House Committee on Agriculture
Full Committee Hearing:
Review of Agricultural Subsidies in Foreign Countries
June 3, 2015

Submission of the American Sugar Alliance

Global Sugar Subsidies on the Rise

Summary

American sugar producers are among the world's most efficient, and most socially and environmentally responsible, but they cannot compete in a world sugar market badly distorted by foreign subsidies. So called "world market" prices are running barely half the world average cost of producing sugar. Foreign sugar subsidies are expanding as governments seek to protect their industries against the low world prices.

American sugar producers support the goal of multilateral elimination of global sugar subsidies. Absent government intervention, the world sugar price would rise to reflect the cost of producing sugar, and American producers could compete well on a level playing field. We have endorsed a Congressional resolution to eliminate U.S. sugar policy when foreign countries eliminate theirs.

But unilateral elimination of U.S. sugar policy, as some policy critics suggest, would sacrifice jobs in an efficient, dynamic American industry in favor of foreign jobs in countries that are likely less efficient, but continue to subsidize.

Background

The American Sugar Alliance (ASA) is the national coalition of sugarbeet and sugarcane growers, processors, and refiners. The U.S. sugar-producing industry generates 142,000 jobs in 22 states and $20 billion in annual economic activity.[1]

The U.S. sugar industry is a major player in the world sugar market. The United States is the world's fifth largest sugar producer and is among the most efficient.

The U.S. is the 20th lowest cost among the 95 largest sugar-producing nations. Most of these are developing countries with far lower government-imposed costs for worker, consumer, and environmental protections. U.S. beet sugar producers, mostly in northern-tier states, are the lowest-cost beet producers in the world; Florida cane sugar producers are fourth lowest cost of all sugar producers in the world.[2]

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[1] LMC International, "*The Economic Importance of the Sugar Industry to the U.S. Economy – Jobs and Revenues*," Oxford, England, August 2011.
[2] LMC International, "*Sugar & HFCS Production Costs: Global Benchmarking*," Oxford, England, August 2011.

The United States is also the world's fourth largest sugar consumer and, year after year, the first, second, or third largest sugar importer. We provided guaranteed, essentially duty-free access to 41 countries. This makes the U.S. one of the world's most open markets to foreign sugar.

Justification for U.S. Sugar Policy

Since U.S. sugar producers are among the lowest cost in the world, one might ask why the industry requires a sugar policy at all. The answer is in the distorted, dump nature of the world sugar market.

Foreign governments subsidize their producers so egregiously that many of these countries produce far more sugar than they can consume. Rather than store these surpluses, or close mills and reduce production and jobs, which would harm their industry, these countries dump their sugar on the world market for whatever price it will bring, which threatens to harm our industry.

As a result of these dumped surpluses, the so-called "world price" for sugar has been rendered essentially meaningless. Rarely in the past few decades has the world price reflected the actual cost of producing sugar – a minimal criterion for a meaningful market price.

The world price is so depressed by subsidies and dumping that, over the past 25 years, the world average cost of producing sugar has averaged fully 50% higher than the world price. [3] *(See Figure 1.)*

The world sugar price has dropped by more than half since 2010/11 – from more than 32 cents per pound to less than 13 cents – and is now barely half of the current estimated world average cost of production. One would expect such low prices to put many producers out of business, and signal planting reductions to all. Yet, despite the price collapse, world sugar production has actually risen, up 6% in the past five years.[4]

Sugar producers are responding not to world market signals but rather to domestic market prices and the government programs that sustain those prices.

One European market expert summarizes: "The world market price is a 'dump' price…(it) should never be used as a yardstick to measure what benefits or costs may accrue from free trade in sugar."[5]

But how can a world sugar industry exist if the price received for the product is just a fraction of the cost of producing it? The answer is twofold:

1. Only about 20-25% of the sugar produced each year is actually traded at the so-called "world price."
2. The other 75-80% of sugar is consumed in the countries where it is produced, at prices considerably higher than the world price, and higher than production costs.

[3] LMC International, *"Sugar & HFCS Production Costs: Global Benchmarking,"* Oxford, England, July 2014.

