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Analysis of the United States sugar program

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Abstract: Most governments around the world have policies to protect domestic agricultural producers from the instability of world market prices for their commodities of for other domestic, political or cultural reasons. Each commodity has a slightly different support program than the next. The United States Sugar Program has changed since the first tariff was placed on it in 1789 to raise money for the new government. Currently, the sugar program employs three distinct techniques: price support loans, marketing allotments and import quotas. There is a Congressional debate underway about whether or not to reform the sugar program in the upcoming 2007 Farm Bill. Organized interests such as the American Sugar Alliance and the Sweetener Users Association have been using their political influence to weigh in on the debate. Another debate that continues to cause conflict is whether or not sugar should be included in free trade agreements. The impact of the United States sugar program extends well beyond the borders of the country to developing countries vying for a piece of the US market. St. Kitts – Nevis, a former British colony, was once a sugar giant with the profits from the sugar industry being crucial to the country's economic survival. Because of reduced access to markets, such as those in the United States, and a reduced world price for sugar, St. Kitts – Nevis has been forced to abandon the sugar industry and invest in agricultural diversification and other industries, most notably, tourism.

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I. A Brief History of Agricultural Assistance

How It Started

The United States federal government has always provided some assistance to farmers, through a variety of means that usually respond to the economic conditions of each time period. The farm economy of the United States grew throughout the late 19th and early 20th centuries with assistance from government programs, such as land grant universities and the Extension Service. These programs led to the modernization of farming and to vast improvements in productivity which, when coupled with a high international demand for goods and increases in the value of land made pre-World War I agriculture a profitable sector. Following World War I, however, overproduction led to dramatic decline in commodity prices that, when compounded by a period of destructive weather that produced the "Dustbowl" and the nation's overall economic Depression, caused tremendous hardship throughout the farm sector, especially in the corn and wheat producing regions of the Midwest and the Plains States. Responding to the plight of farmers, in 1929, President Herbert Hoover established the federal Farm Board marking the beginning of widespread direct government intervention in the farm economy.[1] The direct subsidies that we see today in many crop programs came out of the New Deal Era of legislation.

Definition

The United States employs various "protectionist policies" in trade operations with countries around the world. Protectionism is a term used to describe any economic policy designed primarily to shield a favored domestic industry from direct foreign competition. There are several devices used to accomplish this objective, such as import tariffs, direct and indirect

[1] Conte, C. and Karr, A.R. (February 2001).

subsidies, and quotas on certain imports. These policies are controversial in part because of debates over their actual benefits to the country, because of differences in opinion over whether these methods distort the free market. More recently, concerns over their effects on developing countries have dominated discussions and negotiations of free trade agreements.

A *subsidy* is a form of financial assistance provided to a person or group for the promotion of some public objective directly through monetary payments, or indirectly through instruments such as price cuts and contracts.[2] In the United States, direct payments to farmers are widely used to subsidize major commodity crops such as corn and soybeans. Direct subsidies are the biggest target of critics who argue that such policies distort the free market and indirectly harm countries struggling to compete on an unfair playing field.

The sugar program is different in that it does not use direct payments, but instead employs a system of indirect subsidization through price support loans, import quotas and market allotments which will be discussed in depth in Chapter IV.

Why We Do It

Most governments around the world institute policies to protect domestic agricultural producers from the instability of the world market prices for their commodities or for other domestic, political or cultural reasons. The Japanese, for example, give preferential treatment to the nation's domestic rice growers for reasons of national cultural identity. The United States is no exception with $164.7 billion in direct subsidies to farmers between 1995 and 2005, according to the Environmental Working Group's Farm Subsidy Database.[3]

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[2] "subsidy". (2007).
[3] Environmental Working Group. (2007).

An important question that was touched upon during the Great Depression and one that remains relevant today is how the minority of the population, farmers, can receive the benefit of public policy that is deemed by some economists as ultimately costly to the majority of consumers. During the Great Depression farmers made up one fourth of the population whereas today when the total dollar amount of federal farm subsidies is at its highest point in history, farmers make up less than 2 percent of the population.[4] There are several hypothesis offered to understand public support for government intervention in agriculture.

The farm in popular imagery: There is a persistent image of the American farmer as iconic. An article in the *Washington Post* describes the image as that of the hardworking but struggling family farmer who is small and powerless against Mother Nature but tied to the land, who, without governmental subsidies would fail and in turn threaten the nation's abundant food supply. Images in popular culture at the time were focused on the hardworking farm families that made America great. Painters such as Grant Wood

While this may have been an accurate portrait of the American farmer in the 1930's, by the late 20th century the reality of farming had changed dramatically. Between 1950 and 1970 the United States saw the loss of 2,694,000 farms. Rapid consolidation of the farm sector into larger and more efficient farms, defined as having a yearly income of over $250,000, make up only 7% of all farms in America, yet account for almost 60% of all agricultural production. They also receive more than 54% of government subsidies.[5] These statistics represent a disconnection between the popular image of the struggling family farmer needing subsidies to get by and the reality of industrial agriculture, with consequent impacts on government policy.

[4] Edwards, C. and DeHaven, T. (18 October 2001).
[5] Gaul, G. M., Cohen, S., et al. (21 December 2006).

