COALITION FOR
SUGAR REFORM

Common Myths About U.S. Sugar Policy

MYTH: The sugar program is a good deal for consumers.

FACT: The sugar program costs consumers billions of dollars every year, a cost that they pay in their grocery bills. Every credible study attests to this cost, which varies with U.S. and world sugar prices, but has been, on average, up to $3 billion a year. Studies have been done by the Government Accountability Office, the OECD, the International Trade Commission, the President's Council of Economic Advisers, the American Enterprise Institute and other well-respected researchers.

MYTH: The sugar program operates at "no cost" to consumers and taxpayers and has since 2002.

FACT: By starting with 2002, the sugar lobby conveniently fails to reveal that taxpayers spent $500 million on surplus sugar in 2000. What's more, the sugar program drives up U.S. refined sugar prices – which have ranged from 64 to 92 percent higher than on the world market in the past four calendar years.

Due to higher prices, over the past four years alone, the sugar program has imposed a $14 billion hidden food tax on American consumers and businesses in order to provide a special interest subsidy to sugar producers. As soon as late summer, there could be sugar loan forfeitures, which would cost taxpayers upwards of $80 million, and the Congressional Budget Office is currently projecting the sugar program to cost taxpayers $239 million over the next several years.

MYTH: In the grand scheme of things, $80 million is a modest cost to make the government sugar loan program work in times of disastrously low sugar prices.

FACT: No, especially not at a time when the country is facing across-the-board spending cuts and other commodity programs are being reformed. The sugar lobby claims that the sugar program operates at "no net cost," and that simply isn't true, especially when you add to the $80 million the $3 billion consumers and businesses pay a year in the form of a hidden tax imposed by the federal government through the sugar program. The current program arbitrarily restricts supplies and forces up the cost of sugar in the United States.

MYTH: The sugar program helps sustain 142,000 American jobs and reform efforts threaten those jobs.

FACT: The International Trade Commission stated in August 2011 that there are only 18,000 jobs in sugar crop farming and processing in the entire United States, a number that is grounded in U.S. Census data. That's not very close to 142,000. By contrast, Census data show approximately 600,000 jobs in those segments of the food industry that purchase sugar. For an Agralytica white paper debunking the 142,000 jobs myth, please click here.

The argument that every U.S. sugar grower and every U.S. sugar processor would go out of business is built on a false premise and is certainly not going to happen. The legislation that has been introduced is about reform. The sugar program will stay in place, and growing and processing jobs will not suffer. In fact, they will probably grow. The legislation would reform the sugar program in a manner that will make U.S. manufacturers more competitive and lower prices for consumers. This is pro-job reform.

- It's also important to remember that high sugar prices not only hurt consumers, they have already cost the United States jobs. An estimated 127,000 jobs were lost in sugar-using industries between 1997 and 2011. With almost 600,000 Americans working in sugar-using industries, it's imperative that U.S. sugar policy is reformed to prevent further losses.
- The U.S. Department of Commerce also estimates that for every sugar-growing job saved through high U.S. sugar prices, approximately three American manufacturing jobs are lost.

MYTH: Because of NAFTA, Mexican sugar imports will flood the U.S. market if Congress reforms the sugar program.

FACT: If Mexico's NAFTA access is a threat, there is nothing in either current sugar law or proposed reforms that would have any effect on it. In fact, the greatest threat from Mexico comes from the current sugar program that caused the U.S. price for sugar to soar to levels 1.5 to 2 times the already high world price. These high U.S. sugar prices had the expected effect, Mexico began to plant more sugar to capture those prices, and the current sugar program does nothing about that. Our proposed legislation eliminates the cause of the artificial high prices of recent years and stops encouraging excess Mexican production that can be aimed at our domestic market.

MYTH: Even modest reform of the U.S. sugar program would allow excessive imports of highly subsidized foreign sugar from countries like Brazil to flood the U.S. market and jeopardize the domestic sugar industry.

FACT: The reforms proposed would not provide Brazil or any other country from which we receive sugar imports any significant new access to the U.S. sugar market and would not eliminate subsidies to American sugar producers.

Regarding subsidies, the sugar lobbyists claim that Brazilian sugar is subsidized in the amount of $2.5 billion a year, or 7 percent of sales. In contrast, Iowa State University estimates U.S. consumer subsidies to U.S. sugar growers at $3 billion a year, on average, on a much lower output of sugar.

