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DR–CAFTA Yes, Sugar No

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Listening to the sugar lobby, one would think that sugar imports were at the heart of every recent trade agreement. It seems that whenever the United States considers trading more freely with another region or country, the sugar industry hijacks the debate.

Because trade agreements negotiated under the President's Trade Promotion Authority must be approved or disapproved by Congress without amendments to the text of the agreement, the sugar industry can derail an entire agreement if it can generate enough concern that the agreement is unfair to sugar producers. If successful, the industry and its lobbyists win uninterrupted government protection and support, and almost everyone else in America—including most households, farmers, and manufacturers—loses a lot.

The U.S. sugar program is a textbook example of the perverse effects of concentrating a program's benefits in the hands of a few while dispersing the costs over a much larger population. The handful of U.S. sugar producers jealously protect the government windfalls that they reap, while each consumer has little, if any, incentive to fight back. It is no wonder that the sugar lobby has lasted so long and is now trying so loudly to drum up opposition to the Dominican Republic–Central America Free Trade Agreement (DR–CAFTA).[1]

Big Sugar claims that freeing trade by just a little bit will destroy the industry and good American jobs. However, contrary to the sugar industry's claims, protecting sugar is not about protecting jobs. Since 1989,

Talking Points

- Sugar is not a major issue in DR–CAFTA, and Congress should approve the agreement promptly.
- At most, DR–CAFTA will cost the U.S. sugar industry 1.2 percent of the U.S. domestic sugar market, growing slowly over 15 years to 1.7 percent of current consumption.
- The sugar quotas and high prices hurt U.S. sugar consumers and end up costing more jobs than the sugar industry could possibly create. In 2003, the sugar industry employed only about 52,000 workers—less than one-tenth of the sugar-using industry's workforce.
- Higher sugar prices are undermining the U.S. sugar-using industry's ability to compete on the global market. As a result, some companies, including candy manufacturers Brach's and Kraft (which makes LifeSavers), have relocated their U.S. operations overseas in an attempt to remain competitive.

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employment in the sugar industry has declined, despite steady or increasing production and steadfast support from the government. Meanwhile, protections for the sugar industry threaten jobs in the sweetener-using industries, which provide more than 10 times the number of jobs in the sugar industry. If the lobbyists successfully stop the passage of DR–CAFTA, the loss to the U.S. and the region as a whole will far exceed the negligible cost to the sugar industry if the agreement passes.

Congress should therefore move quickly to approve DR–CAFTA. Sugar growers' concerns should be reserved for the next discussion of a farm bill. Unfortunately for the sugar industry, a thorough analysis of its Depression-era protectionist program could easily lead to the elimination of the quotas and tariffs that benefit the industry at the expense of Americans' paychecks and jobs.

Overview of the U.S. Sugar Program

The U.S. sugar industry is composed of sugar beet growers, sugar beet refiners, sugarcane growers, sugarcane millers, and raw cane sugar refiners. Refined sugar from sugarcane is identical in composition to refined sugar from sugar beets. With sugarcane, the cane is sent to the mill and made into raw cane sugar, which is then shipped to a separate facility for refining. U.S. sugarcane production is concentrated in Louisiana, Florida, Texas, and Hawaii. Sugar beet production is concentrated in Minnesota, North Dakota, Idaho, and Michigan.[2] Unlike sugarcane, making sugar beets into raw sugar and refining the sugar is done in the same facility.

The United States was the world's fourth largest consumer of sugar in 2003, consuming roughly 10 million tons of sugar in fiscal year 2003.[3] Approximately 85 percent–90 percent of the sugar consumed in the U.S. is produced domestically.

