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WORLD SUGAR POLICIES

About 75 per cent of world sugar production is consumed in countries where it is produced and therefore does not enter into world trade. In most countries, the domestic price of sugar is maintained above the price at which it could be purchased from exporting countries by such devices as import quotas and tariffs. Of the remaining 25 per cent which does enter world trade, about half is sold under preferential arrangements, chiefly to the United Kingdom, the United States and the USSR. Thus, there is in fact a very limited "free market" in sugar, and even this residual market is now regulated to some degree under the International Sugar Agreement. This agreement as well as the two most important preferential agreements, i.e. The Commonwealth Sugar Agreement and the U.S. quota program, are described in the pages which follow.

The International Sugar Agreement

Attempts have been made since the 1930s to reduce fluctuations in the price of sugar on the residual market by negotiating agreements among major suppliers. In the absence of any attempt to withhold supplies, prices on the residual market tend to be extremely volatile; such prices reflect, not the long-run supply and demand situation for sugar or the prices that would prevail in the absence of protectionist policies in major importing countries, but rather what importing countries are willing to pay for additional sugar when domestic production falls short of requirements or what exporting nations are willing to accept for output in excess of that already committed to preferred markets. Since the bulk of the sugar is sold under contract or in protected markets, the effect of a sudden change in total world supply or demand is concentrated on prices in the residual market. Modest changes in production in a few countries can result in very large price changes. For example, in the early 1960s, because of short crops in Cuba, the price in the residual market rose to as high as 12 cents per pound. Only a few years later, after production recovered in Cuba, the price dropped to less than 2 cents per pound. No one can produce sugar proftiably at the latter price. Hence, exporting countries were strongly motivated to attempt to renew the International Sugar Agreement which had been in effect in the 1950s, but had become inoperative in the early 1960s following the Cuban revolution. Successful negotiations followed and a new agreement was signed in 1968. The present agreement expires at the end of 1974.

The current international sugar agreement has been ratified by 15 importing countries, (including Canada, Japan and the USSR) and 34 exporting nations /1, p. 25/. Cuba is by far the most important exporting country under the agreement. The objective of the agreement is to stabilize prices

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on the residual market by limiting exports whenever the price falls below a certain minimum. Annual quotas are assigned to each exporting country. These are based on a percentage of each country's basic export tonnage (BET). The minimum and maximum price objectives are 3.25 and 5.25 cents per pound (FOB stowed Caribbean area basis). When the price exceeds 5.25 cents, quotas are suspended. If the price falls below 3.25 cents, quotas may be reduced to a minimum of 85 per cent of each country's BET.

Exports under preferential arrangements such as the Commonwealth Sugar Agreement are excluded. Exports of sugar from Cuba to the USSR and other Communist countries also are exempt from the quota. Neither the United States nor members of the European Common Market have signed the agreement. Participation by the U.S. is not essential since the U.S. does not purchase any sugar in the residual market. The Common Market Countries apparently wanted to remain free to export their surplus sugar in years of high production and hence refused to participate. Thus, the amount of actual trade in sugar which is covered by the agreement is relatively small.

According to a recent USDA study, the International Sugar Agreement has been only moderately successful in moderating price fluctuations /2, p. 81/. Participation by Cuba has been critical to the success of the program. The agreement helped to stabilize prices in the late 1950s, but when Cuba decided not to abide by the terms of the agreement in the early 1960s, the agreement became ineffective. Even with the cooperation of Cuba, exporting nations have not been able to assure high returns from sales in the residual market in years following large crops. But the agreement has succeeded in raising prices in recent years above the very low levels prevailing from 1966 through 1968. In 1969 and 1970 prices averaged slightly above the minimum floor price established under the agreement.

