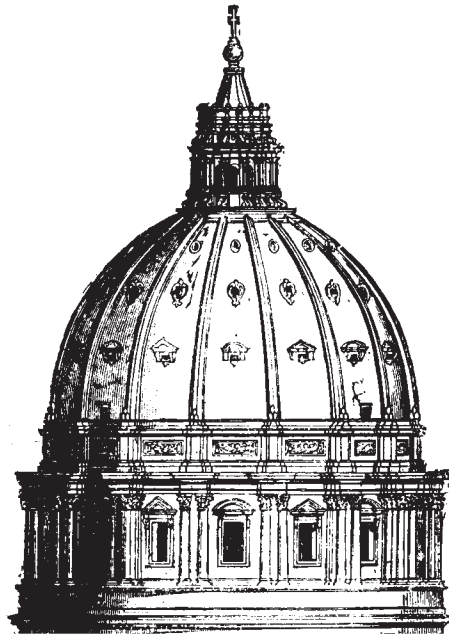


ISSUE BRIEF #3/2010



# The Bitter Taste of Sugar

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## INTRODUCTION

The United States government's sugar program is fiscally destructive, driving up food prices and putting taxpayers at risk. American consumers pay two to three times more for sugar and food products that contain sugar than consumers around the world because of needless government intervention. Since 2008, taxpayers have also been on the hook for a program that buys up surplus sugar and sells it at a loss to ethanol plants.

The most common argument used to maintain the existing U.S. sugar policy has always been that it will preserve small sugar farms and assure an adequate supply of sugar for the U.S. market. Instead of preserving small sugar producers, the program has concentrated a vast amount of wealth in the hands of a few large individuals and conglomerates. It has also cost consumers billions of dollars and created a shortfall of sugar supply.

The side effect of sugar policies has been the shutdown of the vast majority of the U.S. sugar refining industry, resulting in the loss of thousands of jobs. Thousands of additional jobs have been lost in companies that use sugar, many of which have moved their operations overseas.

Advocates have erroneously asserted that the sugar program doesn't cost taxpayers anything. That has never been true. In fact, taxpayers could save \$1.2 billion each year by eliminating sugar subsidies. Now there are additional costs that can be quantified.

For these reasons, the U.S. sugar program is the perfect candidate for the first in a series of Citizens Against Government Waste (CAGW) issue briefs demonstrating that various federal government programs and policies which were supposedly based on good intentions instead result in unexpected and undesirable consequences.

## EARLY PROTECTION OF THE SUGAR INDUSTRY

Even before the federal government's massive intervention into U.S. agriculture began in the 1930s under the New Deal, the government sporadically intervened on behalf of U.S. agricultural producers by imposing tariffs and quotas on imports of agricultural products in order to protect American farmers from outside competition. U.S. tariffs were originally imposed on imported sugar primarily to supplement the federal treasury; however, tariffs and quotas evolved into the primary method to protect domestic sugar producers.

In 1789, in order to provide revenue for the new government, the First Congress imposed a tariff on foreign sugar. Between then and 1930, Congress passed 30 bills dealing with sugar, during which time the purpose of the tariff was expanded to include a policy of protection for the domestic sugar industry.<sup>1</sup>

In 1934, the first sugar program was enacted, which brought even greater government intervention into the sugar market. Present U.S. sugar policy has evolved from that act. Although there was a

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<sup>1</sup> Jose Alvarez and Leo C. Polopolus, "The History of U.S. Sugar Protection," Department of Food and Resource Economics, Florida Cooperative Extension Service, Institute of Food and Agriculture Sciences, University of Florida, Gainesville, Florida, revised June 2002, p 1.

brief period between 1974 and 1981 when there was no sugar program, most components of the current sugar program were enacted as part of the 1981 Farm Bill.

### **HOW PRESENT U.S. SUGAR POLICIES OPERATE**

Using a combination of price supports, marketing controls and import quotas, the federal government supports a minimum price for sugar in the United States.

The government sets a floor under market prices by offering sugar processors loans, with sugar serving as collateral. If processors are unable to sell their sugar on the open market at a price higher than the loan rate, they can repay the price support loan by forfeiting the sugar to the government.

The government also imposes marketing controls, which limit how much sugar processors are allowed to sell by setting an overall allotment for the entire country, designating a portion of that amount to each processor, and prohibiting processors from selling sugar in excess of their allotment. These allotments are enforced and administered by a small cartel of sugar processors who function as the government's unofficial production control agents. It is impossible for a sugar producer to market a crop if the processors refuse to accept it.

