4/28/77 [2]

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THE WHITE HOUSE
WASHINGTON

April 28, 1977

The Vice President
Stu Eizenstat
Hamilton Jordan
Frank Moore
Jack Watson
Z. Brzezinski
Robert Strauss
Tim Kraft

Re: Sugar Policy

The attached was returned in the President's outbox and is forwarded to you for your information and appropriate action.

Rick Hutcheson

cc Mark Siegal

49

THE WHITE HOUSE

WASHINGTON

Mr. President:

Tim Kraft's office points out a problem of timing in making this decision before the Summit.

Although Stu and Strauss urge you to make the decision before the Summit, Kraft points out that your preparation time is already severely limited.

In addition to the time it will take for you to make the decision, NSC points out that you have agreed to meet with Latin American ambassadors before any decision is announced.

Comments from the Vice President, Strauss and Jack Watson on Stu's memo are attached.

---Rick

Let's proceed now. J

THE PRESIDENT HAS SEEN.

THE WHITE HOUSE

WASHINGTON

Stu
J
Conclude prior to summit

April 23, 1977

MEMORANDUM FOR: THE PRESIDENT

FROM: STU EIZENSTAT Stu
LYNN DAFT

SUBJECT: Sugar Policy

By May 16, 1977 you must decide whether import relief for the domestic sugar industry is in the national economic interest and, if it is, what form of relief you will proclaim.

BACKGROUND

The U.S. Sugar Industry. Historically, the U.S. has produced 50 to 60 percent of its own sugar needs, importing the remainder from various countries in Latin America (56%), Asia and Oceania (33%), and Africa (5%). Sugar beets are produced on about 12,000 farms with production concentrated in California, Michigan, Idaho, and Colorado. Sugar cane is produced on 1,400 units, most of them in Hawaii, Florida, and Louisiana. Of U.S. sugar production, beets account for 60 percent, cane 40 percent. Costs of production vary greatly from region to region with the lowest costs generally found among Minnesota beet producers and the highest costs for Louisiana cane production. The USDA estimates that efficient units in this country can produce at 13.5 cents per pound of raw sugar.

Competition from corn sweeteners has increased markedly in recent years, particularly with the development of high fructose corn syrup (HFCS). Corn sweeteners now account for nearly 25 percent of the U.S. sweetener market, up from 15 percent in 1970. Given the relatively low production costs of corn sweeteners (about 10 cents per pound for HFCS), their share of the U.S. market is expected to continue increasing.

The Economic Setting. Sugar prices peaked in November 1974 at 64 cents per pound. This price explosion had its roots in the high world price of 1963 which brought on excessive world production and low world prices from 1965-68. Though the price began to climb in 1969, production did not adequately respond and world sugar consumption exceeded production each year between 1970 and 1972. The record high prices of 1974 stimulated a significant increase in U.S. acreage devoted to sugar beets the following year. This resulted in a much larger domestic crop in 1975 and 1976. This, plus increased beet and cane production in other countries around the world, caused sugar prices to tumble. In late 1976, the world price fell below 8 cents. Since these prices are at or below the cost of production for many of the world's sugar producers, production plans this year have been scaled down. The April 1 planting intentions report for the U.S. shows a 12 percent drop from 1976 sugar beet plantings. This, coupled with a drop in the forecast Soviet crop and expectations for an international sugar agreement, have caused market prices to rebound. New York spot prices for raw sugar fluctuated between 13.0 and 13.5 cents this past week. Futures prices for the next 18 months are holding relatively constant at about this level.

There are two long-run economic problems facing the U.S. sugar industry: One is the high degree of world market price instability that has historically led to the "boom or bust" cycles just described. The other is a continuing need for resource adjustment made necessary by the development of new technologies (e.g., liquid HFCS. . . and a granulated HFCS is probably not far off) and increasing competition from foreign sugar producers.

Policy Setting. For over 40 years, the Sugar Act protected U.S. sugar producers from foreign competition through restrictive country-by-country import quotas. This authority expired in December 1974, in the midst of rising sugar prices. When the Sugar Act expired, the U.S. adopted a non-restrictive quota of 7.0 million short tons and a 0.625 cent per pound tariff. With sugar prices falling throughout most of 1975 and 1976, pressures mounted within the industry to reinstitute some form of protection. In response, the Senate Finance Committee on September 17, 1976 requested an International

Trade Commission (ITC) escape clause investigation. A few days later President Ford increased the tariff to 1.875 cents per pound. In addition, the American Farm Bureau Federation petitioned the Special Representative for Trade Negotiations (STR) for the removal of sugar from the list of articles eligible to receive duty-free treatment under the Generalized System of Preferences (GSP).

The ITC reported to you on March 17, 1977 the results of its investigation relating to sugar. Four of the six ITC Commissioners found that the domestic sugar industry is threatened with serious injury due to increased imports. The recommendation of the ITC regarding import relief was made by three Commissioners who recommended the imposition of an annual quota of 4.275 million tons of sugar for calendar year 1977 and for each calendar year thereafter up to and including 1981. The quota would be allocated among supplying countries on a basis you determine to be equitable.

Any decision, other than the remedy recommended by the ITC, is subject to possible Congressional override, which would force implementation of the ITC recommendation. There has been considerable Congressional interest in this case. Predictably, producer and consumer interests are on opposite sides of the issue. Generally, however, Congressional correspondence has favored some form of assistance for the sugar industry.

In addition to reviews of the ITC report and the GSP petition, which have been carried out by the Trade Policy Staff Committee (TPSC), chaired by STR, the sugar question has also been discussed on two occasions at the EPG. A separate memorandum from the EPG is attached, as is a memorandum from Secretary Bergland.

FUTURE POLICY RECOMMENDATIONS

In considering future sugar policy, it is useful to separate those solutions that can have effect over the longer-term from those that are more atuned to the immediate problems facing the industry.

Longer-Term Solution. The EPG agreed that an International Sugar Agreement (ISA) is the best long-term solution to the problem of unremunerative U.S. sugar prices. An international conference to negotiate a new ISA began on April 18. The United States will be taking an active role in this conference and will seek an agreement, including floor and ceiling prices, that will enable U.S. domestic sugar price objectives to be achieved. Since a year or more will be required to negotiate and implement an ISA (even assuming the negotiations go as well as expected), the EPG concluded that some form of interim assistance should be provided to domestic producers. It is this interim assistance to which the remainder of this memorandum is devoted.

Interim Assistance. Neither the TPSC nor the EPG could support a restrictive import quota system for sugar for the following reasons:

- It would have an inflationary impact costing consumers about $295 million for every 1 cent per pound increase in raw sugar prices.
- Quotas are inconsistent with our policy of world trade liberalization. . . would invite retaliation . . .and could jeopardize the success of ISA negotiations now underway.
- Would depress world market prices for sugar, adversely affecting the export earnings of a large number of developing countries.
- By enhancing U.S. market price, would accelerate the substitution of corn sweeteners for sugar.
- Quotas are inefficient in delivering assistance to domestic producers since U.S. producers would receive only 55% of additional expenditures. . . balance would probably take the form of windfall profits to either domestic refiners or foreign producers.

Members of the EPG and the TPSC recommend that you take the following actions:

- ° Deny import relief on grounds of the national economic interest (for the reasons noted above). ok

- ° Provide income support payments to domestic producers pending negotiation and implementation of an ISA. ok

This is similar to the system now used to support the incomes of grain producers. Income support (deficiency payments) would be provided to domestic producers to ensure a price of at least 13.5 cents per pound. This can be done under existing legislation. Although this option is the least expensive in economic terms, it would involve a budgetary outlay equal to about $120 million for each one cent decline in the U.S. price below the 13.5 cents target. As noted above, sugar prices in the U.S. have strengthened recently in response to a number of bullish developments in the market and are now in the range of 13 to 13.5 cents/lb, though the trend could reverse.

Other advantages of this option are that it:

- ° Provides help to domestic producers while avoiding import restrictions.

- ° Avoids windfall profits to importers or foreign producers.

- ° Avoids distortions in market prices, thereby not adding to food price inflation.

Disadvantages beyond budget costs include:

- ° A threatened attempt by representatives of sugar farm workers and the corn sweetener industry to block payments by court injunction. . . though we are advised the legal authority to make such payments exists.

- ° Public criticism of the concentration of large payments among producers and processors (the production and milling of Hawaiian cane is especially highly concentrated).

This recommendation is supported by STR, Agriculture, State, OMB, CEA, Commerce, Labor, Interior, Treasury, and Defense. Though Agriculture had formerly supported a price support loan program with an increased tariff and a nonrestrictive quota, they now support this approach, provided the support is set at 13.5 cents per pound. (The attached Bergland memo is reflective of Agriculture's prior position.) OMB's first choice would be "no action," but if assistance is to be provided, they prefer this option. Also, our soundings on the Hill indicate that this policy would be quite acceptable to those representing sugar producing interests. It would also be favorably received by foreign producers.

Approve ✓

For how long a time?

Disapprove ________

The disadvantages of this approach could be mitigated by two modifications, individually or in combination. Both were discussed by the EPG and the TPSC and received general, though not unanimous support. Neither is specifically recommended in the attached memoranda, though we feel they merit your consideration.

Modification #1: Limit the payment per pound to 2 cents.

This could be implemented under existing authority. It would limit total budget cost to about $240 million, though it would also limit protection of producer incomes. Should the ISA negotiations fail, this modification would limit budget exposure; if an effective agreement is successfully negotiated, such a limit would be unnecessary. Since it limits producer protection, the odds of a Congressional over-ride would be increased by adopting this modification, though not significantly. OMB, and CEA spoke in support of this approach. The USDA would probably oppose it.

Approve ✓

Use Mondale language

Disapprove ________

Modification #2: Authority to provide graduated payments.

Under current authority, the Department of Agriculture can not limit the amount of payment received by an individual grower or processor. This modification would require new legislation. Though we doubt that Congress will be willing to provide such authority, an Administration proposal to graduate payments would put us on record against very large

no

payments and would shift the brunt of the responsibility to the Congress. Any budget savings made possible by this approach would probably not be large. Liberals would applaud it. At the same time, it would be a slap against the Hawaiian sugar industry which is highly concentrated. STR and USDA spoke in support of this approach during EPG deliberations.

Approve ________

Disapprove ✓

GSP -- Status of Sugar

As noted, the American Farm Bureau has petitioned that sugar be withdrawn from duty-free treatment for developing countries under GSP. The TPSC has decided to turn down the petition since imports of sugar entering under GSP account for a small percentage of total imports and do not depress price levels in the United States. Also, removal of sugar from GSP would not be responsive to the interests of developing countries.

Concur ________

Agree with TPSC

Do not concur ________

Eight countries that were ineligible for GSP for sugar in 1976 can be designated in 1977. They are Panama, Jamaica, Guyana, Columbia, Brazil, Argentina, Thailand, and the Republic of China. If you concur with the above decision, the TPSC will consider whether to recommend any of these countries for designation.

We feel it would be wise to announce your overall decision on sugar policy prior to the London summit. Assuming you approve the position recommended above, it will enhance your trade liberalization image.

Subsequent to your decision, STR will prepare: (1) an STR press release announcing your decision; (2) a letter to the Secretary of Agriculture directing the implementation of your decision regarding a domestic sugar program; (3) a decision memorandum that would be published in the Federal Register; and (4) letters for your signature to the President of the Senate and to the Speaker of the House of Representatives reporting your decision to the Congress.

THE VICE PRESIDENT

MEMORANDUM

OFFICE OF THE VICE PRESIDENT

WASHINGTON

April 26, 1977

MEMORANDUM FOR THE PRESIDENT

FROM: THE VICE PRESIDENT

SUBJECT: SUGAR POLICY

In reference to Stu Eizenstat's memo on sugar policy, I would like to caution against labelling of any income support program which involves a 2 cent a pound universal payment limitation as a 13.5 cent a pound income support program for sugar producers. Such a characterization would be seen as misleading by sugar producers and their representatives in the Congress. It could cause unnecessary hostility among those who will be all too prone from the start to attack the program. If you feel that the 2 cent a pound payment limit is needed, I would recommend that the policy be described as an income support program offering supplemental payments to producers of up to two cents a pound, whenever the market price falls beneath 13.5 cents a pound.

agree

STRAUSS COMMENTS

THE SPECIAL REPRESENTATIVE FOR
TRADE NEGOTIATIONS
WASHINGTON

MEMORANDUM FOR: Rick Hutcheson
Staff Secretary

28 APR 1977

FROM : Robert S. Strauss RSS.

SUBJECT : Stu Eizenstat/Lynn Daft Memo 4/23/77
Re: Sugar Policy

In general I concur with substance of this memo as well as with the EPG/TPSC recommendation supported by the majority of the agencies. I also concur with the TPSC recommendation that a decision to reject import relief measures be coupled with a strong Presidential statement in support of the International Sugar Agreement (ISA) negotiations. Such a statement should give impetus to those negotiations and could result in some further strengthening in sugar prices. I also believe it would be useful domestically to announce that the Administration will continue to closely monitor the sugar situation along with a statement that successful conclusion of an ISA should make unnecessary further consideration of unilateral measures by the United States. Such a statement would underline the U.S. commitment to negotiation of a workable ISA and provide an incentive to the participants to get on with the negotiating effort.

I do have some problems with the way the modifications to limit budgetary outlays are stated. I believe the memo to the President should spell out under modification #1 the fact that probably the only feasible way to limit budgetary outlays would be through increasing tariffs. The President has authority to do this under the Trade Expansion Act of 1962 (by about 1 cent/lb.) or under Section 22 of the Agricultural Adjustment Act (up to 50 percent ad valorem). I further believe that the availability of this authority should not be announced in the President's decision but rather retained for use on a standby basis if market prices fall to a level which would result in unacceptable budgetary outlays. Any administrative attempt to limit payments to a maximum of 2¢ per pound would not work because this would expose processors (through which the payments must be channeled) to the entire risk of market fluctuations. Also while there was some discussion at the EPG about seeking legislation for graduated payments (modification #2), I believe on the basis of subsequent reflection and sounding out of key members of Congress that this is not a feasible option.

There are some advantages to an early decision announcement (i.e. prior to the Economic Summit) if the President approves the trade liberalizing option recommended by all agencies. This action would be supportive of the position that the President will be taking in favor of trade liberalization at the Summit and helpful to the ISA negotiations. It is also clear that sugar producers and their representatives in the Congress would prefer an earlier decision to a later one. However, a delay of another week in announcing a decision should not create any real problems.

WATSON COMMENTS

WATSON COMMENTS

1. "I agree with the basic outline of the issues and with the proposed actions, with one exception. It is misleading to characterize "Modification #1" (limitation of the support payment to 2¢ per pound) as a "variation" of the 13.5¢ support level. It is actually a different proposal - with, as Stu suggests, the advantage of precisely limiting budget exposure.

2. "There is some advantage in waiting a while longer before making any decision on the issue - to see what sugar prices do - "

NSC COMMENTS

Concur with Eizenstat.

TPSC REPORT

THE SPECIAL REPRESENTATIVE FOR
TRADE NEGOTIATIONS
WASHINGTON

LIMITED OFFICIAL USE

April 20, 1977

MEMORANDUM FOR THE PRESIDENT

FROM: William B. Kelly, Jr. W.B.K.
Acting Special Representative for Trade Negotiations

SUBJECT: Escape Clause Decision on Sugar

You must decide by May 16, 1977 (a statutory deadline) whether import relief for the domestic sugar industry is in the national economic interest and, if it is, what form of relief you will proclaim (e.g., quotas, higher tariffs).

The U.S. International Trade Commission (USITC) reported to you on March 17, 1977 the results of its investigation under Section 201(b) of the Trade Act of 1974 relating to sugar. Four of the six USITC Commissioners found that the domestic sugar industry (which employs roughly 52,000 farmers and workers) is being threatened with serious injury due to increased imports. One Commissioner found actual injury. The recommendation of the USITC regarding import relief was made by three Commissioners who recommended the imposition of an annual quota of 4.275 million tons of sugar for calendar year 1977 and for each calendar year thereafter up to and including 1981 (1976 U.S. imports of sugar were 4.66 million tons). The quota would be allocated among supplying countries on a basis determined by you to be equitable.

Any decision, other than the remedy recommended by the USITC, is subject to possible Congressional override, which would force implementation of the USITC recommendation. There has been considerable Congressional interest in this case. Predictably, producer and consumer interests are on opposite sides of the issue. Generally, however, Congressional correspondence has favored assistance for the sugar industry.

A Presidential decision is also requested on whether sugar should continue to be maintained on the list of products subject to the Generalized System of Preferences (GSP). It would be desirable to announce the decision on this question simultaneously with your decision on the USITC case.

LIMITED OFFICIAL USE

In addition to the reviews of the USITC report and of the GSP issue, which have been carried out in the inter-agency trade policy framework, which I chair, the sugar question has also been discussed on two occasions at the EPG. A separate memorandum reporting the EPG discussions on sugar policy has been sent to you. The EPG agreed that an International Sugar Agreement (ISA) is the best long-term solution to the problem of unremunerative U.S. sugar prices. An international conference to negotiate a new ISA began on April 18. The United States will be taking an active role in this conference and will seek an agreement, including floor and ceiling prices, that will enable U.S. domestic sugar price objectives to be achieved. Since a year or more will be required to negotiate and implement an ISA, the EPG also considered that interim assistance measures should be provided to domestic producers. The EPG could not support a restrictive import quota system for sugar.

Set forth below for your decision are the options recommended by the Trade Policy Staff Committee (TPSC) at a meeting held on April 20, 1977. The TPSC, acting on behalf of the Cabinet-level Trade Policy Committee, has a statutory responsibility to make recommendations to you on import relief actions. The options recommended by the TPSC on the question of import relief for sugar are identical with the options put forward by the EPG. None of the TPSC agencies recommended that you impose the USITC's proposed remedy of a five-year quota on sugar imports.

<u>Option 1</u> - The TPSC recommends the following:

a. Deny import relief on grounds of the national economic interest.

b. Provide income support payments to domestic producers pending negotiation and implementation of an ISA.

Income support (deficiency payments) would be provided to domestic producers to ensure a return of 13.5 cents per pound. This could be done under existing legislation. Although this option is the least expensive in economic terms, it could involve a budgetary outlay equal to about $120 million for each one cent decline in the U.S. price below the 13.5 cents target. Sugar prices have strengthened recently in response to a number of bullish developments in the market (reduced U.S. and U.S.S.R. crop estimates and PRC purchases) and are now in the range of 13 to 13.4 cents/lb.

in the United States. In the event of a disastrous market decline, you would retain the power to raise tariffs or to restrict imports through quotas under other legislative authorities and thereby limit potential budget outlays.

