

Big Sugar and the Political Economy of US Agricultural Policy

By Kimberly A. Elliott*

Every few years, the Congress of the United States of America voted generous price supports for a handful of agricultural millionaires in the great state of Florida. The crop that made them millionaires was sugar, the price of which was grossly inflated and guaranteed by the U.S. government. This brazen act of plunder accomplished two things: it kept American growers very wealthy, and it undercut the struggling economies of poor Caribbean nations, which couldn't sell their own bounties of cane to the United States at even half the bogus rate.

—Carl Hiassen, *Strip Tease*¹

Sugar is a prototypical case of a policy that favors the few at the expense of the many. Thanks to a government policy that supports prices by sharply restricting imports, a small number of American sugar cane and beet growers are enriched at the expense of US consumers and of more efficient foreign growers, most of whom are in poorer developing countries. In addition, in Florida, sugar cane production contributes to degradation of the Everglades and, before it was mechanized in the mid-1990s, allegations of abusive labor practices were rampant. Competitive US exporters also pay a price because such blatant trade protection undermines the position of US negotiators seeking trade liberalization abroad. Sugar was excluded entirely from the “free” trade agreement with Australia, and it is the only sector in the agreement with Central America and the Dominican Republic (DR-CAFTA) that will retain some protection when the agreement is fully implemented. Even so, US sugar producers adamantly oppose the agreement and have vowed to defeat it when it is presented to the US Congress for ratification this year. According to the Organization for Economic Cooperation and Development, sugar receives proportionally more support from the US government than any other major crop.

Yet, according to the US Trade Representative, “farms growing sugar account for less than one-half of one percent of all U.S. farms.”² So why the special treatment? Although Hiassen denies it, many believe that the Rojo family featured in his novel of political corruption in south Florida is loosely based on the Fanjul family of Palm Beach, Florida. The Fanjuls’ Florida Crystals Corporation produces sugar on nearly 200,000 acres in the Everglades Agricultural Area and sells it at roughly twice the world price thanks to government restrictions on imports. Special Prosecutor Ken Starr revealed the real-world influence of the Fanjuls when he reported that President Bill Clinton took a phone call from CEO Alfonso Fanjul during a late-night meeting with Monica Lewinsky.³ Fanjul, who had donated generously to Clinton’s two presidential campaigns, was angry over a proposed penny-per-pound tax on sugar to help fund Everglades restoration. Although both the federal and Florida state governments eventually passed legislation to partially restore the Everglades, neither included a tax on sugar; the cost to industry is estimated at just \$300 million of the \$8 billion, 20-year cost.

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The benefits of US sugar policy are not just lucrative, they are also highly concentrated, making it worthwhile to organize and lobby to protect them. Florida Crystals and just one other company, US Sugar Corporation, produce over half of Florida's raw sugar and an eighth of the US total. As a result of government price support, they collect an estimated \$120 million annually in revenues.⁴ The balance of sugar production is concentrated in Louisiana and a handful of upper Midwestern states. The General Accounting Office (now the Government Accountability Office) estimated in 2003 that the benefits to all American sugar producers average \$1 billion annually.⁵ By contrast, the ultimate costs of higher sugar prices are diffused across American consumers and are a trivial share of the typical consumption basket, making it difficult to organize in favor of reform. Nor have industrial sugar users, worker rights advocates, or environmental activists been able to mount an effective attack on sugar policy. Current reform prospects are bound up with the Doha Round of multilateral trade negotiations and the fact that, as a necessary condition for further opening their own markets, developing countries are demanding that rich countries reduce the subsidies and protection provided to farmers.

Colonial Legacies and Contemporary Distortions

Trade in sugar between tropical producers and northern consumers began with European colonization of the Caribbean in the 16th and 17th centuries. This lucrative trade, in turn, spurred the slave trade to provide the labor needed for growing and processing the sugar cane. But abusive labor practices persisted long after the abolition of slavery, and the arbitrary allocation of import rights among countries based on colonial and other political ties created distortions in sugar markets that linger to this day.

The first enslaved Africans brought to [the New World] in 1503-05 worked on sugar plantations, and the last enslaved Africans smuggled into Cuba in the 1860s or 1870s worked on sugar plantations—a depressingly enduring continuity.