The Commonwealth Sugar Agreement

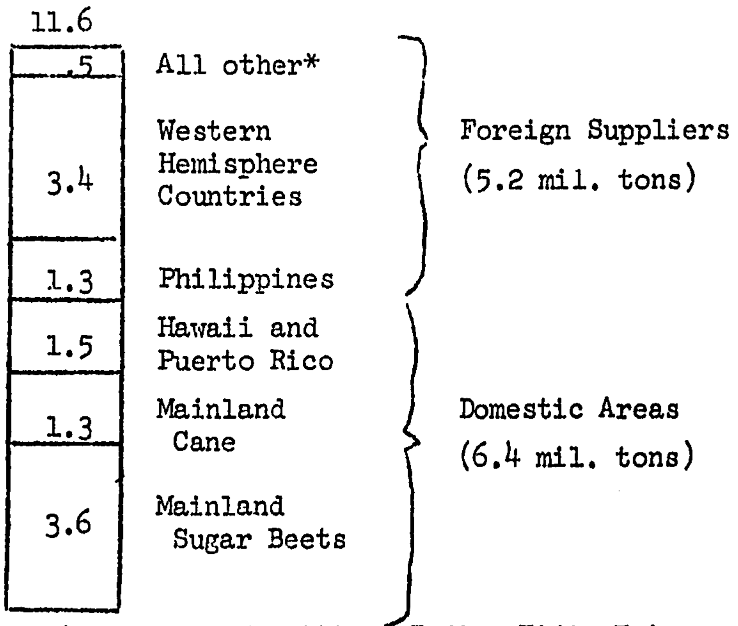
The Commonwealth Sugar Agreement provides assured markets for selected suppliers to the United Kingdom. The major countries affected are the former British West Indies, Mauritius, Australia, India and several countries in Africa /1, pp. 25-6/. Each supplier is assigned a quota for shipments to the UK, for which they receive a fixed price. The price is renegotiated from time to time. Under the current agreement, the price in U.S. currency is about 5 cents per pound. The latest extension of the agreement (negotiated in 1967) was for an indefinite period; however, the UK obligation does not extend beyond 1974 in the event the UK becomes a member of the Common Market. Apparently some transitional arrangement will be worked out if the UK goes into the EEC. The British government hopes to provide a measure of protection to such countries as Mauritius and the former colonies in the Caribbean area who are now in a very vulnerable position since they are highly dependent on the UK market.

The U.S. Quota Program

The U.S. sugar program dates from the 1930s. It is designed to encourage domestic production of sugar, to assure adequate supplies to consumers, and to permit certain countries to share in the U.S. market. The principal device used to attain these objectives is a quota system which pro-rates the domestic market among producers in the United States and certain exporting nations. In addition, domestic producers receive payments over and above the domestic market price which, for the most part, has been maintained above the residual "free-market" price of sugar. During most of the 1956-7 and 1963-4 marketing years, however, U.S. prices were below those prevailing in the residual market. Thus, the U.S. quota program provides a means of stabilizing prices although at a somewhat higher level than would probably prevail in the absence of the program.

Under the current U.S. Sugar Act, domestic producers are assigned a quota which provides about 62 per cent of all sugar required each year. This quota is divided between sugar beet and cane producers. The domestic quota is allocated among states, to some degree on the basis of comparative advantage in sugar production, but also on the basis of political considerations.

Hawaii and Puerto Rico are given a specific quota in much the same way as mainland beet and cane producers. In addition, 31 foreign countries are granted quotas under existing legislation. The largest of these is the quota assigned to the Philippine Islands which exceeds 1 million tons annually. Among the other major suppliers are Mexico, the Dominican Republic, Peru, and countries which formerly made up part of the British West Indies. Prior to 1959, Cuba was the largest single off-shore supplier of sugar to the U.S. market, but since Castro took control, the U.S. has not imported any of its requirements from Cuba. In the 1962 Sugar Act the former Cuban quota was reallocated among other suppliers including U.S. producers. If a supplier cannot meet its quota in any year, the deficit is reallocated to other suppliers. Total quotas including reallocations for the year 1970 are shown in Figure 1.



* Includes imports from Australia, Mauritius, India, Fiji, Taiwan, Thailand, Malagasay Republic, Swaziland, Ireland and South Africa (figures in mil. tons)

Source: The United States Sugar Program, House Committee on Agriculture, 91st Congress, 2nd Session, December 31, 1970, p. 41.

Figure 1. Final U.S. Sugar Quotas, Including Reallocations, 1970

The Secretary of Agriculture is required to determine how much sugar will be needed each quarter and to increase imports if necessary. The Secretary's decisions are based on an appraisal of stocks and domestic prices. If stocks are low and prices are rising, he will authorize more imports by raising quotas. Thus, within the limits imposed by Congress, the Secretary has considerable power to influence prices paid by consumers for sugar. In general, wholesale prices of refined sugar have been maintained within the relatively narrow range of 10 to 12 cents per pound in recent years. U.S. wholesale and retail sugar prices have averaged higher than those of Canada and the United Kingdom, but below those of most countries in Western Europe and Japan.