Subsidies ensure a stable affordable supply: Another popular argument is that farm supports ensure high production and thereby provide food at a reasonable price to American consumers. This argument is often promoted by the American Farm Bureau Federation and other farm interest groups, which claim that the world market price fluctuations will cause unnecessary hardship to farmers in the United States and affect the stability of the food supply. This in turn would negatively affect the consumer in the form of higher prices and limited access. They argue that everyone benefits from the stability of crop prices that agricultural subsidies promote and ensure particularly during times unexpected weather conditions and fluctuating crop yields.

Opponents, however, cite the taxes that subsidize the farmers as hidden costs. While consumers are paying less for their goods in the supermarket, they are paying more in taxes that are paid out in subsidies to the producers. For example, the price of sugar in the United States is higher than the world market price. It is argued that because of the policies that are structured to maintain this higher domestic price, there is a hidden subsidy on every purchase of a food product containing sugar. This “hidden” tax is regressive, affecting the poorer population at a disproportionate rate because they are forced to spend a greater proportion of their income on food.

Everybody does it: One argument that carries a great amount of weight is that we must protect our agricultural industries because *other* countries are protecting their agriculture at the same, if not higher rates. If all governments agreed not to subsidize their agricultural sectors the free market would be able to work and the United States would not need a program to protect its farmers. Unfortunately, the argument goes, the United States cannot control how other countries operate and therefore must protect farmers from the impact that subsidized crops from other nations have on the world food price and supply.

The counter-argument is that the United States, as the world's leading economic power, has a responsibility to lead on this issue. One country must take the first step in eliminating subsidies before the rest will follow. The United States consistently preaches the principles of a free world market that put it in a perfect position to take the lead on this issue. In a March 22, 2002 statement, President Bush did just that by saying, "When nations close their markets and opportunity is hoarded by a privileged few, no amount-no amount-of development aid is ever enough. When nations respect their people, open market, invest in better health and education, every dollar of aid, every dollar of trade revenue and domestic capital is used more effectively."[6]

Too large to cut: An overriding difficulty in the federal government's subsidy program is its enormous size. The program in the United States is bigger than ever before, largely because of the power of the organized farm lobby and its corporate allies with a deep interest in the outcome. Between 1995 and 2005, more than $164.7 billion in subsides were given by the United States federal government to 3,197,614 recipients.[7] Some argue that although our system is outdated and contradictory, stopping the program entirely would cause severe economic hardship and job loss.

The counter-argument points out that subsidies are not distributed evenly or to the most worthy. According to the Environmental Working Group, the top 10 percent of recipients receive 73 percent of all subsidies amounting to $120.5 billion between 1995 and 2005. The group also notes that 67 percent of all farmers and ranchers do not receive subsidies. The top

[6] Bush, George W. (22 March 2002).
[7] Environmental Working Group. (2007).

percentages of recipients are rarely the struggling farm family but rather partnerships, corporations, estates and other entities.

There are many who contend that our inefficient system distorts free market economics and should be discontinued at all costs. The benefits of transitioning farmers from subsidized production to the free market have the potential to outweigh the costs. According to the USDA, the percentage of US population that lives on a farm has declined at a rapid pace from 39.2% in 1900 to 1.8% in 1990.[8] When the current farm policies were first put in place in the 1930s almost a quarter, 24.8%, of the population lived on a farm. The American landscape has changed dramatically. Additionally, original hardships suffered by farmers, thus requiring government assistance, have largely been alleviated with new advances in technology. The world economy has undergone significant changes as well that would tend toward the reduction of protectionist policies,

II. A History of Legislation on Sugar Tariffs

Early Tariffs

The first tariff imposed on imported sugar was in 1789 as part of the first substantive legislative package passed by the first Congress. A tariff is a tax on foreign goods that enter a country. There are two types of tariffs: 1) 'ad valorem' which refers to a tax on the value of a product, for example ten cents for every dollar of value and 2) 'specific' which refers to a tax on the weight of a product, for example ten cents per pound. The purpose of the sugar tariff was to raise funds for the federal government. Under the law, one cent was added to the cost of a pound

[8] "Trends in U.S. Agriculture"

of brown sugar, three cents per pound of loaf sugar and one and a half cents on a pound of any other type of sugar (e.g. molasses).

A century later, the McKinley Tariff Act was passed in 1890 under much controversy and political consequence for the Republican Party. Passed just before the midterm elections, the act was designed to benefit farmers but failed in its objective. The tariff did not stop the decline of farm prices and the cost of many items purchased by farmers the combination of which caused the Republican Party to lose a large number of seats in the House of Representatives. Specifically, the law raised protective tariff rates on many major imports but excluded sugar. In a political maneuver, tariffs on imported raw sugar were removed and accordingly, domestic sugar producers were "subsidized" at two cents per pound produced. This early form of protectionist assistance was called a federal "bounty". It was not long before the bounty was removed and in 1894 a new 'ad valorem' tariff was placed on sugar that called for a duty of 40 percent. The tariff program remained in place until 1934 though it was reduced to near pre-1890 levels under an 1897 act.

