CENTER FOR TRADE POLICY STUDIES

Free Trade Bulletin

No. 8 • February 9, 2004

A Sticky State of Affairs: Sugar and the U.S.-Australia Free-Trade Agreement

by Aaron Lukas, policy analyst, Center for Trade Policy Studies, Cato Institute

In August 1940, after the Battle of Britain, Prime Minister Winston Churchill famously remarked that, "Never in the field of human conflict was so much owed by so many to so few." In the considerably lower stakes field of trade policy, a variation of that phrase aptly captures the perverse standing of the U.S. sugar industry: "Never have so few taken so much from so many."

Washington uses preferential loan agreements and tariff-rate quotas to keep the price Americans pay for sugar artificially high. Although there is fluctuation, U.S. consumers paid roughly twice the world market price for sugar between 1985–1998.[1] The gap has been even worse in recent years. Currently, a March 2004 contract on domestic sugar costs 20.35 cents per pound while the same sugar at world prices costs 5.74 cents per pound.[2] In other words, because of the sugar program, a U.S. buyer is forced to pay three and a half times the market rate for sugar.

The U.S. sugar program stands in stark contrast to the Bush administration's avowed goal of igniting "a new era of global economic growth through a world trading system that is dramatically more open and more free."[3] Most recently, the yawning chasm between free-trade rhetoric and the reality of sugar protectionism was highlighted in negotiations for a free-trade agreement (FTA) between the United States and its close ally Australia.

Even though negotiators missed an end-of-year deadline set by President Bush and Australian prime minister John Howard, U.S.-Australian FTA negotiations made significant progress over the course of 2003. For the past two weeks, however, the talks threatened to fall apart, with much of the bitterness centered on the U.S. sugar program. The United States' position was that increased market access for sugar is not an option, while Australia insisted that its exclusion would be a deal breaker.[4]

Mark Vaile, the Australian trade minister, and Robert Zoellick, the U.S. trade representative, met regularly in Washington during this period in a dogged effort to save the agreement. In the end, they succeeded—sort of. On Sunday, negotiators announced that Australia had capitulated and accepted a deal that excludes sugar. The United States, in turn, had softened demands that Australia open up in a number of protected sectors. This fight to "keep sugar off the table"[5] was a disappointing departure from the prior U.S. commitment to negotiate high-quality FTAs that open markets for all products across all sectors.

Of course, even without sugar, the United States and Australia will both gain from this deal. Two-way trade between Australia and the United States is already some $28 billion per year. Americans enjoy access to Australian goods such as wine, transportation equipment, and chemicals, while exporting machinery, electronics, services, and a range of other products. An FTA will enhance this productive relationship. A recent study by the American-Australian Free Trade Agreement Coalition estimated that free trade between the two countries would boost U.S. exports by $1.9 billion and U.S. GDP by $2.1 billion.[6]

The United States is Australia's number-one source of capital from abroad. And a full 50 percent of Australia's foreign investment—more than $23 billion—comes to the United States. Those Australian investments support the livelihoods of more than 83,000 Americans.[7] An FTA will encourage additional capital flows between the United States and Australia, building on the base of high-paying jobs that has already been created.

In contrast to some proposed trade agreements, an FTA between the United States and Australia should be an easy sell in Congress. Both parties to the agreement are wealthy countries with high wages. Both have stringent laws intended to protect labor and the environment. The argument that free trade spurs a "race to the bottom" was always flawed, but it lacks even the patina of plausibility in this case.

Yet sugar's absence from this FTA is disappointing on three counts. First, sugar stands out as a symbol of a perceived American hypocrisy on trade. The unwillingness of the administration to even attempt to dismantle self-defeating protectionism in a relatively insignificant sector of the economy calls into question its larger commitment to open markets. Second, in order to get a pass on sugar, U.S. negotiators were forced to overlook Australian protectionism on wheat, broadcasting and audio-visual services, and other areas. Third, the exclusion of sugar from free-trade disciplines sets a terrible precedent that emboldens other import-competing producers to demand similar favors. The U.S. dairy market, for example, will also be spared from full competition under this FTA.

