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Agriculture Outlook '92

New Opportunities for Agriculture

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INTRODUCTORY REMARKS

for

Agriculture Outlook 1992: Panel Discussion on U.S. Sugar Program

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Two Outlooks ago, in trying to express the audience's major question, I did a solo number of "Roll out the quota" to the tune of "Roll Out the Barrel". Given the less-than-enthusiastic response, I will mercifully not sing again. But if I were to sing, the refrain would now be "Roll out the regulations; Roll out the regulations of fun..."

I guess we are starting to have fun. The final loan program regs were issued on September 18; interim reporting and recordkeeping rules, September 19; final marketing assessment rules, October 29; and the proposed rules on marketing allotments finally cleared the Office of Management and Budget and were published two days ago.

There's more to come: we've pushed back the reporting requirement due dates and are in process of developing the final rules for issue in early January. Comments on the proposed marketing allotment regs are due January 2 and we would hope to get final rules in February. Meanwhile, last week, the Food, Agriculture, Conservation, and Trade Act Amendments bill of 1991 (the technical corrections bill) was passed, with implications for changes in marketing assessments, reporting requirements, and marketing allotment regulations. The technical corrections legislation, and your comments, will be important to us in formulating the final regs. The real fun, of course, is in the test of the regulations. I mean primarily the marketing allotment rules based on the 1990 Farm Act sugar provisions which attempt to re-create the comprehensive regulations of the old Sugar Act which lasted 40 years and went out with a bang 17 years

ago this month, in 1974.

In quick perspective: there was minimal sugar support for the 1977-79 crops. The 1981 and 1985 Farm Acts provided a loan program for sugar, supported first by duties and fees and then, in 1982, import quotas. Attempted circumvention of quotas, and a few scandalous (so-called "bittersweet"), operations led to comprehensive regulation of imports. Now, with the 1990 Act, extensive regulations have enveloped domestic marketing as well.

In the course of this year, I've been struck by a sense of nostalgia in the industry, for what is felt to be the well-being of the industry under the old Sugar Act, as if it were some sort of Golden Age. Indeed, the 1990 Farm Act's sugar provisions were apparently inspired by the Sugar Act. But these are the 1990's, and trying to graft the Sugar Act provisions onto new program directives and realities may dispel a few illusions.

Unlike the old Sugar Act days we now have:

- a loan program, with a "No-cost Mandate" which is especially challenging because of the new cane/beet differential loans;
- a minimum import level;
- potentially new rules on trade through the GATT and NAFTA (North American Free Trade Agreement);
- technologies, particularly the de-sugaring technology, which will complicate marketing controls;
- some very interesting corporate structures that cross-cut cane and beet sectors and even the high-fructose frontier.

The sugar provisions of the 1990 Farm Act were negotiated among the sugar industry, I understand, through long hours of arduous bargaining which probably can be boiled down to an agreement on market-sharing. Still, the statutory language papered-over divergent and conflicting interests which predictably would surface, once the legislation had to be implemented in concrete terms. The division of interests became perfectly transparent at the April 19 consultations, especially on the question of proper weights to be attached to the three-factor allocative criteria of past marketings, processing and refining capacity, and ability to market. In writing the regs, we tried to be as "fair, efficient, and equitable" as possible. But inevitably, some group's notion of fair and equitable will be another's perceived inequity.

To its credit, the industry in the past five to ten years has

taken significant steps to raise productivity and explore new technologies in production and uses of sugarcane and sugar beets. The industry is now stronger and more efficient than ever before, and should there be free trade under fair multilateral rules, may well surprise many of its critics. However, there is a tension between the promises of productivity and growth, and the marketing controls which are the heart of the new sugar program. If a firm has a comparative technical or economic advantage, would it not want to press its potential? Yes. Would it do so only by lowering cost, improving profit margins, and not expanding production? I doubt it. If profits can be made by expanding output, surely the company will want to pursue that avenue. Given the vitality of a good part of the industry, however, the result of growth could turn current sugar legislation into a Frankenstein monster, creating the potential for surpluses which cannot easily be disposed of in a regime of strict marketing controls.

Perhaps political realities on Capitol Hill, with a little nudge from Caribbean sympathizers, forced the industry into this intricate system of comprehensive controls. Perhaps a bit of nostalgia. But if marketing allotments kick in, can regrets be far behind?

I've been asked to give highlights of the marketing allotment regs, for those who may not have yet seen the proposed rules:

Legislation requires that before October 1 of each of the 1992-1996 fiscal years, an estimate of U.S. sugar import requirements must be calculated. If the estimate is less than 1.25 million short tons, raw value, marketing allotments must be imposed to limit the quantity of U.S. sugar production that can be marketed for human consumption in the United States. The overall marketing allotment is calculated by deducting the amount of carry-in stocks and imports of 1.25 million tons, from the sum of estimated consumption and reasonable carryover stocks. The overall allotment is then divided between beet and cane sugar. Within the allotment for beet sugar, allocations will be made among beet sugar processors. For cane sugar, the allotment is first allocated to each sugarcane-producing State, and then allocations are made among processors in each State. The overall allotment and subsequent processor allocations are to be assigned in a fair, efficient, and equitable manner on the basis of three criteria:

1. past marketings of sugar processed from any or all of the 1985-1989 crops;
2. processing and refining capacity; and
3. ability of processors to market such sugar as may be allocated.