POLICY INNOVATIONS The central address for a fairer globalization A PUBLICATION OF THE CARNEGIE COUNCIL

American Sugar Policy Leaves a Sour Taste

Matt Peterson

July 8, 2009

Photo credit: Kathleen Conklin (CC).

The Obama administration's trade policy has so far flown below the radar. This is hardly surprising. With the Doha Round dead, global trade declining, and war and other crises dominating the headlines, the previous administration's still-pending trade agreements have received little attention. But as evidenced by the minor flap last week over the tariff provision that snuck into the American Clean Energy and Security Act of 2009, trade decisions are being actively contested by our political leaders. These decisions are of major consequence to America and its trading partners, and it's critical to scrutinize the new administration as it quietly gears up its policies.

During the heat of the 2008 election, candidate Obama tangled with Hillary Clinton over who was least supportive of NAFTA. At the time, many discounted this protectionist rhetoric as political maneuvering to gain support among unions and economically depressed states. Indeed, Obama also made some encouraging remarks about establishing a fairer trade policy for the United States.

While visiting Germany in July 2008, Obama asserted that the United States could not persist with a trade policy that "favors the few, not the many." Instead, he told the 100,000-strong crowd, "We must build on the wealth that open markets have created, and share its benefits more equitably." Obama even promised to pare down one of the most controversial elements of U.S. trade policy—the substantial subsidies provided to U.S. agricultural producers.

Of course, Obama's predecessor expressed a similar desire to eliminate American agriculture subsidies, conditioned on the European Union following suit. And like Bush, Obama's stance may turn out to be merely symbolic. In fact, the difference between the two administrations in their overall strategies toward trade seems insignificant. As the *New York Times* reported recently, the conservative Cato Institute believes that "the big story is the continuity of US trade policy" from the past administration to the present.

This stems from the fact that there is little political interest in the United States in cutting back support for the agriculture industry, despite the grave damage such support inflicts on some developing economies, and the great obstacle agricultural subsidies pose to critically needed reforms of the WTO agreements.

The Obama administration has not pushed hard to achieve its campaign promise to reduce direct payments to the highest-grossing farms by about $10 billion over the next decade. Tom Vilsack, Obama's secretary of agriculture, has declined to stand firm behind this tentative first step. In March, he indicated that the administration "should be open, as we are, to ideas and suggestions that Congress may suggest."

Vilsack's role in setting trade policy should not be underestimated. Ron Kirk, the new U.S. trade representative, recently told a group of pork and beef exporters that he and Vilsack have been working closely together and admitted that "no major trade agreement or advance has ever come to fruition without the strong support of the U.S. agriculture community."

Although Obama has indicated that he wants to review the pending free trade agreement with South Korea, and he has criticized the labor and environmental components of NAFTA and CAFTA, we are unlikely to see any major reform of U.S. trade policy during his tenure. Such a failure would be deeply regrettable. Since the 1930s, the United States and its economic allies have enforced a trade regime for agriculture that mires some countries deeply in poverty and leaves others treacherously vulnerable. American sugar policy is a prime example, and its complexity belies the cosmetic approach the administration has taken so far to reform of domestic agricultural supports.

Sugar: An Unfair Fight for American Market Access

Unlike crops such as corn and cotton, American support for sugar does not take the traditional form of direct subsidy payments to farmers. Rather, the government establishes a minimum price for domestic sugar by offering low-cost loans to producers, payable in sugar on default, and by tightly restricting the flow of sugar into the United States through a combination of high tariffs and import quotas. The result is a domestic price for sugar that is typically double the world price. Not only do American consumers pay considerably more for their sugar, transferring their wealth into the hands of highly profitable agribusinesses, but those same businesses are encouraged to overproduce and sell the excess to other countries, thereby putting downward pressure on the world price.

Two countries illustrate the diverse effects of U.S. sugar policy: Brazil and the Dominican Republic. Brazil is the world's largest sugar producer, and has one of the lowest costs of production. But lack of access to the American market due to tariffs and quotas, and the diminished world price due to U.S. overproduction, leads to depressed wages and keeps thousands out of work. World Bank researchers estimate that a mere 10 percent increase in the world price (from, say, $0.18 per pound to $0.20 at current prices) would put about $5 billion into the hands of Brazilian workers, including some 450,000 who survive on less than $1 per day.