Sugar Acts

The current policy of protecting the domestic sugar industry in the United States dates back to the Sugar Act of 1934. At the time the industry was experiencing overproduction causing the price of sugar to fall while the country at large was undergoing a devastating depression.[9] The 1934 act, also known as the Jones-Costigan Act, was an important component of President Franklin Roosevelt's New Deal. It required the Secretary of Agriculture to determine yearly consumption of sugar in the United States and assign production quotas to

[9] Virata, G.

domestic producers and foreign countries based on the calculations. According to a history provided by the American Sugar Beet Growers Association, a lobbying organization for the industry, “the act also made provision for: (1) benefit payments to growers, (2) a processing tax on sugar, (3) minimum wage rates for field workers, (4) child labor provisions, and (5) acreage restrictions.”[10] The federal government did not have the authority to directly set limits on acreage used by producers, however, the direct payments could be used as a means to provide incentive to that end.

However, the Supreme Court in 1936 ruled the processing tax on sugar unconstitutional, so in 1937 Congress enacted a new and almost identical sugar act that instead provided for an excise tax on sugar. Excise taxes are taxes levied by the government on items that are produced and consumed within the country. The quota system was suspended in 1942, when the issue of sugar imports became irrelevant because of the war, but subsequently reinstated under the Sugar Act of 1948, which continued until it expired in 1974.

In 1974, world sugar prices appeared to be high and stable so it was argued that price supports were no longer needed. Consequently, the sugar act was allowed to expire and the market for sugar was relatively open. Without the support, surpluses accumulated and prices fell prompting Congress to act.   Mandatory price supports were instituted in 1977 and 1978 and discretionary price supports in 1979.

In 1981 with the passage of the Agriculture and Food Act that mandatory price supports were installed again. The Food Security Act of 1985 and the Farm Bills of 1990, 1996 and 2002 continued this system, which is scheduled to extend through most of FY2008.[11]

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[10] "History of Sugar Programs." (4 October 2006).
[11] Jurenas, R. (6 September 2006).

III. Sugar: The Commodity

Sucrose

According to Sugar Knowledge International, sugar is produced in 121 countries around the world with 70% of the 120 million tons produced each year is derived from sugar cane, a tall grass with big stems grown in tropical countries. The remaining 30% is produced from sugar beet, a root crop grown mostly in temperate regions of the north.[12] Sugar is also found naturally in many foods such as everyday fruits and vegetables. Common sugar with which consumers are most familiar is known as sucrose, which is in the family of sugars known as saccharides in the grouping called carbohydrates. The sucrose that is derived from sugar beets is chemically identical to the sucrose that is derived from sugar cane.[13]

Historically, sugar was produced entirely from sugar cane and in relatively small quantities. Sugar cane was first found in New Guinea and from there it was introduced in India, China and the Middle East. India was the first country to make and use crude sugar in 500 B.C. The technology used to extract cane juice in order to make sugar spread to Europe. European explorers brought sugar cane to the colonies in the Caribbean where slave labor was primarily used for production. Beet sugar was developed in Germany in the mid-1700s.[14] Problems with slave uprisings and troubling weather in the Caribbean caused countries to turn toward sugar beet production which could be done in the less tropical climate of Europe. Since then, sugar beets have become Europe's main source of sugar.

Cane sugar does not maintain its quality very well when shipped around the world so it is normally produced in two steps. First, raw sugar is made in the countries where sugar cane is

[12] Sugar Knowledge International
[13] Mitchell, Donald. (15 March 2003).
[14] World Sugar Research Organization.

grown. Second, the product is shipped to its destination country where the raw sugar is turned into white sugar. The processing of beet sugar is much simpler. It is mostly grown in the country where it is needed and is made in only one stage.

These differences in production cause sugarcane and sugar beets to be treated separately in legislation and government programs. The production of sugar requires legislation separate from other commodities because of its differences from other field crops. In order to be economical to grow, sugar requires processing facilities close to cropping acreage due to the extensive processing required to make it marketable.[15]

High-Fructose Corn Syrup

Scientifically, high-fructose corn syrup (HFCS) is produce by processing starch (usually from corn) to yield glucose and through an enzymatic process producing syrup that is higher in fructose content than normal corn syrup. The resulting ratio of glucose to fructose is usually within the range of 50/50. Developed in the 1970s as an inexpensive substitute for more naturally extracted sugar, it quickly became widely used in soft drinks and processed foods. There are several advantages to using HFCS instead of normal sugar: it has a longer shelf life than common sugar; because it is a liquid, it is easier to blend and transport; and it is often cheaper. Many, such as the executive director of the Center for Science in the Public Interest Michael Jacobson, believe that as far as health effects are concerned high fructose corn syrup and regular table sugar have equal effect. On the other hand, there are some who believe that HFCS has contributed significantly to the obesity epidemic. They cite the timing of the increase in

[15] Haley, S. (May 2001).

obesity rates coinciding with the increased use of HFCS and studies that have shown that HFCS does not satisfy appetite.[16]

