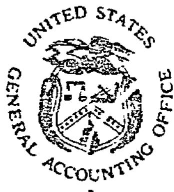
096976

F081

76-0128

3032

096976



REPORT TO THE CONGRESS

Review Of U.S. Import Restrictions-- Need To Define National Sugar Goals

Council on International Economic Policy
Department of Agriculture
Department of State

With expiration of the Sugar Act on December 31, 1974, the U.S. is not committed to either free trade in sugar or protection of its sugar industry. There are compelling reasons, therefore, for considering the need for a more precise policy, either through new legislation or development of a new sugar program.

This is an opportune time to consider the range of sugar policy and program alternatives. The challenge for those designing new policy is to strike a balance among U.S. industry, U.S. consumers, and foreign interests. In view of this, the Congress may wish to develop national goals for the sugar trade.

BY THE COMPTROLLER GENERAL
OF THE UNITED STATES

ID-75-80

JULY 10, 1975

702390 096976

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-114824

BEST DOCUMENT AVAILABLE

To the President of the Senate and the
Speaker of the House of Representatives

This is our report on the need to define national suga
goals.

Our review was made pursuant to the Budget and Accoun
Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing
of 1950 (31 U.S.C. 67).

We are sending copies of this report to the Director,
Office of Management and Budget; the Executive Director,
Council on International Economic Policy; and the Secretar
of Agriculture and State.

Comptroller General
of the United States

BEST DOCUMENT AVAILABLE

Contents

		Page
DIGEST		i
CHAPTER		
1	INTRODUCTION	1
	Sugar Act of 1948	2
	Sources of supply	4
2	POLICY CONSIDERATIONS	7
	Divergent interests	8
	Future policy	9
3	EFFECTIVENESS OF PAST SUGAR PROGRAMS	14
	Protect the domestic sugar industry	14
	Assure consumers ample supply at reasonable price	20
	Promote U.S. export trade	23
4	COST OF THE U.S. SUGAR PROGRAM	24
	Consumer cost	24
	Tariff	25
	Excise tax and Government payments	25
	Quota premium	25
	Administrative costs	26
	Marketing costs	26
5	FOREIGN POLICY CONSIDERATIONS	28
	Policy under the Sugar Act	28
	Current situation	29
6	PROGRAM OPTIONS	31
7	CONCLUSIONS, AGENCY COMMENTS AND OUR EVALUATION, AND MATTERS FOR CONSIDERATION BY THE CONGRESS	36
	Agency comments and our evaluation	37
	Matters for consideration by the Congress	38
8	SCOPE OF REVIEW	39
APPENDIX		
I	Sources of sugar consumed in the United States during 1973 and 1974	40

BEST [illegible]

P

APPENDIX

II Letter from Acting Deputy Assistant Secretary for Budget and Finance, Department of State, June 30, 1975

III Letter fro Deputy Assistant Secretary, International Affairs and Commodity Programs, Department of Agriculture, June 30, 1975

IV Letter from Acting Executive Director, Council on International Economic Policy, June 27, 1975

V Principal officials of the Departments of Agriculture and State and the Council on International Policy responsible for activities discussed in this report

ABBREVIATIONS

ASCS Agricultural Stabilization and Conservation Service

FAS Foreign Agricultural Service

GAO General Accounting Office

GATT General Agreement on Tariffs and Trade

BEST [illegible]

COMPTROLLER GENERAL'S REPORT TO THE CONGRESS

REVIEW OF U.S. IMPORT RESTRICTIONS: NEED TO DEFINE NATIONAL SUGAR GOALS
Council on International Economic Policy
Department of Agriculture
Department of State

DIGEST

With expiration of the Sugar Act on December 31, 1974, the U.S. is not committed to either free trade in sugar or protection of its sugar industry.

There are compelling reasons, therefore, for considering the need for a more precise policy, either through new legislation or development of a new sugar program.

The challenge for those designing a new policy is to strike a balance among U.S. industry, U.S. consumers, and foreign interests. The more important considerations are that:

--The sugar industry is important to the U.S. economy because of the need to have sugar available and because of employment opportunities it provides.

--The U. S. will probably not be self-sufficient in sugar because of the relatively high cost of some segments of the domestic industry. However, the advent of highly competitive substitute sweeteners may eventually lead to a greater self-reliance.

--The U. S. is the world's largest sugar importer--its sugar imports totaled about $3 billion in 1974--and its buying power could be influential in achieving foreign economic and political objectives.

--U.S. consumers probably do not wish to maintain an industry that costs them millions of dollars during years of

surplus but cannot insulate them from severe price increases when world shortages occur.

--The domestic sugar industry, which employed about 150,000 people and produced a crop valued at over $3 billion in 1974, may be significantly affected by actions which do not protect domestic production.

This is an opportune time to consider the range of sugar policy and program alternatives. Executive branch officials perceive sugar policy as a congressional prerogative and thus are reluctant to take the initiative in policy formulation or program planning.

In view of this, the Congress may wish to develop national goals for sugar trade and, if so, should ask the Council on International Economic Policy to coordinate with the Departments of Agriculture and State and other agencies in recommending policy positions to advise the Congress on:

--Whether the U.S. wants to protect its domestic sugar industry, and, if so, to what extent.

--Specific goals of U.S. import policy; i.e., free trade, development assistance, or assurance of ample supplies.

--The U.S. stance on international commodity agreements on sugar.

--Whether the most efficient domestic sugar-producing areas and low-cost substitute sweetener manufactures should be encouraged to expand production.

--How the Government, under provisions of the Trade Act of 1974, can minimize the economic and social displacement of sugar producers, processors, and workers if more liberal trade policies are adopted.

BEST DOCUMENT AVAILABLE

During 1935-73 the sugar program's protective tariffs, guaranteed minimum prices, subsidy payments, production allotments, and import quotas effectively maintained a domestic sugar industry. U.S. sugar production (raw value) increased from approximately 3.4 million tons to 6.2 million tons, which allowed the U.S. to remain at about 55-percent self-sufficiency in sugar throughout most of these 39 years.

In 1974 the sugar program failed to insulate the U.S. market from high world prices caused by shortages. The price for raw sugar in the U.S. jumped from about 12.6 cents a pound in January 1974 to a record high of 64.5 cents on November 20, 1974.

GAO estimates the sugar program cost American consumers about $5.2 billion from 1963 through 1974. Consumer prices were increased by tariffs, excise taxes, and premiums on imported sugar.

If market forecasts are accurate, lack of a protective program offers no immediate threat to the domestic sugar industry because world sugar supplies are expected to be tight through 1980. However, if the world market softens and prices drop as they began to in mid-1975, domestic producers will have to compete with less costly foreign sugar.

Once U.S. national goals have been clearly defined, a number of options are available for achieving them. Among the most prominent options that the Government, industry, and private sources have considered are:

--a quota system, involving domestic and foreign supply allotments;

--a target or support price system, with no quantitative restrictions;

--tariff protection, either fixed or variable;

BEST DOCUMENT AVAILABLE

--international commodity agreements; and

--free trade.

CHAPTER 1

INTRODUCTION

On December 31, 1974, the Sugar Act expired, ending 40 years of Government regulation of the U.S. sugar industry at a time of world sugar shortages and rising prices in both U.S. and world markets. Quotas established for foreign suppliers and domestic producers, intended to protect the welfare of the U.S. sugar industry and to provide consumers with ample supplies of sugar at reasonable prices, terminated with the act.

In order to prevent a threefold increase of the duty on imported sugar, the President announced on November 18, 1974, a global quota of 7 million tons for 1975. While technically extending the authority to protect the domestic sugar industry via quotas, the new Government program offered no clear guidance on the ultimate direction of U.S. sugar policy. The inherent problems of the old sugar program, how to guarantee adequate supplies to consumers, at reasonable prices, and protect the high-cost domestic industry, remain to be addressed.

In addition, entirely new questions relating to U.S. sugar policy have appeared. For example, how will the United States secure supplies during periods of world shortage? How will increases in energy costs spurred on by inflation affect segments of the domestic industry which are already inefficient and costly? What will be the impact of highly competitive substitute sweeteners on U.S. consumption habits?

U.S. policy since 1894 has been "to preserve within the United States the ability to produce a substantial portion of our sugar requirements." Sugar policy was predicated on the belief that it was "unlikely any significant quantity of sugar would be grown in the United States if American producers had to compete on the open world market with sugar produced with cheap tropical labor or under subsidy in other countries." To achieve its objective, the United States has used a number of protectionist devices, including tariffs and quotas.

Before 1934, U.S. sugar producers were protected solely through a tariff on foreign imports. Despite a worldwide depression in the early 1930s and extremely low world sugar prices, the tariff raised prices to a level which afforded some protection to certain segments of the U.S. sugar industry. In fact, some areas, such as Hawaii, Puerto Rico, the Philippines, and the sugarbeet industry began to expand production, which further exacerbated the depressed market

conditions. The major U.S. supplier, Cuba, suffered great hardship from the high tariff and low prices. As a result, the United States International Trade Commission (formerly U.S. Tariff Commission) recommended a new protection program involving a quota system. This and other proposals were considered by the President, and in early 1934 he requested legislative action by the Congress.

The Jones-Costigan Act of 1934 established a quota system for domestic and foreign sugar producers. Its broad purpose was to provide U.S. consumers with an ample supply of sugar at prices which would maintain the domestic industry, be fair and reasonable to consumers, and promote U.S. export trade.

The Congress has made many periodic reviews and changes in sugar legislation since 1934. However, succeeding laws--the Sugar Acts of 1937 and 1948--maintained the three basic objectives of the Jones-Costigan Act.

SUGAR ACT OF 1948

The U.S. Sugar Act of 1948, as amended in 1971, authorized the Secretary of Agriculture to implement a U.S. sugar program. The Sugar Division of the Agricultural Stabilization and Conservation Service (ASCS), Department of Agriculture, was created to do this. In 1974, the Sugar Division had 33 staff employees responsible for monitoring and administering the sugar program, and its fiscal year budget totaled about $2.5 million.

The major provisions of the defunct sugar program are described below.

Set sugar requirements

The Secretary of Agriculture annually determined the quantity of sugar needed to meet consumption requirements. To do this, he considered what supply adjustments had to be made to maintain sugar prices at a level prescribed through a complicated pricing formula stated in the act. The price formula, called the price objective, established a price for raw sugar adjusted to changes in the parity and wholesale price indices and was intended to give the domestic sugar industry adequate price protection and to insure that prices were not excessive to consumers.

BEST DOCUMENT AVAILABLE

Establish sugar quotas

After the Secretary determined overall U.S. sugar requirements, the quantity was allocated through quotas to domestic and to many foreign suppliers. The act specified the fixed basic quota for each domestic area, the Philippines, and Ireland and divided the basic quota for other foreign suppliers on a percentage basis. Basic quotas were adjusted when necessary under deficit supply provisions of the act.

