U.S. SUGAR POLICY IS IMPORTANT TO MANY U.S. FARMERS VIRTUALLY ALL CONSUMERS IN SOME WAY. THE POLICY AND VIGOROUS CRITICS. THEREFORE, CHOICES IS PLEASED TO POLICY." THE TWO AUTHORS ARE KEY PARTICIPANTS IN THE

◆ **The U.S. sugar program is under widespread attack. Yet it is one of our most effective and cost-efficient agricultural commodity programs. It preserves the domestic sugarcane and sugar beet industries and strengthens corn prices. It helps cut our historic trade deficit in sweeteners. And it does this at no cost to the Government, nor to consumers.**

U.S. Producers Merit Fair Trade

by Eiler C. Ravnholt

The industrial users of sweeteners, some of the nation's most prestigious editorial pages, Reagan administration officials and a few members of Congress have branded the U.S. sugar program a $3 billion annual consumer "ripoff." They charge that the policy threatens the political stability of developing Third World countries, spreads communism, intensifies drug trafficking and is the source of myriad other sins. They say it only benefits about 12,000 U.S. sugarbeet and sugarcane farmers, to the tune of $250,000 each in yearly subsidies.

If the evidence is so overwhelming, it is a wonder how the program ever came to be and a marvel how it manages to survive.

The Origins of the Sugar Program

The genesis of the U.S. sugar program coincides with our nation's formal birth in 1789, when the first Congress levied a 1-to-3 cents per pound duty on sugar imports to finance the new Federal Government. Sugar helped support the government until 1894 when, with the adoption of a 40 percent [Begin Italics] ad valorem [End Italics] sugar tariff, the primary purpose of U.S. sugar policy became the maintenance of a viable domestic industry.

The 1894 tariff remained in effect until 1934, when Congress passed the Jones-Costigan Act to protect the domestic industry through the imposition of quotas on both domestic and foreign producers. Jones-Costigan provided for a processing tax, benefit payments to growers, a higher than normal minimum wage, restrictions on the use of child labor, acreage limitations on domestic producers and country-by-country quotas on foreign suppliers to the U.S. market. Although amended frequently, the law survived until 1974 when a series of political and economic conditions caused an abrupt end to the 80-year period of domestic sugar protection. These conditions included an administration unfriendly to the program, opposition of some producers to a proposed increase in its minimum wage provision, and very high world sugar prices.

Unusually high sugar prices on the world and U.S. markets continued through 1975 but then dropped sharply in 1976 and 1977, jeopardizing the domestic industry which provided a majority of our nation's sweetener needs. Late in 1977, Congress responded to this crisis by passing the de la Garza Amendment to the farm bill establishing a two year purchase and non-recourse loan program for sugar. The support level under the program was set at not less than 13.5 cents per pound.

Unsuccessful attempts were made in 1978 and again in 1979 to re-enact a separate sugar act. For the 1979 crop, the administration continued a loan program under its discretionary authority. When world sugar prices once again shot up to more than 40 cents per pound in 1980, the pressure was off, the loan program was not continued and the Sugar Act was not renewed.

By 1981, however, sharply falling world prices again spurred

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Eiler C. Ravnholt is Vice President of the Hawaiian Sugar Planters' Association.

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the drive to protect domestic producers and consumers from the very volatile world market, and the present program was enacted as a provision in the farm bill. It provided for a 17 cents per pound non-recourse loan program, gradually increasing to 18 cents for the 1985 crop. That law once again brought stability to the U.S. industry.

In 1985, with the House voting 263 for to 142 against, the 1981 program was reaffirmed in the Food Security Act. The sugar title froze the 18 cents loan rate for the 1986 through 1990 crops. The Senate defeated efforts to delete or to reduce the sugar support level by a margin of almost 2 to 1 in 1985 as it had in 1981 and again in 1982.

The price of sugar on the world market is an inaccurate, inappropriate, and unfair standard by which to measure the efficiency of the U.S. industry or the level of subsidy.

Congress once again recognized that protecting the American sugar producer from unbridled foreign competition remained a historic necessity. It is the nature of the world sugar market which has made protection essential and which is the basis for the continuing support by the U.S. Government.

