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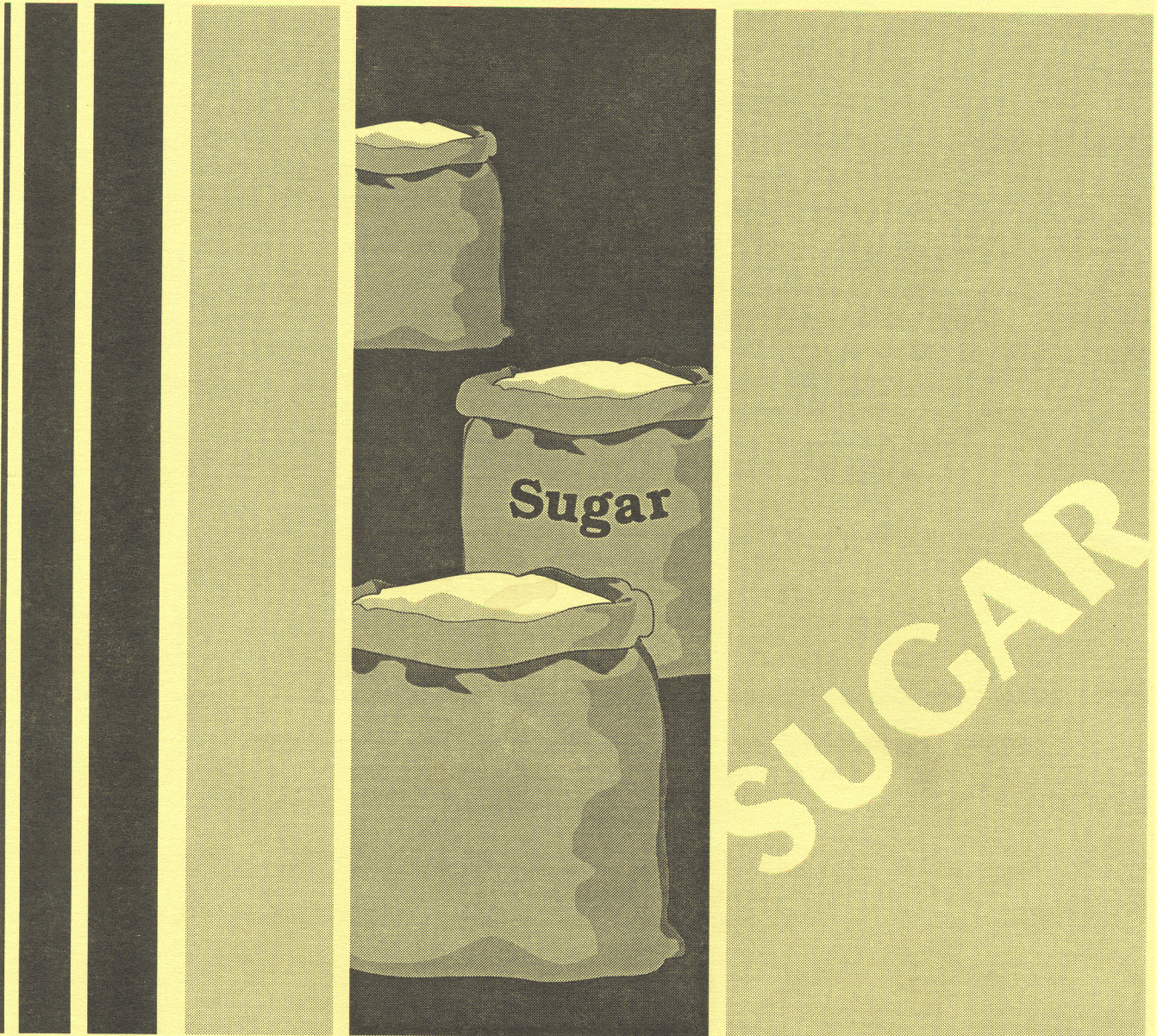
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An Economic Research Service Report

Sugar

Background for 1995 Farm Legislation

Ron Lord



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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-9006), 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.

Contents

Summary	iii
Introduction	1
Characteristics of the Sugar Sector	1
Structure of the U.S. Sugar Industry	1
Production and Processing Costs and Returns	11
U.S. Sugar Prices and Consumption . . . . .	.14
The World Sugar Market . . . . .	.18
U.S. Sugar Policy . . . . .	.23
Historical Perspective of U.S. Sugar Legislation . . . . .	.23
Other Legislative Authorities To Support the U.S. Sugar Industry . . . . .	.25
Sugar Legislation: 1985-Present . . . . .	.26
Economic Effects of the Sugar Program . . . . .	.27
Effects of GATT and NAFTA on the Sugar Sector. . . . .	.30
The Uruguay Round GATT Agreement . . . . .	.30
NAFTA	30
Current U.S. Sugar Market Issues. . . . .	.31
Rising Beet Sugar Market Share . . . . .	.31
Marketing Allotments . . . . .	.32
Import Quota Issues . . . . .	.32
Policy Options and Alternatives. . . . .	.32
Policy Options Within Current Sugar Program Mechanisms . . . . .	.32
Deficiency Payment Program . . . . .	.33
Elimination of Domestic Program . . . . .	.34
Further U.S. Sugar Policy Considerations . . . . .	.34
Additional Readings . . . . .	.34
Glossary	36
Appendix Tables. . . . .	.41

