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Sugar Program Proposals for the Next Farm Bill

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Summary

The sugar program is structured to operate at no cost to the federal government—an objective that has been achieved over the last decade primarily using two tools: marketing allotments that limit the amount that sugar processors can sell, and import quotas that restrict the quantity of foreign sugar allowed to enter the U.S. market. Since the program records no outlays, its future did not receive attention among the proposals submitted to the House and Senate Agriculture Committees for revising the farm safety net and reducing farm program spending.

Producers of sugar beets and sugarcane, and the processors of these crops into sugar, favor retaining the current program without change. They highlight the jobs and economic activity created by the domestic sugar sector. Two general farm organizations and a coalition of some developing countries that benefit from selling against their shares of the U.S. raw sugar import quota also support continuing the current sugar program.

Food manufacturing firms that use sugar in their products advocate program elimination or a transition toward a free market in sugar in the United States. In support of these changes, they pointed to the higher wholesale refined sugar prices paid since the 2008 farm bill provisions took effect (twice the level compared to the previous 2002 farm bill period). Consumer, trade advocacy groups, and general business organizations that favor freer trade also support this position.

During 2012, Congress considered the future of the sugar program in deliberating agricultural and food assistance policy but did not complete action on a new farm bill. Instead, Section 701 of P.L. 112-240 (the "fiscal cliff" bill) extends the 2008 farm bill's commodity program authorities for one year. This means current sugar program authority will apply to the 2013 sugar crops (i.e., most of FY2014 as beets and cane are processed and sugar is marketed). Earlier, the Senate–passed farm bill (S. 3240) would have reauthorized the current sugar and sugar-to-ethanol programs with one change through crop year 2017. Adopted by voice vote, it would have advanced by two months the U.S. Department of Agriculture's authority to increase the raw sugar import quota. Two amendments to phase out or modify both programs were defeated on roll call votes. The House Agriculture Committee farm bill (H.R. 6083), marked up on July 11, 2012, would have reauthorized both programs without any change. An amendment offered in markup to modify the program was defeated on a 36-10 vote. No floor action occurred on this House bill.

Other bills and proposals formed the basis for sugar program amendments offered on the Senate floor, and were expected to be offered during House floor debate. These reflected changes sought by opponents of current U.S. sugar policy. The text of S. 25 (to phase out sugar loan rates in stages through the 2014 crops, and eliminate all price support beginning in 2015) was offered as S.Amdt. 2393 during Senate floor debate on June 13, and tabled (i.e., rejected) on a 50-46 vote. S.Amdt. 2433 to S. 3240 (defeated 46-53) proposed to return price support loan rates to 2008 levels, and to require USDA to administer sugar import quotas and marketing allotments to provide "adequate supplies of sugar at reasonable prices."

Other bills introduced in the House mirrored the amendments offered during Senate floor debate. They would have repealed all sugar price support provisions either immediately or starting with the 2013 crops, but differed in changes proposed to sugar import quotas.

Debate on U.S. sugar policy will continue once decisions are made on how to proceed with a new farm bill. Supporters and opponents are expected to make similar arguments as presented in 2012.

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Overview of Sugar Program

The U.S. sugar program is up for renewal as Congress considers the future of all farm commodity programs in the context of the next omnibus farm bill. As now structured, the sugar program provides a price guarantee to producers of sugar beets and sugarcane and to the processors of both crops. The U.S. Department of Agriculture (USDA) further is directed to administer the program at no budgetary cost to the federal government by limiting the amount of sugar supplied for food use in the U.S. market. To achieve both objectives, USDA has four available tools—authorized by the 2008 farm bill (Food, Conservation, and Energy Act of 2008, P.L. 110-246, Subtitle D of Title I) and Chapter 17 of the Harmonized Tariff Schedules of the United States—to keep domestic market prices above guaranteed levels. These are

- extending price support loans at specified levels (the basis for the price guarantee);
- setting marketing allotments to limit the amount of sugar each processor can sell;
- establishing import quotas to restrict the amount of sugar allowed to enter the U.S. market; and
- making a sugar-to-ethanol backstop available if marketing allotments and import quotas are insufficient to keep market prices above guaranteed levels.