Provide marketing allotments

To promote orderly marketing, the act authorized the Secretary of Agriculture to allot marketing quotas among domestic sugar processors. This provided a control against overproduction in certain areas of the country. Processor allocations were based on historical market peformance, ability to market, and "farm proportionate shares" of domestic producing areas. Since 1970, only the mainland cane sugar industry has been restricted by marketing allotments. Offshore cane processors (Hawaii and Puerto Rico) and sugarbeet processors have been free to market whatever they wanted.

Assign farm proportionate shares

Within domestic producing areas, the Secretary established proportionate shares for individual farms. Proportionate shares were assigned if the Secretary determined that an unorderly marketing condition was likely to occur due to surpluses in production. Shares were allocated according to past production history, current ability to produce, and entry into the market by new sugar producers. Restrictions were based on acreage, tons of beets or cane produced, or tons of raw sugar produced. Except for mainland cane areas, proportionate shares have not been established in any domestic sugar producing area since 1970.

Assure fair division of sugar returns

The act provided for equitable division of the sugar dollar among beet and cane producers, farm workers, and processors. To insure equity, the act authorized conditional payments to producers on a graduated scale, based on total sugar production. Payments were contingent upon producer compliance with the objectives of the act, specifically the proportionate share, farm wage, and child labor provisions. The act also authorized the Secretary of Agriculture to make

periodic reviews to insure that returns were being equitab
divided. Under the sugar program, producers and processor
of raw cane sugar and beet sugar generally divided the
proceeds from sugar sales on about a 60-40 percent basis.

To offset Government conditional payments, the Intern
Revenue Code imposed a tax on all domestic or foreign suga
sold within the United States.

Prohibit imports of refined sugar

The act placed a virtual ban on the import of refined
sugar.

SOURCES OF SUPPLY

There is no difference in the refined sugar produced
from cane or beets, but production and distribution method
differ considerably. Sugarbeets are annual crops, grown
in temperate climates, and usually converted into refined
sugar in a single process near the growing areas. Sugarcar
is a perennial grass which thrives in warm, moist climates
It is generally processed into a raw form in the growing
areas and then transported to refineries near the eventual
markets. Because raw cane sugar is easily stored and tran
ported, international sugar trade is largely in raw cane
sugar.

In the 1930s about 56 percent of the sugar quotas were
distributed to mainland areas, Hawaii, Puerto Rico, and the
Virgin Islands. Cuba received 29 percent; the Philippines
15 percent; and other foreign suppliers, less than 1 percen
Although since 1962 the United States has relied on sugar
imports from over 30 foreign suppliers, mostly from the
Western Hemisphere, the ratio between foreign imports and
domestic sugar production has remained at about 45 to 55 pe
cent.

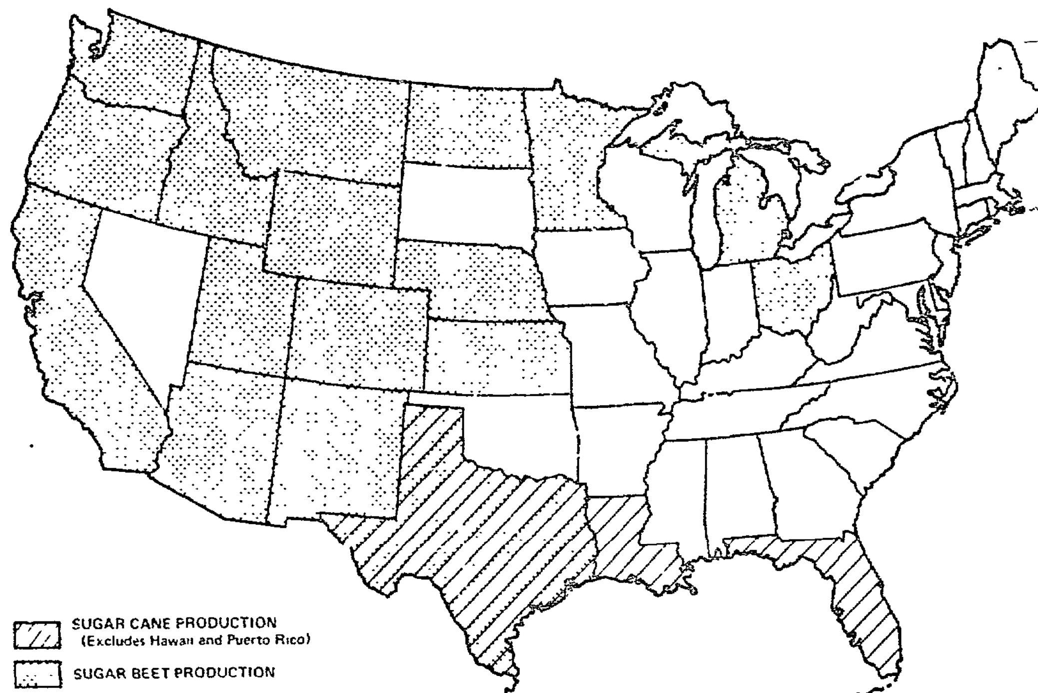
U.S. sources

Cane sugar, from both domestic and foreign sources, is
used for about 70 percent of U.S. requirements. Domestic
cane sugar is produced in Florida, Louisiana, Texas, Hawaii
and Puerto Rico.

All beet sugar consumed in the United States is of dom
estic origin and is produced in 17 States, mostly in the
West, with California, Idaho, and Colorado being the larges
producers.

BEST DOCUMENT AVAILABLE

CONTINENTAL U. S. SUGAR PRODUCING STATES



Foreign sources

Sugar is produced in more than 100 countries and production and distribution controls mostly are expressions of national policy. Each country has its own reasons for developing domestic sugar industries, ranging from more efficient use of available farmlands to preventing outflow of foreign exchange. In most countries, however, the overriding reason for maintaining domestic sugar bases is to provide constant, reliable internal supplies of sugar.

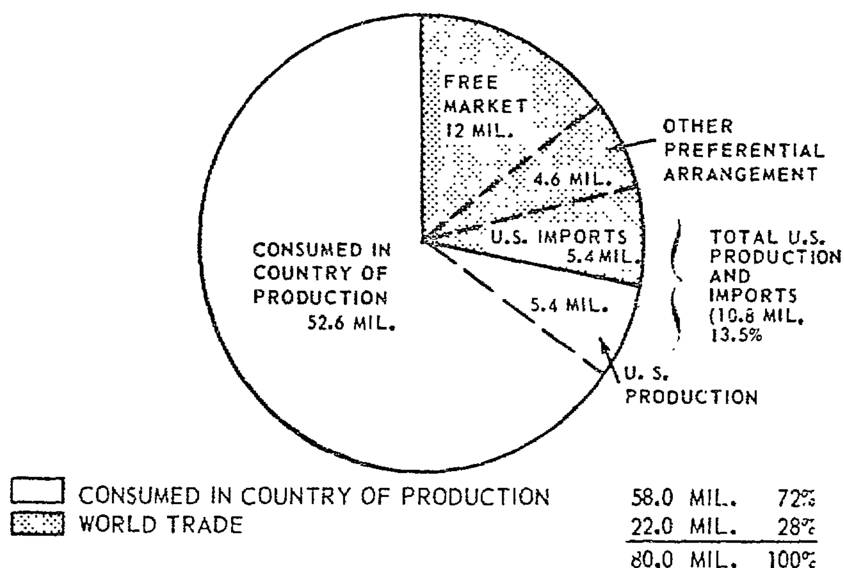
World concern over adequate sugar supplies is so great that some type of special preferential arrangements affect nearly all sugar traded. According to one Government study, only 28 percent of total world sugar production (80 million

metric tons) entered world trade during the 1973-74 crop yea (see below). Of this amount, almost half, or approximately 10 million metric tons, was exchanged under preferential arrangements, such as the United States Sugar Act, the Unite Kingdom-Commonwealth Sugar Agreement, and Cuban-Soviet Union trade agreements. These agreements usually involved trading of designated quantities of sugar at preferential prices.

The residual amount, about 12 million tons, is traded o the world free market, which is frequently described as a "dumping ground" for sugar left over after preferential arrangements are filled. As a result, the world price of sugar has historically been below the U.S. domestic price of sugar because it reflected a distressed price of sugar during periods of world surplus.

The United States is the largest importer of raw sugar, accounting for more than 25 percent of the amount traded in the world. In 1974, U.S. sugar imports were valued at over $' billion.

U.S. SUGAR PRODUCTION AND IMPORTS IN RELATION TO WORLD TRADE (NOTE A)



NOTE A. STATED IN MILLION METRIC TONS, RAW VALUE, (JULY 1973 – JUNE 1974)
SOURCE: COUNCIL ON WAGE AND PRICE STABILITY

Appendix I shows the sources of sugar consumed in the United States during 1973 and 1974.

CHAPTER 2

POLICY CONSIDERATIONS

For 40 years sugar legislation protected the industry under a detailed and complex program. The legislation was periodically reviewed and renewed by the Congress under the guidance of the House Agriculture Committee and Senate Finance Committee.

Whether it was intended or not, the vote to kill the House Sugar Bill on June 5, 1974, meant the end of definitive U.S. sugar policy and of the highly criticized program that benefited both domestic and foreign sugar industries.

The United States has relied on imported raw sugar to meet consumption needs. To maintain a domestic sugar industry and regulate supplies, foreign and domestic quotas were established. The supply management system was based on the assumptions that (1) U.S. producers could not compete with lower cost foreign producers, and, therefore, would be forced out of business unless protected, (2) supplies of sugar would be readily available on the world market, and (3) U.S. consumers would pay a higher price for sugar to protect the generally high-cost industry.

These assumptions provided the base upon which succeeding Sugar Acts built complex modifications, including Government payments, excise taxes, special labor provisions, various price objectives, and production controls. They also provided the competitive atmosphere between specialized interest groups, both foreign and domestic, for a share in the U.S. sugar market.

As long as economic conditions continued to support the above assumptions, the Sugar Act was successful in assuring the U.S. market of adequate supplies of sugar and in protecting the welfare of the domestic industry. U.S. consumers ordinarily paid for these benefits in the form of higher sugar prices while foreign and domestic suppliers benefited from these higher prices.

Beginning in the 1970s, changing economic conditions, involving the energy crisis, inflation, and global commodity shortages, struck at the basic foundation of the program. The underlying assumption of the supply management system---world surplus of sugar--was challenged, as world consumption outstripped production in 4 of the past 5 years. The result

BEST DOCUMENT AVAILABLE

was the dramatic increase in sugar prices and deterioration of the effectiveness of the U.S. Sugar Act because it was unable to insulate the U.S. market from rising world sugar prices caused by shortage.