[4] U.S. Department of Agriculture, http://apps.fas.usda.gov/psdonline/

[5] Patrick Chatenay, "*Government Support and the Brazilian Sugar Industry*," Canterbury, England, April 2013.

The International Sugar Organization (ISO) records actual wholesale prices among the world's largest consuming countries – the price producers in those countries receive for their sugar. The ISO documents that actual wholesale refined sugar prices have averaged 45% higher than the world price over the past dozen years. *(See Figure 2.)*

This, then, explains how we can have a robust world sugar industry: Governments shield their producers from the world dump market sugar and maintain prices high enough – above the dump market and above production costs – to sustain a domestic industry and generate and defend jobs.

Further, this explains why we require a U.S. sugar policy – even with American sugar producers among the lowest cost, and most responsible, in the world.

Zero-for-Zero

U.S. sugar producers recognize that subsidies and other market-distorting polices must be addressed in order for the world dump market to recover and better reflect free market principals. Therefore, American producers have publicly pledged to give up U.S. sugar policy when foreign producers agree to eliminate their subsidies.

The American Sugar Alliance has endorsed a resolution introduced in Congress by Representative Ted Yoho of Florida. This "zero-for-zero" resolution explicitly calls for the U.S. to surrender its sugar policy when other major producers have done the same.[6]

However, to give up sugar policy without any foreign concessions, as some critics of U.S. sugar policy have called for, would amount to foolish unilateral disarmament. We would be sacrificing good American jobs in a dynamic, efficient industry in favor of foreign jobs in the countries that continue to subsidize.

The Nature of Foreign Sugar Subsidies

The sugar futures markets, particularly the raw sugar #11 ICE contract, are mathematically the most volatile of commodity markets. This is because it is relatively thinly traded and, historically, has been a dumping ground for surplus sugar. It is also the market to which consumers turn for residual supplies when weather problems have left world sugar supplies tight.

Over the past 40 years, monthly average prices have ranged from less than three cents per pound to more than 57 cents. Just in the past four years, prices have dropped to less than 13 cents from a temporary peak above 32 cents. *(See Figure 3.)*

Approximately 120 countries produce sugar, and the governments in all these countries intervene in their markets in some way, to defend their producers, or their consumers, or sometimes both. A world market this volatile necessitates some buffer for domestic sugar sellers and buyers.

[6] https://www.congress.gov/bill/114th-congress/house-concurrent-resolution/20/text?q=%7B%22search%22%3A%5B%22%5C%22zero+for+zero%5C%22%22%5D%7D

Government interventions among the largest producers and exporters have the most profoundly distorting effects on the world market. LMC International, in a 2008 study, examined market-distorting practices among eleven of the largest players in the world sugar market. LMC discovered a wide range of trade-distorting practices and categorized them as "transparent" – fitting into recognized World Trade Organization (WTO) categories of intervention; and, "non-transparent" – less obvious interventions not specifically subject to WTO disciplines, but still trade distorting.[7]

Figure 4 provides a snapshot of government interventions in the world sugar market in 2008. Since that time, the extent of government intervention has increased considerably.

Countries that have long intervened in their sugar markets have, for the most part, continued to do so, with many expanding their programs. Other countries, including advanced developing countries that are becoming larger players in the world sugar market, have achieved their expansion largely through government intervention.

Major Exporters, Major Subsidizers

Figure 5 provides examples of some of the elaborate forms of government intervention that enable major producers to continue to export sugar, even when world prices are running half the world average cost of production – as they are now.

The following provides some more detail on the trade-distorting practices of some of the biggest exporters, and subsidizers – Brazil, Thailand, India, and Mexico. Developing countries are not subject to the same WTO disciplines as developed countries, and some take advantage of this special treatment to perpetuate subsidies that developed countries are committed to reducing or avoiding.

Brazil. Brazil is a prime example of a "developing" country with an advanced, modern, and, in this case, massive agricultural industry. Brazil is the largest sugar exporter by a huge margin, dominating with nearly half of all sugar exports. But the Brazilian sugar industry would be a fraction of that size were it not for a Brazilian government decision in the early 1970s to fund a huge sugarcane ethanol industry.

