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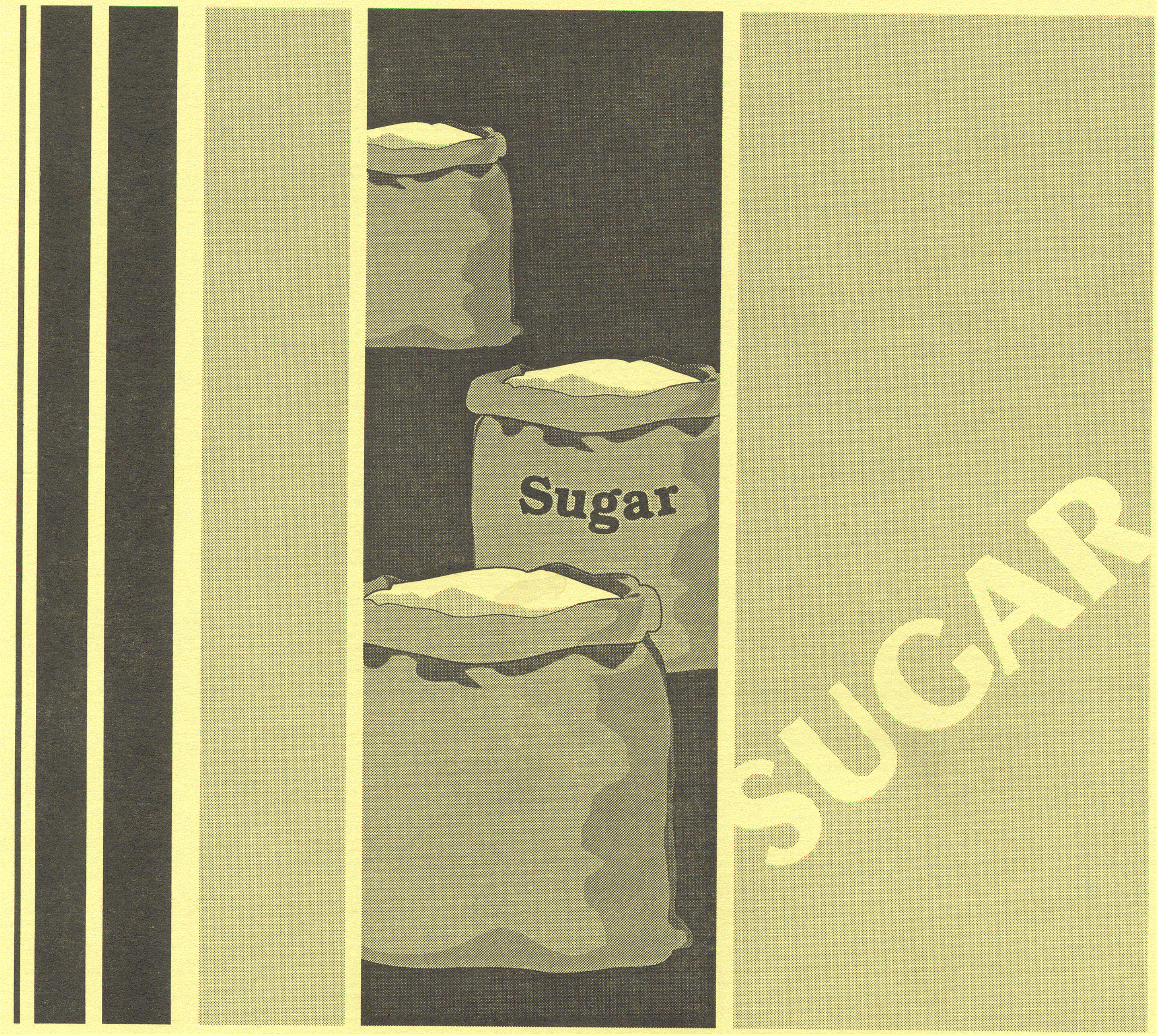
# Sugar

## Background for 1995 Farm Legislation

Ron Lord



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**Sugar: Background for 1995 Farm Legislation.** By Ron Lord. Commercial Agriculture Division, Economic Research Service, U.S. Department of Agriculture. Agricultural Economic Report No. 711.