For an explanation of how these tools operate together, see CRS Report R42535, *Sugar Program: The Basics*.

Supporters of Sugar Program

Producers of sugar beets and sugarcane, and the beet refiners and raw sugar mills that process these crops into refined sugar and raw cane sugar, respectively, advocate extending the U.S. sugar policy that Congress adopted in the 2008 farm bill. Spokesmen argue that the program has succeeded in ensuring "reliable supplies of high-quality, safe, responsibly-produced sugar at reasonable prices" for consumers, and provided producers "an economic safety net." They emphasize that these objectives have been achieved at "zero cost to American taxpayers."[1] Sugar crop producers and processors are represented by the American Sugar Alliance (ASA).

Two large general farm organizations support continuing the current sugar program. The American Farm Bureau Federation states that while other commodities will be faced with reduced government support in the next farm bill, "the sugar program should be left intact as efforts to generate savings would require convoluted policy structures." The National Farmers Union supports continuing the sugar program and "encourages Congress to work with ... sugar producers to adopt a strong sugar program in future farm bills." Also, a coalition of 17 developing countries that benefit from preferential quota access to the U.S. sugar market favors continuing current U.S. sugar policy, arguing that it "provides a guaranteed level of access ... at fair, predictable prices."[2]

[1] American Sugar Alliance, statement submitted to the House Agriculture Committee's Subcommittee on General Farm Commodities and Risk Management, hearing on "Formulation of the 2012 Farm Bill: Commodities & Crop Insurance," May 17, 2012, accessed at http://www.sugaralliance.org/images/stories/PapersAndTestimony/ASA-HAC-testimony-5-12.pdf.

[2] American Farm Bureau Federation, "Policy Recommendations for the 2012 Farm Bill," September 28, 2011, p. 5, (continued...)

Opponents of Sugar Program

Sugar users (i.e., manufacturers of sugar-containing food products and beverages) support making changes to the U.S. sugar program. In their view, the sugar program "was made worse by the 2008 farm bill" and operates as "a textbook example of the consequences of excessive government intrusion in the marketplace." They argue that the program, "by overly restricting the supply of sugar in the U.S. market," has kept U.S. market sugar prices "far above" world sugar prices. This development, they contend, has resulted in U.S. consumers and food manufacturers paying more for sugar than foreign users do, encouraged the relocation of food processing jobs offshore, led to the elimination of thousands of U.S. jobs, and created a "dramatic inequity of the benefits provided to sugar growers over other agricultural producers" supported by other commodity programs.[3]

Sugar users are primarily represented by the Coalition for Sugar Reform (CSR). CSR includes the food and beverage companies that use sugar (e.g., confectionery firms, bakeries, cereal manufacturers, beverage makers and dairy companies, and the trade associations for these industries), consumer and trade advocacy groups, and business organizations. Two trade associations representing food manufacturing firms where sugar is a principal input have placed U.S. sugar policy at the top of their legislative agenda. They are the American Bakers Association and the National Confectioners Association.[4]

Legislative Activity in the 112th Congress

Senate Farm Bill Activity

The Senate Agriculture Committee, in approving its farm bill (S. 3240) on April 26, 2012, would have reauthorized the current sugar program without any change through crop year 2017 (§1301 of the Agriculture Reform, Food, and Jobs Act of 2012). The committee also reauthorized the sugar-to-ethanol program in the bill's Energy title (§9009).

On June 21, 2012, the Senate approved the farm bill as amended on a 64-35 vote. During earlier floor debate, three amendments to the sugar price support/supply management and sugar-to-ethanol programs were considered. Two were defeated; the other was adopted. These are described below.