The 1974 House Agriculture Committee hearings on sugar were marked by a multiplicity of special interest groups, each attempting to influence new sugar legislation. Geared to the assumed continuation of the Sugar Act's quota system these groups presented proposals to modify the already complex sugar program to suit their own needs. Despite the general consensus that extension of a sugar program was needed, the divergence of interests between domestic industry, foreign supplier, consumer, and executive agency group combined with the dramatic sugar price increases, appeared to have influenced the Congress' final decision not to extend the Sugar Act.

DIVERGENT INTERESTS

U.S. sugar industry representatives presented several program modification proposals. Many cane refiners and large industrial sugar users favored a more flexible sugar program with greater dependency on the market and less Government control. Sugarcane and sugarbeet producers and processors proposed modifications in the price objective and a long term (5-year) extension of the Sugar Act. The result was a diluted industry position on a new sugar program.

Foreign suppliers were represented by lobbyists who pressed for increases in import quotas. Each major foreign supplier assured the House Committee that 1974 quotas would be filled despite the higher sugar prices on the world market. Most foreign quota countries emphasized the importance of the Sugar Act to their foreign relations with the United States.

Consumer representatives argued that elements of the sugar program, such as Government payments and the excise tax, were costly and placed a greater burden on U.S. consumers and taxpayers than was necessary. A study by a University of Chicago economist, D. Gale Johnson, entitled "The Sugar Program: Large Costs and Small Benefits" detailed the high cost to consumers and taxpayers and was referred to often by consumer proponents.

Within the executive branch, the apparent conflict of views between Agriculture and other executive agencies further influenced the final vote on extending the act.

BEST DOCUMENT AVAILABLE

Late in 1973 Agriculture officials made speeches reflecting their beliefs that a new sugar program was warranted. Agriculture favored replacing the quota program with open market trading under which prices would be determined according to supply and demand. Sugar producers would be protected by an established target price, and, if the market price fell below the target price, they would receive deficiency payments from the Government.

Agriculture's program option was presented, along with other options, to an interagency sugar study group, the Council on International Economic Policy (CIEP), headed by the White House. The Council met to review U.S. sugar policy and to present policy options to the President which would allow him to choose among several alternatives and to establish an Administration position on sugar legislation. The President decided not to present any proposals to the Congress, in essence adopting a passive position of allowing the Congress to formulate new sugar policy.

The House of Representatives responded to these economic and political considerations by voting down a proposed extension of the Sugar Act, and, on December 31, 1974, the program ended.

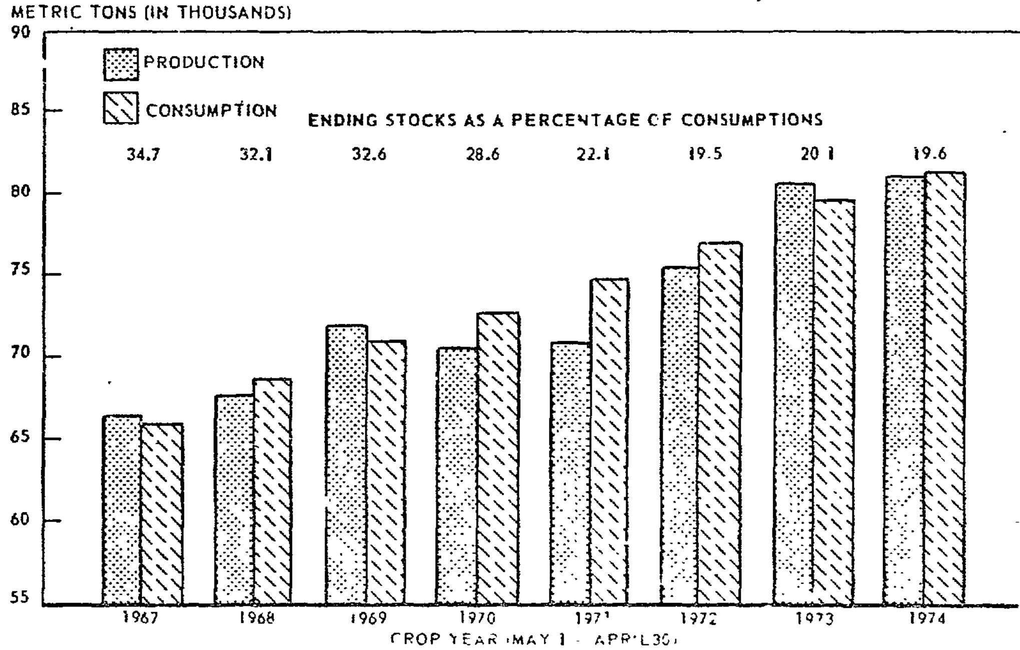
FUTURE POLICY

Without clear policy objectives, it is dubious that an effective U.S. sugar program can be developed. Primary importance, therefore, would have to be placed on developing clearly defined goals and objectives before any program can be considered. In this context, several factors need to be considered. These fall within two broad categories, international factors and domestic factors.

International factors

For the past several years, world sugar consumption has exceeded production because of increasing population, increasing consumption in developing countries, and crop failures in major producing areas. The emergence of the Soviet Union as a buyer of free world sugar further exacerbated the tight supply situation. The following chart compares world sugar production and consumption from crop years 1967-74.

WORLD PRODUCTION AND CONSUMPTION
(THOUSAND METRIC TONS, RAW VALUE)



Source: Prepared by GAO from data obtained from U.S. Department of Agriculture, Foreign Agricultural Service

Projections by the Foreign Agricultural Service (FAS); the U.N. Food and Agriculture Organization; sugar consultant, F.O. Licht; and several industry sources indicate a tight world sugar supply-demand balance to 1980. During this period, sugar prices are expected to remain relatively high compared with pre-1974 levels. The United States, therefore, will have to compete with other major importing countries for necessary sugar supplies. The U.S. sugar industry is expected to remain viable despite the absence of a quota system, and U.S consumers will continue to pay high prices for sugar until the tight supply situation is relieved.

A major factor affecting our ability to secure future sugar supplies at reasonable prices is the availability of information and data affecting the world market. Tantamount to this concern is U.S. capability to forecast production, consumption, and buying practices of large sugar consumer countries which could compete on the world market. For example, the sudden emergence on the market in late 1971 of the Soviet Union has been called a "watershed"

BEST DOCUMENT AVAILABLE

in driving up sugar prices. Unless the United States can somehow obtain advance information on Soviet buying intentions, perhaps within the framework of the 1973 United States-Soviet Union Agricultural Agreement, it could be subject to volatile periods of sugar surplus or shortage and the resultant peaks and valleys in prices.

Other factors to be considered include the:

--Likelihood of sugar trade with Cuba should the United States Government end the current trade embargo.

--Development and expansion plans of all sugar-producing countries.

--Use of U.S. countervailing duty and anti-dumping laws to counteract unfair trading policies by foreign sugar producers.

Domestic factors

The United States will probably not be self-sufficient in sugar due to the general noncompetitive position of some of its industry vis-a-vis many foreign sugar producers.

Most segments of the U.S. sugar industry are high-cost producers of sugar. In the past few years production costs, including fuel, fertilizer, and labor, have increased rapidly. Although they have not increased at the same rate as sugar prices, a long term price decline could seriously threaten an unprotected U.S. sugar industry, particularly the less efficient segments in Louisiana and some in Hawaii. In addition, U.S. consumers would probably be unwilling to pay the prices necessary to maintain an entirely self-sufficient U.S. sugar industry when cheaper foreign sources are available.

Even with protection from imports, most of the sugarcane industry cannot expand production because of physical land limitations. Without price protection, the areas which could expand, mostly sugarbeet, would be extremely reluctant to do so because of the high investment needed to build a new sugar mill (estimated at $40-60 million) and the volatile prices on the sugar market. During periods of low prices, sugarbeet producers would probably shift production to other crops.

BEST DOCUMENT AVAILABLE

Impact of substitute sweeteners

Substitute sweeteners, such as corn syrup, dextrose, a certain synthetics, recently have enjoyed greater use. The major impact of these products has been on the industrial market, which uses the vast majority of refined sugar, in such products as beverages, ice cream, jams and jellies, an confectionary products.

In 1967 substitutes represented about 15 percent of th total sweeteners used in the United States, but by 1973 their use had increased to 23 percent. The dramatic increase in sugar prices in 197. caused a tremendous demand for cheaper substitute sweeteners. From October 1973 to September 1974 sales of corn refining sweetener products increased 14 percent over the previous 12 months.

The most popular industrial substitute for refined sug is high-fructose corn syrup, which has a relatively high sweetening power (a limitation of former substitutes) and i easily incorporated into most products. The full potential use of corn syrup has not yet been determined but trade sources claim it may eventually replace 25 to 50 percent of the industrial use of sugar. Many new synthetic sweeteners are also being developed but none have yet been used to a significant degree.

Currently, the use of sugar substitutes may be limited because:

--Consumers are conditioned to the taste of sugar and any conversion to substitutes will undoubtedly be gradual.

--Corn sweeteners are limited primarily to industrial use and, in most cases, cannot replace sugar on a one-for-one basis. Many industrial users are unwilling to make expensive and risky changes in their products to offset high sugar prices which may represent only a short term situation.

--Corn syrup is currently in short supply, as most corn refiners are unable to meet demand. Production cannot increase substantially until new processing facilities are built which cost as much as new sugar facilities and suffer the same investment risk of price instability and the timelag from construction to production.

BEST DOCUMENT AVAILABLE

Despite these limitations, the potential increased use of sweetener substitutes appears great due to their considerable cost advantage compared with sugar. As illustrated below, dextrose and corn syrup prices, always below those of sugar during 1969-73, were considerably lower in 1974.

Sweetener Prices

(cents per pound)

Year	Refined sugar wholesale Northeast	Dextrose New York Dry basis	Corn syrup New York Dry basis
1969	11.44	9.77	7.80
1970	11.97	10.20	8.46
1971	12.48	10.71	8.77
1972	13.09	10.07	5.78
1973	14.07	10.79	8.53
1974	34.35	18.33	13.21

BEST DOCUMENT AVAILABLE

CHAPTER 3

EFFECTIVENESS OF

PAST SUGAR PROGRAMS

Historically, U.S. sugar legislation was designed to achieve three major goals:

1. Protect the domestic sugar industry.

2. Assure consumers of an ample supply of sugar at reasonable prices.

3. Promote the export trade of the United States.

The protective devices included in the Jones-Costigan Act of 1934 effectively maintained the domestic sugar industry and, under the worldwide surplus conditions that existed in most years since then, ample supplies of sugar were available to consumers at or near a congressionally defined reasonable price level. The extent to which U.S. export trade was promoted through the act could not be effectively measured.

