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A Time for Change:

The outrageous federal sugar subsidy program

By Wayne S. Smith

On April 8th, the Center for International Policy, the Coalition for Sugar Reform, the Tipton Group and Agro Info, LLC, jointly hosted a conference on the effects of the federal sugar subsidies program on the American consumer, other farmers, businesses, and on our foreign policy by impeding free trade agreements, and on the environment – most distressingly to the Everglades. Given below is a report on that conference.

E. Linwood Tipton, Acting as Master of Ceremonies, opened the conference and introduced the keynote speaker, Congressman Cal Dooley, as he introduced all subsequent speakers.

KEYNOTE ADDRESS

In his keynote address, Congressman Cal Dooley (D-California) noted that most agricultural producers do not receive subsidies; they compete in the open market on the basis of efficiency. Sugar producers, on the other hand, probably could not operate without the high prices guaranteed by government limitations on imports. The result is that the American consumer pays two to three times the world market price for sugar. This results in loss of jobs – which certainly does not help the American economy. Although sugar producers represent only some 1% of agricultural production in the United States, they are blocking progress on international trade agreements that would benefit virtually everyone else – from consumers, American farmers and farmers in developing countries to various American businesses.

Congressman Cal Dooley (D-California)

We need to bring greater rationality to our agricultural policy. Because of our own subsidies and import controls and those of the European Union little progress has been made in the DOHA rounds of WTO negotiations. Free trade agreements are also in jeopardy. For instance, the recently signed U.S.-Australian agreement, by excluding sugar failed to be a truly comprehensive free trade agreement. When we exclude sugar, as we did in the Australian case, we simply encourage the Europeans, the Japanese and others as well to protect their own subsidies – to the detriment of U.S. export interests. The Brazilians, meanwhile, have indicated that there will be no Free Trade Area of the Americas unless the United States is willing to reduce, if not altogether eliminate, its farm subsidies and import barriers.

This problem with the U.S. sugar lobby is long-standing, and until now, a seemingly intractable one – intractable because although sugar producers constitute only 1% of agricultural producers, they provide 17% of the campaign donations from the agricultural production sector. The congressman said, however, that he was encouraged by signs that they had recently overplayed their hand. It was becoming increasingly clear to many members of Congress that the sugar subsidy program benefited only a tiny number of sugar producers to the detriment of everyone else – including the very farmers many of them represented. Even congressmen representing urban areas were coming to understand that it is against the interests of their constituents as well – by raising prices of sugar and sugar products and by blocking trade agreements that would benefit American businesses and consumers.

Those working for an end to the federal sugar subsidies, and towards a more rational agricultural policy may now have an opportunity, he said. It is most important that they not only redouble their efforts, but that they work closely together. A large, effective, and vocal coalition is vital. And its efforts must be on a continuing, year-round basis, not simply sporadic efforts when farm bills come up. Seek every opportunity to point up the inequities of this program, he concluded.

DAMAGE TO THE AMERICAN ECONOMY

Cost to Consumers

Jeff Nesbit, of the Consumer Federation of America, reported that the cost of the sugar program to the American consumer is huge. The General Accounting Office had investigated and concluded that the cost to sugarcane refiners, food manufacturers and consumers is nearly $2 billion per year, and that the cost to consumers alone is over $1 billion. Further, he went on, when consumers buy food products containing sugar at the grocery store, they pay what amounts to a hidden subsidy, and it hits poor Americans the hardest, since they spend a larger percentage of their income on food.

Many sugar growers argue that if we ended the federal sugar program, food processors and retailers would simply pocket the savings and not pass it on to the consumers. But this argument flies in the face of the rules of the marketplace. Over time, decreases in the price to the processors and retailers would be reflected in the price to the consumer, for there would be the inevitable trend to increase sales by cutting prices. Isn't that what our free market system is all about? The Consumer Federation is absolutely convinced that consumers would benefit from significantly lowered prices if the federal sugar program were reformed or abolished altogether.

Nesbit said he might have more sympathy for the sugar program if the high cost somehow helped struggling family farmers. That, however, was by no means the case. On the contrary, since benefits accrue on a per-pound basis, the bulk goes to those who need it least – to the largest, most financially secure growers. Indeed, studies have shown that the bulk of the benefits go to the top 1% of the growers!

