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EXECUTIVE SECRETARIAT

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CABI

Executive Registry
83-4195

: Aug. 22, 1983 NUMBER: CA 118847 DUE BY: ______

CT: Cabinet Council on Food and Agriculture to review the Sugar Import Quota Program.

	ACTION	FYI
L CABINET MEMBERS	☐	☐
Vice President	☑	☐
State	☑	☐
Treasury	☐	☑
Defense	☐	☑
Attorney General	☐	☑
Interior	☑	☐
Agriculture	☑	☐
Commerce	☑	☐
Labor	☐	☑
HHS	☐	☑
HUD	☐	☑
Transportation	☑	☐
Energy	☐	☑
Education	☐	☑
Counsellor	☑	☐
OMB	☐	☑
CIA	☐	☑
UN	☐	☑
USTR	☑	☐
CEA	☐	☑
CEQ	☐	☐
OSTP	☐	☐
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	ACTION	FYI
Baker	☑	☐
Deaver	☐	☐
Clark	☐	☑
Darman *(For WH Staffing)*	☑	☐
Harper	☑	☐
Jenkins	☐	☑
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CCCT/Gunn	☐	☐
CCEA/Porter	☐	☐
CCFA/Boggs	☑	☐
CCHR/Carleson	☐	☐
CCLP/Uhlmann	☐	☐
CCMA/Bledsoe	☐	☐
CCNRE/Boggs	☐	☐

RKS: The Cabinet Council on Food and Agrigulture will meet Tuesday, Aug. 23 at 2:00 p.m. in the Roosevelt Room. The background papers which were just received by our office are attached.

TO:

☐ Craig L. Fuller
Assistant to the President
for Cabinet Affairs
456-2823

☑ Larry Herbolsheimer
Associate Director
Cabinet Affairs
456-2800

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THE WHITE HOUSE

WASHINGTON

August 22, 1983

MEMORANDUM FOR THE CABINET COUNCIL ON FOOD AND AGRICULTURE

FROM: DANNY J. BOGGS, EXECUTIVE SECRETARY

SUBJECT: CCFA Meeting on Sugar

Attached is an options paper on sugar for use in preparation for the Cabinet Council meeting scheduled for August 23, at 2:00 p.m. in the Roosevelt Room.

Additional background documents will be circulated later.

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THE WHITE HOUSE

WASHINGTON

August 22, 1983

MEMORANDUM FOR THE CABINET COUNCIL ON FOOD AND AGRICULTURE

FROM: DANNY J. BOGGS, EXECUTIVE SECRETARY

SUBJECT: Review of Sugar Import Quota Program

ISSUES

- o What is the appropriate formula for calculating the sugar market stabilization price (MSP) for FY 1984?
- o How should the MSP be defended in FY 1984?
- o If a sugar import quota is deemed necessary to defend the MSP in FY 1984, what should the size of the quota be?
- o Should the current duty on imported sugar be reduced?

The premise upon which the Administration has implemented the sugar price support program to date has been that the program should be operated at no cost to the Federal Government in any given fiscal year. That premise has dictated what some observers have characterized as an overly protective sugar MSP and an unnecessarily restrictive sugar import quota. A number of Federal agencies question whether the "zero-cost" premise should continue to drive the administration of the sugar price support program, especially when the effect of such premise is to impose unduly high costs on consumers. The Cabinet Council must come to a consensus on this basic policy question before it can resolve the specific issues outlined in this paper.

The first two issues need to be resolved at the August 23 meeting of the Cabinet Council on Food and Agriculture so that the FY 1984 MSP and the results of the review of the sugar import quota program can be published by September 1, as required by Presidential Proclamations 4940 and 4941 of May 5, 1982. Presidential Proclamation 4941 requires that the third issue be resolved by September 15. There is no specific time deadline for resolving the last issue.

BACKGROUND

Sugar is among the most widely cultivated crops in the world. Over 100 countries, with the European Community, Brazil, the

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Soviet Union, India, Cuba, and the U.S. as the leading producers, grow sugar beets or sugarcane. Sugar is also among the most widely regulated commodities. In countries where it is produced, governmental direction affects production levels, prices, and wages. In countries that import sugar, governments frequently control imports to maintain the structure of the competing domestic industry, to derive revenue, and to keep consumption at a given level.

Another characteristic of the world sugar market is that relatively little sugar is traded internationally on the so-called free market. Approximately 70 percent of world sugar production is consumed in its country of origin, usually at prices and in quantities established by the government. About 10 percent is sold in preferential markets. Hence, only about 20 percent of the sugar produced is traded on the free market.

Because of its relatively small size, the free market bears a disproportionate share of sugar shortages and supluses. Unstable prices reflect this condition. For example, when crop failures are widespread and world demand exceeds supply, producing countries withhold their production to meet domestic needs first, preferential arrangements second, and the world market demand last. The world price often soars as a consequence. Similarly, when there are widespread bumper harvests and world supply exceeds demand, the world market becomes a distress market and the price plummets.

About 55 percent of the sugar consumed annually in the United States comes from domestic sources (30 percent from sugar beets and 25 percent from sugarcane) and 45 percent from foreign sources (virtually all cane). U.S. sugar beets are currently produced in 15 states while domestic sugarcane production is centered in Hawaii, Louisiana, Florida, and Texas.

Sugar derived from sugarcane and sugar beets is the primary sweetener in the U.S. market. The principal alternatives to sugar are noncaloric sweeteners and high fructose corn sirup (HFCS). HFCS is the most important of these alternatives, accounting for 25-30 percent of the total industrial sweetener use and 50 percent of beverage sweetener use.

As a result of the increased use of sugar substitutes, U.S. percapita consumption of sugar has declined in recent years. HFCS use has more than doubled in this period. This trend is expected to continue.

The current USDA price support program for sugar is governed by the provisions of the Agriculture and Food Act of 1981. The purpose of the sugar program is to provide price support to domestic sugarcane and sugar beet growers by guaranteeing that the Commodity Credit Corporation (CCC) will offer loans for processed sugar at the loan rate. The processors are thus able to buy sugar from the growers at a specified price with the know-

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ledge that they subsequently can choose to forfeit the sugar to the CCC and retain the loan proceeds or sell the sugar on the market at a higher price. If sugar imports are allowed to drive the market price below the support price, it is more profitable for the processors to forfeit the sugar to the CCC rather than to sell it in the marketplace.