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accessed at http://www.fb.org/issues/FarmBureauRecommendations110928.pdf; National Farmers Union, *2012 NFU Policy*, adopted by delegates at their March 2012 convention, accessed at http://www.nfu.org/policy-nfu/218-article-i/973-e-commodities#anchor5; ASA, "Developing Nations Reaffirm Sugar Policy Support, Praise Farm Bill," May 21, 2012, accessed at http://www.sugaralliance.org/newsroom/developing-nations-reaffirm-sugar-policy-support-praise-farm-bill.html.

[3] Coalition for Sugar Reform, statement submitted to the House Agriculture Committee's Subcommittee on General Farm Commodities and Risk Management, hearing on "Formulation of the 2012 Farm Bill: Commodities & Crop Insurance", May 17, 2012, accessed at http://sugarreform.org/wp-content/uploads/2011/06/CSR-House-Ag-Testimony-May-17-2012-FINAL-.pdf.

[4] American Bakers Association, "Sugar Program Reform," accessed at http://americanbakers.org/issues/sugar/; CSR, "Message from the Chairman"—President, National Confectioners Association, accessed at http://sugarreform.org/about/message-from-the-chairman/.

On June 13, 2012, the Senate tabled (i.e., rejected) S.Amdt. 2393 to S. 3240, offered by Senator Reid for Senator Shaheen, on a 50-46 vote. It would have phased out the sugar program within three years and required USDA to administer sugar import quotas to ensure an adequate U.S. sugar supply "at reasonable prices" and a "robust and competitive" sugar processing sector. This amendment's text is virtually identical to that found in S. 25 (see below for details).

On June 20, 2012, the Senate defeated on a 46-53 vote S.Amdt. 2433 to S. 3240, offered by Senators Toomey, Shaheen, and Lugar. It would have retained but modified the sugar program's price support, marketing allotment, and import quota provisions. Loan rates would have been lowered from current FY2012 levels (18.75 ¢/lb. for raw cane sugar, 24.09 ¢/lb. for refined beet sugar) to about the levels in effect in FY2008 (18.0 ¢/lb. for raw cane sugar, and 22.9 ¢/lb. for refined beet sugar). Other changes would have required USDA to administer marketing allotments in ways that ensure that supplies of sugar (including imports) result in "reasonable prices." The amendment would have granted USDA discretionary authority to suspend or modify any marketing allotment provision, taking into account the interests of consumers, those employed in the food production sector, businesses, and agricultural producers. This proposal also would have required USDA to exercise discretion in administering the sugar import quota—for example, by allowing for adjustments in quota levels to provide for adequate sugar supplies at reasonable prices. Another provision would have required USDA to set the ending sugar stocks-to-use ratio at about 15.5%, but with authority to adjust this target to prevent "unreasonably" high prices or loan forfeitures. Another provision would have repealed the sugar-to-ethanol program.

On June 20, 2012, the Senate adopted by voice vote S.Amdt. 2340 to S. 3240 filed by Senator Chambliss. Section 1301(b)(2) of the Senate-passed farm bill would have allowed USDA to decide earlier in the year whether to increase the quantity of foreign raw sugar allowed to enter the U.S. market under an import quota, by advancing the window to do so from April 1 to February 1. Currently, at the beginning of each marketing year (October 1), USDA must set the quotas for raw cane and refined sugar at the minimum level (1.256 million tons) necessary to comply with U.S. trade commitments under the World Trade Organization. In case there is an emergency sugar shortage (caused by adverse weather or war) before April 1 of any year, USDA is required to increase these quotas earlier. If there is no such emergency, USDA must wait until April 1 (the midpoint of the marketing year) before deciding whether or not to increase the raw sugar quota. The amendment's intent was to give USDA the authority to make this decision to allow additional imported sugar to enter earlier in the year, in order to enable a cane refinery in Savannah, GA, that relies upon imports to more fully utilize its installed capacity.

