March 15, 2005

OPEN LETTER TO THE PRESIDENT AND THE U.S. CONGRESS

Sour Subsidies --
U.S. sugar policy is unfair to American consumers and to poor countries; harms the environment

Summary: The current sugar policy in the United States – a system of price supports and import restrictions – cannot be justified on economic or humanitarian grounds. It imposes high costs on U.S. consumers and taxpayers and causes job losses in the U.S. In addition, the sugar program causes environmental damage and blights economic opportunities for many small farmers in poor countries, primarily for the benefit of a small group of well-off producers.

The U.S. sugar policy started 70 years ago during the Great Depression as a temporary support program for U.S. growers. The system of price supports and import restrictions allows growers in the U.S. to charge consumers and other users artificially high prices for sugar and other sweeteners, currently more than two to three times the world market price. During those 70 years, 18 presidential elections have taken place, and still consumers and taxpayers are paying to support sugar beet and sugar cane growers.

The sugar program is a transfer of wealth from those who often can least afford it to a small group of sugar producers. The American public transfers about $1.3 billion each year to support the sugar beet and cane growers in the U.S.[1] The primary beneficiaries of the program are a few large corporations rather than small family farm operations, as was originally intended.

The disadvantaged lose the most when food prices are manipulated to support sugar producers. American consumers are forced to pay two to three times the world market price for sugar. Because sugar is a key ingredient in many foods, including whole grain breads, high-fiber cereals, and fruit preserves, the higher prices have a disproportionate impact on those families, who pay a larger percentage of their income on food. As a result, families with children and people on low and fixed incomes are hit the hardest by the U.S. sugar program. Sugar reform would give American families a real break for their food budget.

The misguided support policy destroys precious natural habitats. The current sugar policy's incentives for overproduction have caused environmental degradation in ecologically sensitive areas, including the Florida Everglades and the Mississippi Delta wetlands. The impact is particularly acute in the Everglades, as the U.S. grows much of its cane sugar in Florida, resulting in the diversion of sorely-needed water from the country's most famous and endangered wetland. Sugar producers are seriously polluting these

[1] OECD, Agricultural Policies in OECD Countries, Monitoring and Evaluation, June 2002 quoted in Donald Mitchell, "Sugar Policies: Opportunity for Change," Development Prospects Group The World Bank," World Bank Policy Research Working Paper 3222, February 2004, p. 24.

valuable wetlands to produce sugar that could be produced with less cost and pollution in a number of other countries. In addition, the U.S. is growing sugar beets with high costs and poor sugar yields per acre on land that could readily be shifted to crops with higher comparative advantage, such as feedstuffs.

Domestic sugar policy has contributed to the loss of jobs in the sugar-using industry. The number of employees in the sugar-using industry – an estimated 724,000 – vastly outnumbers the 61,000 sugar production jobs in the United States. [2] The artificially inflated domestic sugar price increases the costs of production for sugar-using industries, which has led to some companies moving their facilities to other countries and has added to U.S. job losses in these industries.

Sugar producers in developing countries bear the brunt of rich countries' support programs. Domestic subsidies and protectionism distort the price of sugar on the world market. Poor farmers in developing countries – no matter how efficient – cannot compete with sugar unloaded on the world market by rich countries' subsidized producers, and a valuable opportunity for achieving higher living standards is lost.

The United States undermines its global leadership role in promoting open trade by insisting on indefensible sugar protectionism. While the U.S. promotes open trade in many venues, it is one of the worst offenders in distorting world sugar markets.
The United States' exemption of sugar from recent trade negotiations has undermined the country's ability to negotiate and achieve more open trade with other nations. This special protection of sugar has cost other U.S. producers broader export opportunities and U.S. consumers the chance to benefit from more open trade with these countries.

The U.S. sugar policy affects other economic and policy objectives besides trade. Reforming one of the most protectionist agricultural programs could contribute to economic growth and stability in other parts of the world and demonstrate U.S. willingness to embrace broader international cooperation.

As a group of non-profit organizations representing consumers, citizens, and taxpayers, we support a fundamental reform of the United States' sugar policy.

- Removing protectionist barriers to sugar around the world could lower the price for U.S. consumers by 25 percent from current, artificially high levels.[3]
- Reducing support in the U.S. could save consumers and taxpayers up to $1.3 billion per year.[4]

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[2] Lukas, Aaron: "A Sticky State of Affairs: Sugar and the U.S.-Australia Free-Trade Agreement," Cato Institute Free Trade Bulletin No. 8 February 9, 2004, http://www.freetrade.org/pubs/FTBs/FTB-008.html#_edn8.
[3] Borrell, Brent and David Pearce, "Sugar: the taste test of trade liberalization," Centre for International Economics, Canberra & Sydney Australia, September 1999, p.15. http://www.thecie.com.au/pdf/Sugar_taste_test_of_trade_lib_report.pdf
[4] Mitchell (2004), p.24.

- The net loss to the U.S. economy due to the sugar support program in 1998, the most recent year for which analysis is available, is about $900 million, according to the U.S. General Accounting Office.[5]
- Reducing sugar cane production in Florida could improve environmental quality as water-retention capacity in the Florida Everglades watershed could be increased.[6]
- Lowering sugar overproduction can help reduce the impact of pesticide and fertilizer usage on the environment.
- Reducing costs for sugar-using industries could help retain workers.

The benefits for developing countries would also be substantial:

- If rich countries' sugar subsidies and trade barriers were eliminated, it is estimated that the world market price of sugar could rise by almost 40 percent, providing valuable economic opportunities. At the same time, consumers in heavily protected markets such as the U.S. would still enjoy an overall benefit of a reduction in prices of about 25 percent. [7]
- If the U.S. is serious about helping poorer countries, it has to open up its markets for those countries' products, which would help U.S. consumers and create employment not only in poor countries but also in the large sugar-using sectors in the U.S.

The undersigned urge our public and political representatives to debate the need for reforming this destructive policy that hurts consumers and taxpayers in the United States, harms the environment, and holds back further economic development in many poor countries around the world.

Rhoda Karpatkin - Consumers Union
Mark Silbergeld - Consumer Federation of America
Pam Slater - Consumers for World Trade
John Frydenlund - Citizens Against Government Waste
Dennis Avery - Hudson Institute – Center for Global Food Issues
Alex Avery - Hudson Institute – Center for Global Food Issues
Greg Conko - Competitive Enterprise Institute
Fred Smith - Competitive Enterprise Institute
Frances B. Smith - Competitive Enterprise Institute
Fred Oladeinde - The Foundation for Democracy in Africa
Tad DeHaven - National Taxpayers Union
Chad Dobson - Oxfam America
Philip D. Harvey - DKT Liberty Project
Clayton Yeutter - Former U.S. Trade Representative and
former U.S. Secretary of Agriculture
Nathaniel P. Reed - Chairman Emeritus, 1000 Friends of Florida and

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[5] General Accounting Office " Sugar Program: Supporting Sugar Prices Has Increased Users' Costs While Benefiting Producers," GAO/RCED-00-126, June 2000, p. 6.
[6] Mary E. Burfisher (ed) (2004), "U.S. Agriculture and the Free Trade Area of the Americas-Overview," Agricultural Economic Report -No. (AER827) U.S. Department of Agriculture Economic Research Service.
[7] Brent and Pearce (1999) p. 15-16.

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