

Effects of US Sugar Policy on Developing Countries

by Gillian Virata

The policy of supporting high-cost producers and limiting imports through quotas deprives low-cost producers in developing countries of important export markets and potential export earnings. The three largest importers (the US, the EU, and Japan) have become **net exporters** over the last 30 years. The US used to import over 5 million tons a year in the 1970s; it has imported only about 1 million tons in recent years. Oxfam estimates protectionist policies in developed countries have **cost Brazil, the world's biggest sugar exporter, \$494 million** of potential earnings in 2002. **In Ethiopia, Mozambique, and Malawi the cost was \$238 million** since 2001. Mozambique lost the equivalent of a third of its development aid from the EU and its government spending on agriculture and rural development. Malawi lost more than its budget for primary healthcare.

Sugar substitutes such as high-fructose corn syrup, produced as an alternative to high-priced sugar in the US, have shrunk world exports of sugar by a third (by 10 million tons). High prices also encourage the continued **high-cost and inefficient** production of sugar (beet sugar). The production of substitutes and beet sugar in the US, the EU, and Japan has kept the world price of sugar **below the cost of even the most efficient producers**. Many producers depend on preferential access to high-price markets to keep exporting. As a result, **80% of world production** is sold in these markets.

The US sugar policy is anti-development. Investors in developing countries trying to add value to export products are penalized by a **system of escalating tariffs** in the US: 2% for raw sugar imports, 5.5% for intermediate (semi-processed) sugar, 20.1% for final (fully processed or refined) sugar. **Diversification into higher-end products is discouraged.**

Like other policies that distort global trade in agricultural products, **the US sugar policy keeps poor farmers in developing countries poor.** Poverty in developing countries is disproportionately affected by growth or nongrowth in the agriculture sector—particularly agricultural exports. Sixty-three percent of the population and 73% of the poor live in the rural areas. In least-developed countries, the poverty rate in rural areas is about 82%.

Likely Effects of Reform on Developing Countries

More jobs. With reform, net imports of sugar to the most protected countries would increase by 15 million tons a year, creating **jobs for about 1–2 million workers** in developing countries. The Bank estimates that **multilateral reform** of sugar policy would produce the greatest global gains (greater than bilateral or regional FTAs)—worth **\$4.7 billion a year.**

Liberalized trade in agriculture in general. Reform in the sugar policies of the US and the EU could potentially provide the much-needed impetus for trade liberalization in agriculture in general. The Bank estimates that developing countries could gain about **\$350 billion** by 2015 from a substantial reduction in agricultural protectionism. This would lift **140 million people** out of poverty and the benefits would greatly exceed those that could be gained from present development assistance.

Higher world sugar prices, lower prices in formerly protected markets. World prices of sugar would rise by 40 percent and prices in formerly protected markets would drop— by 25% in the US. **Efficient exporters as well as consumers in the formerly protected markets** would benefit. Among the “**gainers**” would be Brazil (net gain of \$1.6 billion a year), Australia, Thailand, Sudan, South Africa, and other **low-cost producers** with small EU or US quotas relative to their total exports or with no quotas. Other developing-country “**gainers**” would be

Gambia (91% of export earnings derived from sugar), Reunion (63%), Cuba (41%), Saint Kitts and Nevis (37%), Guadeloupe (12%), and Barbados (11%). Among the “**losers**” would be Guyana, Fiji, Belize, Mauritius, Swaziland, Dominican Republic, Guatemala, Malawi, and other **high-cost producers** in countries with preferential access to EU or US sugar markets and with large quotas relative to their total exports (total net loss of \$0.45 billion a year). These countries could be **compensated with broad-based economic support**.

The Right Environment for Change

Increasing internal pressure to reform sugar programs in protected markets. This pressure stems from the **high cost of government support** to producers: \$6.4 billion a year in OECD countries (US \$1.3 billion, EU \$2.7 billion, Japan \$0.4 billion, other OECD countries \$1.4 billion). The protectionist programs also **hurt other industries** (such as the candy manufacturing industry in Chicago), benefit relatively **few** (mostly rich sugar producers), and make US consumers pay **\$2 billion a year more** for sugar than they would at world prices.

