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Sugar and the 2002 U.S. Farm Bill[1]

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This is part of the Sugar Policy series, which discusses policy issues facing the U.S. sweetener industry in general and Florida's sweetener industry in particular. Several articles have been developed to discuss economic and policy issues that have, or will have, an impact on Florida's sweetener industry. The objective of this article is to examine the 2002 U.S. Farm Bill and summarize changes made to the sugar loan program.

Introduction

On May 13, 2002, President Bush signed the 2002 U.S. Farm Bill, which the legislation calls The Farm Security and Rural Investment Act of 2002. The new law replaces the 1996 Farm Bill and will have a duration of six years. It is divided into ten titles (Table 1). The total cost during the six years is estimated at more than $27 billion. The law covers almost 20 commodities under Title I, with sugar as one of them.

General Features of the Sugar Program

The essential features of the Sugar Program were not changed by the new legislation. In general, the program consists of a loan rate, which is the legislated price per pound at which processors can obtain financing from the government by committing raw cane sugar as collateral. The price is maintained through a process of import quotas intended to balance supply and demand. After the 1996 legislation, loans became recourse and nonrecourse. Loans are recourse when the Tariff Rate Quota (TRQ: a two-tiered tariff scheme implemented by the United States on October 1, 1990, to satisfy GATTs ruling on U.S. quotas) on sugar imports is at 1.5 million tons or below. When the TRQ exceeds 1.5 million tons loans become nonrecourse. (A recourse loan means that the U.S. Department of Agriculture can demand repayment of the loan at maturity, regardless of the price of sugar. In contrast, nonrecourse loans require that the government accepts the sugar when the loan matures in lieu of loan repayment in cash, at the option of the processor.) Through the years, there have been

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variations in these general features of the program. It has also included or eliminated regulations concerning the no-cost provision, marketing controls, market stabilization price, re-export program, payment of a service fee, etc. This document provides a detailed comparison of the provisions in the1996 and 2002 farm bills and a brief summary of the changes made to the sugar loan program.

Main Changes in the 2002 Legislation

Very briefly, the changes in the Sugar Program of the 2002 Farm Bill are as follows:

- Terminates marketing assessments.
- Makes in-process sugars eligible for loans.
- Re-institutes the “no-cost” provision.
- Grants the USDA's Commodity Credit Corporation (CCC) authority to establish a pre-plant, payment-in-kind program for sugar beet and sugarcane processors.
- Excludes sugar loan recipients from the requirement of paying an interest rate that is one percentage point above the CCC's cost of borrowing.
- Caps the minimum payment requirement for sugar beet growers.
- Eliminates the forfeiture penalty.

Table 2 summarizes the differences between the 1996 and 2002 farm bills.

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Table 1. The 2002 U.S. farm bill titles.

Title #	Title Names	Expected Costs
I	Commodity Programs	Not estimated
II	Conservation	$17.1 billion
III	Trade	$1.144 billion
IV	Nutrition Programs	$6.4 billion
V	Credit	Not estimated
VI	Rural Development	$1.03 billion
VII	Research	$1.3 billion
VIII	Forestry	$100 million
IX	Energy	$405 million
X	Miscellaneous	Not estimated

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Table 2. Comparison between 1996 and 2002 farm bills.

