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Sugar Policy Issues

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SUMMARY

The sugar program is designed to protect incomes of growers of sugarcane and sugar beets, and of firms that process each crop into sugar. To accomplish this, the U.S. Department of Agriculture (USDA) supports domestic sugar prices by making available loans at minimum price levels to processors, restricting imports, and limiting the amount of sugar that processors can sell domestically — the last intended to meet U.S. import commitments under two trade agreements.

Debate in 2001-2002 on future U.S. sugar policy occurred against the backdrop of a sugar oversupply situation, which resulted in historically low prices and processors' subsequent forfeiture of sugar pledged as collateral for price support loans to USDA. Sugar crop growers and processors stressed the industry's importance in providing jobs and income in rural areas. They called for resolving trade disputes, retaining current loan rate levels, and relying on domestic marketing controls to control supplies. Sugar users, some cane refiners, and their allies argued that U.S. sugar policy costs consumers and results in lost jobs at food firms in urban areas. Three amendments to reduce the level of price support and/or phase out the program were offered and rejected during floor debate in the 107th Congress.

The sugar program enacted as part of the 2002 farm bill increases the effective support level by 5%-6%, gives USDA tools to operate the program at no cost, and reactivates "marketing allotments" to limit the amount of domestically produced sugar that processors can sell in the U.S. market. Sugar producers and users continue to scrutinize USDA decisions on the level at which USDA sets the national sugar allotment quantity, because of its impact on sugar prices.

The U.S. sugar production sector argues that liberalizing trade in sugar should be addressed in multilateral World Trade Organization (WTO) negotiations, but excluded from hemispheric and bilateral free trade agreements (FTAs). Its concern is that additional market access provided to FTA candidates, which are major sugar exporters with weaker labor and environmental rules, would undermine the U.S. sugar program and threaten the sector's viability. Sugar users advocate including sugar in all trade negotiations, eyeing the prospect over time of lower-priced sugar they have not been able to secure through congressional initiatives. U.S. trade negotiators did include sugar in the Dominican Republic-Central American Free Trade Agreement (DR-CAFTA) but excluded sugar in the FTA with Australia. The U.S. sugar industry strongly opposes DR-CAFTA, and is working to defeat it when submitted to Congress soon.

Efforts to resolve longstanding sweetener trade disputes with Mexico — involving Mexican sugar exports to the U.S. market and sales of U.S. high fructose corn syrup (HFCS) to Mexico — have shifted to the private sector after substantive government-to-government talks stalled. In late 2003, U.S. and Mexican sweetener industry representatives reached agreement on "broad principles" to settle these disputes, but have not yet agreed upon details to present to each government. The WTO is expected to rule in June 2005 on a trade dispute case filed by the United States challenging Mexico's imposition of a sales tax on soft drinks and beverages sweetened with HFCS.

The Trade Act of 2002 requires USDA and U.S. Customs to monitor imports of sugar and sugar-containing products to ensure that their entry does not circumvent the import quota and undermine the sugar program.

MOST RECENT DEVELOPMENTS

Bush Administration officials have stated there are no plans to renegotiate the DR-CAFTA (Dominican Republic-Central American Free Trade Agreement) to address sugar industry and other concerns, according to reports published in *Inside U.S. Trade* and by Reuters on May 13, 2005. The possibility of a compromise on sugar that would clarify or detail how the sugar compensation provision might work was raised in a press conference held on May 10 by the Chairman of the Finance Committee that will consider the agreement. Sugar industry spokesmen continue to stress that their objective is to effectively exclude the sugar provisions from the agreement.

The U.S. Department of Agriculture's (USDA) first projection for FY2006 sugar supply, issued May 12, 2005, shows very low ending stocks by September 2006. This prospect points toward USDA likely announcing this summer an import quota above the minimum level of sugar the United States must allow to enter from some 40 countries.

BACKGROUND AND ANALYSIS

History of and Background on the Sugar Program

Governments of every sugar-producing nation intervene to protect their domestic industry from fluctuating world market prices. Such intervention is necessary, it is argued, because both sugar cane and sugar beets must be processed soon after harvest using costly processing machinery. When farmers significantly reduce production because of low prices, a cane or beet processing plant typically shuts down, usually never to reopen. This close link between production and capital-intensive processing makes price stability important to industry survival.

The United States has a long history of protection and support for its sugar industry. The Sugar Acts of 1934, 1937, and 1948 required the U.S. Department of Agriculture (USDA) to estimate domestic consumption and to divide this market for sugar by assigning quotas to U.S. growers and foreign countries, authorized payments to growers when needed as an incentive to limit production, and levied excise taxes on sugar processed and refined in the United States. This type of sugar program expired in 1974. Following a seven-year period of markets relatively open to foreign sugar imports, mandatory price support only in 1977 and 1978, and discretionary support in 1979, Congress included mandatory price support for sugar in the Agriculture and Food Act of 1981 and the Food Security Act of 1985. Subsequently, the 1990 farm program, 1993 budget reconciliation, and 1996 and 2002 farm program laws extended sugar program authority through the 2007 crop year. Even with price protection available to producers, the United States historically has not produced enough sugar to satisfy domestic demand and thus continues to be a net sugar importer.

Prior to the early 1980s, domestic sugar growers supplied roughly 55% of the U.S. sugar market. This share grew over the last 15 years, reflecting the price protection provided by a sugar program. In FY2004, domestic production filled 87% of U.S. sugar demand for food and beverage use. As high-fructose corn syrup (HFCS) displaced sugar in the United States

during the early 1980s, and domestic sugar production increased in the late 1980s, foreign suppliers absorbed the entire adjustment and saw their share of the U.S. market decline. The import share of U.S. sugar food use in FY2004 was 13%.

Current U.S. sugar policy maintains domestic sugar prices considerably above the world market price, and is structured primarily to protect the domestic sugar producing sector (sugar beet and sugarcane producers, and the processors of their crops) and to ensure a sufficient supply. As a result of the price differential, U.S. consumers and food product manufacturers pay more for sugar and manufactured food products when sugar is an ingredient than they would if imports entered without any restriction.

The sugar program differs from most of the other commodity programs in that USDA makes no direct payments to growers and processors. Structured this way, taxpayers do not directly support the program through federal government expenditures. This fact is highlighted as a positive feature by the sugar production sector and its supporters. The program's support level and import protection, though, keep the U.S. sugar price above the price of sugar traded internationally, and constitute an indirect subsidy to the production sector by way of higher costs paid by U.S. sugar users and consumers. Program opponents frequently refer to this subsidy component to argue for changes to U.S. sugar policy.