With subsidies to plant more sugarcane and build mill/distilleries that could convert the cane to sugar or ethanol, with ethanol consumption mandates and ethanol and gasoline price controls, the Brazilian cane industry exploded. Brazil came to be the world's largest cane ethanol producer, and sugar exporter, by far.

After its "Pro-Alcool" program was unleashed in 1975, Brazilian cane ethanol production soared from small amounts to 28 billion liters, sugar production from 6 million tons to 38 million, and sugar exports from 1 million tons to 28 million. Cane planting decisions have been driven primarily by government ethanol policies, with more than half of cane going to ethanol, and the remainder to sugar.

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[7] LMC International, "*Review of Sugar Policies in Major Sugar Industries: Transparent and Non-Transparent or Indirect Policies*," Oxford, England, 2008.

With the cane industry propped up by ethanol subsidies, Brazil could continue its reckless sugar export expansion, even as world sugar prices dipped as low as 3 cents per pound in 1985.

The value of this indirect subsidy of the Brazilian cane sugar industry, by way of the subsidy of the cane ethanol industry, along with related government benefits, has been placed at $2.5-3.0 billion per year. Unfortunately, since these subsidies do not fit neatly into WTO subsidy categories – direct supports, import tariffs and direct export subsidies – they are largely immune to WTO disciplines.

Sugar market expert Patrick Chatenay has noted that, in addition to direct payments, the government aids Brazil's cane industry with low-interest loans, debt forgiveness, ethanol usage mandates and reduced tax rates. He estimates the value of these subsidies alone at $2.5 billion per year, and notes that unreported debt restructuring probably puts the actual total much higher.[8]

Since Chatenay published his $2.5 billion per year Brazilian sugar subsidy estimate in 2013, the government has provided an additional $450 million in tax relief and made available $3 billion in soft loans.[9]

Unfortunately, because most of Brazil's sugar subsidies are considered indirect, they are not subject to the WTO disciplines to which most developed countries adhere.

Thailand. Thailand is the world's second largest sugar exporter. It surged into that position by quadrupling its exports within the past decade – from 2 million metric tons in 2006/07 to 8 million tons this year.

Thailand is not a particularly efficient sugar producer. But government programs enabled its stunning expansion, oblivious to remarkably low world prices.

In a newly released study, Antoine Meriot estimates the value of government subsidies to the Thai industry at no less than $1.3 billion per year. The $1.3 billion includes direct payments and indirect export subsidies, but does *not* include Thai sugar producers' substantial benefit from soft loans and input subsidies the Thai government makes available to all its farmers. [10]

Meriot points out that world sugar prices dropped by 40% from 2010 to 2014, yet Thai sugar exports rose by 70% during that same period. He explains that Thai sugar producers were cushioned from the world price drop by much higher guaranteed prices for sugar sold within Thailand. This is the type of indirect export subsidy that the WTO found to be illegal in a 2005 ruling against European Union sugar exports.

Meriot reveals a number of other ways the Thai government assists its sugar industry, including: Direct payments and input subsidies to cane growers; soft loans, at a fraction of market interest

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[8] Patrick Chatenay, op. cit.
[9] http://www.sugaralliance.org/brazils-sugar-subsidies-expand-as-global-prices-fall-4399/
[10] Antoine Meriot, Sugar Expertise, "*Thailand's sugar policy: Government drives production and export expansion,*" Bethesda, Maryland, June 2015.

rates; guaranteed prices for growers and millers; sales limits; import tariffs; and cane ethanol subsidies.

Even with low world sugar prices, the Thai government is showing no signs of letting up. It is switching from encouraging rice production to encouraging sugar production. Its goal: a 50% increase in sugarcane production in just the next five years.

Meanwhile, Brazil and Australia, which had successfully challenged the European Union's similar indirect export subsidy scheme, are questioning the WTO on Thailand's similar scheme.

