

# CRS Report for Congress

## Sugar Policy and the 2007 Farm Bill

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## Summary

Congress will decide on the future of the U.S. sugar program in an omnibus farm bill in 2008. Growers of sugar beets and sugarcane, and processors of these crops, favor continuing the structure of the current sugar price support program but seek changes to enhance their position in the U.S. marketplace. Food and beverage manufacturers that use sugar want Congress to address their concerns about the impact of sugar prices and program features that restrict supplies.

The sugar program is designed to guarantee the price received by sugar crop growers and processors and to operate at “no cost” to the U.S. Treasury. To accomplish this, the U.S. Department of Agriculture (USDA) limits the amount of sugar that processors can sell domestically under “marketing allotments” and restricts imports. At the same time, USDA seeks to ensure that supplies of sugar are adequate to meet domestic demand. “No cost” is achieved if USDA applies these tools in a way that maintains market prices above minimum price support levels. Should prices fall, processors who take out loans have the right to hand over as payment sugar that had earlier been pledged as collateral. Such a step results in program costs.

Effective January 1, 2008, sugar imports from Mexico no longer are restricted under the rules of the North American Free Trade Agreement. Also, additional imports are allowed entry under other free trade agreements. Both the Congressional Budget Office (CBO) and USDA project that, if the sugar program continues without change, additional imports will bring prices down below support levels and make it attractive for processors to default on price support loans. With loan defaults representing a cost, USDA would not be able to operate a no-cost program.

To address any U.S. sugar surplus caused by imports, the farm bill conference agreement on H.R. 2419 would mandate a sugar-for-ethanol program. USDA would be required to purchase as much U.S.-produced sugar as necessary to maintain market prices above support levels, to be sold to bioenergy producers for processing into ethanol. USDA funding would be open-ended for this program. Other provisions would increase the minimum guaranteed prices for raw sugar and refined beet sugar by 4%-5%, mandate an 85% market share for the U.S. sugar production sector, and remove certain discretionary authority that USDA exercises to administer import quotas. Though CBO scores some savings with the ethanol program, sugar program provisions would cost about \$650 million over five years and just over \$1.2 billion over 10 years. Should Congress not approve a farm bill this year, all sugar program authorities would expire.

The conference agreement’s sugar provisions reflect the proposals presented to the House and Senate Agriculture Committees by sugar crop producers and processors. Food and beverage manufacturers that use sugar oppose them, arguing that costs to consumers would increase and that new requirements would restrict the flow of sugar for food use in the domestic market. The Bush Administration opposes these provisions, with the President identifying them as one reason why he will not sign the farm bill. This report will be updated to reflect key developments.

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For more information, please see the following CRS product:

CRS Report RL33541, *Background on Sugar Policy Issues*, by Remy Jurenas.

# Sugar Policy and the 2007 Farm Bill

## Recent Developments

On May 15, 2008, the Senate approved the conference report for the farm bill (H.R. 2419; H.Rept. 110-627) on an 81-15 vote. One day earlier, the House voted 318 to 106 to approve this report. The Food, Conservation, and Energy Act of 2008 maintains the sugar program's current structure but introduces some new elements. It adds a new sugar-to-ethanol component to handle any sugar surplus caused by imports, raises in stages the loan rate for raw cane sugar by three-quarters of one cent (to 18.75¢ per pound in 2011) and similarly the loan rate for refined beet sugar (to 21.1¢ per pound in 2011), and mandates an 85% share of the U.S. sugar market for U.S. producers and processors of sugar crops.