This recommendation is supported by the Office of the Special Representative for Trade Negotiations, which chairs the TPSC, the Departments of State, Commerce, Labor, Interior, Treasury, and Defense.

The TPSC recommends that you determine that import relief is not in the national economic interest for the following reasons: (1) it would have an inflationary impact on the economy costing consumers about $295 million for each one cent per pound increase in sugar prices achieved either through quotas or tariff increases; (2) it would encourage increased investment and market penetration by substitute sweeteners, particularly high fructose corn syrup (HFCS), which can be produced at a lower cost (about ten cents per pound) than most U.S. sugar; (3) negotiation of an international sugar agreement, if successful, would provide some long-term assurance of greater stability in world prices (imposition of import relief now would likely jeopardize the success of those negotiations); (4) import relief would adversely affect the export earnings of a large number of developing countries, most of which are located in the western hemisphere. This could further exacerbate already difficult problems in the North/South dialogue.

The TPSC also recommends that you couple a decision to reject import relief measures with a strong Presidential statement in support of the ISA negotiations and that you direct the Secretary of Agriculture to implement an income support program to provide domestic producers a return of 13.5 cents per pound during the interim period pending the successful conclusion of an ISA. It would also be useful to announce your intention to continue to closely monitor the sugar situation and your conviction that the successful conclusion of an ISA would make unnecessary further consideration of unilateral measures by the United States.

Approve ____________

Disapprove ____________

Option 2 - The Department of Agriculture recommends the following interim measures pending the negotiation of a new ISA:

a. Immediate increase in the tariff on sugar;

b. Implementation of a price support loan program at 13 cents per pound; and

c. Imposition of a "non-restrictive" quota at a level of 4.6 to 4.8 million tons.

The Department of Agriculture believes that imposition of higher tariffs and a "non-restrictive" quota pending negotiation of a successful ISA would preclude the need for government intervention or take-over of sugar stocks. The Treasury would gain $100 million for each one-cent increase in the tariff (compared with an outlay of $120 million for each one cent under Option 1). Agriculture also believes that this option is more acceptable to domestic producers because it is less visible than the deficiency payment program recommended in Option 1.

Approve __________

Disapprove __________

GSP -- Status of Sugar

The American Farm Bureau has petitioned that sugar be withdrawn from duty-free treatment for developing countries under GSP. The TPSC has decided to turn down the petition since imports of sugar entering under GSP account for a small percentage of total imports and do not depress price levels in the United States. Also, removal of sugar from GSP would not be responsive to the interests of developing countries.

Concur __________

Do not concur ________

Eight countries that were ineligible for GSP for sugar in 1976 can be designated in 1977. If you concur with the above decision, the TPSC will consider whether to recommend any of these countries for designation.

For your information I am attaching a copy of the TPSC paper on which recommendations were based. Subsequent to your decision this office will also prepare and forward to you: (1) an STR press release announcing your decision; (2) a letter to the Secretary of Agriculture directing the implementation of your decision regarding a domestic sugar program; (3) a decision memorandum that would be published in the Federal Register; and (4) letters for your signature to the President of the Senate and to the Speaker of the House of Representatives reporting your decision to the Congress.

Attachments

THE WHITE HOUSE

WASHINGTON

Hold for comment Strauss

MEMORANDUM

Date: April 26, 1977

FOR ACTION:	**FOR INFORMATION:**
The Vice President - attached	Midge Costanza
Hamilton Jordan - NC	Bob Lipshutz
Jack Watson - attached	Frank Moore
Robert Strauss - attached	Zbigniew Brzezinski

reminder that Pres promised to meet w/ Latin Ams before decision announced - otherwise concern

FROM: Rick Hutcheson, Staff Secretary

SUBJECT: Stu Eizenstat/Lynn Daft memo 4/23/77 re Sugar Policy.

YOUR RESPONSE MUST BE DELIVERED TO THE STAFF SECRETARY BY:

TIME: 5:00 P.M.

DAY: Wednesday

DATE: April 27, 1977

ACTION REQUESTED:

_X_ **Your comments**

Other:

STAFF RESPONSE:

____ **I concur.** ____ **No comment.**

Please note other comments below:

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately. (Telephone, 7052)

THE WHITE HOUSE
WASHINGTON

Sugar Policy

Send out copies of Eisenstat memo only.

ACTION	FYI	
✓		MONDALE
	✓	COSTANZA
		EIZENSTAT
✓		JORDAN
	✓	LIPSHUTZ
	✓	MOORE
		POWELL
✓		WATSON

	ENROLLED BILL
	AGENCY REPORT
	CAB DECISION
	EXECUTIVE ORDER

Comments due to Carp/Huron within 48 hours; due to Staff Secretary next day

	FOR STAFFING
	FOR INFORMATION
	FROM PRESIDENT'S OUTBOX
	LOG IN/TO PRESIDENT TODAY
	IMMEDIATE TURNAROUND

		ARAGON
		BOURNE
	✓	BRZEZINSKI
		BUTLER
		CARP
		H. CARTER
		CLOUGH
		FALLOWS
		FIRST LADY
		GAMMILL
		HARDEN
		HOYT
		HUTCHESON
		JAGODA
		KING

		KRAFT
		LANCE
		LINDER
		MITCHELL
		POSTON
		PRESS
		B. RAINWATER
		SCHLESINGER
		SCHNEIDERS
		SCHULTZE
		SIEGEL
		SMITH
		STRAUSS
✓		WELLS
		VOORDE

Date: April 26, 1977

MEMORANDUM

FOR ACTION:

The Vice President
Hamilton Jordan
Jack Watson
Robert Strauss

FOR INFORMATION: Midge Costanza
Bob Lipshutz
Frank Moore
Zbigniew Brzezinski

1977 APR 26 PM 4 25

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TIME: 5:00 P.M.

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ACTION REQUESTED:

X Your comments

Other:

Jack Watson

STAFF RESPONSE:

____ I concur. ____ No comment.

Please note other comments below:

(1) I agree with the basic outline of the issues & with the proposed actions, with one exception - It is a bit misleading to characterize "modification #1" (limitation of the support payment to 2¢ per pound) as a "variation" of the 13.5¢ support level. It is actually a different proposal, with, as Stu suggests, the advantage of precisely limiting budget exposure.

(2) There is some advantage in waiting a while longer before making any decision on the issue -- to see what sugar prices do -- JW.

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THE SPECIAL REPRESENTATIVE FOR
TRADE NEGOTIATIONS
WASHINGTON

LIMITED OFFICIAL USE 977 APR 21 PM 12 14

April 20, 1977

MEMORANDUM FOR Mr. Stuart Eizenstat
Assistant to the President for
Domestic Affairs and Policy

FROM: William B. Kelly, Jr. W.B.K.
Acting Special Representative
for Trade Negotiations

SUBJECT: Sugar Escape Clause Recommendation
for the President

Attached are the recommendations of the interagency trade organization to the President on the sugar escape clause report submitted to him by the U.S. International Trade Commission. These recommendations are submitted to the President pursuant to the requirements of Section 242(b)(1) of the Trade Expansion Act of 1962, as amended, and have been considered by the Economic Policy Group.

The deadline for a Presidential decision in this case is May 16, 1977. This report has been prepared on an expedited basis in response to White House requests.

Also included is a recommendation on the GSP status of sugar.

Attachments

Copy to: Honorable W. Michael Blumenthal
Secretary of the Treasury

LIMITED OFFICIAL USE

Date April 26, 1977

MEMORANDUM

FOR ACTION:	FOR INFORMATION:
The Vice President	Midge Costanza
Hamilton Jordan	Bob Lipshutz
Jack Watson	Frank Moore
Robert Strauss	Zbigniew Brzezinski

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X Your comments

Other:

STAFF RESPONSE:

____ I concur. ✓ No comment.

Please note other comments below:

Reviewed

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THE WHITE HOUSE

WASHINGTON

April 23, 1977

MEMORANDUM FOR: THE PRESIDENT

FROM: STU EIZENSTAT Stu
LYNN DAFT

SUBJECT: Sugar Policy

By May 16, 1977 you must decide whether import relief for the domestic sugar industry is in the national economic interest and, if it is, what form of relief you will proclaim.

BACKGROUND

The U.S. Sugar Industry. Historically, the U.S. has produced 50 to 60 percent of its own sugar needs, importing the remainder from various countries in Latin America (56%), Asia and Oceania (33%), and Africa (5%). Sugar beets are produced on about 12,000 farms with production concentrated in California, Michigan, Idaho, and Colorado. Sugar cane is produced on 1,400 units, most of them in Hawaii, Florida, and Louisiana. Of U.S. sugar production, beets account for 60 percent, cane 40 percent. Costs of production vary greatly from region to region with the lowest costs generally found among Minnesota beet producers and the highest costs for Louisiana cane production. The USDA estimates that efficient units in this country can produce at 13.5 cents per pound of raw sugar.

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The Economic Setting. Sugar prices peaked in November 1974 at 64 cents per pound. This price explosion had its roots in the high world price of 1963 which brought on excessive world production and low world prices from 1965-68. Though the price began to climb in 1969, production did not adequately respond and world sugar consumption exceeded production each year between 1970 and 1972. The record high prices of 1974 stimulated a significant increase in U.S. acreage devoted to sugar beets the following year. This resulted in a much larger domestic crop in 1975 and 1976. This, plus increased beet and cane production in other countries around the world, caused sugar prices to tumble. In late 1976, the world price fell below 8 cents. Since these prices are at or below the cost of production for many of the world's sugar producers, production plans this year have been scaled down. The April 1 planting intentions report for the U.S. shows a 12 percent drop from 1976 sugar beet plantings. This, coupled with a drop in the forecast Soviet crop and expectations for an international sugar agreement, have caused market prices to rebound. New York spot prices for raw sugar fluctuated between 13.0 and 13.5 cents this past week. Futures prices for the next 18 months are holding relatively constant at about this level.

There are two long-run economic problems facing the U.S. sugar industry: One is the high degree of world market price instability that has historically led to the "boom or bust" cycles just described. The other is a continuing need for resource adjustment made necessary by the development of new technologies (e.g., liquid HFCS. . . and a granulated HFCS is probably not far off) and increasing competition from foreign sugar producers.

Policy Setting. For over 40 years, the Sugar Act protected U.S. sugar producers from foreign competition through restrictive country-by-country import quotas. This authority expired in December 1974, in the midst of rising sugar prices. When the Sugar Act expired, the U.S. adopted a non-restrictive quota of 7.0 million short tons and a 0.625 cent per pound tariff. With sugar prices falling throughout most of 1975 and 1976, pressures mounted within the industry to reinstitute some form of protection. In response, the Senate Finance Committee on September 17, 1976 requested an International

Trade Commission (ITC) escape clause investigation. A few days later President Ford increased the tariff to 1.875 cents per pound. In addition, the American Farm Bureau Federation petitioned the Special Representative for Trade Negotiations (STR) for the removal of sugar from the list of articles eligible to receive duty-free treatment under the Generalized System of Preferences (GSP).

The ITC reported to you on March 17, 1977 the results of its investigation relating to sugar. Four of the six ITC Commissioners found that the domestic sugar industry is threatened with serious injury due to increased imports. The recommendation of the ITC regarding import relief was made by three Commissioners who recommended the imposition of an annual quota of 4.275 million tons of sugar for calendar year 1977 and for each calendar year thereafter up to and including 1981. The quota would be allocated among supplying countries on a basis you determine to be equitable.

Any decision, other than the remedy recommended by the ITC, is subject to possible Congressional override, which would force implementation of the ITC recommendation. There has been considerable Congressional interest in this case. Predictably, producer and consumer interests are on opposite sides of the issue. Generally, however, Congressional correspondence has favored some form of assistance for the sugar industry.

In addition to reviews of the ITC report and the GSP petition, which have been carried out by the Trade Policy Staff Committee (TPSC), chaired by STR, the sugar question has also been discussed on two occasions at the EPG. A separate memorandum from the EPG is attached, as is a memorandum from Secretary Bergland.

<u>FUTURE POLICY RECOMMENDATIONS</u>

In considering future sugar policy, it is useful to separate those solutions that can have effect over the longer-term from those that are more atuned to the immediate problems facing the industry.

Longer-Term Solution. The EPG agreed that an International Sugar Agreement (ISA) is the best long-term solution to the problem of unremunerative U.S. sugar prices. An international conference to negotiate a new ISA began on April 18. The United States will be taking an active role in this conference and will seek an agreement, including floor and ceiling prices, that will enable U.S. domestic sugar price objectives to be achieved. Since a year or more will be required to negotiate and implement an ISA (even assuming the negotiations go as well as expected), the EPG concluded that some form of interim assistance should be provided to domestic producers. It is this interim assistance to which the remainder of this memorandum is devoted.

Interim Assistance. Neither the TPSC nor the EPG could support a restrictive import quota system for sugar for the following reasons:

- It would have an inflationary impact costing consumers about $295 million for every 1 cent per pound increase in raw sugar prices.
- Quotas are inconsistent with our policy of world trade liberalization. . . would invite retaliation . . .and could jeopardize the success of ISA negotiations now underway.
- Would depress world market prices for sugar, adversely affecting the export earnings of a large number of developing countries.
- By enhancing U.S. market price, would accelerate the substitution of corn sweeteners for sugar.
- Quotas are inefficient in delivering assistance to domestic producers since U.S. producers would receive only 55% of additional expenditures. . . balance would probably take the form of windfall profits to either domestic refiners or foreign producers.

Members of the EPG and the TPSC recommend that you take the following actions:

- Deny import relief on grounds of the national economic interest (for the reasons noted above).

- Provide income support payments to domestic producers pending negotiation and implementation of an ISA.

This is similar to the system now used to support the incomes of grain producers. Income support (deficiency payments) would be provided to domestic producers to ensure a price of at least 13.5 cents per pound. This can be done under existing legislation. Although this option is the least expensive in economic terms, it would involve a budgetary outlay equal to about $120 million for each one cent decline in the U.S. price below the 13.5 cents target. As noted above, sugar prices in the U.S. have strengthened recently in response to a number of bullish developments in the market and are now in the range of 13 to 13.5 cents/lb, though the trend could reverse.

Other advantages of this option are that it:

- Provides help to domestic producers while avoiding import restrictions.

- Avoids windfall profits to importers or foreign producers.

- Avoids distortions in market prices, thereby not adding to food price inflation.

Disadvantages beyond budget costs include:

- A threatened attempt by representatives of sugar farm workers and the corn sweetener industry to block payments by court injunction. . . though we are advised the legal authority to make such payments exists.

- Public criticism of the concentration of large payments among producers and processors (the production and milling of Hawaiian cane is especially highly concentrated).

This recommendation is supported by STR, Agriculture, State, OMB, CEA, Commerce, Labor, Interior, Treasury, and Defense. Though Agriculture had formerly supported a price support loan program with an increased tariff and a nonrestrictive quota, they now support this approach, provided the support is set at 13.5 cents per pound. (The attached Bergland memo is reflective of Agriculture's prior position.) OMB's first choice would be "no action," but if assistance is to be provided, they prefer this option. Also, our soundings on the Hill indicate that this policy would be quite acceptable to those representing sugar producing interests. It would also be favorably received by foreign producers.

Approve ________

Disapprove ________

The disadvantages of this approach could be mitigated by two modifications, individually or in combination. Both were discussed by the EPG and the TPSC and received general, though not unanimous support. Neither is specifically recommended in the attached memoranda, though we feel they merit your consideration.

Modification #1: Limit the payment per pound to 2 cents.

This could be implemented under existing authority. It would limit total budget cost to about $240 million, though it would also limit protection of producer incomes. Should the ISA negotiations fail, this modification would limit budget exposure; if an effective agreement is successfully negotiated, such a limit would be unnecessary. Since it limits producer protection, the odds of a Congressional over-ride would be increased by adopting this modification, though not significantly. OMB, and CEA spoke in support of this approach. The USDA would probably oppose it.

Approve ________

Disapprove ________

Modification #2: Authority to provide graduated payments.

Under current authority, the Department of Agriculture can not limit the amount of payment received by an individual grower or processor. This modification would require new legislation. Though we doubt that Congress will be willing to provide such authority, an Administration proposal to graduate payments would put us on record against very large payments and would shift the brunt of the responsibility to the Congress. Any budget savings made possible by this approach would probably not be large. Liberals would applaud it. At the same time, it would be a slap against the Hawaiian sugar industry which is highly concentrated. STR and USDA spoke in support of this approach during EPG deliberations.

Approve ________

Disapprove ________

GSP -- Status of Sugar

As noted, the American Farm Bureau has petitioned that sugar be withdrawn from duty-free treatment for developing countries under GSP. The TPSC has decided to turn down the petition since imports of sugar entering under GSP account for a small percentage of total imports and do not depress price levels in the United States. Also, removal of sugar from GSP would not be responsive to the interests of developing countries.

Concur ________

Do not concur ________

Eight countries that were ineligible for GSP for sugar in 1976 can be designated in 1977. They are Panama, Jamaica, Guyana, Columbia, Brazil, Argentina, Thailand, and the Republic of China. If you concur with the above decision, the TPSC will consider whether to recommend any of these countries for designation.

We feel it would be wise to announce your overall decision on sugar policy prior to the London summit. Assuming you approve the position recommended above, it will enhance your trade liberalization image.

Subsequent to your decision, STR will prepare: (1) an STR press release announcing your decision; (2) a letter to the Secretary of Agriculture directing the implementation of your decision regarding a domestic sugar program; (3) a decision memorandum that would be published in the Federal Register; and (4) letters for your signature to the President of the Senate and to the Speaker of the House of Representatives reporting your decision to the Congress.

MEMORANDUM 2482

NATIONAL SECURITY COUNCIL

April 27, 1977

MEMORANDUM FOR: RICK HUTCHESON

FROM: MICHAEL HORNBLOW

SUBJECT: Sugar

The NSC staff concurs on Stu Eizenstat's memo regarding sugar policy.

THE WHITE HOUSE
WASHINGTON

April 28, 1977

Tim Kraft -

The attached was returned in the President's outbox. It is forwarded to you for appropriate handling.

Rick Hutcheson

Re: Requests for Meetings

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

Tim
J

THE PRESIDENT HAS SEEN.

