UPDATE

The Heritage Foundation
Backgrounder
214 Massachusetts Avenue N.E. Washington, D.C. 20002 (202)546-4400

12/10/86
Number 32

U.S. IMPORT QUOTAS ON SUGAR: SOURING REAGAN'S CARIBBEAN BASIN INITIATIVE

(Updating Backgrounder 544, "Reviving the Wilting U.S. Policy in the Caribbean," November 10, 1986.)

In accordance with a congressionally mandated formula, the Department of Agriculture on December 15th will designate the total amount of sugar that can be imported into the United States during all of 1987. The figure likely will be 1.1 million tons, a substantial decrease from this year's 1.7 million tons. These tight limits on imports will cut down the supply inside the U.S. and thus drive up the price paid by the American consumer. The price for sugar on the world commodities market is currently about 5 cents/lb., the U.S. price is about 21 cents/lb. In addition to their effects on American consumers, U.S. sugar quotas are bad for the economies of the Caribbean and Central American countries that the U.S. is trying to help. Ronald Reagan's Caribbean Basin Initiative (CBI), passed by Congress in 1983, made the two dozen or so Caribbean and Central American countries eligible for more liberal access to the U.S. market to spur their economic development. For many of these countries, sugar is a major export. The cuts in U.S. sugar imports therefore have certainly not helped but have added to the problems of their fragile economic and social systems and also indirectly fostered increased drug trafficking and political instability.

To prevent further damage, Reagan at least should reallocate the quotas immediately so that Caribbean nations get a larger share. In the long term, Reagan should urge Congress to phase out entirely the U.S. price support program for sugar and to open the U.S. market to more imports from nonsubsidized producers. In addition, the Administration should continue to oppose European agricultural subsidies, which have resulted in the massive dumping and price distortion of sugar on the world market.

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Sugar is the main crop and principal export of many CBI countries. For example, it is the number one export of the Dominican Republic and Belize. Yet while world sugar prices have been severely distorted by U.S. price support programs and even more by the massive European subsidies, the CBI countries' share of the U.S. market has been cut from a high of about 1.1 million tons in 1984 to 600,000 tons in 1986. And the 1987 quota for these countries is expected to drop to around 400,000 tons. Caribbean sugar mills already have closed, creating serious unemployment and financial problems for the region. There has been rioting in the Dominican Republic, and civil unrest is threatened in other countries. And as always the unions are ready to strike at the least sign of economic trouble, already a problem in Jamaica. Most CBI countries are attempting to diversify their economies to decrease the reliance on sugar, but this will take time. One immediate result of tighter U.S. market restrictions is increased cultivation of marijuana and other drug crops as the alternative for desperate farmers. In addition, serious political disorders are on the horizon, as extreme leftist and communist groups, backed by Cuba and the Soviet Union, stand poised to take advantage of the economic difficulties.

The December 15th cuts in U.S. sugar imports are mandated by a formula in U.S. agriculture laws and cannot be prevented. But since the President has authority to allocate the quotas among the various exporting countries, he should use it to improve the situation. The President should set higher quotas for the more needy countries that are competitive producers of sugar, such as the Dominican Republic and Barbados. In addition, quotas could be lowered for countries such as Canada, which in fact are net sugar importers, buying sugar at the 5 cents/lb. world price and reselling to the U.S. at its 21 cents, protection-boosted price. And there could be cuts for other countries, such as Australia, which are very competitive net exporters of sugar, and could survive quota cuts more easily than could the many CBI countries. Such redistribution of import quotas from less competitive and less needy countries to various CBI countries would provide economic relief to the Caribbean region without hurting other U.S. suppliers.

In reallocating quotas, the Administration should emphasize that the U.S. does not want to escalate trade tensions but to deal in the short term with a serious situation. In addition, the Administration must work with Congress to phase out over the long term domestic sugar programs and trade restrictions that hike U.S. sugar prices. Finally, the Administration should continue to oppose the dumping of subsidized European sugar on the world market. Economic problems often lead to political problems, which Congress and the Administration recognized when they created the CBI. But sugar's contribution to CBI economic well-being was left out of the equation. This deficiency must be corrected, or lasting economic and political damage will be inflicted on U.S. neighbors in the Caribbean.

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