On May 13, 2008, President Bush signaled his intent to veto the farm bill conference report once voted on by Congress. He identified the proposed sugar program as one of the reasons that he "cannot support" this measure. Specifically, he stated that "[t]he bill creates an egregious new sugar subsidy program that will keep sugar prices high for domestic consumers, while making taxpayers subsidize a handful of sugar growers."<sup>1</sup>

On May 8, the Sugar Policy Alliance (a coalition of food and beverage manufacturers that use sugar and public interest, consumer, and taxpayer groups) expressed disappointment that "lawmakers not only missed an opportunity to reduce consumer costs in the outdated and unworkable sugar price support program, but added new costs that will be borne by the taxpayer."<sup>2</sup>

On May 8, the American Sugar Alliance (representing sugar crop producers and processors) endorsed the sugar program approved by the farm bill conference committee, noting that existing sugar policy is maintained and enhanced with "an ethanol provision and a small rate increase on loans that sugar producers repay to the government with interest."<sup>3</sup>

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<sup>1</sup> White House, Office of the Press Secretary, "Statement by the President on the Farm Bill," available at [<http://www.whitehouse.gov/news/releases/2008/05/20080513-2.html>].

<sup>2</sup> "Farm Bill Misses Chance to Reform Sugar Program," available at [<http://sweetenerusers.org/050808.pdf>]

<sup>3</sup> American Sugar Alliance, "America's Sugar Producers Endorse New Farm Bill," available at [[http://www.sugaralliance.org/output\\_pages/printDefault.aspx?page\\_id=19&news\\_id=1022](http://www.sugaralliance.org/output_pages/printDefault.aspx?page_id=19&news_id=1022)].

## Overview of Sugar Program

The current sugar program is designed to guarantee the minimum price received by growers of sugarcane and sugar beets, and by the firms (raw sugar mills and beet refiners) that process these crops into sugar. To accomplish this, the USDA limits the amount of sugar that processors can sell domestically under “marketing allotments” and restricts imports. USDA is required to operate the sugar program on a “no-cost” basis. This means USDA must regulate the U.S. sugar supply using allotments, import quotas, and related authorities so that domestic market prices do not fall below guaranteed minimum price levels. These are set out in law as specified loan rates, which serve as the basis from which USDA derives effective support levels. If the market price is below the support level when a sugar price support loan comes due, its “non-recourse” feature means a processor can exercise the legal right to forfeit, or hand over, sugar offered to USDA as collateral for the loan in fulfillment of its repayment obligation. This report focuses on the issues raised by the sugar program provisions in major bills and floor amendments. For background information, see CRS Report RL33541, *Background on Sugar Policy Issues*.

## Issues in Current Debate

Consideration of future U.S. sugar policy in debating the farm bill has revolved primarily around four issues. These are raising the level of minimum price guarantees to be made available to processors, how to use two tools to manage U.S. sugar supply, authorizing any sugar surplus to be used as a feedstock for ethanol, and accounting for projected program costs. Though industrial users of sugar in food and beverage products initially explored converting the sugar program to operate similar to the programs in place for the major grains, oilseeds and cotton, this policy option did not receive further attention.

## Level of Sugar Price Support

USDA is required to extend price support loans to sugar processors that meet certain conditions on passing program benefits to the farmers that supply them with sugar beets or sugarcane. These loans are made at statutorily set loan rates,<sup>4</sup> and account for most of the effective support level made available to producers and processors. USDA is required to use its other tools to protect this price guarantee.<sup>5</sup>

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<sup>4</sup> For sugar, the loan rate is the price per pound at which the Commodity Credit Corporation (CCC) — USDA’s financing arm — extends nonrecourse loans to processors. This short term financing at below market interest rates enables processors to hold their commodities for later sale.

<sup>5</sup> The loan rates alone do not serve as the intended price guarantee, or floor price, for sugar. In practice, USDA sets marketing allotments and import quota levels in order to support raw cane sugar and refined beet sugar at slightly higher price levels. Each price level takes into account the loan rate, interest paid on a price support loan, transportation costs (for raw sugar), certain marketing costs (for beet sugar), and discounts. These are frequently referred to as “loan forfeiture levels” or the level of “effective” price support.

Loan rates for raw cane sugar have not changed since 1985; for refined beet sugar, since 1992. These minimum prices have guaranteed producers of sugar crops and the processors that convert these crops into sugar, a price that since the early 1980s has ranged from two to four times the price of sugar traded in the world marketplace.

