THE WHITE HOUSE

WASHINGTON

September 18, 1976

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR: L. WILLIAM SEIDMAN

FROM: JAMES E. CONNOR JEC

SUBJECT: U.S. Sugar Policy

Confirming verbal advices the President reviewed your memorandum of September 15 on the above subject and approved the following option:

Option 2 -
"Triple the duty on sugar and issue a Presidential Statment calling for an expedited USITC investigation."

Please follow-up with appropriate action.

cc: Dick Cheney

THE PRESIDENT HAS SEEN....

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September 15, 1976

MEMORANDUM FOR THE PRESIDENT

FROM: L. WILLIAM SEIDMAN LWS

SUBJECT: U. S. Sugar Policy

The prices U. S. sugarbeet and sugarcane producers are receiving have declined to a level where they cannot operate profitably over the current season. Numerous sugar producers and their Congressional representatives have urged the Administration to raise prices through existing Presidential authority. Cane refiners, food manufacturers, and consumers oppose a government-induced sharp increase in sugar prices.

The Sugar Policy Task Force was reconstituted when sugar prices declined sharply in early August to review the outlook for sugar prices and the implications for our sugar policy. The Task Force has completed its update of the supply, demand and price projections for the remainder of 1976. The policy alternatives have been reviewed by the EPB Executive Committee. This memorandum seeks your decision on three policy alternatives.

Background

Forty years of protection afforded the U.S. sugar industry ended on December 31, 1974 with the expiration of the Sugar Act. With the expiration of the Act imminent, and sugar prices at their historical peak, you took administrative action on November 18, 1974, establishing an unrestrictive import quota of 7 million tons for sugar in order to retain the tariff on sugar at its lowest legal rate. This administrative action and the expiration of the Act signalled a shift in U.S. sugar policy toward an open market orientation.

Since late 1974, sugar prices have drifted steadily downward. The price of raw sugar has fallen from an historical high of 64.5 cents per pound in November 1974 to 9.6 cents on September 13. The current price is at an unprofitable level for U.S. producers and the outlook is for prices to remain unprofitable at least through the end of 1976. This low price trend could continue well into 1977 depending on the planting intentions of Northern Hemisphere sugarbeet producers which will not be known until early 1977. Depressed sugar prices are primarily a result of excess supply.

Policy Considerations

Protective action which significantly increased the price of sugar would please the 13,400 farmers who produce sugar by helping them to minimize short-term losses and avoid a contraction in production. However, since other sweeteners such as high fructose corn syrup (HFCS) can be produced at less cost than most U.S. sugar, a protected price for sugar would encourage increased investment in HFCS production and thereby hasten its displacement of sugar. This would lead to a long-term reduction in U.S. sugar imports, domestic sugar production, or both. It is estimated that HFCS will have displaced about 10 percent of U.S. sugar consumption by the end of 1976. While the protective options discussed below can provide short-term relief, they will not sustain U.S. sugar producers at current record high production levels. Lower-cost HFCS will continue to increase its share of the sweetener market at the expense of sugar.

If a decision not to protect is made, losses will likely be experienced by domestic producers. Areas with high costs and/or reasonable crop alternatives would likely shift from sugar to more profitable crops with a resulting decline in U.S. sugar production.

The U.S. has historically relied on foreign sources for about 45 percent of its sugar, although in 1975 imports declined to 38 percent. Most foreign suppliers are LDCs that depend on sugar to earn a major portion of their foreign exchange. About 20 percent of imported sugar enters duty-free under the Generalized System of Preferences (GSP) for eligible LDCs.

Each one cent increase in the price of raw sugar costs U.S. consumers an estimated $200 million. In the long-term, consumers would pay higher but more stable prices for sugar in a protected market than in an unprotected market.

The return to a protected sugar market would be inconsistent with the open market orientation of U.S. agricultural policy. While continuation of current U.S. sugar policy would be consistent with overall U.S. agricultural policy, it could result in increased pressure for restrictive legislation to benefit U.S. sugar producers.

ITC Escape Clause Investigation

On September 14 the Senate Finance Committee, at the initiative of Senator Carl Curtis, voted to request the U.S. International Trade Commission (USITC) to undertake a Section 201 escape clause investigation to determine whether U.S. sugar producers are being injured by sugar imports or whether there is the threat of such injury. By statute the USITC has six months in which to conduct its investigation. The USITC normally takes about six months to complete most of its studies. While the sugar investigation could be expedited, it is highly unlikely that it will be completed in less than three months.

