The Effects of the U.S. Sugar Policy

by Gillian Virata

How the U.S. Sugar Policy Began and What It Does

The U.S. Sugar Policy began in 1934, during the Depression Era in the United States. There was an overproduction of sugar at this time, which caused the price of sugar to fall. To protect the incomes of sugar growers, the government passed the Sugar Act of 1934 to stabilize prices. This piece of legislation has since remained in place.

The law was later expanded to set limits on the amount of sugar that could be imported into the U.S. (to about 15% of domestic consumption), and these quotas are apportioned among selected countries.

The system of price support and quotas keeps the price of sugar in the U.S. above the world price. This, in turn, allows American sugar growers to earn more than they would if they sold their sugar on the world market.

The Sugar Lobby

Sugar growers have continuously lobbied to keep this program—and their benefits—in place. Since 1990, the sugar industry has given more than $20 million to both Democrat and Republican politicians in key positions. It is the largest agricultural industry donor to political campaigns even though it represents just 1% of U.S. farm receipts.

Jose and Alfonso Fanjul, two brothers who own and operate Flo-Sun in Florida (America's largest sugar cane growing and refining operation), raised nearly $1 million in soft-money donations for the 2000 election cycle. For the 2003–2004 election cycle, the sugar industry made direct donations of $940,000 to candidates for Congress and the presidency. Adding to the industry's influence is the fact that Florida produces a quarter of U.S. sugar and Florida is a key state in presidential elections.

Lobbying efforts by the sugar industry include having thousands of sugar beet farmers and refinery employees send petitions to the government, having Congressmen flood the administration with letters, warning agribusiness-related companies (like Caterpillar) that they will lose business if they support free trade, and rallying other agricultural trade associations to fight FTAs.

The Politicians' Response

Politicians have responded by preserving the sugar price supports and import quotas. President Bush signed into law the Farm Bill 2002, which not only negated the farm subsidy reduction of Farm Bill 1996 but also compensated farmers for losses from the first bill. The new bill will cost U.S. taxpayers $430 million to support the sugar industry between 2002 and 2011. Flo-Sun will be among the sugar growers that will benefit from this support.

Politicians have also kept sugar out of bilateral free trade agreements starting with the U.S.-Canada FTA. When the CAFTA (Central American FTA) negotiations were concluded and the sugar industry learned that it provided for a slight increase in sugar imports the industry responded by launching a large, ultimately successful, lobbying effort to keep sugar out of the U.S.-Australia FTA. The U.S.–Dominican Republic FTA increased the Dominican Republic's quota by 10% over several years but kept the quota regime intact. The Fanjuls are among the biggest sugar growers in that country.

The Losers
And while the U.S. sugar growers benefit from the success of their lobbying efforts, their success has resulted in many other groups being denied the benefits of free trade. The U.S.-Australia FTA, for example, cost Australia about $440 million worth of potential exports to the U.S. But the Australians were not the only losers. The U.S. lost leverage to break up the Australian wheat monopoly and to gain market access in other sectors. The Australian wheat industry benefited from this but the American wheat exporters did not. Other American export groups also lost a chance to gain access to the Australian market.

What It Says to Others
The exclusion of sugar from the U.S.-Australia FTA and other bilateral FTAs also sends many signals to various groups. To other industries it is a sign that the Bush Administration can be pressured into taking a protectionist stance. It also shows the world that the U.S. campaign financing reform effort has not been effective. The U.S. therefore loses credibility as an advocate for free trade and good governance.

The success of the sugar lobby also tells sugar exporters in other trading partners of the U.S., such as Brazil, Thailand, and South Africa, that FTAs with the U.S. will be limited. This may hinder progress in future FTAs and is indeed one of the key issues in the stalled trade talks between the U.S. and Brazil for the FTA of the Americas. More importantly, the protection by the U.S. of its sugar industry (and by the E.U. and Japan of theirs) is one of the main stumbling blocks to the progress of the WTO Doha Round negotiations. Without progress in these negotiations, trade liberalization in other sectors important to the U.S. will also be put on hold.

Continued protection by developed countries of goods important to developing countries gives credence to the accusation that "globalization is a rigged game." (New York Times)

The Effect on World Poverty
The political support to keep the U.S. sugar policy in place and to keep it out of FTAs has, with other factors, led to the decline of sugar imports by a third since the mid-'90s. With the domestic price at three times the world price (over the past decade), American sugar growers grow more sugar than is consumed in the domestic market. This surplus produce, with the surplus of the E.U., is dumped on the world market and keeps world prices low. Efficient exporters in other countries, many of whom depend largely on sugar export revenues, are forced to sell at low world prices if they are not awarded substantial quotas by the U.S. or if they do not have a preferential trade agreement with the E.U. These sugar producers do not benefit as much as they would from their comparative

advantage if sugar trade were liberalized. In this way, **the U.S. sugar policy and the protectionist policies of other developed countries such as Japan and those in the E.U. keep millions of poor people in developing countries in poverty.**

The Effect of Liberalizing the Sugar Trade

The following groups would benefit from U.S. (and E.U.) liberalization of the sugar trade: American sugar users (such as the candy manufacturing industry), American consumers (the price of sugar would fall), other industries (related to sugar-using industries), and efficient American sugar exporters (there are some) as well as efficient exporters in other countries. In addition, the liberalization of the sugar trade would do the following:

- Improve the credibility of the U.S. (and Europe) as free trader and world leader
- Encourage the liberalization of trade in other goods and services
- Increase world wealth by $4.7 billion a year
- Create work for 1 million workers in developing countries
- **Reduce worldwide poverty**

Not-so-fun facts about the American sugar lobby

Accounting for just 1% of U.S. farm receipts, 0.5% of all U.S. farms, and 61,100 direct jobs, sugar is the largest agricultural industry donor to political campaigns. Since 1990, it has given more than $20 million to federal politicians.

For the 2000 election cycle, the Fanjul brothers raised nearly $1 million in soft-money donations.

Jose “Pepe” Fanjul, president of Florida Crystals, raised more than $200,000 for Bush’s reelection. J. Nelson Fairbanks, retired president of the U.S. Sugar Corporation, in Florida, raised $100,000 for Bush.

Pepe’s brother, Alfonso Jr., is a large donor to the Democratic party and served as Bill Clinton’s Florida co-chairman in 1992.

For the 2003–04 election cycle, sugar made direct contributions of $940,000 to congressional and presidential candidates; $34,500 went to Bush.

Robert Coker of U.S. Sugar raised at least $100,000 for the 2004 campaign.

Contributions also go to the members of the House and Senate agriculture committees. Florida congressman Mark Foley received $41,000. He fought the issuance of a new trade authority for Bush.

New York Senator Charles Schumer, who has tried to eliminate the U.S. sugar program, took a $1,000 donation to his political action committee from Andres Fanjul (one of four brothers).

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"It ill befits the U.S. to condemn corruption in other countries when its own policymaking is so easily and regularly perverted." (FT. Sweet deal: The US sugar industry is an affront to free trade. February 12, 2004)

"The axiom that sunshine is the best medicine has manifestly not operated in the case of US campaign funding—something that should give pause to proponents of transparency as a guarantee of good governance." (FT. Sweet deal: The US sugar industry is an affront to free trade. February 12, 2004)

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