The farm bill conference agreement would increase sugar loan rates by 4% to 5% by 2011. Conferees split the difference between the House- and Senate-proposed rate increases and adopted the Senate approach that proposed to increase rates in stages each year. The loan rate for raw cane sugar would rise in quarter-cent increments from the current 18.0¢ per pound to 18.75¢ / lb., beginning with the 2009 sugarcane crop. The refined beet sugar loan rate would similarly increase in stages, from the current 22.9¢ per pound to 24.1¢ / lb.<sup>6</sup>

Growers and processors had initially sought a one cent increase in the raw cane sugar loan rate (with a corresponding increase in the refined beet sugar rate), and had acknowledged their satisfaction with receiving half of their request in the House-passed farm bill. They argued that the increase in the loan rate is needed to cover increased production costs, particularly energy inputs. Sugar users countered that the House-proposed higher loan rates will increase costs to taxpayers by an additional \$100 million annually. They also note that while the bill's ethanol provisions (see "Sugar for Ethanol" below) "are supposedly designed to deal with surpluses," the loan rate increase "can only encourage *higher* surplus production."<sup>7</sup> The Bush Administration, in its statement of administration policy on the House and Senate farm bills, opposed the increase in the loan rates for sugar.

## Controlling Sugar Supply to Protect Sugar Prices

The current sugar program uses two tools — import quotas and marketing allotments — to ensure that producers and processors receive price support benefits. By regulating the amount of foreign sugar allowed to enter and the quantity of sugar that processors can sell, USDA can for the most part keep market prices above effective support levels, meet the no-cost objective, and ensure that domestic sugar demand is met. If successful, the likelihood that USDA acquires sugar due to loan forfeitures is remote.

**Import Quotas.** The United States must import sugar to cover demand that the U.S. sugar production sector cannot supply. However, USDA restricts the quantity of foreign sugar allowed to enter for refining and/or sale to manufacturers for domestic food and beverage use. Quotas are used to ensure that the quantity that enters does not depress the domestic market price to below support levels. Quota amounts are laid out in U.S. market access commitments made under World Trade Organization (WTO) rules and under bilateral free trade agreements (FTAs).

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<sup>6</sup> The loan rate for refined beet sugar would reflect the requirement that it be set each year equal to 128.5% of that year's raw cane sugar's loan rate, beginning in 2009.

<sup>7</sup> Letter to Members of Congress, from food and beverage companies and trade associations, and public interest groups, July 13, 2007.

The sugar program authorized by the 2002 farm bill accommodates, or makes room for, imports of up to 1.532 million tons each year. This import level is one of the four factors that USDA uses to establish the national sugar allotment (called the “overall allotment quantity”), and reflects U.S. trade commitments under two trade agreements in effect when the 2002 program was authorized (**Table 1**).

**Table 1. Annual U.S. Sugar Import Commitments  
When the 2002 Farm Bill Was Enacted**

	<i>short tons</i>
World Trade Organization Quota (minimum)	1,256,000
North American Free Trade Agreement (NAFTA) — Mexico Quota (maximum) <sup>a</sup>	276,000
<b>Total</b>	<b>1,532,000</b>

a. Applied only through the end of calendar year 2007.

Since January 1, 2008, however, U.S. sugar imports from Mexico are no longer restricted. Under NAFTA, Mexico no longer faces any tariff or quantitative limit on the amount of sugar exported to the U.S. market. With this opening, though, imports could fluctuate from year to year for various reasons. First, the amount of Mexican sugar exported to the U.S. market will depend largely upon the extent that U.S. exports of historically cheaper high-fructose corn syrup (HFCS) displace Mexican consumption of Mexican-produced sugar. Surplus Mexican sugar, in turn, would likely move north to the United States.<sup>8</sup> Second, Mexico’s sugar output, though trending upward, does vary from year to year, depending upon weather and growing conditions. Mexican government policy also is to hold three months worth of sugar stocks in reserve and to allow sugar imports when needed to meet demand and lower prices.<sup>9</sup> Third, Mexican sugar prices in recent years have for the most part been higher than U.S. prices. To the extent this occurs, the incentive for a Mexican sugar mill to export sugar north in search of a better price could disappear. Fourth, U.S. buyers’ concerns about the quality of Mexican sugar may limit the amount that actually flows north in the next few years.