History and Current State of Sugar Production in the United States

According to the United States Trade Representative (USTR), the areas of the United States included in the sugar cane production sector are Florida, Louisiana, Texas, Hawaii and Puerto Rico. Sugar beet producing areas include: the Great Lakes region (Michigan and Ohio), the Red River Valley (Minnesota and Eastern North Dakota), the Upper Great Plains (Montana, northwestern Wyoming, and western North Dakota), the Central Great Plains (Colorado, Nebraska, southern Wyoming), the Northwest (Idaho, Washington State, eastern Oregon), and the Far West (California, central Oregon).[17]

Sugar is comparatively expensive to produce in the United States with at least 80 percent of cane sugar production in the Western Hemisphere occurring at a lower cost than in Louisiana, Texas and Hawaii. While the United States is the only significant producer of beet sugar in the hemisphere and at one of the lowest costs worldwide, the cost of production is still above much of the cane sugar production.[18]

The number of farms growing sugar is less than one-half of one-percent of all US farms.[19] Because other industries take up a much larger percentage of US farms (beef cattle 42%, corn 23%, soybeans 19%, hogs 6%)[20], the sugar industry must fight hard to be a priority in Free Trade Agreement negotiations. According to the Department of Agriculture, the average

[16] CSNews Online. (29 March 2004)
[17] Haley, S. (May 2001).
[18] Haley, S. US Sugar and the FTAA.
[19] USTR (26 January 2005).
[20] USTR (26 January 2005).

world price of raw sugar in FY2006 was $15.78 and the average world price of refined sugar in FY2006 was $18.35. While the prices reflect a significant increase from FY2005, they have leveled out to $11.85 and $15.13 respectively in January 2007. Still these prices are much higher than in FY2000 when the 2002 Farm Bill was being debated in Congress. As a whole, the United States sugar policy contains three important elements: 1) WTO commitments, 2) Free trade agreement commitments, and 3) the US sugar program commitments.

IV. The United States Sugar Program

The policies with regards to sugar differs from the policies for other crops in that direct subsidy checks are not paid to sugar producers who harvest the crop in the United States as is done with many major crops such as corn and rice. The United States Department of Agriculture (USDA) is charged with administering three main tactics to ensure that domestic growers and processors receive a minimum price for their sugar: price support loans, marketing allotments and import quotas. These tactics are intended to balance the sugar supply with the demand. According to the 2002 Farm Bill, the USDA is required to carry out the program on a "no-cost" basis or without extra federal spending.

Price Support Loans

The USDA makes available "non-recourse" (i.e., a loan secured with collateral) price support loans only to processors of sugarcane and sugar beets. Moreover, the loans are only available to processors who agree to pay growers at minimum payment levels that are also set by the USDA. "Their 'non-recourse' feature means a processor can exercise the legal right to hand over sugar it initially offered USDA as collateral for the loan to meet its repayment obligation, if the market price is below the effective support level when the loan comes due. These loans at times can be attractive to sugar processors as a source of short-term credit at below-prime interest rates."[21] The credit at harvest time when market prices are typically low is used to finance their operations. Farmers can then sell when market prices are typically higher and then pay back their loans.

The 2002 Farm Bill continues the loan rates, which have been the same since 1995 at 18¢ per pound of raw cane sugar and 22.9¢ per pound of refined beet sugar. These loan rates are not the intended minimum price for sugar rather the USDA in practice supports sugar at two different levels. For raw cane sugar the USDA attempts to support the price at no less than 19.9¢ to 21.0¢ per pound reflecting the state's price support level plus an amount that covers the cost of transportation to a refinery plus the interest paid on a price support loan plus location discounts. For refined beet sugar the USDA attempts to support the price at no less than 22.9¢ to 25.2¢ per pound reflecting the regional loan rate plus specified marketing costs plus interest paid on price support loans plus a cash discount. In order to ensure that the price does not fall below this level, the USDA uses marketing allotments and import quotas. [22]

Marketing Allotments

Marketing Allotments are determined on a yearly basis by the USDA to specify the amount of sugar produced domestically that is allowed to be sold in the United States. These limits are in place to ensure that the United States meets its commitment under the World Trade Organization (WTO) and the North American Free Trade Agreement (NAFTA). They are

[21] Jurenas, R. (6 September 2006).
[22] Jurenas, R. (6 September 2006).

intended to “serve as a tool to ensure that any growth in the U.S. sugar demand is first met by the U.S. sugar sector, and to guarantee both the beet and cane sectors a specific share of the U.S. market.”[23] Without this employing this technique, there will be a surplus, which has a depressing effect on the sugar price. Sugar producers accepting this technique

The USDA calculates the amount of domestic sugar that can be sold, also known as the overall allotment quantity (OAQ) allowing for at least 1.532 million short tons of sugar imports as specified under the international agreements. When imports exceed this number, marketing allotments must be suspended. An exception to this comes into play when the cane and/or beet sugar sector is unable to fill its allotment as happened in FY2006 when the OAQ was 9.35 million short tons 54.35% (5.082 million) of which was allotted to beet sugar and 45.65% (4.268 million) of which was allotted to cane sugar. Both sectors were unable to meet their allotments and therefore, the shortfalls were reassigned to imports.