—*Historian Sidney Mintz*⁶

Mintz's "depressingly enduring continuity" actually lasted well into the 20th century. Amid numerous allegations of fraudulent hiring and coercive practices, the US Sugar Corporation was indicted in 1942 on charges of "peonage" that were later

dropped on a technicality.⁷ The agricultural guest worker program created to address World War 2 labor shortages by providing temporary visas for seasonal Caribbean migrants was also plagued with allegations of abuse until it ended in 1995. In 1992, a class action lawsuit led to a \$51 million judgment against Florida sugar producers for underpayment of wages. Though overturned and sent back for retrial, the judgment, combined with worker unrest over ill treatment, led most growers to replace workers with machines.⁸ Allegations of forced labor in cane cutting have also been made in recent years in Brazil, and throughout the 1980s and 1990s, the International Labor Organization investigated allegations of coercive practices toward migrant Haitian workers on Dominican Republic plantations.

More mundane distortions in trade and production patterns can also be traced to the colonial era and to the confluence of two events early in the 19th century. Sugar shipments to Europe were disrupted as a result of rebellions in some colonies and trade embargoes accompanying the Napoleonic wars. At about the same time, the process of producing sugar from beets was discovered in Germany, and the French and other governments encouraged farmers to increase production of beets to replace Caribbean sugar. Today, with the help of export subsidies, the European Union is the world's second largest exporter of sugar. Adding to the distortions, the small amount of foreign sugar that is allowed into the EU market is mostly from former colonies in Africa and the Caribbean that have preferential access because of historical ties and not because they are the most efficient suppliers.⁹

Similar patterns can be seen in the evolution of the American sugar market, which also initially relied on imports from the Caribbean. In 1898, however, the US government annexed Hawaii at the behest of American sugar barons there who sought to protect their investments and ensure tariff-free access to the US market. In that same year, the treaty settling the Spanish-American war was signed, with Spain recognizing Cuban independence and agreeing to sell the Philippines to the United States for \$20 million. Until 1960, almost all US imports came from Cuba and the Philippines, and imports accounted for one-half to three-quarters of US sugar consumption. Domestic sugar production early in the last century was small and nearly 90 percent of it came from Midwestern beets, with the balance from Louisiana cane. Farmers received little government support until the 1930s.¹⁰

Today, the Philippines remains the third largest supplier of US sugar imports, but Cuba's quota was revoked following Fidel Castro's nationalization of the sugar industry (including property owned by the Fanjuls, who then fled to Florida). Thanks to the Cuba sanctions and to earlier government projects to control water flow through

Trade in sugar could mean a sweeter future for Africa.

—Oxfam International¹¹

the Everglades, Florida sugar production surged. Cane now accounts for half of US sugar production, and Florida is the single largest producer among US states. Unlike the EU, the United States does not subsidize significant sugar exports. But like Europe, the US government strictly controls imports in order to support domestic prices while minimizing the budget costs.

One consequence of these historically rooted distortions is that, in the short run, there will be losers as well as winners among developing country exporters with preferential access to these markets. Liberalization of the American and European markets would lower prices there, but, because it would eliminate subsidized EU exports and increase demand for imported sugar, liberalization would raise prices on the world market. The most likely **winners** from reform are the low-cost, globally competitive exporters that currently gain relatively little from preferential access to the US and EU markets. In 2001-03, **Brazil and Thailand** accounted for 40 percent of global sugar exports, while **Australia, Cuba, South Africa, Colombia, and Guatemala** collectively accounted for another 20 percent. For most of these countries, the US and EU markets accounted for less than 3 percent of total sugar exports, though the figure was 9 percent for Colombia and 16 percent for Guatemala. **India** is also one of the world's top three producers of sugar and was a large net exporter of sugar in this period (2001-03). But these were unusually good years. Over a longer period, India is only a sporadic exporter, though its producers would still benefit from a higher world price.

Other exporters with access to the protected US and EU markets tend to fall into four broad categories based on whether they are net exporters or net importers and on how dependent they are on the American and European markets (Table 1). The most likely **losers** from trade liberalization are countries who continue to export to the United States and European Union only because they hold quota rights but who are overall net importers of sugar (the lower right quadrant of Table 1). Some of these countries

We believe there should be a lesser (price) cut and we should be given time to adjust to this [EU] reform.