Also, the United States has committed under other existing and pending bilateral FTAs to allow for additional sugar imports.<sup>10</sup> Such imports in 2013, potentially the

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<sup>8</sup> However, the recent increase in U.S. HFCS prices due to the higher cost of corn — its main input — may reduce its competitiveness against Mexican-priced sugar. To the extent this price difference narrows, the incentive for Mexican bottlers of soft drinks to shift to HFCS may disappear.

<sup>9</sup> U.S. sugar processors also will be free to export sugar to Mexico to take advantage of the occasional higher prices there.

<sup>10</sup> Most of the sugar access provisions in the Dominican Republic-Central American FTA (DR-CAFTA) already are in effect. Congress has yet to consider the FTAs with Panama and (continued...)

fifth year that the sugar program authorized by the 2007 farm bill is in effect, could total from about 420,000 tons to 1.215 million tons *above* existing WTO and NAFTA/Mexico trade commitments. The wide range reflects two varying assumptions made to estimate by how much HFCS use in Mexico might displace sugar consumption in Mexico and create a surplus available for export to the U.S. market.

**Legislation.** The sugar program provisions in the farm bill conference report do not directly address the issue of additional sugar imports. Instead, a new sugar-for-ethanol program would be authorized to handle the price-related impact of such imports (Section 9001 in the energy title; see “Sugar for Ethanol” and “Program Costs” below). However, other provisions would prescribe how USDA administers import quotas. To cover shortfalls (because of hurricanes or other disastrous events) in what domestic sugar processors can sell under allotments, USDA would be directed to ensure that most imports enter in the form of raw cane sugar rather than refined sugar. While historically most permitted imports have entered in raw form, USDA allowed large quantities of refined sugar to enter after the late 2005 hurricanes significantly affected the ability of cane refineries in Louisiana and Florida to process raw sugar. This provision is intended to ensure that cane refineries (which process raw sugar into refined sugar) can more fully use their operating capacity. Unlike five years ago when the Congress considered the last farm bill, most cane refineries are now a key part of vertically integrated operations owned by raw sugar processors and/or sugarcane producers. Also, limiting the entry of refined sugar would enhance the position of the domestic beet sector to increase their sales of refined sugar.

Conferees, though, did not adopt provisions found only in the House-passed bill that would have directed USDA to regulate when and how much raw cane sugar imports are allowed to be shipped to U.S. cane refineries. While USDA announced shipping patterns in FY2003-FY2005, the impact of the hurricanes led to a decision not to follow this long-standing practice in FY2006-FY2008. USDA justified removing these restrictions because of “changes occurring over time in the domestic marketing of cane sugar.” The House-proposed provisions could be viewed as intending to increase the transaction costs for countries that export larger amounts of sugar to the U.S. market and giving a slight competitive edge to domestic processors with respect to buyers. Food and beverage firms opposed “micro-managing” the timing of imports, noting that the application of such rules will limit the ability of cane refiners to efficiently use their processing capacity and could lead to serious shortfalls at times in the amount of sugar supplied to the market.<sup>11</sup> In commenting on the House bill, the Bush Administration expressed concern over requiring shipping patterns for quota sugar imports. Also, several countries eligible to ship sugar to the U.S. market expressed concern that the proposed regulation of the flow of imports would run counter to U.S. trade commitments. Because of the concern expressed that prescribing how sugar import shipping patterns should be

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<sup>10</sup> (...continued)

Colombia, which would grant additional access for their sugar to the U.S. market.