The Agriculture and Food Act of 1981 requires the Secretary of Agriculture to support the price of the 1982-85 domestic sugarcane crops through nonrecourse loans at such level as he determines appropriate, but not less than 17 cents per pound for the 1982 crop, 17.5 cents per pound for the 1983 crop, 17.75 cents per pound for the 1984 crop, and 18 cents per pound for the 1985 crop. The Secretary is to support the price of domestically grown sugar beets through nonrecourse loans at a level that is fair and reasonable in relation to the level of loans for sugarcane. In establishing this program the Congress indicated that it did not want the operation of the sugar price support program to result in net outlays in any given fiscal year.

Since the raw commodites being supported under the program are not storable, the loans are made not at the farm level but at the first stage where a storable product is produced. Thus loans for cane are made at the mill where raw cane sugar is produced, and beets are supported at the factory in refined form. Loan rates are adjusted by regions depending on transportation costs, with a high cost region receiving a lower loan rate. This is because it would cost more for the CCC to move the product to its normal marketing point in the event of forfeiture. In the event of forfeiture, interest is not paid on the loan, and the actual cost of transporting the product is carried by the CCC.

In order to implement the intent of Congress, the Administration has taken several steps to restrict imports of sugar. These were necessary because of the wide disparity between world and domestic prices. In December 1981, the Administration increased duties to the maximum level and established import fees to protect the CCC against the forfeiture of sugar. These measures added to the cost of the imported sugar, bringing it up to the level of the MSP. During the course of the first four months of 1982, the world price continued to fall sharply, passing the point where duties and fees alone were able to support the MSP. Thus, in May 1982 further changes were implemented. An import quota system was established on a county-by-county basis, and the fee system was retained to provide protection to the program, with appropriate modifications to make it compatible with an import quota program.

Review of the sugar import quota program is required by the terms of Presidential Proclamation 4941 of May 5, 1982. The results of the review will be published in the Federal Register (See Attachment I for USDA's proposed draft of the results of the review).

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DISCUSSION

Sugar producers have urged the Administration to continue to operate the sugar price support program in a highly protective manner. Domestic sugar users and refiners want the Administration to lower the FY 1984 MSP and defend it via import fees and duties rather than an import quota.

The world sugar market is expected to return to a more balanced position in 1983/84 (September-August). Production in 1981/82 reached a record 100.7 million tons, up 14 percent from the previous year, and nearly 11 million tons above consumption. Production decreased slightly in 1982/83, to around 99.2 million tons, still some 5.7 million tons above consumption. The effect of these two very good years was to build up ending stocks to record levels of nearly 38 million tons, or 40 percent of world consumption. Normal ending stocks are estimated to be around 25-28 percent of consumption. The existence of these large stocks has severely depressed world sugar prices. Prices, which had been above 30 cents a pound in early 1981, began to fall sharply and in mid 1982 were as low as 5.5 cents per pound. Production in 1983/84 is expected to decline to around 95-96 million tons, due in large part to decreases in production due to weather problems. Consumption is expected to grow to around 95 million tons. World prices have strengthened in recent months and are now around 11 cents. The existence of very large stocks is expected to moderate future price increases, however. The psychological effect of a balance in production and demand after two years of surpluses might exert an upward price effect of a cent or two, but most market observers believe that world sugar prices will stay in the current range of 10.5 cents to 13.5 cents per pound in FY 1984.

The market stabilization price (MSP) was authorized in Presidential Proclamation 4887 of December 23, 1981. It represents the price at which it is felt producers will find it more attractive to sell sugar in the market, rather than forfeit it to CCC. Experience in 1977, when import fees were first used on sugar, showed that when the market price was equal to the loan rate, forfeitures occurred, and CCC acquired sugar. Thus it was felt that a cushion was necessary on top of the loan rate in order to provide adequate protection. The cushion represents the highest cost of marketing sugar, sales from Hawaii to Gulf and Atlantic ports. The highest cost factor was chosen so as to provide the maximum protection to the program and thus avoid Federal acquisitions of sugar. In addition to the transportation and handling factor, there is an interest rate factor and a "marketing incentive" factor. These components are required under provisions of Presidential Proclamation 4940 of May 5, 1982 (See Attachment II for an explanation of the calculations of the components of the FY 1984 MSP). The FY 1984 MSP must be announced by September 1, 1983.

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Domestic sugar users and refiners complain that by establishing an overly protective MSP the Administration is imposing a burden on consumers in the form of unduly high sugar prices. They claim that two components of the MSP -- the interest rate factor and transportation and handling charges -- could be adjusted so as to reduce the MSP without subjecting the CCC to large acquisitions of sugar. Sugar users believe that the MSP could be reduced by up to 3.5 cents per pound by requiring processors to pay interest and transportation costs if they forfeit sugar under loan or by establishing transportation costs on a basis that represents the average rather than the most expensive marketing scenario. A 3.5 cent reduction could save consumers roughly $2 billion.

Sugar users and refiners claim that such a reduction in the MSP would permit the Administration to use import fees and duties rather than an import quota to protect the MSP from material interference from foreign sugar shipments. This would allow the Administration to escape from an import quota program that is inconsistent with its free trade philosophy and burdensome to administer. Moreover, opponents of the quota system suggest that a return to import fees and duties would generate revenues for the Treasury.

Sugar producers and processors take the position that the Administration's implementation of the domestic sugar price support porgram and accompanying border protection measures are necessary to provide fair prices for growers without exposing American taxpayers to additional budget outlays. They assert that the elimination of the interest and transportation factors in the computation of the MSP would be inconsistent with other similar commodity price support programs that do not require participants to pay interest or transportation costs upon forfeiture. They also point out that the use of average transportation and handling costs rather than the highest transportation and handling costs would encourage processors to forfeit up to $550 million worth of sugar to CCC.