April 26, '77

Mr. President:

Last-minute requests for time with you are as follows, in a week with very little amounts of discretionary time left:

Schlesinger -- 20 minutes (energy problems on Hill) done

Bluementhal -- 15-20 minutes (tax, economic stimulus problems on Hill) ok

Brown, Harold -- 30 minutes, general ok

Eizenstat -- 30 minutes, air pollution testimony on Thursday ok
is memo adequate?

If phone calls won't suffice, which of the above do you want to see?

You could be scheduled after 4:30 on Wednesday no

after 4:15 on Thursday ________

or after 3:00 on Friday, depending upon if and when you wish to depart for Camp David.

Please advise.

TK

THE WHITE HOUSE
WASHINGTON

April 28, 1977

Jack Watson
Stu Eizenstat

The attached was returned in the President's outbox and is forwarded to you for your information and appropriate action.

Rick Hutcheson

Re: Reform of Federal Aid Administration

THE WHITE HOUSE
WASHINGTON

ACTION	FYI	
		MONDALE
		COSTANZA
	✓	EIZENSTAT
		JORDAN
		LIPSHUTZ
		MOORE
		POWELL
	✓	WATSON

	ENROLLED BILL
	AGENCY REPORT
	CAB DECISION
	EXECUTIVE ORDER

Comments due to Carp/Huron within 48 hours; due to Staff Secretary next day

	FOR STAFFING
	FOR INFORMATION
✓	FROM PRESIDENT'S OUTBOX
	LOG IN/TO PRESIDENT TODAY
	IMMEDIATE TURNAROUND

		ARAGON
		BOURNE
		BRZEZINSKI
		BUTLER
		CARP
		H. CARTER
		CLOUGH
		FALLOWS
		FIRST LADY
		GAMMILL
		HARDEN
		HOYT
		HUTCHESON
		JAGODA
		KING

		KRAFT
		LANCE
		LINDER
		MITCHELL
		POSTON
		PRESS
		B. RAINWATER
		SCHLESINGER
		SCHNEIDERS
		SCHULTZE
		SIEGEL
		SMITH
		STRAUSS
		WELLS
		VOORDE

THE PRESIDENT HAS SEEN.

ok
J

THE WHITE HOUSE

WASHINGTON

April 22, 1977

MEMORANDUM FOR: The President

FROM: Jack Watson Jack and Stuart Eizenstat Stu

SUBJECT: Reform of Federal Aid Administration

The federal government distributes over $60 billion each year in aid to state and local governments through a welter of categorical, block grant and revenue sharing programs. Based on our experience in Georgia and on discussions with numerous state and local officials over the past two months, it is clear that the pattern of federal administration of those aid programs needs major revision.

As you know, the work plans are being developed for government reorganization and elimination of unnecessary regulations. Although both of those projects bear on the administration of federal aid, neither effort will directly address in an integrated way the unique problems of competing for, using, or administering federal aid.

Specifically, we need coordinated action focused on:

1. Departmental procedure for federal aid administration (as part of the intra-departmental reorganization effort).

2. Federal data used in federal aid formulae (Major problems exist in the current use of the Consumer Price Index and the unemployment data as factors in distributing federal funds.)

3. Federal field structures for administering aid (Coordination of departmental reviews of their own field offices with a look at Federal Regional Councils, Title V Commissions, etc.)

4. Information needs of federal aid recipients (The catalogue of Federal Domestic Assistance is inadequate, and the Federal Information Centers are not equipped to do the job.)

5. Coordination of federal aid requirements (There is great conflict in the way federal aid regulations are written, interpreted and enforced, and existing federal aid coordination devices are generally weak and unenforced.)

6. Pattern of federal aid programs (Thus far there is no coherent Administration policy regarding the best uses of categorical, block and revenue sharing delivery systems for meeting particular kinds of national objectives.)

Reform of these problem areas will require the active participation of OMB, the Bureau of Labor Statistics, most federal departments, and the reorganization task forces, among others. Together, we would like to assemble a small working group on these issues. That group would clearly define the policy options involved and move to accomplish some "quick victories" which would lend credibility to the effort. We plan to undertake the following kinds of tasks:

1. Survey the pending Joint Funding Simplification Applications to see which can be moved through the Departments more quickly.

2. Develop a plan and do the staff work to seek common applications of terms such as equal employment opportunity, citizen participation, poverty level, etc.

3. Review the process of collecting data used in federal aid formulae and recommend ways for making the data more current, applicable and consistent.

4. Review Departmental compliance with federal management circulars designed to encourage simplification and inter-departmental consistency regarding audit guidelines, accounting procedures, state and local review of grant applications and the like.

5. Review previous reform proposals and experience so that current efforts can be cost-effective as possible.

6. Analyze federal law and practice to identify ways in which state and local government structure is effectively dictated without conscious intent or plan.

7. Begin to develop a coherent philosophy for use of various kinds of federal aid programs so that future Administration aid proposals to the Congress can be coordinated.

Although improvement of the federal aid system will be a long-term project, we believe we can produce some concrete results within 90 days because of existing Presidential authority which is not now being fully utilized.

We would suggest not going public with the project until there are specific action and progress which can be cited. No other unit in the Executive Office of President is doing this work. Using this approach would not require additional White House staffing or costs.

In order to minimize duplication and assure coordinated effort, we have already had discussions on these items with OMB, GAO, the National Science Foundation and the Departments of HEW, HUD, Commerce, Labor and Agriculture.

THE WHITE HOUSE
WASHINGTON

April 28, 1977

Bert Lance,

For your information the attached was returned in the President's outbox and has been given to Bob Linder for appropriate handling with Secretary Brown.

Rick Hutcheson

Re: Request for Executive Level Reallocation

cc: Bob Linder

X

THE WHITE HOUSE
WASHINGTON

to Brown

ACTION	FYI	
		MONDALE
		COSTANZA
		EIZENSTAT
		JORDAN
		LIPSHUTZ
		MOORE
		POWELL
		WATSON

	ENROLLED BILL
	AGENCY REPORT
	CAB DECISION
	EXECUTIVE ORDER

Comments due to Carp/Huron within 48 hours; due to Staff Secretary next day

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		HARDEN
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		HUTCHESON
		JAGODA
		KING

		KRAFT
	✓	LANCE
		LINDER
		MITCHELL
		POSTON
		PRESS
		B. RAINWATER
		SCHLESINGER
		SCHNEIDERS
		SCHULTZE
		SIEGEL
		SMITH
		STRAUSS
		WELLS
		VOORDE

To Brown
J

THE SECRETARY OF DEFENSE
WASHINGTON, D.C. 20301

April 25, 1977

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Request for Executive Level Reallocation

As part of the Department of Defense reorganization, which I have discussed with you, I am abolishing two Executive Pay Schedule Level IV positions at present allocated from the Presidential pool of Executive Pay Schedule positions. These are the positions of (1) Director, Telecommunications and Command and Control Systems (DTACCS), and (2) Principal Deputy Director of Defense Research and Engineering. The responsiblities of the DTACCS position have been consolidated with the management of Defense intelligence resources under the Assistant Secretary of Defense (Communications, Command, Control and Intelligence). The other position, Principal DDR&E, is being eliminated because in the interests of further economy I am double-hatting the new ASD (CCCI) as Principal Deputy Director of Defense Research and Engineering. This arrangement, I am confident, will produce further manpower savings.

In order to complete the reorganization of OSD, I need your authorization to (1) downgrade each of the two allocations referred to from Level IV to Level V, and (2) reassign them as follows:

1. The DTACCS position to become the Principal Deputy Assistant Secretary for Communications, Command, Control and Intelligence at the Executive V level. Four of the existing Deputy Directors of Defense Research and Engineering are at Level V by statute. This position, with responsiblities at least as great as those, should be at a comparable level, and must be if we are to be able to attract a person technically competent in this complex and crucially important field. This official will be responsible as principal assistant to the Assistant Secretary of Defense (CCCI) for managing all communications, command, control and intelligence resources in the Department.

2. The Principal Deputy DDR&E position to be used instead for the Director of Policy Review, with staff responsibility for all intelligence analysis and requirements of DoD, as well as additional duties related to force structure analysis. (At such time as the Congress establishes the position of Under Secretary for Policy, as requested in our pending legislative proposal, the Director would be redesignated as Deputy Under Secretary for Policy.)

I consider that these two reallocation actions -- each of which includes a downgrading by one level -- are essential to carrying out the objectives of streamlining the Office of the Secretary of Defense, while at the same time making this Department operate more effectively and efficiently. As you know, I am by separate action eliminating six to seven executive positions at Level IV, but those six to seven are statutorily established and cannot be reallocated. The two positions here referred to can be -- and it is necessary that they be, in order to make possible the continued reorganization of this Department.

Accordingly, I request your authorization to reallocate the position of DTACCS (now at Level IV) to the position of Principal Deputy Assistant Secretary of Defense (CCCI) at Level V; and to reallocate the position of Principal Deputy Director of Defense Research and Engineering (now at Level IV) to the position of Director of Policy Review at Level V.

Harold Brown

APPROVED:

Jimmy Carter

THE WHITE HOUSE
WASHINGTON

April 26, 1977

Bert Lance
Zbigniew Brzezinski
Jim King

The attached is forwarded to you for your information. Please phone me if you wish to hold this up for some reason. Otherwise, it will go in 4/27.

Rick Hutcheson

Re: Request for Executive Level Reallocation.

4/28

To Brown
J

THE SECRETARY OF DEFENSE
WASHINGTON D C. 20301

April 25, 1977

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Request for Executive Level Reallocation

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THE WHITE HOUSE
WASHINGTON

April 28, 1977

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Rick Hutcheson

Re: Request for Executive Level Reallocation

cc: Bob Linder

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Harold Brown

APPROVED:

Jimmy Carter

file 4/29

THE WHITE HOUSE
WASHINGTON

April 28, 1977

The Vice President
Charles Schultze
Hamilton Jordan
Frank Moore

The attached is forwarded to you for your information.

Rick Hutcheson

Re: Minimum Wage Policy

Back Watson 4/29

U. S. DEPARTMENT OF LABOR
OFFICE OF THE SECRETARY
WASHINGTON

"PRIORITY"

April 27, 1977

1977 APR 27 PM 7 16

MEMORANDUM FOR THE PRESIDENT

FROM: SECRETARY OF LABOR, Ray Marshall RM.

SUBJECT: Minimum Wage Policy

Over the last several days I have continued my discussions with the AFL-CIO and Congressman John Dent on the minimum wage issue. Congressman Dent took the initiative in contacting me, but my conversations with Tom Donahue resulted from your instruction that I discuss this matter with Lane Kirkland. Lane went to Austria after my first conversation with him and left the matter with Tom Donahue.

Since Congressman Dent is scheduled to go into the hospital on May 6 or 7 for a minor operation, the AFL-CIO and Mr. Dent will move a bill before Friday. Consequently, a decision must be made in the early part of next week.

I believe that a compromise can be reached that would raise the minimum wage from $2.30 to $2.65 an hour and index this base to 53 or 54 percent of straight time average hourly earnings. To soften the compromise for them, the AFL-CIO would like to index on straight-time average hourly earnings for the last 6 months of the previous year instead of the whole year, and have the increase in the wage rate become effective in April rather than July. This would make the compromise more acceptable because the minimum wage would go up faster if straight-time average hourly earnings were rising. Congressman Dent has indicated that a compromise must yield a minimum wage level of $3.00 by July of 1978.

Tom Donahue stated that the compromise position is only acceptable if the Administration is prepared to actively support it. A position just stating you would sign the legislation will not be agreeable to them. The AFL-CIO would much prefer to fight for $2.85 and lose than fight for $2.65 and lose, and they are afraid that without your help they might not get $2.65.

I believe the compromise at $2.65 and indexing at 53-54 percent is economically and politically sound. If you do accept the compromise, you may be subject to the criticism that you backed off or caved in on another major policy issue. However, I think it is much more likely that it will be viewed as a process of reaching an accommodation with Congress and some very important groups in your coalition. The latter include minorities, women, and labor.

If we are going to compromise on anything with the unions, I would much prefer that we compromise on the minimum wage than on any other issue that is likely to come up.

TRADE POLICY STAFF COMMITTEE

ACTION RECORD

DATE: April 20, 1977

DOCUMENT: 77-35

SUBJECT: Task Force Report on USITC Report on the Section 201 Investigation on Sugar

SUBMITTED BY: Sugar Task Force
(STR, Chairman; Agriculture; Commerce; Labor; State; Treasury; USITC; OMB)

ATTENDANCE/~~TELEPHONE CLEARANCE~~:

Agency	
STR	William B. Kelly, Jr., Chairman; James Starkey; Stephen Lande; Betsy Seastrum
Agriculture	Kerry Reynolds; Robert Harper
CIEP	Tim Regan
Commerce	Bruce Miller; Cheryl Parham
Defense	Joseph Darling
Interior	Howard Andersen
Labor	Gloria Vernon; Larry Wipf; Florence James
State	Sharon Ahmad; William Diroll
Treasury	Ellen Frost; Hazen Gale
USITC	William Hart; Tom Greer
OMB	Richard Butler
NSC	Timothy Deal
CEA	Doral Cooper

COMMITTEE DECISION:

See Recommendations Section of the Paper.

COMMITTEE COMMENT:

CF
Carolyn Frank
Secretary

TABLE OF CONTENTS

LIMITED OFFICIAL USE

I. PROBLEM

On March 17, 1977, the U.S. International Trade Commission (USITC) reported to the President the results of its investigation under Section 201(b) of the Trade Act of 1974 relating to sugar. Four of the six USITC Commissioners found that sugar, sirups, and molasses, derived from sugar cane or sugar beets, provided for in TSUS items 155.20 or 155.30, are being imported into the U.S. in such increased quantities as to be a substantial cause of the threat of serious injury to the domestic industry producing articles like or directly competitive with the imported articles. The recommendation of the USITC regarding import relief was made by three Commissioners who recommended that an annual quota of 4.275 million short tons, raw value, be established on sugar under TSUS items 155.20 and 155.30 for calendar year 1977, and for each calendar year thereafter, up to and including 1981. The quota would be allocated among supplying countries on a basis determined by the President to be equitable. The President has sixty days after receiving the USITC report (until May 16, 1977) to determine whether to accept, reject or modify the USITC recommendation. If he does not proclaim the quota recommended by the Commission, his decision will be subject to Congressional override.

This case has been unusual in that substantial research into the question of sugar has been underway within the Executive Branch in two studies done under the Council on International Economic Policy (CIEP) in 1976, in a USDA Task Force set up by Secretary Bergland in January 1977, and in a State Department Task Force which has been formulating a U.S. position for the April-May 1977 negotiations in Geneva for an International Sugar Agreement (ISA). The Cabinet-level Economic Policy Group has also discussed the issue in recent weeks. As a result, this report has drawn upon the research and suggestions made by other task forces within the Executive Branch where appropriate.

Finally, this report also encompasses the question concerning the status of sugar and the Generalized System of Preferences (GSP), upon which a decision has been pending the results of this study. Attached to this report is a paper for consideration of the Trade Policy Staff Committee dealing with this issue.

II. RECOMMENDATIONS

The Trade Policy Staff Committee recommends that no import relief be granted on sugar and that income support payments be made to domestic producers, pending negotiation of a new International Sugar Agreement (Option VI(a)). Commerce, Defense, Interior, Labor, State, Treasury and STR support this recommendation. Agriculture recommends increased tariff protection and a price support loan program (Option VI(b)) and would further protect the program with a "non-restrictive" quota program of

LIMITED OFFICIAL USE

4.6 to 4.8 million tons. The tariff increase, the "non-restrictive" quota, and the price support loan program would be interim measures pending negotiation of a new International Sugar Agreement.

With regard to the issue of sugar and the Generalized System of Preferences (GSP), the Trade Policy Staff Committee recommends that the American Farm Bureau Federation's petition to withdraw GSP benefits from sugar be denied. Agriculture, Defense, Interior, Labor, State, Treasury and STR supported this recommendation. Commerce preferred that the petition be accepted but agreed to accept the majority recommendation. Both Commerce and Labor noted that, in light of the USITC finding of threat of injury, they believed sugar was import-sensitive.

The Trade Policy Staff Committee agreed to defer the decision on whether to designate countries that are presently ineligible for GSP but that shipped less than the competitive need limitation last year (GSP option II(4)).

III. Discussion LIMITED OFFICIAL USE

A. BACKGROUND

1. History

The U.S. Sugar Act, which had supported domestic sugar prices through a system of production controls and allocated import quotas for various foreign countries, expired on December 31, 1974. At that time the U.S. adopted an essentially open market policy with a non-restrictive global quota of seven million short tons and the Column I tariff of .625 cents per pound. On September 21, 1976, in response to the concern of domestic sugar producers about low prices, the President increased the tariff to the Column II rate of 1.875 cents per pound.

Also on September 21 the U.S. International Trade Commission (USITC) instituted this Section 201 escape clause investigation on sugar, following the receipt on September 17, 1976, of a resolution from the Senate Finance Committee requesting an investigation. On September 22 the USITC also received a letter from the President, urging that the Commission conduct its investigation on an expedited basis. The Commission subsequently planned to report to the President prior to the six-month statutory deadline of March 17, 1977. However, litigation concerning the obtaining of certain information from corn sweetener producers resulted in the USITC being unable to submit its report to the President before March 17. The President has until the statutory deadline of May 16 to make his decision.

In a separate action, the American Farm Bureau Federation petitioned the Special Representative for Trade Negotiations (STR) for the removal of sugar from the list of articles eligible to receive duty-free treatment under the Generalized System of Preferences. In 1976, about 17% of U.S. sugar import tonnage was eligible for GSP. The Farm Bureau indicated, however, that it would accept a delay of action on its petition until the USITC investigation is completed. If the President proclaims import relief pursuant to Section 203, then sugar will by law automatically lose its GSP eligibility.

2. USITC Report

Injury: Four of the six USITC Commissioners found that sugars, sirups, and molasses, derived from sugar cane or sugar beets, provided for in TSUS items 155.20 or 155.30, are being imported into the U.S. in such increased quantities as to be a substantial cause of the threat of serious injury to the domestic industry producing articles like or directly competitive with the imported articles. One Commissioner found that increased imports were a substantial cause of serious injury to the domestic industry, and one Commissioner found that sugar is not being imported into the United States in such increased quantities as to be a substantial cause of serious injury, or the threat thereof, to the domestic industry producing articles like or directly competitive with imported articles.