Options

The EPB Executive Committee considered several policy options, including a price support program for sugar and removing sugar from the list of products eligible for GSP, concluding that these options were not feasible for budgetary and foreign policy reasons. Three policy options are outlined for your consideration.

Option 1: Continue the current policy and issue a Presidential Statement calling for an expedited USITC investigation.

The statement would indicate that you join with the Senate Finance Committee in its request for the USITC study, that you are withholding action until the study is completed, and that you are requesting the USITC to expedite the investigation. This option would continue the U.S. open market sugar policy by maintaining the global quota at an unrestrictive level of 7 million tons and retaining the tariff at its lowest legal rate.

Advantages:

- An open market policy encourages the most efficient allocation of resources both there and abroad by allowing the market to determine prices and production.
- An open market policy results in lower but more volatile prices to U.S. consumers than in a protected sugar market.
- The current sugar policy is consistent with overall U.S. agricultural policy.
- A Presidential statement would demonstrate your concern while indicating why no protective action is being taken at this time.

Disadvantages:

- o Domestic sugar producers would experience short-term losses.
- o Continued depressed prices would increase pressure for the consideration of sugar legislation early in 1977.
- o Sugar producers would likely view this as insufficient action to meet their current difficulties.

Option 2: Triple the duty on sugar and issue a Presidential Statement calling for an expedited USITC investigation.

The statement would indicate that you join with the Senate Finance Committee in its request for the USITC study but that, given the current low-price situation, immediate action is necessary and that therefore you are tripling the duty from .625 cents per pound to 1.875 cents per pound.

Advantages:

- o Since a tariff is the least distorting restrictive trade measure, it would be more consistent with overall U.S. agricultural policy than a restrictive quota.
- o Treasury receipts would increase 1.25 cents per pound of sugar imported into the U.S. If such a duty increase were in effect throughout 1976, the increase in Treasury receipts would amount to $85.2 million.
- o Tripling the duty could be viewed by sugar producers as a more decisive action than merely calling for an expedited USITC investigation.

Disadvantages:

- o Announcement of a tripling of the duty on sugar would undoubtedly prompt adverse consumer reaction.
- o An increase in the tariff would provide little or no immediate price protection for U.S. producers. Foreign suppliers are likely to absorb the increased tariff to maintain their competitive position thereby reducing their export earnings.
- o Sugar producers would likely view this as insufficient action to meet their current difficulties and criticize the policy as ineffective.

- o Although permissible under the GATT, an increase in the duty could cause some adverse reaction from our trading partners.
- o The ITC study could criticize the tariff increase as ineffective.

Option 3: Impose a restrictive global quota with no duty change.

A restrictive 4 million ton quota would be set initially, thus requiring stock reduction to allow consumption at its expected level for 1976. This action would reduce domestic supplies by 2 percent, resulting in a 4-5 cent increase in sugar prices before the end of 1976.

Advantages:

- o A restrictive quota would prevent domestic producers from incurring immediate losses and, therefore, would slow a significant contraction in U.S. sugar production.
- o A restrictive quota may reduce pressure for sugar legislation in 1977.

Disadvantages:

- o A quota would not provide long-term protection to U.S. sugar producers from other sweeteners competition. It could, in fact, encourage HFCS production and consumption thereby displacing sugar consumption. A reduction in U.S. sugar imports, domestic sugar production, or both could result.
- o A restrictive quota would require some allocation system to avoid cutting across contracts and other trade distortions. The traditional allocation method has been on a country-by-country basis which would cause foreign relations problems.
- o In the long term, consumers would pay higher, more stable prices for sugar. In the short term, retail prices would be 4-5 cents per pound higher than they would at levels associated with current raw sugar prices. The aggregate cost to consumers would range between $800 million and $1 billion annually.

Decision

Option 1 ________ Continue the current policy and issue a Presidential Statement calling for an expedited USITC investigation.

Supported by: Treasury, Commerce, STR, State, CEA

Option 2 WRF Triple the duty on sugar and issue a Presidential Statement calling for an expedited USITC investigation.

Supported by: Agriculture, Labor

Option 3 ________ Impose a restrictive global quota with no duty change.

Supported by: