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PolicyPennings by Daryll E. Ray & Harwood D. Schaffer

Sugar policies of US and Brazil

As the House and Senate agriculture committees come closer to reporting a farm bill out to their respective chambers, the debate over sugar policy has predictably begun to heat up and capture the attention of the media.

According to a March 13, 2013 Wall Street Journal article, Big sugar is set for a sweet bailout, "the US Department of Agriculture is considering buying 400,000 tons of sugar" in 2013. The cost of this purchase would be about $80 million. The purpose of the purchase would be to keep the price of sugar above the loan rate.

Describing the US sugar program, the USDA Economic Research Service writes, "the…program uses price supports, domestic marketing allotments, and tariff-rate quotas (TRQs) to influence the amount of sugar available to the U.S. market. [Using these measures] the program supports U.S. sugar prices above comparable levels in the world market…. An important aspect of the program is that it operates, to the maximum extent possible, at no cost to the Federal Government by avoiding loan forfeitures to USDA's Commodity Credit Corporation (CCC).

"A new measure introduced in the [2008 Farm Bill] to help avoid loan forfeitures is the Feedstock Flexibility Program (FFP). The FFP will divert sugar in excess of domestic food consumption requirements to ethanol production.."

While the 2012 drought significantly reduced the US corn crop, sugar cane and sugar beet farmers harvested a bumper crop last fall putting downward pressure on US sugar prices, increasing the likelihood that some sugar would be forfeited to the CCC as repayment for loans that processors took out to purchase sugar cane and sugar beets from farmers. The purpose of the 400,000 ton sugar purchase by the USDA would be to reduce the supply of sugar available to the US domestic market in hopes of keeping the price above the loan rate—the level at which processors could forfeit the sugar as repayment for the loans they took out with the USDA. This sugar would be diverted to the FFP and converted into ethanol.

US confectioners dislike the program arguing that if the sugar program were eliminated they would be able to purchase sugar at the world price and that consumers would benefit through lower cost sweets. This argument assumes that sugar production in other countries is not subsidized and thus the world price reflects the cost of production of the lowest cost, most efficient producers.

If major sugar exporters were to subsidize their producers, then the world price would turn out to be the "dump price." And that is exactly what Patrick Chatenay, President of ProSunergy Ltd., alleges in a report he prepared for the American Sugar Alliance (http://www.agri-pulse.com/uploaded/Chatenay_Brazil_Study_0413.pdf).

In his April 17, 2013 report, he writes, "It is often assumed that the Brazilian sugar industry which supplies about half the international market for sugar owes its pre-eminent position to natural endowments and savvy private operators alone. Its competitiveness is said to be the result of market forces only. This is indeed the image which Brazil projects in international circles.

"Outside Brazil, opponents of domestic sugar policies use this image to argue that the sugar market would be more efficient—and, presumably, sugar prices would be lower—if impediments to imports were removed. They assume sugar trade liberalization would be efficient because Brazil's natural advantages in producing sugar would then be fully expressed."

Chatenay then argues that "the immense power of Brazil's sugar industry is founded [not upon efficiency, but] upon many years of strong government intervention" which he estimates to include "at least US$2.5 billion per year of direct or indirect government incentives. Among other things, these direct and indirect incentives "transfer the cost of pensions from farmers to other economic agents, provide soft loans to agriculture, forgive and reschedule agricultural debts, forgive and reschedule tax debts at very favorable terms, make possible arbitrage between sugar and ethanol markets, [and] mandate blending of anhydrous ethanol into gasoline."

He goes on to assert that "beyond sugar, Brazil supports its agriculture in general through a wide array of programs and this support has grown considerably in the recent past. Because of the dispersion and complexity of public subsidies, it is impossible to precisely measure support by product; however, the sugarcane industry benefits from many of these programs. Brazil's 2012/13 federal budget for agriculture amounts to US$68 billion, 85 percent of which is to be paid out as loans. But the combination of subsidized interest-rates, soft lending terms, debt forgiveness and rescheduling as currently practiced means that a large portion of those credits should rightly be considered a subsidy."

In The Hill's Congress Blog, Chatenay writes about the 2006 reform of the EU sugar policy saying it "bore a close resemblance to US sugar policy" before liberalization. He then asks "What lessons can US lawmakers take from the EU model?

"The first lesson is that 'liberalization' breeds supply uncertainty and price instability. After dropping initially by 22 percent, bulk refined sugar prices

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in Europe are now 10 percent higher than they were before the reform…. The sugar users who lobbied hard for the reform—companies such as Nestle and Kraft—are now complaining just as loudly as before."

If his analysis is even partially correct, one has to wonder not only about changing US sugar policy, but also about the Brazil WTO cotton case that was based on US support for cotton producers.

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