Four Commissioners included beet and cane growers, processors, and refiners in their definition of the domestic industry, and one Commissioner included all of the preceeding with the exception of refiners. These five Commissioners looked at a period from January 1, 1975, to measure increased imports. The Commissioner finding that increased imports are not a substantial cause of serious injury or the threat thereof looked at various trend lines going back to the 1968 Kennedy Round trade concessions.

Relief: The majority recommendation regarding import relief was made by three Commissioners who recommended that an annual quota of 4.275 million short tons, raw value, be established on sugar under TSUS items 155.20 and 155.30 for calendar year 1977, and for each calendar year thereafter, up to and including 1981. The quota would be allocated among supplying countries on a basis determined by the President to be equitable.

Two Commissioners recommended an annual quota for a three-year period up to and including 1979, effective the date of the President's proclamation, of 4.4 million short tons of sugar, raw value, as provided for in TSUS 155.20 and 155.30. The annual quota amount would be allocated on the basis of non-transferable import licenses to be auctioned by the Secretary of Agriculture under such regulations as the Secretary of Agriculture would prescribe, to assure an equitable distribution among importers.

One Commissioner recommended an annual quota of 4.4 million short tons, raw value, under TSUS 155.20 and 155.30, to be proclaimed from January 1 of the year of the President's proclamation up to and including 1981. The quota would be allocated on a country-by-country basis based on historical supply of the average of the years 1972-76. Countries falling short of their quota in a given year would receive the amount supplied in that year as their quota for the following year, with the shortfall to be allocated on a pro rata basis to countries filling their quotas that year.

3. Products and Their Uses

Sugar is derived from the dissolved sucrose in the juice of sugar cane or sugar beets. Sugar cane is a perennial subtropical plant the juice of which, when processed, produces a product called raw sugar. Raw sugar from cane is the principal "sugar" shipped in international trade. Refining then yields the refined white sugar known to household users.

Sugar beets are annual temperate-zone plants grown in rotation with other crops. Most sugar beets are converted directly into refined sugar which is not distinguishable from the refined sugar derived from cane. Both the beet and cane sugar in world trade is tested for customs purposes by polariscopic testing and is usually measured on the basis of a standard of 96°. For 96° raw value sugar the current U.S. tariff is 1.875¢/lb.

Nearly all sugar in the U.S. is used for human consumption, although some is used in the production of alcohol and specialty livestock feeds. In the U.S. about one-third of the sugar consumed goes to household users and two-thirds to industrial users. Of the latter, beverage producers are the largest consumers, followed by bakery and cereal producers, confectionery producers and others. Flavored sirups are used in soft drinks, ice cream, dessert toppings, and the making of home beverages.

The major alternatives to sugar as a sweetener are the corn-based sweeteners. High-fructose corn sirup (HFCS), a recent product which is nearly a perfect substitute for invert sugar sirup, has proven very competitive with sugar, and the corn sweetener industry is rapidly expandingits ability to produce it. HFCS is used almost entirely by industry and is not now competitive in a granulated form.

A by-product of sugar, molasses, is used as a sweetener and a binder in livestock feeds. Some is also used in rum production and as a flavoring. Maple sirup, honey, and other specialty sugars are not particularly competitive with sugar.

Non-caloric alternatives to sugar consist of such sweeteners as saccharin and cyclamates. The FDA has banned cyclamates, however, and on March 9, 1977, announced its intention to withdraw its approval of saccharin for use in foods, effective July 1. USDA estimates that annual food use of saccharin is 750,000 short tons, sugar equivalent. However, it is further estimated that only about one quarter of the eliminated saccharin usage will be transferred to annual sugar consumption - i.e. 200,000 short tons.

4. Import Trends and Sources

Trends: By far most U.S. imports of sugar are entered as raw sugar under TSUS 155.20, although some refined sugar enters under 155.20 as well. Also of note are U.S. imports of liquid sugar and other sugar sirups under TSUS 155.30. Before 1975 most imports of refined and liquid sugar were virtually embargoed under the Sugar Act. Since then about 2% of sugar imports have consisted of these products, mostly from Canada.

Annual U.S. imports under TSUS 155.20 and 155.30 have varied considerably in recent years, as Table 1 shows. In 1971 imports amounted to 5.6 million short tons, raw value. In 1972, as a result of Sugar Act amendments to increase the share of domestic sugar supplied by U.S. producers, imports declined to 5.5 million tons and further to 5.3 million tons in 1973. Then in 1974 sugar imports increased to 5.8 million short tons, the highest level ever. However, in 1975 imports fell to 3.9 million tons, the lowest annual level since 1965, and came back to 4.7 million tons in 1976. Thus, although imports were higher in 1976 than in 1975, they were lower than the imports of 1971, 1972, 1973 and 1974 when the Sugar Act was in force.

Nevertheless, the long-term trend in imports is upward over the period 1965-76, as is the trend for 1965-73. The latter trend is steeper, however, as shown in Figure 1, because of the exclusion of the lower import levels of 1975-76. Short-term trends differ in accordance with the period chosen. Figure 2 shows the 1973-76 trend is decreasing, while the 1975-76 trend is increasing.

Sources: In 1976, the leading suppliers of U.S. imports of sugar (TSUS 155.20 and 155.30) were the Dominican Republic, the Philippines, Australia, Guatemala, Peru, the West Indies, India, Nicaragua, and El Salvador. U.S. imports by country of origin are shown in table 2.

The Dominican Republic exports most of its sugar crop, with the U.S. accounting for 65 to 70% of its export market in recent years. In 1976, the U.S. imported 971,000 tons or 21% of its total sugar imports from the Dominican Republic. The Dominican Republic was also a consistent supplier under the old U.S. Sugar Act, and one U.S. firm is involved in sugar production there now.

Since 1975 Australia has been a major supplier of sugar to the U.S. The U.S. imported 470,000 tons in 1976, or 10% of total U.S. sugar imports. These increased imports have resulted from the expiration of the British Commonwealth Sugar Agreement and the need for Australia to find new markets for its sugar production, as well as the termination of the U.S. Sugar Act which resulted in Australia's having access to an open U.S. market.

The Philippines exports its sugar mainly to the U.S. and Japan and was the principal U.S. supplier from 1960 to 1974. The U.S. imported 915,000 tons in 1976, or 20% of total U.S. imports.

In 1975 the Philippine system for marketing sugar was reorganized and put under the control of a quasi-governmental agency. This agency has entered into long-term supply contracts with U.S. cane sugar refiners. Returns to the Philippines in some of these contracts are based on the sales price of refined sugar in the U.S. Shipments to the U.S. from the Philippines in 1975 and 1976 were lower than the annual average during the 1971-74 period.

The West Indies sale of sugar to the U.S. accounted for 6% of U.S. sugar imports in 1976. Several small West Indies countries receive GSP on sugar, but in 1976 Jamaica and Guyana were ineligible. Jamaica and Guyana were eligible for redesignation as recipients of GSP on sugar in 1977, but have not been redesignated pending the results of this report.

U.S. imports of sugar from Brazil declined dramatically in 1975, and were zero in 1976. In part Brazil's sugar-marketing agency was unable to agree with U.S. firms on the terms of long-term contracts. Brazil remains a large potential supplier, however.

Imports of sugar from the Central American countries (Belize, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and Panama) are up significantly in value in 1975 and 1976. Most of these countries have received GSP on sugar. (See discussion in following section for details on sugar and GSP.)

5. Imports Relative to Production and Consumption

As Table 1 shows, the ratio of U.S. sugar imports to domestic production decreased from 91% in 1971 to 84% in 1973, increased to 97% in 1974, and dropped to 59% in 1975. In 1976 this ratio increased to 65%. Domestic production rose during the period 1971-73 from 6.14 million short tons, raw value, to 6.32 million tons. Increased quotas to domestic producers under the Sugar Act explain part of this increase. Production declined in 1974, largely as a result of beet growers cutting back acreage in response to decreased earnings under wage and price controls and more attractive prices from alternate crops. High prices in 1974 caused considerable expansion of production in 1975, particularly in the beet sugar sector which is most price responsive because acreage can be shifted from other crops into beets and vice versa on an annual basis. Beet production for the crop year 1974/75, for instance, was 2.9 million short tons, raw value, compared to 4.0 million tons the following crop year. Production is estimated to remain fairly high, at 3.9 million tons for the 1976/77 crop year. For the calendar year 1976 total U.S. sugar production increased to 7.1 million short tons, raw value, up from 6.6 million tons in 1975, and 6.0 million tons in 1974.

The ratio of U.S. imports to domestic consumption, as Table 1 shows, decreased irregularly from 1971 to 1975. In 1974 it was at 50%-the highest level since 1960-and then declined to 38% in 1975, the lowest level since 1964. The ratio for 1976 was 42%.

6. Domestic Producers

About 55% of the annual sugar consumption of the U.S. derives from domestic sources (30% from sugar beets and 25% from sugar cane.) Of domestic cane production 55% comes from the mainland (Florida, Louisiana, and Texas) and 45% from offshore (Hawaii and Puerto Rico), according to 1976/77 crop year estimates. As a percent of total U.S. sugar production, 24% of U.S. sugar is cane from the mainland and 20% is cane from offshore. All U.S. beet production is on the mainland.

The other 45% of U.S. annual sugar consumption comes from foreign sources, almost entirely in the form of raw cane sugar. For the crop year 1975/76 domestic production totalled 7.3 million short tons, raw value, of which 1.8 million tons was mainland cane sugar, 1.1 million Hawaiian cane and .3 million Puerto Rican cane, and 4 million mainland beet sugar. During the period 1971/72 to 1975/76 domestic production of cane and beet sugar increased irregularly, as Table 3 shows.

U.S. Sugar Beet Growers and Processors: Sugar beets are produced in 18 states, with the leading producing states in 1975/76 being California, Idaho, Minnesota, Colorado, Washington, North Dakota, Nebraska, Michigan, Wyoming, and Montana. The number of farms producing sugar beets was 12,400 in 1973/74 (the last year for which official statistics are available) and has probably increased since then.

Farmers grow sugar beets under contract to beet sugar processors. These contracts provide for the beet farmer's delivering to processors beets from a given amount of acreage. Processors then reimburse growers on a basis which includes a percentage of the returns processors receive from the sale of the refined sugar.

There are 51 beet sugar factories owned by 13 companies or cooperatives throughout the sugar beet producing regions in the U.S. Nine of these 51 factories are cooperatives. In 1973 these factories had a capital investment of $550 million.

Hawaiian Sugar Cane Growers and Millers: Hawaii has the highest yield of sugar cane per acre in the world, averaging about 10.5 short tons of sugar, raw value, per acre in recent years as compared to 2.7 short tons, raw value, per acre on the mainland. Over 500 farms in Hawaii harvested 105,000 acres of cane in 1975, compared with over 700 farms harvesting 116,000 acres in 1971. About half of Hawaii's cane acreage is irrigated.

Five large corporations, through their subsidiary milling and/or producing companies, account for most of the acreage and production of Hawaiian cane. Over 95% of the raw sugar produced in Hawaii is then refined in the U.S. mainland by California and Hawaiian Sugar Co., a cooperative agricultural marketing association.

Mainland Sugar Cane Growers and Millers:: Louisana, Florida, and Texas are the principal mainland states producing sugar cane. The cane millers are usually located close to the producing areas and process the cane from growers into raw sugar. This must be done rapidly since the sucrose recoverable from the cane deteriorates rapidly once the cane has been cut.

Louisiana cane is grown on the flood plains of the bayous and acreage is limited. About half of the crop is grown by owners of processing mills. In 1975/76 31 companies operated 37 cane-processing mills in the area. Production in Louisiana has been erratic, reaching 660,000 short tons, raw value, in 1972/73 and 650,000 in 1976/77. The number of farms producing cane in Louisiana has probably declined from the 1290 farms in 1973/74 (the last year for which official statistics are available).

In Florida sugar cane production has increased rapidly, although due to the recent freeze 1976/77 output, raw value, will probably total only 900,000 short tons. The bulk of Florida's cane sugar comes from a few large, efficient farms, although in 1973/74 there were 136 farms producing cane. Most of the cane is produced by owners of the mills, of which there were 8 in 1975/76. The U.S. Sugar Cooperation, which is both a processor and grower, is the largest grower of sugar cane in the U.S.

The Texas sugar cane industry only began production in 1973/74. In 1976/77, 131,000 short tons, raw value, were produced. One cane-processing mill operated in Texas in 1975/76. The number of farms producing cane in Texas has most likely increased significantly from the 93 farms in 1973/74.

Puerto Rico:

In Puerto Rico the number of farms and their output of sugar cane has declined severely in the past decade from 11,608 farms in 1963/64 to 2,551 in 1973/74. Since 1973/74, however, sugar production has increased and stood at 303,000 short tons, raw value, for 1976/77. Most of the sugar cane acreage and mills are run by the Sugar Corporation of Puerto Rico, a quasi-governmental organization.

Cane Sugar Refiners: There are 22 cane sugar refiners in the continental U.S., located mainly in the east and gulf coasts. The refiners have traditionally supplied about 70% of the sugar consumed in mainland U.S. The refiners are also the principal importers of raw sugar and in 1975 obtained 61% of their supplies from foreign sources.

U.S. Importers and Sugar Operators: Other importers and sugar operators import raw, semi-refined, and/or refined sugar and sell it to buyers, thus filling in the gaps of the usual market distribution channel from domestic growers or foreign suppliers directly to refiners. The operators also trade on the futures market and in world sugar trade outside the U.S. market.

Alternative Sweeteners: In 1975, 11 firms produced corn sweeteners in 16 plants, and two of the eleven produced high fructose corn sirup (HFCS). Another three were planning to produce HFCS in 1976, but only two of these will actually be producing in 1977. Production was a half million tons, raw sugar equivalent, in 1975 and 800,000 tons in 1976. Early in 1976, the U.S. corn sweetener industry tentatively projected a domestic U.S. market of 3 million short tons of HFCS (dry basis) by 1980 if not before. But current low sugar prices may delay this achievement. A reduced HFCS Market of 2 to 2.5 million tons by 1980 now seems more readily attainable. Trade sources suggest that by this year end, the U.S. corn refining industry may have a production capacity of near 2 million tons of HFCS annually. Annual shipments of HFCS in 1977 at best will probably not total over 1.3 million tons. It is estimated that HFCS could eventually capture a maximum of 50% of the industrial market for sugar.

Molasses, maple sirup, and honey are other specialty sweeteners; saccharin, which the FDA has banned, has been the principal non-caloric sweetener and is produced by one firm.

7. Production, Sales, Inventories, and Exports

U.S. total sugar production, as Table 1 shows, has varied from 6.1 to 6.3 million short tons, raw value, from 1971-73, dropped to 5.96 million tons in 1974, increased sharply to 6.61 million tons in 1975, and increased again to 7.10 million tons in 1976.

The value of sales of U.S. sugar have not tended to reflect production because of the large variations in prices. Estimated net sales increased over the 1972-74 period, from $2.7 billion in 1972 to $6.9 billion in 1974. Net sales decreased in 1975 because of falling prices, although production increased. Net sales are expected to have fallen in 1976 as the decrease in prices outweighed the increase in production. Nearly all U.S. sugar is sold domestically at a price which since the end of 1974 has been closely tied to the world price.

U.S. consumption of sugar has proved more price elastic in recent years, however, than the long steady increase of 1960-73 suggested. Table 4 shows that annual U.S. per capita consumption of sugar fell from 103 pounds in 1972 to 90 pounds in 1975, though low prices brought this level back up to 95 pounds in 1976. During this period expanded consumption of other sweeteners such as corn sweeteners and saccharin made inroads on total U.S. per capita sweetener consumption.

Inventories held by major segments of the U.S. sugar industry were relatively stable at 2.8-2.9 million short tons as of the beginnings of calendar years 1971, 1972, and 1973, dropped to 2.7 in 1974, and increased to 2.9 million short tons in 1975 and 1976. At the beginning of 1977, inventories stood at 3.5 million short tons. The change which has occurred in the size of the inventories in recent years may be partially explained by year-to-year shifts in who holds the inventories.

U.S. exports of sugar have been negligible in comparison to imports and consist of refined sugar or sugar-containing products.

8. Employment

USITC questionnaire data, shown in Table 5, indicates that total employment in the sugar industry (excluding sugar beet growers for whom statistically significant returns were not available) has increased each year for the period 1972-76. Increased employment in the cane sector outweighed decreased employment by beet sugar processors in the 1972-74 period, employment by each group increased in 1975, and increased employment by beet sugar processors outweighed decreases in employment in the cane sugar sector in 1976.

Total man-hours in the sugar industry increased in every year over the period 1972-76, except in 1974. Man-hours worked by beet sugar processors followed the same pattern, while total man-hours worked in the cane sugar sector increased for every year except 1976. Total wages and wages in each group increased in every year over the period 1972-76. Wages for production and related workers engaged in sugar beet and sugar cane growing are generally higher than wages of hired workers on U.S. farms. Wages for production workers in cane milling and refining and beet processing are also generally higher than wages in the food processing industry.

9. Capacity and Profitability

Capacity. Capacity in the sugar beet industry is limited by the number of processing facilities. Theoretically, many more acres could be planted in beets than are presently and production greater than the large 1975/76 crop of over four million short tons could be produced if there were the plants to process the beets. Low prices have been a disincentive to plant expansion, however, and in fact have caused plant closings recently.

The growing capacity of the cane industry might be expanded somewhat, particularly in Florida and Texas, but climate and soil conditions limit overall U.S. cane production. Cane refining capacity is presently underutilized, due largely to the lower import level of the past two years, and could be increased somewhat with existing facilities. In the high-fructose corn sirup industry, capacity is presently underutilized and the potential for eventually capturing up to 50% of the industrial market for sugar exists.

Profitability: All segments of the sugar industry - growing, milling, processing, and refining - enjoyed a dramatic increase in net sales during 1972-74. Net sales for most of the industry declined in 1975, however, due to declining prices. Table 6 shows total net sales increasing from $2.7 billion in 1972 to $6.9 billion in 1974 and down to $5.4 billion in 1975. The USITC estimates that total net sales for the U.S. sugar industry could decline to about $4 billion in 1976. Table 7 gives an idea of the total net profit or loss, or net proceeds paid or payable to cooperative members, for the entire U.S. sugar industry. Profits peaked in 1974, and declined in 1975 and 1976.