Sugar producers and processors question whether the market fundamentals are such as to generate world sugar prices that can be raised to the MSP level via import fees and duties, given the limits imposed by current law on the maximum levels of fees and duties. They suggest that the Administration continue to employ the quota as its primary means of border protection, relaxing the quota when it becomes clear that domestic sugar prices can be maintained at the MSP while increased amounts of foreign sugar are permitted to enter the country. Most parties believe that it would be less disruptive of the market to take this course of action rather than to move back and forth between a quota and a system of fees and duties.

Should it be determined that an import quota is necessary to defend the sugar MSP, the Secretary of Agriculture will have to announce the size of the quota by September 15. Critics of the import quota program claim that the current quota is too re-

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strictive, forcing domestic sugar prices 1 to 2 cents above the MSP. These critics urge the Administration to relax the 1984 quota so as to avoid overshooting the MSP. The fine tuning of an import quota to achieve a specific price objective is one of the many difficulties associated with the implementation of a quota program. There are bound to be errors no matter what level of care is given to the administration of the program. USDA has suggested two quota-size options for FY 1984 (See Attachment III).

Finally, there is some interest in reducing the sugar import duty. The U.S. currently charges a duty of 2.8125 cents per pound on imported sugar versus a bound minimum rate of 0.625 cents per pound. With the enactment of the Administration's Caribbean Basin Initiative (CBI), 73.3 percent of U.S. sugar imports in FY 1984 will enter duty-free under the GSP program. Proponents state that reducing the duty would minimize the inequitable treatment of the remaining non-GSP sugar exporters (Brazil, Thailand, Philippines, Australia, South Africa) and would constitute a beneficial gesture in advance of the President's November trip to Thailand and the Philippines. Moreover, they point out that the duty is unnecessary to defend the MSP as long as an effective quota system is in place.

Those opposed to reducing the duty emphasize that such action negates the effect of the special treatment accorded to targeted countries under the CBI. They also assert that the reduction in the duty would result in a revenue loss of as much as $34 million and would send the wrong signal to exporters if duties had to be raised at a later date to defend the MSP in the absence of a quota.

OPTIONS

1. What is the appropriate formula for calculating the sugar MSP for FY 1984?

   a) <u>Retain the current formula provided for in Presidential Proclamation 4940</u>.

      Advantages:

      o Would defend against the acquisition of sugar, thus avoiding federal outlays.

      Disadvantages:

      o Would renew charges that we are over protecting the price of sugar at the expense of consumers.

   b) <u>Establish a new MSP formula providing a lower MSP level without any changes in the operation of the sugar price support loan program</u>.

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Advantages:

- o Would make it easier to relax the sugar quota or switch to a duty and fee system of border protection.

- o Would address some of the critics' concerns about the level of price protection provided for domestic sugar producers.

Disadvantages:

- o Would lead to an increased risk of CCC acquisition of sugar, increasing Federal budget outlays $60 million to $550 million a year.

- o Would require a new presidential proclamation.

c) Establish a new MSP formula that reflects administrative changes to the sugar price support loan program (i.e. charging interest and/or transportation upon forfeiture).

Advantages:

- o Would allow maximum flexibility to relax the sugar quota or switch to a duty and fee system of border protection.

- o Would not risk any increase in Federal budget outlays.

- o Would address many of the critics' concerns about the level of price protection provided for domestic sugar producers.

Disadvantages:

- o Would be very unpopular with a broad spectrum of agricultural producers and their representatives in Congress.

- o Would require a new presidential proclamation.

2. How should the sugar MSP be denfeded in FY 1984?

a) Continue to use import quota.

Advantages:

- o Would assure stability in the market.

- o Would minimize risk of forfeiture of sugar to CCC.

- o Would be easy to enlarge to permit more sugar to enter domestic market as world sugar price increases.

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Disadvantages:

- o Would be inconsistent with our free trade philosophy and would continue to cause problems in the GATT and the International Sugar Agreement.
- o Would continue to be burdensome to implement.

b) <u>Change to a duty and fee based system</u>.

Advantages:

- o Would be easier to administer.
- o Would be more consistent with international trading rules.
- o Would generate revenue for the Treasury.

Disadvantages:

- o Probably would be unable to defend a high MSP given current and expected world prices.
- o Lack of quantitative restrictions on sugar imports would expose CCC to risk of sugar forfeitures.
- o Potential of returning to quotas would create instability in the market.

c) <u>Rely on CCC acquisitions of sugar to defend the MSP without any form of border protection</u>.

Advantages:

- o Consistent with free trade philosophy.

Disadvantages:

- o No border protection would result in about 4.3 million tons of sugar, valued at around $1.5 billion, being forfeited to CCC.

3. If the sugar quota program is deemed necessary to defend the MSP in FY 1984, what should the size of the quota be?

USDA has recommended two quota sizes for FY 1984. Both are larger than the FY 1983 quota of 2.890 million tons.

a) <u>2.985 million tons</u>

b) <u>3.135 million tons</u>

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See Attachment III for further details.

4. Should the U.S. sugar import duty be reduced?

a) Yes

Advantages:

- o Would reduce the inequitable treatment of the remaining non-GSP sugar exporters (Brazil, Thailand, Philippines, Australia, South Africa).
- o Would be a beneficial gesture in advance of the President's November trip to Thailand and the Philippines.
- o Under an effective quota system the duty is unnecessary to defend the MSP.

b) No

Advantages:

- o Would result in revenue loss of as much as $34 million.
- o Would send wrong signal to exporters if duties had to be raised at a later date.
- o Would negate the intended effects of the CBI.

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DEPARTMENT OF AGRICULTURE

OFFICE OF THE SECRETARY

REVIEW OF THE UNITED STATES SUGAR IMPORT QUOTA SYSTEM

AGENCY: Office of the Secretary, USDA.

ACTION: Notice

SUMMARY: This notice reviews the U.S. sugar import quota system established by Presidential Proclamation 4941 of May 5, 1982.