PROTECT THE DOMESTIC SUGAR INDUSTRY

The sugar programs protected the domestic sugar industry by tariffs, import quotas, and conditional payments to domestic producers which were effective in maintaining and expanding the industry. From 1935 through 1973, U.S. production increased about 82 percent, from approximately 3.4 million to 6.2 million raw tons, which allowed the United States to remain at a relatively constant 55-percent self-sufficient ratio throughout most of these 39 years.

Domestic and import quotas benefited U.S. sugarcane and sugarbeet producers and processors by insulating U.S. sugar prices from the surplus-depressed world prices. During the past 25 years, for example, the world price for raw sugar exceeded the U.S. price only in 1951, 1963, 1973, and 1974. By limiting the supply from foreign sources, U.S. producers and processors were assured of regulated market prices at presumably reasonable and profitable levels.

Higher market prices also resulted from the duty on imported raw sugar (0.625 cent a pound) which represented the difference in the U.S. market price and the price at which imported sugar would have been available in the absence of protective tariff and quota. Both producers and processors shared in the benefit of this higher market price, because

BEST DOCUMENT AVAILABLE

the amounts received from sales of raw sugar were divided roughly on a 60-40 percent basis, respectively.

The Sugar Act gave U.S. producers additional benefits in the form of outright payments for specified amounts of raw sugar (or equivalent) produced--0.8 cent a pound for the first 350 tons and declining thereafter to 0.3 cent a pound in excess of 30,000 tons.

Benefit payments were contingent on producers meeting certain conditions, involving (1) payment of a minimum wage, determined by the Secretary of Agriculture, to farm workers, (2) adherence to child labor laws, and (3) compliance with acreage restrictions (when in effect). Government payments could be withheld for a violation of any of these conditions.

To finance the payments, the Internal Revenue Code imposed an excise tax of 0.53 cent a pound on all refined sugar sold within the United States. Excise tax collections historically exceeded Government payments to domestic producers.

Reason for protection

The quota system authorized by the Sugar Act to protect and maintain the domestic sugar industry from foreign sugar imports was predicated on the belief that the U.S. sugar industry could not compete with low-cost foreign producers under free trade conditions.

The United States imports mostly raw cane sugar, so we compared 1973 estimated production costs for 1 pound of raw sugar of some major foreign suppliers with those of the U.S. industry using information obtained from Government and industry sources in the Philippines, Brazil, the Dominican Republic, Mexico, Australia, Thailand, and the United States. These foreign exporting countries collectively accounted for approximately 3.9 million tons, or 74 percent of total 1973 U.S. raw sugar imports.

Estimated Comparative Costs to Produce and Transport 1 Pound of Raw Sugar to the United States

Foreign (note a)		United States	
Australia	3.9 to 4.9 cents	Louisiana	8.3 cents
Thailand	5.6 cents	Florida	5.6 cents
Philippines	7 to 7.5 cents	Hawaii	7 to 10 cents
Brazil	5.6 to 6.1 cents	Sugar beet (raw sugar equivalent)	6.8 cents
Dominican Republic	6.9 to 7.9 cents		
Mexico	6.4 to 7.4 cents		

a/Includes average duty and transportation and handling costs, except transportation and handling costs from Thailand which were unavailable.

Production costs probably have increased significantly since 1973 because of high rates of world inflation; however, we were unable to obtain more recent comparative cost data. Officials of the Departments of Agriculture and State believe that the major foreign suppliers still enjoy a comparative cost advantage over the less efficient U.S. production areas.

Despite the protection provided the U.S. industry by the Sugar Act, not all segments benefited to the same extent. A large portion of the industry probably would have failed during periods of world surplus without the protection provided by the Sugar Act because foreign sugar would have entered the U.S. market in direct competition with the high-cost producers in Louisiana, Puerto Rico, and even Hawaii.

The sugar industry has three basic components (1) sugarcane producers and processors, (2) cane sugar refiners, and (3) sugarbeet producers and processors. Discussions of the effects of the sugar program on each component follow.

Sugarcane producers and processors

Sugarcane is grown in five major domestic locations, Louisiana, Florida, Texas, Hawaii, and Puerto Rico. Despite the decline in total number of farms, mills, and farm workers since 1935, acreage and production has increased. In 1973, the cane industry produced about 2.8 million tons, about 24 percent of total U.S. consumption.

Differences in the level of efficiency in each domestic growing area have seriously affected production and growth patterns. Except in Texas, which began production in 1973, raw cane sugar production has increased only in Florida during the past several years. Production in Louisiana has been erratic during the same period, declined sharply in Puerto Rico, and remained stable in Hawaii. (See Table 1.)

Table 1

Production in Raw Tons

Crop year	Florida	Louisiana	Hawaii	Puerto Rico
1969	532,000	539,000	1,182,000	483,000
1970	649,000	603,000	1,162,000	460,000
1971	634,000	570,000	1,230,000	324,000
1972	958,000	658,000	1,119,000	298,000
1973	818,000	556,000	1,129,000	2[illegible]5,000
1974	793,000	594,000	1,040,000	290,000

Source: Agriculture, ASCS "Sugar Statistics"

Despite the prices guaranteed by the Sugar Act, the industry in Puerto Rico has suffered continued losses over the past several years and in Louisiana it has received minimal returns on net investment. Louisiana and Puerto Rico include small independent growers and processors whose facilities are antiquated and inefficient. For example, of 37 processing mills operating in Louisiana during 1974, only 1 was built since 1950. Without Government payments, Louisiana cane producers would have suffered losses in 5 of the past 10 years.

In contrast, the most efficient areas, Florida and Hawaii, have large production and processing facilities. Florida has relatively new and modern facilities, while most Hawaiian producers and processors combine their operations in a large cooperative.

Florida producers and processors averaged about 30 and 15 percent return respectively on their net investments as shown in Table 2.

Table 2

Net Profits (Losses) as a Percentage of Net Worth (After Taxes)

Crop year	Florida Prod.	Florida Proc.	Louisiana Prod.	Louisiana Proc.	Puerto Rico Prod.	Puerto Rico Proc.	Hawaii Combined (note a)
1964	2.8	11.6	(b)	(b)	(5.3)	8.0	9.3
1965	6.8	11.8	(4.7)	(1.6)	(7.4)	(1.6)	13.6
1966	21.9	19.1	1.9	3.2	(10.4)	(1.5)	14.4
1967	34.8	10.0	16.7	9.6	(9.5)	1.6	7.4
1968	9.6	4.4	(b)	(b)	(21.4)	(7.4)	8.1
1969	10.0	4.5	2.0	3.7	(14.7)	(21.1)	4.4
1970	24.2	9.5	7.0	2.3	(17.4)	(32.1)	(b)
1971	24.1	10.1	3.9	(0.1)	(18.4)	(77.0)	(b)
1972 (note c)	40.1	15.8	17.2	4.7	(29.0)	(89.7)	(b)
1973 (note c)	132.1	55.1	37.8	14.7	(21.4)	(71.0)	(b)

a/Plantations only.

b/Not available.

c/ Estimated.

Source: Data provided by Agriculture, ASCS.

BEST [illegible] AVAILABLE

Although all domestic cane areas were expected to make windfall profits for 1974, the potential for expansion is limited in all areas. Florida and Hawaii lack suitable land; Puerto Rico and Louisiana suffer from a wide range of problems, including lack of labor, fuel, and investment capital. Table 3 shows projected production levels.

Table 3

Projected Cane Sugar Production
(raw tons)

Area	1974	Optimum capacity (1980)
Florida	741,000	1,000,000
Hawaii	1,040,000	1,200,000
Louisiana	586,000	600,000
Texas	62,000	100,000
Puerto Rico	29[illegible],000	300,000
Total	2,719,000	3,200,000

Cane sugar refiners

In 1973 the cane refining industry, excluding Puerto Rico, included about 24 refineries operated by 15 companies. Refiners purchase domestic and foreign raw sugar, refine it, and sell it to industrial users and wholesale distributors. In 1973 cane sugar amounted to 70 percent of total U.S. consumption, 24 percent from domestic production, and the rest from imports.

The refining industry is highly integrated and centralized. Five companies accounted for more than two-thirds of all raw cane sugar marketed in the United States in 1973. As a result of this great concentration, the cane refining industry establishes the sugar wholesale price for virtually the entire sugar industry, including sugar beets.

The Sugar Act protected the refining industry by assuring a stable supply of raw sugar and a market for refined sugar. This was accomplished by the historically attractive high-priced U.S. market and the virtual restriction on imports of refined sugar. In addition, the inelasticity of the U.S. sugar market allowed refiners to pass on the excise tax (0.53 cent a pound) to consumers because of the captive U.S. market.

BEST DOCUMENT AVAILABLE

Sugarbeet industry

The number of sugarbeet farms, mills, and farm workers has declined since 1935 but with corresponding increases in acreage and production. In 1973 the sugarbeet industry consisted of approximately 12,500 producers and 52 beet-processing facilities operated by 11 companies. Beet sugar accounted for 30 percent of total U.S. consumption.

Sugar beets are sold directly to beet processors, where refined sugar is produced--a one-step process. Beet producers share in the return on sugar sold by the processor, based on the final sale price according to contracts drawn up at the start of the harvesting season. Producers have historically received about 60-65 percent of net returns on sugar sales.

Sugar beets are generally one of many crops planted by farmers. Even with the price guarantee set forth in the Sugar Act, sugar beets have at times been less profitable than other crops, thus acreage devoted to them fluctuates.

Sugar beet producers and processors generally have been competitive with the sugarcane industry; producers receiving fairly high returns on income as a percentage of net worth (excluding taxes). Processors have averaged about 6 to 7 percent return on net investment after taxes for the past several years. (See Table 4.)

Table 4

Profit as a Percentage of Investment (note a)

Crop year	Beet processors--net profit to net worth
1964	10.27
1965	(b)
1966	8.46
1967	4.93
1968	7.58
1969	(b)
1970	5.19
1971	6.55
1972	6.99
1973	(b)

a/Comparable data unavailable for sugarbeet producers.

b/Not available.

Source: Data supplied by Agriculture, ASCS.

Because the pricing structure in the sugarbeet industry relates to the price for raw cane sugar in New York, beet producers and processors, as well as domestic cane producers and processors, made windfall profits in 1974. Sugarbeet industry representatives claim that, had the price mechanism in the Sugar Act maintained U.S. prices at the price objective of 12-13 cents a pound, a large segment of the sugarbeet producers would have planted other, more profitable, crops for 1975. This would have caused severe dislocation in the beet processing industry, which relies solely on domestically produced sugar beets

ASSURE CONSUMERS AMPLE SUPPLY AT REASONABLE PRICE

The United States had no difficulty in obtaining adequate supplies because sugar was in surplus during most of the act's 40-year existence. The historically higher U.S. price gave foreign suppliers a greater income benefit, so they filled their quotas whenever possible. Even during the infrequent periods of more favorable world prices, U.S. import quotas were filled as foreign suppliers opted for the long term market assurance and price in the United States. However, import quotas were not filled in 1974.