Those with a direct financial stake in the debate on U.S. sugar policy include sugarcane and sugar beet farmers, processors (raw sugar mills and beet sugar refineries), cane sugar refineries, industrial sugar users (including food and beverage product manufacturers), foreign countries that export sugar to the U.S. market, corn producers and manufacturers of high-fructose corn syrup (HFCS), and the federal government.

Congressional debate over sugar policy leading up to the 2002 farm bill changes took place against the backdrop of structural changes in the industry, historically low domestic sugar prices caused by oversupply, and the inability of policymakers working within the 1996-enacted U.S. sugar program framework to reconcile the two objectives of protecting the domestic sugar price (under the sugar program) and meeting trade agreement obligations that allow foreign sugar to enter the U.S. market (under the import quota).

Main Features of U.S. Sugar Policy

To support U.S. sugar prices, the USDA extends short-term loans to processors at statutorily set price levels, restricts imports of foreign sugar, and limits the amount of domestically produced sugar that can be sold. The sugar program, though, differs from the grains, rice, and cotton programs in that USDA makes no income transfers or payments to beet and cane growers. In practice, overall U.S. sugar policy operates to indirectly support the incomes of domestic growers and sugar processors primarily using two tools. An import quota limits the amount of foreign sugar allowed to enter the domestic market. Though this mechanism is not an integral part of the sugar program's statutory authority, this quota operates as an integral part (but increasingly less so than in the past) to ensure that market prices stay above effective support levels. "Marketing allotments" (reactivated under the 2002 farm bill) prescribe the amount of domestic sugar that can be sold when imports are expected to be below a specified level. Accordingly, USDA's decisions on the size of the import quota, and on how it will administer sugar marketing allotments, affect market price levels (see below). USDA administers these policy instruments to ensure that growers and

processors realize the benefits of price support the law provides, whether or not loans are actually taken out. One 2002 farm bill objective is for USDA to exercise available authorities to operate the program on a “no-cost” basis (i.e., result in no federal government outlays).

Price Support

USDA extends price support loans to processors of sugarcane and sugar beets rather than directly to the farmers who harvest these crops. Growers receive USDA-set minimum payment levels (a requirement changed slightly by the 2002 farm bill) for deliveries made to processors who actually take out such loans during the marketing year — a legal requirement. With those processors that do not take out loans, growers negotiate contracts that detail delivery prices and other terms. USDA loans at times are attractive to sugar processors as a source of short-term credit at below-prime interest rates.

Loan Rates. The 2002 farm bill freezes loan rates — 18¢ per pound for raw cane sugar and 22.9¢ per lb. for refined beet sugar — at levels first set in 1995 for another six years (through the 2007 crop year). The loan support for beet sugar is set higher than for raw sugar, largely reflecting its availability after processing as a product ready for immediate industrial food and beverage use or for human consumption (unlike raw cane sugar). By contrast, raw cane sugar must go through a second stage of processing at a cane refinery to be converted into white refined sugar that is equivalent to refined beet sugar in terms of end use. Any beet or cane processor that meets statutory requirements can take out a non-recourse loan at these rates (adjusted by region and other factors). The loan’s “non-recourse” feature means a processor can exercise the legal right to hand over sugar it initially offered USDA as collateral to fully repay the loan, if the market price is below the support level when the loan comes due.

Effective Support Levels. The above loan rates, though, do not serve as the price floor for each type of sugar. In practice, under the 2002 farm bill, USDA’s aim is to support the raw cane sugar price (depending upon the region) at not less than 19.9¢ to 21.0¢ per lb. (i.e., the price support level in a region *plus* an amount that covers a processor’s cost of shipping raw cane sugar to a cane refinery *plus* the interest paid on any price support loan taken out *plus* location discounts). Similarly, USDA seeks to support the refined beet sugar price at not less than 22.9¢ to 25.2¢ per lb. (i.e., the regional loan rate *plus* specified marketing costs *plus* the interest paid on a price support loan), depending on the region. USDA has available various authorities to ensure that market prices do not fall below these “loan forfeiture,” or higher “effective” price support, levels. These include (1) limiting the amount of foreign raw sugar imports allowed into the United States for human consumption, (2) limiting the amount of domestically-produced sugar permitted to be sold under the new marketing allotment mechanism, and (3) offering sugar in its inventory to processors (and growers) who agree to reduce production. A loan forfeiture (turning over sugar pledged as loan collateral to USDA) occurs if a processor concludes, also weighing other factors, that the domestic market price at the end of the loan term is lower than the “effective” sugar price support level. These support levels essentially provide a processor with a price guarantee.

Import Quotas

USDA restricts the quantity of foreign sugar allowed to enter the United States for refining and sale for domestic food and beverage consumption. By controlling the amount

of sugar allowed to enter, USDA seeks to ensure that market prices do not fall below effective price support levels and that it does not acquire sugar due to any loan forfeitures.

Tariff-rate quotas (TRQs) are used as the policy instrument to restrict sugar imports to the extent needed to meet U.S. sugar program objectives. In practice, the U.S. market access commitment made under World Trade Organization (WTO) rules means that a minimum of 1.256 million short tons (ST) of foreign sugar must be allowed to enter the domestic market each year. Although the WTO commitment sets a minimum import level, policymakers may allow additional amounts of sugar to enter if needed to meet domestic demand. In addition, the United States committed to allow sugar to enter from Mexico under North American Free Trade Agreement (NAFTA) provisions. The complex terms are detailed in a schedule and a separate side letter, which lay out rules and a formula for calculating how much Mexico can sell to the U.S. market. Under the WTO and NAFTA agreements, foreign sugar enters under two TRQs — one for raw cane, another for a small quantity of refined sugar.

The Office of the U.S. Trade Representative (USTR) allocates these TRQs among 41 eligible countries, including Mexico and Canada. The amount entering under each quota (the “in-quota” portion) is subject to a zero or low duty. Sugar that enters in amounts above the WTO quota is subject to a prohibitive tariff, which serves to protect the U.S. sugar-producing sector from the entry of additional foreign sugar. The tariff on above-quota sugar entering from Mexico under NAFTA continues to decline, which is viewed as a growing threat by the domestic production sector. In addition, other TRQs limit the import of three categories of sugar-containing products (SCPs — products containing more than 10% sugar, other articles containing more than 65% sugar, and blended syrups). Quota and tariff provisions differ depending on whether these imports enter from Mexico, from Canada, from other countries with which the United States has a free trade agreement, or from any other country.

USDA on July 16, 2004, set the FY2005 tariff-rate quotas for sugar imports (raw and refined) at 1.279 million ST. This amount is slightly higher than the U.S. commitment made under WTO rules. The outcome of private sector negotiations between the U.S. and Mexican sweetener industries could signal whether or not USTR announces an FY2005 sugar quota for Mexico (see “Sugar Trade Issues — Sweetener Disputes with Mexico”).