Loss of Jobs

Tom Earley, the Vice President of Promar International, said the federal sugar program is causing significant job losses in the food and beverage manufacturing industries because the government support program keeps the price of sugar well above prices in other states. In just the past six years, the overall negative impact in sugar-using industries appears to be at least 7,500 to 10,000 jobs eliminated or foregone, and possibly as many as 26,500. Additionally, almost two-thirds of cane sugar refining jobs have been eliminated since the federal sugar program began in 1981. There were 23 cane sugar refineries in the United States in 1981. Today there are eight. In 1982, there were 8,300 jobs in the refining industry, while by 2001 there were only 3,590, and 745 more jobs have been lost since then, bringing the total loss to 5,455, or 57% of those that existed in 1982.


Tom Earley, Promar International

The American Sugar Alliance (ASA) has often used inflated claims of the number of jobs involved in the sugar and HFCS industries to try to justify continuation of the federal sugar program. Their most recent fanciful estimate, Earley said, is 372,000 direct and indirect jobs. The U.S. International Trade Commission's estimate, however, is that only some 61,304 jobs are involved in sugar production in the U.S.

And the hard fact is that food and beverage manufacturers employ 100 times more people than sugar processors, and as indicated above, are disappearing because of the sugar program.

All this is damaging to the American economy. The most acute pain, however, is felt on a personal level – by workers who have lost their jobs, many of which have gone overseas.

DAMAGE TO THE ENVIRONMENT

Mary Barley, Chair of the Save Our Everglades Alliance, noted that the federal sugar program has made sugar production in Florida so profitable that production has soared, and the Everglades, one of the world's most unique ecosystems, has been brought to the brink of destruction. This is tragic and will remain a tragedy until our elected officials muster the courage to stand up to this immoral political force created by the federal sugar program.

All efforts to get the big sugar producers to fairly share the cost of cleaning up the Everglades have failed. Since 1996, efforts have been made to force sugar producers to pay to remove the phosphorous and other pollutants they have regularly dumped into the Everglades – to no avail. The Florida Supreme Court ruled that the "Polluter Pay" amendment was not self-executing and would require legislative implementation. Not one bill has been introduced in any Florida legislative session to made Big Sugar pay for the cleanup.

In 1994, the State's Everglades Forever Act allowed Big Sugar to transfer most of the pollution cleanup costs to innocent Florida landowners through a tax assessment on their property.

As for the phosphorous cleanup campaign, the Florida legislature, without consultation with the Federal Government, simply added a provision which gives the State an unlimited timeline to meet the phosphorous standards, thus bypassing the 2006 deadline. This same legislation also tries to negate the Polluter Pay amendment approved by 68% of the voters.

Virtually every major newspaper in Florida has editorialized against this legislation. Many members of Congress, including Senior Florida Members Bill Young, Porter Goss, Bob Graham, Peter Deutsch and Clay Shaw warned the Legislature and the governor that passage of such unwise legislation could hurt restoration efforts in the U.S. Congress. Three House Appropriations Subcommittee Chairmen spoke to the governor, urging him to veto the legislation. All to no avail. The bill passed and the governor signed it into law.

Not surprisingly, Ms. Barley saves her strongest cannonade for the elected officials who have allowed Big Sugar to work its will.

"The most guilty," she says, "are the federal and state lawmakers and officials – those charged with administering the law—members of Congress, state legislators, federal and state appointees, our courts, governors and presidents – those who have the final say. They could have said "no" to changes to the Everglades Forever Act, "no" to Big Sugar's demands to fleece taxpayers time and time again; and God forbid, "no" to Sugar's unlimited dispersal of campaign contributions in return for government guaranteed profits. It is those officials who are most at fault. Until we ourselves confront the policymakers and hold them accountable, Sugar will destroy and corrupt. We must reveal Big Sugar's agenda, its harm to our nation's economy and to the environment, to our jobs and our water, and we must take action at the polls to remove those shabby politicians who have allowed Big Sugar's agenda to be implemented over the people's will."