The Dominican Republic is in many ways the flip side of the coin from Brazil. Unlike Brazil, the Dominican Republic has long benefited from the highest U.S. import quota for sugar. In fact, almost all Dominican sugar goes to the United States. The Dominican sugar industry is also struggling, but not in the same way as Brazil. Production costs are relatively high, and production volumes have fallen hard from their peak of 1.2 million tons in 1982 to just over 500,000 tons in 2008.

Dominican sugar survives largely by the grace of the American taxpayer, since its exports to the United States are purchased at the inflated U.S. domestic price rather than the deflated world price. This is perhaps unsurprising given that one of the biggest Dominican sugar companies is owned by the Florida-based Fanjul family, who also own Flo-Sun and its Domino subsidiary. The Fanjuls happen to be major political donors—to the tune of $650,000 in 2008.

Unfortunately, the corporate welfare for producers in the Dominican Republic does not trickle down to the laborers who are the backbone of the industry. Sugar cane cutters there earn about $2.50 for each ton of hand-cut sugar cane; the young can cut as much as three tons per day, but the elderly and infirm often struggle to cut even one. Working twelve-hour days or longer, many live in company shantytowns known as bateyes, without sewage systems, running water, and electricity.

Almost all are undocumented Haitian immigrants despite having lived in the country for decades or having been born there—cane cutters are thus continually under threat of arbitrary arrest and deportation. They seek out this misery to avoid an even worse fate in Haiti, where last year 46 percent of the population was undernourished and 78 percent survived on less than what $2 could buy daily in the United States in 2005.

Brazil's 900,000 sugar workers face similar conditions, though there are some differences: Unlike in the Dominican Republic, the wage for sugar work is higher than in other agricultural industries. Brazilian sugar workers are also almost exclusively Brazilian citizens, although they often migrate long distances for work. But, as in the Dominican Republic, sugar workers in Brazil work extremely long hours in a brutal environment that can be extremely damaging to their health. So many of them are trapped in vicious circles of debt that charges of modern slavery dog the industry. The Brazilian government freed some 4,000 slaves from the sugar industry alone in 2008.

The Link between Trade and Labor Standards

Here, then, is the multifaceted problem of American agriculture support. First, it plays favorites among international corporations, arbitrarily handing a lifeline to Dominican sugar while putting roadblocks in front of Brazilian companies. Second, in the Dominican Republic, and other countries enabled by U.S. agricultural policy, the failure to include meaningful labor standards in trade agreements contributes to massive abuse of labor rights. Third, the creation of an inflated and exclusive U.S. internal market, and the subsequent deflation of the world market, condemns hundreds of thousands of Brazilians and others to needless poverty.

There is no simple solution to this mess. Simply abolishing U.S. agricultural support, tariffs, and quotas would probably bring world sugar prices up and U.S. prices down, but the distribution of gains from such a move would be very uncertain. In all likelihood, any gains that accrued to Brazil would benefit corporate owners far more than individual workers, and laborers in the Dominican Republic would lose even the meager income that cane cutting provides. In turn, the increased cost of sugar worldwide would harm the poor in countries that are net food importers, while lower prices in the United States would benefit consumers there.

Nonetheless, reforms must account for the culpability that the United States and other affluent countries bear in creating this system. One way to proceed, described by philosopher Christian Barry and economist Sanjay Reddy in their thoughtful book on trade and labor standards, would be to strike a policy bargain between affluent and developing countries. In essence, the United States could offer increased market access for developing country sugar in exchange for agreements to improve labor standards in those countries.

Making such agreements with most or all developing countries would weaken the incentives for countries to reduce their own labor standards in order to outcompete other poor countries. If such agreements were struck with only a few countries, the cost of improving labor standards might make those countries' exports less competitive than countries that chose to keep standards low; in that case, however, the United States could subsidize labor-standard improvements in order to keep export prices from rising. The savings from the elimination of domestic subsidies could also be used to offset the rising costs of net sugar importers as the world price rose. If, as seems likely, industries like those in the Dominican Republic were unable to compete under a more liberal trading regime, then the United States could respond by offering development assistance or by allowing increased migration from Haiti and the Dominican Republic.

Ironically, these types of fair trade agreements would play well among the exact constituencies that Obama was accused of pandering to during the campaign. Protectionist groups in the United States criticize free trade agreements for forcing high-cost American labor to compete with low-cost foreign labor. The new trade policy that Barry and Reddy describe would dampen this competition while simultaneously shifting wealth from agribusinesses to workers and consumers.

Sadly, given the current trajectory, reforms as nuanced as this are unlikely to be forthcoming from the Obama administration.