Marketing Allotments

Adding this new tool to the other authorities available to USDA to support prices reflected the sugar production sector’s willingness to accept reduced sales in return for the assurance of price protection on the quantity of sugar sold. By regulating the amount of sugar processors can sell, USDA can ensure that market prices do not fall below effective price support levels and that it does not acquire sugar as a result of any loan forfeitures.

The 2002 farm bill-authorized sugar program requires marketing allotments when imports are projected below 1.531 million ST. By limiting the amount of domestically-produced sugar that raw cane mills and beet refiners can sell, this mechanism ensures that the United States meets its annual market access commitments for sugar imports under the WTO agreement (1,255,747 ST) and under NAFTA’s sugar side letter in effect through FY2007 (up to a maximum 275,578 ST). Complex provisions detail the formula that USDA must follow to calculate the amount of domestic sugar that can be sold (i.e., the “overall allotment quantity,” or OAQ), specify the factors to apply in making this determination, and split the allotment between the beet and cane sectors at 54.35% and 45.65%, respectively.

Additional rules specify how the raw cane allotment is to be distributed among sugarcane producing states, and then among the mills in each state. Separate rules stipulate how the beet sugar allotment is to be allocated among processing companies (many of which operate across state lines). Once the detailed calculations are made, each firm can sell only as much sugar as stated in its allotment notification received from USDA.

USDA on July 16, 2004, set the FY2005 OAQ at 8.1 million ST, stating that this is required “to meet the statutory [sugar] program objectives of an orderly market and program operation at no cost to the taxpayer to the maximum extent practicable.” Sugar producers reportedly sought an OAQ of about 7.7 million ST, a level they felt would strengthen prices; sugar users wanted an OAQ set at 8.25 million ST — the same as set for FY2004 — anticipating that this would dampen any price rise. The FY2005 OAQ represents 99.8% of projected 2004-2005 production. Because of hurricane-related losses, reduced output of raw cane sugar means that the cane sector cannot fully utilize its allotment. The beet sector, though, will need to hold off from selling refined beet sugar in excess of its allotment (with “blocked” stocks equal to 6% of beet sugar output, or 291,000 ST).

Other 2002 Farm Bill Provisions

Another significant change explicitly authorizes a sugar payment-in-kind (PIK) mechanism that allows sugar processors (acting in concert with producers of cane and beets) to submit bids to obtain sugar in USDA’s inventory in exchange for reducing production. This provision supplements 1985 farm bill authority that USDA tapped to implement the 2000 and 2001 sugar PIK programs, and could again be used to meet the explicit program requirement that the sugar program operate on a no-cost basis.

Other changes (1) reauthorized the program for six years (through the 2007 crop year); (2) increased the effective price support level by 5%-6% by repealing the approximate 1¢/lb. loan forfeiture penalty, (3) broadened the coverage of the loan program to allow non-recourse loans to be made also for in-process sugars and syrups at 80% of the raw cane or refined beet loan rate, (4) repealed the sugar marketing assessment retroactively to October 1, 2001 (saving the production sector about \$40 million annually), (5) authorized a new storage loan facility program to provide financing to processors for constructing or upgrading facilities to store and handle raw cane and refined beet sugar, and (6) reduced the interest rate USDA charges on price support loans extended to sugar processors by 100 basis points (1%). Final program regulations, though, reflect USDA’s decision to apply the same interest rate on sugar non-recourse loans as it applies to loans extended to other commodities (4.0% for loans taken out in March 2005). The production sector views this as contrary to the enacted provision. USDA’s stance is the farm bill did not establish a specific sugar loan interest rate.

Program Implementation

To implement the new sugar program for the 2002 and subsequent year sugar crops, USDA issued revised regulations (published in the August 26, 2002 *Federal Register*) to reflect farm bill changes. USDA’s determinations and subsequent adjustments of the overall allotment quantity (OAQ) have been the most significant decisions made in implementing the program. At a public hearing held September 4, 2002 on the initial OAQ announcement for **FY2003**, the sugar production sector commented favorably on USDA’s decision to set the allotment quantity at 7.7 million ST. Sugar users (primarily food manufacturing firms)

disagreed, stating USDA set the allotments much lower than called for, when viewed against historical ending stock indicators. Users were pleased with USDA's January 10, 2003 decision to increase the allotment quantity by 500,000 ST to 8.2 million ST, viewing it as more in line with the way the sugar program has been administered in the past. At a meeting held on March 12, industrial sugar users and one cane refiner asked USDA to increase the OAQ by up to 300,000 ST to offset the amount the beet sector did not have to sell due to lower production. Sugar growers and processors opposed such action, recommending that USDA act cautiously so as not to flood the market. USDA responded on May 13, announcing a 463,000 ST increase in the OAQ to 8.663 ST.

For the **FY2004** program, USDA on August 13, 2003, announced the 2003/04 OAQ (8.555 million ST) and the breakdown of marketing allotments between cane and beet sugar. At an August 27 hearing held to receive comments on this OAQ announcement, a spokesman for the Florida, Texas, and Hawaii sugar cane sectors stated that USDA had set the allotment quantity too high, and argued that it "will provide overly generous benefits to sugar users at the expense of farmers." He further expressed concerns about the effects this action will have on the domestic sugar price, the profitability of producers and processors, and the effectiveness of U.S. sugar policy. USDA took this view and also changing market conditions into account in announcing it would hold 300,000 ST of the FY2004 OAQ in reserve, a move that initially bolstered domestic sugar prices. Subsequent administrative announcements provided details on USDA's decision to allocate only 96.5% of the OAQ (8.25 million ST, holding 300,000 ST of the FY2004 OAQ in reserve) to reflect changes in market conditions — higher beginning stocks and lower total use — and to distribute the revised allotments among five cane producing states, all cane processors, and all beet refiners (September 30); and on regional loan rates (September 30). On April 9, 2004, USDA announced an official reduction in the OAQ to 8.25 million ST, eliminating the 300,000 ST initially retained, in order to bolster prices. USDA also adjusted sugarcane marketing allotments to reflect updated production forecasts and accordingly revised sugarcane processor marketing allocations. On July 22, USDA reassigned unused cane sugar allocations from Hawaii to three other cane-producing states, and announced a limit on the amount of Louisiana cane acreage that can be harvested for sugar or seed.