—Agriculture Minister of Mauritius¹²

import and then re-export sugar in order to sell in these markets at prices that are on average two to three times the world price. Others export as much as their quotas permit while importing to meet domestic consumption needs. These countries would lose the protection-induced transfers from US and EU consumers, but these could be replaced with equivalent transfers from taxpayers through increased aid flows. These countries would gain in the longer run from reallocating those resources to areas where they could be competitive without such protection.

Table 1: Potential Winners and Losers from US and EU Sugar Policy Reform (based on average data for 2001-03)

	US, EU share of exports is one-third or less	US, EU share of exports is one-half or more ^a
Net exporters	Nicaragua Ecuador Bolivia Honduras Costa Rica Ethiopia Argentina El Salvador Zambia	Zimbabwe (4.2) Mexico (0) Malawi (8.9) Fiji (19.3) Swaziland (6.7) Guyana (20.3) Dominican Republic (1.6) Belize (19.1) St. Kitts and Nevis (26.9) Mauritius (16.3) Jamaica (5.9) Papua New Guinea (0.1) Barbados (9.1) Panama (1.6)
Net importers	Sudan Kenya	Cote D'Ivoire ^b Tanzania Burkina Faso Congo Mozambique Nepal Peru Taiwan Philippines Paraguay ^b Uruguay Trinidad-Tobago Madagascar

a. The sugar share of each country's total exports is in parentheses. In only six other countries does sugar account for more than 2 percent of total exports: Cuba (37.2), Guatemala (9.2), Nicaragua (5.7), Brazil (3.4), Zambia (3.2), and Ethiopia (3.0).

b. Sources conflict on whether these countries are net importers or net exporters. But USDA data indicate that neither produces enough to meet domestic consumption needs, suggesting they must be re-exporting imports to fill preferential quotas and underreporting imports to the FAO.

NB: Countries in each cell are listed in ascending order of the combined US and EU shares of total sugar exports.

Sugar is the Energizer Bunny of U.S. government policy.¹³

In the middle, with **uncertain futures, are** smaller net exporters of sugar. Whether these countries gain or lose from US and EU policy reform depends on whether they can increase their global market share enough so that higher world prices make up for lower prices in the previously protected markets. Exporters in the upper left quadrant of Table 1 could gain from liberalization because they currently sell at least twice as much on world markets as they do in the United States and European Union and would therefore receive a higher price for most of their exports.¹⁴ But countries shown in the upper right quadrant send at least half, and some as much as 100 percent, of their sugar exports to these protected markets. They would lose a larger share of export revenues. Countries that could be hit particularly hard are the high-cost producers where sugar accounts for a significant share of total export revenues, such as Mauritius and Fiji.

Historical Legacies and Distortions in the US Market

Support for sugar producers today has no connection to the original motivation during the Great Depression of supporting incomes to keep farmers from joining the ranks of the unemployed. Rather, the policy transfers hundreds of millions of dollars to a handful of farmers and processors at the expense of American consumers and of workers and firms in the food processing industry. Despite changing rationales, however, the principal mechanism for supporting US sugar prices remains much the same: a system of country-by-country quotas that sharply restrict imports.¹⁵ Since the restoration of import quotas in 1982, US sugar prices have remained two to three times higher than world prices (Figure 1), and US imports as a share of consumption have fallen from nearly half to less than a fifth. The costs to American consumers depend on the size of the gap between world and US prices at any given time, but several studies over the past decade calculate them at roughly \$1.5 billion annually. The General Accounting Office has estimated that producers collect \$1 billion of the total.¹⁶ Other estimates show that the relative level of support provided to sugar is higher than for any other major product (Table 2).

The distortions created by these policies are many. As a result of artificially high prices, the United States produces more sugar than it otherwise would, and more efficient developing

countries, such as Brazil and Thailand, produce less. Sugar producers, like those in other import-competing sectors, argue that protection saves jobs. But, in fact, trade barriers protect some jobs at the expense of others. Industrial sugar users are increasingly moving abroad, in part, because they cannot compete while paying high US sugar prices. In 2001, when candy-maker Brach announced it would close a Chicago factory and eliminate 1,100 jobs, then Mayor Richard Daley called on Illinois congressional representatives to oppose renewal of the sugar program in the upcoming farm bill debate (*Chicago Tribune*, May 7, 2001). Shortly thereafter, Kraft Foods announced that it would move production of Life Savers from Michigan to Quebec, in part to take advantage of lower sugar prices (*Chicago Tribune*, January 30, 2002).