In 2003, sugar farmers and processors earned an estimated $5.7 billion in sales but employed only about 52,000 workers.[4] Of the more than 2 million farms in the United States, fewer than 6,000 (about 0.03 percent) produced sugar beets or sugarcane in 2002.[5]

Therefore, protecting sugar is not about protecting jobs. In 2001, there were approximately 126 sugarcane and sugar beet refineries, mills, and processing plants in the United States.[6] Since 1989, largely as a result of advances in technology and efficiency gains from the mechanization of production, the numbers of both farmers and processors have been declining, and operations have been consolidated without decreasing crop yields and processed sugar output. In other words, government support has grown, but jobs have been eliminated.

Even though the United States is the fifth largest producer of sugar—trailing Brazil, the European Union, India, and China—more is consumed than produced. In 2003, the U.S.

1. The parties to DR–CAFTA are the Dominican Republic, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and the United States.
2. U.S. Department of Agriculture, National Agriculture Statistics Service, "Crop Production: 2003 Summary," January 2004, pp. 46–47, at *usda.mannlib.cornell.edu/reports/nassr/field/pcp-bban/cropan04.pdf* (July 8, 2005).
3. U.S. Department of Agriculture, *Sugar and Sweetener Yearbook*, June 2005, Table 20, at *www.ers.usda.gov/briefing/sugar/data/data.htm* (July 8, 2005).
4. Because of loose reporting requirements, accurate employment statistics for the sugar industry are difficult to calculate. The figure reached above reflects the estimated number of workers in the industry between 2001 and 2002. See U.S. Bureau of the Census, Annual Survey of Manufacturers, 2002; LMC International, "The Importance of the Sugar and Corn Sweetener Industry to the U.S. Economy," August 2001; and U.S. International Trade Commission, "The Economic Effects of Significant U.S. Import Restraints, Fourth Update 2004," Investigation No. 332–325, June 2004.
5. American Farm Bureau Federation, "The DR–CAFTA and Sugar," 2005.
6. U.S. Department of Agriculture, National Agricultural Statistics Service, *2002 Census of Agriculture*, at *www.nass.usda.gov/census* (July 11, 2005); U.S. Department of Agriculture, Economic Research Service, *Sugar and Sweeteners Outlook*, SSS–239, January 30, 2004.

imported about $141 million in raw cane and refined sugar products.[7] However, the value of sugar imports is not completely determined by U.S. demand and market prices. The level of imports is governed largely by U.S. management of the domestic sugar market and trade commitments defined in the North American Free Trade Agreement (NAFTA) and the World Trade Organization (WTO) Agreement on Agriculture.[8]

Unlike the rest of U.S. agriculture, the sugar industry does not receive support through government subsidies. Instead, the federal government maintains a high domestic minimum price for refined sugar through a combination of preferential loans, domestic production quotas, and import restraints. By restricting supply and setting an artificially high price for sugar (a price floor), the program enables the industry to earn more than enough revenue to cover its relatively high production costs. This encourages U.S. producers of raw cane and sugar beets to pump out more sugar than they should, generating an oversupply of domestic sugar that sits unconsumed in warehouses.

The "success" of the program is reflected in historic prices for U.S. sugar that are from two to four times the price of sugar in the world market. This is good for the U.S. sugar industry but bad for American consumers who pay more than they should for a little sugar in their morning coffee. The lost income could have been saved or spent on other things. This is also bad for any American business that must purchase overpriced sugar for use in production of its own goods. The lost revenue could have been invested or used in more productive ways. Inflated sugar prices also erode the competitiveness of the sugar-using industry because it must charge higher prices for its own goods to cover excessive production costs.

The Price of U.S. Sugar Protection

The two primary components of the sugar program are a domestic price support loan program and the Tariff-Rate Quota (TRQ) import structure, which is a combination of quotas and tariffs. Briefly, if a country sends more than its quota of sugar to the U.S., the excess amount is hit with a high tariff, which makes the excess sugar uncompetitive on the U.S. market.