The World Sugar Market

The world's sugar growers will produce an estimated 109 million metric tons of sugar, raw value, in the 1988/89 crop according to the International Sugar Organization, about 37 percent from sugarbeets and 63 percent from sugarcane. Of that total, more than 70 percent will be consumed in the country of origin with some 27 percent traded under long-term agreements at negotiated prices or sold on the world market at prevailing prices. It is important to recognize that less than 14 percent is actually sold at the world market price.

Since 1981, world production has risen some 17 million tons and resulting surpluses have been pushed onto the very small world free market. The consequences have been ruinous: no exporting country has covered its cost of production by sales to the free market.

The world free market for sugar is depressed primarily because the European Economic Community (EC), which was a net importer as recently as 1975, has expanded production by almost 40 percent under its Common Agricultural Policy (CAP) while its consumption has actually declined. At the same time, the EC has dumped the resulting surpluses with heavy subsidies onto the free market—an amount equal to almost 25 percent of the sugar sold on that market.

During this same period, the U.S. sugar market has really become a sweetener market. There has been a rapid expansion in the production of corn sweeteners in the form of high fructose corn syrup (HFCS). As a lower cost, but very acceptable liquid sweetener, HFCS has made great inroads in those developed world markets where it has been permitted to compete freely with sucrose and where a plentiful and low cost supply of the raw material is available.

While price supports may have sped HFCS penetration of the U.S. market, the emergence of an HFCS industry in Canada, which provides direct income support for its sugar farmers and allows world price sugar into its market, demonstrates HFCS' competitiveness. From a public policy point of view, it is certainly difficult to criticize a program that, by 1987, had resulted in the use of 70 percent more corn for HFCS than for ethanol production in the United States and adds an estimated 25 cents per bushel to the price of corn. The USDA has testified further that, without the HFCS industry, the corn support program would cost an additional $500 to $700 million annually.

Despite prices which have averaged as low as 4.06 cents per pound (in 1985) and that have consistently remained below the cost of production, world sweetener production has continued to expand for two reasons. First, the world price is not the average price realized. Most countries' sugar support programs assure much higher returns. Such programs, which insulate producers and consumers from prevailing world sugar prices, are the norm not the exception.

Second, in order to save scarce foreign exchange and create jobs, many developing countries seek self-sufficiency in sugar despite costs that exceed the prices for which they can purchase sugar on the world markets.

Historically, the world sugar market has been the most volatile of all commodity markets, characterized by short periods of very high prices followed by years of very depressed prices (between 1974 and 1987, for example, sugar prices have ranged from 65 cents to 2.6 cents per pound). The years of very low prices continue until the surpluses, encouraged by the high prices, are finally reduced and the market returns to reasonable balance, only to climb sharply on any perceived scarcities in world sugar supply.

The level of sugar production is not very responsive to price changes, particularly on the down side. As long as the marginal costs of harvesting and processing can be covered, the heavy investment required in production and processing facilities discourages idle capacity. The multi-year nature of cane plantings and the rotational aspect of the sugarbeet crop further mitigate against reductions and against short term changes in the level of output in response to price changes.

The World Price

The price of sugar on the world market is an inaccurate, inappropriate, and unfair standard by which to measure the efficiency of the U.S. industry or the level of subsidy. While the U.S. market stabilization price is currently twice the world price (and was more than five times the world price in 1985), the cost at which sugar is produced and the average price at which it is sold are more appropriate measures of program and consumer costs. Gauged this way, the U.S. program is cost free.

Domestic producers are near average-cost world producers and the U.S. retail price of sugar currently averages approximately 7 percent below the average retail price in the 16 major world capitals measured by the Foreign Agricultural Service in its world food price surveys. American sugar farmers, like American corn, wheat, soybean, and rice farmers, are efficient producers by world standards despite the higher labor, environmental and Office of Safety and Health Administration (OSHA) standards and costs mandated for U.S. producers.

The U.S. sugar program survives because it does what it was designed to do.

