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The History of U.S. Sugar Protection ¹

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This is part of the Sugar Policy series, which discusses policy issues facing the U.S. sweetener industry in general and Florida's sweetener industry in particular. The objective of this article is to summarize the history of government protection and control in the U.S. sugar industry. Readers interested in a more detailed description are referred to Alvarez and Polopolus (1988).

Introduction

National sugar policy has been affected by statute since 1789 when the First Congress of the United States imposed a tariff upon foreign sugar. The purpose of this and subsequent tariffs was to provide revenue for the government. From 1789 to 1930, a total of 30 Acts dealing with sugar were passed, not including several modifications. In 1842, however, the purpose of the tariff was expanded to include a policy of protection by subjecting refined sugar to a higher tariff than raw sugar, thereby attempting the promotion of a domestic refining industry and the expansion of domestic raw sugar production. It was not until 1934 that a federal sugar program was

enacted. Higher government intervention was motivated by the belief that sugar production and marketing was regulated in both producing and importing countries more than any other commodity. The absence of true competition between domestically produced sugar and sugar produced with cheap labor or under subsidy in other countries led to further controls started with the first Sugar Act.

The Sugar Acts, 1934-1974

The first Sugar Act, known as the Jones-Costigan Act, became law on May 9, 1934. Its main six features were as follows:

1. the determination each year of the quantity of sugar needed to supply the nation's requirements at prices reasonable to consumers and fair to producers;
2. the division of the U.S. sugar market among the domestic and foreign supplying areas by the use of quotas and subordinate limitations on offshore direct consumption sugar;

1. This is EDIS document SC 019, a publication of the Department of Food and Resource Economics, Florida Cooperative Extension Service, Institute of Food and Agricultural Sciences, University of Florida, Gainesville, FL. First published November 1990; revised June 2002. This publication is also part of the Florida Sugarcane Handbook, an electronic publication of the Department of Agronomy, University of Florida, Gainesville, FL. For more information, you may contact the editor of the Sugarcane Handbook, Dr. R.A. Gilbert (ragilbert@mail.ifas.ufl.edu), Everglades Research and Education Center, University of Florida, Belle Glade, FL 33430. Please visit the EDIS website at <http://edis.ifas.ufl.edu>.

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3. the allotment of these quotas among the various processors in each domestic area;
4. the adjustment of production in each domestic area to the established quota;
5. the levying of a tax on the processing of sugarcane and sugar beets, the proceeds of which were to be used to make payments to producers to compensate them for adjusting their production to marketing quotas to increase their income;
6. the equitable division of sugar returns among beet and cane processors, growers, and farm workers.

The U.S. Congress repealed the processing tax (declared unconstitutional by the Supreme Court in early 1936) and payment provisions. The President recommended new legislation that resulted in the enactment of the Sugar Act of 1937. The new Act contained an excise tax that was unrelated to government payments to growers, which would be made out of the U.S. Treasury from funds appropriated for that purpose. Quota allocations resulting from any market expansion were to be shared proportionally by both domestic and foreign areas. This Sugar Act was originally scheduled to expire in 1940 but was extended to 1941, then from 1941 to 1944, from 1944 to 1946, and again from 1946 through December 31, 1947.

The Sugar Act of 1948, which superseded the 1937 Act, only changed the method of establishing quotas, with Cuba receiving preferential treatment because of its response in increasing output during World War II to supply sugar to the U.S. at prices far below those that would have prevailed in a free market. The new Sugar Act was amended and extended several times, through December 31, 1960. During that year, sugar imports from Cuba were officially suspended and its quota transferred to other foreign countries on a temporary basis. Two short-term extensions in 1960 and 1961 provided for continuation of the Act until June 30, 1962. The Act was again amended in July 1962 and extended through December 31, 1966. Several amendments followed in subsequent years until December 31, 1974, when the Act expired.

The policy instruments of the previous Acts were many and varied. They included tariffs (with a minor role), quotas (the major role), fees (used for a relatively short period of time), taxes (for revenue generation), payments, allotments (not always in effect), and minimum wage provisions.

The reasons for the demise of the Sugar Act have been explained by Crawford (1978) in the following manner:

Beginning in the 1970s, the energy crisis, inflation, and global commodity shortages struck at the basic foundation of the program. The supply management system's assumption of a world surplus of sugar was challenged, as world consumption outstripped production in 4 of the 5 years from 1970 through 1974. The result was a dramatic swelling of sugar prices, which the Sugar Act's provisions were unable to stem (p. 17).

