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Statement Before the

Subcommittee on General Farm Commodities & Risk Management

Committee on Agriculture

U.S. House of Representatives

Washington, DC

Hearing on

“Formulation of the 2012 Farm Bill: Commodities & Crop Insurance”

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Submitted By:

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Mr. Chairman and Members of the Committee:

These comments on the sugar program for the 2012 farm bill are submitted on behalf of the “Coalition for Sugar Reform,” which is comprised of the organizations representing companies who use sugar in their confectionery, bakery, cereal, beverage and dairy product and food manufacturing, as well as business advocacy, consumer, environmental, trade and other organizations that are concerned about the adverse effect of current sugar policy on the U.S. economy.

We are disappointed that the Agriculture Committee denied our request to testify at either of the commodity hearings on May 16 or 17. Similarly, sugar-using companies were denied the opportunity to testify at any the of committee’s field hearings across the country. In fact, we were further denied the opportunity to testify before the Senate Agriculture Committee on the need for sugar program reform. If Congress is truly concerned about jobs, why would it deny an open debate on a sugar program that is negatively impacting the interests of the 600,000 Americans employed by the sugar-using sector?

The Adverse Effects of the U.S. Sugar Program

We want and need strong and healthy domestic sugar producers and processors, but we are deeply concerned about a one-sided sugar program that was made worse by the 2008 farm bill, which further restricted the ability of the Secretary of Agriculture to allow in additional sugar imports when needed in the U.S. market. A government sugar policy placing severe restraints on both domestic production and imports has had a devastating impact on consumers and food companies. With the U.S. being a net importer of sugar – needing at least 3 million tons of sugar imports every year - continued protection of the U.S. sugar producing industry is no longer necessary, and is counterproductive to U.S economic interests.

A November 2011 study entitled “The Impact of the U.S. Sugar Program” examined the impact of the U.S. sugar policy on consumers and businesses, and found that comprehensive reform of the federal sugar subsidies program would save American consumers up to \$3.5 billion a year and generate up to 20,000 new jobs in food manufacturing and related industries. This study was conducted by Iowa State University researchers, who used an econometric model evaluating sugar prices, employment, imports, and exports.

The research also found that sugar program reform would convert the sugar-containing product sector from what is now a net importer – to a new exporter, thus adding to the U.S. employment gain. Creating a more competitive sugar program should be a priority of this committee, since the Government of Canada has not been shy about promoting the fact that “Canadian sugar users enjoy a significant advantage – the average price of refined sugar is usually 30 to 40 percent lower in Canada than in the U.S.” (see attached literature from Agriculture and Agri-Food Canada entitled: “Canada – North America’s Location of Choice for Confectionery Manufacturers”). We would like to believe that the Agriculture Committee would be interested in at least discussing reform of a U.S. government sugar policy that is allowing Canada to claim

it is “the location of choice for manufacturers of confectionery products wishing to supply North America.”

The U.S. sugar program is a textbook example of the consequences of excessive government intrusion in the marketplace. Tightly controlled supplies by the government have caused historically high domestic sugar prices that have approached as much as twice the level of record world prices. The following is a summary of the implications of a flawed sugar policy:

Loss of U.S. Manufacturing Jobs: Excessively high domestic sugar prices provide a huge incentive to relocate U.S. food processing jobs overseas. A number of factors are used to determine whether or not to relocate overseas, including labor and foreign exchange rates, but the prospect of much lower sugar input costs as a key ingredient provides a powerful incentive to relocate food processing overseas. The last several years have seen several examples of the migration of food manufacturing jobs to overseas locations and there has been a sharp difference in job growth within the food industry, with those segments that use sugar losing jobs, while non-sugar-using segments experienced modest job growth.

U.S. Department of Commerce data indicate that 125,000 sugar-using industry jobs were lost between 1997 and 2010. In light of these tremendous job losses, this committee has a responsibility to ask whether an alternative program design could mitigate these effects, while still offering protection for producer incomes.