Proposed reforms would not guarantee Brazil one extra ounce of sugar in the U.S. market without the explicit approval of the Secretary of Agriculture. Brazil's quota would still be the same – only 1.5 percent of U.S. consumption. The *Sugar Reform Act* gives USDA more flexibility in managing quotas, but does not abolish import quotas, so a "flood" of Brazilian sugar into the U.S. market is not possible.

MYTH: The European Union "reformed" its sugar policy and now faces a dire shortage of sugar and high prices, so we shouldn't repeat their mistakes in reforming U.S. sugar policy.

FACT: It's fair to say that the global recession had more to do with European job losses than any changes in EU sugar policy. However, the bottom line is that after the so-called EU reform, the EU still restricts its imports to certain countries.

Unlike the EU reform, which left in place import and domestic production quotas, the legislation that has been introduced is moderate policy reform. The legislation would repeal new, additional import restrictions that were put in the 2008 farm bill and make modest reforms to sugar program administration that are necessary to ensure the program works for sugar producers, sugar-using businesses and consumers alike.

MYTH: Candy companies are urging Congress to repeat the EU's mistakes by reforming sugar policy.

FACT: No, we agree with the American Sugar Alliance that Congress should not repeat the EU's mistakes. The EU reform left in place tariffs and quotas similar to current U.S. sugar policy. Tariffs and import and domestic production quotas can lead to record high prices and tight supplies, like those consumers and businesses have faced in the past four years since the 2008 farm bill was enacted.

The European Commission Deputy Director General for Agriculture and Rural Development agrees that real reform is needed, saying recently, "For us it's important that the quotas end because they are very rigid. We believe they are a thing of the past, and it doesn't make sense that sugar will be the only market left with quotas in the EU." EU policymakers are working to move away from the mistaken policy of sugar quotas and tariffs, and the United States should too.

MYTH: Candy companies make enormous profits, so the sugar program can't be hurting them.

FACT: Publicly-traded food companies tend to have relatively modest net profit margins, indicating a highly competitive business. The large majority of confectioners are privately held, often by multi-generational families, so it is not possible to know their exact results.

However, sugar-using companies continue to move offshore or go out of business altogether. In 2011, Yarnell Ice Cream in Arkansas, an 80-year-old state favorite, and Judson-Atkinson Candies in San Antonio, Texas, blamed high sweetener prices as one of the major factors in their bankruptcy. More recently, Judson-Atkinson Candies closed its doors as a result of soaring sugar prices.

MYTH: The sugar program benefits small family farms.

FACT: The two largest Florida sugarcane producers acknowledge on their websites that they each farm more than 100,000 acres. Some other sugar farms operate on a much smaller scale, but few fit the stereotype of a small farm. Sugar policy should take the needs of small businesses into account, and it is not just farms that are small: Two-thirds of confectioners in the United States are small businesses.

MYTH: The United States needs an ample supply of sugar as a matter of national security.

FACT: To say that sugar is a matter of national security would probably draw a laugh from many Americans. Some might even be offended or angered that the sugar lobby asserts that its subsidies are in the same category as combating terrorism, reducing dependence on foreign oil or preventing nuclear proliferation. But if one does take the argument seriously, then current sugar policy is a strange way to ensure a secure supply of sugar, since it is singularly focused on reducing and restricting sugar supplies in order to drive up prices as high as possible. Sugar import quotas act as legal limits on how much sugar can be sold in the U.S. market, and requirements to divert sugar from food use are all aimed at cutting supplies, not securing them.

MYTH: The sugar program benefits developing countries.

FACT: If the sugar lobby really cared about developing countries, they would not have lobbied Congress – successfully, in 2008 – to put strict and arbitrary limits on our government's ability to allow more sugar imports. The fact that the sugar lobby wants imports held to a bare minimum says all that needs to be said about the truthfulness of this claim.

MYTH: Even if Congress passes sugar reform, candy companies will never pass along savings to consumers, so consumer prices won't go down even if sugar prices fall.

FACT:

- This argument is interesting because sugar growers and processers have demonstrated that they have no qualms in defending a program that has cost consumers and food companies $14 billion over the first four years after enactment of the 2008 farm bill.

- The price of any product reflects the cost of making it, and sugar is not the only driver of the price on a product. There are a number of other variables – the costs of labor, packaging and energy, among others.
- The benefits of sugar reform can be realized a number of ways. By providing relief and stability after four years of obscenely high and unstable U.S. refined sugar prices, sugar reform will allow American sugar-using companies to have more certainty as they make business decisions, which may include hiring and promoting employees, providing additional employee health benefits, expanding and improving their facilities and / or creating consumer incentives.
- For some companies and their employees, the benefit of reform could mean staying in business. Though the sugar program threatens the vitality of American businesses of all sizes, smaller companies are hurt most as sugar is their number one ingredient, and its price impacts their ability to survive.