For the **FY2005** program, USDA on July 16, 2004, set the initial 2004/05 OAQ at 8.1 million ST. On September 28, USDA reaffirmed this level in announcing cane and beet marketing allotments and allocations for each sugar beet and sugarcane processor, eliminated Puerto Rico's cane allotment because sugar production and processing there had ceased, permanently reassigned the island's allotment to three cane sugar states, and announced the 2004-crop sugar loan rates. On April 29, 2005, USDA reassigned unused cane sugar allocations from processors in Hawaii and Louisiana to processors in Florida and Texas.

Sugar Program in the 2002 Farm Bill

The enacted program (authorized by Sections 1401-1403 of P.L. 107-171) is designed to maintain a balance between supply and demand in the U.S. sugar market, ensure that sugar producers and processors receive enhanced price support and other program benefits that offset some of the revenue lost to reduced sales under the new allotment mechanism, and remove most of the federal government's budgetary exposure. The sugar production sector's objective, expecting little growth in domestic sugar demand and accepting U.S. trade commitments that allow other countries access for a minimum quantity of their sugar, is to

maintain the status quo for as long as possible, until U.S. market demand for sugar increases and/or trade negotiations conclude in a way that favors their interests.

During floor debate in each chamber, program opponents failed in efforts to reduce the level of price support, and/or to phase out the current program. The Bush Administration did not present any proposals with respect to the sugar program, but earlier questioned the practice of compensating growers for not harvesting a portion of their crop. Conferees easily resolved the few differences between the House and Senate sugar program provisions. The most important was an agreement to repeal the 1996-enacted approximate one-cent penalty imposed on a processor that decides to forfeit any price support loan taken out (i.e., hand over sugar to the government as payment).

Background and Debate on Program. The 2002 farm bill's sugar provisions reflect the recommendations offered by the American Sugar Alliance (ASA) — representing sugar farmers and processors — in testimony presented to the House and Senate Agriculture Committees in the spring and early summer of 2001. The ASA further commended the subsequent committee and floor actions taken that reinstated a U.S. sugar policy that “will ensure stable prices for farmers and consumers and operate at no cost to taxpayers.” It views the “domestic inventory management tool” included in the farm bill as “restoring balance to the U.S. sugar market” when there is a surplus. Its spokesmen have acknowledged that the industry “is reluctant to face the prospect of limited marketings in some years,” but that trade commitments under the WTO and NAFTA agreements require the United States to import as much as 1.5 million ST of sugar each year (about 15% of consumption), “whether we need that sugar or not.” They added that growers and processors under marketing allotments will have the flexibility to plant as much crops and produce as much sugar, respectively, as they wish, but noted that processors who increase sugar output faster than the growth in U.S. demand “may have to postpone the sale of some sugar, and store that sugar at their expense until the market requires it.”

House Debate. The nearly identical sugar programs reported by the House and Senate Agriculture Committees were challenged by program opponents during floor debate. In the House, Representatives Dan Miller and George Miller offered an amendment on October 4, 2001, to replace the Committee's proposed sugar program with an approach they argued would result in a sugar policy more oriented to market forces. They had earlier expressed disappointment that the Agriculture Committee “decided to ignore the failure of the U.S. sugar program,” noting that the measure approved contains “no meaningful reform” and turns “the clock back on consumers, workers, taxpayers and the environment.” Their amendment proposed to retain the current program's non-recourse loan feature, reduce the current level of sugar price support by almost 6%, increase financial penalties on processors that hand over sugar to the CCC rather than repay any non-recourse loans taken out, and designate \$300 million from the amendment's savings for conservation and stewardship programs (with a priority for efforts in the Everglades). Price support would be reduced by 1¢ per pound for raw cane sugar, and 1.2¢ per pound for refined beet sugar (to 17¢ / lb. and 21.6¢ / lb., respectively). Penalties that processors would pay to the CCC would double if they forfeit on their price support loans (increasing to 2¢ / lb. for raw cane sugar, and 2.14¢ for refined beet sugar). The House rejected this amendment on a 177 to 239 vote.

The Coalition for Sugar Reform (an association of food manufacturers, consumer and taxpayer advocacy groups, environmental organizations, and publicly-traded cane refiners) favored this amendment offered during House debate. The Coalition has long claimed that

the current sugar program “is an economic disaster for producers, consumers, workers in urban centers who are losing their jobs and the food manufacturing industry” and should be reformed. Its spokesmen have testified “reform” would do this by (1) securing adequate supplies for consumers, industrial users, and cane refiners, (2) accommodating present and future U.S. international trade obligations by providing market access for imports, (3) removing “the current economic incentives for overproduction,” and (4) allowing sugar to trade at market prices “below support levels when market forces dictate.”

Senate Amendments. Two amendments offered during floor debate proposed more sweeping changes to the sugar program. Both mandated recourse (i.e., removing processors’ access to price protection) rather than non-recourse loans and the program’s phase out by mid decade. Senator Lugar’s amendment, offered on December 12, 2001, would have completely phased out the sugar and other commodity programs after the 2005 crops. Until then, USDA could only make recourse loans to sugar processors. The level of price support would have been “progressively and uniformly” lowered starting with the 2003 crops in order to reach zero in 2006. Price support would have been replaced with vouchers of up to \$30,000 made available annually through 2006 to any sugar producer who signed a “risk management contract,” and undertook specified risk management activities such as buying whole farm revenue insurance and/or contributing to a whole farm stabilization account. This voucher system would have applied to all (and not just sugar crop) producers. His proposal was defeated on a 70-30 vote. Senator Gregg’s amendment (offered December 12) similarly proposed a recourse loan program to be phased out by 2006, but differed in requiring that the budget savings be used to increase benefits for the food stamp program’s shelter expense deduction. His proposal was tabled 71-29 during floor debate.

Sugar Trade Issues

The United States must import sugar to cover the balance of its domestic food needs (13% in FY2004) that the domestic sugar production sector cannot supply. Accordingly, provisions in trade agreements approved by the United States that apply to imports and exports of sugar, sugar-containing products, and other sweeteners such as corn syrup affect the economic interests of the U.S. sugar production sector, domestic cane refiners, U.S. sugar users, sugar exporting countries, U.S. corn producers and U.S. corn sweetener manufacturers.

Sugar imports contribute to the domestic sugar supply, and in turn, to the level of U.S. sugar market prices. Sugar imported under market access commitments made by the United States in the NAFTA and WTO trade agreements, or under prospective free trade agreements (FTAs), together with some sugar products that were not subject to import restrictions until recently, have added to, or may under certain conditions contribute to, a U.S. sugar surplus that pushes prices downward. Of outstanding trade issues, attention is now focused on the political and economic implications of including sugar in the U.S.-Dominican Republic-Central American Free Trade Agreement (DR-CAFTA), which Congress will consider this summer. The agreement’s sugar, along with textile and labor, provisions will be the most contentious issues debated by Members.