The ratio of net farm profit before income taxes to total farm income is a good basis on which to compare the profitability of various segments of the industry during the 1972-76 period. U.S. sugar beet growers, for instance, had such a ratio of 18% in 1972, 30% in 1974, and 27% in 1975. Beet processors made a ratio of net farm profit from their beet processing operations, before income taxes, to total net sales of 5.4% in 1972, 20.3% in 1974, 15% in 1975 and probably less than 15% in 1976.

Cane growers in Florida had a similar ratio of 21.4% in 1972 and 33.5% in 1975 on their sugar-cane milling operations. Independent Louisiana growers earned a ratio of net sugar cane profit before income taxes to total sugar cane income of .6% in 1972, 40.6% in 1974, and 4.4% in 1975. Louisiana proprietary grower-millers on their growing operations made 7.4% in 1972, 53.6% in 1974 and estimate a 9.2% loss in 1976. Louisiana millers did well in 1974 and 1975, but overall will be losing money in 1976. Hawaiian grower-millers earned a very high ratio (65%) of net profit before income taxes to net sales in 1974, but will barely break even in 1976.

U.S. proprietary cane refiners, on the other hand, have earned a much lower ratio of net profit before income taxes to net sales in their refining operations, of under 3% in most of the 1972-75 period, including a loss of 2.3% in 1974. The cane refining profit margins, though usually small, generally give the industry a reasonable return on its capital investment because of the large volume of sales. The California and Hawaiian Sugar Co., a cooperative, has done well on its refining operations, however.

Sherwin-Williams Co., the sole U.S. producer of saccharin, has recovered from a loss of 11.5% in 1972 to profits of 33% in 1974 and 22% in 1976. Profit and loss data on the corn sweetener industry was not obtained by the USITC, but recent low sugar prices appear to have slowed growth in the industry.

Prices: Figure 3 shows the dramatic rise in both U.S. and world sugar prices in 1974 and the equally abrupt decline. The price of raw sugar delivered in New York averaged 10¢ per pound in 1973, rose to an average of 57¢ per pound in November 1974, fell to just below 10¢ per pound in September 1976, and, since the tariff tripling has remained in the 10-12¢ range.

The price explosion of 1974 has its roots in the high world price in 1963 which brought on excessive world production and low world prices from 1965-68. Although the price in 1969 began to climb, world production did not adequately respond. In 1970, 1971, and 1972 world sugar consumption exceeded production and sugar stocks declined. In 1973 world stocks remained tight and in 1974 production was again insufficient. Aggressive buying by sugar deficit countries and the uncertainty surrounding the Sugar Act pushed prices upward. Raw sugar prices peaked at 65¢ per pound in New York the week of November 18. In late 1974 supply forecasts improved and greater supplies than had been expected entered the market. These factors and strong consumer resistance brought about an abrupt reversal in price trends in late 1974 and early 1975.

High fructose corn sirup (HFCS) is generally priced competitively below the price of refined sugar by a margin in recent months of 20 to 30%. (See Table 8 for prices on which margin estimates based.) The last quarter of 1976 HFCS was prices at $11.51 per cwt.

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10. Outlook and Long Term Prospects

The February 1977 USDA Sugar and Sweetener Report estimates that the prospective large 1976/77 world sugar crop of 87 million metric tons (raw value) will exceed world consumption by about 4 million metric tons. Ending world stocks in 1976 stood at almost 26% of world consumption, compared to 21% in 1975 and 20% in 1974. A disproportionate share of this increase is in exporting countries, so that significant increases in carryover stocks are expected there. These increases could result in exporting countries marketing aggressively, particularly if the 1977/78 crop prospects seem large.

In recent months the U.S. price has remained fairly steady, strengthening in January to above 10¢/pound and rising to above 13¢/lb. in mid-April. Factors which the market is anticipating are: the mid-January freeze in Florida; lower sugarbeet planting intentions; an announced withdrawal of Cuba from the free world export market; large USSR and PRC purchases of Philippine sugar. The expectation of U.S. government action is also a factor.

The 1977 early season sugarbeet planting intentions report indicated a reduction in sugarbeet acreage of 7% compared to last year. The mid-April prospective plantings report revealed an even further reduction for an overall decrease in sugarbeet acreage of 12% because of drought conditions in many areas and the anticipation of low prices. Closings of beet sugar factories have been announced recently-in particular four factories in Colorado. Sugar cane acreage for this year may not change much from last year, although Florida's harvest will be hurt somewhat by frost.

The USDA Sugar and Sweetener Report estimates U.S. sugar deliveries in 1977 will approximate 1976, with per capita consumption of sugar in the 93 to 97 pound range. U.S. sugar imports are expected to be up, in the 4.7-5.0 million short ton range, depending on U.S. production, weather, prospective increases in HFCS consumption, and the effect of the saccharin ban. HFCS shipments, which totaled 800,000 tons in 1976, will probably not reach over 1.3 million tons in 1977. In early 1976 the HFCS industry projected a domestic market of 3 million short tons by 1980; a market of 2 to 2.5 million tons by 1980 now seems more likely. Trade sources indicate, that by the end of 1977 the HFCS Industry should have a production capacity of nearly 2 million tons.

Long-term sugar prospects depend on the relationship of several factors: prices, production response, HFCS production, weather, U.S. and world consumption patterns, the possible success of an ISA, the saccharin ban, and U.S. government policy. Nevertheless, USDA estimates that without

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an ISA, U.S. prices would strengthen considerably over the next five-year period as declining production due to the present low prices eventually resulted in consumption exceeding production. With an ISA, the price rise would be mitigated by the operation of the agreement.

Low sugar prices have slowed HFCS expansion, but the prospect of an upturn by the end of 1979 would encourage production. Marginal U.S. sugar producers which are now being forced out of business or turning to other crops because of low prices may find HFCS permanently replacing their position and competing with the domestic sugar industry generally. In addition, the domestic sugar industry, although advanced in many technological aspects, faces stiff competition from foreign sugar producers whose costs of production are on the average about 10¢/lb., compared to average U.S. costs in the 13-14¢ range.

Assumptions about U.S. and world consumption are also implicit in any long-term outlook. U.S. per capita consumption of total sweeteners has risen from 119 pounds in 1965 to 136 in 1976. It would seem this level could not increase indefinitely, especially given health warnings of the dangers of too much sweetener consumption. World-wide however, the possibilities for increased consumption could be considerable, both on a per capita basis as LDC's income levels improve and because of growing population. This could result in upward pressure on world prices in the long run.

Long-term prospects for world sugar production are likewise important in any prospective view of sugar price relationships, but are difficult to assess. The net effect of the present increases in world production over consumption on the world free market price is probably price-depressing. But if the present low world prices cause worldwide stagnation in sugar production a shortage situation and rising prices will develop in the future. Weather factors are also important but practically impossible to foresee.

B. DOMESTIC CONSIDERATIONS

1. Adjustment Assistance for Workers

Since April 3, 1975, the effective date of the adjustment assistance program, the Department of Labor has received 21 petitions for certification of eligibility for adjustment assistance from workers engaged in the growing and processing of beet and cane sugar. Investigations are currently in process. A total of about 1600 workers who were laid off from beet sugar processing plants and sugar cane mills will be affected.

Over the next 12 months, some of the 300 workers on layoff status from Hawaiian sugar cane mills since 1976 may apply for certification of eligibility for adjustment assistance and may be certified by the Department of Labor. There is no evidence of any widespread or significant unemployment among sugar beet farm workers or those engaged in the processing and refining of beet and cane sugar, with the exception of those workers covered by the petition. Since the Hawaiian sugar industry is of a year-round nature, these workers would not be excluded from trade readjustment and relocation allowances by the requirement in the Act that all eligible workers must have been employed at least 26 of the 52 weeks immediately preceeding their separations. Similarly, although beet processing tends to be of a seasonal nature, the eligibility of most of the workers who have petitioned for adjustment assistance (mainly maintenance personnel) would not be affected by this legal requirement.

Nearly 200 sugar cane mill workers in Hawaii and about 100 in Louisiana are likely to be laid off over the next few months. More workers could be affected if the price of sugar does not recover. A continuation of the western drought will also have an adverse effect on employment in sugar beet growing and processing. Many of these workers can be expected to apply for adjustment assistance. Some of the workers involved in growing and processing beet and cane sugar in the mainland United States would not be eligible for trade readjustment and relocation allowances due to the high degree of seasonality that generally characterizes the industry.

The workers that were separated from the industry are located primarily in scattered parts of Colorado and Hawaii. Local unemployment rates were considerably higher in Hawaii (8.5 - 9.6 percent) than in the impacted areas of the mainland United States. Some of the displaced Hawaiian sugar cane mill workers can be absorbed into field operations, however. The reemployment prospects of the remainder of these workers, both in Hawaii and the mainland United States, are limited by the lack of other crops or food processing plants in the impacted areas.

The Comprehensive Employment and Training Act (CETA) programs appear to be capable of meeting the needs of the displaced workers. Although actual levels of enrollment are in some instances higher than expected levels, funding appears to be adequate to sustain all programs. The Employment and Training Administration through the State Employment Service has the authority to purchase additional training when CETA funds are not available.

2. Adjustment Assistance for Firms

To be certified as eligible to apply for trade adjustment assistance, a sugar grower, processor, or refiner must demonstrate that increased imports of sugar contributed importantly to declines in the firm's sales or production, or both, and separation, or threat of separation, of its workers. The increase in imports may be either absolute or relative to domestic production, while sales or production of the petitioning firm must show an absolute decrease. For a petitioning firm in the sugar industry, the first requirement of the qualifying criteria probably is met, since U.S. imports of sugar increased in 1976 over 1975.

For purposes of certification of eligibility, the Department of Commerce considers the operations of affiliates, subsidiaries and parents of the petitioning firm and its principal owners. In cases where the petitioner has one or more affiliates, subsidiaries or parents, the sales, production and employment data are required to be presented on a consolidated basis for all business entities related to the petitioning firm.

As of the date of this report, no petitions have been filed by firms in the sugar industry seeking certification to apply for trade adjustment assistance. The likelihood of firms in the industry being able to meet the qualifying criteria for certification would depend on a number of unknown factors which could vary considerably in individual cases. Each case would have to be judged on its own merits and on the basis of whatever evidence the petitioning firm may adduce concerning its own operations and market situation. The Commerce Department is unable to estimate the number of firms that are "likely to be certified eligible". However, if any firms do submit petitions, they would most likely be from among independent sugar cane and sugar beet growers.

In the case of sugar beet growers, the sugar beet harvest may represent only a portion of their total farm income. In contrast to this, growers of sugar cane generally grow only this one crop. Since sugar cane millers and sugar beet processors are often associated with their supplying growers, all of the affiliated operations would have to be examined in order to determine if the prospective applicant meets the requisite criteria for certification.

The sugar cane refiners, most of which are affiliates of large corporations, are least likely to qualify for certification. These refiners represent the largest component of the domestic sugar industry, both in sales and profits, and also import the bulk of the raw cane sugar which enters the United States.

3. Effectiveness of Import Relief to Promote Adjustment

Adjustments would still take place within the domestic sugar industry, even if relief measures were taken. The extent to which producers stopped producing would, of course, depend upon the price level being supported. Most options currently being discussed would support sugar at 13.5 cents per pound to the producer. At that price level, total domestic production would stabilize at about 6 million short tons per year for the next 5 marketing years and the producers leaving the market would generally be those which are least efficient in terms of cost of production. However, adjustment would also be related to the feasibility of utilizing productive capacity for other purposes (alternative crops). This adjustment compares with an expected decline of one-third in domestic production (to about 4 million short tons per year) over the same period if no relief actions are taken.

The degree to which HFCS production increases could also be influenced by the type of relief measure taken. If the relief were in the form of domestic action--such as deficiency payments or a loan program--the market price would not be affected and HFCS would not increase beyond normal projections. Import restrictive actions, however, would tend to create a higher price umbrella under which HFCS production would grow beyond current expectations. If the import controls resulted in 13.5 cent sugar, the effect on sugar producers would be as noted above. But the replacement of sugar by domestic HFCS in the sweetener market would be accelerated.

4. Effect of Relief on Consumers, Competition, Employees, Communities and Taxpayers

Any effort to remedy the injury found in the domestic industry via trade measures must raise the prices received by domestic producers and processors of sugar. A range of domestic prices could be targeted as the desired remedy in this case, and these could roughly be achieved using either quotas or tariffs. For the sake of simplicity, this analysis assumes that a target domestic price of 13.5¢ per pound can be achieved, and examines the associated effects of this level of relief, distinguishing differences in mechanism only where relevant.

It should be noted, however, that a fixed quota, such as that of 4.275 million short tons recommended by the ITC, can not be used with any reliability to achieve such a target price under current market conditions of high inventories and production. This is because quotas act only indirectly on price by establishing an upper limit on imports. The price increase is determined by the relevant elasticities of supply and demand and the excess of domestic demand over domestic supply for the good involved and that of close substitutes.

In the case of sugar, were the ITC's majority quota put in effect starting January 1, 1977, imports would be limited to 4.275 million short tons, raw value. As an upper limit, domestic supply is estimated to be 7.3 million short tons (including 0.5 million short tons withdrawn from inventories). On the other hand, domestic consumption during 1977 is estimated to range from 11.1 to 11.5 million short tons. Under these conditions, the ITC quota might not exert upward pressure on sugar prices during the first year of relief, and the price objective of 13.5 cents per pound might not be achieved. However, more recent estimates indicate that domestic production in 1977 may be considerably less than 6.8 million short tons. If this is the case, or if domestic inventories are not drawn down, the price objective of 13.5 cents per pound could well be achieved or even surpassed.

Base-line Assumptions

It is assumed that, in the absence of relief, domestic sugar production would be 6.8 million short tons, domestic consumption 11.5 million short tons, HFCS production would be 1.2 million short tons (dry, raw equivalent), imports would be 4.4 million short tons, the price of raw sugar would be 10.5¢ per pound and import duties plus insurance and freight would be 2¢ per pound.

Consumers

Ignoring the possibility of more than direct cost pass-through by domestic refiners and industrial users of sugar and substitutes, the increase in total cost to consumers of each one cent per pound increase in the price of raw sugar is estimated to be $295 million. Total costs consist of $220 million for sugar, $30 million for HFCS--a close substitute for sugar, and $45 million for other corn sweetners--poorer substitutes for sugar. The market control of several domestic refiners (evidenced by the anti-trust cases currently in litigation) and brand name industrial users could be exercised to produce more than direct pass through of sugar cost increases to consumers.

Competition

The effect of increasing domestic sugar prices to 13.5¢ per pound on competing goods, notably HFCS, would be to insure greater utilization of production capacity in the short-run (production as high as 1.5 million short tons on capacity of around 2 million short tons) and to accelerate expansion of capacity in the longer term.

Employees

The employment impact resulting from increasing the domestic price of sugar to 13.5 cents per pound will vary among various sectors of the domestic sugar industry. Using 1976 average output-employment ratios and a domestic supply elasticity of 0.4, it is estimated that the first year of effective import relief would reduce layoffs of workers in beet processing and cane milling by about 2,000. Fewer layoffs of seasonal farmworkers in sugar beets and sugar cane can also be expected. However, it is not possible to estimate the actual number of seasonal farmworkers involved here since recent employment information is not available.

The number of farm operators involved in growing sugar beets is not expected to change greatly since sugar beet farms are diversified enterprises wherein sugar beets are usually produced in rotation with other field crops. Similarly, the number of farm operators involved in growing sugar cane is not expected to change significantly in the short run since sugar cane is a perennial plant and next year's production has largely been determined by past planting decisions. However, in the longer run, import relief is expected to lead to somewhat fewer layoffs.

Finally, employment in sugar cane refineries is not expected to change much due to import relief. Employment in U.S. sugar cane refineries depends upon raw sugar from foreign as well as domestic sources. Import relief will result in greater reliance on domestic sources of raw sugar. To the extent that relief leads to the substitution of corn sweetners for sucrose sugar in consumption, employment in U.S. refineries could actually fall.

Communities

Domestic sugar production and associated processing facilities tend to locate together to limit the costs of transportation and risks of spoilage associated with the raw produce. This creates regional concentration and interdependence which results in whole communities moving in and out of sugar producing and processing over a short period of time. Increasing domestic sugar prices to 13.5¢ per pound via import relief will not mitigate the injury concentrated in high cost cane-sugar producing areas in the long run, but will sustain income levels in the short-run. Communities in the more efficient cane producing areas and in most beet producing areas will generally benefit. In addition, Hawaii has particular problems as an insular area heavily dependent on shipping from the mainland, but having little besides sugar to ship back to avoid paying the costs of returning empty ships.

Taxpayers

Were the domestic price of sugar to increase to 13.5¢ per pound, tax receipts would grow due to the increased profitability of some domestic producers. In that employment is expected to fall both with and without import relief, there would be little saving in terms of unemployment compensation and other public transfers. The imposition of a quota would entail the loss of duty revenue on imports which would have entered without it. Were the ITC quota adequate to achieve the target price, 2¢ per pound of duty revenue would not be collected on the .8 million short tons of imports not permitted entry, totaling almost $5 million in lost revenue. Alternatively, were an additional tariff of 3¢ per pound adequate to achieve the price target (as it would be with 80% passthrough) duty revenues would increase by around $250 million.

5. U.S. Industry and Organized Labor Views

The following recommendations for U.S. Government actions in the sugar market were expressed by representatives of domestic producer and processor associations in meetings and correspondence with USDA officials, in briefs submitted to STR in response to a Federal Register notice on March 22, 1977, soliciting views regarding the USITC recommendations and in other correpsondence or communication.

Mainland Sugarcane Producers and Processors

Mainland sugarcane producers and processors recommended to the USDA task force that import quotas on sugar be reduced immediately to a level a little less than actual imports, administered on a quarterly country-by-country basis by the Department of State. They also recommend establishing a price support loan program for cane and beets at a support level of 15 cents. Over the long range, this group recommended a total 5-year sweetener bill requiring both domestic and foreign quotas on sugar and HFCS, and setting a price objective of 15 cents.

To STR, Godfrey Associates, Inc. submitted a brief on behalf of Florida, Louisiana, and Texas cane growers and processors supporting an import quota of 4.2 million short tons on a country-by-country basis and a price support program at a level not less than cost of production. Gulf and Western also spoke with STR, supporting the ITC recommendation and an ISA and opposing direct payments to growers.