The federal government also imposes a tariff-rate quota (TRQ), limiting the amounts of raw and refined sugar that may be imported into the United States through the rigid allotment of country-by-country import quotas. A prohibitive tariff is imposed on any imports above the quota.

As part of the 2008 Farm Bill taxpayers will purchase sugar from U.S. sugar producers and then sell it at a loss to ethanol plants. The program, known as the Feedstock Flexibility Program for Bioenergy Producers, is expected to cost \$325 million from fiscal year (FY) 2008 to FY 2012.<sup>2</sup>

The effect of these various sugar policies and programs is to set a floor under the price of sugar in the U.S., which in recent years has been two to three times the world price.

### **WELFARE FOR WEALTHY FARMERS**

For more than 70 years, the primary justification used to defend agriculture subsidies and protections has been that they are necessary to preserve small family farms. Instead, the subsidies have benefited the largest, wealthiest producers, amounting to corporate welfare for the rich. In the case of sugar, the Government Accountability Office (GAO) has found that 60 percent of all sugar program benefits go to just the wealthiest one percent of sugar farmers.<sup>3</sup>

The higher cost of U.S.-produced sugar means it will continue to lose domestic market share to

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<sup>2</sup> Remy Jurenas, "Sugar Policy and the 2008 Farm Bill," Congressional Research Service, January 29, 2009, <http://www.nationalaglawcenter.org/assets/crs/RL34103.pdf>.

<sup>3</sup> U.S. Government Accountability Office, "Sugar Program: Changing Domestic and International Conditions Require Program Changes," GAO/RCED-93-84, April 1993, p. 4.

sugar substitutes, such as corn sweeteners (commonly referred to as high fructose corn syrup). With the even higher price supports included in the last farm bill, this trend will be enhanced and will require the allotments to be squeezed even further in order to limit production. Since the allotments are based on historical production, the benefits will become even more concentrated among the wealthiest farmers.

### **DECIMATION OF THE SUGAR REFINING INDUSTRY**

Since the current version of the sugar program was created in 1981, the number of U.S. sugar cane refineries has dropped by two-thirds, costing the industry at least 5,000 jobs.<sup>4</sup> According to the U.S. Department of Commerce (DOC), the “job loss in cane refineries is tied to the declining demand for refined sugar for food and beverage usage and an increase in production costs.”<sup>5</sup>

With the already artificially-inflated price of U.S. sugar being increased even more in the last farm bill, the closing of U.S. sugar refineries can be expected to continue to the point that there will be almost no sugar refining capacity remaining in this country.

### **THOUSANDS OF JOBS LOST IN SECONDARY SUGAR INDUSTRY**

The DOC also concluded that between 1997 and 2005, 75,000 jobs were lost in sugar-using industries such as candy, cereal and baked good manufacturers. In fact, DOC found that for every sugar industry job preserved by subsidies, three food manufacturing jobs are sacrificed.<sup>6</sup>

The disparity between prices for world sugar and domestic U.S. sugar will accelerate the rate of employment loss because food manufacturers will increasingly be forced to deal with growing imports of sugar-containing products made with world-price sugar.

### **COSTLY TO CONSUMERS AND TAXPAYERS**

U.S. sugar policy is also costly to American consumers and taxpayers. While advocates of U.S. sugar policy have always claimed that the program wasn't costing taxpayers any money, sugar policy has always imposed a heavy cost on American consumers. According to the GAO, the highly restrictive import quota costs U.S. consumers as much as \$1.9 billion annually through increased prices for all products containing sugar, which is nothing more than a sugar tax on consumers.<sup>7</sup> However, even that estimate is now likely to be low, since the price consumers pay for sugar has jumped 12 percent in the last 12 months and is now 33 percent higher than the level that prevailed for most of the past decade.<sup>8</sup>

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<sup>4</sup> “Food and Beverage Jobs Disappearing Due to Sugar Program,” Promar International, December 2003, p. 1.

<sup>5</sup> U.S. Department of Commerce, International Trade Administration, “Employment Changes in U.S. Food Manufacturing: The Impact of Sugar Prices,” August 2007, p. 5.

<sup>6</sup> Ibid., p. 6.

<sup>7</sup> U.S. Government Accountability Office, “Sugar Program: Supporting Sugar Prices Has Increased Users’ Costs While Benefiting Producers,” GAO/RCED-00-126, June, 2000, p. 5.

<sup>8</sup> Sugar Policy Alliance, Washington, D.C., Letter to Congress, February 16, 2010.

### SHORTFALL OF SUGAR

Rather than assuring an adequate supply of sugar for the domestic market, the U.S. sugar program has created an unprecedented tight-supply situation that has helped lead refined sugar prices higher than at any time since a 1980 world sugar shortage.<sup>9</sup> The sugar-using industry, without success, has asked the Obama administration to use special emergency authority to relax current sugar import quotas so that more supplies would be available.