Sugar in Trade Agreement Negotiations

Whether, and on what terms, to liberalize trade in sugar and sugar-containing products in prospective trade agreements is a difficult issue facing U.S. negotiators. Exporting

countries have signaled they want these agreements to provide increased access for their sugar to the higher-priced U.S. market. The U.S. sugar production sector opposes any additional entry of sugar and products under bilateral and regional trade agreements, concerned that such a scenario would undermine its market share, threaten the viability of the domestic sugar program, and result in significant loan forfeitures. U.S. manufacturers that use sugar in food products and beverages favor opening up the U.S. market to additional imports, anticipating that they would benefit from lower sugar prices over time.

Sugar trade has been, and is, more of an issue in negotiating bilateral free trade agreements (FTAs) with five Central American countries, the Dominican Republic, four southern African countries, Australia, the Andean countries, Panama, and Thailand and the hemispheric Free Trade Area of the Americas (FTAA), than in multilateral efforts under the WTO to reach an agreement on the pace and terms of liberalizing agricultural trade. With Brazil, Guatemala, South Africa, Australia, and Colombia viewed as major low-cost sugar producing and exporting countries, trade agreements that the United States enters, or might enter, into with them could allow for additional sales of sugar to the U.S. market above those now permitted under their allocated shares of the U.S. sugar TRQ. Brazil's negotiators frequently mention that increased market access for its sugar in the U.S. market is one of their key agricultural priorities in the FTAA. Since the inherent objective of any free trade agreement is to eliminate all border protection on all imports (including agricultural commodities) within some specified time period, the scenario of removing current U.S. quota provisions and tariffs on imports of sugar and sugar-containing products from countries that are signatories to these agreements would in time result in additional U.S. sugar imports and likely begin to undermine the operation of the domestic sugar program as now structured.

This scenario assumes the U.S. raw sugar domestic futures price (21.3¢/lb. in April 2005) remains significantly higher than the world raw sugar futures price (8.4¢/lb. also in April), with this difference (or price premium) serving as the incentive for exporters to seek to sell to the U.S. market rather than to the lower-priced world market. By contrast, any multilateral agreement that emerges from the WTO's Doha Development Round could reduce to some extent those trade-distorting policies countries use to support their sugar and other commodity sectors. The extent, though, to which a WTO agriculture agreement might affect the current U.S. sugar program will depend upon parameters yet to be negotiated in the "framework agreement" (see "Sugar in WTO Negotiations").

The American Sugar Alliance (ASA) representing sugar crop farmers and processors argues that the Bush Administration's efforts should be to "reform the world sugar market through comprehensive, sector-specific WTO negotiations" and not through regional or bilateral trade agreements. ASA supports the goal of global free trade (including for sugar) through the WTO, which it views as the best venue for addressing "the complex array of government policies that distort the world sugar market" on a multilateral and comprehensive basis. Spokesmen frequently mention subsidies that various countries use to "encourage the dumping of sugar at a fraction of what it costs to produce it." To support its position, ASA released in January 2003 a commissioned report it says documents the non-transparent and indirect subsidies that major sugar producing and exporting countries use to assist their sugar sectors. For this reason, ASA opposes negotiating sugar trade provisions in bilateral agreements, claiming that the most damaging government policies (citing Brazil's sugarcane-ethanol subsidies, the Mexican government's ownership of sugar mills, and the European Union's (EU) sugar export subsidy regime) will not be addressed by bilateral or regional negotiations. It further argues that U.S. consumers would not benefit in the form of lower

prices from increased imports. ASA opposes CAFTA (see “Sugar in DR-CAFTA,” below) and has argued against including sugar in other prospective FTAs in hearings before USTR and ITC.

The Sweetener Users Association (SUA) (composed of industrial users of sugar and other caloric sweeteners and the trade associations that represent them) and the Coalition for Sugar Reform (CSR) (trade associations for food and beverage manufacturers, some cane refiners, taxpayer advocacy organizations, environmental groups and consumer organizations that advocate reform of U.S. sugar policies) supported the Bush Administration’s July 2003 proposal tabled at the WTO to further liberalize agricultural trade. The U.S. proposal called for countries to eliminate export subsidies, reduce tariffs on any agricultural product to not more than 25%, and expand the in-quota amount of current tariff-rate quotas (TRQs) by 20%. SUA expects that under this proposal “world sweetener markets will operate more efficiently and fairly,” as EU’s export subsidies are phased out and U.S. sugar import quotas become more market oriented. Both groups argue that liberalizing trade in sugar would benefit the U.S. economy through lower prices, encourage product innovation and stimulate demand, keep food manufacturing jobs in the United States rather than see them move overseas, help maintain a viable cane refining industry with its well-paid union jobs, and stimulate competition and thus thwart excessive industry concentration. The SUA supports the DR-CAFTA’s sugar provisions and the Administration’s negotiating objectives in the other bilateral FTAs and in the FTAA.

Sugar in Dominican Republic-Central American Free Trade Agreement.

Most observers viewed sugar as the most sensitive U.S. agricultural commodity in these negotiations. Until the talks ended on December 17, 2003, with four Central American countries, on January 25, 2004, with Costa Rica, and on March 15, 2004, with the Dominican Republic, U.S. negotiators repeatedly stated that CAFTA will cover all agricultural products, including sugar, and that their objective was to arrive at a trade agreement which reduces tariffs to zero (and by implication, eliminates quotas) within agreed-upon transition periods for all traded goods. Domestic sugar producers, processors, and most cane refiners, though, continued to advocate that sugar be excluded from CAFTA, arguing that to include it “would destroy the U.S. sugar industry.” They pointed out that if sugar were included, the five Central American countries would have the incentive to sell their entire exportable sugar surplus of 2 million metric tons (MT) to the U.S. market. This, in turn, they claimed, would depress domestic sugar prices, make it impossible to operate the U.S. sugar program on a no-cost basis as mandated by the 2002 farm bill, increase government costs as processors forfeit on their price support loans, and “drive efficient American producers out of business.” The domestic sugar production sector maintained that tariffs on sugar imports and other trade-distorting policies, instead, should be negotiated in the WTO. Further, the sugar industry feared that including sugar in CAFTA would set a precedent for including sugar in the other FTAs the United States is negotiating, or plans to, with several sugar exporting countries. It pointed out total sugar export availability of these actual and potential FTA candidates is 27 million MT, compared with U.S. sugar output of 8 million MT. Sugar beet and sugarcane grower associations in North Dakota, Minnesota, Michigan, Colorado, and Louisiana by mid-November 2004 had collected almost 70,000 signatures on petitions in opposition to DR-CAFTA. These will be presented to congressional delegations ahead of floor debate in 2005. The Sweetener Users Association, though, supports the DR-CAFTA, stating this agreement will enhance competition in the U.S. sugar market, increase export opportunities for other U.S. food and commodity sectors in the six countries, and result in increased employment in U.S. confectionery and other sugar-using industries.