Hawaiian Sugar Industry

The Hawaiian Sugar Planters' Association (HSPA) submitted a brief to STR, including a copy of a March 15, 1977 letter to Secretary Bergland, urging a quota on sugar imports of 4.4 million short tons, a non-recourse loan program for beet and cane growers at a 13¢/lb. minimum, and a program of payments to processors to support cane and beets at a level of 14.3/lb.- a target price derived from the Sugar Act formula. HSPA also suggested supplementing the 13¢ loan level with payments derived from the tariff on sugar.

Sugarbeet Producers

Sugarbeet producers recommended to the USDA task force a quota on sugar imports of 3.5-3.7 million tons, on a quarterly country-by-country basis. For the long-term, beet producers recommended a program as part of the farm bill with a target price equalling cost of production, country-by-country quotas, and no direct payments to growers.

The California Beet Growers submitted a brief to STR supporting the ITC recommendation or some other program to bolster sugar prices and maintain a viable domestic industry. The American Sugarbeet Growers submitted a brief supporting the ITC quota.

Beet Sugar Processors

Beet processors did not support short-term action when they expressed their views to the USDA task force, but instead favored a longer-term legislative remedy, such as a total sweetener bill covering HFCS as well as sugar and patterned after the Sugar Act, with considerable simplification. To STR, the U.S. Beet Sugar Association presented a brief with the American Sugarbeet Growers Association supporting the ITC recommendation.

U.S. Refiners

The Cane Sugar Refiners Association's views on sugar import policy were expressed in a letter to the President dated March 17, 1977. In that letter, the Cane Sugar Refiners reiterated their repeated opposition to any restrictive quotas upon sugar imports, citing their potential for artificially raising the cost to American consumers. The Association is even more opposed to country-by-country quotas and to quarterly quotas on the grounds that these would prevent the industry from making long term arrangements at advantageous prices and would work to the detriment of a viable futures market.

At the same time the Association supported maintaining domestic sugar production at approximately current levels. To accomplish this it favored a direct price support, or "deficiency" payment program, rather than quantitative import restrictions. The Association cited a USDA publication on this point which stated that the compensatory payment scheme is the least costly of various price assurance options and that a particular feature of this scheme is that corn sweeteners would not enjoy a price umbrella as would be the case with other options.

The Association supports U.S. efforts to achieve a new International Sugar AGreement (ISA) as a means of stabilizing the world sugar market.

In a brief submitted to STR, the Cane Sugar Refiners' Association rejected the USITC recommendation and instead suggested an ISA, with a possible price support program for domestic growers. STR also received a brief from Refined Syrups and Sugars, Inc., a New York refinery, which opposed import restrictions on sugar and favored a strong and viable ISA.

Industrial Users

Presently over 75 percent of all domestically sold sugar is purchased by industrial users, and less than 25 percent is sold directly to consumers. The principal spokesman for the industrial users is the Sugar Users Group, an association of some 16 major national trade associations representing members who account for over 80 percent of U.S. industrial sugar consumption.

This group is opposed to any measure designed to restrict imports of raw sugar into the United States. They feel that the tariff increase which recently set a new rate of 1.875 cents per pound offers adequate price protection to U.S. sugar producers. They further believe that a quota system which would arbitrarily set import ceilings at restrictively low levels would result in extreme market disruption and higher prices and discriminate against some supplier countries. Such a quota could negate the effectiveness of long-term supply arrangements negotiated between foreign growers and U.S. refiners. The Users Group asserts that any artificially induced increase in the price of sugar will only increase the inroads of competitive sweeteners, particularly high fructose corn syrup(HFCS), into this highly competitive market. Instead, the Users Group recommends that the U.S. actively seek to negotiate an effective ISA.

STR received a brief from ICI-United States, Inc., the sole domestic producers of a polyhydric alcohol that uses sugar as its basic raw material. ICI-US requested that, if import quotas are imposed on sugar, users of sugar for polyhydric alcohol be excepted from such restrictions as was done under the Sugar Act of 1948. The polyhydric alcohol is used to produce Mannitol and Sorbitol, products used in the pharmaceutical industry, in dietetic foods, and in toothpaste.

Views of Organized Labor

Sugar workers are represented by nine unions. These unions cover primarily workers engaged in sugar processing and refining activities. Organization among the sugar field workers is not extensive, except in Hawaii, where virtually all sugar workers are unionized.

Organized labor generally has been quite vocal in its efforts over the years to retain or improve benefits which accrued to sugar workers under the Sugar Act. Since the expiration of the Act, labor representatives and other worker spokesmen have urged the Secretaries of Agriculture and Labor and various members of the Congress to promote new sugar legislation. At the same time, they have voiced strong opposition to any measures which would benefit the growers or processors without providing direct benefits for the workers as well. The unions' expressed concern with the ITC sugar investigation, however, has been relatively minimal. Two national unions presented testimony during the sugar hearings on behalf of cane field workers in Louisiana and Hawaii; both expressed a need for import relief and urged the Commission to recommend that a new Sugar Act be promulgated. Two local unions representing growers and workers in processing activities in some of the beet producing areas of Oregon and Idaho submitted letters to the ITC in favor of quotas. The remainder of the unions did not express their views to the Commission.

Labor Organizations Representing Sugar Workers

Amalgamated Meat Cutters and Butcher Workmen of North America

American Federation of Grain Millers, Distillery, Rectifying, Wine, and Allied Workers International

International Association of Machinists and Aerospace Workers

International Longshoremen's and Warehousemen's Union

Seafarers International Union of North America

Sugar Refinery Workers

Teamsters (Warehousemen and Sugar Workers)

United Steel Workers

United Sugar Workers Council of California

6. Geographic Concentration of Imports

Cane sugar refineries in the United States have found it economical to locate their production facilities at ports of entry or adjacent to densely populated areas. This gives them easy access to offshore raw cane sugar, and it is in these areas that U.S. imports are concentrated. The larger refineries are located in the areas of Boston, New York, Philadelphia, Baltimore, Savannah, New Orleans, Houston and San Francisco (see Figure 4). Three smaller inland refineries in Louisiana and three in Florida process only domestically produced raw sugar. Most East Coast consumers of sugar are served by these refineries, whereas West Coast and Midwestern consumers obtain their sugar from Hawaii and western beet-producing states.

U.S. as a Focal Point for Exports: As will be shown in Sec. III.C.1., trade diversions do occur in the world sugar market to the extent that preferential trading arrangements exist and certain developed countries support and protect their domestic sugar industries. Import pressure on the U.S. market derives more from the current surplus in world production and the open U.S. market, than from restrictive import policies of other major importers. The U.S. market has also been characterized by increased usage of long-term purchase contracts (some of which are on a participatory basis, with flexible pricing provisions).

7. Possible Domestic Price Support Program

The Secretary of Agriculture is authorized under Section 301 of the Agricultural Act of 1949 (7U.S.C. 1447) to make price support available through loans, purchases, or other operations (other than direct payments) to producers of any non-basic agricultural commodity, i.e., sugar, at a level which does not exceed 90 percent of the parity price for the commodity. Such a program would provide an alternative or supplementary method of relief for the domestic industry.

A price support program could operate in one of three ways. Under a system of price support payments only, the Secretary would provide price support to producers through payments to processors (who pay the support price to producers for sugarbeets or sugarcane). A price support payment program would be operated, in general, as follows:

1. Processor pays producer the contractual share normally paid when the average market price of raw sugar is the same as the support price.

2. If the price received in the market is lower than the support price on which the producer was paid, the processor is paid the difference by CCC.

3. If the price received in the market is higher than the support price, the processor pays the producer his share of the additional proceeds.

4. A cap could be placed on government payments under this system (such as 2¢ per pound). Authority does not exist to limit total payments to individual producers.

A second system would be a price support loan program. This would involve non-recourse loans to producers, the nature of which would preclude any cap on Treasury expenditures under this program. In the absence of import restrictions, there would also be an extensive takeover of sugar stocks by the CCC in periods of low prices.

C. INTERNATIONAL CONSIDERATIONS

1. Patterns of Trade and Import Policies

World Sugar Trade

International trade in sugar amounts to only about one-fourth of world production. Of this about 75% takes place in the free market and 25% under preferential arrangements. Leading exporters have been Cuba, Australia, Brazil, India, and the Philippines, Leading importers have been the United States, the USSR, Japan, the European Community, and Canada.

Sugar: Total imports by principal sugar-importing countries, 1971-75

(In short tons, raw value)

Country	1971	1972	1973	1974	1975
United States	5,585,500	5,458,812	5,329,293	5,769,976	3,882,58[illegible]
USSR	1,692,351	2,120,735	2,899,092	2,044,839	3,567,25[illegible]
Japan	2,607,720	3,038,115	2,694,362	3,144,161	2,805,79[illegible]
European Community	2,296,891	2,293,964	2,288,401	2,164,119	2,153,62[illegible]
Canada	1,044,381	1,055,032	1,120,904	1,044,233	1,144,64[illegible]
Iran	106,068	117,874	333,682	669,971	705,86[illegible]
Iraq	326,160	298,282	521,988	432,430	416,23[illegible]
Spain	31,774	63,329	86,812	499,504	411,58[illegible]
Algeria	258,970	256,746	306,907	449,898	396,72[illegible]
Portugal	257,358	262,099	277,262	380,697	394,045

Source: Compiled from official statistics of the International Sugar Organization.

Free-market sugar trade: The so-called free market for sugar sold in non-preferential international markets accounts for only about one-sixth of world sugar production (but 75% of world sugar trade). Chief exporters to the free market are Australia, Brazil, Cuba, South Africa, the European Community, and Taiwan. The chief importers are the U.S., Japan, Canada, most of the Middle Eastern countries, and many other countries that produce little or no sugar themselves. Since the expiration of the U.S. Sugar Act, the U.S. has become a major buyer in the free market, importing about 25% of the entire free market in the past two years.

Preferential Arrangements: Until the expiration of the U.S. Sugar Act at the end of 1974, about 55% of world trade in sugar was covered by preferential arrangements such as the U.S. Sugar Act, the Cuban-Communist bloc arrangements, and the Commonwealth Sugar Agreement (now supplanted by the EC-ACP accord.) With the expiration of the U.S. Sugar Act, only about 25% of world sugar trade moves under preferential arrangements. Under these arrangements the importing country pays a price above the world price but is assured of supply as well as protection from low-priced foreign sugar.

<u>Controlled Internal Markets</u>: About five-sixths of world sugar output is produced under controlled internal markets. Communist countries, for example, are generally isolated from the impact of the world market by government trading monopolies which control their domestic and foreign trade in sugar.

In many other countries, governments have established policies and control devices, such as official trading monopolies, licensing, exchange allocations, and exclusive trade arrangements, which allow these countries to insulate themselves from the free market when they choose to do so. Some major exporting countries, such as Australia, Philippines, and Brazil, use trading monopolies to isolate their domestic markets from the world market to maintain stable prices. Some government-sponsored trading monopolies arose largely out of the need to control export trade to take advantage of preferential arrangements. Many importing countries, both with or without domestic sugar beet or sugar cane production, have permitted imports of raw sugar but embargoed or restricted imports of refined sugar to protect domestic refining interest. Many countries have very high excise taxes on sugar, which are probably as much an effort to raise revenues as they are an aid to control sugar marketing.

<u>International sugar agreements</u>: For over a century there have been attempts by producers and users of sugar to introduce some stability into world sugar trade. The latest attempts to stabilize the world market were a series of international sugar agreements beginning in 1937. The United States participated in most of these agreements. The International Agreement of 1968 was operative for the period 1969-73. It allocated export quotas to countries normally exporting to the world market, with the level of the quotas varying with world market prices. Exporting member countries agreed to maintain stocks and to give preferential treatment to importing member countries when prices rose. All signatory countries agreed to remove obstacles which restricted consumption, and signatory importing countries also agreed not to buy sugar from non-members when prices were low. Quotas were suspended in 1972 and 1973 when world-market prices rose to levels at which the quotas became ineffective. A new agreement was negotiated in 1973, but it contains no economic provisions because of a failure by participating countries to agree on prices. The agreement provides for little more than the gathering of statistics. The United States and the European Community were not signatories to either the 1968 or the 1973 agreements but

the United States does have observers at meetings of the agreement's governing body, the International Sugar Organization. Negotiations for a new agreement are scheduled for April-May, 1977.

2. Potential Compensation and Its Impact

Whether the U.S. would have to compensate other countries if import relief were imposed on sugar depends upon which legal authority the President uses to impose relief.

If the President imposed import relief pursuant to Section 203 of the Trade Act of 1974, then in theory the U.S. would be subject to requests for compensation from other countries in order to avoid their retaliating against us. This obligation would be incurred under GATT Article XIX, the "escape clause" article providing that whenever increased imports of a product cause or threaten serious injury to domestic producers, a Contracting Party may take restrictive action that temporarily abrogates a trade agreement concession. Article XIX also requires the U.S. to notify the GATT prior to taking restrictive action except in emergency siutations and to afford an opportunity for consultation. Article XIX permits Contracting Parties affected by a U.S. action to retaliate by withdrawing substantially equivalent trade concessions. In the past, however, to avoid retaliation the U.S. has usually offered affected countries satisfactory compensatory concessions. In emergencies, the U.S. could act under Article XIX prior to notifying and consulting.

The USITC finding under Section 201 of the Trade Act of 1974 that sugar imports threaten serious injury provides the factual basis for the United States, consistently with Article XIX to restrain sugar imports. Although the U.S.in theory would be subject to requests for compensation from affected countries as explained above, in practice it may well be that the affected countries would never attempt to retaliate or ask for compensation. Reluctance to press their claim would result if the U.S. market price were made sufficiently attractive by the imposition of import relief so that exporting countries would stand to gain.

Import relief based on country-by-country quotas would be attractive to many exporting countries and thus a request for compensation would be less likely since retaliation/compensation is only justified in cases when trade has been adversely affected.

If the President acted pursuant to the Headnote authority, he may not be subject to requests for compensation from affected countries under the view that the U.S. GATT binding of sugar duty rates is qualified by the Headnote, which permits the

President to establish any duty rate (not lower than the previous Column 1 rate of .625 cents) and quota whenever the Sugar Act or equivalent legislation is not in effect. It should be recognized, however, that a counter argument is possible; that inclusion of the headnote in a trade agreement was based on an assumption that duty rates would not exceed the column 2 rates. Although the stronger argument is that compensation would not be due, it is difficult to predict how a GATT panel would come out, so that a degree of uncertainty with respect to theoretical compensation requests following a duty increase under the Headnote authority is inevitable.

If the President acted under Section 22 of the Agricultural Adjustment Act of 1956, compensation would probably not be necessary since the U.S. has a waiver from the GATT on Section 22. This wiaver does, however, contain a reservation by the Contracting Parties regarding other GATT rights, such as recourse by affected countries to Article XXIII, which could result in authorized withdrawals against the U.S. if the CP's found trade was adversely affected.

Regardless of which domestic authority is used, the U.S. should notify the GATT, in advance if possible, of any restrictive action, and afford the opportunity for consultations with any adversely affected Contracting Party.

3. Effect of Relief on International Economic Interests

The United States has historically imported 50% of its sugar. Of our total imports in 1976, 56% came from Latin America, about 33% from Asia and Oceania, and 5% from Africa. Forty two countries supplied us sugar in 1976. During the 1966-73 period, when quota limitations were effective, the foreign share of the final adjusted quotas under the United States Sugar Act averaged 45 percent. During the supply shortages of 1974 imports averaged 51 percent of total deliveries, while they totalled 40 percent in 1975 and 42 percent in 1976.

Adjustment burdens fall predominately on less developed exporting countries. Restrictive import measures would undermine the efforts of Less Developed Countries (LDC's) to achieve viable self-sustaining economies, efforts the United States has assisted.

For most of the LDC's exporting sugar to the United States sugar is a major factor in their agricultural economies. As a percentage of total exports sugar accounts for the following percentages among our major LDC suppliers in order in 1975: Dominican Republic 64.6 percent, Philippines 25.5 percent, Guatemala 18.2 percent, Peru 22.6 percent, Nicaragua 11.3 percent, El Salvador 14.6 percent, Panama 18.4 percent, Colombia 4.2 percent, India 7.1 percent, and Argentina 3.3 percent.

The West Indies (Jamaica, Guyana, Barbados, Trinidad, and Tobago) alone employ around 500,000 people directly or indirectly in sugar and a disruption of the industry could have serious social and political ramifications in this volatile region. It would also interfere with new shifts of production into areas with comparative advantage.

Although the distribution of country-by-country quotas might prove lucrative to supplying countries, administrative problems and the tendency for vested interests to develop create difficulties in carrying out such a program.

In addition, long term contracts, estimated between 1.3 and 2 million tons between U.S. buyers and foreign exporting countries, might be disrupted. This could have a severe adverse impact on countries which have signed the contracts, such as the Philippines and Panama.

The member countries of the Organization of American States which export sugar to the United States have already declared their disagreement with the USITC conclusion that U.S. imports have increased. They claim that the ITC remedy would aggravate the current situation, by further depressing world sugar prices. Some exporting countries expressed concern that unilateral U.S. action may jeopardize the negotiations for a new International Sugar Agreement. Some are also concerned that adoption of the ITC report will cause the loss of their GSP status to the detriment of their longer term export relationship to the U.S.

The Australian government has also expressed its concern over potential actions by the ITC. Australia supplied 10.8 percent of our sugar imports in 1976. Australia points out that world sugar prices declined when we tripled our tariff in September 1976 and would be further depressed if we took action under the ITC recommendation.

Some studies indicate that world production will not meet consumption requirements in the mid 1980s unless investments are made in low cost producing areas in LDCs. Unilateral U.S. actions which depress prices could reduce the needed investments and hamper their economic development.

Representatives of the Government of Malawi have already expressed their dismay over the ITC recommendation. They are a small LDC working to develop a viable sugar export industry based on access to foreign markets, including the U.S.

4. International Sugar Agreement (ISA)

The United States has participated as an observer in preparatory meetings of the International Sugar Organization (ISA) since 1975. These meetings have been held with the objective of beginning formal negotiations for a new International Sugar Agreement on April 18, 1977, in Geneva. The U.S. was not a signatory of the 1968 and 1973 agreements. However, given the increased importance of the free market since the expiration of the latest U.S. Sugar Act, the U.S. considers this to be a particularly opportune time to negotiate a new agreement. If an effective agreement can be negotiated with a relatively wide price range and a flexible combination of export quotas and stocking provisions the U.S. believes it could serve as a cornerstone of our long-term sugar policy. Such an agreement could provide protection to both American producers and consumers.