Interest groups of varying orientations express different opinions on the USDA’s determination of the OAQ. A lower OAQ is favored by sugar processors hoping that the eventual sugar prices will exceed effective support levels while a higher OAQ is favored by food manufacturers hoping that prices end up lower than the effective support levels.[24]

Import Quotas

Import quotas are used to specify the amount of sugar produced outside of the country that may be sold in the United States. These ‘tariff rate quotas’ (TRQ), are not specified in the farm bills but are administered jointly buy the USDA and the Office of the United States Trade Representative (USTR). Under the WTO agreement, the TRQ is set at minimum of 1.256

[23] Jurenas, R. (6 September 2006).
[24] Jurenas, R. (6 September 2006).

million short tons per year and enter under two separate TRQs, one for raw cane and one for a small quantity of refined sugar. The USTR spreads the TRQ among 41 eligible countries, with excess sugar amounts entering the United States being subject to high tariffs. NAFTA allows a maximum of 276,000 short tons with one TRQ for both raw and refined sugar. The WTO and NAFTA TRQs for FY2006 were set at 2.515 million short tons and 268,000 short tons respectively.[25]

Exceptional Circumstances

Like all other agricultural sectors the sugar industry is vulnerable to worldwide shortages and unpredictable weather conditions. Recently, American sugar producers have been heavily affected by the weather, which causes a tightening of the sugar supply. The sugar beet harvest in North Dakota and Minnesota was delayed, Louisiana and Florida experienced hurricane-related loses to the sugarcane crop and a large sugarcane refinery was closed for nearly five months in New Orleans in 2005.

V. Organized Interests and Congress

Political Influence

A organized interest with historically heavy influence in Congress is the Sweetener Users Association (SUA), which represents candy companies, food manufacturers and other companies that use sugar in business operations. The SUA favors trade liberalization and advocate the removal of barriers to sugar imports, which would then lower the price of sugar in the United

[25] Jurenas, R. (6 September 2006).

States. According to a report by the Congressional Research Service, the SUA “argues that liberalizing trade in sugar would benefit the US economy through lower prices, keep food manufacturing jobs in the United States rather than see them move overseas, and help maintain a viable can refinery industry with its well-paid union jobs . . . increased imports would encourage product innovation and stimulate demand, stimulate competition and thwart excessive industry concentration.”[26]

On the other hand, the American Sugar Alliance (ASA) represents the views held by sugar crop farmers and processors. According to the same Congressional Research Service report, the ASA is in favor of sector specific trade negotiation under the WTO but opposes any subsequent provisions under separate Free Trade Agreements. “It further argues that US consumers would not benefit in the form of lower prices from increased imports under such agreements.”[27]

Sugar growers, producers, users and related organizations contribute to congressional campaigns at a rate similar to other organized interests. Campaign contributions can potentially have a significant effect on how a member of Congress votes and how money is allocated. While, ethically, there should be a separation between campaign contributions and votes, in actuality this is not always the case. According to the Center for Responsive Politics, which operated opensecrets.org, a website that tracks campaign contributions, the total amount of money contributed by various sugar interests to House and Senate races in the 2006 election cycle was $2,204,605 and $444,253 respectively. The vast majority of donations went to Congressional candidates that represent the sugar producing states. The sugar industry spread $1,237,950 to 155 House Democrats and $956,155 to145 House Republicans while 24 Senate

[26] Jurenas, R. (6 September 2006).
[27] Jurenas, R. (6 September 2006).

Democrats received $263,953 and 19 Senate Republicans received $170,800. The three largest donors were American Crystal Sugar at $1,110,767, Flo-Sun Inc. at $373, 240 and the American Sugar Cane League at $309,500.[28]

VI. Recent Congressional Oversight of the Sugar Program

GAO Report

In June 2000, the US General Accounting Office (GAO), now known as the Government Accountability Office, responded to a request of Congress to examine the impacts of the sugar system in terms of costs to domestic sweetener users, benefits to domestic sugar and HFCS producers, and the net effects on the US economy. The report found that the program guarantees a minimum price for sugar that, over the previous year, was about three times the world market price.

The report also found that the US sugar program increases sweetener user costs by about $1.5 billion in 1996 and $1.9 billion in 1998. Sweetener users are defined as sugarcane refiners that purchase raw sugar cane, food manufacturers that purchase refined sugar and other sweeteners and consumers who purchase sweeteners and sweetener-containing products. The report does note that, if the sugar program was eliminated and the price of sugar fell to world market levels, it is difficult to predict the amount of savings that would be passed onto the consumer.

Additionally, the report found that the primary beneficiaries of the sugar program's higher prices are the domestic sugar beet (about 70% of the total savings) and sugar cane (about

[28] Center for Responsive Politics. (11 December 2006).

30% of the total savings) producers. It is estimated that the growers received about $800 million in benefits in 1996 and $1 billion in 1998. High-fructose corn syrup producers seem to benefit little from the sugar program in both 1996 and 1998.