India. In 2010, world sugar prices were approaching a 30-year high and India was one of the world's largest sugar importers, with net imports of 2.2 million metric tons. Since that time, world prices have dropped in half, but India has become a significant net exporter.

How has India achieved the transformation from sugar importer to exporter, though world sugar prices were declining? Government decisions to encourage production and to flaunt WTO rules with blatant export subsidies.

India has blatantly ignored complaints from other WTO members that these export subsidies violate their WTO obligations and, in the face of such criticism, has actually increased them. Generous federal, and even state, subsidies have enabled India to export an estimated 2 million tons of sugar last year and this year – contributing to the global surplus and the sharp decline in world sugar prices.

A recent article summarized the most recent Indian federal and state government support for its sugar industry with these points:

- $90 million in WTO-illegal export subsidies from the federal government;
- $22 million in WTO-illegal export subsidies from a state government;
- $320 million in additional interest free loans to sugar mills and $140 million in tax debt forgiveness from a state government;
- A doubling of import taxes to block foreign sugar;
- Elimination of an excise tax on ethanol to promote sugar-based fuels.[11]

Thailand, though currently under WTO scrutiny for its own sugar subsidies, is questioning the WTO about the legality of India's export subsidy programs.

Mexico. When the NAFTA went into effect in 1994, Mexico was an occasional exporter of small volumes of sugar. Since that time, Mexican sugarcane area has exploded by 66%; the government expropriated half of all Mexican sugar mills, rather than allowing them to go out of business; and, Mexico became one of the world's largest sugar exporters. Virtually all those

[11] http://www.sugaralliance.org/living-off-subsidies-and-still-3-billion-in-the-hole-5293/

exports have been aimed at the U.S. market – fully open to Mexican sugar since 2008 under NAFTA rules.

The Mexican government is still Mexico's largest sugar producer and exporter, accounting for one fifth of production and mills. In addition to government ownership, Mexican producers benefit from federal and state cash infusions, debt restructuring and forgiveness, and government grant programs to finance inventory, exports, and inputs.[12]

In 2012/13, Mexican sugar production soared to an all-time high, a stunning 38% higher than the previous year's production. Yet, despite the huge domestic market surplus, Mexico was able to sustain sugar prices higher than in the U.S. How did they manage to balance their market? By dumping their subsidized surplus on the U.S.

The subsidized and dumped Mexican surpluses collapsed the U.S. sugar market and caused the first government cost for U.S. sugar policy in a dozen years, as USDA took steps to remove the excess Mexican sugar from our market.

The U.S. sugar industry last year filed unfair trade petitions. In response, the U.S. Department of Commerce imposed countervailing and antidumping duties on Mexican sugar averaging 56% in 2014. Late last year the U.S. and Mexican governments negotiated suspension agreements to eliminate the injury caused by dumped and subsidized Mexican sugar. The U.S. International Trade Commission is now proceeding with its final injury investigation, and a final decision is expected in October of this year.

Conclusion

In a world awash in subsidized foreign sugar, the U.S. is one of the world's leading importers. We are obligated to import sugar from 41 countries under WTO and free-trade agreement concessions. All of these countries subsidize their producers in some way, but there are limits on how much sugar we must take from all except one – Mexico. When Mexico used its subsidies to damage the market, the U.S. government responded, and we are hopeful the reasonable solution the U.S. and Mexican governments negotiated will stay in place.

Meanwhile, the rest of the world continues to subsidize its sugar producers, and at growing volumes. The U.S. sugar industry supports elimination of all these direct and indirect subsidies, multilaterally. We are among the lowest cost producers and could compete in a world free of subsidies, where the world price for sugar reflects the cost of producing it.

We cannot, however, endorse efforts to modify U.S. sugar policy without any foreign concessions. This would amount to unilateral disarmament and the sacrifice of American jobs in favor of foreign countries where governments continue to subsidize.