List of Tables

1. U.S. sugar beet farms and average acreage harvested, by area, 1987/88, 1992/93 crop years	3
2. U.S. sugar beet processing companies	6
3. U.S. sugarcane farms and average acreage harvested, by State	8
4. U.S. cane sugar refiners: Company, factory location, and capacity	10
5. U.S. total consumption of caloric sweeteners, 1980-94	17
6. World sugar supply, use, stocks-to-consumption ratio, and price	19
7. World sugar trade, by leading sugar exporters and importers . . . . .	.21
8. U.S. national average cane and beet sugar loan rates . . . . .	.25

Appendix Tables

1. Sugar beets: Acreage harvested by region and State, crop year . . . . .	.41
2. U.S. sugar beets and beet sugar: Acreage, production, yield, and recovery rate . . . . .	.42
3. U.S. sugarcane: Acreage harvested for sugar, by area . . . . .	.43
4. U.S. cane sugar yield per acre . . . . .	.44
5. U.S. cane sugar production by area . . . . .	.45
6. U.S. cane sugar recovery rates . . . . .	.46
7. U.S. sugarcane: Production for sugar by area . . . . .	.47
8. U.S. sugarcane: Yield per harvested acre for sugar by area. . . . .	.48
9. Sugarcane processors: Company, factory location and capacity . . . . .	.49
10. U.S. raw sugar prices, duty fee-paid, New York, monthly, quarterly, and fiscal and calendar years	50
11. U.S. wholesale refined beet sugar prices, Midwest markets, monthly, quarterly, and fiscal and calendar years	50
12. U.S. retail refined sugar prices, United States, monthly, quarterly, and by fiscal and calendar years	51
13. Cost of producing and processing beet sugar in the United States, 1981-92 crops	52
14. Variable and fixed costs of producing and processing beet sugar in the United States, 1981-92 crops	52
15. Cost of producing and processing 96-degree raw cane sugar in the United States, 1981-92 crops	52
16. Variable and fixed costs of producing and processing raw cane sugar in the United States. 1981-92 crops	53

17. Beet sugar grower and processor costs and returns, refined basis	54
18. Cane sugar grower and processor costs and returns, 1981-92	54
19. Sugar beets: Average production costs per planted acre and net ton, by sugar beet region, 1992 crop	55
20. Beet sugar: Processing costs per pound of refined sugar and net ton of sugar beets, by cost item and area, 1992 crop	56
21. Sugar beets: Production and processing costs per net ton of sugar beets and pound of refined sugar, 1992 crop	57
22. Sugarcane: Average production costs per harvested acre, net ton of sugarcane and per pound of 96 degree raw sugar, by cost item and area, 1992 crop	58
23. Raw sugar: Processing costs per net ton of sugarcane and pound of 96-degree raw sugar, by cost item and area, 1992 crop	59
24. Sugarcane: Production and processing costs per ton of sugarcane and pound of 96-degree raw sugar, by cost item and area, 1992 crop	60
25. World raw sugar prices, monthly, quarterly, and fiscal and calendar years	61
26. World refined sugar prices, monthly, quarterly, and fiscal and calendar years	61
27. U.S. sugar imports under quota and tariff-rate quota, by country	62
28. U.S. sugar (including Puerto Rico) supply and use, fiscal years	65
29. U.S. high-fructose corn syrup (HFCS) supply and use, by calendar years	66
30. Sugar beet and sugarcane prices and crop values	67
31. Refined beet sugar loan rates, by regions	67
32. Raw cane sugar loan rates, by area	67
33. Gross returns, marketing expenses, and net return from beet sugar	68

List of Figures

1. U.S. sugar beet acreage harvested	3
2. Sugar beet yield per acre	3
3. Beet sugar per acre	4
4. U.S. beet sugar production	4
5. Beet sugar recovery per ton sugar beets	5
6. U.S. production of sugar from beet molasses desugarization	5
7. U.S. sugar beet factories daily average slicing capacity	6
8. U.S. cane sugar production	7
9. U.S. sugarcane area harvested for sugar	7
10. U.S. cane sugar production, by State	7
11. Sugarcane acreage harvested for sugar, by State	7
12. Cane sugar yield per acre, by State	8
13. U.S. sugarcane mills: Average daily grinding capacity	9
14. U.S. cane sugar refinery numbers and daily capacity	11
15. Costs and returns for sugar beet growers	11
16. Costs and returns for beet processors	12
17. Costs and returns for beet sugar	12
18. Total economic cost of beet sugar, Eastern and Western United States	12
19. Costs and returns for sugarcane growers	13
20. Costs and returns for cane processors	13
21. Costs and returns for cane sugar	14
22. Cost of production of U.S. beet and cane sugar	14
23. World and U.S. raw sugar prices, 1950-94	14
24. U.S. raw, wholesale and retail refined sugar prices, quarterly	15
25. Margin between refined and raw sugar prices	16
26. U.S. sugar consumption	16
27. U.S. consumption of domestic and imported sugar and HFCS	17
28. World sugar production and consumption	18
29. Consumption in selected regions	20
30. Production in selected countries	20
31. Exports by selected countries	22
32. U.S. and EU net imports as share of total world imports	22
33. Variability of world prices for major commodities	23
34. World sugar price and stock/use ratio	23
35. Ratio of U.S. beet sugar loan rate to cane sugar loan rate	28

Summary

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.