Domestic producers of sugar cane or sugar beets receive prices for the raw product based on domstic wholesale prices for refined sugar plus payments which range from the equivalent of .8 cents per pound of sugar on small farms to .3 cents per pound on farms producing in excess of 30,000 tons of sugar. To qualify for payments, producers must comply with acreage restrictions, pair "fair" wages to workers, and must not employ child labor. Producer payments are made directly from the treasury and in recent years have amounted to about $90 million annually.

The Treasury obtains revenue from two sources as a result of the sugar program. There is an import duty of .625 cents per pound which now yields in excess of $50 million annually. In addition, the government imposes an excise tax of .5 cents per pound on all raw sugar refined in the United States, including that produced domestically. In 1970, the government obtained $113 million from the excise tax. The combined revenue from this tax plus the import duty exceeded payments to producers in 1970 by over $60 million.

Foreign suppliers who have a quota receive the same market price for sugar as domestic producers less the import duty of .625 cents per pound. The cost of handling and transporting sugar to the United States averages slightly less than 1 cent per pound. Thus, in 1969, when the price of unrefined sugar in the United States averaged about 7.5 cents per pound, overseas suppliers received an average of 6.2 cents per pound for sugar shipped to the United States. The difference of 1.3 cents per pound is accounted for by the import duty, transportation and handling changes. In the same year, exporting nations received about 5 cents per pound for sugar shipped to the United Kingdom and approximately 3 cents per pound for sugar sold on the residual market. During most of the 1960s, suppliers with a U.S. quota received a premium of 3 to 5 cents a pound over what they would have received in the residual or "free market". The gap has narrowed somewhat in recent years but even at today's prices the U.S. quota provides the equivalent of a subsidy of $200 to $300 million per year to the 31 countries who have been fortunate enough to obtain access to the U.S. market.

The Politics of U.S. Sugar Legislation

Since returns from shipping sugar to the United States usually exceed those from sales to other nations by a substantial margin, it is not surprising that U.S. Sugar legislation has been the subject of intense lobbying activities by foreign governments. In addition, domestic sugarbeet and cane areas, or potential producing areas, have sought to obtain an additional share of the total U.S. market. A major struggle developed in 1962 over the reallocation of the Cuban quota. Every major exporting country plus representatives of domestic areas hoped to benefit from the displacement of Cuba as a major supplier. A number of countries ultimately did obtain additional quotas and several new suppliers were added. Domestic producers also gained. Their quota was raised by 650,000 tons and they were granted a 65 per cent share in any requirements in excess of 9.7 million tons annually. This made it possible to place sugar beet processing plants in a number of new areas, including New York and Maine.

Sugar legislation originates in the House Committee on Agriculture. For many years, the Chairman of the House Committee on Agriculture, Harold D. Cooley, a Democrat from North Carolina, exercised great influence in shaping sugar legislation. His power, according to Berman and Heineman who made a careful study of lobbying activities in connection with the 1962 Act was reinforced by constitutional and parliamentary factors [4, p. 422]. The constitutional requirement that sugar legislation originate in the House made it possible for Cooley to delay proposed sugar legislation until late in the session just before the existing legislation expired. He then forced the Senate to accept the bill that had been written by the House Committee. Congressman Cooley was able to gain the approval of other House Committee members by threatening to delay or side-track legislation in which they were directly interested. The Administration was reluctant to oppose Cooley on the Sugar Act in 1962 since they were concerned about passage of their farm bill.

There is much speculation about how much Congressman Cooley benefited personally from his control over sugar legislation. Congressman Resnick from New York maintained that Cooley aided his brother's law firm by giving preference to requests channeled through him. Congressman Cooley also was known to have accepted the hospitality of the Trujillo family in the Dominican Republic. Those who are critical of the Congressman maintain that this helped to insure a favorable quota for that country. In any event, the publicity surrounding his activities on the Sugar Act contributed to his unpopularity in his home district. Partly as a result of this he was defeated when he came up for re-election in 1964.

The present chairman of the House Committee on Agriculture, W. R. Poage, a Democrat from Texas, apparently has made an effort to keep lobbying on sugar legislation more open. At the time the 1971 legislation was being considered he laid down the rule that he would not see any foreign or domestic agents in private and urged his fellow members to follow suite.1/

1/ New York Times, Tuesday 1 June 1971.

