Tailoring the U.S. Sugar Program for the Future

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U.S. Sugarcane and Sugar Beet Production in the U.S.
Sugar: Different Support Mechanism

Marketing Loan Crops
- Target Price
- Direct and Countercyclical Payments
- Loan Deficiency Payments
- Marketing Loan Gains

Sugar
- Non-Recourse Loans
- Tariff and TRQ Imports
- USDA - Marketing Allotments, based on U.S. Demand, For Domestic Production and TRQ imports
Sugar Program Framework
Farmers Rely on Sugar Program
Loan Program

- Non–Recourse loan
- Loan Rate – 18 cents raw sugar loan rate
  22.9 cents refined beet rate
*Loan term – 9 month or end of fiscal year September 30

- Loans at 80% raw rate for in-process sugars and syrups (14.4 cents per lb.) [processor receives syrup/raw sugar difference if not forfeited]
Overall Allotment Quantity

Total US Sugar Demand

Minus

Carry In Stocks

Minus

Tariff Rate Quota Imports

Equals

Marketing Allotments for U.S. Produced Raw Cane and White Refined Beet Sugar
2002 Sugar Title

OAQ Allotment Split between Sugarcane and Sugarbeet

- **Sugarbeet 54.35%** of Overall Allotment Quantity
- **Sugarcane 45.65%** of Overall Allotment Quantity

- Split Maintained in 07 House and Senate Bills
- Deficits allocated to imported raw sugar
Operation of the Sugar Program – No Cost – Supply Management

“to the maximum extent possible, the Secretary shall operate the program ....at no cost to the Federal Government by avoiding the forfeiture of sugar to the Commodity Credit Corporation.”

Similar in 2007 House and Senate Bills
2002 Sugar Title

Tariff Rate Quota

- Importation of foreign sugars, syrups and molasses within the tariff rate quota are not subject to tariff (15.36 cents per pound) or Mexico’s second tier tariff level that equals 1.51 cents per pound in 2007 and reduces to 0 cents per pound in 2008

- TRQ’s imports in House and Senate Bills
Trade and U.S. Sugar Allotments
Trade Implications-U.S. Marketing Loan vs. U.S. Sugar Program

Marketing Loan Crops

- Marketing Loan Program - target price protection isolates producers from negative impacts of trade agreements

Sugar

- Biggest shortfall in U.S. sugar program is exposure to U.S. negotiated market losses as a result of Free Trade Agreements
Market Losses with Just the Stroke of a Pen
### CAFTA & D.R.-FTA Sugar Import Access

*(Metric Tons)*

<table>
<thead>
<tr>
<th></th>
<th>2003/04 quota</th>
<th>Increase year 1</th>
<th>Increase year 15*</th>
<th>Total year 15</th>
<th>Annual increase year 16 onward</th>
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<tbody>
<tr>
<td>Guatemala</td>
<td>50,546</td>
<td>32,000</td>
<td>49,820</td>
<td>100,366</td>
<td>+ 940</td>
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<td>El Salvador</td>
<td>27,379</td>
<td>24,000</td>
<td>36,040</td>
<td>63,419</td>
<td>+ 680</td>
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<td>Nicaragua</td>
<td>22,114</td>
<td>22,000</td>
<td>28,160</td>
<td>50,274</td>
<td>+ 440</td>
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<td>Honduras</td>
<td>10,530</td>
<td>8,000</td>
<td>10,240</td>
<td>20,770</td>
<td>+ 160</td>
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<tr>
<td>Costa Rica**</td>
<td>15,796</td>
<td>13,000</td>
<td>16,080</td>
<td>31,876</td>
<td>+ 220</td>
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<td><strong>TOTAL</strong></td>
<td><strong>126,365</strong></td>
<td><strong>99,000</strong></td>
<td><strong>140,340</strong></td>
<td><strong>266,705</strong></td>
<td>2,440</td>
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<td>Dominican Republic</td>
<td>185,335</td>
<td>10,000</td>
<td>12,800</td>
<td>198,135</td>
<td>+200</td>
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*CAFTA increases of varying increments during years 2-15; total CAFTA increase is 111% of 2003/04 quota share.*

** Increase includes Costa Rica's additional TRQ of 2,000 mt of organic sugar.
Potential FTA Country Sugar Exports: Triple U.S. Sugar Consumption
(Million metric tons, 2002-04 average)

US Consumption
Imports - 1.1
FTA Exports
Panama-0.01
Andean-1.5
FTAA (excl. CAFTA, Andean)-17.8*
Thailand-5.1
SACU-1.5
CAFTA-2.0

*Argentina, Australia, Barbados, Belize, Bolivia, Brazil, Canada, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, South Africa, St. Kitts & Nevis, Swaziland, Thailand, Trinidad & Tobago, Uruguay
Source: USDA/FAS November 2004
Key Changes for 2007 Farm Bill Sugar Title

Loan Rate Increase

- Sugar Loan Rate Increase as Part of 2007 Commodity Loan Rate Rebalancing
  - House ½ cent, Senate 1 cent in years 2-5

