ASA
AMERICAN SUGAR ALLIANCE

U.S. Sugar Policy: How It Works

U.S. sugar policy, which operates under the Farm Bill overwhelmingly passed in 2008 by Congress, is based on the basic theory of Economics 101—supply should equal demand.

To ensure that sugar policy runs at a minimum cost to taxpayers, the U.S. Department of Agriculture (USDA) has three tools at its disposal. The agency can 1) limit foreign imports to those required by our trade agreement obligations *(note: Mexican imports cannot be restricted)*, 2) control the amount of sugar American farmers are allowed to sell, and 3) divert unneeded surpluses into ethanol production.

Each year, the USDA forecasts U.S. sugar consumption and decides whether to limit the amount that U.S. producers can market; however, this cannot be less than 85% of consumption. The USDA then allocates market share to 41 foreign countries based on U.S. import commitments in trade agreements, such as the WTO and CAFTA. Mexico is the only supplier—domestic or foreign—with unrestricted access to the U.S. market because of NAFTA. If imports create an oversupply situation, then unneeded sugar is made available to ethanol producers.

By avoiding oversupplies and shortages, sugar prices stay stable. And fair prices eliminate the need for government payments to farmers.

Sugar Policy Terminology

Non-recourse loan — As with virtually all farm programs, government loans are available to U.S. sugar producers. Producers usually repay the loans with interest. But if the USDA lets too much sugar on the market and prices fall below the loan rate, the debt can be satisfied by forfeiting the crop. Even though loan rates remained unchanged from 1985–2008, forfeitures were very rare. Congress passed a slight loan rate increase in the 2008 Farm Bill to help sugar producers deal with skyrocketing input costs.

Tariff Rate Quota (TRQ) — This is the amount of foreign sugar America imports duty-free each fiscal year (Oct. 1–Sept. 30). The TRQ is set by the USDA annually and must be no lower than the sugar import amounts agreed to under international trade agreements. If the U.S. market is undersupplied, the 2008 Farm Bill allows the USDA to increase the TRQ on April 1. America is the world's third largest sugar importer, importing sugar from 41 countries regardless of our needs.

Overall Allotment Quantity (OAQ) — This is the portion of America's sugar market allocated each year to U.S. sugar producers. The OAQ, which cannot be set by the USDA at less than 85% of the U.S. market, helps ensure stable prices by avoiding oversupplies. Companies that produce more sugar than they may sell, store the surpluses at their own expense, not the government's.

AMERICAN SUGAR ALLIANCE © 2009 • **www.sugaralliance.org**