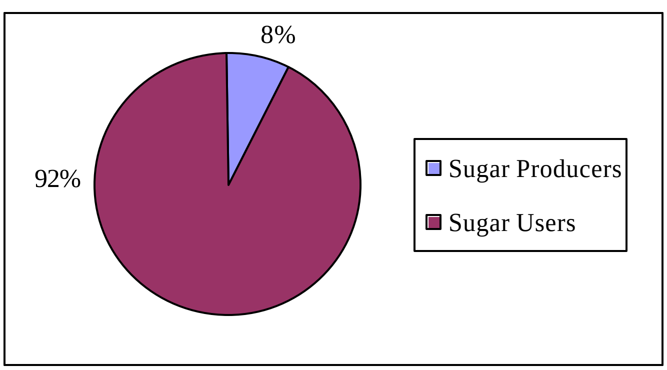
The U.S. Sugar Program: An Unjust, Expensive Boondoggle

It was a mistake for the Bush administration to sacrifice the benefits of true free trade with Australia to save a program that milks consumers and taxpayers, harms sugar-using industries, shortchanges poverty-stricken developing countries, and is a substantial drain on the U.S. economy. The General Accounting Office looked at the sugar program's impact for 1998 and estimated that it cost domestic users of sweetener some $1.9 billion.[8] Similarly, the U.S. International Trade Commission (USITC) has concluded that abolishing the program would result in a net annual welfare gain to the U.S. economy of more than $1 billion.[9]

Sugar protectionism also costs American jobs. According to the USITC, there are some 61,000 full-time-equivalent sugar production jobs in the United States. That figure includes all farm jobs involved in the growing and harvesting of sugarcane and sugar beets. This contrasts with approximately 724,000 people counted by the Commerce Department as working in sugar-using industries. In other words, more than 10 times as many Americans face possible job cuts and slower growth because of the U.S. sugar program than are helped by it.

A study commissioned by the Sweetener Users Association calculated that between 7,500 and 10,000 jobs have been lost since 1997 because of artificially high sugar prices.[10] In fact, this estimate understates potential job losses from sugar protectionism because it counts only jobs *directly* impacted by the price of sweeteners. If the program were dismantled, resources that are currently wasted on expensive sugar would shift to other parts of the U.S. economy, creating new growth and opportunity in unrelated sectors.

Sugar-Related Employment: Producers versus Users



Sources: USITC; U.S. Department of Commerce

In addition, workers in export sectors are victims of "big sugar." As negotiations teetered on the brink of disaster last week, William Lane of the Caterpillar Corporation noted that "We are very concerned that an agreement that is going to help U.S. manufacturers at this critical time . . . could be hijacked by a few protectionist interests that are, quite frankly, unwilling to compete on a fair basis." Under the "sugar-free" compromise, American drug manufacturers, wheat farmers, and entertainers will be denied the opportunity to sell freely to Australians. And the U.S. unwillingness to accept sugar now makes future FTA negotiations with Thailand, Colombia, Peru, and other proposed sugar-producing partners far less likely to succeed.

Most worrisome is the fact that the sugar program has become an impediment to the war on terror—a conflict in which Australia has been a steadfast ally of the United States. The Bush administration has rightly recognized on numerous occasions that fighting dangerous extremists requires the promotion of freedom, democracy, and prosperity around the world. Indeed, as the president urged even before 9/11, "We must reject a protectionism that blocks the path of prosperity for developing countries. We must reject policies that would condemn them to permanent poverty."[11]

Sugar is an important export for many fragile democracies, including those in our own hemisphere. Many reform-minded leaders have staked their political futures on the promise of free trade with the United States. They are greatly weakened by an administration that expects trading partners to accept politically difficult concessions and wrenching economic dislocation while it clings stubbornly to a closed sugar market at home.