<sup>11</sup> Letter to Members of Congress, July 13, 2007.



administered would open up the United States to challenges by sugar exporting countries in the WTO, these provisions apparently were dropped in conference.<sup>12</sup>

**Marketing Allotments.** In the 2002 farm bill, the domestic production sector accepted mandatory limits on the amount of sugar that processors can sell — known as marketing allotments — in return for the assurance of price protection. It viewed allotments as a way to try to capture any growth in U.S. sugar demand, and assumed that the then-U.S. sugar import quota commitments would continue without change (see “Import Quotas” above). The statute, however, stipulated that if (1) USDA estimates imports will be above 1.532 million short tons, and (2) that such imports would lead USDA to reduce the amount of domestic sugar that U.S. processors can sell, then USDA must suspend marketing allotments. Suspending allotments because of additional imports raises the prospect of downward pressure on market prices if most U.S. sugar demand is already met. If the additional imports were to cause the price to fall below support levels, forfeitures would occur and USDA would be unable to meet the no-cost requirement. Including the allotment suspension provision was designed to ensure that USDA not lose control over managing U.S. sugar supplies for fear of the consequences that could be unleashed (i.e., demonstrating its inability to implement congressional policy).

**Legislation.** Implementation of the 2002 farm bill’s marketing allotment authority has resulted in the U.S. sugar production sector’s share of domestic food consumption ranging from a low of 73% in FY2006 to a high of 89% in FY2004. Concerned that their market share would decline as sugar imports increase under various trade agreements (see “Import Quotas” above), sugar producers and processors decided to pursue a different approach, which farm bill conferees adopted. It would guarantee that the domestic production sector always benefits from a minimum 85% share of the U.S. sugar-for-food market. USDA would be required to announce an “overall allotment quantity” — the amount of sugar that all processors combined can sell — that represents at least 85% of estimated sugar consumption. This is intended to address the sector’s objective that imports not displace the ability of U.S. sugar processors to sell more of their output in each successive year, to the extent U.S. demand for sugar grows.

## Sugar for Ethanol

**Background.** Sugar producers and processors have had an ongoing interest in exploring the potential for using sugar crops and processed sugar as a feedstock to produce ethanol (a gasoline additive). In the 2002-2003 period, they encouraged USDA to explore selling forfeited sugar stocks to corn-based ethanol processors. A few ethanol producers experimented by adding sugar to speed up the ethanol fermentation process, but the results appear to have been disappointing.

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<sup>12</sup> The World Trade Organization administers trade dispute settle procedures whereby a country can file a case against another alleging that the latter operates a program or policy that runs counter to WTO rules. In this context, the prospect arose that a sugar exporting country might allege that the proposed shipping patterns provision were discriminatory or trade distorting.

In 2005, Congress approved the Dominican Republic-Central American Free Trade Agreement (DR-CAFTA) that gives six countries increased access for their sugar to the U.S. market. During the debate, producers and processors sought a deal with the Bush Administration on a sugar-for-ethanol package. Their objective was to have the option available to divert additional sugar imports under DR-CAFTA whenever domestic prices fall below support levels.<sup>13</sup> With Congress mandating in 2005 that the use of renewable fuels be doubled by 2012,<sup>14</sup> some advocated that sugar be considered as a feedstock along with other agricultural crops and waste. Separately, Hawaii mandated (effective April 2006) that 85% of the gasoline sold must contain 10% ethanol. This requirement assumes that over time, the sugarcane produced on the islands will be used as the prime feedstock for ethanol.

If the cost of feedstock is excluded, producing ethanol from sugar cane can be less costly than producing it from corn. This is because the starch in corn must first be broken down into sugar before it can be fermented. This extra step adds to the cost of processing corn into ethanol, when contrasted to using sugarcane or processed sugar. Further, sugar cane waste (bagasse) also can be burned to provide energy for an ethanol plant, reduce associated energy costs, and improve sugar ethanol's energy balance relative to corn ethanol.