The ISO group has carefully considered a number of possible approaches for a new Agreement It rejected buffer stocks as too costly (between $2.5 and $4 billion) and technically difficult to implement (sugar storage and stock rotation by other than producing countries present serious problems). A loose consensus has already emerged favoring export quotas and stocking provisions to protect consumer interests. A draft has been forwarded to UNCTAD for negotiation.

Any domestic actions to correct trade injury should be carefully designed to complement U.S. efforts in the international sphere. The ITC recommendations will prejudice such efforts. Any restrictive import quotas, particularly one based on a country-by-country allocation, could destroy our ability to negotiate a new ISA.

Unilateral action by the U.S. to establish a restrictive quota system would first of all cast in doubt the willingness of the U.S. to negotiate a new effective ISA. This would seriously impair the chances that such an agreement could be achieved and at the same time case doubt on U.S. credibility in other commodity negotiations and the MTN's.

The announcement, or the possibility of an announcement of country-by-country quotas leads countries which formerly had substantial quotas at premium prices to stall at negotiations until they get a new allocation.

If interim measures are necessary to sustain and permit the adjustment of the U.S. sugar industry there are several better alternatives available, such as: price support payments to processors under the Agricultural Act of 1949; a price support loan program; or price supports combined with tariffs.

If 1977 U.S. imports are allocated to certain countries through unilateral U.S. action rather than from the "free market" where we are the largest importer, the residual market for world sugar shrinks drastically. This would permit a small oversupply to have abnormal depressing effects on prices, as happened in the late 1960's. If, on the other hand, the U.S. regards its imports as a part of the "free market", world sugar prices and hence the incomes of many developing countries and of U.S. sugar producers will be higher on the average.

5. Multilateral Trade Negotiations

The effect on the MTN of imposing import relief on sugar would be adverse. Our basic aim in the MTN is the obtaining of more open and equitable market access and the harmonization, reduction, or elimination of devices which distort trade or commerce. In agriculture alone, as a nation which exported $22 billion worth of agricultural goods last year, we hope to obtain meaningful concessions. Imposing restrictions on sugar imports would be contrary to these basic aims and contrary to our oft-proclaimed support of liberal agricultural trade policies. In addition, the LDC's in particular would be affected and our efforts to obtain meaningful contributions from the LDC's in the Tropical Products Group would be undercut. Finally, if the President took any import relief action on sugar, sugar would be excepted from the MTN.

D. OPTIONS AND THEIR IMPLICATIONS

The following options all assume that the existing tariff of 1.875¢/lb will be maintained and that the U.S. will attempt to negotiate an International Sugar Agreement (ISA) which, if successful, would probably be implemented the first of January, 1978.

OPTION I: The USITC Recommendation or a Restrictive Quota Aimed to Bring the U.S. Market Price to 13.5 Cents per Pound.

Advantages:

- Domestic producers are insulated from unremunerative low world market prices.
- U.S. retail prices would be relatively stable (i.e. protected from the greater extremes of the world free market).
- Does not involve Treasury outlays to protect domestic producers.

Disadvantages:

- The market for HFCS will be enhanced, hastening inroads into the sucrose market.
- Quotas will inevitably result in windfall profits to either domestic refiners or foreign producers, depending on how the quota is administered (if quotas were auctioned, the U.S. Treasury would gain the benefit).
- Quotas would reduce trading in futures contracts making hedging operations difficult at times.
- Would disrupt existing forward and long-term contracts.
- Would depress world market prices for sugar by burdening already thin market with additional suppliers.
- If the quota is miscalculated, the desired price effect will not be attained and flexibility to adjust quickly to changed conditions is extremely limited.
- Each 1 cent per pound increase in raw sugar prices will cost consumers about $295 million.
- Quotas are inconsistent with U.S. attempts to liberalize world trade and with participation in and ISA, and create potential problems if quotas are allocated on a country-by-country basis.

- Quotas are inefficient in delivering assistance to domestic producers since they would receive only 55% of additional user expenditures for sugar.
- Could result in retaliation or requests for compensation.

OPTION II: Adjustment Assistance

This option does not provide substantial relief for the sugar industry. It is unlikely that the thousands of beet and cane growers and seasonal workers could prove eligibility, or that many of the large processors and refiners, some of which are subsidiaries of larger firms, could qualify for assistance. In addition, adjustment assistance is not designed for agricultural commodities where cyclical price swings are the problem.

OPTION III: Orderly Marketing Agreements with Foreign Suppliers

Advantages:

- Involves mutual agreement and presumably mutual advantage.
- Would afford domestic producers some insulation from low world prices.
- Would not involve Treasury outlays.
- Might be stretched in definition to encompass a successful ISA.

Disadvantages:

- Same as economic drawbacks of quantitative restrictions.
- Time-consuming and lengthy administrative and governmental involvement necessitated.
- Windfall profits ("quota premium") accrues to supplying countries and vested interests develop.
- If OMA negotiations are not successful, some other type of import relief must be imposed which Congress could still override if it desired, thereby putting into effect the USITC recommendation.
- Might be contrary to MFN principle and could complicate MTN and ISA negotiations.

OPTION IV: Tariff-Rate Quota

Advantages:

- Affords some protection to domestic producers but allows over-quota imports at higher tariff if strong domestic demand develops.

- Would not appear as restrictive to foreign suppliers as strict quota.

Disadvantages:

- Same economic drawbacks as quantitative restrictions depending on size of quota, and method of allocation (global vs. country-by-country.) This is mitigated by possibility of over-quota imports.
- Could result in requests for GATT compensation.
- Causes uncertainty and disruption in the trade regarding pricing and over-quota shipments.
- If world prices fell considerably, tariff protection might not be sufficiently high to protect domestic industry.

OPTION V: Tariff Increase

Advantages:

- Allows market forces to operate, rewarding more efficient producers and keeping U.S. price in line with world price by margin of tariff and freight and insurance.
- Less obviously restrictive action than quantitative restriction, with less adverse foreign reaction.
- Affords protection to domestic producers, depending on size of tariff and world price. The following shows the effect of an ad valorem tariff on the domestic price (assuming world price of 8.75¢):

	20%	30%	40%	50%
World price (cents per pound)	8.750	8.750	8.750	8.750
plus ad valorem tariff	1.750	2.625	3.500	4.375
plus freight, insurance and duty	2.500	2.500	2.500	2.500
Total Domestic Price	13.000	13.875	14.750	15.625

- Treasury gains by amount of duty increase and cost to consumer less than restrictive quota.

- Protection to domestic producers less certain especially if world prices fall very low.

- Some cost to consumers.

- Ad valorem tariff increase would have destabilizing effect on world market.

- Could result in retaliation or request for GATT compensation.

OPTION VI: No Import Relief

Advantages:

- Transfer payments called for under any of the protective proposals will not increase income for society as a whole. Each one cent a pound increase in raw sugar prices will cost consumers about $295 million.

- Sugar is no longer a "critical" item. Substitutes are available to a considerable extent if there are no future cutbacks in foreign supply.

- Protection would encourage substitute sweeteners and thus tend to offset benefits to domestic sugar producers.

- Would maintain output and employment in U.S. export industries selling to foreign suppliers of sugar.

Disadvantages:

- Employment and capital values in a visible and vocal industry will decline as output and earnings fall off; prolonged low prices would drive some producers permanently out of business.

- If all forms of protection are rejected including the ITC's recommendations, the risk is increased that the Congress will override the rejection or enact a program of its own.

SUBOPTION VI(a): No Import Relief with Secretary of Agriculture Instituting Price Support Deficiency Payments Program.

Section 301 of the Agricultural Act of 1949, as amended, authorizes the Secretary to provide price support to producers through payments to processors who pay the support price to producers for sugarbeets or sugarcane. A price support payment program ensuring domestic producers a return of 13-13.5¢ per pound would be operated, in general, as follows:

- Processor pays producer the contractual share normally paid when the average market price of raw sugar is the same as the support price.

--If the price received in the market is lower than the support price on which the producer was paid, the processor is paid the difference by CCC.

--If the price received in the market is higher than the support price, the processor pays the producer his share of the additional proceeds.

Advantages:

- Avoids import restrictions while affording assistance to domestic producers

- Domestic producers and processors would be assured the support price.

- Payments would reach only the producers/processors, and avoid windfall gains to refiners, brokers and others.

- If sugar prices continue to rise, payments automatically decline or stop.

- Domestic market price would continue to be determined by normal market forces in relationship to world price.

- No added or higher prices to consumers.

- Statutory authority is available for increasing duties or imposing other restrictions necessary to protect the price support program.

- No price "umbrella" for inroads by HFCS.

- Refiners and industrial users could continue to hedge their sugar costs through future trading.

- Does not jeopardize U.S. posture in the ISA negotiations.

Disadvantages:

- Each 1 cent per pound payment costs the Treasury $120 million, absent a graduated payments scheme. (At current prices, about 1-1 1/2 cents per pound of support would be needed).

- Fieldworkers and HFCS producers have threatened to attempt to block payments by court injunction even though it appears legal authority exists.

- If legislation for a graduated payments scheme is not obtained, large payments to some processor/producers would be subject to public criticism.

Limitations of Budget Outlays

The drain on the Treasury if sugar prices drop sharply could be limited in at least the following three ways, although this would also limit protection:

--Directly through a cap on payments per pound, e.g. 2¢, equivalent to $240 million.

--Directly through scale-down on payments.

--Indirectly through an increase in the tariff. The tariff alternative would:

- raise the price of all sugar to consumers.
- disrupt forward contracts.
- violate our GATT obligation and might require compensation.
- reduce net Treasury outlays.

OPTION VI(b): Price support loan program with tariff increase.

The Secretary of Agriculture would establish a price support program at 13 cents per pound, and would impose increased tariff protection as a necessary adjunct to the domestic support program. Tariff increase would be announced as interim measure pending negotiation of a new ISA.

Advantages:

- Treasury would gain $100 million for each 1 cent increase in the tariff (compared with a loss of $120 million for each 1 cent under Option 1).
- Could avoid possible legal problems with field-workers and HFCS producers.
- More acceptable to domestic producers -- less visible to public.

Disadvantages:

- Consumer costs would be increased by about $295 million for each 1 cent rise in price caused by the tariff increase.
- HFCS investments would receive added protection.
- 60 percent of our imports are from GATT members who might retaliate or claim compensation; proposal would probably involve removing sugar from Generalized System of Preferences list; LDCs would be particularly hard hit.
- This option has potential for government accumulation of large sugar stocks should the world price drop considerably without further tariff changes.

- Could have adverse impact on ISA negotiations.
- Forward contracts would be disrupted.
- Tariff cannot be easily adjusted as world market conditions change; each tariff change would require Presidential decision.

Sugar and the Generalized System of Preferences (GSP)

The GSP Subcommittee is not forwarding recommendations on the pending decision regarding GSP and sugar. The Subcommittee members felt that these questions should be addressed at a higher interagency level, in the context of the whole sugar issue.

The principle options which may receive agency support are:

I. The American Farm Bureau Federation's petition to withdraw GSP benefits from sugar.

(1) Accept Petition
(2) Deny petition

II. If the petition is denied, whether designation/redesignation of Panama, Jamaica, Guyana, Colombia, Brazil, Argentina, Thailand, and Republic of China will occur. These countries were ineleigible for GSP in 1976, due to the competitive need dollar limit, but are eligible for 1977.

(1) Designation/redesignation of all eight countries for 1977.
(2) Designation/redesignation of all countries except Brazil for 1977.
(3) Decision now not to designate/redesignate for 1977.
(4) No decision on designation/redesignation at this time.

Summary

Since it is likely that import relief under Section 201 will not be granted for sugar, the Trade Policy Staff Committee (TPSC) should recommend whether to accept or deny the American Farm Bureau Federation's petition to withdraw GSP benefits from sugar. If the petition is denied, the TPSC should decide what to do with GSP countries which are eligible for designation or redesignation as beneficiaries.

Background

Generalized System of Preferences (GSP)

Title V of the Trade Act of 1974 provided for the GSP as part of the U.S. commitment to help developing countries to diversify their production and exports, broaden their manufacturing base, and increase their foreign exchange earnings.

The GSP program allows U.S. imports of most manufactured and semi-manufactured products, along with selected agricultural commodities, to enter the United States free of duty when these imports originate is designated beneficiary countries.

Sugar and GSP

A. Experience during first year of program

Sugar (TSUS 155.20) was included in the original list of products designated as eligible for GSP treatment. In 1976, U.S. imports of this item from GSP beneficiary countries amounted to $1.01 billion, or 88.3 percent of total U.S. imports of the item. However, due to the "competitive need" limitation required by the Trade Act, only $0.17 billion, or 15.2 percent of U.S. sugar imports actually received GSP duty-free treatment during 1976. Even so, sugar is a major product on the GSP list. In 1976, sugar imports entering under GSP accounted for 5.5 percent or total U.S. imports receiving duty-free treatment.

B. Competitive need

The competitive need criteria of Title V require that any beneficiary developing country which supplies over $25 million worth of U.S. imports of a product in a calendar year must be declared ineligible to receive GSP treatment for that product. This dollar ceiling in adjusted each year to reflect changes in the U.S. GNP, so that for 1976 (based on 1975 data) the ceiling was $26.6 million, and for 1977 (based on 1976 data) the limit was $29.9 million.

Of the 33 designated beneficiary countries which supply sugar to the U.S. market, 13 countries were declared not eligible for GSP treatment when the program went into effect on January 1, 1976, since imports from these countries had exceeded the $25 million ceiling based on 1974 trade data. On February 29, 1976, Executive Order 11906, following a review of 1975 trade data, granted GSP eligibility to Mexico and Guatemala. 1/ El Salvador, Nicaragua, Panama, and Thailand were removed from GSP eligibility for exceeding the competitive need limit of $26.6 million based on 1975 trade data. On March 1, 1977, in Executive Order 11974, Guatemala was removed from GSP eligibility, having exceeded the competitive need ceiling of $29.9 million during 1976.

Pending Deceisions

A. GSP under Section 201

If the President imposed import relief pursuant to Section 201 of the Trade Act of 1974, sugar by law (Section 503(c)(2) of the Trade Act) would no longer be eligible for GSP. If the President did not impose import relief or acted pursuant to some other legal authority, then no such automatic elimination would apply.

1/ For Costa Rica, eligibility was granted on August 30, 1976 by E.O. 11934 and made effective retroactively to January 1, 1976. This action was based on Customs' decision that the reported values for Costa Rican sugar imports were overstated, and if the value had been correctly reported, Costa Rica would not have exceeded the competitive need dollar ceiling of $26.6 million.

B. Farm Bureau's GSP Petition

In an action separate from the escape clause petition, the American Farm Bureau Federation petitioned the TPSC to remove sugar (TSUS items 155.20, 155.30, 155.35, 155.75) from the list of articles eligible for GSP. The Farm Bureau agreed to accept delay on its GSP petition. If import relief under Section 201 is not granted for sugar, it will not automatically be removed from GSP. The TPSC must decide whether to accept or deny the petitioner's request.

Advantages of Accepting the Farm Bureau Petition

o Domestic political pressure to remove sugar from GSP exists and is sanctioned by the USITC's having found threat of injury. This pressure would be further sanctioned if the President imposed import relief under authority other than Section 201 of the Trade Act.

o For the first 2 months of 1977, GSP imports were 38 percent of total U.S. sugar imports, and in excess of 250,000 short tons. (GSP imports from Guatemala accounted for 36 percent of total U.S. sugar imports prior to March 1, 1977, when Guatemala became ineligible.)

Advantages of Denying the Farm Bureau Petition

o International goodwill would be maintained with developing countries, to whom we have made a commitment through the GSP program and in the North-South dialogue, and to whom the export of sugar is central to the stability of their economies and the soundness of their balance-of-payments.

o In the U.S. market, the cost of GSP sugar is about the same as non-GSP sugar, while GSP beneficiary country suppliers probably recover at least part of the 1.875¢/lb. tariff differential. The preference is absorbed by the beneficiary countries as increased financial benefits.

o Using 1976 statistics, 15.2 percent of U.S. imports of TSUS 155.20 entered duty-free under GSP. If Guatemala had been ineligible in 1976 (as it is in 1977), then only 8 percent of all U.S. sugar imports would have entered under GSP. If the eight countries eligible for redesignation had been eligible in 1976 (and with Guatemala ineligible), GSP imports would have amounted to 22 percent. However, the percentages for 1977 could change.

o Retaining sugar on GSP would have little economic effect in the United States.

C. Designation and Redesignation of Beneficiary Country Suppliers

If sugar is not removed from GSP eligibility by import relief action under Section 201 or by favorable action on the Farm Bureau's GSP petition, a decision should be made concerning the designation and redesignation of certain supplying countries as GSP beneficiaries for sugar. U.S. imports from Panama, Jamaica, Guyana, Colombia, Brazil, Argentina, Thailand and the Republic of China were ineligible to receive GSP treatment in 1976, since in each case, their value exceeded $26.6 million in 1975. 1/ During 1976, imports from these countries fell below the $29.9 million limit and were thus eligible for designation and redesignation as GSP beneficiaries for sugar imports on March 1, 1977. Imports from these countries were not made eligible for GSP and a decision concerning their eligibility was delayed pending the outcome of the USITC 201 investigation on sugar and subsequent Presidential action.

(1) Designating/Redesignating all Eight Countries for 1977

Advantages

o The competitive need criteria of the Trade Act requires ineligibility only for those countries which exceeded the dollar ceiling in the previous calendar year.

o GSP eligibility would result in economic benefit for these countries, as explained above.

o The price of sugar in 1975 was extremely high and the fact that these countries exceeded the dollar ceiling may not reflect their true competitive status.

Disadvantages

o Allows countries like Brazil to play "on and off" games every other year, thus manipulating the program to their advantage.

o The competitive need criteria of the Trade Act is intended to exclude competitive suppliers from GSP benefits. Designation/redesignation might cause countries which are already competitive to receive GSP.

(2) Designating/Redesignating All Eligible Countries Execpt Brazil for 1977

Advantages

o Same advantages as expressed in (1) above.

o Reduces possibilities for manipulation of the program by "on and off" games.

