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Shortages Exacerbate the Pinch of Sugar Policy

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A slump in sugar supplies both in the United States and globally has reprised a decades-old fight pitting the growers of domestic sugar beets and sugar cane against a coalition of food manufacturers, consumer groups and free traders. At issue are federal policies that protect the domestic crop from most foreign competition.

Instead of being fought out in the House and Senate, as in the last Congress, the battle now is confined to the corridors of the Agriculture Department. Earlier this year, the USDA rebuffed food manufacturers and others in that coalition by denying a requested increase in sugar imports to ease potential shortages. But the department left open the possibility of changing its mind next spring, when it will have a better fix on domestic beet and cane yields. Some analysts expect those harvests to fall short of needs, which worries both food manufacturers and consumers.

The immediate concern is that a significant supply-demand mismatch might ripple through the economy, forcing food manufacturers to reassess their bottom lines and consumers to pay higher prices whenever they shop for groceries, snacks or soft drinks. Underlying that issue, however, is a broader philosophical and practical contest over the federal government's role in protecting the U.S. sugar producers from cheaper imports -- a role Congress has written into farm law for the better part of three decades.

Critics of the program say it helps a narrow interest group at the expense of the broad consuming public. But these critics comprise a loose grouping of disparate interests, which -- although united on this front -- are often in disagreement on such policy fights as food safety. Sugar producers, on the other hand, are highly focused and well-financed and have long had the upper hand politically.

"It's the old problem," said Daniel Griswold, a trade expert at the libertarian Cato Institute, a longtime foe of the sugar program. "The pain is spread out over a 100 million households, and the gains are concentrated among a few thousand producers who will fight to the death to keep their privileged position."

Past attempts by the sugar program's critics on Capitol Hill to strip out or modify the import and price protections repeatedly have fallen to the industry's single-issue intensity and its unstinting support from powerful lawmakers. In particular, Democrat Collin C. Peterson, chairman of the House Agriculture Committee since 2007, represents a vast expanse of rural western Minnesota that includes the largest constituency of sugar beet growers in the country.

Moreover, sugar-program opponents concede the cost to consumers of protecting producers probably is too trivial to impress most shoppers, which limits the appeal of the issue to most voters.

"You can't get the populace in general excited by a couple of pennies more for a Snickers bar or for a sugar drink," said Rep. Jeff Flake, an Arizona Republican and longtime opponent of the program. "It is just very difficult to get people excited and then realize the broader issues."

Costs of a Sugar High

Sugar program critics draw on an array of economic statistics to bolster their case against an intricately woven fabric of price supports, limits on sales by producers and import quotas that has helped to sustain roughly 60,000 jobs in the growing, harvesting and processing of sugar in the United States.

By law, domestic growers and processors are effectively guaranteed a price that's typically at least double what importers would pay on global markets, as well as an effective limit on imports equal to 15 percent of domestic consumption. That, in turn, has cost consumers an estimated $1.9 billion a year, in effect an income transfer to the growers, according to economists critical of the program.

One thing the sugar program doesn't do is impose a burden on taxpayers. All the costs are borne by consumers or by the companies that make sweetened foods.

Domestic manufacturers that use sugar face a "significant competitive cost disadvantage" for many of their products, according to a 2006 study by the International Trade Administration. In the five years ending in 2002, foodmakers shed about 10,000 jobs, the study said, adding that almost three confectionery manufacturing jobs have been lost for every job that has been preserved in growing and harvesting domestic sugar. The annual cost of saving those jobs has been pegged by the agency at $826,000 apiece. Particularly hard hit was Chicago, which lost 4,000 jobs from 1991 to 2001, as candymakers migrated overseas in search of cheaper sugar.

One reason for the cost to manufacturers and consumers is that U.S. production expenses for sugar are higher than those of the world's low-cost producers.

For cane, which is grown in Florida, Texas, Louisiana and Hawaii, production costs are at least twice as high as for the world's most efficient growers and processors, according to a 2007 study by USDA's Economic Research Service. Production costs for sugar beets, which are grown in 11 states but concentrated mainly in the Red River Valley of Minnesota and North Dakota, are lower than for beets planted abroad -- but worldwide beets are still 75 percent more expensive to grow than cane.