Other costs of US sugar policy in Florida include degradation of the Everglades, a national park that was designated a United Nations World Heritage Site in 1979. Indeed, sugar production and the negative externalities associated with it are only possible because of other government programs and subsidies. The Army Corps of Engineers built a system of canals and levees to regulate water flow through the Everglades early in the last century, with the primary motivations of preventing floods and providing reliable water supplies for a growing urban population. But it also created the Everglades Agricultural Area, and the value to growers of ongoing maintenance efforts is estimated to be millions of dollars annually.¹⁷ Disruption of the natural water cycle and the nutrient run-off from cane fields are contributing to slow strangulation of the Everglades.

Internationally, sugar restrictions spawn trade disputes and increasingly threaten to undermine US trade policy. For example, since the North American Free Trade Agreement was signed, the United States has been embroiled in disputes with Mexico over access to the US market for Mexican sugar and access to the Mexican market for US high fructose corn syrup (HFCS), which has become a sugar substitute in beverages.¹⁸ Then, late in 2004, partly in response to demands from Iowa Senator and Finance Committee Chair Charles Grassley, US Trade Representative Robert Zoellick threatened to drop the Dominican Republic from the DR-CAFTA agreement unless its legislature repealed a new tax on HFCS. (As part of the trade agreement, the Dominican Republic agreed to eliminate its tariff on HFCS, but it gained very little additional access to the US market for its sugar, thus threatening an increase in domestic sweetener supply that would depress prices.) Ongoing trade negotiations with Thailand and Colombia, much larger sugar exporters, are likely to be even more difficult. More importantly, the Doha Round of multilateral trade

negotiations is unlikely to be completed without significant reform of sugar and other agricultural policies.

The Political Economy of Agricultural Support

Paradoxically, the structural economic changes that remove common rationales for agricultural subsidies simultaneously make it harder to reform them. With industrialization and urbanization, the manufacturing and service sectors draw labor away from agriculture. Along with technological change and the substitution of capital for relatively more expensive labor, these structural changes contribute to consolidation of agricultural operations. With fewer farmers, it is easier and more profitable to organize and lobby Congress for policies that raise prices and incomes, which, in turn, give those farmers both the means and the incentive to keep lobbying.

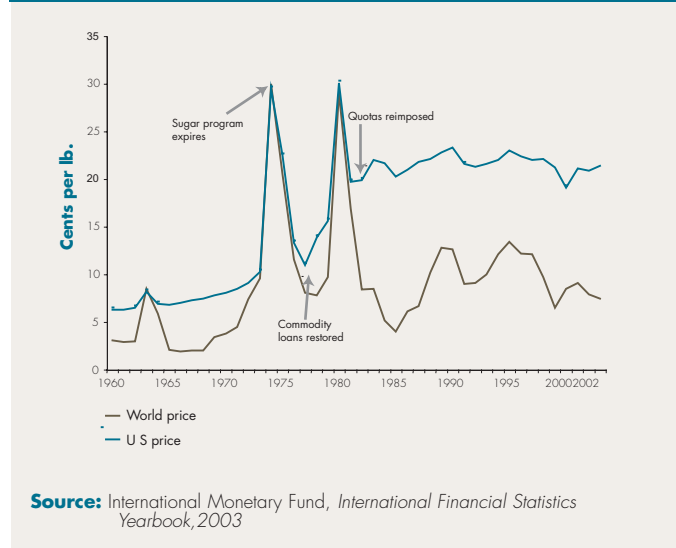
In 2000, acreage planted in sugar cane and beets represented 0.8 percent of total US cropland harvested, compared to 23 percent each for corn and soybeans, 17 percent for wheat, and 4 percent for cotton. Sugar production is also concentrated geographically with nearly 90 percent located in only eight states—cane in Florida, Louisiana, Texas, and Hawaii and beets in Minnesota, North Dakota, Michigan, and Idaho.¹⁹ Sugar's share of gross farm receipts in 2000 was 1.1 percent versus 3 percent for wheat, 8 percent for corn, and 6.5 percent for soybeans.