Beginning in 1948, the Congress intended that quotas established under the act result in prices "* * * to protect the welfare of consumers and of those engaged in the domestic sugar industry." A formula for determining a guide price or price objective for raw sugar was established in 1962. The legislation required the Secretary of Agriculture to regulate domestic and foreign supplies in order to attain the predetermined price objective.

In developing formulas for computing the price objective, the Congress used various indices to adjust the guide price up or down from a selected base period. For example, the 1971 Act provided that:

> "The price objective ... is a price for raw sugar which would maintain the same ratio between such price and the average of the parity index (1967=100) 1/ and the wholesale price index (1967=100) 2/ as the ratio that existed between

---

1/Index of prices paid by farmers for commodities and services, including interest, taxes, and farm wage rates, as published monthly by the Department of Agriculture.

2/Index of wholesale prices determined monthly by the Department of Labor.

BEST DOCUMENT AVAILABLE

(1) the simple average of the monthly price objective calculated for the period September 1, 1970, through August 31, 1971, under this section as in effect immediately prior to the date of enactment of the Sugar Act Amendments of 1971, and (2) the simple average of such two indices for the same period."

The Congress intended that sugar prices should increase or decrease in a constant ratio with changes in farming costs and wholesale prices. Statistics showing the application of the formula and how Agriculture monitored price performance are shown in table 5.

Table 5

Determination of price objective for raw sugar specified in Sec. 20[illegible] d 202 of the Sugar Act of 1948, as amended October 1971.

Month and year	Parity index	Wholesale price index	Average of parity & wholesale price indexes	Monthly price objective 1/	Most recent 2-month average price objective 2/	[illegible]	Spot price [illegible]
	Indexes 1967=100 Average			[illegible]			[illegible]
1973							
June	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		[illegible]
July	146	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
August	151	[illegible]	[illegible]	[illegible]	[illegible]		[illegible]
September	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
October	[illegible]	139.5	[illegible]	[illegible]			
November	151	[illegible]	[illegible]	[illegible]	[illegible]		[illegible]
December	154	145.3	149.6	[illegible]	[illegible]		[illegible]
1974							
January	157	150.4	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
February	159	[illegible]	155.8	[illegible]	[illegible]	[illegible]	[illegible]
March	161	154.5	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
April 3/	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
May	165	155.0	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

1/ Price objective specified in Sec. 201(b) of Sugar Act [illegible]

2/ Average of the price objective for the month shown [illegible] 2-month average for January 1974 included the price [illegible] December 197[illegible] specified in Sec. 202(...).

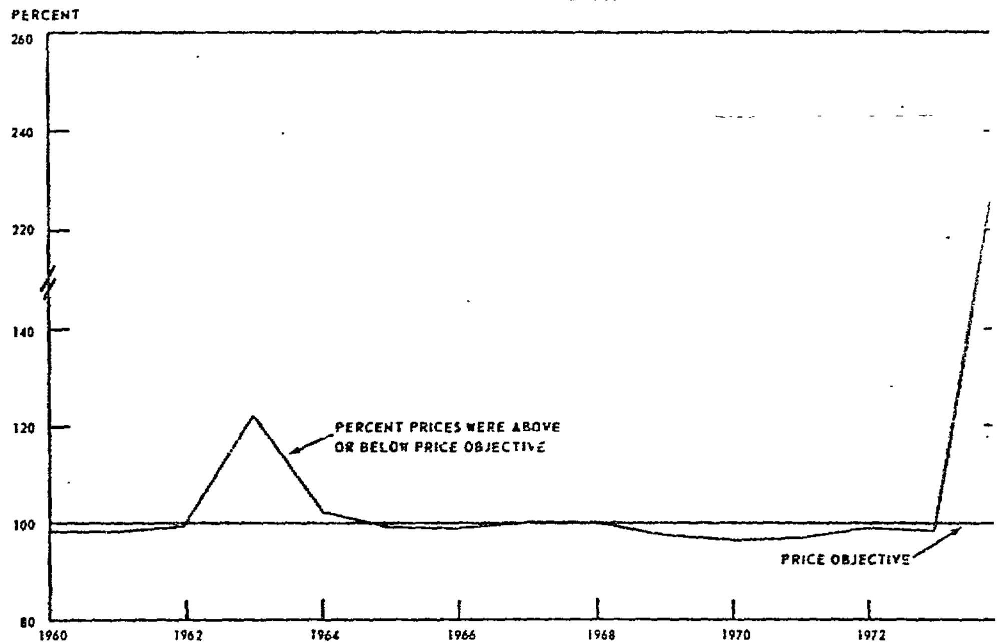
3/ Wholesale price index for April [illegible] 1974 revised.

Source: Department of Agriculture "Sugar Reports"

The following graph shows that until 1974 the price of U.S. raw sugar seldom fluctuated more than 5-percent above or below the price objective.

Copy microfilmed was of poor quality.

BEST DOCUMENT AVAILABLE



SOURCE PREPARED BY GAO FROM INFORMATION OBTAINED FROM THE DEPARTMENT OF AGRICULTURE

Producer-consumer trade off

Opinions on the reasonableness of sugar prices vary, depending on producer or consumer interests. Those sympathetic to producer interests point out that the price provisions of the Sugar Act were necessary to maintain certai relatively inefficient elements of the U.S. sugar industry The act accomplished this by guaranteeing that sugar price at the farm level would increase at about the same rate as increases in farming costs and wholesale prices.

For U.S. consumers, however, the U.S. market price wa higher than the world price during periods of surplus. Fr 1964 through 1974 the U.S. price for raw sugar exceeded th world price by an average of 2.18 cents a pound. The difference between the U.S. price and world price is calle th quota premium (or discount). Although the world market pr reflects a residual or "dumping" price, Dr. Johnson's stu estimated that U.S. sugar quotas increased U.S. consumer prices from about $500 million to $700 million annually du those surplus years.

BEST DOCUMENT AVAILABLE

Throughout 1974 the Sugar Act failed to insulate the U.S. market from high world sugar prices caused by the recent world shortages. The supply mechanism of the quota system used to maintain U.S. prices at the stated price objective became dysfunctional. To maintain domestic prices at the stated price objective, Agriculture increased the total U.S. sugar requirement from 11.8 to 12.5 million tons, thereby encouraging greater imports. However, this action probably had a psychologically bullish effect on the already tight market supply and resulted in further price increases. The price for raw sugar jumped from about 12.6 cents a pound in January 1974 to a record high of 64.5 cents a pound on November 20, 1974.

PROMOTE U.S. EXPORT TRADE

The direct impact of U.S. sugar quotas on U.S. export trade is impossible to determine. The Sugar Act offered foreign sugar suppliers an assured market at historically high prices but did not require foreign sugar exporters to purchase American goods with their sugar dollars. Agriculture and State officials informed us that the United States did not monitor how sugar quota countries spent their sugar earnings. In the 1960s, for example, virtually all sugar exported by the Philippines came to the United States under a preferential tariff, yet the Philippines purchased equipment, mostly from Japan and the United Kingdom, to construct new sugar mills during a major expansion program beginning in 1969.

Only indirect indicators, such as the trend in U.S. exports to sugar-quota countries, are available to measure the Sugar Act's effectiveness in promoting the export trade of the United States. One indirect indicator could be the increased purchasing power gained by foreign quota holders compared with the increase in U.S. exports to those countries. The total value of sugar exported to the United States by quota holders rose from about $450 million in 1964 to $925 million in 1973, an increase of 106 percent. In 1964, U.S. exports to sugar-quota countries amounted to about $6.2 billion; by 1973, they amounted to $14 billion, a 126 percent increase. On the other hand, U.S. exports increased at a faster rate to non-sugar-quota countries during the same period.

Like their U.S. counterparts, foreign buyers appear to import products according to the most favorable terms of trade.

BEST DOCUMENT AVAILABLE

CHAPTER 4

COST OF THE U.S. SUGAR PROGRAM

CONSUMER COST

During most of the Sugar Act's existence, U.S. consumers paid higher prices for sugar than would have otherwise been necessary. This situation was generally attributable to the (1) tariff on raw sugar imports, (2) excise tax on refined sugar, and (3) quota premium. From 1964 through 1974 the U.S. market price exceeded the world price 9 of 11 years, resulting in an estimated cost to U.S. consumers of about $5.2 billion, as follows:

Consumer cost:

	(billions)
Tariff	$1.485
Excise tax	1.190
Quota premium (estimated at one-half of difference between world price and U.S. price)	2.559
Total	$5.234

On the other hand, U.S. taxpayers received a net income benefit because revenues collected from the import duty and the excise tax exceeded the Government's payments to U.S. sugar producers and Government administrative costs. This amounted to about $989 million, as follows:

Taxpayer benefit:

		(billions)
Tariff revenue	$ .660	
Excise tax	1.190	
Subtotal	1.850	$1.850
Government cost		
Payments to producers (estimated)	.945	
Administrative costs (note a)	.014	
Subtotal	$ .959	-.959
Total		$ .989

a/Fiscal years 1970-75 only.

BEST DOCUMENT AVAILABLE

Thus, the U.S. consumer-taxpayer cost amounted to about $4.2 billion during the 1964-74 period.

TARIFF

From 1964 to 1974, the tariff on all imported raw sugar was 0.625 cent a pound, except for sugar imported from the Philippines which received a tariff preference. The U.S. Treasury received revenue from this tariff, but U.S. consumers absorbed the tariff cost because the price for all sugar sold in the United States was based on the duty-paid price for raw sugar in New York. Thus, the tariff was a net cost to U.S. consumers.

EXCISE TAX AND GOVERNMENT PAYMENTS

The Sugar Act included a tax of 0.53 cent a pound on all refined sugar marketed in the United States. The tax was created ostensibly to offset Government payments to U.S. sugar producers. The taxes collected exceeded the subsidy paid to producers and the Treasury received a net revenue benefit. However, sugar wholesalers passed on the tax cost in the form of higher market prices. U.S. consumers, therefore, paid for the tax-payment provisions of the Sugar Act in the form of higher sugar prices.

In addition, the Government payments were conditional on payment of fair wages to field workers by sugar producers in accordance with Agriculture's fair wage determinations. During 1974, the minimum wage ranged from $1.90 to $2.45 an hour, which compares to the minimum wage of $1.60 an hour (effective May 1, 1974) for agricultural workers set by the Fair Labor Standards Act. Although we could not quantify the additional labor cost due to the Sugar Act, it appears that the price to consumers increased because of the higher wages paid to sugar workers.

In some cases excise tax payments exceeded Government payments. Due to the industry structure in some areas, such as Hawaii, the tax payments are shared by producers and processors. For example, the excise tax paid on Hawaiian sugar in 1973 amounted to $11.3 million, compared with Government payments of $9.5 million. The proceeds of raw sugar sales are shared by most Hawaiian producers and processors as one large cooperative.

