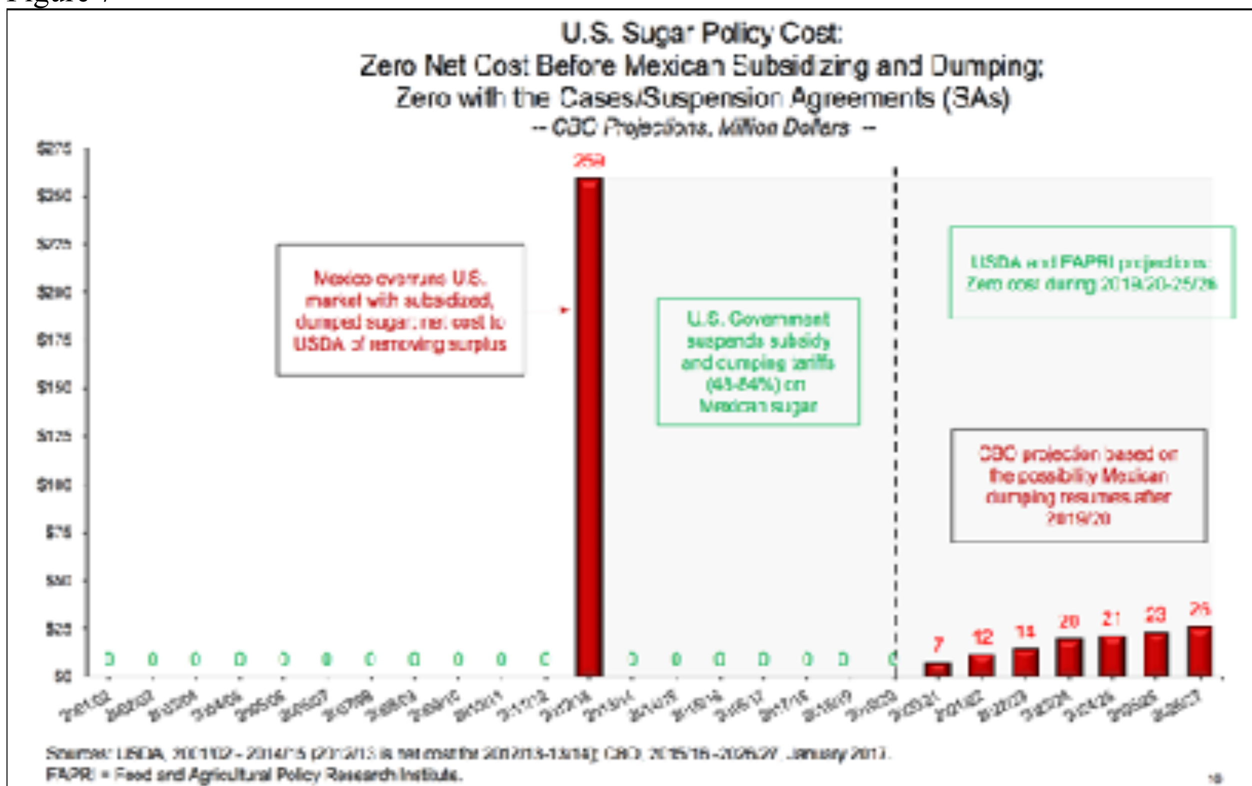

Figure 8