I. INTRODUCTION

SUPPLEMENTARY INFORMATION: In accordance with paragraph (f) of Headnote 3, subpart A, part 10, schedule 1 of the Tariff Schedules of the United States (TSUS), the Secretary of Agriculture has consulted with the U.S. Trade Representative, the Department of State, and other concerned agencies as to the operation of the sugar import quota system established under the authority of Headnotes 2 and 3 of subpart A of part 10 of schedule 1 of the TSUS, the International Sugar Agreement, 1977, Implementation Act, and Section 201 of the Trade Expansion Act of 1962. After reviewing the operation of the sugar import quota system, the Secretary of Agriculture has determined that the system should be continued in effect in order to give due consideration to the interests in the United States sugar market of domestic producers and materially affected contracting parties to the General Agreement on Tariffs and Trade. The rationale for this decision is based on the following analysis.

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II. QUOTA NEED

A. Background

World sugar production reached record levels in 1981/82 (September/August) totalling an estimated 100.6 million tons of beet and cane sugar. The record output was accomplished by significant increases in sugar beet plantings, especially in the European Community, as well as larger sugarcane harvested acreage in key producing countries. These area increases, which were spurred by high prices in 1980 and the first quarter of 1981, benefitted from generally outstanding growing conditions throughout the world for both beets and cane. This 14 percent growth in production from the preceding year outpaced world consumption by about 11 million tons, creating a surplus supply situation and causing world prices to decline sharply beginning in the spring of 1981. In this environment of upward spiraling world stocks, depressed prices and the mandate of the Agricultural and Food Act of 1981 to support the price of domestic sugar at specified levels, it was obvious that imports, if not restrained, would displace domestic sugar and force it into the hands of the Commodity Credit Coporation. To prevent this, import fees under Section 22 of the Agricultural Adjustment Act of 1933, as amended, and import duties on sugar were increased in December 1981. Despite these increases and owing to a drop in the world price below 10 cents per pound in April 1982 (based on f.o.b. Carribean, No. 11 contract on the New York Coffee, Sugar and Cocoa Exchange) it was no longer possible to achieve, through fees and duties, reasonable market prices which would protect the interests in the U.S. sugar market of domestic producers.

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Heavy imports were threatening to displace domestic sugar from the U.S. market. Such a result would have had adverse effects on the interests of U.S. sugar producers. As a result, the import quota for sugar was modified (effective May 11, 1982) until such time as the world market price strengthened sufficiently to permit a return to an effective system of fees and duties.

Quarterly quotas were established for the May 11 to June 30, 1982 period, and the July 1 to September 30, 1982 quarter at 220,000 and 420,000 short tons, raw value, respectively. On August 11, 1982, the Secretary established an annual fiscal year sugar import quota period of October 1-September 30. For 1983 the global quota was set at 2.8 million short tons.

Concomitantly with the import quota proclamation issued on May 5, 1982, the President issued Proclamation 4940 which revised the Section 22 fee system by increasing the market stablization price (MSP) for the 1982 purchase agreement program from 19.08 to 19.88 cents per pound. On September 1, 1982, the Secretary of Agriculture announced a MSP for sugar of 20.73 cents per pound for 1983.

B. Current World and U.S. Sugar Market Situation

The fundamental imbalance between world sugar supplies and demand carried over into 1982/83. World output of centrifugal sugar in 1982/83 is currently estimated at 99.66 million tons, down slightly from the previous year's record production. Beet sugar output declined to 36.87 million tons, reflecting a significant drop in the European Community's sugar beet

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acreage and beet sugar production from record 1981/82 levels. However, this decline was largely offset by an improved Soviet crop of 7.4 million tons, compared with 6.4 million tons the previous year.

World cane sugar output dropped 1.4 percent to 62.79 million tons due, in part, to yield reducing heavy rains in Cuba, Peru, and Ecuador. In addition, a 700,000 ton decline in India's production to 9.0 million, reflected reduced acreage caused by the price depressing effects of record high internal and international stock levels and a 700,000 ton decline in Thailand's production resulted from depressed prices and less than ideal weather conditions compared with the previous season. These declines were partially offset by an upward revision in Mexico's sugar production to 3.1 million tons, compared with 2.6 million tons forecasted earlier.

Global centrifugal sugar consumption in 1982/83 was initially estimated at 92.4 million tons, 3.2 percent above the previous year. The lingering world recession along with the substitution of other sweeteners for sugar in some economies has hindered more substantial growth in sugar consumption, despite extremely low world prices which averaged under 7 cents per pound during the first eight months of 1982/83. Nevertheless, low prices, abundant supplies and a resurgent world economy are seen to be exerting some added upward pressure on demand in parts of the world, thereby pointing to a small increase in the 1982/83 consumption estimate to around 93.0 million tons.

With respect to the United States, centrifugal sugar production for 1982/83 is now estimated at 5.8 million short tons (5.2 million metric tons). This is down 7 percent from 1981/82 due primarily to reduced sugar

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beet acreage. Cane sugar production increased by nearly 9 percent due primarily to excellent yields. Domestic consumption of sugar in the United States continues to trend downward due largely to substitution of alternative sweeteners, particularly high fructose corn sweeterners (HFCS) by the beverage industry. This increasing shift to HFCS was highlighted this spring when two major soft drink companies permitted more HFCS use is their cola products For 1982/83 sugar utilization is currently estimated at 9.05 million short tons, compared with 9.40 million tons the previous year.

The import quota system has limited the entry of foreign sugar to meet domestic demand to 2.89 million short tons (2.62 million metric tons). For the period October 1, 1982, through August 5, 1983, 2.48 million short tons have been charged against the quotas for the 37 countries which have allocations. The domestic price of raw sugar (c.i.f., duty and fee paid, No. 12 contract as published by the New York Coffee, Sugar and Cocoa Exchange) averaged 21.61 cents per pound for the first nine months of the quota year. As a result of these prices, which are above the 1983 MSP objective, no sugar put under loan to the CCC for the 1983 crop has been forfeited to the U.S. Government.