Who's Getting Fat on Sugar?

The administration's retreat from free trade for sugar with Australia was reportedly prompted by the reaction of powerful U.S. growers to the increase in sugar quotas—the equivalent of about one day's production of the U.S. sugar industry—negotiated in the Central American Free Trade Agreement.[12] This miniscule increase sparked a panic among domestic growers, who fear any erosion of their power to force Americans to buy their sugar.

The U.S. sugar program is a classic case of concentrated benefits and diffused costs. A very small number of sugar growers receives enormous benefits, while the costs of providing those benefits are spread across the U.S. economy. Consequently, U.S. sugar producers have a very strong incentive to lobby and fund campaigns of U.S. policymakers. And they have done so. Dominated largely by two companies in Florida (Flo-Sun and U.S. Sugar), the sugar lobby has been a major financial contributor to incumbent politicians. In the 2000 election cycle, for example, Flo-Sun, owned by the wealthy Cuban-American Fanjul family, contributed $690,750 in "soft money" to both the Democrats and the Republicans and $78,200 in direct funds to candidates and the parties.[13] Overall, the U.S. sugar industry contributed $7.2 million to political action committees and $5.7 million in soft money donations, for a total of $13 million—a bargain in exchange for protection worth hundreds of millions.[14]

Conclusion

The U.S. sugar program has always been wasteful and unfair, taxing American consumers and sugar-using businesses to protect a relatively few well-connected growers. Now the program threatens to add the U.S. trade agenda to its list of victims. If this is allowed to happen, a merely foolish program will have become a dangerously reckless program. The U.S.-Australia FTA negotiations offered an excellent opportunity to begin dismantling sugar protectionism. It's unfortunate that the president failed to seize it.

---

1. Mark Groombridge, "America's Bittersweet Sugar Policy," Cato Trade Policy Analysis no. 13, December 4, 2001, p. 4.
2. Prices taken from *Wall Street Journal*, February 4, 2004, p. C13.
3. George W. Bush, speech to the World Bank, July 17, 2001, http://edition.cnn.com/2001/ALLPOLITICS/07/17/bush.speech.transcript.
4. "Time Running Out for U.S., Australia FTA Talks, Large Gaps Remain," *Inside U.S. Trade*, February 5, 2004.
5. Robert B. Zoellick quoted in "Sweet Sabotage," *Wall Street Journal*, February 3, 2004, p. A14.
6. "Partnership for a Stronger Future: U.S.-Australia Free Trade Agreement," American-Australian Free Trade Agreement Coalition report, July 2003, p. 2, http://128.121.179.198/Partnership.pdf.
7. Ibid.
8. U.S. General Accounting Office, "Sugar Program: Supporting Sugar Prices Has Increased Users' Costs While Benefiting Producers," GAO/RCED-00-126, June 2000, p. 5.
9. U.S. International Trade Commission, "The Economic Effects of Significant U.S. Import Restraints: Third Update 2002," Investigation no. 332-325, publication 3519, June 2002, p. 75.
10. "Food & Beverage Jobs Disappearing due to Sugar Program," Promar International Report, December 2003.
11. Bush.
12. "Sugar: Putting CAFTA into Perspective," USTR Trade Facts, January 26, 2004, http://www.ustr.gov/new/fta/Cafta/2004-01-26-sugar.pdf.
13. Larry Lipman, "New Battle Is Brewing over U.S. Sugar Program," Cox Washington Bureau, June 17, 2001, www.coxnews.com/washingtonbureau/staff/lipman/061701SUGAR17.html.
14. Common Cause, "The $1 Billion PB&J Sandwich," *Pocketbook Politics: How Special-Interest Money Hurts the American Consumer*, 1998, www. commoncause.org/publications/pocketbook5.htm.