Federal Sugar Programs Since 1974

The expiration of the Sugar Act caused immediate repercussions in the U.S. domestic and foreign sugar policy areas. Corley (1975) listed the changes occurring in the policy instruments of the program as follows:

- The current duty rates for sugar were retained and a global quota of seven million tons was established by Presidential Proclamation.
- Import restrictions on refined sugar were eliminated.
- Direct payments to producers no longer existed after 1974.
- The Secretary of Agriculture lost the authority to allocate sugar quotas for the domestic areas.
- Acreage allotments were eliminated and production became unrestricted.
- The excise tax on domestic and on imported refined sugar was to be terminated on June 30, 1975.

The conditions that prevailed in 1974, when world sugar prices averaged a record 57 cents per pound raw value in November and 30 cents during that calendar year, did not persist very long. Just three years later, low sugar prices (which averaged 8.1 cents per pound in 1977 and 7.8 cents per pound in 1978) and increased costs of production, processing, and marketing prompted the government to initiate price support programs to ensure favorable returns to the industry.

An interim price support program was instituted in 1977 by the Secretary of Agriculture under the authority of the Agricultural Act of 1949. Processors received the difference between the price objective of 13.5 cents a pound, raw sugar basis, and the average market price, which was defined as the price deemed necessary to support efficient producers. In return, processors were required to pay producers of sugar beets and sugarcane at least \$22.84 and \$17.48 (U.S. average) per ton of average-quality sugar beets and sugarcane, respectively.

The Food and Agriculture Act of 1977 mandated a loan or purchase program for the 1977 and 1978 crops. The payment program ended on November 7, 1977. Loan rates were established at 13.5 and 14.73 cents per pound, raw value, for the 1977 and 1978 crops, respectively. Processors agreed to pay producers at least those prices if they met USDA minimum wages for field workers. Processors who obtained the loan used sugar as a collateral, and interest was charged only if the loan was redeemed. They could default on the loan and forfeit the sugar to the Commodity Credit Corporation (CCC) if the market price was not high enough. In order to minimize the risk of forfeiture, a "market price objective" was maintained through import duties and fees on imported sugar. Forfeitures, however, occurred in both 1977 and 1978.

A similar program was adopted for the 1979 crop. No program was in effect for the 1980 and 1981 sugar crops since, during those years, the industry was again enjoying relatively high market prices.

The Agriculture and Food Act of 1981 mandated a price support program for sugar for the 1982 through 1985 crop years. Loan rates for cane sugar were set at 17 cents a pound for the 1982 crop, 17.5

cents for 1983, 17.75 for 1984, and 18 cents for 1985. Beet sugar was to be supported at the levels that the Secretary of Agriculture thought to be fair and reasonable in relation to the support level for cane sugar. A "market stabilization price" (MSP) was established for raw cane sugar above the purchase or loan rate to discourage sale or forfeiture of any sugar to the CCC. This MSP minus the purchase or loan rate covers freight and related marketing expenses, the interest required to redeem the loan, and an incentive factor to encourage processors to sell sugar in the marketplace rather than to the CCC. Import duties were increased and a system of country-by-country import quotas was established.

The Food Security Act of 1985, which left almost intact the major provisions of the previous Act, was to apply to the 1986 through the 1990 crop years with a loan rate of no less than 18 cents a pound. Special emphasis was given to the operation of the program at no cost to the federal government by restricting supplies. This Act was replaced by the 1990 Farm Bill drafted by Congress.

The sugar program in the 1990 Farm Bill, also known as the Food, Agriculture, Conservation, and Trade Act of 1990, covered the 1991 through 1996 sugar crops. Although most of the provisions in previous legislation remained unchanged, some new features were included. The loan rate remained at 18 cents per pound despite efforts to reduce it. The Market Stabilization Price of 21.95 cents per pound established by the USDA for the 1989-90 crop remained unchanged. A minimum import quota of 1.25 million short tons, raw value, with a two-tiered tariff scheme, was established, as well as marketing controls on domestic sugar if imports were projected to fall below 1.25 million tons. As a result, a new re-export program had to be designed. A program service fee was imposed. Finally, marketing controls could be imposed if imports were projected to fall below 1.25 million tons.

The 1996 Farm Bill, also known as the Federal Agricultural Improvement and Reform (FAIR) Act, became effective for the 1996 through 2002 crops. The loan rate remained at 18 cents per pound. Loans are recourse when the tariff rate (TRQ) quota on sugar imports is at 1.5 million tons or below, and

nonrecourse when the TRQ exceeds that level. Cane processors must pay a penalty of one cent per pound of sugar forfeited to the government, and beet processors must pay a 1.07 cents per pound penalty. Interest rates established by the CCC were set at one percent higher than in the past. Finally, the import quota system remained the same, while marketing controls on domestic sugar were eliminated.

President Bush has now signed the 2002 Farm Bill. No major changes in the sugar program were contained in the legislation. This farm bill is discussed in another article in this series (SC056, Sugar and the 2002 U.S. Farm Bill).

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