C. Outlook for World and U.S. Sugar Market

After two consecutive years of substantial world surpluses, world centrifugal sugar production and consumption levels in 1983/84 are likely to be in closer balance. Prospects for 1983/84 world centrifugal sugar production point to a downturn in output to around 94.8 million tons, 4.8 and 5.8 million tons below the two previous years, respectively. Current

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world sugar beet acreage for beets, planted in the spring of 1983 in the Northern Hemisphere to be harvested in the fall, are off from the record highs of the two previous years. In the European Community, for example, area planted to beets is down 9 percent from the 1982/83 level. Due to cool and very wet weather in the spring and early summer followed by very hot and dry conditions, beet yields in Europe are expected to be off. Consequently, sugar production in 1983/84 is forecast at around 11.7 million tons raw basis in the European Community, down 21 percent from the 14.8 million tons produced in 1982/83. Somewhat offsetting this decline are relatively stable production prospects in Eastern Europe and the USSR. With respect to cane sugar, drought in the key producing and exporting countries of South Africa and Australia are expected to reduce the crops in those countries by 26 and 15 percent, respectively. The Philippine crop is also expected to be reduced by dry weather. Offsetting some of these declines, centrifugal cane sugar output in important sugar countries in Central and South America and the Caribbean are expected to be up from 1982/83 levels. Production in Brazil is initially forecast at 9.4 million tons, compared with 9.3 million tons in 1982/83. More normal harvest conditions should permit Cuba to increase its sugar output to around 7.5 million tons. In China, continued expansion in sugarcane production is anticipated.

A global increase in consumption to around 96 million tons is anticipated, given recent trends and continued relatively weak world prices. This forecast assumes a modest recovery in the global economy and continued growth in consumption in Africa, the Middle East and Asia, especially in the oil-exporting countries in these regions. While world production and consumption are likely to be in rough balance or slightly in deficit in

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1983/84, the possible deficit is not expected to be large enough to significantly reduce the large world sugar stocks still overhanging the market (estimated at 42 percent of consumption or 40.2 million tons, compared with "normal" ending stocks of 20-25 percent). These stocks, as well as the continued growth in some markets of alternative sweeteners to sugar, continue to have a dampening effect on prices. The viability of this analysis is reflected in world sugar futures prices which currently range between 11.58 cents per pound for contracts due in September 1983 and 13.45 cents per pound for contracts due to mature in September 1984.

For 1983/84, U.S. sugar production is forecast to be around 5.7 million short tons, about the same level as 1982/83. Lower yields for sugar beets stemming from wet weather and delayed plantings this spring are anticipated. However, this should be largely offset by higher cane sugar output particularly in Florida. Domestic utilization of sugar is expected to drop to 70 pounds per capita or 8.75 million short tons, compared with 72.4 pounds per capita and 9.05 million short tons in 1982/83. While this anticipated 3 percent drop in consumption is significant, it indicates that the decline is decreasing at a decreasing rate as the market potential for the primary sugar substitute HFCS is reaching maturity. With the increased demand for HFCS from beverage companies, HFCS capacity utilization has tightened and has helped raise HFCS prices. After ranging from 17.0 to 18.5 cents in April, prices for HFCS-55 (used in soft drinks) surged to 22.0 to 23.5 cents a pound in June. Prices are now about 7 cents higher than in January 1983, and 3 to 4 cents above the 1982 calendar year average.

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If world prices were high enough, it would again be theoretically possible to achieve U.S. price support objectives utilizing only import fees and duties rather than restrictive quotas. Utilizing the 1982/83 MSP of 20.73 cents per pound, assuming maximum authority on duties and import fees, the minimum world price at which the MSP can be achieved is 11.08 cents. This calculation changes when the GSP allowance is taken into account. Under the current quotas, 56 percent of imports are GSP duty free. With the enactment of the Caribbean Basin Initiative (CBI) the Dominican Republic is expected to receive duty free treatment. As a result, 73.3 percent of quota imports would be duty free in fiscal year 1984. In addition, minimum world price at which the MSP can be approached without quotas is 12.80 cents per pound. As a practical matter, world sugar prices would have to move well above this 12.80 cents per pound minimum. USDA would want to be certain that quotas would not be an on-again off-again proposition due to on volatile world prices.

Given the above analysis, we do not foresee prices strengthening sufficiently to move from restrictive quotas to a duty and fee system. The Secretary has determined therefore that quotas should be continued into 1984 and he plans to file notice of the new quota level with the Federal Register no later than the 15th day of the month immediately preceding the calendar quarter during which such determination shall be in effect (i.e. September 15, 1983). In determining such quota amounts the Secretary shall give due consideration to the interests in the United States sugar market of domestic producers and materially affected contracting parts to the General Agreement on Tariffs and Trade.

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III. PERCENTAGE ALLOCATIONS

A. Allocations based on Historical Patterns

In order to give due consideration to the interests in the United States sugar market of materially affected contracting parties to the General Agreement on Tariffs and Trade, the Secretary allocated the global restrictive quota on a country-by-country basis. Allocations were based on historical shipments to the U.S. market.

The following procedure was used to determine country sugar quota allocations. First, data on U.S. sugar imports (by country) from 1975-1981 were obtained from the U.S. Customs Service/U.S. Census. Next, refined sugar imports were converted to a raw equivalent value by multiplying refined sugar imports by 1.07. Total sugar imports were the sum of raw imports plus the raw equivalent value of refined imports. The next step was to discard the high and low observation for each country. The remaining five observations (for each country) were then summed. The next step was to sum all countries' five included observations. The final step was to divide each country's five observation total by the total for all countries. These steps yielded each country's percentage of any import quota. A total of 24 individual country percentage allocations were presented in paragraph (c) of Presidential Proclamation 4941. Percentage allocations for these 24 countries totaled 94.1 percent of total allocation. A "basket" group of small shippers to the United States market were allocated 5.9 percent of the global quota under a 25th category of countries as "other specified countries and areas."

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B. Changes Made for Basket Countries (Other Specified Countries and Areas)

Notwithstanding the allocation provisions set forth in paragraph (c) of Headnote 3, the Secretary may, after consultation with the U.S. Trade Representative, the Department of State, and the Department of the Treasury, issue regulations modifying the allocation provisions governing "other specified countries and areas" if the Secretary determines that such modifications are appropriate to provide such countries and areas reasonable access to the United States sugar market. Such regulations may, among other things, provide for the establishment of minimum quota amounts, the establishment of quota periods other than quarterly periods, and the carrying forward of unused quota amounts into subsequent quota periods.