Mary Barley, Save Our Everglades Alliance

EFFECT ON INTERNATIONAL TRADE

Marcia Donner of the Brazilian Embassy stressed that the desirable thing was that countries produce according to their relative advantages. Thus, if one country, because of soil and climate, can produce a given crop more efficiently and cheaply than another, then it should produce and export that commodity. Sugar, however, is one of the most distorted commodities in the global market. According to the OECD, total support for sugar producers in its member countries is about 50% of the value of production. Such support generates all sorts of distortions, the first and foremost being that it insulates producers from market realities, encouraging production irrespective of comparative advantages or actual demand. It depresses international sugar prices, badly affecting competitive producers worldwide, with the most adverse impacts being felt in developing countries.

The federal sugar program in the U.S. is one of the most egregious in this sense. As a CATO Institute report put it back in 2001, "nowhere is there a larger gap between U.S. government free-trade rhetoric and its protectionist practices than in the Sugar program." The latter benefits a small number of producers - 9,000 beet producers and 1,000 sugarcane producers - to the detriment of almost everyone else in the country, and in the rest of the world. Obstacles to sugar reform in the U.S. are nevertheless enormous, and may be traced back entirely to politics. Not only is sugar the largest agricultural industry donating to political campaigns, but sugar is grown in several "swing states" that are crucial in presidential and congressional elections. Given this, the sugar lobby has succeeded in derailing, for years, all efforts at meaningful reform of the sugar program.

All this played a role in reducing to a minimum U.S. sugar concessions in the Central American Free Trade Area (CAFTA) negotiations and virtually excluding sugar from the U.S.-Australian agreement.

Brazil, however, remains committed to strong multilateral, and, if the case be, regional action to reduce government intervention in the world sugar markets. Brazil sees the WTO DOHA Round as its preferred scenario for action, though it will of course continue to push for additional market access gains for sugar in regional negotiations such as the Free Trade Area for the Americas (FTAA) and the bioregional process MERCOSUR-European Union.

Marcia Donner, Brazilian Embassy

Sarah Thorn, of the Grocery Manufacturers of America, pointed out that the federal sugar subsidy program, as presently constituted, is truly the worst form of protectionism.

It is exactly the kind of production-related subsidy that the WTO has deemed "most trade distorting" since production and price are so closely linked and market forces are not a factor. It is the only U.S. agricultural program that continues to operate in this fashion. And make no mistake; it is a subsidy. The operation of the sugar program constitutes over one and a third billion dollars in our amber box subsidies that we notify to the WTO.

The sugar protection program is an impediment to or serious complication in virtually every trade agreement we have negotiated recently or are attempting to negotiate. U.S. negotiators did allow very modest imports of sugar from Central America under the recent U.S.-Central American Free Trade Agreement (CAFTA), against the strong opposition of U.S. sugar growers. The latter, however, received several major compensating concessions. Sugar imports will be subject to permanent quotas. Additionally, there will be no reduction in the out-of-quota duties and only modest growth of the quotas themselves. Finally, there is a provision within the CAFTA that allows the U.S. government to compensate Central American growers in lieu of actually importing their sugar. So now U.S. taxpayers will be subsidizing foreign suppliers as well as domestic ones. No other agricultural commodity got such a deal.

Because of the strong protests of growers against CAFTA, the Administration responded to their demands by excluding sugar from the U.S.-Australian Free Trade Agreement. This is truly a travesty for U.S. trade policy. Next in line is Thailand – the third largest sugar exporter in the world. They are sensitive on soybeans, pork and other agricultural commodities. Who will pay next?

Given this trend of events, the sugar program looks like a pretty effective barrier to regional integration in this hemisphere. Can we really hope to conclude a Free Trade Area for the Americas (FTAA) agreement without allowing the importation of Brazilian sugar? Not likely. And what will U.S. manufacturers, who desperately want access to the Brazilian market, say then?

And by excluding sugar, the U.S. government has given license to every other import sensitive product to demand the same treatment. Trade agreements would eventually become impossible to negotiate or sustain.

The U.S. sugar program must be changed, for everyone's sake. As much as they would like to deny it, sugar growers must realize that we cannot build a sugar fortress around the United States. We live in a global economy and the sugar program must be changed to reflect that reality. Otherwise, every one of us will continue to pay the price.