Congress approved a 3 year extension of the Sugar Act in October 1971. The act raises the domestic quota for cane producers by another 300,000 tons. This was made possible by eliminating the quota formerly held by the Virgin Islands (which no longer produces sugar) and reducing the quota for Puerto Rico (which has been unable to meet its quota in recent years because of declining production, due principally to the relative unprofitability of sugar production on the Island). No large changes were made in the quotas of overseas suppliers. The Congressional Black Caucus sought to eliminate the quota of South Africa because of its apartheid policies, but were unsuccessful in doing so although the quota was reduced slightly from the original figure.

At the insistence of Congressman Poage, a provision was included in the 1971 Act designed to penalize countries which nationalize or expropriate U.S. firms without paying adequate compensation. The bill submitted to the President gives him the authority to eliminate the quota or levy a fine of up to $20 per ton on sugar imported from any country which expropriates U.S.-owned property. This provision might conceivably be used against countries such as Peru although it is by no means certain that the President will take such action.

Congressman Paul Finley, a Republican from Illinois, tried unsuccessfully to win approval for legislation that would change the method of supplying the U.S. market from quotas to competitive bidding. Under this proposal, a version of which was put forward in the early years of the Kennedy Administration by the Department of State, countries would bid for the privelege of supplying the U.S. market. The U.S. government rather than exporting countries would then obtain the bonuses from maintaining premium prices in the U.S. This would take the U.S. Congress out of the business of deciding who should be given a quota. It also would eliminate the incentive which now exists for other countries who benefited from the reallocation of the previous Cuban quota to keep the U.S. and Cuba at odds. If the U.S. and Cuba were to reconcile their differences, some of the quotas of countries now shipping to the United States might be given back to Cuba.

The Economic Consequences of U.S. Sugar Legislation

The quota program unquestionably has helped to stabilize supplies and prices of sugar in the United States. Consumers benefit from the arrangement when world supplies of sugar are deficient, since countries with a quota must give first priority to fulfilling their obligation to the U.S. before selling on other markets. Foreign suppliers have, at times, obtained lower prices for sugar shipped to the U.S. than for that sold elsewhere. But over the last decade U.S. prices have generally exceeded those obtained in other markets. The premium which U.S. consumers have paid probably averages 2 to 3 cents per pound. This represents a cost to consumers of about $500 million annually which is equivalent to a tax of one half of one per cent of the total annual food bill. The gains have been shared by domestic producers of cane and sugar beets and overseas suppliers.

Opponents of our existing Sugar policies argue that the U.S. could store sugar if necessary to meet emergency needs, and that less should be produced at home so as to give low-cost producers in developing countries more opportunities to earn foreign exchange. Sugar can be produced at lower costs in tropical countries than in the United States.

Certain countries have benefited greatly from the opportunity to sell sugar at premium prices in the United States, especially the Philippine Islands. But not everyone is convinced that income should be transferred, even to less developed countries, in this way. If the money goes to sugar exporters and large land holders, it obviously contributes little to development. Moreover, some of the countries to which quotas have been given such as Australia, Ireland and South Africa hardly qualify for aid on the basis of equity considerations. The program is discriminatory; it helps some countries, but at the expense of others who might gain if quotas were eliminated.

Conclusions

Policies such as those adopted by the EEC and the United States are inimical to the interests of the low-cost sugar producing countries. Potential markets for exporting nations have been reduced as a result of persistent overpricing of sugar in consuming countries and subsidized production. Professor Johnson estimates that the export earnings of the Less Developed Countries might be increased by as much as a half billion dollars annually if all protectionist sugar policies in consuming countries (including the USSR, the EEC, the United Kingdom and Japan as well as the United States) were to be eliminated [5].

More rational and equitable means of dispensing what amounts to a selective form of foreign economic aid undoubtedly could be devised to supplant current U.S. sugar policies, but existing policies are not being seriously challenged. After reviewing recent sugar legislation, Donald C. Horton concludes that it will be difficult to get Congress to give serious consideration to reforming sugar legislation in the absence of a major crisis or a scandal of unusual proportions [3, p. 19]. Neither the executive nor the legislative branch is likely to devote sufficient time and effort to bring about changes in sugar legislation as long as consumers have ample supplies and prices do not rise dramatically. Few Congressmen have sugar legislation on their priority list. It takes more time to understand the complexities of current legislation than most Congressmen are prepared to give to such a peripheral issue. Moreover, the present program provides a convenient means of assurring farmers in certain areas a profitable cash crop.

R ferences

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