But a tally of the political contributions by all agribusinesses to federal candidates in the 2004 election cycle shows that the sugar industry's share was six times higher than its share of farm revenues. Moreover, according to the campaign finance database compiled by the Center for Responsive Politics (CRP), three of the top ten agribusiness contributors were sugar producers. A more appropriate comparison might be to the narrower crop production and basic processing sector, where the sugar share of total 2004 contributions was 23 percent and sugar producers were in 7 of the top 10 slots. To put it another way, the sugar, dairy, and livestock sectors contributed roughly

“[US sugar policy is the] most efficient tax we have.... It comes directly from the consumers and goes directly to the growers, who turn around and give some of the money to the politicians.”

—*Unnamed sugar processor*²⁰

Figure 1: Raw Sugar Prices, 1960–2003



comparable amounts to federal candidates in the 2004 cycle: \$22 million, \$21 million, and \$26 million, respectively. But farm receipts were quite different, just over \$2 billion for sugar compared to \$37 billion for cattle and calves (the bulk of CRP's livestock sector) and \$23 billion for dairy products.

To be more specific, CRP calculates that Flo-Sun, a subsidiary of the Fanjuls' Florida Crystals company, and the American Sugar Cane League together gave more than \$925,000 in the most recent federal election, while American Crystal Sugar, a cooperative of Minnesota and North Dakota sugar beet producers, gave nearly \$850,000 (www.opensecrets.org). To rephrase the classic proverb, 'tis better to give and to receive.

Prospects for Reform

There are signs that things may be turning slowly against Big Sugar. First, thanks to non-governmental organizations like Oxfam, the effects of rich-country farm policies on global poverty are increasingly visible, and this could stimulate greater opposition from socially conscious citizens and consumers. Second, although their objections have been unsuccessful to date,

I can't be bought but I can be rented.

—*Louisiana Congressman John Breaux*²¹

Table 2: Indicators of Support for Major US Agricultural Commodities, 2000-02

Commodity	Producer support as a percent of farm receipts ^a	Nominal protection coefficient ^b	Nominal assistance coefficient ^c
Sugar	55	2.07	2.24
Rice	50	1.77	2.01
Dairy	48	1.82	1.92
Wheat	40	1.06	1.69
Corn	26	1.08	1.36
Soybeans	22	1.20	1.30

(a) Estimated value of transfers from consumers and taxpayers to support agricultural producers as a percent of gross farm gate receipts.

(b) Ratio between average farm gate price received by producers and the border price.

(c) Ratio of value of gross farm receipts, including support, and gross farm receipts valued at world market prices without support.

Source: Organization for Economic Cooperation and Development, *Agricultural Outlook 2004*.

industrial users see high sugar prices as an increasingly unacceptable burden in the face of global competition, and these interests are becoming more vocal in opposition. Third, given the failure to extract a higher share of the costs of remediation from growers, environmentalists could give the Everglades restoration plan a boost by joining these other groups in demanding liberalization of sugar protection.

Moreover, the buy-out of peanut quotas in the 2002 farm bill and of tobacco quotas in the 2004 omnibus tax bill suggest a way forward. There are differences in the details of these two commodity policies, but what makes them broadly similar to the sugar program—and therefore possible models for reforming it—is that all three involve controls on domestic production and imports in order to boost US prices above world levels. In the two prior cases, price supports were lowered (peanuts) or eliminated (tobacco), and growers and other quota-holders were compensated for giving up the right to produce in a restricted market. A similar buyout policy is the most promising option for liberalizing the US sugar program. But it could be more difficult because sugar is not—yet—facing the same threat from health concerns that tobacco is, and growers are less frustrated with the operation of the program than were peanut farmers. The domestic pressures to reform sugar policy do not seem to be as great as in these other cases.