Under the loan program, the U.S. Department of Agriculture (USDA) provides loans of 18 cents per pound for sugarcane and 22.9 cents per pound for sugar beets to U.S. sugar processors. To qualify for government loans, sugar processors agree to use a portion of the proceeds of the loans to pay a minimum price (set by the USDA) to sugarcane and sugar beet producers.[9]

The program is designed to help protect U.S. sugar farmers and refiners from incurring financial loss. The program's loan rate acts as a guaranteed price floor for sugar processors, with the government functioning as a guaranteed customer.[10] If the market price of sugar exceeds the loan rate at the time of sale, the processor sells the sugar on the open market and repays the government loan plus interest. If the market price is less than the loan rate, then sugar processors are permitted to forfeit the sugar to the government in lieu of full payment of their loans, with no penalties attached. Because forfeiture is costless, processors have every incentive to default on the loans if the market price is below the level necessary to repay the loan plus interest. Thus, the effective price of sugar faced by the sugar industry is no less than the loan rate.

The sugar program also relies on marketing allotments that limit the amount of sugar that domestic producers can sell on the U.S. market. These measures facilitate USDA administration of

7. U.S. Department of Agriculture, *Sugar and Sweetener Yearbook*, June 2005, Table 23, at *www.ers.usda.gov/briefing/sugar/data/data.htm* (July 8, 2005).
8. U.S. International Trade Commission, "The Economic Effects of Significant U.S. Import Restraints."
9. U.S. International Trade Commission, "Industry & Trade Summary: Sugar," Publication 3405, March 2001, and U.S. Department of Agriculture, Economic Research Service, "Farm and Commodity Pricing: Sugar Program," updated April 1, 2003, at *www.ers.usda.gov/briefing/farmpolicy/2002sugar.htm* (July 8, 2005).
10. *Ibid.*

the program at "no direct cost" to the government and support special export programs designed to boost the competitiveness of the U.S. sugar industry in world markets. Under extreme circumstances, the government can also support prices if they fall below the minimum price (price floor) by purchasing excess sugar off the U.S. market.

The preferential loans and tariff-rate quotas generate artificially high domestic sugar prices that distort incentives for both sugar growers and sugar consumers. American growers respond by growing as much as they can, resulting in an oversupply that puts downward pressure on future sugar prices. Foreign sugar growers try to use up their TRQ allocations to take advantage of the high U.S. sugar prices and export as much as they are allowed. Because the USDA will be "left holding the sugar" if the domestic price falls below the price floor created by the loans, the government has an incentive to keep out foreign-grown sugar and keep down the total domestic sugar supply. Since the program is a windfall to U.S. sugar producers, they too do not want it swept away by foreign sugar. This alignment of the government's and growers' incentives creates pressure for additional trade barriers and greater direct domestic support down the road.[11]

However, the quotas and high prices hurt U.S. sugar consumers and end up costing more jobs than the sugar industry could possibly create. Household consumers react by reducing purchases of products that contain sugar and searching for similar items with lower costs. Manufacturers that use sugar in their products look for lower-cost ingredients and/or relocate their operations to countries with more competitive sugar markets. For example, candy manufacturers Brach's and Kraft (maker of LifeSavers candy) have relocated their U.S. operations overseas in an attempt to remain competitive. Since there are 10 times more jobs in sugar-using industries than in the sugar industry itself, the loss of jobs due to the artificially high cost of sugar exceeds the number of jobs that the sugar industry may create.[12]

According to the U.S. General Accounting Office,[13] the sugar program's primary beneficiaries are domestic sugar farmers and processors who received an estimated $800 million in benefits in 1996 and about $1 billion in 1998.[14] Foreign sugar exporters also benefit from the artificially high U.S. sugar prices. In the same report, the GAO estimated that the sugar program transferred $400 million of wealth from U.S. consumers and sugar-using businesses to foreign sugar growers in 1996 and 1998. The GAO concluded that the U.S. sugar program cost America around $1.9 billion in 1998. A 2004 study by the U.S. International Trade Commission found that eliminating the sugar program would benefit the U.S. economy by almost $1.1 billion.[15]

Interestingly, these studies found that removing the sugar program would not decimate U.S. sugar producers. Free trade would not kill sugar. While domestic sugar production levels would decline and prices would drop to world levels, the U.S. sugar industry would still be profitable.