# Abstract

Current U.S. sugar price support programs have their origin in 1981 legislation. The price support program has resulted in significant expansion of the industry in the last decade. Beet sugar production has expanded in many regions, but has contracted in some western regions, particularly California. Cane sugar production has expanded in Florida, Louisiana, and Texas, but has shrunk in Hawaii where costs are high. National average costs of producing beet and cane sugar have been declining in the last decade, and returns have exceeded costs. Average production costs of refined beet sugar are below those of refined cane sugar. Overall sugar demand has been growing at about 2 percent a year since 1986, when the rapid replacement of sugar by high-fructose corn syrup ended. Sugar imports under quota have fallen to levels close to the minimum provided by law. Prospects are for sugar production and consumption to continue to rise. No major impacts on the industry are expected from the GATT Uruguay Round or NAFTA.

Keywords: Sugar, sugarcane, sugar beets, price supports, import quotas, imports, exports, cost of production, returns, high-fructose corn syrup, corn sweeteners, world sugar, low-calorie sweeteners.

# Foreword

Congress will soon consider new farm legislation to replace the expiring Food, Agriculture, Conservation, and Trade Act of 1990. In preparation for these deliberations, the U.S. Department of Agriculture and other groups are studying previous legislation to see what lessons can be learned that are applicable to the 1990's and beyond. This report updates *Sugar: Background for 1990 Farm Legislation* (AGES-9OO6), by Robert D. Barry, Luigi Angelo, Peter J. Buzzanell, and Fred Gray. It is one of a series of updated and new Economic Research Service background papers for farm legislation discussions. These reports summarize the experiences with various farm programs and the key characteristics of the commodities and the industries that produce them. For more information, see Additional Readings at the end of the text.

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The sugar portion of the 1995 farm bill debate will likely focus on the level and type of support to the industry, as well as the effectiveness of the sugar provisions in the 1990 omnibus farm legislation (entitled the Food, Agriculture, Conservation, and Trade Act).

The current U.S. sugar price support program has its origins in 1981 legislation. The foundations of the program are tariff-rate import quotas, domestic marketing allotments, and price supports. They restrict overall supply to help maintain price. The current U.S. minimum price support level, unchanged since the 1985 crop, is based on a raw cane sugar loan rate of 18 cents a pound, raw value. Import quotas have meant that the U.S. sugar price has been largely unaffected by movements in the lower world price.

The 1990 farm legislation added a minimum sugar import requirement of 1.25 million short tons (1 short ton = 2,000 pounds), standby domestic sugar marketing allotments (domestic supply controls), and a marketing assessment of 1 percent of the loan rate, later increased to 1.1 percent. USDA assesses whether or not to implement the standby allotments at the beginning of each quarter of the fiscal year. If imposed, allotments apply to the entire fiscal year, and have been imposed for fiscal years 1993 and 1995.

Several options exist for the U.S. sugar program. Preserving the basic structure of the nonrecourse loan program provides one set of options. To continue price support, a mechanism for domestic supply control is necessary. At the other extreme, the domestic program could be eliminated.

Another factor in this year's debate will be the General Agreement on Trade and Tariffs (GATT). Under GATT, the U.S. is committed to maintain a minimum access level for imports of 1.256 million tons. This commitment precludes domestic sugar legislation from increasing the protection afforded domestic sugar producers from foreign sugar, even if surpluses arise.

The domestic sugar and sweetener industry is the largest in the world, with total annual consumption of caloric sweeteners approaching 20 million tons a year. The United States is among the top five countries in the world in production, consumption, and imports of sugar. About 83 percent of the sugar consumed in the United States during 1992-94 was produced domestically, with 38 percent from sugarcane and 45 percent from sugar beets.

Domestic sugar production is expanding rapidly, and is forecast at a record 8.29 million short tons, raw value, in fiscal year 1995. Over the last decade, beet sugar production has expanded an average of over 140,000 tons per year, and cane sugar production has risen more than 40,000 tons per year. Since 1986, sugar use has grown about 2 percent a year, and for 1994/95 is forecast at 9.43 million short tons. High-fructose corn syrup (HFCS) consumption is forecast at 7.4 million tons in 1994/95, and HFCS consumption is growing at about 4 percent a year.

Sugar beets are grown in 14 States and sugarcane in 4 States. Since sugar beets and sugarcane deteriorate rapidly, they are grown only in proximity to a processor and generally only under contract. Technological progress continues to improve efficiency on sugar beet and sugarcane farms and in sugar processing facilities. The U.S. cost of producing sugar is falling both in absolute terms and relative to other countries.

U.S. sugar prices, as supported by Federal farm policy, have stimulated production. By providing a price umbrella, the higher sugar prices stimulated production of alternative sweeteners, such as HFCS, and lowered sugar consumption. Refined sugar is processed and sold in the United States by 11 companies, with the three largest controlling over half the market. Industry concentration has increased dramatically over the last 3 decades.