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[12] http://www.sugaralliance.org/mexican-export-subsidies-injuring-u-s-sugar-producers-4990/

Figure 1

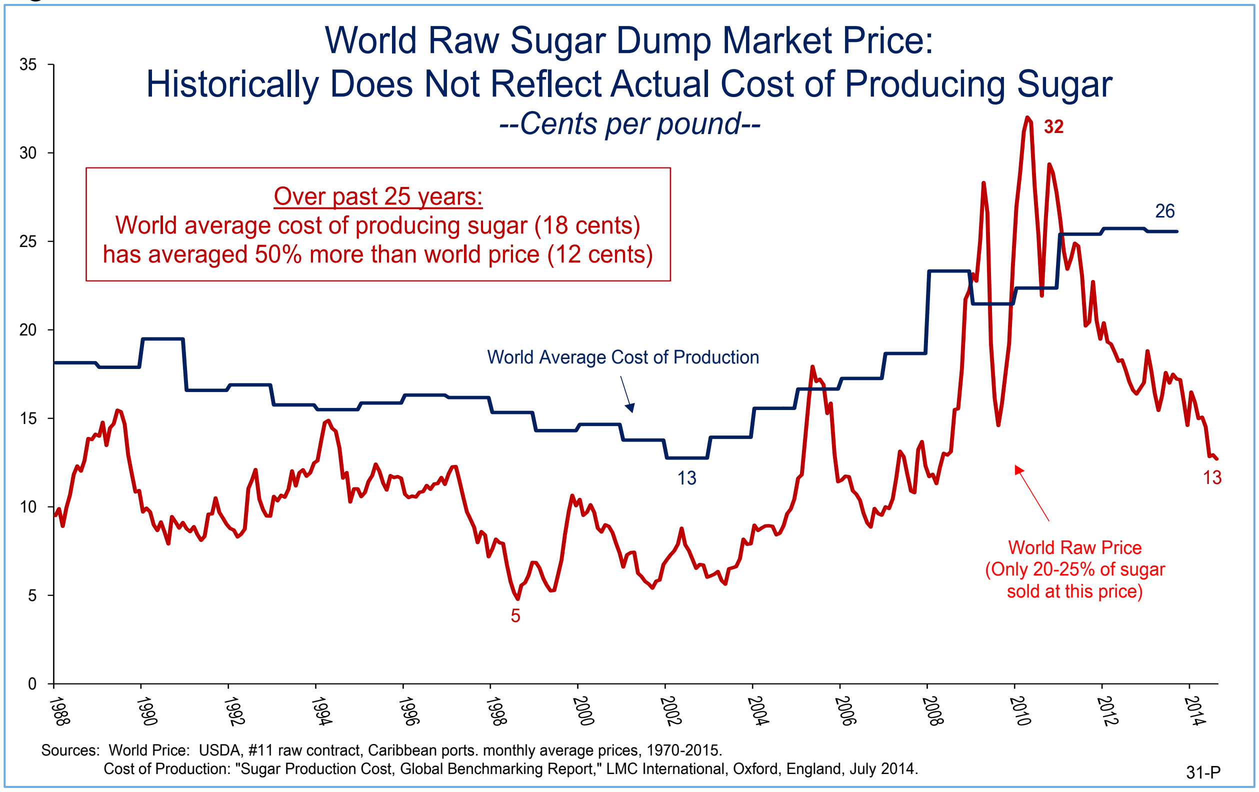


Figure 2

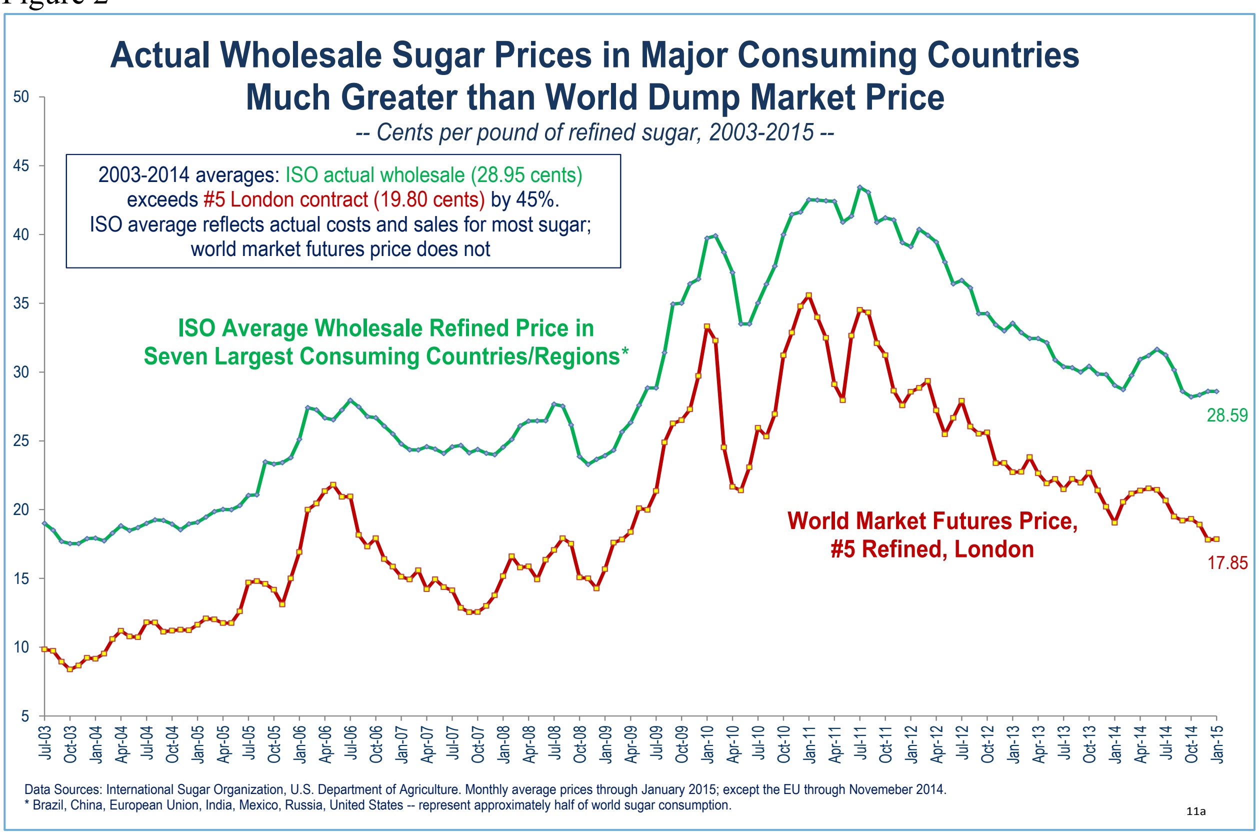