The DR-CAFTA countries (**Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, and Nicaragua**) are currently allowed to sell to the U.S. market under a quota each year a minimum of 311,700 MT of sugar. This amount represents 28% share of the entire U.S. raw sugar TRQ (1.12 million MT), and enters on a duty-free basis. Under DR-CAFTA, these six countries combined secured access in year 1 to sell to the U.S. market an additional 109,000 MT of sugar, a 35% increase over their current quota level, under a separate preferential quota. Increasing on average about 3% per year, by year 15, these countries altogether would be eligible to sell duty-free an additional 153,140 MT of sugar. Thereafter, the quota would increase by almost 2% (2,640 MT) annually in perpetuity. The over-quota tariff would stay at the current high level (78% in 2003) indefinitely, and not decline. The text includes a provision which the United States can exercise at its sole discretion in order to manage U.S. sugar supplies. This mechanism, if activated, would compensate the six countries for sugar not shipped under CAFTA's terms.

USTR points out that the additional access granted all six countries will equal about 1.3% of U.S. sugar production in year 1, increasing to 1.9% in year 15. Its lead agricultural negotiator further has stated that the import increase would not interfere with the functioning of the current sugar program. Secretary of Agriculture Veneman assured producers of import-sensitive products such as sugar that CAFTA's provisions will provide additional protection during the transition period. A spokeswoman for the U.S. sugar industry on December 18, 2003, though, asserted that the additional sugar imports proposed under CAFTA and "those contemplated in additional bilateral trade agreements will destroy" the sector and "overwhelm an abundantly supplied market." With such an outlook, she announced that the sugar sector "will have no choice but to oppose CAFTA." While acknowledging that the Administration understood the consequences of reducing the over-quota tariff, the spokesperson pointed out that under the current sugar program, additional imports would act to displace domestic sugar output. She also claimed that comparable increases in market access for other FTA candidate countries, many of whom are sugar exporters, "would result in a near doubling of U.S. imports." The entire industry again wrote to President Bush (January 15, 2004), and the lead U.S. agricultural trade negotiator (March 23), to restate its opposition and to request that the Administration reconsider and withdraw the sugar access commitments offered the Central American countries and the Dominican Republic, respectively.

The U.S. International Trade Commission (ITC), in an August 2004 analysis of the DR-CAFTA, stated that its sugar provisions are likely to result in a "small increase" in U.S. sugar and sugar-containing product (SCP) imports from the region. Lower prices due to increased imports "likely would have an adverse impact on production and employment for U.S. sugar producers, and a beneficial impact for U.S. producers of certain SCPs," according to the ITC. The American Sugar Alliance (ASA) stated on September 9 that the ITC analysis "seriously underestimates the danger of the [DR-]CAFTA for our industry." The ITC report, according to the ASA, did not take into account the U.S. commitment under NAFTA to allow free access to sugar imports from Mexico starting in 2008 and potential obligations to open the U.S. sugar market to imports from other sugar-exporting countries with which the United States is negotiating free trade agreements. Sugar import obligations in addition to those in CAFTA, ASA suggests, would cause lower prices, more bankruptcies, and lost jobs. The Sweetener Users Association responded that the ITC's projections "appear to be overstated" — by not considering the additional demand for sugar created by U.S. population growth over time and USDA's authority to limit the amount of domestic sugar that can be marketed to ensure that no change in domestic prices occurs.

Some Members of Congress from sugar-producing regions and states have announced they will vote against DR-CAFTA when debated on the floor in 2005. H.Res. 98 calls upon the President to drop CAFTA's sugar provisions and exclude sugar in all FTAs.

FTA Negotiations with Australia. U.S. trade negotiators excluded sugar from the agreement concluded with Australia on February 8, 2004, an objective that the U.S. sugar industry had sought. The industry "applauded the Administration's decision to exclude market access commitments on sugar," pointing out a FTA can be negotiated without including sugar and can "serve as a template for all future FTA negotiations." The National Confectioners Association which represents candy manufacturers "condemned" the negotiating results, stating that limiting access to Australian-produced sugar is "damaging" to U.S. candy firms and jobs. Other major commodity groups reacted that excluding sugar harms their export interests as USTR negotiates additional FTAs with other countries.¹

Sugar in WTO Negotiations. The objectives of multilateral agricultural trade liberalization laid out in the 2001 declaration that launched the Doha Development Round call for (1) substantial reductions in trade-distorting domestic support, (2) the phase-out, with a view to total elimination, of all export subsidies, and (3) substantial improvements in market access. The August 2004 "framework agreement" now serves as a guide to establish specific formulas, schedules, end dates, and other parameters to meet these negotiating objectives and conclude overall talks in 2006-2007.² The agreement provides for a "tiered" approach to accomplish reductions in trade-distorting **domestic support** (i.e., countries with higher levels of support will make greater overall reductions). It calls for an overall 20% reduction from the maximum permitted levels of support to occur in the first year of implementation, with separate reduction commitments to be made among three specified components of trade-distorting support. With the U.S. sugar program classified as falling in the amber box category (benefitting from the most trade-distorting type of support), U.S. sugar price support levels face the prospect of being capped at average levels using a methodology yet to be negotiated. Whether this means a reduction in loan rates, and by how much, depends on details still to be agreed upon by trade negotiators and on future decisions by U.S. policymakers (e.g., in the 2007 farm bill) on how to distribute reductions between the sugar and dairy sectors and/or how to restructure current features of other U.S. commodity programs (e.g., loan deficiency, marketing loan, and counter-cyclical payments).

The framework stipulates that by an "end date" to be negotiated, WTO members will eliminate agricultural **export subsidies**, export credits and guarantees that fall outside of permitted disciplines, and the trade-distorting practices of exporting state trading enterprises (STE), among others. U.S. sugar policy does not use any of these components of trade-distorting export competition. Since U.S. sugar firms export minor amounts of domestically produced sugar, how they might be affected under such a change is unclear. However, the EU's use of subsidies for its sugar exports and the operations of the Queensland (Australia) Sugar Corporation (an STE) could be expected to disappear over time and be made subject to greater transparency, respectively.

¹ Letter to President Bush from 26 Commodity Groups and Trade Associations, February 5, 2004.