Loss of Trade Opportunities: The current federal sugar policies are difficult to reconcile with the future direction of international trade policy, and U.S. trade liberalization objectives and obligations. Denial of additional Australian sugar market access in the U.S.-Australia FTA has led to serious adverse consequences that continue to plague other segments of our economy today. In the aftermath of excluding sugar from the Australian FTA, South Korea insisted on and obtained the exclusion of rice from the Korea-U.S. FTA.

In fact, every country with which the U.S. now negotiates seeks to exclude its sensitive commodities from the prospective trade agreement. Many sectors of the U.S. economy that rely on trade are denied export opportunities because of the special treatment that we provide to U.S. sugar growers. Excessive protection of U.S. sugar growers comes at a cost in minimized market expansion for U.S. rice, beef, pork, poultry, corn, soybean, and other commodity exports.

For these reasons, we believe it is time for the committee to reassess its sugar policy as part of a broader reaffirmation of an open trade agenda for the U.S. Future sugar policy should be redesigned to be more closely aligned with the realities of world trade and promote greater market orientation to the benefit of all of U.S. agriculture.

Cost to Consumers: American consumers would gain up to \$3.5 billion a year in savings on a wide variety of food products if the sugar program were reformed. This additional cost amounts to about \$40 dollars per year for a family of four, and for those families on a tight budget, this unnecessary expense resulting from a government policy is quite significant.

Cost to Taxpayers: A special feature added to the 2008 farm bill requires USDA to buy surplus sugar and sell it to ethanol plants at a loss. Since ethanol plants will not pay more for sugar as a feedstock than they could pay for an equivalent amount of corn, USDA will effectively be forced to buy sugar at the program loan level and sell it to ethanol plant at a fraction of the sugar support price. The Congressional Budget Office has forecasted that this sugar program component will cost taxpayers \$193 million over the next 10 years

Environmental Harm: The Florida Everglades have been seriously harmed by run-off of phosphorous, pesticides and wastewater. Water quality has suffered and nutrients from fertilizer run-off have spurred non-native life, such as cattails, that strangles the food supply of many land and water species. The 400,000 acres of sugar production at the top of the Everglades has disrupted normal water flow, causing problems all of the way to Florida Bay. Clearly, the generous sugar program has promoted the growth of sugar production in sensitive environmental wetlands.

Sugar Program Differences from Other Commodities

Compared to government support policies for other commodities, the sugar program is different in several respects. Two of the most important are import quotas and marketing allotments, both of which affect the availability, timing and control of supplies in the marketplace.

Sugar is one of the few U.S. commodities whose domestic program relies on import quotas (also called tariff-rate quotas or TRQs), which set limits on how much sugar can be shipped to the U.S. every year from each of 40 countries that exported sugar to the United States 30 to 35 years ago. Sugar imports above the relevant TRQ are subject to what is intended to be a prohibitive tariff. For raw sugar imports above the TRQ, the tariff is 15.36 cents per pound and for refined sugar the over-quota tariff is 16.35 cents per pound.

In addition to import quotas, sugar is now the only U.S. crop commodity employing marketing allotments that serve as mandatory supply constraints. Most other program crops had acreage controls until the mid-1990s, but policies were changed in the 1996 and 2002 farm bills to meet the challenges of an evolving marketplace and the realities of international trade, including the Uruguay Round Agreement on Agriculture and the North American Free Trade Agreement.

The 2008 farm bill also established the feedstock flexibility program, which mandates that in times of surplus, the government must buy sugar and re-sell it to ethanol plants at a loss. Although this program has not been used because of shortages of sugar, when it is used, it will come at the expense of U.S. taxpayers, who as consumers are already paying more for sugar than they should. No other commodity has this program feature.

However, the most startling difference between the sugar program and commodity programs is the dramatic inequity of the benefits provided to sugar growers over other agricultural producers. In 2011, the average sugar grower received an average benefit of \$512,000 for the year. In comparison, the average farm operator who received direct payments from the government received less than \$12,000 (based on 2009 data).