QUOTA PREMIUM

From 1964 to 1974 the U.S. price for raw sugar averaged 2.18 cents per pound above the world price for raw sugar. As noted earlier, the world price reflected an artificial or

BEST DOCUMENT AVAILABLE

"dumping" price, not entirely representative of actual competitive price conditions. Government and industry representatives agree that in the absence of quotas the U.S. price would have been lower and the world price higher in most years; however, they maintain that no accurate determination of the price meeting point are possible.

With this in mind, we estimated that the U.S. price for raw sugar would approximate the midpoint between the U.S. and world market price, had no Sugar Act existed. We selected the median price between the average annual adjusted U.S. and world prices as the quota premium cost to consumers during that period.

ADMINISTRATIVE COSTS

The Sugar Division, Agricultural Stabilization and Conservation Service (ASCS), Department of Agriculture, administered the major portions of the program at an annual cost of about $2.3 million from fiscal year 1970.

Agriculture's FAS, the United States Customs Service, and the Department of State also provided some administrative support to the sugar program, but their costs were not available.

MARKETING COSTS

Although our analysis did not include the effect of marketing and distribution on costs to consumers, there is little doubt that the marketing structure has a significant impact on the price of sugar. The following chart illustrates the different price spreads between raw, wholesale, and retail market prices during the 1965-73 period and 1974.

	Average annual price spread 1965-73 (per hundredweight)	Average monthly price spread 1974 (per hundredweight)
New York spot price (raw value) to wholesale price	$3.09	$5.95
Wholesale price to retail price	1.49	-2.02
Raw to retail margin	$4.58	$3.93

As the chart indicates, the price spread between the New York spot price for raw sugar and the New York retail price was greater during the 1965-73 period than in 1974 when sugar prices reached record levels. Apparently, sugar retailers were unable to keep pace with the dramatic price rises at the raw and wholesale level. Retailers had to

replace their inventories at higher costs than the actual retail market price; thus, for the short run, consumers were spared the immediate increase in sugar prices. However, as indicated from the substantial raw-to-wholesale margin in 1974, consumers would eventually have to absorb the inventory replacement cost to retailers.

BEST DOCUMENT AVAILABLE

CHAPTER 5

FOREIGN POLICY CONSIDERATIONS

The United States has historically imported between and 50 percent of its sugar needs. Despite this heavy de-pendence on foreign sources, the Sugar Act was acknowledg primarily as a domestic program having limited and subordi nated foreign policy inputs. Although the extension of im port quotas to foreign countries undoubtedly was influence to some extent by political considerations, the main purpo of the quotas was to insure ample supplies of sugar to U.S consumers. The foreign policy implications of the sugar program were not updated to reflect U.S. trade policy unde the General Agreement on Tariffs and Trade (GATT), seek liberalization of international trade barriers and promote market efficiencies, or clearly delineate the U.S. commit-ment to assist developing countries.

At present, the United States is not committed to eit free trade in sugar or protection of its sugar industry. A a result, foreign policy and trade objectives in sugar rem uncertain.

POLICY UNDER THE SUGAR ACT

Before 1960 U.S. sugar trade policy evolved around one principal foreign source, Cuba, and one secondary source, the Philippines. Both were closely tied to the United States, economically and politically, and provided more tha 95 percent of total U.S. sugar imports. From 1960 until th expiration of the Sugar Act in 1974, U.S. sugar trade in-volved several foreign suppliers, mostly developing countri Eventually, more than 30 foreign countries shared in sugar quotas. Beginning in 1965 each foreign country was assigne a sugar quota, based on certain general criteria outlined b the Congress. These included the ability to supply a stipu lated amount of sugar and to carry reserves, stability of supply, potential as a market for U.S. exports, and friendl relations with the United States.

Since sugar legislation was enacted before U.S. partic pation in GATT, the quantitative import restrictions in the Sugar Act were not considered violations of article XI, whi generally prohibits such restrictions. However, within the spirit of GATT, the United States encouraged global reducti of trade barriers and international trade with countries on the basis of comparative advantage. The U.S. objective was to promote greater market efficiency with our trading partners.

BEST DOCUMENT AVAILABLE

By allocating sugar quotas to many foreign sugar suppliers, some of whom were less efficient than others, the Sugar Act did not adhere to basic U.S. trade objectives. To promote greater market efficiency and at the same time guarantee adequate supplies to U.S. consumers, the United States could have imported its sugar needs from lower cost foreign sources.

The United States also pursued a foreign policy objective of providing economic development assistance to developing countries. In an earlier GAO report, 1/ we characterized the additional income accruing to foreign sugar suppliers from the U.S. quota premium as a form of commodity assistance. However, the Department of State claimed that "* * * Congress apparently did not intend the Sugar Act to be used as an aid instrument. Under the current Act, the Administration has been given no direction to use sugar quotas to promote economic development." Executive officials have indicated that sugar policy was a congressional prerogative which, for the most part, precluded major contributions from executive agencies charged with formulating and implementing U.S. foreign policy. Therefore, there was no assurance that the commodity trade assistance resulting from the operation of the Sugar Act would be used to promote economic assistance to developing countries or to provide political leverage to further U.S. foreign policy objectives.

CURRENT SITUATION

The events in 1974 leading to the demise of the quota system provided by the Sugar Act caused foreign sugar producers great uncertainty about future U.S sugar policy objectives and needs. The Sugar Act historically provided an economic benefit to these countries and, until 1974, they made an effort to fill their quota to the assured U.S. market.

Government and industry officials from the Philippines, Brazil, the Dominican Republic, Mexico, Australia, and Thailand indicated that their industries' development plans were contingent on export earnings gained from such preferential sugar markets as the United States. These six countries accounted for approximately 3.9 million tons, or 74 percent, of total 1973 U.S. imports of raw sugar valued at about $685 million. As a result of the market uncertainty created in 1974, many of these sugar producers have made and continue to seek long term bilateral and multilateral sugar-trading arrangements.

1/"Foreign Aid Provided Through the Operations of the United States Sugar Act," (B-167416, October 23, 1969).

BEST DOCUMENT AVAILABLE

Underlying the desire for long term trading arrangements by foreign sugar countries is their common interest in maintaining market assurance and stable market prices in order to maximize internal development plans. For example, the Philippines supplied nearly 100 percent of its sugar exports to the preferential U.S. market. Philippine Government and industry officials claimed that, until 1972, the cost of producing sugar exceeded its price on the world market, therefore the Philippines did not produce sugar for export to the world market. Without the preferential U.S. sugar market a significant portion of the industry would have been incapacitated.

With no market assurance, many foreign sugar producers may be reluctant to expand or modernize their sugar industries because of the high cost of investment and the timelag from planning and construction to actual operation of new facilities.

With the end of the preferential U.S. sugar market, a general reordering in U.S. sugar import trade may occur. Many foreign sugar suppliers may have difficulty competing on the free market because of their relative inefficiency and because of their geographical distance to the U.S. market. These former U.S. sugar quota holders, mostly non-Western Hemisphere developing countries, will probably have to seek export markets closer to home because of the high transportation cost to the United States. The impact would fall primarily on countries like Malawi, the Malagasy Republic, Swaziland, Mauritius, India, Thailand, Taiwan, and Fiji; however, our largest sugar supplier, the Philippines, is also likely to redirect some sugar exports to closer markets, such as Japan and the People's Republic of China.

Some large, efficient sugar producers, such as Australia and South Africa, may continue to increase their exports to the United States as may most Western Hemisphere countries which enjoy geographic proximity to the U.S. market.

Thus, in the long term, the United States will probably purchase its sugar needs from more efficient foreign producers, a prospect more in line with overall U.S. trade objectives within GATT. Smaller, developing sugar countries, which looked upon the U.S. market as a source of export earnings to promote internal development, will probably have to find other markets for their sugar exports.

BEST DOCUMENT AVAILABLE

CHAPTER 6

PROGRAM OPTIONS

A number of sugar program options have been considered over the years by Government, industry, and private sources. Some of the most prominent are discussed below.

Supply management system

A supply management system necessarily operates most effectively during periods of sugar surplus. Quantitative import restrictions involving country quotas imply greater Government control in securing adequate sugar supplies, usually from some inefficient sources. To introduce greater flexibility, global quotas could be established, thereby providing sugar supplies from the most efficient sources. Global quotas would also reduce political and economic decision making necessary in establishing country quotas.

Domestically, a supply management system offers greater market protection for U.S. sugar producers and processors than would other, less regulated, program options. However, as evidenced under the Sugar Act, such a system can become overly complex and costly to U.S. consumers. A different supply management concept could eliminate many former program elements, including production restrictions, Government payments, and excise taxes. Instead, the key management tool could be a price objective, established to guarantee maintenance of the most efficient segments of the sugar industry.

Advantages	Disadvantages
1. Protect and maintain sugar industry at a stipulated level while offering flexibility for domestic market orientation and resource allocation.	1. Inability to insulate U.S. market from high world prices during shortage periods.
2. Global quotas would, theoretically, insure sugar imports from the most efficient foreign sources, reducing foreign policy complications implicit under country quotas.	2. Consumers would be unable to obtain cheaper sugar imports during surplus periods.

Copy microfilmed was of poor quality.

BEST DOCUMENT AVAILABLE

3. Maintain a degree of price stability during periods of sugar surplus.

3. Some developing countries would be unable to compete for U.S. market under a global quota due to their relative inefficiency causing some foreign policy disenchantment.

4. Disregards price competition between sugar and such alternative sweeteners as corn syr

5. Tends to support some high-cost segments of the industry, resultin in higher domestic prices to consumers.

6. Difficult to administe

Target price concept

A target price program could operate fairly effectivel during world surplus or shortage periods. As with a supply management system, the key feature of this type program wou be the price level established as a target.

Sugarcane and sugarbeet producers would receive deficiency payments from the Government whenever prices fell below the the calculated target price. To defray part of the Government cost, a tariff might be continued and paymen limitations established.

At sufficiently high target price levels, such a program might maintain or even expand high-cost sugar producti in the United States, regardless of the nonexistence of imp quotas. However, a target price system could also encourag greater market flexibility while protecting the most effici industry sectors. Such a program could eliminate quotas entirely and allow U.S. prices to be determined by the marketplace.

BEST DOCUMENT AVAILABLE

Advantages

1. Allows U.S. consumers to purchase sugar as the market dictates.

2. Protects farmer interests by guaranteeing reasonable returns when market prices are low.

3. Leads to more efficient resource allocations at home and abroad compared to a quota system.

4. Allows foreign exports to compete for the U.S. market with no quantitative import restrictions, in line with U.S. trade policy objectives.