After consultations, the Secretary determined that modifications to the allocation provisions governing "other specified countries and areas" were appropriate. As a result, on August 11, 1982 regulations governing allocations of sugar import quotas and other specified countries or areas were published in the Federal Register (47FR p 34769). These regulations set forth modified terms and conditions governing the allocation of sugar import quotas for the "basket category" countries. Initially, their percentage allocations had been pooled and they competed on a first-come-first-serve basis for the entire pool. It was found that this type of arrangement created considerable difficulties and uncertainties for countries in the basket category as well as purchasers wishing to acquire sugar from those countries. It was impossible for such countries to guarantee that sugar which they had sold would be able to enter the

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United States within the quota. Also, different shipping distances and harvesting seasons could give some countries a significant advantage over other countries in this category. Taking these considerations into account, it was apparent that these problems could be substantially resolved by providing that each country in the basket category be assigned a specific quota.

Under the rule published August 11, 1982 each country with a pro-rata share greater than 0.5 percent received a quota allocation equal to that share. For those countries with less than a 0.5 percent share, they are permitted to ship 16,500 short tons. This quantity approximates the size of an economically feasible shipment of sugar to the United States from the most distant exporting countries.

These provisions yielded twelve new individual country allocations (Barbados, Bolivia, Fiji, Haiti, India, Malagasy Republic, Malawi, Mexico, Paraguay, St. Christopher-Nevis, Trinidad-Tobago, and Zimbabwe). A thirteenth country, the Ivory Coast, was also added under a separate action because of its membership in the International Sugar Organization.

It is evident from the operation of the quota during 1983 that the modified allocation provisions for the "basket countries" has succeeded in giving assured access to the U.S. market to these countries. As of August 5, 1983 all these countries, with the exception of Trinidad-Tobago which is short of exportable supplies this season, has filled or nearly filled their respective specific quotas for the current quota period.

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IV. PROVISION TO SUSPEND ALLOCATIONS OR MODIFY QUOTA PERIOD

A. Appropriate to Keep Allocations During Period of Restrictive Quotas

In accordance with paragraph (d) of Headnote 3, the Secretary may, after appropriate consultations, suspend the allocation provisions of paragraph (c), if the Secretary determines that such action is appropriate to give due consideration to the interests in the U.S. sugar market of domestic producers and materially affected contracting parties to the General Agreement on Tariffs and Trade.

While some countries have made representations to the Secretary concerning lower than desired allocation, the overwhelming response to the allocation provisions has been that they were constructed using an unbiased, quantitative approach understandable to all. In addition, the operational functioning of quota allocations has performed well in providing a flow of sugar which gives due consideration to the interests in the U.S. sugar market of domestic producers. As of August 5, 1983, 2.48 million tons of sugar has entered against the 1983 quota from 35 of the 37 countries which have specific quota allocations.

B. Modification Made to Annual Quotas

Also in accordance with paragraph (d) of Headnote 3, the Secretary may, after appropriate consultations, establish quantitative limitations for periods of time other than calendar quarters as provided in paragraph (b) if the Secretary determines that such action is appropriate to give due to consideration to the interests in the United States sugar market of domestic producers and m[illegible] affected contracting parties to the General Agreement

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Subsequent to appropriate consultations, the Secretary on August 11, 1982, published in the Federal Register regulations modifying the sugar quarterly import quota periods to an annual quota beginning October 1, 1982. It was felt that establishment of an annual quota would facilitate the access of U.S. trading partners to the U.S. sugar market providing greater flexibility in shipping schedules and the size of individual shipments. Correspondingly, exporters and users of foreign sugar would be able to develop purchasing and production plans with a greater degree of certainly.

It was not anticipated that the movement to an annual quota would have any adverse impact on domestic market prices. In addition, a "Desired Shipping Pattern" was published and agreed to by exporting countries which reduced the potential of "bunching" sugar into any particular part of the year.

This procedure along with the establishment of a certificate of eligibility system was considered adequate to prevent any bunching of imports which might otherwise depress domestic prices for certain periods of time.

After ten months of the 1983 quota year as a record, it is evident that prices have been maintained and the movement to an annual quota, use of desired shipping pattern plan and the certificate of eligibility system has given due consideration to the interests in the U.S. sugar market of domestic producers and materially affected contracting parties to the GATT. Exporters of sugar under quota have been particularly pleased with the certificate system which assures that access to the U.S. market be only that sugar which is accompanied by a certificate.

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V. USTR MODIFICATION OF PERCENTAGES

Two modifications were made in the quota regime for 1982-83

-- The Ivory Coast was allocated a quota of 16,500 short tons. Initially, the Ivory Coast was not given quota because it had only exported sugar to the United States in one of the seven years used for the representative period. As an ISA member, however, the Ivory Coast could not be denied access to our market. Thus, the decision was made to allocate them a minimum quota.

--Zimbabwe's quota was increased from 0.1 percent to 1.2 percent. U.N. sanctions were in place against Zimbabwe (Rhodesia) until December 1979. Thus, its export performance was limited to two years--1980 and 1981. Zimbabwe is a member of the ISA and the GATT and cannot be denied access to our market. Article XIII, paragraph 2(d) of the GATT requires that when administering quotas, due consideration should be taken of special factors that affect trade in a product. Zimbabwe's special factors affect trade in a product. Zimbabwe's quota was thus adjusted so that it would not be penalized for nonperformance during those years when it was barred from the U.S. market.

These following changes in the program are anticipated for quota year 1983-84:

--Uruguay and the Congo will be allocated quota shares of 16,500 short tons. Both countries recently joined the International Sugar Agreement and thus must be granted access to the U.S. market.

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--The quota for Nicaragua is to be reduced to 6,000 short tons. Effective October 1, 1983, the remainder of Nicaragua's quota will be distributed in the following way:

Costa Rica	30 percent
El Salvador	18 percent
Honduras	52 percent

The decision to modify Nicaragua's quota was taken due to the extraordinary situation in Central America and its implications for the United States and the region as a whole, including Costa Rica, Honduras, and El Salvador. Nicaragua will retain a minimum quota of 6,000 short tons to fulfill our GATT and ISA requirements to provide access to our market.