Brazil's success at integrating sugar ethanol into its passenger vehicle fuel supply has stimulated interest in exploring prospects for sugar-based ethanol in the United States. However, wide differences in sugar production costs and market prices in the two countries cause the economics of sugar-based ethanol to differ significantly. In investigating the economics of ethanol from sugar, USDA concluded that producing sugar cane ethanol in the United States would be more than twice as costly as U.S. corn ethanol and nearly three times as costly as Brazilian sugar ethanol.<sup>15</sup> Feedstock costs accounted for most of this price differential.<sup>16</sup> The USDA study showed that while sugar ethanol may be a positive energy strategy in such countries as Brazil, it may not be economical in the United States.<sup>17</sup>

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<sup>13</sup> Though the Administration did not agree to such a package, the Secretary of Agriculture pledged to divert surplus sugar imports — through purchases — for ethanol and other non-food uses, to ensure that the sugar program operates as authorized only through FY2008. For additional information, see “Sugar in DR-CAFTA — Sugar Deal to Secure Votes” in CRS Report RL33541, *Background on Sugar Policy Issues*, by Remy Jurenas.

<sup>14</sup> For more information, see CRS Report RL33564, *Alternative Fuels and Advanced Technology Vehicles: Issues in Congress*, by Brent D. Yacobucci.

<sup>15</sup> Office of Economics, *The Economic Feasibility of Ethanol Production from Sugar in the United States*, July 2006.

<sup>16</sup> In Brazil, the cost of producing raw cane sugar reportedly ranges from 6 to 9 cents per pound (or 9 to 12 cents when converted to refined basis). In the United States, raw cane sugar production costs range from 12 to 20 cents per pound; U.S. production costs for refined beet sugar range from 17 to 33 cents per pound. For additional perspective, see “Costs of Production and Sugar Processing” in USDA, Economic Research Service, *Sugar Backgrounder*, July 2007, pp. 17-21.

<sup>17</sup> This discussion is adapted from “Sugar Ethanol” in CRS Report RL33928, *Ethanol and Biofuels: Agriculture, Infrastructure, and Market Constraints Related to Expanded* (continued...)

**Legislation.** The farm bill conference agreement incorporates a proposal presented to the Agriculture Committees by the U.S. sugar production sector. The “Feedstock Flexibility Program for Bioenergy Producers” would require USDA to administer a sugar-for-ethanol program using sugar intended for food use but deemed to be in surplus. USDA would sell both surplus sugar that it purchases if determined necessary to maintain prices above support levels, and the sugar acquired as a result of loan forfeitures, to bioenergy producers for processing into fuel grade ethanol and other biofuel. Competitive bids would be used by USDA to purchase sugar from processors, at a price not less than sugar program support levels, which it would then sell to ethanol firms. USDA would implement this program only in those years where purchases are required to operate the sugar program at no cost. USDA’s CCC would provide open-ended funding. This new program would take effect prior to the expiration of current sugar program authority on September 30, 2008.

Because it would cost much more to produce ethanol from U.S.-priced sugar than from corn, this new program would require a considerable subsidy to operate as intended. The prime market for such sugar likely would be existing and planned corn-based ethanol facilities close to sugar beet and sugarcane producing areas (e.g., the Upper Midwest and Hawaii). Producers of ethanol from corn in the continental United States, though, would likely need to adjust their fermentation process and/or invest in new equipment to handle sugar. As a result, they may not be as interested in purchasing sugar as a feedstock unless the price is significantly discounted further (e.g., requiring even more of a subsidy) to reflect the additional costs of processing sugar instead of corn. However, the availability of this subsidy could facilitate the development of the ethanol sector in Hawaii and partially reduce the islands’ dependence on importing gasoline for its vehicle transportation needs. CBO estimates that this feedstock program would increase demand for sugar and slightly reduce the cost of the sugar program itself (see “Program Costs” and **Table 3** below).