The world equilibrium price of sugar is difficult to measure. However, the 1987 study, "A Structural Model of the World Sugar Market" by Landell Mills Commodities Studies of London, England, projects that the world price of sugar (with all international price controls removed) would average 20.6 cents per pound in 1985 dollars over the next two decades. The study assumes further that the EC and other countries' restrictions on HFCS continue. Should such restrictions on corn sweetener production be removed worldwide, Landell Mills anticipates that the world price of sugar would drop to an average of 17.6 cents per pound, in 1985 dollars. The New York-landed price would be 1.5 cents higher in each case.

It is apparent that the costs, if any, to consumers of the sugar program, should be measured against these standards, rather than by the artificial price on the so-called "world" market.

Members of the American Sugar Alliance (ASA) support world free trade in sweeteners and this demonstrates our faith in our ability to survive in a truly competitive environment. ASA asks only that all nations phase out their programs in step with any reductions in the U.S. Sugar Program.

The perception that a reduction in the U.S. support level would be of major benefit to Third World sugar exporting countries is false. A recent EC study concludes that a 30-percent reduction in the U.S. support level would increase prices on the world market by only 3.7 percent ("Disharmonies In EC and U.S. Agricultural Policies: A Summary of Results and Major Conclusions." Commission of the European Community, 1988). It is apparent, therefore, that benefits from present U.S. quota sales far outweigh the potential benefits from increased sales at a sharply reduced price, given the minimal impact such action will have on the world price.

Industrial Sweetener Users

Organized opposition to the present sugar program emanates from the nation's well financed large industrial users of sugar and HFCS. Their interest in wider access to "dumped" world sugar is understandable: for each one cent drop in the price of sweetener, they save more than $275 million in the cost of this raw material. The monopsonistic nature of the sweetener using industries makes it unlikely that such cost reductions would be passed along to consumers, and their interest in reducing the price is obviously dependent on not having to pass savings on.

While the large soft drink, confectionary, baking and cereal manufacturers are competitive, they compete primarily in product promotion and differentiation, not in price. Perhaps this helps to explain their common high profit margins, which recently have averaged almost double those of all industries in the U.S. Nevertheless, industrial users tout consumer savings even as they push for greater access to the market for "dumped" sugar.

Sugar Program Survival

In the face of such formidable opposition, by industries which have ready and friendly advertiser access to the media, why does the current sugar program survive?

The U.S. sugar program survives because it does what it was designed to do. It has assured the survival of a domestic sweetener industry which supplies the American consumer with plentiful nutritive sweeteners at prices slightly lower than those in the years immediately preceeding adoption of the current program and at no cost to the government under the 1985 farm bill. While sugar prices actually declined 8 percent between 1981 and 1986, the prices of the principal user products increased an average 27 percent.

Public Support

The American public knows the Sugar Program works. A recent nationwide Cambridge Reports poll reveals that the public supports the current Sugar Program by a 73 percent to 21 percent margin.

Despite the outcry against the program prompted by the industrial users of sweeteners, who purchase almost all of the 8.5 million short tons of corn sweetener and almost three-fourths of the 8.2 million tons of sugar, raw value, sold in the U.S. annually, consumers are convinced by a margin of 80 percent to 13 percent that they are getting a quality product at a fair price. Moreover, by a 62 percent to 21 percent margin, consumers feel that any reduction in the price they now pay would only fatten the profits of the already highly profitable soft drink, baking, cereal, and confectionary industries; the consumer would not benefit.

Conclusion

The sugar program preserves the domestic sugarcane and sugarbeet industries and the more than 100,000 American jobs dependent on those industries. It does so at no cost to the government nor to consumers. By increasing reliance on U.S. produced sweeteners, the sugar program has also helped cut our historic trade deficit in sweeteners at a time when ever-rising trade deficits are a major concern.

In addition, the sugar program has encouraged development of, and now protects, the high fructose corn syrup industry, utilizing a low cost resource in great surplus, thereby reducing the taxpayers' burden for our most costly commodity support program.

At a time of unprecedented government expenditures on agricultural commodity support programs, the U.S. sugar program stands as a shining monument to its Congressional architects. C