U.S. Sugar Program at a Crossroads

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Unlike most USDA crop support programs, the sugar program is meant to operate at no cost to the Federal budget. The support is embedded in the price that purchasers pay for sugar. By controlling the market supply of sugar through domestic marketing allotments and tariff-rate import quotas, the program supports domestic sugar prices above world levels. Another source of support is the sugar loan program, under which USDA makes loans available to sugar processors at a legislated loan rate for sugar pledged as collateral (18 cents per pound for raw cane sugar and 22.9 cents per pound for refined beet sugar). The loan must be repaid by the end of the marketing year in which it is made. If the processor cannot sell sugar at a price sufficient to repay the loan, the processor can repay by forfeiting the pledged sugar. USDA takes ownership of the sugar, and the loan amount is charged as a government expenditure.

With the approach of new farm legislation in 2007, there is concern that the sugar program cannot survive without loan forfeitures and costs to the USDA budget. Under current law, sugar marketing allotments are suspended when imports go above a threshold of 1.532 million tons. In such a case, processors would be allowed to market as much as they want, and the price would likely fall below the loan rate, causing forfeitures and higher government expenditures. Producers and processors emphasize that international trade agreements, such as the North American Free Trade Agreement, will cause imports to go above the threshold, causing sugar to be forfeited to the USDA.

On the demand side, manufacturers using sugar argue that high sugar prices have made them increasingly uncompetitive in domestic and export markets. The result has been rapid growth in imports of sugar-containing products, as many of the firms making such products have relocated their production facilities to Canada and Mexico, where less expensive sugar is available. High sugar prices have also led to the development and adoption of high-intensity sweeteners as substitutes for sugar in an increasing array of products. Without growth in demand, the chances of domestic sugar oversupply become more likely.

Alternatives for the redesign of U.S. sugar policy present hard choices. Keeping the current program structure would likely mean increased Federal spending. A loan deficiency payment (LDP) system could lower the cost of sugar to users and eliminate USDA sugar stockholding, but also would involve Federal spending. The LDP allows producers to receive loan benefits without taking out and subsequently repaying a commodity loan. Another option is to retain marketing allotments and remove the 1.532-million-ton threshold for allotment suspension. This would require processors rather than taxpayers to pay the expense of keeping sugar off the market.

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This finding is drawn from . . .

Sugar Backgrounder, by Stephen Haley and Mir Ali, SSS-249-01,USDA, Economic Research Service, July 2007, available at: www.ers.usda.gov/publications/sss/jul07/sss249/