Finally, net losses to the US economy were determined to be about $700 million in 1996 and $900 million in 1998. An important development around this time period is noted in the report, "The sugar program's artificially high domestic prices encouraged farmers to grow sugar beets instead of another crop, such as wheat, that, without the sugar program, might have been relatively more profitable."[29]

Congressional Hearings

A hearing was held by the United States Senate Committee on Agriculture, Nutrition and Forestry on July 26, 2000 to discuss the Federal Sugar Program in light of the upcoming 2002 Farm Bill. Many Senators and Members of Congress argued that the 1996 Farm Bill had resulted in lower world prices of sugar. A common theme among speakers was that the United States had reduced its protectionism in the previous Farm Bill and various Free Trade Agreements while the rest of the world, particularly the European Union, increased protectionism. This sequence of events led to the United States losing its competitive advantage as well as putting its own farmers at a disadvantage on the world market.

Another topic of discussion was overproduction of sugar in the United States and around the world. Opponents of the sugar program in the United States are critical of the high price paid to America sugar producers because, they say, it encourages overproduction. On the other hand, proponents claim that this price must be maintained to offset the cost of production. They say

[29] GAO Report. (June 2000).

the world market price is so low that if farmers here were paid that amount they would go out of business.

There was also much discussion as to the accuracy of the GAO report. Much of the debate focused on the world market price of sugar versus the "real" price of sugar (e.g. the cost of production). It was difficult for panel participants, senators and representatives to agree on not only the price of sugar but also the extent to which the program should be modified or exist altogether.

Another hearing was held on May 10, 2006 by the Committee on Agriculture, Nutrition and Forestry to hear testimony regarding the implementation of the sugar provisions of the Farm Security and Rural Investment Act of 2006. A variety of witnesses were in attendance to present their views on what should or should not be included in the upcoming 2007 Farm Bill. Some of the main issues discussed were natural disasters affecting the sugar crop particularly, Hurricanes Katrina and Rita and international trade of sugar. A spokesman from the sugar industry in Mauritus emphasized the importance of continued access to the US market "for the stable revenue flow and positive developmental impact provided by the US program's price premium."[30]

VII. Free Trade Agreements and International Organizations

The World Trade Organization

In 1994 participating nations marked the completion of the World Trade Organization's (WTO) Uruguay Round Agreement on Agriculture (URAA) that, among other things, classified

[30] Jurenas, R. (26 February 2007).

governmental subsidy programs according to their impact on international trade. Program classifications fall into four “boxes”: the green box representing programs with minimal trade impact; the amber box representing programs with important impact on trade, which limits expenditures; the blue box representing programs that are explicitly allowed in the agreement, which can include production limiting policies that base their payments on acreage and yields; and the red box representing programs that are outlawed by the agreement.[31] There are no limits placed on programs in the green and blue boxes. Developed countries agreed to reduce programs in the amber box by 20% by 1999.

In September of 2001, the WTO expressed concern regarding US agricultural subsidies during a two-day trade policy review meeting. The main message was a general feeling that domestic subsidies for American farmers have an adverse impact on world agricultural markets. International criticism of U.S. farm subsidies is nothing new. Indeed, EU Agriculture Commissioner Franz Fischler characterized U.S. domestic subsidies as “a failed policy of using government payments to counterbalance price movements – a policy which can only negate market messages.”[32]

In 2001, the United States entered into negotiations known as the Doha Development Round which laid out its agricultural objectives as 1) substantial reductions in trade-distorting domestic support, 2) the phase-out of export subsidies and 3) substantial improvements in market access. The United States sugar program faces challenges from two of these, market access and domestic support. The basic principles of market access require that all tariffs be cut. As it stands the sugar program will be required to make some drastic cuts though it may find some protection in a designation as a “sensitive” product. Domestic support in the amber box has a

[31] Thiesse, Kent.
[32] Eliiot, I. (24 September 2001).

$19.1 billion ceiling annually. The United States has proposed to cut $7.6 billion over five years. Currently, the sugar supports in the amber box are around $1 billion.[33] Political figures and interests within he United States continue to weigh in on the developments of the negotiations as it benefits their respective agendas. For instance, sugar producers see the World Trade Organization as the right place to negotiate sugar. They do not agree with including sugar in the negotiations of free trade agreements.

North American Free Trade Agreement

According to a study by the Economic Research Service, an office of the US Congress, it is clear that the sugar sectors of Mexico and the United States are moving toward unification, reflecting a hemispheric integration of agriculture accelerated by the North American Free Trade Agreement. NAFTA, which went into effect in 1994, requires that Mexico is to have duty-free access to the US sugar market for up to 250,000 metric tons from FY2001 through FY2007. According to a side letter agreement (the validity of which is not recognized by Mexico), imports from Mexico can only be the excess production of both HFCS and sugar after the country's consumption is factored in. Beginning in FY2008, Mexico will have unlimited duty-free access with no quantitative limit.[34] There is much interest in Congress and from competing interest groups to decide on new protections to deal with the potential impact of unrestricted sugar trade with Mexico.

Central American and the Dominican Republic Free Trade Agreement

[33] Grueff, J. (7 February 2006).
[34] Haley, S. (May 2001).