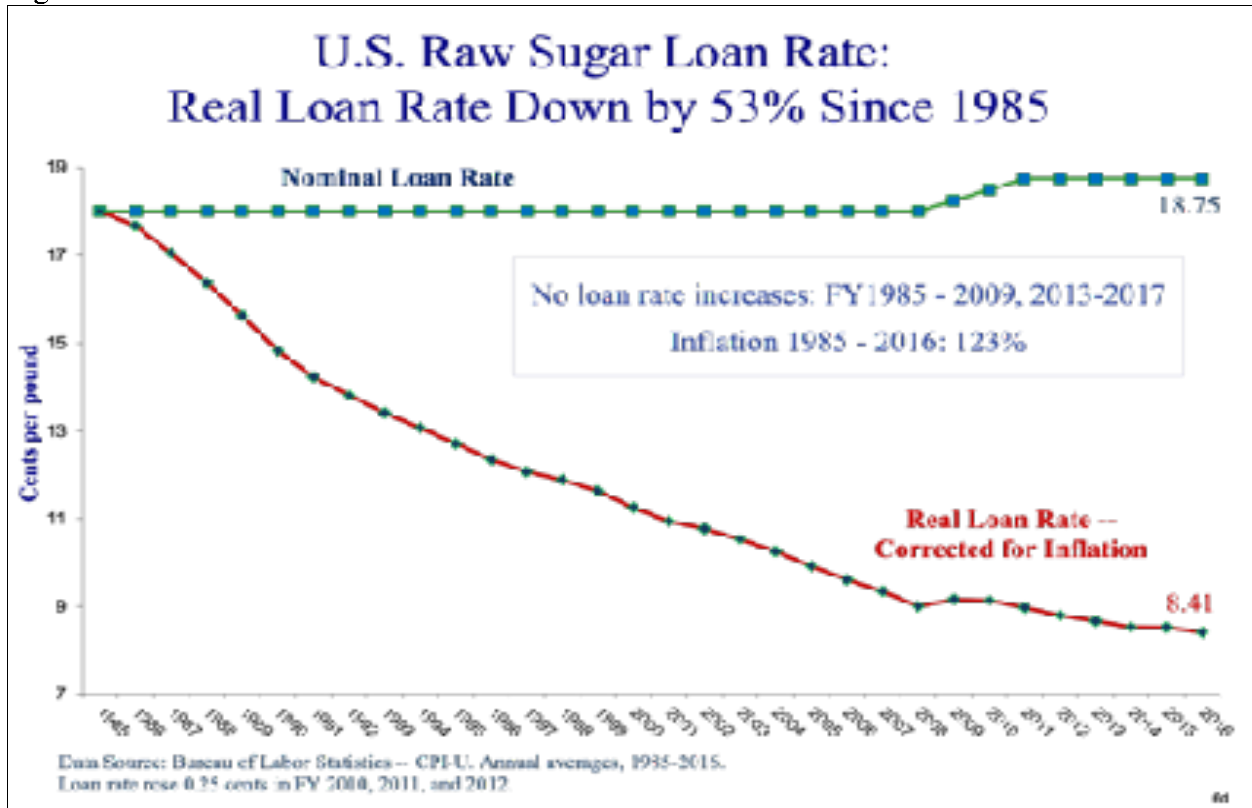

Figure 9

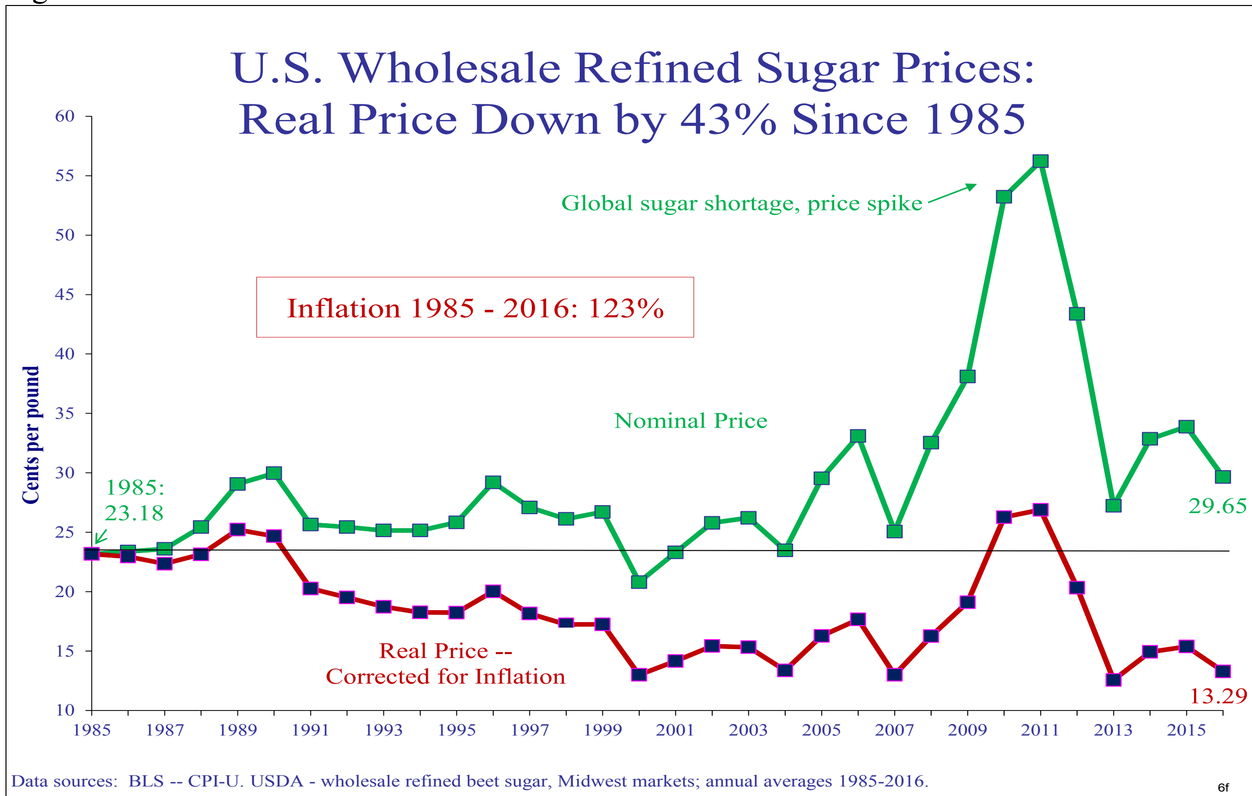