² For additional information, see CRS Report RS21905, *The Agricultural Framework Agreement in the WTO Doha Round*.

The U.S. sugar import quota could face pressure from the agreement's call for most countries to increase **market access** by reducing agricultural import tariffs using a tiered formula. The degree of any change will depend on compromises that negotiators reach in this next negotiating phase. Bound tariff levels will be "harmonized" through deeper cuts made to higher tariffs, but some flexibility would be allowed for "import-sensitive" products. Left to be addressed by negotiators are decisions on the number of tiers to establish, what each tier's tariff reduction schedule should be, and the number of products permitted to be designated as sensitive. For sensitive products, the framework stipulates that "substantial improvement" in market access must be achieved through a combination of quota expansion and tariff reductions, but provides no details. Though imports as a share of U.S. sugar consumption (13%) are higher than the minimum required 5% level under WTO rules, the U.S. over-quota tariff is high (78% in 2003, according to the ITC), and effectively keeps out additional imports. If the United States decides to designate sugar as sensitive (in effect providing some cover for not having to open its market as much), the U.S. sugar sector may not face tariff cuts and quota increases as severe compared to sugar being made subject to the regular tiered formula rules still to be developed.³

Sweetener Disputes with Mexico

Efforts continue to resolve longstanding U.S.-Mexican disputes involving sugar and high-fructose corn syrup (HFCS) access to each other country's market. The importance of this matter is reflected in the fact that sweetener issues have been frequently discussed at meetings held by both countries' presidents since the late 1990s. Since the most recent round of U.S. and Mexican government talks on these disputes stalled in late 2002, some Members of Congress have called for some resolution. Currently, the U.S. and Mexican private sweetener sectors are working on details of an agreement to settle these.

Mexico's Access to the U.S. Sugar Market. Starting October 1, 2000, Mexico under NAFTA became eligible to ship much more sugar duty free to the U.S. market than the 25,000 MT allowed to enter in earlier years. Until summer 2002, U.S. and Mexican negotiators disagreed, however, over just how much sugar Mexico actually could export to the United States. Their disagreement centered on which version of the NAFTA agreement governed this issue. U.S. negotiators based their position on the sugar side letter (dated November 3, 1993) to the NAFTA agreement agreed to in last minute talks between the U.S. Trade Representative and his Mexican counterpart. The side letter was included along with other NAFTA documents that President Clinton submitted to Congress together with the implementing legislation. Mexican negotiators instead based their position on the sugar provisions found in the August 1992 NAFTA agreement and signed by each country's president in December 1992.

The side letter effectively placed a lower cap on duty-free imports of Mexican sugar allowed to enter the U.S. market than the ceiling would have been under the original NAFTA agreement. The side letter accomplished this by (1) redefining the original formula for "net production surplus" — the amount of sugar that one country could ship to the other duty free — to also add consumption of HFCS, and (2) raising, but keeping level, the maximum amount that could enter duty free during FY2001-FY2007 period. Using FY2002 to

³ American Sugar Alliance, "U.S. Official Tells International Sweetener Symposium: U.S. Very Likely to Designate Sugar as Sensitive Product in WTO," August 10, 2004.

illustrate, Mexico under the side letter's terms was eligible to export its "net surplus" but not more than 250,000 MT of sugar duty free. USDA announced on September 18, 2001, that Mexico under the side letter's formula could sell 137,788 MT of sugar to the United States in FY2002. Under the original NAFTA agreement, Mexico (if determined to be a net surplus producer under the original agreement's formula for two consecutive years) would have been able to ship its entire net sugar surplus (projected by Mexican officials to be 550,000 MT). Reflecting the lack of agreement in efforts to resolve these differences and Mexico's inability to show a sugar "surplus," the U.S. government did not announce a NAFTA sugar quota in FY2003, FY2004, and to date, for FY2005.

The U.S. sugar production sector has been concerned that a decision not to abide by the side letter would result in a flood of additional Mexican sugar into an already well-supplied U.S. market. U.S. cane refiners have held firm to their position that Mexican shipments be in the form of raw rather than refined cane sugar, so as not to undercut U.S. refining capacity. U.S. manufacturers of HFCS have signaled they want their concern about access to the Mexican market addressed. Looking forward, the U.S. sugar industry is most apprehensive about the impact of other NAFTA provisions scheduled to take effect, such as the continued decline in the over-quota tariff on sugar imported from Mexico (e.g., over-quota imports would be price competitive in the U.S. market when world sugar prices range between 5 and 6¢/lb.), and unlimited duty-free imports starting in FY2008.

Mexico's Tax and Trade Policies on Corn Syrup Imports from the United States. Legislation passed by the Mexican Congress on January 1, 2002, to impose a 20% tax on soft drinks containing corn syrup but not sugar essentially has eliminated the market for U.S. HFCS and corn for processing into sweeteners in Mexico and jeopardized the viability of two U.S. companies that manufacture HFCS there. The U.S. corn and HFCS sectors viewed this as a step back in negotiating a resolution to a long-standing HFCS dispute and have since pressed Bush Administration officials to persuade Mexican authorities to remove this tax. Observers viewed the soft drinks tax as an effort by the Mexican sugar industry to capture back their home market and apply pressure on the United States to negotiate a comprehensive solution on all sweetener disputes. Though Mexico's President Fox has sought to reverse this tax, the Mexican Congress renewed this tax for 2003, 2004, and 2005 — a move that has clouded prospects for a sweetener deal.

The imposition of this tax was related to earlier WTO and NAFTA panel rulings that found Mexico's 1998 decision to impose anti-dumping duties on imports of U.S.-produced HFCS to prevent further damage to its domestic sugar sector was inconsistent with its trade commitments. To comply with them, Mexico on April 22, 2002, established a new tariff rate quota for HFCS imports from the United States, and in mid-May completely lifted its high anti-dumping duties on such imports. Imports above the 148,000 metric tons (MT) quota are subject to a 210% duty. Observers note that this quota equalled the amount of Mexican sugar the U.S. government allowed to enter in FY2002 under NAFTA and WTO provisions.