### POTENTIAL OF LOST EXPORTS

Finally, because U.S. sugar policy puts such a high priority on restricting imports as well as subsidizing the sugar industry, it encourages other countries to consider excluding other U.S. products in trade agreements. This could result in both U.S. agricultural products and manufactured products being denied access to potential export markets. Recent history demonstrates the propensity to use retaliatory tariffs. For instance, on March 8, 2010, Brazil announced a series of tariffs on 102 U.S. products as a result of what it considered unfair subsidies of the cotton industry.<sup>10</sup> In the past decade, Japan and Mexico also levied tariffs on U.S. exports in response to American trade policy.<sup>11</sup>

In recent U.S. trade negotiations, sugar has been controversial because the U.S. sugar lobby has sought to have sugar excluded from free trade agreements. However, if one party to a trade agreement refuses to include certain products, the other party may also seek to exclude products from the agreement. Because U.S. sugar policy has priced domestic sugar out of the world market, many other countries have an export advantage for that product.

If the U.S. sugar lobby succeeds in excluding sugar from a free trade agreement, other countries that are parties to that agreement will be reluctant to liberalize the import to their countries of such products as poultry, corn, rice and other commodities where the U.S. has a comparative export advantage.

The markets are further distorted because in many developing countries in which sugar is an important export crop, exporting more sugar would generate more foreign currency exchange that could be used to purchase both U.S. agricultural and industrial products.

Opponents of the Dominican Republic-Central America Free Trade Agreement (DR-CAFTA) contended that the accord would spell the end of the U.S. sugar industry. In reality, DR-CAFTA allowed for only a small amount of imported sugar. Signed into law by President George W. Bush on August 2, 2005, DR-CAFTA permitted foreign countries to import what amounted to 1.3

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<sup>9</sup> "Responsible Management of the Sugar Program Requires a Quota Increase," Promar International, October 28, 2009, p. 1.

<sup>10</sup> John Veroneau, Marney Cheek, and Martin Hansen, "Brazil announces retaliatory tariffs on 102 U.S. products and could retaliate broadly against U.S. intellectual property and services," Lexology, March 8, 2010, <http://www.lexology.com/library/detail.aspx?g=662f106a-e941-462b-8c2c-17ba0c7b98e3>.

<sup>11</sup> William Cassidy, "Mexico Expands Retaliatory Tariffs in Trucks Dispute," *The Journal of Commerce*, August 16, 2010, <http://www.joc.com/trade/mexico-expands-retaliatory-tariffs-truck-dispute>; and "Japan eyes 100% retaliatory tariffs on U.S. steel imports," May 8, 2010, [http://findarticles.com/p/articles/mi\\_m0XPQ/is\\_2002\\_May\\_13/ai\\_85877052/](http://findarticles.com/p/articles/mi_m0XPQ/is_2002_May_13/ai_85877052/).

percent of U.S. domestic sugar production in the first year, and stipulated that imports could grow as high as 1.7 percent after 15 years.<sup>12</sup>

### CONCLUSION

The sugar program is the most archaic of all U.S. agriculture programs. It is the only program that establishes a minimum price that is two to three times the world price. It is the only program that sets production allotments that determine who produces the product and how much they can be marketed. It is also the only program that severely restricts imports through quotas.

U.S. sugar policy not only fails to accomplish its original goal – to preserve small family farms and assure an adequate supply of sugar – it also causes job losses, imposes heavy costs on U.S. taxpayers and consumers, creates a short supply of sugar, and provides a potential obstacle to exports. It certainly demonstrates that when it comes to federal government policies and programs, good intentions are irrelevant.

More than almost any other U.S. agriculture policy, the sugar program calls out for drastic reform. The real solution would be to eliminate the price supports, marketing controls, and import quotas in the next farm bill. However, political reality has demonstrated that it is unlikely that there will ever be an administration or a Congress that will be more inclined than past ones to buck the sugar lobby. One would hope, considering all of the adverse ramifications of U.S. sugar policy on jobs, consumers, taxpayers and the overall U.S. economy, that there might be a greater willingness to at least phase down the price support to better reflect world prices, eliminate the wealth-concentrating allotment system and relax the highly restrictive import quota system.

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<sup>12</sup> “DR-CAFTA and Sugar,” Business Roundtable, [http://trade.businessroundtable.org/trade\\_2006/cafta\\_dr/sugar.html](http://trade.businessroundtable.org/trade_2006/cafta_dr/sugar.html).