The newly agreed upon Central America and the Dominican Republic Free Trade Agreement (Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras and Nicaragua) will increase access into the US sugar market for participating countries, though the Office of the United States Trade Representative (USTR) calculates this access to be the equivalent of just over a day's worth of production in the US. In the final agreement, the tariffs on sugar over-quota will not change, although the US will establish TRQs that begin at 107,000 metric tons and increase over 15 years to 151,000 metric tons. According to the USTR, "CAFTA-DR would not have a destabilizing effect on the US sugar program." [35] In spite of this apparently modest impact, the sugar provisions were among the most contentious during CAFTA-DR's consideration in Congress with the US sugar industry united in its opposition. Sugar users on the other hand, weighed in favor of the agreement. CAFA-DR does in fact open up trade with Central America and the Dominican Republic exposing sugar producers to greater amounts of foreign competition. The trade agreement was ratified in Congress in July of 2005.

VIII. Developing Countries

As the world's second largest sugar importer, and with 38 of its 41 foreign suppliers considered developing countries;[36] the United States Sugar Program directly and indirectly impacts tens of thousands of people. The debate is whether this impact has been positive or negative over the years. Specifically, the United State's role in the Caribbean sugar industry, which will be discussed later, has been to discourage the area's exports to the United States.

[35] USTR (26 January 2005).
[36] American Sugar Alliance (2006).

Criticisms of unequal access

Much of the criticism directed at agricultural subsidies stems from the willingness of developed countries to press developing countries for more market access while refusing to make similar concessions. This dynamic played out in the early Doha Round negotiations. Further, it is said that with increased market access, developing countries could reduced their dependence on foreign aid and pull themselves out of poverty. This task, they might argue is nearly impossible with the restrictions on imports that developed countries, such as the Unite States place on imported goods. Though they might like to, developing countries do not have the means to protect and promote their agricultural sector in the same way that developed countries can.

Important statistics that reflect the impact that subsidies in developed countries have are noted in the previously mentioned article from the Economist. In 1999, Brent Borrell, of the Center for International Economics, an Australian research institution, and Dave Pearce, of University College, London, calculated that unsubsidized trade in sugar would lead to improvement of world trade by the equivalent of $4.7 billion each year. And according to Donald Mitchell, of the World Bank, net imports by Japan, Europe, America and Indonesia could increase by 15 million tons a year which would create nearly 1 million jobs in developing countries. Additionally, sugar prices in Western Europe would fall by 40%.[37] There is a price to be paid for protectionism. The World Bank estimates that the general welfare gains from eliminating barriers to merchandise trade would be from $250 to $620 billion much of which would go to developing countries.[38]

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[37] Unknown. (25 June 2005).
[38] Lankes, H.P. (September 2002).

Globalization and trade barriers

There is also a strong voice behind the argument that globalization and the relaxation of trade barriers is nearly an inevitable process. Experts and authors, such as Lionel Barber of *Financial Times,* see many portions of globalization as inevitable and irreversible though they can be quick to point out that nothing is completely inevitable.[39] There are some in this group that believe it is better to weed out the inefficient producers as early as possible rather than support their production that will eventually come to an end. They may argue that the WTO and the international free trade agreements provide more transparency and predictability in the process allowing producers to be aware of the pricing system and demand for agricultural products.[40]

IX. St. Kitts – Nevis (A Case Study)

Historical Perspective[41]

For most of its history, the islands of St. Kitts, Nevis and Anguilla were all part of a three-island unit. St. Kitts was the first colony of the British in the West Indies and thus, it became the seat of government power in the region and valued as a favorite for its sugar production. A political system was set up that replicated the British Parliamentary system with a Governor representing the King and a Council and Assembly representing the House of Lords and House of Commons. This representative political system served as a symbol of legitimacy

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[39] Barber, L. (2004).
[40] Ahmend, B. (2001).
[41] The information for this section is taken from Simmonds, K.C. (1987).

for the plantation system that employed slave labor and kept alive for a period of time a thriving slave trade.

The three islands were set up as a direct extension of the economy of Great Britain for colonization. St. Kitts and Nevis did not conduct trade independent of Britain, import to relieve domestic shortfalls, or make trade decisions. Because of uprisings in several Caribbean islands, in 1867, the ruling elite decided to tighten their control and moved to a crown colony states that replaced the bi-cameral system with a single legislature.

Economically, as the sugar industry died out on the island of Nevis, it was replaced at the time by Sea Island cotton as the principle crop. St. Kitts, on the other hand, became the seat of the sugar industry. "Between the 1700s and 1850s St. Kitts and Nevis had experienced periods of relatively high economic success as measured by the standards of that period. It was not a continuous success, however, because there were intermittent economic difficulties due to natural disasters, decline in demand for sugar and cotton, and the development of beet sugar as a substitute for cane sugar…After World War II, the British began to develop plans to vacate the islands without leaving an economic structure on which the indigenous elites could build a diverse, self-sustaining economy…[the previous period] had left a mono-crop economic structure in St. Kitts-Nevis – in St. Kitts, the principal crop was sugar; in Nevis, the principal crop was cotton."[42] Continuing disagreements between St. Kitts and Anguilla caused it to secede in 1967. St. Kitts and Nevis together became politically independent in 1983.