Upon Senate farm bill passage, the American Sugar Alliance applauded the efforts of its Senate supporters to beat back two amendments proposed "to increase large food makers' already sizeable profits at agriculture's expense." In rebuffing them, "the Senate said no to outsourcing America's sugar needs; it said no to killing U.S. sugar jobs; and it said no to eviscerating a successful policy that operates without taxpayer cost."[5]

Reacting to the defeat of the Toomey amendment, the Coalition for Sugar Reform expressed disappointment "the Senate voted to maintain the status quo." It highlighted that "the closest Senate vote in decades" signals broad bipartisan support for a change and that the sugar program

[5] ASA, "ASA Statement On Senate Farm Bill Passage," June 22, 2012, accessed at http://www.sugaralliance.org/newsroom/asa-statement-on-senate-farm-bill-passage.html.

"has long outlived its usefulness." Calling this action "far from a 'done deal'," CSR viewed upcoming House consideration "as an opportunity to build on the widespread support for reform" and to openly debate "the costs of ... and the merits of [program] reform."[6]

House Farm Bill Activity

The House Agriculture Committee concluded its farm bill hearings on May 18, and marked up its farm bill (H.R. 6083) on July 11. Section 1301 of the Federal Agriculture Reform and Risk Management Act of 2012 would have reauthorized the current sugar program without any change through crop year 2017. Section 9009 in the Energy title would have reauthorized the sugar-to-ethanol program through 2017. The committee chairman and ranking Member stated their support for continuing the sugar program without any change and their desire to move quickly in light of the expiration of most farm bill programs in 2012.

Two House Members earlier signaled that if the Agriculture Committee "fails to undertake significant reform of the sugar program," they "will be left with no other option than to offer House floor amendments to the farm bill to achieve sugar policy reform."[7] During committee markup, Representative Goodlatte offered an amendment identical to S.Amdt. 2433 to the Senate farm bill (see above for description). This amendment would have eliminated many of the changes made to the sugar program in the 2008 farm bill,[8] reverted authorities to what they were during the 2003-2008 period, and required USDA to keep "reasonable sugar prices" in mind as program decisions are made. The committee rejected the Goodlatte amendment, on a 10-36 roll call vote.

As it became evident during July that the House would not consider its farm bill before the August recess, House leadership attempted to move another bill to the floor to extend most farm bill programs for one year and to make agricultural disaster assistance available to livestock producers. Among its provisions, H.R. 6228, introduced by Representative Lucas would have extended current authorities for the sugar and sugar-to-ethanol programs to apply to the 2013 sugar beet and sugarcane crops. On July 31, the House Rules Committee planned to recommend a closed rule for debate (i.e., no floor amendments). However, widespread opposition to this measure prompted leadership instead to shift its strategy to proceed with a more limited measure (H.R. 6233) focused on providing disaster assistance to livestock producers.

Bills Introduced by Program Opponents

In the 112th Congress, Members introduced eight free-standing measures that would have made significant changes to U.S. sugar policy. The Senate in debating the farm bill considered the substance of some or all of the provisions in these bills. Opponents signaled their intent to pursue comparable changes when the farm bill moved to the House floor. **S. 25** (Stop Unfair Giveaways

[6] CSR, "Coalition Disappointed with Close Senate Vote Rejecting Modest Reforms to Costly U.S. Sugar Program, Urges House to Have the Courage to Change Course," accessed at http://sugarreform.org/wp-content/uploads/2011/07/CSR-Release-Floor-Vote-2433-6-20-12-FINAL.pdf,

[7] Rep. Joe Pitts and Rep. Danny Davis, "Sugar Caucus Co-Chairs Submit Joint Testimony—Urge Agriculture Committee to Change Sugar Program," May 17, 2012, accessed at http://davis.house.gov/index.php?option=com_content&task=view&id=325&Itemid=1.