With so much wealth flowing from U.S. consumers to the sugar industry, it is little wonder that growers are willing and able to spend so much effort and money to maintain the sugar program. Because the industry is dominated by a small number of large producers and processors, little coordination is required. All the participants have so much at stake that they are willing to donate to the cause. According to companies that

11. Donald Mitchell, "Sugar Policies: Opportunity for Change," World Bank *Policy Research Working Paper* No. WPS 3222, February 2004, at *econ.worldbank.org/files/33194_wps3222.pdf* (July 8, 2005).

12. Promar International, "Food and Beverage Jobs Disappearing Due to Sugar Program," December 2003.

13. The General Accounting Office was renamed the Government Accountability Office in 2004.

14. U.S. General Accounting Office, *Sugar Program: Supporting Sugar Prices Has Increased Users' Costs While Benefiting Producers*, GAO/RCED–00–126, June 2000. Similar results have been obtained in other studies. See C. M. Rendleman and T. W. Hertel, "A Policy Model for the Sweetener Industry," Purdue University *Staff Paper* No. 90–19, January 1991.

15. U.S. International Trade Commission, "The Economic Effects of Significant U.S. Import Restraints."

track political spending, such as Political Money Line and the Center for Responsive Politics, the sugar industry contributed from $2.4 million to $3.2 million to congressional candidates and political parties in 2004.

Implications of DR–CAFTA for the U.S. Sugar Program

The sugar industries in the Dominican Republic and countries of Central America are composed of sugarcane farmers and refiners. The region does not produce sugar beets. Collectively, the region was the world's ninth largest producer of raw and refined sugarcane in 2003, accounting for about 3 percent of world production.[16] In 2003, the U.S. tariff-rate quotas allowed 14 percent of the region's sugar exports to reach the U.S. market—less than 7 percent of total U.S. imports of sugar.

DR–CAFTA would result in only a slight increase in each country's TRQ, but no reduction in over-quota tariff rates.[17] After 15 years of DR–CAFTA, the agreement permits countries with a net trade surplus in sugar an annual increase of 2 million short tons to the total level of the TRQ.[18]

Assertions that DR–CAFTA is so "fatally flawed" that it will flood the already oversupplied U.S. market with cheap sugar do not hold up to scrutiny. Sugar is not a major issue in the agreement—certainly not to the extent that it would send U.S. sugar farmers and workers to the unemployment line as the sugar industry charges. Nor is there validity to the theory that DR–CAFTA is the first of many trade pacts designed to whittle away domestic sugar's grip on the U.S. market.

DR–CAFTA only allows qualifying Central American countries to export an additional 107,000 tons of sugar to the U.S. in the first year of the agreement. This represents about 1 percent–1.2 percent of annual U.S. sugar consumption—equal to about a teaspoon and a half of sugar per American per week and little more than one day's average domestic sugar production. Even after 15 years of DR–CAFTA, new sugar imports would amount to no more than 1.7 percent of domestic demand.[19]

By the numbers, DR–CAFTA would not allow the countries of Central America to dump sugar on our shores. Moreover, if imports under DR–CAFTA ever threatened the sugar program's stability, safeguards in the agreement would allow the U.S. to turn off the trickle of imports.[20] But that is highly unlikely. Contrary to the sugar industry's claims, the U.S. sugar market is not oversupplied. The latest USDA forecast projects that America will need to import at least 600,000 tons of sugar to meet domestic demand in 2006.[21]

Studies by the U.S. International Trade Commission, American Farm Bureau Federation, Office of the United States Trade Representative, and USDA Foreign Agricultural Service have all concluded that DR–CAFTA will not affect the domestic sugar industry in any significant way. The sugar industry will continue to be protected from competing on the global market, and con-

16. *Ibid.*

17. American Farm Bureau Federation, "The DR–CAFTA and Sugar," 2005; U.S. International Trade Commission, "The Economic Effects of Significant U.S. Import Restraints"; Office of the U.S. Trade Representative, "The Dominican Republic–Central America–United States Free Trade Agreement," at *www.ustr.gov/Trade_Agreements/Bilateral/CAFTA/CAFTA-DR_Final_Texts/Section_Index.html* (July 8, 2005).