Sugar Program Provisions	**1996 U.S. Farm Bill**	**2002 U.S. Farm Bill**
Price Support	The raw cane sugar loan rate continued to be fixed at 18 cents per pound; the refined beet sugar loan rate was frozen at the 1995 level of 22.9 cents per pound (instead of varying each year).	The Secretary is directed to operate the sugar program at no net cost to the U.S. Treasury by avoiding sugar loan forfeitures in the nonrecourse loan program. The nonrecourse loan program is reauthorized through Fiscal Year (FY) 2007 at 18 cents per pound for raw cane sugar and 22.9 cents per pound for refined beet sugar. Nonrecourse loans are extended to in-process beets and cane syrups. Loan rates can be reduced, at the Secretary's discretion, if foreign producers reduce export subsidies and support levels below their current World Trade Organization (WTO) commitments. (See SC020, The Sugar Program: Description and Debate, for an explanation of recourse and nonrecourse loans.)
	Marketing assessments paid by sugar processors on all processed sugar increased from 1.1% to 1.375% of the raw sugar loan rate. For beet sugar refiners, the assessments rose from 1.1794% to 1.47425% of the new raw sugar loan rate. Agricultural Appropriations Act suspended marketing assessments in FY 2000-01.	Marketing assessments on sugar are terminated.
	Cane processors paid a penalty of $0.01 on each pound of sugar forfeited to the government; beet processors paid a penalty of $0.0107 per pound.	Forfeiture penalities are terminated.
	The sugar loan program was to be recourse unless the sugar tariff-rate quota (TRQ) was established at or above 1.5 million short tons, raw value. This provision was repealed in the 2001 Agricultural Appropriations Act.	The nonrecourse sugar loan program is reauthorized. The interest rate for Commodity Credit Corporation (CCC) sugar loans is reduced one percentage point. Eliminates 30-day forfeiture notice. (See SC020, The Sugar Program: Description and Debate, for an explanation of recourse and nonrecourse loans.)

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Payment-in-kind PIK offered sugarbeet farmers the option of diverting a protion of their crop from production in exchange for receiving CCC sugar held in inventory.	A sugar PIK was offered in August 2000 and in August 2001 to address large sugar supplies and low prices in the domestic sugar market in 2000 and 2001. Producers offered bids for the amount of CCC inventory they would accept in exchange for forgoing harvest of a farmer-specified number of planted acres. Bids were subject to a per-acre cap based on a producer's average sugar production over the previous three years, and each farmer was limited to $20,000 in PIK sugar payments.	The producer PIK program continues, including a product-for-product pre-planting crop diversion similar to PIK.
Tariff Rate Quota TRQ is part of the Harmonized Tariff Schedule of the United States, as amended in the Uruguay Round of GATT.	A TRQ limited imports and helped maintain U.S. prices at levels to prevent forfeiture of CCC loans. Under the UR-GATT, the TRQ cannot be less than 1.23 million short tons for raw cane sugar nor less than 24,250 short tons for refined sugar.	TRQs are retained. On June 1, 2002, the U.S. Trade Representative, along with USDA, shall calculate used and unused quota for each quota-holding coutry and may reallocate unused quota to qualified quota holders.
Marketing Allotments	Market allotments (supply control) previously authorized in the 1990 Farm Bill were not reauthorized.	Inventory management is introduced, providing authority to the Secretary to impose marketing allotments in order to balance markets, avoid forfeitures, and comply with the U.S. sugar import commitments under WTO and NAFTA. Allotment levels are to be divided between beet processors and cane producers, and with cane producers of Hawaii and Puerto Rico. Allotments are automatically suspended when estimates of imports for domestic food use exceed 1.532 million short tons. Cost of storing excess production is shifted from the Government to the industry. When allotments are in place, processors who have expanded marketings in excess of the rate of growth in domestic sugar demand will have to postpone sales of some sugar, and either store it at their own expense or sell it for other than domestic food use.

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Sugar Storage Facility Loan Program Provides financing for processors of domestically produced sugarcane and sugar beets to construct or upgrade storage and handling facilities for raw sugars and refined sugars.	No similar provisions.	This program extends to sugar processors the type of storage facility loan program available to grain and other crop farmers, and will facilitate orderly marketing of sugar.
Reporting Requirements	No similar provisions.	Expanded reporting requirements will better enable the Secretary to track importation of non-TRQ sugar, molasses, and syrups.
Source: The 2002 Farm Bill: Title 1 -- Commodity Programs. Economic Research Service, United States Department of Agriculture, Washington, D.C. http://www.ers.usda.gov/Features/farmbill/titles/title1commodities.htm		