COALITION FOR SUGAR REFORM

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Testimony for the Record
Coalition for Sugar Reform
Before the
Committee on Agriculture, Nutrition, and Forestry
United States Senate
Hearing on
"Risk Management & Commodities in the 2012 Farm Bill"
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The Coalition for Sugar Reform (CSR) appreciates the opportunity to submit testimony for consideration by the Committee on Agriculture, Nutrition, and Forestry as it prepares to write the 2012 farm bill. Our statement makes the case that the current sugar program is outmoded and counterproductive, and should be abolished or radically revamped.

About the Coalition

CSR is a group of non-profit trade associations and advocacy organizations spanning a broad ideological spectrum, but united in the belief that current sugar policy harms consumers, businesses and workers, as well as having deleterious consequences for U.S. trade policy and the environment. A list of our member organizations and a description of their work can be found at www.sugarreform.org.

What's Wrong with the Sugar Program?

Current sugar policy has many flaws. Our government's subsidies for sugar –

- Hurt consumers by artificially raising prices;
- Hurt small businesses by artificially shorting markets and restricting supplies;
- Hurt workers by encouraging relocation of manufacturing facilities offshore;
- Distort free markets through an intrusive, big-government regime that dictates sales quotas to individual companies;
- Hamper U.S. export policy by compelling our negotiators to defend protectionist policies; and
- Contribute to environmental problems by encouraging production in sensitive ecosystems.

How Does the Program Create These Problems?

The basic structure of the current sugar program creates the problems cited above. There is nothing inherent in the nature of sugar production or markets that makes these problems inevitable. Rather, it is the specific design of current sugar policy that is the problem:

- Price supports established without reference to international markets contribute to competitive problems.
- Strict marketing controls by which the federal government dictates the private sector's sales volume contribute to a chronically undersupplied domestic market.
- Outdated import quotas based on 30 to 35 year-old trade patterns distort import flows and artificially restrict available supplies.

Even Worse Than Before 2008

U.S. sugar policy has operated to the detriment of consumers and businesses for years. However, these longstanding problems became even worse after the enactment of the 2008 farm bill:

- Congress prohibited the Secretary of Agriculture from establishing annual import quotas at any level higher than the bare minimum required under international law, regardless of actual U.S. market needs.
- The Secretary was also prohibited from increasing these quotas before April 1 of any year, apart from emergency conditions that were written so as to be nearly impossible to satisfy.
- USDA's ability to prevent taxpayer costs was compromised by establishing a floor under marketing allotments at 85% of domestic demand.
- Price support levels were increased, again with no relationship whatsoever to international price levels or domestic needs.
- In a truly bizarre development, a so-called "Feedstock Flexibility Program" required that in times of sugar surpluses, the federal government buy up all the surplus and re-sell it at a loss to ethanol plants, thus putting taxpayers on the hook for (according to the Congressional Budget Office) hundreds of millions of dollars in likely costs, in order to prevent costs in the actual sugar loan program.

Results of Bad Policies

U.S. sugar market performance since enactment of the 2008 farm bill shows the results of these ill-advised policies.

- Markets have been chronically short. Not even in one single year has the market achieved USDA's traditional goal of a 14.5% ratio of ending stocks to use, indicating chronic undersupply.
- Prices paid by food and beverage companies for refined sugar have skyrocketed, averaging a record 55.8 cents per pound in fiscal year (FY) 2011, up from an average of

28 cents under the 2002 farm bill. Prices remain above 50 cents per pound – more than double the support price of refined beet sugar.
- Program-related additional consumer costs, estimated a decade ago at $1.9 billion a year by the Government Accountability Office, are now much higher – $4 billion according to a paper from the American Enterprise Institute, largely because the gap between U.S. and world prices is at historically high levels.
- As a result, consumer prices for sugar also set a record: 66.7 cents per pound in FY 2011, more than 20 cents per pound higher than the average under the 2002 farm bill. By January 2012, prices for consumers rose still higher – to 71.7 cents per pound.

These results are ironic because world sugar prices have also risen: In early March, the world price for raw sugar was 23 cents per pound and had earlier traded as high as 30 cents, while the world price for refined sugar was about 29 cents. In both cases, these current world prices are substantially *above* U.S. price support levels (18.75 cents for raw cane sugar and 24.09 cents for refined beet sugar).

For most commodities, if the world price exceeded the U.S. support price, one would expect the U.S. support program to have little impact in the marketplace. For example, most program crops have seen few if any deficiency payments in recent years, since world and U.S. market prices have been above the target prices for these crops.

But sugar is different. Though the world sugar price has risen, U.S. sugar policy has caused our domestic prices to rise even more. Remember, although the U.S. refined sugar support price is 24.09 cents per pound and the world refined price is 29 cents, actual quoted prices in the U.S. domestic market are above 50 cents.

Thus, in an international price environment in which world prices exceed the levels Congress has determined are sufficient to support U.S. producers, the U.S. sugar program has not disappeared from view – it has become, if anything, more intrusive and market-distorting than ever before.

Reforms Would Provide Benefits

A recent study by researchers at Iowa State University, utilizing a variant of the Food and Agriculture Policy Research Institute (FAPRI) econometric model, estimated the benefits from moving away from current sugar policies. The researchers forecast that sugar program reform would –

- Benefit consumers by as much as $3.5 billion a year; and
- Increase annual employment by up to 20,000 jobs per year.

The Sugar Program: Moving Jobs to Other Countries

The sugar program creates a jobs issue because input prices affect competitiveness. This is why over the past few years, the media have regularly reported on food manufacturers relocating to countries that do not artificially restrict access to internationally-traded sugar supplies. The U.S. Commerce Department found that for every job saved by the sugar program, three good manufacturing jobs were lost. Nearly 600,000 Americans are employed in segments of the food and beverage industries that use sugar.

As if to underline the Commerce Department's findings, the Canadian government is actively recruiting U.S. confectioners to relocate to that country. An official government brochure (attached to this testimony) cites as an advantage of manufacturing in Canada: **"Canadian sugar users enjoy a significant advantage – the average price of refined sugar is usually 30 to 40 per cent lower in Canada than in the U.S. Most manufactured products containing sugar are freely traded in the NAFTA region."**

So the U.S. sugar program has become a promotional tool for other countries to recruit our manufacturers, and move jobs offshore. To say the least, when a subsidy has this kind of impact, it is time to take a second look.

Conclusion

Congress should use the 2012 farm bill to reform U.S. sugar policies. The outdated structure of unnecessary domestic marketing quotas, import restrictions, price supports and sugar-for-ethanol boondoggles should be completely overhauled. It is past time to stop sacrificing jobs, hurting small business and raising consumer price inflation. The time for reform is now.