MYTH: Sugar reform will only help big candy companies.

FACT: Sugar is used in a wide range of food products – breads, pasta sauce, peanut butter, frozen vegetables, canned fruit and many more.

This is not just a candy issue, nor is it just a big company issue. In fact, smaller businesses are hurt most by sugar policy. They normally pay higher prices than do volume buyers; they are last in line to be served when supplies are tight; and they frequently do not have the sophisticated hedging capabilities of large companies, and so are more vulnerable to government-induced price spikes.

MYTH: U.S. retail sugar prices are cheap compared to other countries.

FACT: This claim is based on an American Sugar Alliance chart with blatantly inaccurate numbers. For example, the chart shows a 2011 U.S. retail sugar price of 58 cents per pound. There was not a single month in 2011 when the retail price was below 66 cents, and the average for the year was 68.3 cents, according to the Bureau of Labor Statistics. That is 15 percent higher than the inaccurate price claimed by the sugar lobby. Their prices for other countries are also suspect – a comparison of actual European sugar prices in 2010 shows that U.S. prices were as much as 40 percent higher at that time.

In fact, the price that matters for competitiveness in the food industry is the wholesale price, and that is easy to locate because USDA publishes it. In 2011, the average U.S. wholesale refined sugar price was 56.2 cents per pound. The average in the European Union was 36.3 cents per pound, which is 35 percent less than in the United States.

MYTH: U.S. sugar prices have dropped nearly 50 percent since last year. Reform is not needed because the market is working.

FACT: Less than one year ago, and in fact, in the first four years after passage of the 2008 farm bill, U.S. refined sugar prices were at record highs. Though raw sugar prices have fallen some over the past year, they could easily go up again. The *Sugar Reform Act* (H.R. 693 / S. 345) does NOT rescind the sugar program – there will still be protections for the U.S. sugar producers that depend on their sugar crops. The legislation rolls back the provisions passed in the 2008 farm bill in a manner that will allow for a stabilization of supply and price.

MYTH: The world sugar market is a dump market.

FACT: The world sugar market is where most sugar is traded internationally. It is among the most actively traded agricultural futures contracts in the world. And in fact, since 2009 this so-called "dump" price has frequently been substantially higher than the U.S. price support level. When world prices are above the price that U.S. growers say is adequate to support them, why does the sugar program still block imports that could meet market needs?

MYTH: The Canadian government brochure seeking to lure U.S. food companies is several years old and no longer relevant in today's sugar reform debate.

FACT: The brochure is from 2006. It's an official Canadian government document and its message is pretty clear – move your plant north and buy sugar more cheaply. But what's happened since then? U.S. sugar prices were 64 to 92 percent higher than on the world market after the 2008 farm bill was enacted. Whatever incentive existed to move to Canada in 2006, it is stronger today.

MYTH: U.S. candy makers move operations to Mexico to take advantage of cheap labor, not because of high U.S. sugar prices.

FACT: It should be noted that sugar-using industry jobs have also moved to Canada where wages are the same or higher than the United States. The question is, why is the U.S. government making it harder for U.S. manufacturers to compete with foreign manufacturers by prolonging a policy that drives up the cost of a key ingredient in so many foods? Remember, candy is not the only major food product using sugar. Sugar is a key ingredient in virtually all baked goods, many dairy products and processed foods of all kinds. In the mid-1990s the United States was still a net exporter of sugar in sugar-containing products. Today the country is a net importer of more than 700,000 tons of sugar in products. The *Sugar Reform Act* (H.R. 693 / S. 345) will make it easier for companies to stay competitive and keep their operations in the United States.

MYTH: The Sugar Reform Act (H.R. 693 / S. 345) and the sugar reform House floor amendment would kill the sugar program.

FACT: This is completely untrue. Proposed reforms merely eliminate some unnecessary and market-distorting provisions that were added to U.S. sugar policy in 2008, but do not change the underlying sugar program. In particular, the proposed reforms:

- Do not eliminate price supports for sugar;
- Do not eliminate domestic marketing allotments for sugar; and
- Do not eliminate sugar import quotas.

To learn more, visit sugarreform.org.