18. Office of the U.S. Trade Representative, "The Dominican Republic–Central America–United States Free Trade Agreement."

19. American Farm Bureau Federation, "The DR–CAFTA and Sugar," and Office of the U.S. Trade Representative, "Sugar: A Spoonful a Week," *CAFTA Policy Brief*, February 2005, at *www.ustr.gov/assets/Trade_Agreements/Bilateral/CAFTA/Briefing_Book/asset_upload_file923_7210.pdf* (July 8, 2005). The estimated level of imports is around 1 percent, according to U.S. International Trade Commission, "The Economic Effects of Significant U.S. Import Restraints."

20. Office of the U.S. Trade Representative, "Sugar: A Spoonful a Week" and "The Dominican Republic–Central America–United States Free Trade Agreement."

21. U.S. Department of Agriculture, "World Agricultural Supply and Demand Estimates," WASDE–423, June 10, 2005, at *www.usda.gov/oce/waob/wasde/latest.pdf* (July 8, 2005).

sumers will still get a raw deal from the sugar program. The U.S. sugar program ensures that the artificially high sugar prices paid by U.S. consumers and producers will not plunge after DR–CAFTA is implemented.[22] Contrary to Big Sugar's squeals and fears, DR–CAFTA does not portend either the demise of the industry or a significant drop in its employment.

What Should Be Done

Sugar is not a major issue in the agreement. For the common good, Congress should look beyond the overblown complaints of Big Sugar to the underemphasized benefits to millions of Americans under DR–CAFTA. To do this, Congress and the Administration should:

- **Approve DR–CAFTA now** and later address the real sugar problem by eliminating the wasteful price supports, loans, and quotas;
- **Delete the sugar program from the next farm bill**, or sooner; and
- **Abolish tariff-rate quotas on sugar** at the next WTO meeting in December. Freeing the U.S. sugar market from costly government intervention and protectionist policies will sweeten the day for American consumers and business.

The Real Flaw

The sugar industry enjoys an unusual level of protection that has survived every ratified U.S. bilateral and multilateral trade agreement—with the exception of NAFTA. Even the recent free trade agreement with Australia left in place complete protection for the U.S. sugar industry at the expense of U.S. firms' access to Australia's wheat and services markets. Numerous studies indicate that the sugar industry is not a "victim" of trade. Rather, U.S. consumers and firms are the victims of the sugar industry's shrewd and successful lobbying campaign, paid for by American sugar consumers.

The "fatal flaw" in DR–CAFTA is that it does not go far enough to open the U.S. sugar market to the rigors of international competition. Political unwillingness to apply the rules and principles of free trade across all sectors of the American economy in a fair manner will continue to cost Americans jobs and impose higher supermarket prices on the American consumer.

When the U.S.–Australia Free Trade Agreement was proposed, the sugar industry sang its siren song for unadulterated trade protection and prevailed. The industry is making the same doomsday predictions about DR–CAFTA. Protecting 1.2 percent of an industry that contributes less than 1 percent to total U.S. farm earnings is not worth dashing increased opportunities for so many other farmers and businesses across the U.S. economy. Congress should not sacrifice the best interests and economic gains of almost 297 million Americans to the overblown fears of the 52,000 people employed by the sugar industry.