Figure 3

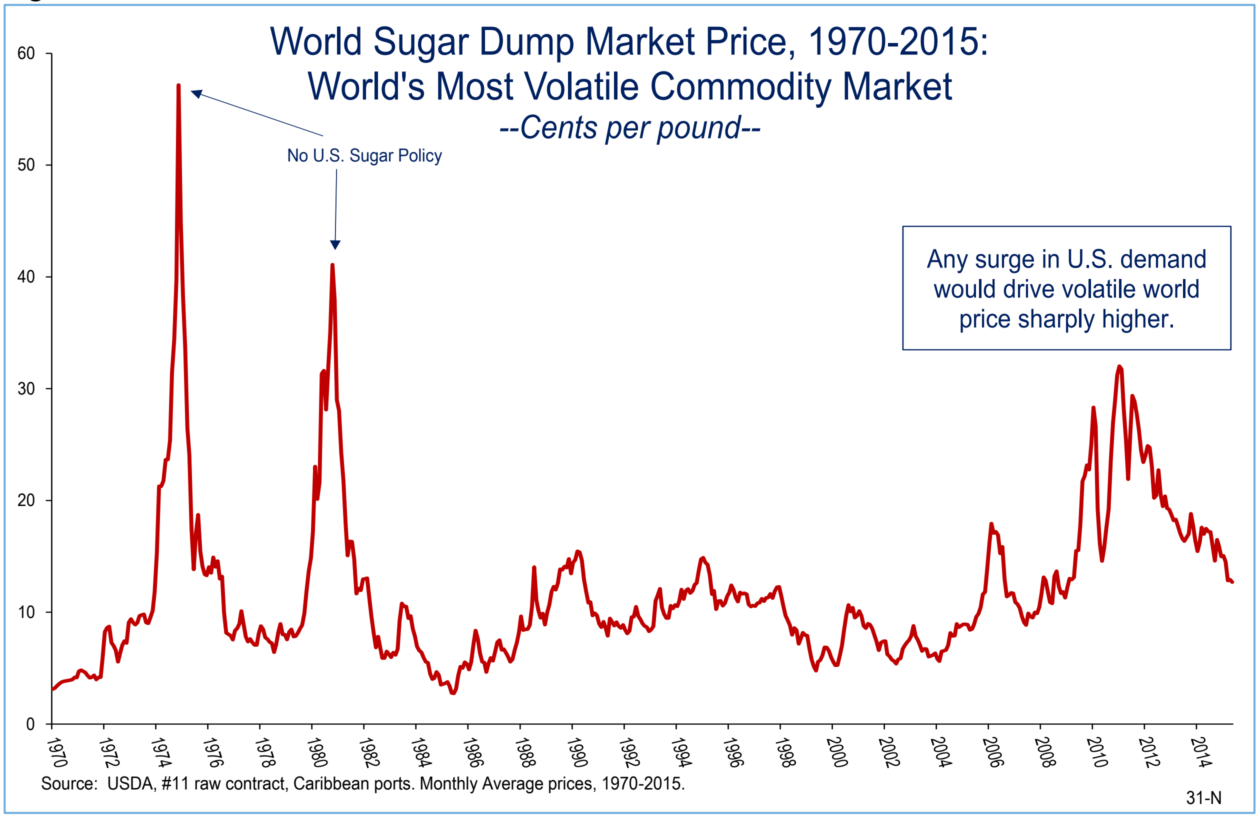
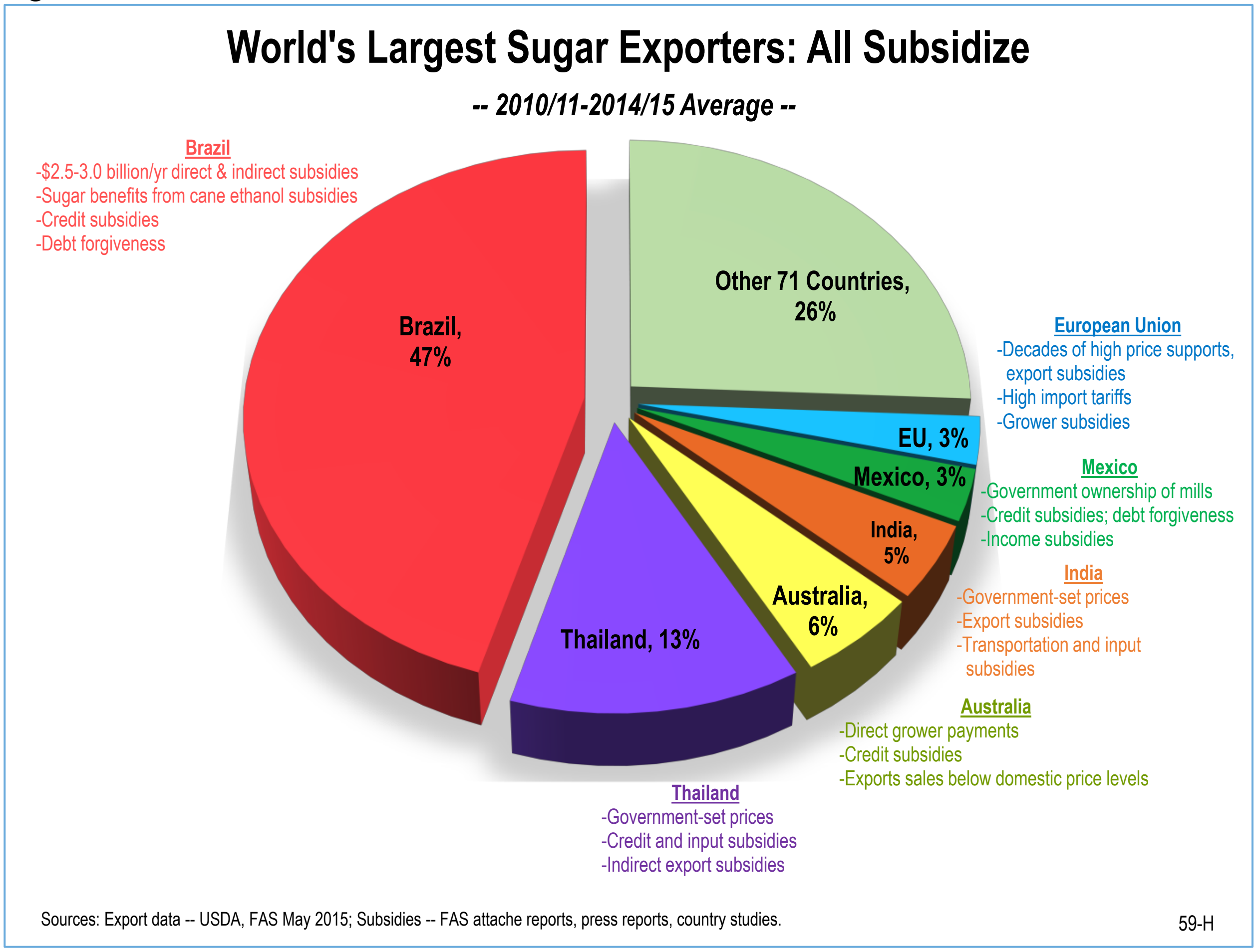