As designed, this program would rely on U.S.-produced (rather than foreign) sugar. The amount that USDA decides to purchase would approximate its estimate of the extent that imports under trade agreements reduce the U.S. sugar price below support levels. Producers supported this provision, viewing it as an insurance policy for receiving the benefits of a guaranteed minimum price for sugar marketed for food use. Sugar users opposed this program “to ostensibly manage surplus supplies.” In their July 13, 2007, letter to Members of Congress, they argued that this authority “will likely be used to short domestic markets, further restricting the availability of sugar for food use in the U.S. market.” They characterized this approach as “wasteful of taxpayer resources” because sugar is not price competitive with corn as a feedstock, and will require large subsidies to ethanol producers “to induce them to accept the sugar.” The Bush Administration opposed this sugar-for-ethanol component, commenting that it would not allow USDA to dispose of surplus sugar to end uses other than ethanol production, even if “those uses would yield a much higher return for taxpayers.”<sup>18</sup>

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<sup>17</sup> (...continued)

*Production*, by Brent D. Yacobucci and Randy Schnepf.

<sup>18</sup> Office of Management and Budget, “Statement of Administration Policy” on the Senate (continued...)

## Sugar Program Costs

USDA has succeeded in operating the sugar program at no cost for the years covered by the 2002 farm bill. Though processors forfeited small quantities of sugar in FY2004, USDA subsequently sold the acquired sugar to offset the earlier outlays.<sup>19</sup> The net revenue, or sales proceeds (shown as receipts in some years), were from the sale of acquired sugar (**Table 2**). The proceeds shown for FY2003 reflected the sale of a significant amount of sugar acquired due to loan forfeitures in FY2000 (under the previous farm bill's sugar program provisions). In looking at the current farm bill's entire six-year time period, sugar program operations generated almost \$100 million in receipts.

**Table 2. Outlays (-) or Receipts (+)  
of the Sugar Program under the  
2002 Farm Bill**

<b>Fiscal Year</b>	<i>millions of \$</i>
2003	+ 84
2004	- 61
2005	+ 86
2006	- 10
2007	- 25
2008 Estimate	+ 28
<b>Total, 2003-2008</b>	<b>+ 96</b>

**Note:** While no loan forfeitures occurred in FY2006 and FY2007, outlays shown reflect CCC's recording of loan repayments in the year after they were actually made.

**Source:** USDA, Farm Service Agency, "CCC Net Outlays by Commodity and Function," February 2008.

Budget forecasts in early 2007 projected that the sugar program, if continued without change, would cost almost \$700 million (CBO) to about \$800 million (USDA) for the five years covered by the 2007 farm bill (FY2008-2012). For the 10-year period (FY2008-2017), program outlays were projected at almost \$1.3 billion (CBO) to \$1.4 billion (USDA). These estimated outlays reflected the effect of projected sugar imports from Mexico and other countries that have gained additional access for their sugar under bilateral FTAs. Each cost projection assumed that

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<sup>18</sup> (...continued)

bill (Food and Energy Security Act of 2007), November 6, 2007, p. 3.

<sup>19</sup> The forfeiture of a price support loan results in a budget outlay, because the credit that had been extended is not paid back by the processor (resulting in a loss to the U.S. government). To the extent USDA succeeds in selling forfeited sugar, proceeds flow back to USDA and reduce the loss.

additional supplies depress the domestic sugar price below support levels, and lead processors to forfeit on a portion of their loans.

Though the sugar price support, marketing allotment, and sugar storage payment provisions in the farm bill conference report (Sections 1401 and 1405) are intended to ensure that USDA operates the program at no cost, CBO has scored them as increasing program outlays by \$69 million over five years, and \$231 million over 10 years (**Table 3**, rows *a* and *d*). The increase above baseline appears to assume that (1) part of the increase in sugar output induced by the higher level of price support and then placed under loan is subsequently forfeited by processors, and (2) the increase in the minimum storage payment rate on forfeited sugar, combined with increased forfeitures, results in higher storage payments.