Therefore, perhaps the greatest hope for reform lies outside US borders, in trade negotiations. Continued protection of sugar and other agricultural products is increasingly inconsistent with the US trade agenda at all levels—bilateral, regional, and multilateral. Outside of agriculture and textiles and apparel, US trade barriers are relatively low, and negotiations will naturally focus on the outliers. In addition, these are the sectors in which developing countries tend to have comparative advantage, and the World Trade Organization meeting in Cancun in September 2003 demonstrated that these countries are more organized and will be more forceful in pressing their demands for agricultural liberalization in the rich countries. Thus, if American manufacturing and services exporters want additional market access for their goods in developing countries, they will have to join industrial sugar users and others fighting for agricultural reforms.

Notes

- 1 New York: Warner Books, 1993, p. 13.
- 2 "Sugar: Putting CAFTA Into Perspective," Trade Facts, January 26, 2004, www.ustr.gov.
- 3 See Paul Roberts, "The Sweet Hereafter—Florida's Everglades endangered by sugar industry," *Harper's Magazine*, November 1999, and Donald L. Barlett and James B. Steele, "Sweet deal: Why are these men smiling? The reason is in your sugar bowl," *Time*, November 23, 1998.
- 4 Roberts, *op cit.*, pp. 12-13 and General Accounting Office, *Sugar Program: Changing Domestic and International Conditions Require Program Changes*, GAO/RCED-93-84, April 16, 1993.
- 5 General Accounting Office, *Sugar Program: Supporting Sugar Prices Has Increased Users' Costs While Benefiting Producers*, GAO/RCED-00-126, June 2000.
- 6 Quoted in Roberts *op cit.*, p. 4.
- 7 US House of Representatives, Committee on Education and Labor, Report on the Use of Temporary Foreign Workers in the Florida Sugar Cane Industry, Washington, July 1991, p. 5.
- 8 Marie Brenner, "In the Kingdom of Big Sugar," *Vanity Fair*, February 2001.
- 9 Donald Mitchell, "Sugar Policies: Opportunity for Change," Policy Research Working Paper 3222, Washington, World Bank, February 2004.
- 10 For a discussion of US sugar policy, see, Mitchell *op cit.*
- 11 Oxfam International, *A Sweeter Future? The potential for EU sugar reform to reduce poverty in Southern Africa*, Oxfam Briefing Paper 70, London, November 2004.
- 12 Raphael Minder, "Europe's sweetener is not enough," *Financial Times*, January 25, 2005, p. 7.
- 13 Center for Responsive Politics, *The Politics of Sugar*, Washington, May 1995, available at www.opensecrets.org.
- 14 Sudan might also be in this group or able to move into it if the political situation stabilizes. Data reported by Sudan to the UN Food and Agricultural Organization show a collapse in exports in 2002-03 but Sudan is a large producer, and US Department of Agriculture data, which are often estimated if national sources are not regarded as reliable, show them as a large net exporter.
- 15 As a result of the Uruguay Round Agreement on Agriculture (URAA), import quotas were supposed to be converted to equivalent tariffs but tariff-rate quotas (TRQs) were permitted for sensitive products. TRQs have low or no tariffs for under-quota imports, but higher tariffs are charged on imports above a designated level. In practice, most TRQs adopted under the URAA have over-quota tariffs that are so high as to discourage additional imports, so the TRQs effectively function as quotas. See Mitchell *op cit.*, p. 37.
- 16 General Accounting Office 1993 and 2000, *op cit.*; see also Gary Clyde Hufbauer and Kimberly Ann Elliott, *Measuring the Costs of Protection in the United States*, Institute for International Economics, 1994; Stephen Tokarick, "Measuring the Impact of Distortions in Agricultural Trade in Partial and General Equilibrium," IMF Working Paper, WP/03/110, International Monetary Fund, May 2003.
- 17 Aaron Schwabach, "How Protectionism is Destroying the Everglades," *National Wetlands Newsletter*, vol. 24, no. 1, January-February 2002, p. 8.
- 18 As a result of technological improvements and of the protection of high sugar prices, HFCS use has increased from negligible levels in 1970 and now accounts for half of American sweetener consumption.
- 19 Even in these states, sugar is typically not the most important agricultural product. In 2000, sugar cane was at the top in marketing receipts only in Louisiana and was third in Hawaii and fourth in Florida. Among major sugar beet-producing states, sugar beets were as high as fourth only in North Dakota. (Statistical Abstract of the United States)
- 20 Quoted in Schwabach *op cit.*
- 21 Quoted in Roberts 1999, *op cit.*

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