Figure 4

Table SUM. 1: Summary of Support for Sugar Industry in Selected Countries, 2008

	Australia	Brazil	China	Colombia	EU	Guatemala	India	Indonesia	Mexico	S. Africa	Thailand
TRANSPARENT SUPPORT											
Domestic Market Controls											
Guaranteed Support Prices			✓		✓		✓	✓			✓
Supply Management/Controls			✓		✓		✓				
Market Sharing/Sales Quotas						✓			✓		✓
Domestic/Export Revenue Equalization Measures				✓						✓	
Import Controls											
Import Quota/TRQ			✓		✓			✓		✓	✓
Import Tariff		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Import Licenses			✓					✓			✓
Quality Restrictions						✓					
Export Support											
Export Subsidies					✓		✓				
Single Desk Selling						✓				✓	
NON-TRANSPARENT SUPPORT											
Direct Financial Aid											
State Ownership								✓	✓		
Income Support	✓				✓						✓
Debt Financing	✓	✓					✓				
Input Subsidies							✓	✓	✓		
Indirect Long Term Support											
Programs to Improve Efficiency	✓							✓			
Ethanol Programs (mandates/tax breaks)		✓		✓	✓						
Consumer Demand Support			✓								
LMC International, 2008											

Figure 5


World's Largest Sugar Exporters: All Subsidize
-- 2010/11-2014/15 Average --
Brazil
-$2.5-3.0 billion/yr direct & indirect subsidies
-Sugar benefits from cane ethanol subsidies
-Credit subsidies
-Debt forgiveness
Brazil, 47%
Other 71 Countries, 26%
European Union
-Decades of high price supports, export subsidies
-High import tariffs
-Grower subsidies
EU, 3%
Mexico, 3%
Mexico
-Government ownership of mills
-Credit subsidies; debt forgiveness
-Income subsidies
India, 5%
India
-Government-set prices
-Export subsidies
-Transportation and input subsidies
Australia, 6%
Thailand, 13%
Australia
-Direct grower payments
-Credit subsidies
-Exports sales below domestic price levels
Thailand
-Government-set prices
-Credit and input subsidies
-Indirect export subsidies
Sources: Export data -- USDA, FAS May 2015; Subsidies -- FAS attache reports, press reports, country studies.
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