Status of Negotiations. U.S. and Mexican negotiators in mid-2002 laid aside the issue of whether or not NAFTA's sugar side letter applies, in favor of pursuing negotiations to arrive at a comprehensive sweetener agreement acceptable to both sides and their respective domestic interests. On July 15, 2002, USTR presented a proposal to the Mexican Government that effectively would double the level of FY2002 access for Mexican sugar to the U.S. market if Mexico reciprocated to allow imports of an equal amount of U.S.-produced HFCS. The U.S. proposal contained a number of other features to address other issues of

concern to both the U.S. corn refining and sugar sectors. Though the Mexican government responded with counter proposals, subsequent negotiations stalled, as the prospect of a deal was reportedly caught up in Louisiana's December 2002 senatorial race. With signs that the Mexican sugar sector could live with the status quo (having regained its predominant share of the Mexican sweetener market relative to HFCS, and thus not having a sugar surplus to export to the U.S.), combined with U.S. corn producers' and corn refiners' concerns about the growing economic fallout of the lack of an agreement, some U.S. lawmakers in December 2002 called on both the Bush Administration and the Mexican government to work towards resolving both disputes. Senator Grassley held a Finance Committee hearing in September 2003 on Mexico's soft drink tax and Mexican trade barriers to U.S. farm products, stating he would consider introducing legislation to authorize punitive retaliatory tariffs on imports of Mexican agriculture products if the soft drinks tax is not lifted. The increased attention may have contributed to a decision by Mexico's President in mid-September 2003 to introduce a bill in the Mexican Congress to repeal the soft drinks tax. Some of his opponents, though, signaled they would accept this step only if accompanied by concrete measures that open up access for Mexican sugar in the U.S. market. In followup, Senator Grassley on November 25, 2003, introduced a "tequila tariffs" bill, intended to increase pressure on Mexico to repeal this tax. S. 1952 would impose retaliatory tariffs on tequila and other farm products imported from Mexico equal to the amount U.S. HFCS refiners have lost on sales to Mexico, unless this tax is eliminated. With the Mexican Congress retaining the tax for 2004, pressure grew for the Administration to take a firmer stance on the issue of HFCS access to the Mexican market. In the latest effort to apply pressure for a resolution, USTR on March 16, 2004, announced the United States had filed a case with the WTO challenging Mexico's "discriminatory" imposition of this 20% sales tax and a distribution tax on soft drinks and other beverages not sweetened with cane sugar. It argues these taxes are "inconsistent with Mexico's obligations in the WTO to apply taxes on comparable domestic and imported products in a non-discriminatory manner." The Corn Refiners Association, representing firms that have seen HFCS sales plummet, applauded this action. The WTO on July 6, 2004, formed a dispute settlement panel; its initial ruling will be made in mid-June 2005, and will likely be followed by an appeal by the losing party.

On a parallel track, the U.S.-Mexican sugar and sweetener private sectors announced a deal on "principles" of a resolution in late October 2003. Observers have been watching since then to see how these principles are translated into an agreement that both governments could accept. The American Sugar Alliance, Corn Refiners Association, and National Corn Growers since late 2003 have met frequently with the Mexican Sugar Chamber to continue working on resolving reported differences in the details of a prospective agreement. Prospects for a deal remain uncertain, in light of apparent differences in positions.

Circumvention of Sugar Import Quotas

The sugar production and cane refining sectors in the 107th Congress pursued a legislative remedy to prevent U.S. firms from taking advantage of tariff "loopholes" to import sugar outside of (to "circumvent") the existing sugar and sugar-containing product (SCP) TRQs. This initiative was one of the three "pillars" the production sector had sought to achieve a sugar policy that accomplished their objective of achieving a supply-demand balance that protects their interests. Sugar producers, processors, and refiners, citing the "stuffed molasses" case as a prime example, argued that imports of some sugar mixtures and products undermined the domestic sugar industry by adding to the sugar surplus.

During Senate Finance Committee markup of trade adjustment assistance legislation (S. 1209) on December 4, 2001, Members approved an amendment offered by Senator Breaux to authorize USDA to identify imports that are circumventing the TRQs on sugars, syrups, or sugar-containing products, and to require the President to include such-identified products in proclaiming revisions to these quota provisions. This provision was included in the trade promotion authority and adjustment assistance legislative package (Section 1002 of H.R. 3009) the Senate passed on May 23, 2002. There was no comparable provision in the trade bill package agreed to by the House. House and Senate conferees subsequently reached agreement on July 26 on a compromise to the Senate provision. The conference report clarified that certain products containing molasses were to be made subject to a specific sugar TRQ, but pared back the scope of the Senate language to also include U.S. Customs in monitoring such imports and to retain flexibility for the executive branch and Congress on how any identified circumvention is to be handled (Section 5203 of P.L. 107-210). The compromise language, depending on how implemented, initially may serve to stop the flow of easily identifiable “stuffed molasses”-like products. Most observers, though, do not view it as sweeping in scope compared to the language initially introduced.

The conference-adopted language requires U.S. Customs and USDA to submit a report to Congress every six months to report their findings on whether there are any indications that imports are causing any circumvention of the sugar and SCP TRQs. In their first report to Congress (February 2003), they found no evidence to suspect any significant level of fraudulent imports in FY2002, nor any cause to suspect legal imports were impeding USDA’s ability to manage the program. In the second report (August 2003), USDA identified that imports of sweetened cocoa powder entering from Mexico were circumventing the U.S. sugar TRQ. Its analysis described how Mexican manufacturers of high sugar content products were using world low-priced sugar accessed under the U.S. and Mexican sugar re-export programs, to export sweetened cocoa powder to the U.S. market. USDA listed three steps taken to address this issue, but had no recommendations for congressional action. In the third report (February 2004), USDA reported that imports of bulk SCPs from Mexico continued. Main products imported during FY2003 were sweetened cocoa powder and tea preparations. Its report also reviewed developments in monitoring entries of cane molasses and one blended syrup from Mexico, but offered no recommendations for Congress to deal with these. In its August 2004 report, USDA noted that imports of beet sugar juice from Canada had risen in the first half of FY2004 (to 6,495 MT, from 28 MT the year before). U.S. Customs ruled in October 2003 that this product is not subject to a quota. Imports of cocoa powder from Mexico dropped substantially, while shipments of powdered beverage and tea mixes rose “more gradually.” In its February 2005 report, USDA noted that cocoa powder imports from Mexico had dropped substantially, but that imports of powdered beverage and tea mixes from Mexico, and of beet sugar syrup from Canada, had increased during FY2004. USDA now includes the sugar content of the beet sugar syrup imports in its monthly import estimates. No recommendations were offered in the last two reports.

Other USDA analysis shows that the sugar content in SCPs (with some products entering under quota) has increased over time. Beginning in 1996, SCP imports started rising at a faster rate than SCP exports. USDA has calculated that the net increase in the sugar content in imported products (after accounting for sugar in exported products) grew from 83,000 tons in 1996 to 535,000 tons in 2003. For context, the sugar in the imported SCPs represented about 5% of the U.S. sugar supply consumed for food use if added to 2003 domestic sugar production and pertinent imports (compared to a 1% share in 1996).