External pressure. American and trading-partner businesses with limited trade-expansion opportunities or shut out of bilateral and regional trade agreements by the sugar industry lobby have been critical. **Development-oriented institutions and organizations** have also called for greater leadership by OECD countries in pro-poor initiatives—including eliminating trade-distorting policies that hurt developing countries.

Key future events in political and trade policy. The environment for the reform of trade-distorting policies like the US sugar policy therefore **favors change**. In addition, the following key events in political and trade policy tabled for the next few years enhance this unique opportunity to move meaningful reform forward.

- **US Farm Bill to expire** in 2007.

- **EU sugar policy to expire** in June 2006.
- **Ongoing multilateral trade negotiations in agriculture** in Geneva to reconcile positions of developed and developing countries. Round of informal talks completed April 20–23. Negotiations stalled along rich-poor country lines on tariff reduction formulas. Further discussions in June and July with the hope of reopening formal negotiations in July.
- **WTO's preliminary ruling** on April 27 on complaint filed by Brazil against U.S. cotton subsidies favored Brazil. (Cotton is one of the crops important to developing countries and, like sugar, is heavily protected in developed countries led by the U.S.)
- **EU and US FTAs with Mercosur countries.** The EU-Mercosur FTA seems close to being concluded; includes an increase in sugar quotas for these countries, among other agricultural quota increases. US-Mercosur FTA talks have stalled on agriculture issues, but Zoellick has said that he still aims to conclude talks by next year's deadline.
- **EU to expand** on May 1, 2004. The 10 new members have large agriculture sectors. Pressure to reform the common agriculture policy would increase.
- **WTO dispute settlement panel** on the European Communities' export subsidies for sugar, formed at the request of Australia, Brazil, and Thailand, to submit its final report to the concerned parties by June 2004.
- **US elections** in November. If Bush is reelected, the CAFTA and bilateral trade agreements with Australia, Morocco, the Dominican Republic, and, possibly, Thailand (a big sugar producer; talks start in June 2004) will be presented to Congress for approval. Kerry has announced that, if elected, he will review all FTAs; so far he has advocated a more protectionist stand.
- **Mexico to be allowed unlimited duty-free access to the US** in 2009, under NAFTA.
- **48 least-developed countries to be allowed duty-free access to EU sugar market** by 2009 under the EU's Everything But Arms initiative signed in 2001.

Safety Nets

Support for countries or producers will be needed during an adjustment period. The US support program for peanut producers, for example, halved the loan rate for edible peanuts, ended production quotas, and paid producers cash when prices fell below the lower loan rate, or below target (countercyclical payments). **Other industries** dependent on high sugar prices and protected markets will also need assistance. In developing countries, **development assistance** can help with policies to increase productivity and shift resources to more competitive activities.

Candy Manufacturers in Chicago

Employment in the candy-making industry of Chicago, America's candy capital and home of Tootsie Rolls and other sweets, **has been nearly halved** since 1970, from 15,000 to 8,000, and continues to drop. **Key factor: high price of domestic sugar** (three times the world price, on average, over the past decade). Other factors: outdated facilities, bad business decisions, high US labor and other costs.

- **Brach's** stopped producing hard candy (which uses more sugar than soft chocolate) at the end of 2003; **2,300 jobs lost**.
- **Fannie May and Fanny Farmer** closed 242 chocolate candy stores on February 15, 2004; closed 75-year-old plant in Chicago and moved production to Mexico, costing **625 jobs**.
- **Ferrara Pan Candy Co.** (maker of Jawbreakers, Red Hots, and Boston Baked Beans) moved production to Mexico and Canada.
- **Life Savers** (made in America for 90 years) moved to Canada.

Sources

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