VI. CONCLUSION

The Secretary has determined that the continued operation of paragraphs (b), (c), (d) and (e) of Headnote 3 does give due consideration to the interests in the U.S. sugar market of domestic producers and materially affected parties to the GATT. It follows then that paragraph (g), which would allow for entry of sugar into the United States not to exceed 6.90 million short tons, does not apply.

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United States Department of Agriculture

Economic Research Service

ATTACHMENT II

August 19, 1983

SUBJECT: Calculation of the Market Stabilization Price (MSP) for the 1983 Crop Sugar Loan Program

TO: James Truran/FAS

The attached tables present the procedures used to compute the market stabilization price (MSP) to support the 1983 sugar loan program. You will note that the shipping and handling costs are based on raw sugar movements from Hawaii to Gulf ports. The California and Hawaiian Sugar Company (C&H) has indicated that it is not likely that they will make raw sugar sales to ports North of Hatteras in 1984. Therefore, we have focused only on the costs of shipping raw sugar from Hawaii to Gulf ports. C&H estimates that raw sales to the Gulf will approximate 173,000 short tons, raw value, in fiscal 1984.

Shipping and handling costs submitted by C&H and estimated by USDA are shown in table 1. C&H has submitted costs for four time periods representing actual for calendar 1982, actual for the period 8/1/82 through 7/31/83, partially actual and partially estimated for the period 10/1/82 through 9/30/83, and totally estimated for 10/1/83 through 9/30/84. Depending on the loan rate of interest and based upon C&H's estimated shipping and handling costs of 2.79 cents a pound for fiscal year 1984, the estimated MSP for the 1984 fiscal year ranges from 21.28 to 21.37 cents per pound (table 2).

Interest rates used to make the MSP calculations ranged from 9.00 to 10.00 percent. The 9.75 rate is the weighted average cost of money to the Commodity Credit Corporation (CCC) for fiscal year 1984 as projected by the Agricultural Stabilization and Conservation Service (ASCS) and is based upon the Office of Management and Budget (OMB) approved economic assumptions. The CCC rate of interest for commodity loans for August 1983 is 10.00 percent.

In calculating the MSP based upon USDA's estimated costs, we have taken the 1982 actual costs, except for stevedoring and freight, as submitted by C&H and applied an inflator which is based on a projected increase in the producer price index (PPI) for finished goods. This index is published by the Bureau of Labor Statistics. The Economic Indicators and Statistics (EIS) Branch of the Economic Research Service (ERS) has estimated that the PPI will increase 8.9 percent between 1982 and 1984. The PPI index was 280.7 in 1982 and is estimated to be 305.8 in 1984. The stevedoring and freight costs for 1984 reflect the actual 1983 costs increased 6.0 percent as projected by ERS and measured by the PPI for finished goods between 1983 and 1984. The 1.30 cents shown for freight in C&H's 1982 actual data represent the cost of moving one cargo of 32,000 tons to the Gulf in 1982 in C&H's lowest cost vessel. However, this is not considered representative of what the costs might be for fiscal 1984 when 173,000 tons are expected to be shipped to Gulf ports in a combination of vessels.

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The provisions of Section 1435.106 of the loan regulations require processors to submit information to ASCS on freight costs and related shipping expenses. The provisions also give the ASCS, the Office of Inspector General, USDA, and the Comptroller General of the United States access to processor's premises to inspect, examine, and make copies of books, records, accounts, etc., as deemed necessary to verify compliance with the loan regulations.

In view of the foregoing, it is highly unlikely that C&H's cost information for 1982 would be distorted or not reflect actual costs for that year. Accordingly, we have taken the 1982 actual costs and applied the 8.9 percentage increase projected for the 1982-84 period, except for stevedoring and freight as previously stated, and estimated that the MSP for the 1983 crop loan program will range (depending on the rate of interest) between 21.11 and 21.20 cents per pound. This approach appears much more defensible than if we were to use C&H's estimates for 1984.

The costs of moving Florida raws to North of Hatteras ports which represent the marginal sales area for these raws were 1.90 cents per pound for the 1981/82 crop--the last crop year for which data are actual, complete and currently available. After applying the PPI inflator of 8.9 percent to account for the estimated percentage change between the 1981/82 and 1983/84 crops, the Florida to North Hatteras costs should total approximately 2.07 cents per pound for the 1983/84 crop year.

Therefore, sales of Hawaiian raws to the Gulf appear to be the marginal area for the 1983/84 crop year and the use of costs associated with these sales in establishing the MSP should adequately protect all other domestic areas.

Using the weighted national average shipping and handling costs of 1.20 cents shown in table 3, the MSP would be 19.78 cents per pound of raw sugar. At this MSP level, it would be economically feasible for processors to forfeit about 813 to 975 thousand short tons of raw sugar to the CCC at a value ranging from 283.4 to 339.8 million dollars. In addition, 0 to 535 thousand short tons of beet sugar, raw value, with a loan value ranging from 0 to 208.9 million dollars would be exposed to CCC acquisition.

Frederic L Hoff

FREDERIC L. HOFF
Acting Branch Chief
Fruits, Vegetables, and
Sweeteners Branch
National Economics Division

Attachment

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Table 1.--Estimated shipping and handling costs for moving raw sugar from Hawaii to Gulf Ports

Item	C & H Sugar Co. 1/				USDA	
	1982 2/	8/1/82 thru 7/31/83 3/	10/1/82 thru 9/30/83 4/	10/1/83 thru 9/30/84 5/	FY 83 6/	FY 84 7/
	Cents per pound, raw value					
Shipping and handling costs:						
Ocean freight	1.30	2.77	2.27	2.12	2.12	2.00 8/
Other costs						
Island outbound loading costs	.15	.17	.17	.19	.16	.16
Stevedoring	.33	.37	.37	.42	.34	.42 8/
Weighing and sampling	.03	.04	.04	.05	.03	.03
Insurance	.01	.01	.01	.01	.01	.01
Subtotal	.52	.59	.59	.67	.54	.62
Total costs	1.82	3.36	2.86	2.79	2.66	2.62

1/ Represents data supplied by C & H. 2/ Actual calendar year data. 3/ Actual. 4/ Partially actual and partially estimated. 5/ Estimated. 6/ In effect for FY 83. 7/ Except for freight and stevedoring represents C & H actual for calendar 1982 inflated by 8.9 percent which is the projected increase in the producer price index (PPI) for finished goods between 1982 and 1984 as estimated by the Economic Indicators and Statistics (EIS) Branch of USDA'S Economic Research Service (ERS). 8/ Represents the weighted average of actual 1983 costs inflated by 6.0 percent which is the projected increase in the PPI for finished goods for 1984.

