Guest Column

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FROM THE INSTITUTE FOR POLICY INNOVATION

Solving the Sugar Subsidy Problem

AGRICULTURE SUBSIDIES AND TRADE manipulation have long been among the most intractable of policy problems. For both developed and developing countries, agricultural producers are an influential political constituency, but particularly for developing countries, agricultural commodities are often the basis of their economies and their chief exports. In developed countries, agricultural interests often become powerful and sympathetic interest groups.

Because agricultural products are their chief exports, developing countries see aggressive export policies as a chief means of attaining growth and employment for their citizens, so they attempt to gain world market share through subsidizing the production of products for export while keeping domestic prices artificially low and protecting domestic agriculture jobs. This results in a web of harmful and market distorting agricultural trade policies across the globe.

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But of all these distorted agricultural commodity markets, sugar is almost certainly the worst.

THE SUGAR PROBLEM

Sugar is among the most staple of commodities, and to further complicate matters, sugar is produced by both developed and developing countries. The developed countries of the European Union, for example, comprise the third largest sugar producer in the world, while Brazil, a developing country, is the first.

For three decades Brazil has used an aggressive portfolio of policies to gain control of over 50 percent of global sugar exports. Today, Brazil spends at least $2.5 billion on sugar subsidies, and has doubled its subsidies in the past three years. Brazil has repeatedly bailed out a domestic sugar industry that struggled despite all these subsidies. Thailand, another major exporter of sugar, pursues similar policies.

When you realize that more than 100 countries produce sugar and subsidize its production and export, it's easy to see how the global sugar market has become a maze of policies so distorting that it's hard to even refer to it as a market.

U.S. SUGAR POLICY

Historically, the United States has been a major producer of sugar, and there is no reason why the U.S. should not be a competitive producer of sugar on the world markets. U. S. agriculture is the most efficient and productive in the world, incorporating cutting edge technology and innovation. In anything approaching a reasonably free global sugar market, the United States can compete and succeed.

But today, as a response to the massively manipulated global sugar market, the U.S. government preserves its domestic sugar industry through a complicated maze of import quotas and loan programs. Viewed in isolation, these programs are hard to defend and certainly distort whatever the status quo would be without them. But that leaves open the question of what the long-term result of eliminating these programs would actually be, and whether Americans would truly be better off as a result.

SHOULDN'T THE U.S. SIMPLY DROP OUR SUBSIDIES?

For many, particularly for those of us who believe in free trade and free-markets, an attractive solution would seem to be for the United States to simply unilaterally drop all domestic subsidies for the sugar industry, remove all trade policies affecting sugar, and simply let American consumers and manufacturers benefit from the lower sugar prices that would likely result from the dumping of subsidized sugar from foreign producers.

But such a view ignores the realities of world trade. Countries do not "dump" products on the U.S. market to endear themselves to U.S. consumers. Rather, products are dumped specifically to put domestic competitors out of business and thus gain market share.

And what happens after foreign sources have displaced domestic supply? Prices go back up, and likely higher than previously due to the domestic competition displaced through dumping.

The results of predatory dumping practices are well understood in trade policy. That is why the World Trade Organization (WTO) allows nations to take action against trading partners accused of dumping.

But if someone wants to dump cheap commodities on the U.S. market, shouldn't we allow it? Well, in 2006, the European Union was the second largest sugar exporter in the world, but in the few years after its 2006 sugar importation reforms, the EU became a net importer of sugar. After the 2006 reform, foreign producers dumped sugar into the EU, resulting in the closing of 83 sugar mills and the loss of 120,000 jobs in the EU sugar industry. Shortly thereafter, with domestic production drastically reduced, sugar prices climbed, EU consumers were paying 20 percent more for foods containing sugar, and shortages were reported. The EU is today considering a draft proposal to again change its sugar policies in the wake of this experience.

It's reasonable to conclude that the same thing would happen in the coveted U.S. consumer market if the United States dropped all sugar subsidies and restrictions. Eventually, foreign producers would take advantage of a decimated U.S. domestic sugar industry and would raise prices on U.S. consumers. Those who advocate a U.S. unilateral disarmament in sugar markets are viewing only the short-term effects of the policy and ignoring the almost certain long-term results.

It's in the best interests of the United States to have a vibrant, competitive domestic sugar producing industry that doesn't rely on government subsidies. Rather than getting caught up in a "free trade vs. fair trade" or "subsidies vs. no subsidies" paradigm, policy makers should take a long-term rather than the short-term approach. The United States should demonstrate leadership by unabashedly promoting free trade globally, which necessitates taking a long-term policy approach both at home and abroad.

THE REAL SOLUTION

The sugar problem is a global problem, and it requires a global solution. More than 100 countries produce sugar, and they all subsidize its production in various ways. The solution to the sugar problem is, at its core, the same as the solution to many other agriculture policy problems: A renewed effort through the international trade process to liberalize trade. Congress and the president should commit to the elimination of subsidies and trade barriers for sugar and other agricultural commodities through a renewed process under the auspices of the World Trade Organization (WTO).

Congressman Ted Yoho (R-FL) has proposed as such by sponsoring a resolution in the House of Representatives during this session. The "Yoho Resolution" proposes that the administration should push the WTO to seek an agreement ending all direct and indirect sugar subsidies, and that Congress eliminates sugar subsidies "zero for zero" once such an agreement is in place.

Why would countries that heavily subsidize sugar such as Brazil and Mexico agree to such a scheme? There are concessions they want from the United States, such as dropping our subsidies and trade protections for other agricultural commodities. Their complaint with the U.S. on other commodities is as great as our complaint with them on sugar. Nobody thinks it will be easy, and the United States will have to make some politically painful concessions, but such is the nature of trade agreements. Far better for the United States to surrender some of our harmful protectionist policies to achieve greater gains through a WTO process than to unilaterally drop them and gain no long-term market improvements in exchange.

IN THE MEANTIME

In the meantime, sugar markets are subject to dramatic market manipulation, especially targeting the lucrative U.S. market. Since 2010, sugar producers connected with the Mexican government (and in some cases owned outright by the Mexican government) have been flooding the U.S. market with subsidized sugar in order to protect domestic political interests, and appear to have taken "informal" steps that make it difficult or impossible for U.S. producers to get their sugar into Mexico.

The result has been devastating to many U.S. sugar producers and rare, unfortunate forfeitures of sugar stocks pledged as collateral for government-backed operating loans. In the short-term, the U.S. government should be applying pressure on Mexico to stop these harmful trade practices, recalling that as much as 20 percent of Mexican production is owned outright by the government of Mexico.

CONCLUSION

But such bilateral actions can only address discrete episodes of trade manipulation, and do not provide a path forward to a long-term solution. Ultimately, the problem of sugar subsidies will never be solved until WTO member nations can agree to a freer and more sustainable global sugar trade system. Such a system should be the strategic goal of U.S. sugar policy. ■

Editor's note: Tom Giovanetti is the president of the Institute for Policy Innovation. Visit www.ipi.org.