"We are shifting production away from efficient means toward inefficient means because basically we are protecting inefficient domestic producers," said Mark J. Perry, a professor of economics and finance at the University of Michigan's Flint campus.

But that analysis is vigorously disputed by producers. As the fifth-largest sugar producer in the world, the United States is "one of the most efficient because we get tremendous yields per acre and per worker," argued Jack Roney, director of economics and policy analysis for the American Sugar Alliance, a trade association that represents growers.

Virtually every sugar-producing country offers its growers some degree of trade protection, Roney said, contending that only about 20 percent of the global harvest is available for export -- and that amount is dumped on the market at a price well below cost. Deregulating the domestic industry, he said, "would be a big negative for food manufacturers and consumers alike because they would be throwing their dependence for sugar on a world market that is very volatile, very undependable."

Lawmakers Have Farmers in Mind

Macroeconomics aside, the determination of Farm Belt lawmakers such as Peterson to protect the sugar program arises from the economic self-interest of their constituents.

According to the USDA's study of the domestic industry, net income in 2003 for the sugar beet farms in Peterson's district and elsewhere in the Red River Valley was almost 20 percent higher than other neighboring farms that grew different crops.

In a study of the economic impact of the industry on Minnesota, North Dakota and eastern Montana, economists Dean A. Bangsund and F. Larry Leistritz of North Dakota State University found that beet production in 2003 generated $675 million in economic activity. Processing and marketing accounted for another $401 million. About 62 percent of the total benefit was in Minnesota -- and mainly in Peterson's district.

On the Senate Agriculture Committee, the growers can count on a sympathetic hearing from two influential senior Democrats -- Kent Conrad of North Dakota, who's also chairman of the Budget panel, and Max Baucus of Montana, who's also chairman of Finance. Four other Democrats from states with sugar beet acreage also sit on Senate Agriculture: Michael Bennet of Colorado, Amy Klobuchar of Minnesota, Ben Nelson of Nebraska and Debbie Stabenow of Michigan.

Critics know they're battling uphill. "You can't fight city hall here," Flake said. "The deck is stacked in their favor -- considerably." And the industry is fully aware of the clout that flows from "legislators who understand our program and understand our industry," as Roney put it.

His observation was borne out by the current farm bill, enacted last year, which included several new provisions that strengthened the program, including an increase in the sugar loan rate -- essentially a floor under the domestic price.

Moreover, on the House floor, the sugar lobby successfully marshaled votes to defeat soundly an amendment that would have cut the program. Conservative Republicans and liberal Democrats voted against the proposal after Peterson warned it would make taxpayers pay to sustain the industry and expose the U.S. market to "being overrun with subsidized foreign sugar."

Shortages Predicted

Globally, sugar production is expected to fall short of demand by more than 8 million metric tons over the next 12 months, and world prices for raw sugar reached a 28-year high last month. In large part, the shortfall is occurring because Brazil, the global leader, is diverting more than half its sugar cane crop to ethanol production, while an erratic monsoon season crimps production in India, the world's second-largest grower.

In the United States, prices are also rising, although the government concluded in August that domestic supplies remain adequate for now, forecasting a 21 percent annual increase in beet production and a 5 percent boost in the cane harvest.

That hasn't satisfied food manufacturers, though, including the American Bakers Association, soft drink companies and the candy industry. Even with an increase, domestic production still will be less than in most recent years, and stocks of sugar will fall below optimal levels, manufacturers say.

Last month, the USDA said it wouldn't increase the sugar import quota for the current year above 15 percent, but it held out the prospect of reconsidering the quota question later -- most likely in April -- if supplies tighten.

The department has raised the quota before -- for example, when Hurricane Katrina devastated the Gulf Coast sugar cane industry four years ago. And similar steps in the future might effectively circumvent the sugar lobby's ability to limit imports.

"The extent to which it takes a little of the pressure off in a way that is not wildly distorting and poses a little attention to the nature of the problem, maybe it is helpful," said Rep. Earl Blumenauer, an Oregon Democrat who is a frequent critic of the sugar program. "But it is no substitute for getting our priorities straight, and we don't have them straight here."

FOR FURTHER READING: *Current farm bill (PL 110-246), 2008 Almanac, p. 3-3; previous version (PL 107-171), 2002 Almanac, p. 4-3; sugar program's creation (PL 97-98), 1981 Almanac, p. 534.*

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