**Table 3. CBO's Projection of Sugar Program's Cost under Farm Bill Conference Agreement**

	CBO's Baseline Projection (Current Law)	Farm Bill Conference Agreement		
		Estimate of 2007 Farm Bill Policy Changes	Total Projected Cost (CBO Baseline & 2007 Farm Bill Changes)	
Program Component	<i>Outlays, in millions of dollars</i>			Row
	5-YEAR ESTIMATE: FY2008 - FY2012			
Price Support Operations	682	+ 69	751	<i>a</i>
Sugar-to- Ethanol Diversion	0	— 108	(108)	<i>b</i>
Total	682	— 39	<b>\$643</b>	<i>c</i>
	10-YEAR ESTIMATE: FY2008 - FY2017			
Price Support Operations	1,287	+ 231	1,518	<i>d</i>
Sugar-to- Ethanol Diversion	0	— 276	(276)	<i>e</i>
Total	1,287	— 45	<b>\$1,242</b>	<i>f</i>

**Source:** Derived by CRS from CBO's March 2007 baseline projection; and CBO's cost estimate of farm bill conference agreement, May 12, 2008.

Separately, CBO projects that the sugar-for-ethanol program (part of Section 9001) would increase sugar demand and in turn reduce the cost of the sugar price support program by \$108 million over five years and \$276 million over 10 years (**Table 3**, rows *b* and *e*). CBO appears to assume that USDA's operation of this program as a guaranteed outlet for surplus and forfeited sugar limits the drop in domestic sugar prices that would otherwise occur.

Combining both policy changes against CBO's early 2007 budget forecast or baseline, the net cost of the conference agreement's sugar-related provisions would be \$643 million over five years and over \$1.2 billion over 10 years (**Table 3**, rows *c* and *f*). These net cost projections largely reflect the estimated losses incurred as USDA sells surplus sugar for ethanol processing at a price much lower than the value of the sugar protected by the minimum price guarantee available under the sugar program.

## **Implications of Possible Extension or Expiration of Current Sugar Program Authority**

**Expiration.** Current sugar program authority expires with the 2007 crop. Hence, if Congress does not extend the commodity program and related farm bill authorities, the sugar program's price support and marketing allotment authorities would expire on September 30, 2008. Unlike the program crops, there is no permanent statutory authority for USDA to exercise to support the price of sugar received by growers and processors. The only tool that USDA would have available to control supply is tariff headnote authority (chapter 17 of the Harmonized Tariff Schedule). This allows for imports of sugar at a level that reflects U.S. WTO trade commitments, with the minimum quota set at 1.256 million short tons. Also, sugar imports would be allowed to enter under U.S. commitments made in other trade agreements (i.e., unrestricted amounts from Mexico under NAFTA, and specified amounts under preferential quotas from four Central American countries and the Dominican Republic under DR-CAFTA). Unless producers cut back on their production of sugar beets and sugarcane, domestic sugar prices likely would fall below recent average levels. Some U.S. sugar crop producers and processors could face serious financial difficulty and the prospect of going out of business if this scenario lasted for a prolonged time period. U.S. users of sugar for food and beverage production could benefit from lower prices.

**Extension.** Should Congress not complete consideration of the farm bill in this second session of the 110<sup>th</sup> Congress, one option would be to temporarily extend current farm program authority. Extending the sugar program for the 2008 and/or 2009 sugar beet and sugarcane crops would require USDA to continue administering marketing allotments and the sugar import quota to balance supply with demand. USDA would be required to manage both tools so that domestic prices are equal to or above loan forfeiture levels (see above). Also, non-recourse loans would continue to be available.

Assuming slowly expanding use of HFCS by Mexico's soft drink industry and that Mexican 2008/09 sugar production is in line with trends, Mexico's sugar sector

likely would have a surplus for export to the U.S. market. With the amount of this surplus likely to be larger than the amount of sugar imported from Mexico and other trading partners that the current program is structured to accommodate, USDA might face the scenario of having to suspend marketing allotments. As domestic prices fall below effective price support levels due to the additional supply, some processors can be expected to forfeit some of their price support loans. However, USDA as in past years could find ways to structure its decisions in ways to avert such a scenario.