Present State

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[42] Simmonds, K.C. (1987)

St. Kitts and Nevis are located in the Eastern Caribbean and, in size, are comparable to Washington D.C. with a current combined population of just under 40,000. The plantation system of the past, "did not encourage economic diversity but promoted single crop economies. The economic viability of a sugar economy has long expired, as a consequence, in part, to the development of beets as a substitute for cane sugar, and the steady decline of the world market price for sugar. The St Kitts-Nevis economy shows signs of progress in recent years according to the International Monetary Fund. A recent report shows that the economies of 15 Caribbean countries will collectively grow by 5.4% in 2007. St. Kitts-Nevis in particular recorded its third year of growth, growing by 4.5% in 2006 despite the closure of the sugar industry.[43]

Is the US Sugar Program Responsible?

Caribbean agriculture as a whole has been experiencing a decline in production that can be attributed to various factors including, but not limited to: increasing dependence on foreign food, inadequate assistance to small farmers, use of outdated technology and the impact of regional and international organizations. Their limited physical size prohibits them from benefiting from economies of scale, which translates into higher than world prices for production of principal products like sugar.[44] Many countries, particularly St. Kitts, were accustomed to relying on one industry or crop for survival. When the market for sugar, for instance, changed, it changed rapidly and St. Kitts was not able to adapt at the same rate. More importantly, they were not given a "fair" chance to adapt.

The US Sugar Program is not entirely responsible for the collapse of the sugar industry in St. Kitts. Rather, globalization as a whole has impacted the way of life for the entire region. The

[43] BBC Monitoring. (23 April 2007).
[44] Ahmed, B. (2001).

main indicator of this effect has been the declining world price of sugar. Reduced quotas for sugar imports from St. Kitts-Nevis into the United States caused the government to embark on a plan to find alternative industries and a diversification of crops in agriculture. St. Kitts-Nevis is a beneficiary of the US Caribbean Basin Initiative which is a framework agreement to promote trade and investment under the Enterprise for the Americas Initiative.

X. Conclusions and Recommendations

Most governments around the world have policies to protect domestic agricultural producers from the instability of world market prices for their commodities of for other domestic, political or cultural reasons. Each commodity has a slightly different support program than the next. The United States Sugar Program has changed since the first tariff was placed on it in 1789 to raise money for the new government. Currently, the sugar program employs three distinct techniques: price support loans, marketing allotments and import quotas. There is a Congressional debate underway about whether or not to reform the sugar program in the upcoming 2007 Farm Bill. Organized interests such as the American Sugar Alliance and the Sweetener Users Association have been using their political influence to weigh in on the debate. Another debate that continues to cause conflict is whether or not sugar should be included in free trade agreements. The impact of the United States sugar program extends well beyond the borders of the country to developing countries vying for a piece of the US market. St. Kitts – Nevis, a former British colony, was once a sugar giant with the profits from the sugar industry being crucial to the country's economic survival. Because of reduced access to markets, such as those in the United States, and a reduced world price for sugar, St. Kitts – Nevis has been forced to abandon the sugar industry and invest in agricultural diversification and other industries, most notably, tourism.

Protectionist policies by nature put other countries, more specifically, foreign producers at a disadvantage. While an area like Europe may have difficulty entering the US market, it has the capability to produce most products on its own and is therefore, self-sustaining. Developing countries are not self-sustaining and when faced with changes in the world market, are not quick to adapt. The United States maintains a stance that the least-developed countries around the world must be assisted in some way to take full advantage of the world trading system. Seeking out countries that have difficulty adapting to the rapidly changing world market and offering necessary market access and/or assistance can satisfy this goal. In the sugar industry, this would specifically apply to countries, like St. Kitts-Nevis, that have been negatively impacted by globalization as a whole.

The US Sugar Program requires careful consideration in the 2007 Farm Bill. There are serious concerns over whether the program is capable of operating at a no-cost basis to the government. In the consideration of the bill, there are many options available to lawmakers. The lawmakers could choose to: 1) extend the program in the same form as it exists today; 2) eliminate the program but in order to meet agreement commitments continue to impose import quotas; 3) reduce price support levels, but retain the loan program; 4) replace the program with a market-oriented approach used for most other crops (e.g. direct subsidies, counter-cyclical payments); 5) authorize a buyout of sugar marketing allotments; 6) adopt a revenue insurance program that bases payments on revenue losses rather than lo commodity prices; and 7) make direct payments to producers.[45]

[45] Jurenas, R. (6 September 2006)

Calls to change sugar to resemble other agricultural programs with direct subsidies are getting louder and louder on Capitol Hill. Direct subsidies would move the sugar program backwards creating problems in the free trade agreements, NAFTA and DR-CAFTA as well as in the WTO. It is important that the program continue to move in a direction away from governmental support and towards the free flow of goods.

Domestically, lawmakers must look at whether or not Americans as a whole are benefiting from this type of program for sugar. Does the program favor large-scale sugar producing companies rather than the small family farmer? Do the benefits of the program outweigh the costs to taxpayers and consumers? Environmentally, is sugar a sustainable crop (e.g. hurricane damage in New Orleans and damage to the Everglades in Florida)? The collective political voice of the sugar producing groups is loud and forceful. There seems, however, to be a trend in Washington, DC that favors hearing both sides of the debate. It will be difficult to get senators and representatives from sugar producing states on board with sugar reform, but it is not impossible to gather a majority as politicians have already started taking up their positions on sugar in the 2007 Farm Bill

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