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22. Numerous studies have been conducted to measure the effect of DR–CAFTA on U.S. sugar prices. Depending on the modeling technique and assumptions, estimated reductions in U.S. raw sugar prices range from less than 1 percent to about 3.2 percent. The higher estimate equates to a price change of less than one cent per pound. See U.S. International Trade Commission, "The Economic Effects of Significant U.S. Import Restraints," and M. E. Salassi, P. L. Kennedy, and J. B. Breaux, "Impact of Potential Bilateral Free Trade Agreements on Projected Raw Sugar Prices and the Economic Viability of the Louisiana Sugar Industry," Louisiana State University Agricultural Center *Staff Report* No. SP2003–07, October 2003.

APPENDIX

HOW THE PROGRAM WORKS

The American sugar industry has enjoyed some form of government protection from the forces of global competition since the late 1700s. However, it was the Depression-era Jones–Costigan Act of 1934 that created the basic structure of today's U.S. sugar program.

The sugar policy was enacted after surging domestic production, surging imports, and declining consumption levels drove down the U.S. price of sugar. To cover their high production costs, domestic sugar producers, especially sugar beet farmers, demanded increased protection from low prices and import competition. Except for a brief interval between 1974 and 1977, the sugar industry has been a constant beneficiary of generous government support and protection policies.

Today's sugar program reflects the same core provisions set out in previous decades of policy. The program's two primary components are the price support loan program and the Tariff-Rate Quota (TRQ) import structure, a combination of quotas and tariffs. Briefly, if a country sends more than its quota of sugar to the U.S., the excess amount is hit with a high tariff, which makes the excess sugar uncompetitive on the U.S. market.

The sugar program also relies on marketing allotments that limit the amount of sugar that domestic producers can sell in the U.S. market. These measures facilitate USDA administration of the program at "no direct cost" to the government and support special export programs designed to boost the competitiveness of the U.S. sugar industry in world markets. Under extreme circumstances, the government can also support prices if they fall below the minimum price (price floor) by purchasing excess sugar off the U.S. market.

Under the loan program, the USDA provides U.S. sugar processors loans of 18 cents per pound for domestic sugarcane and 22.9 cents per pound for sugar beets. These loan rates are allowed to vary if foreign governments raise or lower the levels of their respective sugar support programs above or below their commitments under the WTO.[23] Loans have a term of nine months and must be repaid with interest charges by the end of the fiscal year in which the loan is made or upon sale of the refined sugar product, whichever comes first. To qualify for government loans, sugar processors agree to use the proceeds of the loans to pay a minimum price (set by the USDA) to sugarcane and sugar beet producers.[24]

The program is designed to help protect U.S. sugar farmers and refiners from operating losses. The program's loan rate acts as a guaranteed price floor for sugar processors, with the government functioning as a guaranteed customer.[25] If the market price of sugar exceeds the loan rate at the time of sale, the processor sells the sugar on the open market and repays the government loan plus interest. If the market price is less than the loan rate, sugar processors are permitted to forfeit the sugar to the government in lieu of full payment of their loans, with no penalties attached. Because forfeiture is costless, processors have every incentive to default on the loans if the market price is below the level necessary to repay the loan plus interest. Thus, the effective price of sugar faced by the sugar industry is no less than the loan rate.

The USDA is required to operate the sugar program at no net cost to the government. To do this, the USDA must manipulate the program to ensure that market prices for sugar do not fall below the loan rate. If market prices do fall too low, the gov-

23. U.S. International Trade Commission, "The Economic Effects of Significant U.S. Import Restraints."

24. U.S. International Trade Commission, "Industry & Trade Summary: Sugar," Publication 3405, March 2001; U.S. Department of Agriculture, "Farm and Commodity Pricing: Sugar Program."

25. *Ibid.*

ernment must accept and maintain sugar inventories flowing from forfeits on loans.