5. Increases price competition between sugar and substitute sweeteners.

6. Places sugar more in line with overall U.S. agricultural policy.

Disadvantages

1. Places direct liability on U.S. taxpayers when sugar prices are below the target prices.

2. Payment limitations co[uld] cause some dislocation [in] the U.S. industry.

3. Causes greater price fluctuation and instability.

4. Causes foreign policy disenchantment among small, inefficient foreign sugar exporters

Tariff program

A tariff program would offer price protection to the U.S. sugar industry during surplus periods but would increase prices to consumers. A tariff, if maintained at too high a level, could stimulate expansion of the high-cost domestic sugar industry and reduce imports. In addition, a high fixed tariff would be inconsistent with U.S. trade policy commitments under GATT.

A flexible tariff system, however, could alleviate many of these problems. The duty on sugar imports could be adjusted to market conditions to achieve a desired balance between maintaining a domestic industry and providing reasonable prices to consumers.

BEST DOCUMENT AVAILABLE

Advantages	Disadvantages-
1. A flexible tariff eliminates quantitative import restrictions and domestic production restrictions, allowing market price to determine resource allocation.	1. Variable import le contradict U.S. in national trade pol objectives.
2. Requires no Government payments or taxes.	2. During surplus per iods, a tariff encourages expansion by high-cost ineff cient industries, ing to consumer co
3. Generates revenue to U.S. Government.	
4. Could protect the United States from unfair foreign trade practices, such as export subsidies.	3. Tariff manipulatio causes foreign rel tions problems.

International commodity agreements

International commodity agreements in sugar represent possible framework for regulating and stabilizing sugar trade. Commodity agreements would include a wide range of features, such as, access arrangements, minimum and maximu price levels, production and marketing quotas, maintenance of reserves, reduction or elimination of export incentives and many others.

The currently inoperative International Sugar Agreeme offers an organizational framework for future sugar trade negotiations. As a major sugar importer reliant on the wo market, the United States could take the initiative in pro ing negotiations on an international agreement on sugar.

Advantages	Disadvantages
1. Provides stable prices for producers and consumers on a global basis.	1. Tends to maintain an encourage poor resou allocation by protec ing some inefficient producers.
2. Provides a measure of supply assurance and could be a vehicle to maintain reserves which would alleviate short term shortages.	2. Poses problems in U. negotiating stance a other multilateral trade negotiations, e.g. trade

AVAILABLE

liberalization versus U.S. commodity agreements.

Free trade

Free trade in sugar would involve a policy decision not to protect the U.S. sugar industry. Under such a policy, no sugar program is necessary. The United States would obtain sugar supplies from the free world market at prevailing market prices. Domestic sugar producers and processors if injured by low-cost foreign sugar imports could seek adjustment assistance under authority granted in the Trade Act of 1974.

The free trade alternative would be most in line with overall U.S. trade policies that recognize the growing interdependence among nations to trade products necessary for their well-being. The implementation of such a policy over the long term would require that trading nations negotiate more fair and equitable conditions of trade, including strengthening of GATT. The need for these trade reforms was recognized by the Congress when it passed the Trade Act of 1974.

Advantages	Disadvantages
1. Eliminates all trade restrictions on sugar, thereby promoting more efficient resource allocation.	1. Adversely effects high-cost segments of U.S. industry during periods of world surplus requiring some dislocation and some compensation from the Government.
2. During periods of world surplus, provides U.S. consumers with low sugar prices.	2. Results in price instability.
3. Expands export market for efficient foreign sugar producers.	3. Requires greater reliance on foreign sources, which could cause economic and foreign policy dislocation during periods of world shortages.

BEST DOCUMENT AVAILABLE

CHAPTER 7

CONCLUSIONS, AGENCY COMMENTS AND OUR EVALUATION, AND MATTERS FOR CONSIDERATION BY THE CONGRESS

The Presidential action to maintain the existing duty on sugar by establishing a 7-million-ton global quota for 1975 does not clearly define long term U.S. policy objectives on sugar. Administration officials perceive formulation of sugar policy as a congressional prerogative and, therefore, are reluctant to take initiative in policy formulation or program planning. Current U.S. policy is directed toward the short term objective of securing enough sugar imports to meet U.S. consumption needs.

There are compelling reasons for assessing and clarifying national sugar policy objectives.

The sugar industry is important to the U.S. economy as a food source and as a contributor to domestic employment and economic growth. In 1974 the sugar industry employed about 150,000 persons, and the value of the domestic crop was over $3 billion.

Without an assured domestic market, U.S. producers and processors have little incentive to invest their sugar earnings in capital improvements to expand production and/or increase efficiency. Some segments of the industry undoubtedly will find it difficult, if not impossible, to compete with low-cost foreign producers under world surplus conditions.

On the other hand, U.S. consumers probably do not wish to maintain an industry that costs them millions of dollars during years of surplus and that cannot insulate them from from severe price increases when world shortages occur. Consumers uncertain of the reasons for the sudden price increases, have questioned the Government role in regulating and protecting the U.S. sugar industry and the ability of industry and the Government to secure ample supplies of sugar for meeting consumer needs.

As the world's largest sugar importer, U.S. buying power under any sugar program could be an influential factor in achieving foreign economic and political objectives. The multilateral trade discussions, relations with developing

BEST DOCUMENT AVAILABLE

countries, obligations under GATT, and the further development of an interdependency among all countries are areas for considering such objectives.

The dilemma facing the United States is the need to strike a balance between the two domestic counterposing interests--industry and consumers--and U.S. foreign interests.

To achieve such a balance, the costs and effects of different policies and programs on domestic and foreign interests must be carefully weighed. We believe it is an opportune time to consider the range of sugar program alternatives available. Any sugar program should be flexible enough to deal with changes in supply and demand on U.S. and world economies.

AGENCY COMMENTS AND OUR EVALUATION

The Departments of Agriculture and State advised us that the report was a useful summary of the subject. State indicated the report may prove beneficial since it will be issued just before congressional hearings on sugar. It also commented that the foreign policy component should take an equal rather than secondary role in the policy-making process, both in the Congress and in the executive branch. State advised us that it stood ready to play a key role in the foreign aspect of policy formulation. We agree that State should play the lead role in foreign aspects of sugar policy formulation consistent with its responsibilities in this area. (See apps. II and III.)

The Council on International Economic Policy took exception to two major points in the report. It believed the Administration had demonstrated clear policy guidance in the recent Presidential action imposing a global sugar quota. Also, the Council felt that the Administration did not view the sugar program as solely a congressional prerogative. (See app. IV.)

The Council's comments, in our view, were not completely responsive. As we pointed out in the report, the Presidential proclamation provided policy guidance on a short term basis. The longer range questions, such as whether the domestic industry should be protected, and if so, to what extent, and how the United States will insure acquisition of its sugar requirements over the longer term were not addressed. We, therefore, continue to believe that more precise policy guidance is needed.

BEST DOCUMENT AVAILABLE

We did not state that the sugar program was solely a congressional prerogative. In fact, we are encouraged by the recent actions within the executive branch to review sugar policy. However, a consistent position on sugar policy appears to be lacking within the executive branch. Although the Council indicates that no further policy action is presently needed because the Administration is pursuing a free-market policy, State advises that it continues to have contact with the International Sugar Organization and is prepared to review international commodity cooperation in sugar. Thus, it is not clear whether the Administration plans to continue a free-market or a commodity-agreement approach in sugar.

Consistent with the intent of our recommendations, the executive branch should continue to explore broad perspectives on sugar policy and to provide the Congress with detailed policy options. Formulation of a uniform sugar policy will require significant input from various agencies of the executive branch.

MATTERS FOR CONSIDERATION BY THE CONGRESS

The Congress might wish to define policy guidelines in sugar and direct the Council on International Economic Policy to coordinate with the Departments of Agriculture and State and other executive agencies in developing and recommending policy positions to advise the Congress on:

--Whether the United States should protect its domestic sugar industry, and if so, to what extent.

--What are the specific goals of U.S. import programs; i.e., free trade, development assistance, or assurance of ample supplies.

--What is the U.S. stance on international commodity agreements in sugar.

--Whether the most efficient domestic sugar-producing areas, and low-cost substitute sweeteners, should be encouraged to facilitate greater U.S. self-sufficiency at lower cost to U.S. consumers.

--How the Government could minimize the economic and social displacement of sugar producers, processors, and workers if more liberal trade policies are adopted.

BEST DOCUMENT AVAILABLE

CHAPTER 8

SCOPE OF REVIEW

Information and data provided in this report were obtained from extensive domestic and foreign fieldwork. We interviewed and obtained data from

--U.S. Government officials in Florida, Louisiana, Colorado, Idaho, and Hawaii and U.S. Embassy officials in Brazil, the Dominican Republic, Mexico, the Philippines, Australia, and Thailand;

--sugarcane producers and processors in Florida, Louisiana, and Hawaii;

--cane sugar refiners in New York, Florida, Louisiana, and California;

--importers and brokers in New York;

--sugarbeet producers and processors in Colorado, Utah, Idaho, and California;

--sugarcane and sugarbeet trade associations and lobbyists in Washington, D.C.;

--some major commercial and industrial sugar users in New York and various parts of the South; and

--foreign government and industry representatives in Brazil, the Dominican Republic, Mexico, the Philippines, Australia, and Thailand.

We reviewed authorizing legislation, records of congressional hearings, and other materials pertaining to U.S. sugar policies and programs. Discussions were held in Washington, D.C., at the Departments of Agriculture and State and with the Special Trade Representative.

SOURCES OF SUGAR CONSUMED IN THE UNITED STATES DURING 1973 AND 1974

(Raw Tons)

Sources of supply	1973	1974 (note a)
Domestic:		
Mainland cane	1,613,936	1,252,752
Hawaii	1,141,757	995,421
Puerto Rico	75,516	157,017
Beet area	3,511,836	3,025,000
Subtotal	6,343,045	5,430,190
Imports:		
Philippines	1,454,390	1,473,202
Dominican Republic	741,218	813,206
Brazil	657,083	787,302
Mexico	636,842	538,112
Peru	407,416	472,211
West Indies	40,833	282,269
Australia	268,857	23[illegible],482
Argentina	84,758	112,592
Colombia	75,645	104,821
Guatemala	62,544	95,954
Taiwan	88,120	90,054
India	81,441	85,008
Costa Rica	100,451	78,503
South Africa	74,535	66,893
Panama	52,274	65,408
El Salvador	57,228	61,510
Ecuador	93,615	59,523
Belize	48,118	55,792
Nicaragua	76,386	53,916
Fiji Islands	44,705	47,535
Mauritius	44 500	45,500
Swaziland	31,434	40,707
Thailand	19,190	26,199
Haiti	15,29[illegible]	18,813
Malagasy Republic	12,64[illegible]	13,119
Malawi	15,616	10,224
Paraguay	7,559	8,505
Bolivia	7,549	5,705
Honduras	-	5,009

	1973	1974 (note a)
Import:		
Venezuela	31,902	-
Ireland	1,107	-
Subtotal	5,333,256	5,754,124
Total U.S. consumption	11,676,301	11,184,314

Preliminary

Source: Agriculture, ASCS, "Sugar Reports"

DEPARTMENT OF STATE

Washington D.C. 20520

JUN 30 1975

Mr. J. Kenneth Fasick
Director
International Division
U.S. General Accounting Office
Washington, D.C. 20548

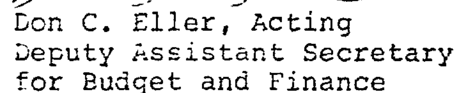
Dear Mr. Fasick:

I am replying to your letter of June 11, 1975, addressed to the Secretary, which forwarded copies of your Draft Report "Review of U.S. Import Restrictions--Need To Define National Sugar Goals."