- 1.3% Increase in Refined Beet Sugar Loan Rate Differential above Raw Cane Sugar Loan Rate
2007

“U.S. Sugar Policy in the 2007 Farm Bill”

Key Elements

1. Retains inventory management approach
   - No payments to producers
   - USDA balances sugar supply and demand to avoid sugar loan forfeitures and government cost

• Controlling domestic sugar sales: When U.S. production exceeds USDA estimate of market needs, U.S. sugar producers store surplus at their own expense (“blocked stocks”)

• Controlling imports: Tariff-rate quota (TRQ)
  – But Mexican imports under NAFTA uncontrolled
“U.S. Sugar Policy in the 2007 Farm Bill”

Key Elements

2. New market balancing mechanism: Limited sucrose-ethanol program

– To be used only when imports exceed domestic demand
– Not to be used to clear domestically produced blocked stocks
• Deal with problem caused by NAFTA – uncertainty of Mexican imports
  – may not be needed in some years
• Help to address U.S. desire to reduce dependence on foreign oil – sugar blended with corn as accelerator – speeds up corn ethanol production
• Shift the cost of government trade agreements from the sugar farmers to the government
“U.S. Sugar Policy in the 2007 Farm Bill”

Key Elements

3. Minimum Overall Allotment Quantity (OAQ)
   - U.S. producers’ share of the U.S. market – set at no less than 85% of domestic human consumption
   - Allotments no longer trigger off with import surge

4. Import management
   - Restrict initial TRQ to trade-agreement-mandated minimum (WTO + CAFTA); TRQ increase before April 1 (Oct-Sep crop year) only in case of crop emergency
   - Increase TRQ on April 1 if domestic production, plus initial TRQ, plus Mexican imports inadequate to meet domestic demand
   - TRQ can still rise if needed; only timing of added imports effected
   - U.S. likely to remain world’s second largest sugar importer
Key Elements

- Loan rate increase: Increase of only 2.7% --first since 1985 (Inflation since 1985: 90%) – Raw cane sugar: 0.5 cent-per-pound increase to 18.5 cents – Refined beet sugar: 0.6 cent-per-pound increase to 23.5 cents

“U.S. Sugar Policy in the 2007 Farm Bill”
Sugar’s Biggest Farm Bill Challenge

U.S. Enters Common Market with Mexico in 2008

- As a result of NAFTA, sugar trade between U.S. and Mexico is joined into a common market

- **Problem**: U.S. sugar industry operates under a domestic supply management program, Mexico does not
  - *Mexico can oversupply U.S. market and potentially displace U.S. sugar production*
As of October, 2007

Mexican Sugar Prices Generally Higher than U.S.;
World Dump Market Sugar Prices Generally Lower than U.S. HFCS

Data Sources: Mexican sugar -- Servicio Nacional de Informacion de Mercados SNIIM-ECONOMICA, USDA/ERS; U.S. sugar -- Midwest markets; world sugar - London #5 contract; HFCS -- Industry estimates; dry (sugar equivalent) basis, Midwest market. Prices through October 2007.
Sugar Part of Overall Loan/Target Price Rebalancing

- **Wheat** – Target up 7% from $3.92 to $4.20
- **Grain Sorghum** – Target up 2.4% from $2.57 to $2.63
- **Barley** – Target up 17.5% from $2.24 to $2.63
- **Oats** – Target up 27.2% from $1.44 to $1.83
- **Soybeans** – Target up 3.5% from $5.80 to $6.00
- **Sugar** – Loan Rate up 5.6% from 18 to 19 cents (Senate)  
  (House) up 2.7% 18 to 18.5 cents
Every Acre is Important
Critical Change for 2007 Farm Bill Sugar Title

Program to Offset Surplus Mexican Sugar

*Surplus Sugar to Biofuel Program*

- Surplus sugar purchased for use in biofuels and non-food use
- PIK acreage reduction program also continued to reduce CCC sugar inventories
Key Changes for 2007 Farm Bill
Sugar Title

Restricting USDA Authority to increase TRQ imports

- Adjustments limited to allocations for domestic sugar shortages due to emergencies on pre and post April 1 adjustment schedule
- Domestic production fully utilized
Key Changes for 2007 Farm Bill
Sugar Title

Limiting Excess Imported Sugar

- 85% of Overall Allotment Quantity
  - Allocated to Domestic Production

Orderly Entry of Imports

- Quarterly and Bi-Annual Shipping patterns for Larger TRQ Quota Holders
  - To stop Large Import Quantities from Oversupplying the Market and Hurting Prices for Domestic Producers
Key Changes for 2007 Farm Bill
Sugar Title

Reporting on Mexico Sugar and HFCS

- **Sugar**: Required reporting of Mexico sugar production, consumption, imports, exports, and stock levels
- **HFCS**: Required Reporting of Mexico HFCS consumption, imports, as well as exports and stock levels
- *Reporting is critical under merged US-Mexico Sugar Market*
Keep them Farming!
A Bright Future for U.S. Sugar