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Table 2.--Market stabilization price (MSP) calculations based upon moving sugar from Hawaii to Gulf ports at various loan interest rates, 1984 fiscal year

Item	Loan interest rate (percent)				
					USDA FY 83
	9.00	9.50	9.75 1/	10.00	10.25
	----------- Cents per pound, raw value ---------				
MSP for FY 1984 based upon C & H estimates:					
Loan rate	17.50	17.50	17.50	17.50	N.A.
Costs					
Shipping and handling	2.79	2.79	2.79	2.79	N.A.
Loan interest 2/	.79	.83	.85	.88	N.A.
Incentive factor	.20	.20	.20	.20	N.A.
Total costs	3.78	3.82	3.84	3.87	N.A.
Market stabilization price	21.28	21.32	21.34	21.37	N.A.
MSP for FY 1984 based upon USDA estimates:					
Loan rate	17.50	17.50	17.50	17.50	17.00
Costs					
Shipping and handling	2.62	2.62	2.62	2.62	2.66
Loan interest 2/	.79	.83	.85	.88	.87
Incentive factor	.20	.20	.20	.20	.20
Total costs	3.61	3.65	3.67	3.70	3.73
Market stabilization price	21.11	21.15	21.17	21.20	20.73

1/ Weighted average cost of money to CCC as projected by ASCS for FY 1984 and based upon OMB approved economic assumptions. 2/ Assumes a 6-month maturity date.

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Table 3.--Possible CCC acquisitions of sugar based upon using the weighted average shipping and handling costs in the MSP for the 1983 crop year

Area	Estimated 1983-crop production	Freight	Other costs	Total shipping and handling costs	Possible CCC acquisition	Loan value of acquisition	Costs needed to be covered to prevent CCC acquisitions
	1,000 short tons, r.v.	------- Cents per pound		--------	1,000 short tons, r.v.	Million dollars	Cents
Raw Sugar							
Florida	1,192	.84	.43	1.27	600-675	209.6 235.8	1/
Hawaii	1,037	.93	.31	1.24	173-250	60.1- 86.9	2.62
Louisiana	576	.49	.38	.87	-	-	-
Texas	93	.86	.24	1.10	-	-	-
Puerto Rico	100	1.25	.80	2.05	40-50	13.7- 17.1	2.05
Subtotal	2,998				813.0-975.0	283.4-339.8	
Weighted average		.81	.39	1.20			
Beet sugar	2,700				0-535.0	0-208.9	
Total	5,698				813.0-1,510.0	283.4-548.7	

1/ 1.66 cents would be needed to prevent acquisition of 3.6 to 4.1 thousand of the 600 to 675 thousand tons.
1.69 cents would be needed to prevent acquisition of 156.0 to 175.5 thousand of the 600-675 thousand tons.
2.07 cents would be needed to prevent acquisition of 440.4 to 495.4 thousand of the 600-675 thousand tons.

2/ Represents 1982 crop raw sugar shipments to the U.S.

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ATTACHMENT III

United States: Supply/Demand Balances (1,000 short tons, raw value)

	Source 1		Source 2		Source 3		Source 4		Source 5	
	1982/83	1983/84	1982/83	1983/84	1982/83	1983/84	1982/83	1983/84	1982/83	1983/84
Beginning Stocks	1,455	1,369	1,339	1,119	1,340	1,139	1,410	1,057	1,455	982
Production 1/	5,779	5,830	5,755	5,650	5,830	5,945	5,767	5,700	5,815	5,870
Imports:										
Blended Sirups	---	---	74	---	90	---	100	---	---	---
Quota	2,890	2,890	2,808	3,093	2,606	2,616	2,810	2,925	2,662	3,005
Quota Exempt	250	400	250	539	275	700	---	---	200	200
Total Supply	10,374	10,489	10,175	10,350	10,141	10,400	10,087	9,682	10,132	10,057
Exports	100	400	231	550	236	700	50	50	200	250
Domestic Use	8,900	8,700	8,825	8,700	8,807	8,500	8,980	8,600	8,950	8,725
Residual 2/	50	50	---	---	---	---	---	---	---	100
Total Use	9,050	9,150	9,056	9,250	9,043	9,200	9,030	8,650	9,150	9,075
Ending Stocks	1,324	1,339	1,119	1,100	1,139	1,200	1,057	1,032	982	982
(Ending Stocks as % of Consumption)		(15.4)		(12.6)		(14.1)		(12.0)		(11.3)

United States: Supply/Demand Balances (1,000 short tons, raw value)

	Source 6		Source 7		USDA		
	1982/83	1983/84	1982/83	1983/84	1982/83	Option 1 1983/84	Option 2 1983/84
Beginning Stocks	1,490	1,154	1,490	1,186	1,455	1,094	1,094
Production 1/	5,765	5,630	5,800	5,810	5,814	5,800	5,800
Imports:							
Blended Sirups	---	---	106	---	70	---	---
Quota	2,890	3,020	2,890	2,900	2,890	3,135	2,985
Quota Exempt	---	---	---	---	150	350	350
Total Supply	10,145	9,795	10,286	9,896	10,379	10,379	10,229
Exports	---	---	---	---	185	385	385
Domestic Use	9,050	8,700	9,000	8,650	9,000	8,650	8,650
Residual 2/	50	50	100	100	100	100	100
Total Use	9,100	8,750	9,100	8,750	9,285	9,135	9,135
Ending Stocks	1,045	1,045	1,186	1,146	1,094	1,244	1,094
Ending Stocks as % of Consumption		(12.0)		(13.2)		(14.4)	(12.6)

1/ Receipts from Puerto Rico included in production, 2/ Represents refining loss and/or statistical adjustment.

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