SUGAR AND U.S. FOREIGN POLICY OBJECTIVES

A nation's foreign policy, Robert Muse, of Muse and Associates, noted, should be the concrete expression of a set of goals designed to advance its citizens' interests. Among the goals of U.S. foreign policy would be:

1. access of U.S. goods to foreign markets, with resulting benefits to U.S. companies and the workers who make those goods;
2. access of American consumers to competitively priced products from abroad;
3. the encouragement of prosperous regional economies that offer incentives against illegal immigration to the U.S.;
4. the growth and security of U.S. jobs by giving U.S. workers access to foreign commodities essential to their industries' viability and thereby preventing the relocation of those industries to other countries where such goods are freely available;
5. the eradication of drugs produced for the U.S. market, i.e., to remove the incentive to grow drugs by providing market access to legitimate agricultural products; and
6. the promotion of global trade liberalization through multilateral agreements that benefit all sectors of the U.S. economy.

The U.S. policy of blocking sugar imports does not advance a single one of those goals. Let us examine the consequences of this policy one by one.

1. Loss of markets - Under the iron rule of reciprocity, to the extent that we deny individual foreign countries access to our market for their products, they will deny their markets to our products. A good example is the recent U.S.-Australian Free Trade Agreement. In negotiating that bilateral agreement, the U.S. would not allow increased access of Australian sugar to the U.S. market. As a result,

Australia refused to budge in its protection of wheat, broadcasting and other services. The consequence of this is fewer jobs for Americans in those industries.

2. Continued monopoly at home - One of the goals of a foreign policy supportive of free trade is that it prevents price-gouging by domestic monopolies. Our sugar growing sector is such a monopoly and maintaining it as such costs the U.S. consumer some $2 billion a year in higher sugar prices.
3. Increased migration to the U.S. - U.S. protectionism costs sugar producers in poor countries hundreds of millions of dollars and thousands of rural jobs. Each displaced Caribbean or Central American worker is a potential unskilled migrant to the U.S.
4. Loss of U.S. jobs - There used to be 21 sugar refineries in the U.S. As a direct result of the sugar program which began in 1981, there are now only eight. Thousands of jobs were lost. The reason was simple: they could no longer get sugar at a competitive price to process and sell in a refined form to U.S. consumers and manufacturers. As a result, they watched traditional purchasers relocate jam, candy and cookie factories to other countries where they could freely obtain needed sugar.
5. Crop substitution - If you remove an export market for one crop, you drive rural producers to find a new crop for which there is a market. There is a direct correlation between enhanced marijuana and coca leaf production in the Caribbean and Colombia and the elimination of the U.S. market for sugar traditionally imported from those countries. Is this really what we want?

Robert Muse, Muse and Associates

It is blatantly hypocritical for the U.S. government to protect sugar growers as it does while at the same time calling for a new global round of market openings. In the recent WTO debacle in Cancun, we saw a group of developing countries say "no" to further trade liberalization unless developed countries began to practice what they preach and accept freer trade in what the world's poorest countries actually produce – agricultural commodities. U.S. companies and their workers stand to benefit from global trade liberalization, but that goal is thwarted by the U.S. sugar program.

In the final analysis, the sugar program does not advance any of those domestic goals and in fact in injurious to their attainment. The question is why then do we hold to it? The answer to that question can be found only in an unflinching inquiry into this country's political system and the role of monetary contributions in that system.

Wayne Smith,Center for International Policy

WHAT CAN BE DONE?

Wayne Smith, of the Center for International Policy, said he could add little to Congressman Dooley's call for greater energy and unity in the struggle against this blatantly counterproductive system – counterproductive, that is, for the majority. There needed to be a conscious move toward coalescence and enhanced organization. He noted also that as a public relations tactic, he thought the need to save the Everglades should be the point of the spear. The American public feels strongly about that, and the unprincipled, corrupt, and even illegal resorts to which the sugar growers have gone to avoid bearing any costs of the clean-up, and to thwart the clean-up itself, is something which should be brought increasingly to the public's attention.

E. Linwood Tipton, The Tipton Group

E. Linwood Tipton suggested that while he wasn't a real advocate of giving Big Sugar still more after all the billions they've received from the program already, he did think a "buy-out" or subsidy "buy down" program might make sense and make it more acceptable to them.

He also noted that in negotiations with single countries, as with Australia, the U.S. has been able to take sugar off the table. When dealing with groups of nations, however, as with the Central Americans, the latter have had somewhat more success in having at least limited sugar exports included. This led him to believe that we should get on with the DOHA Round of WTO negotiations. There we'd have better conditions for success.

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