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Forget Canada's dairy producers, the U.S. 'sugar cartel' has secured an even sweeter deal

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Given the frequency and ferocity of the Trump administration's attacks on dairy supply management, one might think Canada was the only NAFTA country clinging to controversial agricultural protections.

Yet, if the perennial target for free trade advocates in Canada is milk, in the U.S. it is sugar: one of the most fiercely protected agricultural sectors both south of the border and around the world, analysts say.

"Sugar is the prime example of a highly protected industry in this country, no question," said Alan Deardorff, professor of international economics at the University of Michigan. "We use all kinds of tools — all kinds of tools — to keep the price of sugar well above the world price."

U.S. sugar producers received the third highest share of "trade distorting" government aid in the world between 2015 and 2017, behind only Vietnam and the Philippines, according to data compiled by Jared Greenville, senior agricultural policy analyst at the Organisation for Economic Co-operation and Development.

In absolute terms, only China provided more aid to its sugar farmers.

What's more, American protections on sugar imports have been around at least as long as supply management. Though the roots of the current U.S. Sugar Program can be found in the 1930s, tariffs on American sugar date all the way back to the founding of the republic, said John Beghin, professor of agriculture and resource economics at North Carolina State University who has studied the program for years.

"There is a very, very long history of government intervention in this sector and it continues to this day," Beghin said.

Managed by the U.S. Department of Agriculture, the current program includes a system of "marketing allotments" that limit the amount of sugar that can be sold in the U.S. market to 85 per cent of projected domestic consumption.

These allotments are divvied up among states and producers, while the remaining 15 per cent of consumption is assigned via a quota to imports.

All imports exceeding the quota face a levy of 15.36 U.S. cents per pound of raw cane sugar and 16.21 cents per pound of refined sugar — a powerful deterrent to foreign producers for whom the world price for sugar hovered between 17 and 25 cents per pound in 2017. New York Raw Sugar index was trading at 25.60 U.S. cents per pound, compared to world prices of 10.63 U.S. cents, according to Bloomberg.

If sugar prices fall below a minimum guaranteed level, U.S. producers are eligible for a "price support loan", using their sugar as collateral. If prices don't pick up, producers can simply forfeit the sugar and keep the loan — while remaining eligible for more loans in the future.

The end result "is domestic sugar prices that are typically twice those of the world sugar market," said Colin Grabow, trade policy analyst at the libertarian-leaning Cato Institute, who has accused the U.S. government of leading a "nationwide sugar cartel."

Yet even amid the U.S. led push for freer trade that followed the Second World War, U.S. sugar protections enshrined in the Farm Bill have remained stubbornly in place — despite efforts to dislodge them — a durability Beghin attributes to the outsized political influence wielded by a small handful of U.S. sugar producers, who spend millions on political donations to both Democrats and Republicans.

"This is a typical political economy story with well organized protectionist interests who can lobby effectively to keep the program in place while the losers of the policy don't use their political muscle because it is too hard to organize people," he said.

A 2013 study by Beghin found that elevated U.S. sugar prices add roughly US$10 to the average American consumer's food bill each year — impacts too modest to spur public outrage.

"Of course, multiply that by the number of consumers in the U.S. and that is about US$3 billion going into the pockets of sugar producers and away from consumers," Beghin said.

For its part, the American Sugar Alliance — which disputes the findings of Beghin's study — believes trade protections are a necessary "buffer to a distorted world sugar market where countries subsidize and dump their surplus for whatever price it'll bring," said Jack Roney, a spokesperson for the organization.

It's an argument Beghin, Grabow and American food manufacturers dismiss, arguing instead that high prices have driven valuable downstream jobs out of the country to places where sugar is cheaper, like Canada and Mexico.

Yet the Canadian industry has its own complaints with the U.S. Sugar Program, namely, that the U.S. has gradually afforded greater access to Mexican producers of sugar and sugar containing products while maintaining strict limitations on Canada.

In 2008, Mexico was granted unrestricted access to the American sugar market, a short-lived open access that came to a quick end when Mexican sugar flooded the American market in 2013 after a bumper crop year. Mexico subsequently agreed to export limits and a guaranteed minimum price on sugar though exports of sugar containing products remain unfettered by any restrictions.

Due to these allowances — which exceed those offered to Canada — Mexico has been the main beneficiary of the shift in food production, said Sandra Marsden, president of the Canadian Sugar Institute.

"That's most significant change, that shift in production to Mexico and the rest of the world, not Canada," Marsden said. "It's had the impact of stifling growth and worsening our trade balance. From the Canadian sugar industry's point of view we would like to see improved access to that market."

Prior to the introduction of U.S. quotas in the 1980s, Canadian cane sugar exports to the U.S. averaged approximately 100,000 tonnes annually, Marsden said. Today, Canada's exports are limited to 10,300 tonnes of refined beet sugar while cane sugar no longer meets U.S. rules of origin criteria. Sugar-containing products are limited to a 59,250 tonne quota, which Marsden said substantially reduced the access Canada enjoyed prior to NAFTA.

And because U.S. policy limits only sugar sales, not production, Canada remains vulnerable to dumping, she says. Since 1995, Canada has had antidumping duties in place to protect against cheap sugar from both the U.S. and the European Union — a move that has faced its own resistance from Canadian food manufacturers who say the duties increase sugar costs here.

Canada hasn't said much about the U.S. sugar program during the troubled NAFTA talks, though it hasn't escaped the attention of David MacNaughton, Canada's ambassador to the U.S.

"Access to U.S. sugar market is also restricted by very high ($357/tonne) tariffs," he tweeted in June. "Even under #NAFTA, Canadian sugar access is limited to 0.1% of U.S. sugar market. Don't forget who your best customer is. Let's work together to keep trade barriers down."

But while Canada negotiated more access to the U.S. sugar market in the 11-nation Trans-Pacific Partnership — a pact U.S. President Donald Trump walked away from — trade analysts aren't optimistic the same deal will reappear in a renegotiated NAFTA.

"When the U.S.-Australia FTA was being negotiated, practically the only thing (Australia) wanted was free access for their sugar to the U.S. market," said Bruce Muirhead, a professor at the University of Waterloo who focuses on foreign trade. "Didn't even get a sniff of it."