Figure 10

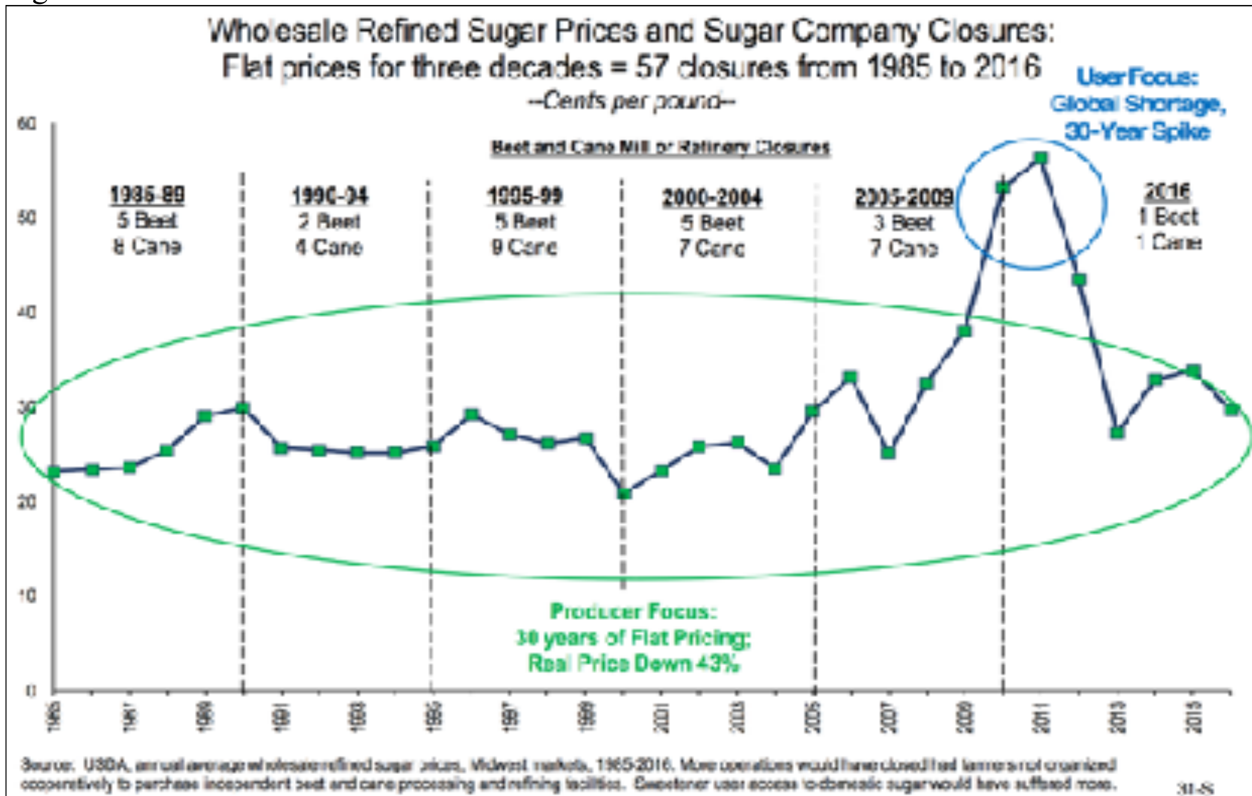

Figure 11