The enclosed comments have been prepared by the Deputy Assistant Secretary for Economic and Business Affairs.

We appreciate having had the opportunity to review and comment upon the Draft Report.

Sincerely,



Don C. Eller, Acting
Deputy Assistant Secretary
for Budget and Finance

Enclosure:

Comments.

 BEST DOCUMENT AVAILABLE

Comments on GAO Draft Report

"Review of U.S. Import Restrictions --

Need to Define National Sugar Goals"

The GAO Report is a useful summary of the subject. It may prove useful since it is emerging just prior to Congressional hearings on sugar.

The thrust of the report seems directed at the need for executive branch action in the area of sugar policy. The executive branch is concerned, as demonstrated by recent reviews of sugar policy by the Deputies Group on Food and the Economic Policy Board. Both the Economic Research Service of USDA and the Foreign Agriculture Service of the USDA are currently carrying on research projects on sugar.

The focussing of attention on the foreign policy and international component of sugar policy is useful. The foreign component should take an equal rather than secondary seat in the policy making process, both in Congress and in the Executive Branch. The State Department is prepared to play a key role in the foreign aspects of sugar policy formulation in order to give effect to the well taken point in the paper that a balance needs to be struck between the domestic and foreign components.

The State Department continues its contact with the International Sugar Organization and is prepared to review international commodity cooperation in sugar. Our foreign relations interest in the International Sugar Agreement is substantial, therefore we continue our active observer status at Sugar Organization meetings.

The following comments are supplied on specific elements in the GAO draft:

1. The statement that when markets outside the United States presented opportunities for greater returns, many foreign suppliers did not fill their U.S. quota (pg. 4) is not quite [illegible] accurate. Only 8 quota countries failed to fully fill their original 1974 sugar quotas as announced in October 1973. The substantial increase in quotas during the course of 1974, in a period of worldwide sugar shortage and very low stocks prevented many countries from filling their final quotas. More importantly, price increases cut consumption so U.S. demand came no where near the final total quotas. During much of 1974 foreign quota holders sold us sugar at a discount from the world market price as they attempted to maintain their supply performance in the U.S. market.

AVAILABLE

2. The last paragraph on page 4, which continues on to [P page 5 is a bit conjectural even if it fits into free trade theory. Efficient suppliers have already committed a substantial portion of their supplies to long term contracts (e.g., Australia to Japan, S. Korea, Malaysia, Singapore, and PRC; Brazil to the PRC, Japan and, Portugal; S. Africa to Japan and Iran). Since many less efficient suppliers (e.g., in Caribbean area) have a substantial transport advantage, the shift to efficient producers for U.S. sugar loses further credibility.

3. Since market forecasts on sugar supplies through 1980 seem to conflict, some citation of a source for the forecast and an indication of the size of the production and consumption increases expected would prove useful (pg. 5). [p. iii, 1

4. The U.S. has already undertaken steps to obtain further information on world production, consumption and trade in sugar (State 141876, June 17, 1975). USDA/ERS, USDA/FAS and the Tropical Products Division of State are also actively engaged in obtaining information on future world production, consumption and trade in sugar (pg. 5). [P.

5. The State Department has recently completed a list of the development and expansion plans of sugar producing [P. countries (pg. 24).

6. What is meant by unfair trading practices of foreign [producers? (pg. 24).

7. The reasons why balloned import quotas were not filled in 1974 (pg. 37) are explained above, in comment number 1.

8. It should be noted on page 40, that the estimate of [P increased consumer prices ranging from $500 million to $700 million annually comes from the study entitled "The Sugar Program: Large Costs and Small Benefits," by D. Gale Johnson (University of Chicago) written for the American Enterprise Institute for Public Policy Research.

9. Disadvantages 2 and 3 on page 59 should be dropped. [P. Sugar Agreements in the past have made specific provision for preferential trading arrangements, and have in fact tended to function somewhat better in the presence of some amount of preferential trade, particularly in time of major surplus. Trade liberalization and commodity agreements complement each other in that the multilateral trade negotiations can tackle problems of market access while commodity agreements can work on supply and price problems (pg. 59).

BEST DOCUMENT AVAILABLE

10. Advantage number one on page 60 is somewhat in question because in a world of highly regulated sugar trade with a lot of governmental interference it is questionable whether the free trade option for the U.S. really leads to maximum resource allocation. [p. 20]

Julius L. Katz
Deputy Assistant Secretary
for Economic and Business Affairs

GAO note: Page references refer to draft report digest. Bracketed numbers refer to final report pages. Changes were made in the text by GAO where considered appropriate.

DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D. C. 20250

June 30, 1975

Mr. J. K. Fasick
Director, International Division
General Accounting Office
Washington, D. C. 20548

Dear Mr. Fasick:

We have only a brief comment to make regarding your draft repor entitled "Review of U.S. Import Restrictions -- Need to Define National Sugar Goals." We find the report well written, and generally believe it will be a useful document.

On page 50 of the draft report, there is a statement that many foreign sugar producers may be reluctant to expand or moderniz their sugar industries without market assurance. We are not clear of the meaning of "market assurance" in this case, but we wish to take exception to it if it means preferential access to the U.S. market. We do not believe efficient foreign sugar pro ducers need preferential access to the U.S. market in order to induced to make the investments needed to produce sugar for fut U.S. import requirements. We believe they will do so on the ba of their knowledge and belief in future market prospects for su

Sincerely,

Richard E. Bell

Richard E. Bell
Deputy Assistant Secretary

GAO note: Page references refer to draft report dige. Bracketed numbers refer to final report pages. C. were made in the text by GAO where considered appr

COUNCIL ON INTERNATIONAL ECONOMIC POLICY
WASHINGTON, D.C. 20500

JUN 27 1975

Dear Mr. Fasick:

This is in response to your June 11, 1975, letter requesting comments and suggestions on your draft report to the Congress on the need to define national sugar goals. We appreciate the opportunity of working with your staff on earlier drafts of this report. We believe the report will help to focus on some of the more critical issues with respect to U.S. sugar policy.

The following appears on page 52 of the Report: [p. 36]

> The Presidential action to maintain the existing duty on raw sugar by establishing a 7-million-ton global quota for 1975 does not clearly define U.S. policy objectives on sugar. Administration officials perceive formulation of sugar policy as a Congressional prerogative and, therefore, are reluctant to take initiative in policy formulation or program planning.

These same two thoughts, that U.S. sugar policy lacks clear direction and that the Administration views sugar policy as a Congressional prerogative, appear several places in the report. I must take issue with both points.

For forty years the U.S. pursued a policy of maintaining a domestic sugar industry protected by a complex system of tariffs and quotas. The attempt in 1974 to extend the legislation under which this system operated failed. As 1974 drew to a close there was no strong sentiment to continue this program which had failed dramatically to deal with the problems of short supplies and rapid price increases we were experiencing. It was in this context that the President issued his November 18, 1974, proclamation on sugar. That proclamation established an import quota more than adequate to meet anticipated import requirements and maintained the tariff at the lowest possible rate under the law. These actions essentially placed the U.S. on a world market basis for sugar. Thus a clear move was made away from the protective policy of the past 40 years toward an open market in sugar. There should be no doubt about the direction of our policy for sugar, which has been brought more in line with U.S. policy for other agricultural commodities.

 BEST DOCUMENT AVAILABLE

Only a small tariff of 0.625 cents per pound and a quota mechanism that could be made restrictive technically prevent the U.S. from being on a free market basis. Removal of these technical constraints depends on the outcome of several other Administration initiatives. Although not mentioned in your report, sugar is being considered as an article for possible duty free treatment from beneficiary developing countries in accordance with the Generalized System of Preference (GSP). In the process of preparing their advice for the President as required by the Trade Act, the International Trade Commission is affording the industry and other interested parties the opportunity to present their views concerning GSP for sugar. Also, trade policie with respect to sugar are currently being considered in the Multilate Trade Negotiations. In our view, these Administration initiatives ar compelling reasons for not undertaking a unilateral change in U.S. sugar policy.

It should be evident from the above that we do not perceive the formulation of sugar policy as the sole prerogative of the Congress. In the changing circumstances of 1974 the Administration considered at some length the options available and charted a new course. We have continued to monitor the sugar situation closely and will make whatever administrative changes in policy may be warranted and recommend such legislation as may be appropriate. At present we continue to pursue a free market policy for sugar.

Our other comments have been relayed to your staff by telephone. Again, my thanks for the opportunity to review and comment on the draft report.

Sincerely,

J. M. Dunn
Acting
Executive Director

Mr. J. K. Fasick
Director, International Division
General Accounting Office
Washington, D.C. 20548

GAO note: Page references refer to draft report digest. Bracketed numbers refer to final report pages. Changes were made in the text by GAO where considered appropria

PRINCIPAL OFFICIALS OF DEPARTMENTS OF AGRICULTURE AND STATE AND THE COUNCIL ON INTERNATIONAL ECONOMIC POLICY RESPONSIBLE FOR ACTIVITIES DISCUSSED IN THIS REPORT

	Term of office	
	From	To
Department of Agriculture		
SECRETARY OF AGRICULTURE:		
Earl L. Butz	Dec. 1971	Present
Clifford M. Hardin	Jan. 1969	Nov. 1971
ASSISTANT SECRETARY, INTERNATIONAL AFFIARS AND COMMODITY PROGRAMS:		
Vacant	June 1975	Present
Clayton K. Yeutter	Mar. 1974	June 1975
Carroll G. Brunthaver	June 1972	Jan. 1974
Department of State		
SECRETARY OF STATE:		
Henry A. Kissinger	Sept. 1973	Present
William P. Rodgers	Jan. 1969	Sept. 1973
ASSISTANT SECRETARY, INTERNATIONAL RESOURCES AND FOOD POLICY:		
Julius L. Katz	Oct. 1968	Present
Council on International Economic Policy		
EXECUTIVE DIRECTOR:		
J. M. Dunn (acting)	Jan. 1975	Present
William D. Eberle	July 1974	Jan. 1975