[8] For background, see CRS Report RL34103, *Sugar Policy and the 2008 Farm Bill*, by Remy Jurenas.

and Restrictions Act of 2011, introduced by Senator Shaheen) would have phased out in stages the loan rates for the 2012-2014 crops of sugar beets and sugarcane. Price support would not have been available for the 2015 and subsequent crop years. Price support during the three-year transition period would have only been available in the form of "recourse" loans, meaning cash repayment irrespective of the market price (even if lower than the loan rate) when repaid. **S. 685/ H.R. 1739** (Free Sugar Act of 2011, introduced by Senator Lugar and Representative Dold, respectively) would have repealed all sugar price support provisions, effective with the 2012 crops. Title I, Subtitle C, of **S. 1658/H.R. 3111** (Rural Economic Farm and Ranch Sustainability and Hunger [REFRESH] Act, a comprehensive farm bill proposal introduced by Senator Lugar and Representative Stutzman, respectively) would have repealed all sugar price support provisions, effective with the 2013 crops. One amendment that Senator Lugar considered offering during Senate Agriculture Committee markup was virtually identical to the sugar program repeal provisions in S. 1658. **H.R. 1385** (Free Market Sugar Act, introduced by Representative Pitts) and Section 521(a) of **H.R. 408/S. 178** (introduced by Representative Jordan and Senator DeMint, respectively) would have immediately repealed all sugar price support provisions.

All eight bills would have immediately repealed all statutory authorities pertaining to sugar marketing quotas and allotments, payments made to processors to store sugar forfeited to the USDA, storage facility loans, and the feedstock flexibility program for bioenergy producers (i.e., sugar-to-ethanol) program. However, they differed in the changes proposed to sugar import quotas.

S. 25, H.R. 1385, and Section 521(b) of H.R. 408/S. 178 would have required USDA to establish each year's import quotas for raw cane sugar and refined sugars to ensure "a robust and competitive sugar processing industry in the United States" and "an adequate supply of sugar at reasonable prices in the United States." To meet these objectives, USDA would have been directed to consider five factors that take into account U.S. food demand for sugar, sugar production, carryover stocks from the previous year, the "quantity of sugar that would provide for reasonable carryover stocks" at the end of the marketing year, and U.S. import obligations made under trade agreements. By contrast, S. 685/H.R. 1739 and S. 1658/H.R. 3111 would have gone further and completely eliminated all U.S. tariffs on sugar imports as well as the quota-setting authority administered by USDA and the U.S. Trade Representative. In other words, the United States would no longer restrict imports of sugar from foreign countries granted most-favored-nation trade status.

Sugar Program Extension

Efforts within Congress to complete action on an omnibus farm bill after the November 2012 elections did not succeed. In late December, attention shifted to finding a legislative vehicle to extend existing authorities for agricultural commodity programs, including sugar. At the last minute, congressional leadership decided to use the "fiscal cliff" bill to simply extend many 2008 farm bill provisions through September 30, 2013. Among its provisions, Section 701(a) and (b) of P.L. 112-240 extends the 2008 farm bill's commodity program authorities for one year. This means current sugar program authority will apply to the 2013 sugar crops (i.e., most of FY2014, as beets and cane are harvested and processed and sugar is subsequently marketed). Separately, Section 701(f)(9) provides authority, if triggered, for USDA to implement the sugar-to-ethanol program for the 2013 sugar crops.

Outlook in 113th Congress

Observers expect the Agriculture Committees to begin the process of crafting another omnibus farm bill, though the timetable to do so has not yet been established. The Senate-passed and House-reported farm bills from the last Congress likely will be used as the starting points for drafting new legislation. When, and how, the committees proceed is likely to be influenced by congressional efforts to address sequestration and broader spending issues in the next few months, and by the budget baseline for commodity programs that the Congressional Budget Office will release in March.

In turn, these events will determine when debate on the future of U.S. sugar policy resumes. When that occurs, supporters and opponents of the current sugar program can be expected to lay out arguments similar to those made during last year's consideration of the farm bill.

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