The Difficulty of Administering Import Quotas

The United States is obligated by the World Trade Organization (WTO) rules to import minimum amounts of both raw and refined sugar. The WTO minimum required import quota is 1,231,484 short tons for raw cane sugar, but only 24,251 short tons for refined sugar. Importing mostly raw sugar helps maintain throughput in our nation's cane sugar refineries, which is important because this part of the sugar industry has been shrinking for many years. However, there are times throughout the marketing year when available domestic sugar inventories are so low that refined sugar must be imported to avoid disruption of food product supply chains.

For the past three decades, Congress has burdened USDA with the challenge of determining the quantity and timing of announcing the additional import quotas above the amounts supplied by the WTO minimum import quota and other existing trade agreements. The government supply-control policy has proved to be difficult, if not impossible for USDA to accurately forecast market fundamentals, the effects of nature (i.e. droughts, floods, Hurricane Katrina's idling of a large sugar refinery for several months, etc.), a refinery explosion, trade agreements, and consumer trends, to name a few.

The sugar TRQ supply-control tool has increasingly adversely affected the U.S. sugar-using sector, especially after additional constraints were imposed on the flexibility of the Secretary of Agriculture to administer the program in the last farm bill. The 2008 farm bill requires USDA to set the TRQ at the WTO minimum at the beginning of each marketing year in October, even if the U.S. is in need of several hundred thousand tons of sugar beyond this amount. Moreover, USDA no longer has the authority to allow in additional sugar imports for the first six months of the marketing year (i.e. until April 1) unless there is an "emergency shortage." Unfortunately, historically high sugar prices caused by a government policy designed to severely restrict supplies apparently do not qualify as a trigger to allow much-needed imports.

Despite the best efforts of USDA, the TRQ policy tool is difficult to administer efficiently and effectively and has frequently resulted in market dislocations. For example, in 2010 U.S. supplies of sugar were so tight, that U.S. food manufacturers were forced to pay what was supposed to a prohibitive tariff on 200,000 of sugar imports just to meet their basic needs.

In other instances, USDA has announced several import quota increases for refined sugar, but these quotas were less effective in increasing refined supplies than expected, largely because of problems that are not of USDA's making. For U.S. sugar users, the sugar to make their products needs to be refined to a polarity of 99.8 or 99.9, but U.S. Customs and Border Protection considers any sugar with a polarity of 99.5 or greater to be refined sugar, and therefore eligible to fill a refined sugar quota. The net result is that sugar with a polarity of 99.6 or 99.6 can be imported as refined sugar, which exhausts the available refined quota, but it does not immediately add new refined sugar needed in the U.S. market, since it requires further refining in the U.S. before it can meet normal U.S. manufacturing standards, and be delivered to an industrial sugar user. Thus, USDA's intentions to add refined sugar to the market have been frustrated, with the actual available amount of refined sugar imported under the quotas being less than the announced quota amount.

Another TRQ problem concerns the type of quota that has been established for refined sugar. A portion of the quotas may be entered into the U.S. on a “first-come, first-served” basis, meaning it is open to all origins, but if early-arriving cargoes fill the quotas, then sugar that has not yet arrived will not benefit from the announced TRQ and may be charged the prohibitive over-quota duty if it is imported.

These examples show the problems and limitations associated with the TRQ as a policy tool. If sugar policies were modified, so as to make the TRQ unnecessary or less important, we believe that these particular problems would have been addressed more efficiently and effectively. If a TRQ is still used in the future, we are interested in pursuing administrative or legislative remedies to these and other difficulties of TRQ administration.

Problems with Marketing Allotments

Current U.S. sugar policy requires the Department of Agriculture to manage the domestic supply of sugar through marketing allotments. These legally-binding sales quotas are applied to all domestic sugar processors, and establish the maximum quantity of sugar they are permitted to sell during a fiscal year. USDA is required to administer this policy tool in an attempt to balance the conflicting goals of limiting domestic production, maintaining an adequate balance of domestic beet and cane sugar supplies, meeting import requirements as required by trade agreements, and avoiding forfeitures.