One way that the USDA reduces the chance that processors will forfeit their loans is through the sugar Payment-In-Kind (PIK) program. Under PIK, U.S. sugar producers agree to divert acres away from sugar production in exchange for refined sugar held in government inventories. PIK allows the U.S. government to shift the cost of sugar storage onto producers and better manage domestic sugar supplies in a way that still props up domestic sugar prices above the amount needed to cover sugar loans and avoid forfeiture.[26]

The sugar program affects trade in sugar as well. To further reduce the risk of forfeiture on loans, the USDA is authorized to impose flexible marketing allotments (quotas) on domestic producers if the amount of sugar imports is forecast to exceed 1.532 million short tons.[27] The amount of the allotments is derived by subtracting the sum of 1.532 million short tons and starting inventories of sugar from the USDA's estimate of sugar consumption plus final inventories. This buffer or "cushion" allows the USDA greater flexibility in restricting supply in the U.S. sugar market and maintaining high sugar prices on the off chance that foreign producers would be willing to incur over-quota tariff penalties on increased exports to the U.S. market. The value of this total allotment is then adjusted to ensure that domestic sugar supply does not rise to a level high enough to destabilize domestic market prices. The final allotment is then allocated across U.S. sugar producers and processors, setting the maximum amount of sugar that each may produce. The allotment provides the greatest protection to U.S. sugar beets as this part of the industry is less competitive and faces higher production costs than the sugarcane sector.[28] This formula allows the USDA to try to maintain a level of total domestic and foreign sugar supply in the U.S. market that is consistent with the price support and "no cost" loan program.

Marketing allotments are suspended if sugar imports are expected to exceed the 1.532 million short-ton threshold. The allotments remain suspended until imports can be restricted to a level at or below this "trigger" level of foreign sugar supply.[29] If this scenario occurs, the total supply of sugar on the market will rise, depressing domestic sugar prices and increasing the risk that sugar processors will default on their loans. The U.S. government must then incur the cost of the forfeited loans and the increase of sugar inventories. The alternative would be to maintain domestic marketing allotments and to adjust the maximum amount of each domestic supplier's total production downward until total supply falls enough to raise market prices above the loan rate. However, this alternative supports foreign exporters at the expense of domestic producers and is unlikely to occur.

This threshold value of imports is derived from the TRQ component of the sugar program. Under the TRQ system, foreign countries face a low tariff rate for a permitted level of exports while exports above the permitted level face a prohibitively higher tariff rate. Sugar-exporting countries are allocated a portion of a minimum amount of market access, granting a total 1.256 million ton minimum access to the U.S. raw sugar market. An additional amount is allocated to Mexico to satisfy U.S. commitments under NAFTA. This total amount is permitted into the U.S. at the low tariff rates. Certain countries are eligible for further preferential in-quota rates as part of the Caribbean Basin Initiative and Generalized System of Preferences.

The difference between the trigger level of imports for domestic marketing allotments and the

26. Mitchell, "Sugar Policies"; U.S. International Trade Commission, "Industry & Trade Summary: Sugar"; and U.S. Department of Agriculture, "Farm and Commodity Pricing: Sugar Program."

27. *Ibid.*

28. Mitchell, "Sugar Policies," and U.S. International Trade Commission, "Industry & Trade Summary: Sugar."

29. Mitchell, "Sugar Policies"; U.S. International Trade Commission, "Industry & Trade Summary: Sugar"; and U.S. Department of Agriculture, "Farm and Commodity Pricing: Sugar Program."

TRQ level of imports is the amount provided as a "cushion" against a temporary increase in the level of imports or a shift in U.S. demand. The larger the cushion, the safer is the sugar program from collapsing. The smaller the cushion, the greater is the pressure on the sugar program to collapse.

The allocation of refined sugar is distributed to foreign producers on a first-come, first-served basis after special allocations are made to Mexico and Canada per NAFTA obligations. There are additional TRQs on imports of other specialty sugar products, from which Mexico, Canada, Jordan, Singapore, and Chile are exempt because of free trade agreements with the U.S. As a consequence, the quantity of imports fluctuates in response to changes in the level of domestic sugar production and annual TRQ allocations.