Marketing allotments were enacted in the 2002 farm bill at the request of the U.S. sugar growers, in an effort to restrict supplies and raise the prices their customers must pay. Another stated purpose of the allotments is to avoid federal government forfeitures that result when sugar price support loans cannot profitably be repaid and the collateral for these loans – raw or refined sugar – is forfeited to the government in settlement of the loan.

Such forfeitures are infrequent, but costly. In fiscal year 2000, about one million tons of sugar were forfeited at a taxpayer cost of nearly \$500 million. Despite USDA’s best efforts, the use of marketing allotments has also resulted in several instances of market distortions, including volatile prices, production limitations and supply shortfalls.

In the past, there have been limited domestic stocks of perfectly good sugar that sellers were willing to sell, and users were willing to buy, but these stocks were “blocked” from the marketplace because of the allotment system. In other words, buyers and sellers of sugar could not come together to consummate a business transaction that was in their mutual interest until they got permission from the government. The result was to exacerbate the already-severe logistical problems that beset sellers and buyers alike, and further limit the availability of sugar to the marketplace.

Even at its best, government usually cannot react as quickly as the marketplace demands, especially in turbulent times when all buyers and sellers are scrambling to match up available supplies with pressing demands. In that kind of environment, it is problematic to have a policy which says it is illegal to sell sugar until the government decides otherwise.

Sugar Policy Changes to the 2008 Farm Bill Made a Bad Program Much Worse

At the sugar lobby's behest, the 2008 farm bill established a floor under marketing allotments, so they cannot ever be set at less than 85 percent of estimated domestic sugar consumption, regardless of supply conditions. From a budget standpoint, the 85 percent floor's most significant drawback is that it eliminated USDA's ability to control sugar program costs through marketing allotments.

Instead, USDA would be required to purchase surplus sugar in the open market and resell it to biofuel plants as an ethanol feedstock. These sales will require large taxpayer-funded subsidies because in the U.S. sugar market, sugar cannot compete with corn as an ethanol feedstock on the basis of price.

If USDA had the flexibility to reduce marketing allotments below 85 percent of domestic demand, it would be unnecessary to spend taxpayer funds on sugar-for-ethanol schemes. The burden of storing any surplus sugar would fall on sugar processors – as these processors have continually claimed they preferred.

Eliminating the 85 percent floor would require that the sugar sector shares in deficit reduction along with other crops. Contrary to sugar growers' claims, CBO does not consider the sugar program to be "no net cost," since as previously mentioned it has been assigned a \$193 million, 10-year cost.

Final Observations

It our hope that Members of Congress will join us to reform a federal sugar policy crafted to strangle the supply of sugar and artificially inflate domestic sugar prices well above world market prices. A sugar policy that now pushes U.S. market prices so high that the price support feature of the sugar program is no longer relevant begs the question of whether the loan component is even necessary.

At a time when U.S. farm policy is moving away from intervention in the marketplace and the various commodities are facing program reductions, the committee should consider similar reforms for sugar growers and processors. We believe the 2012 farm bill should fix the inequities in U.S. sugar policy that benefit only a few to the detriment of many. A federal sugar program designed exclusively for sugar growers and processors to the detriment of the rest of the U.S. economy has very real consequences, including sugar supply shortages, excessively high sugar prices, consumer costs, lost jobs, inhibition of new export opportunities, and relocation of manufacturing facilities overseas.

The next farm bill should feature greater market orientation, which will address these problems. We are disappointed that the committee with jurisdiction over the sugar program was unwilling to allow us the customary five minutes to testify during its two days of hearings on the commodity title, so we could describe the problems caused by the sugar program. However, we

would welcome the opportunity to work with the committee to craft a balanced sugar policy that accommodates the needs of all stakeholders who are affected by U.S. sugar policy.

ATTACHMENT