1/ As explained above, Thailand and Panama were designated as GSP beneficiaries for sugar when the GSP program was first implemented. They were removed from GSP eligibility March 1, 1976. The other six countries have not previously been designated as GSP beneficiaries for sugar.

o Historically, sugar imports from Brazil have been by far larger than those from other countries eligible for redesignation (See Annex I and Annex II).

Disadvantages

o Contradicts nondiscriminatory nature of GSP.

o This measure would single-out Brazil, which has already been singled-out on Human Rights.

(3) Decision Not to Redesignate Countries For 1977

Advantages

o If sugar remains on GSP, but redesignation of these countries does not occur, this would represent a logical compromise. This would eliminate most duty-free imports of sugar, tempering domestic criticism.

o These countries have demonstrated their ability to compete in the U.S. market. It was the fall in world price, not the loss of competitiveness, which caused the 1976 values to be below the competitive need ceiling.

Disadvantages

o The adverse foreign policy implications outweigh the marginal benefit to U.S. producers.

(4) No decision on Designation/Redesignation at This Time.

Advantages

o The GSP Subcommittee is in the process of a policy review of GSP. Among the questions being examined is agreement on criteria for designation/redesignation. It may be better to wait until the completion of the policy review for a decision on what to do with these countries.

Disadvantages

o Since the President will soon be taking action on sugar, it would be best to have all aspects of the issue addressed now, rather than in a piece-meal fashion.

o Since we have already told these countries that a decision on their designation/redesignation would be made after the escape clause investigation, it would be exhibiting bad faith to make them wait longer.

o Since the question of designation/redesignation only pertains to 1977 imports, the longer we wait, the possibilities for GSP benefits from sugar for these countries diminish.

U.S. Imports of Sugar (TSUS 155.20)

	1976				1975				1974			
	Million Dollars	%	1,000 Short Tons	%	Million Dollars	%	1,000 Short Tons	%	Million Dollars	%	1,000 short Tons	%
Total Imports	1,148	100	4,544	100	1,843	100	3,837	100	2,256	100	5,775	100
Imports From Countries that would have been eligible based on imports in preceding year	184	16.0	709	15.6	313	16.9	827	21.6	574	25.4	1,413	24.5
Duty-free GSP Imports in 1976	174.8	15.2										
Imports from Countries excluded in 1976 but eligible for redesignation in 1977												
Total	157.6	13.7	613	13.5	481.8	26.1	1,009	26.3	646.9	28.7	1,462	25.3
Argentina	24.8	2.2	95	2.1	46.1	2.5	110	2.9	60.2	2.9	104	1.8
Brazil	0	--	0	--	99.7	5.4	222	5.8	402.5	17.8	869	15.0
Colombia	28.8	2.5	112	2.5	59.9	3.3	139	3.3	44.4	2.0	106	1.8
Guyana	12.6	1.1	47	1.0	43.0	2.3	105	2.7	41.0	1.8	109	1.9
Jamaica	20.0	1.7	142	3.1	34.3	1.9	61	1.6	38.6	1.7	102	1.8
Panama	27.4	2.4	63	1.4	52.2	2.8	96	2.5	22.8	1.0	63	1.1
Taiwan	24.2	2.1	85	1.9	101.6	5.5	153	4.0	31.3	1.4	88	1.5
Thailand	19.8	1.7	69	1.5	45.0	2.4	123	3:2	6.1	0.3	21	0.4
Countries that changed status on March 1, 1976												
Thailand	19.8	1.7	69	1.5	45.0	2.4	123	3.2	6.1	0.3	21	0.4
El Salvador	36.2	3.2	130	2.9	54.2	2.9	103	2.7	19.2	0.9	69	1.2
Guatemala	80.4	7.0	319	7.0	25.3	1.4	60	1.6	38.7	1.7	103	1.8
Mexico	(.08)	--	(.1)	--	20.6	1.1	38	1.0	229.2	10.2	536 –	9.3
Nicaragua	43.3	3.8	152	3.3	29.9	1.6	65	1.7	12.4	0.5	57	1.0
Panama	27.4	2.4	6.3	1.4	52.2	2.8	96	2.5	22.8	1.0	63	1.1

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ANNEX II

U.S. Sugar Imports from Selected Countries

	Jan. 1976	Mar. 1976	Mar. 1977		1976	1975	1974	1973	1972
						-- million dollars --			
						-- million pounds --			
Argentina	ND	ND		Mil. Dol.	25	46	60	15	10
				Mil. lbs.	192	220	209	166	135
								96	
Brazil	ND	ND			0	100	402	96	96
					0	444	1737	1103	1254
Colombia	ND	ND			29	60	44	14	13
					224	277	212	151	163
Guyana	ND	ND			13	43	43	7	14
					94	209	218	76	172
Jamaica	ND	ND			20	34	39	0	7
					142	123	92	0	92
Panama	D	ND			27	52	23	9	6
					190	192	57	101	80
Taiwan	ND	ND			24	102	31	10	16
					170	307	177	111	189
Thailand	D	ND			20	45	6	3	3
					138	246	42	38	37

D - Designated eligible for GSP
ND - Not designated eligible for GSP

	Jan. 1976	Mar. 1976	Mar. 1977		1976	1975	1974	1973	1972
						-- million dollars --			
						-- million pounds --			
Guatemala	ND	D	ND	Mil.dol.	80	25	39	8	10
				Mil.lbs.	638	121	206	107	140
El Salvador	D	ND	ND		36	54	19	9	8
					260	205	138	107	118
Costa Rica	ND	D	D		18	19	33	17	13
					130	104	164	181	163
Nicaragua	D	ND	ND		43	29	12	8	9
					304	129	114	106	140
Mexico	ND	D	D		1	21	229	109	102
					--	76	1,071	1,255	1,288
India	ND	ND	ND		53	54	33	11	19
					374	327	164	130	194
Philippines	ND	ND	ND		227	219	503	274	205
					1,848	2,828	830	3,160	2,609
Dominican Republic	ND	ND	ND		215	441	245	133	118
					1,850	1,514	1,603	1,517	1,482
Peru	ND	ND	ND		97	92	155	65	78
					700	382	973	741	988
Total from all countries					1,148	1,854	2,256	925	832
					9,090	7,674	11,548	10,459	10,554

D - Designated eligible for GSP

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Table 4.--Sugar: U.S. production, imports, exports, ending stocks, and consumption, 1960-75, and January-November 1975 and 1976

(In millions of short tons, raw value)

Year	Production	Imports	Exports	Ending Stocks	Consumption 1/	Ratio I/P	Ratio I/C
						Percent	Percent
1960	5.04	4.88	0.05	2.48	9.49	97	51
1961	5.40	4.41	.06	2.35	9.86	82	45
1962	5.42	4.68	.07	2.40	9.99	86	47
1963	5.88	4.59	.03	2.66	10.19	78	45
1964	6.60	3.63	.02	2.95	9.91	55	37
1965	6.27	4.03	.09	2.87	10.27	64	39
1966	6.18	4.50	.07	2.85	10.60	73	42
1967	6.12	4.80	.07	2.98	10.68	78	45
1968	6.28	5.13	.08	3.08	11.23	82	46
1969	5.97	4.89	.08	2.92	10.94	82	45
1970	6.34	5.30	.07	2.85	11.61	84	48
1971	6.14	5.59	.09	2.89	11.59	91	48
1972	6.32	5.46	.05	2.86	11.70	86	47
1973	6.32	5.33	.03	2.69	11.77	84	45
1974	5.96	5.77	.03	2.88	11.47	97	50
1975	6.61	3.88	.15	2.90	10.18	59	38
January-November:							
1975	5.30	3.68	.14	2/ 2.41	9.27	69	40
1976	5.83	4.30	.06	2/ 2.72	10.25	74	42
CY 1976	7.10	4.66	.07	3.49	11.10	66	42

1/ Actual consumption, including, human, livestock feed, alcohol, and refining loss.

2/ Partly estimated.

Source: Compiled from official statistics of the U.S. Department of Agriculture.

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Table 2.--Sugar: U.S. imports, by all sources and by types, 1972-76

(In short tons, raw value)

Table 3.--Sugar: U.S. production, by producing areas, crop years 1971/72 to 1976/77

(In thousands of short tons, raw value)

Source	Crop year 1/					
	1971/72	1972/73	1973/74	1974/75	1975/76	1976/77 2/
Cane sugar:						
Florida	635	961	824	803	1,061	900
Louisiana	571	660	558	594	640	650
Texas	-	-	38	74	126	131
Total, mainland	1,206	1,621	1,420	1,471	1,827	1,681
Hawaii	1,230	1,119	1,129	1,041	1,107	1,050
Puerto Rico	324	298	255	291	302	303
Total, offshore	1,554	1,417	1,384	1,332	1,409	1,353
Total, cane	2,760	3,038	2,804	2,803	3,236	3,034
Beet sugar	3,552	3,624	3,200	2,916	4,019	3,906
Total sugar, cane and beet	6,312	6,662	6,004	5,719	7,255	6,934

1/ The crop year for beet sugar begins in September in all States except California and lowland areas of Arizona where it begins in March and April, respectively. The Louisiana cane sugar crop year begins in October, that in Florida and Texas begins in November, that in Puerto Rico begins in December, and that in Hawaii, in January.
2/ Preliminary.

Source: Compiled from official statistics of the U.S. Department of Agriculture.

Table 4.--Annual U.S. per capita consumption of sugar and other sweeteners, by types, 1965-76

(In pounds)

Type of sweetener	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976 1/
Caloric sweeteners:												
Sugar	96.8	97.2	98.3	99.0	100.7	101.9	102.4	102.8	101.5	96.6	90.2	95.1
Corn sweeteners: 2/												
Corn sirup:												
Regular	11.0	11.2	11.9	12.6	13.2	14.0	15.0	15.6	16.7	17.4	17.7	17.7
High-fructose	-	-	-	-	-	-	-	.9	1.4	2.3	4.7	7.1
Dextrose	4.1	4.2	4.2	4.3	4.5	4.6	5.0	4.4	4.8	4.9	5.1	5.1
Total, corn sweeteners	15.1	15.4	16.1	16.9	17.7	18.6	20.0	20.9	22.9	24.6	27.5	29.9
Other: 2/												
Honey	1.1	1.0	.9	.9	1.0	1.0	.9	1.0	.9	.8	.9	1.0
Edible sirups	.7	.7	.5	.7	.6	.5	.5	.5	.5	.4	.4	.4
Total	1.8	1.7	1.4	1.6	1.6	1.5	1.4	1.5	1.4	1.2	1.3	1.4
Total, caloric sweeteners	113.7	114.3	115.8	117.5	120.0	122.0	123.8	125.2	125.8	122.4	119.0	126.4
Noncaloric sweeteners: 3/												
Saccharin 4/	4.0	4.5	4.8	5.0	5.3	6.2	5.0	5.0	7.0	10.0	9.0	10.0
Cyclamate 5/	1.7	1.9	2.1	2.2	1.6	-	-	-	-	-	-	-
Total, noncaloric sweeteners	5.7	6.4	6.9	7.2	6.9	6.2	5.0	5.0	7.0	10.0	9.0	10.0
Total, all sweeteners	119.4	120.7	122.7	124.7	126.9	128.2	128.8	130.2	132.8	132.4	128.0	136.4

1/ Preliminary.
2/ Dry basis.
3/ Sugar sweetness equivalent for saccharin and cyclamate is assumed to be 300 and 30 times as sweet as sugar, respectively.
4/ Data for 1971-76 estimated by the U.S. International Trade Commission.
5/ Cyclamate for food use was banned by the U.S. Food and Drug Administration as of 1970.

Source: Compiled from official statistics of the U.S. Department of Agriculture, except as noted.

Table 5.--Number of production and related workers involved in the growing, processing, and refining of sugar in the United States, man-hours worked by them, and wages paid to them, by types of operations, 1972-76

Type of operation	1972	1973	1974	1975	1976 1/
	Number of production and related workers				
Sugar beet growers	2/	2/	2/	2/	2/
Beet sugar processors	12,278	12,097	11,365	12,543	13,432
Subtotal	12,278	12,097	11,365	12,543	13,432
Sugar cane growers	9,711	9,994	10,129	10,644	10,311
Sugar cane millers	6,023	6,663	7,257	7,566	7,440
Cane sugar refiners	6,280	6,182	6,192	6,060	6,072
Subtotal	22,014	22,839	23,578	24,270	23,823
Total	34,292	34,936	34,943	36,813	37,255
	Man-hours worked (1,000 man-hours)				
Sugar beet growers	2/	2/	2/	2/	2/
Beet sugar processors	22,176	22,870	21,334	23,541	24,825
Subtotal	22,176	22,870	21,334	23,541	24,825
Sugar cane growers	18,193	18,970	18,225	21,068	20,481
Sugar cane millers	10,450	11,115	11,907	13,698	13,461
Cane sugar refiners	14,277	14,140	14,624	13,401	13,540
Subtotal	42,920	44,225	44,756	48,167	47,482
Total	65,096	67,095	66,090	71,708	72,307
	Wages paid (1,000 dollars)				
Sugar beet growers	2/	2/	2/	2/	2/
Beet sugar processors	83,850	91,188	93,786	114,010	133,284
Subtotal	83,850	91,188	93,786	114,010	133,284
Sugar cane growers	60,073	68,065	86,343	97,654	104,052
Sugar cane millers	47,132	54,394	67,719	85,146	86,515
Cane sugar refiners	65,188	65,599	77,107	77,324	86,536
Subtotal	172,393	188,058	231,169	260,124	277,103
Total	256,243	279,246	324,955	374,134	410,387

1/ Data for 1976 are estimated.

2/ Data are available for 27 of an estimated 11,000 to 15,000 U.S. sugar beet growers, a number considered too small for inclusion in this table.

Source: Compiled by the U.S. International Trade Commission from data sub.itted in response to questionnaires.

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Table 6.--Sugar: Net sales by U.S. growers, processors, millers, and refiners on their sugar operations, accounting years 1972-76

(In thousands of dollars)

Item	1972	1973	1974	1975	To Sept. 30 1/-- 1975	To Sept. 30 1/-- 1976
Sugar beet growers and beet sugar processors:						
27 growers	2/	2/	2/	2/	2/	2/
10 processors	841,513	1,012,477	1,951,782	1,562,280	3/ 535,430	3/ 428,545
Total	841,513	1,012,477	1,951,782	1,562,280	535,430	428,545
Sugar cane growers:						
19 Florida growers	47,498	70,217	110,114	141,270	4/	4/
23 Louisiana growers	18,092	18,726	51,802	39,769	4/	4/
14 Hawaiian growers	5/	5/	5/	5/	5/	5/
Total	65,590	88,943	161,916	181,039	4/	4/
Sugar cane millers:						
6 Florida millers	121,780	206,600	356,444	449,730	6/ 113,061	6/ 52,580
26 Louisiana millers	107,319	131,012	389,795	245,188	4/	4/
1 Texas miller	7/	7/	15,717	61,595	61,595	40,105
14 Hawaiian millers	161,747	191,961	646,864	334,853	4/	4/
Total	390,846	529,573	1,408,820	1,091,366	174,656	92,685
Cane sugar refiners:						
8 refiners	1,189,634	1,581,745	2,831,892	2,122,527	8/ 780,587	8/ 508,627
1 Florida cooperative refiner	4/	19,486	34,426	33,815	33,815	21,495
California & Hawaiian Sugar Co	211,865	225,324	540,042	414,884	317,733	236,092
Total	1,401,499	1,826,555	3,406,360	2,571,226	1,132,135	766,214
Grand total	2,699,448	3,457,548	6,928,878	5,405,911	1,842,221	1,287,444

1/ The interim 1975 and 1976 accounting periods for each of the reporting concerns range from 1 month to 12 months and end no later than Sept. 30. 2/ Data are insignificant in terms of the total for all U.S. sugar beet growers. 3/ Data are for 7 processors. 4/ Not available.
5/ The 14 Hawaiian growers are also millers. Their sugar cane is transferred to their mills at cost.
6/ Data are for 1 miller. 7/ Commenced operation on Dec. 8, 1973. 8/ Data are for 6 refiners.

Source: Compiled from data submitted to the U.S. International Trade Commission by U.S. growers, processors, millers, and refiners.

Table 7.--Sugar: Net profit or (loss) before income taxes or net proceeds paid or payable to cooperative members for U.S. growers, processors, millers, and refiners on their sugar operations, accounting years 1972-76

(In thousands of dollars)

Item	1972	1973	1974	1975	To Sept. 30 1/--	
					1975	1976
Sugar beet growers and beet sugar processors:						
27 growers (total farm)	2/	2/	2/	2/	2/	2/
10 processors	45,534	108,229	395,402	234,419	3/ 111,117	3/ 37,987
Total	45,534	108,229	395,402	234,419	111,117	37,987
Sugar cane growers:						
19 Florida growers	6,562	18,528	48,445	63,461	4/	4/
23 Louisiana growers	780	2,005	24,551	12,484	4/	4/
14 Hawaiian growers	5/	5/	5/	5/	5/	5/
Total	7,342	20,533	72,996	75,945	4/	4/
Sugar cane millers:						
6 Florida millers	27,966	67,567	145,516	199,219	4/	4/
26 Louisiana millers	5,057	9,888	69,721	33,407	4/	4/
1 Texas miller	6/	6/	6,430	40,887	40,887	16,267
14 Hawaiian millers	22,164	44,158	419,886	83,892	4/	4/
Total	55,187	121,613	641,553	357,405	40,887	16,267
Cane sugar refiners:						
8 refiners	28,304	46,322	(64,835)	61,988	7/ (10,951)	7/ 21,232
1 Florida cooperative refiner	4/	7,162	14,176	10,759	10,759	493
California & Hawaiian Sugar Co.	141,453	149,051	489,510	294,403	226,135	172,252
Total	169,757	202,535	438,851	367,150	225,943	193,977
Grand total	277,820	452,910	1,548,802	1,034,919	377,947	248,231

1/ The interim 1975 and 1976 accounting periods for each of the reporting concerns range from 1 month to 12 months and end no later than Sept. 30. 2/ Data are insignificant in terms of the total for all U.S. sugar beet growers. 3/ Data are for 7 processors. 4/ Not available.
5/ The 14 Hawaiian growers are also millers. Their sugar cane is transferred to their mill at cost.
6/ Commenced operation on Dec. 8, 1973. 7/ Data are for 6 refiners.

Source: Compiled from data submitted to the U.S. International Trade Commission by U.S. growers, processors, millers, and refiners.

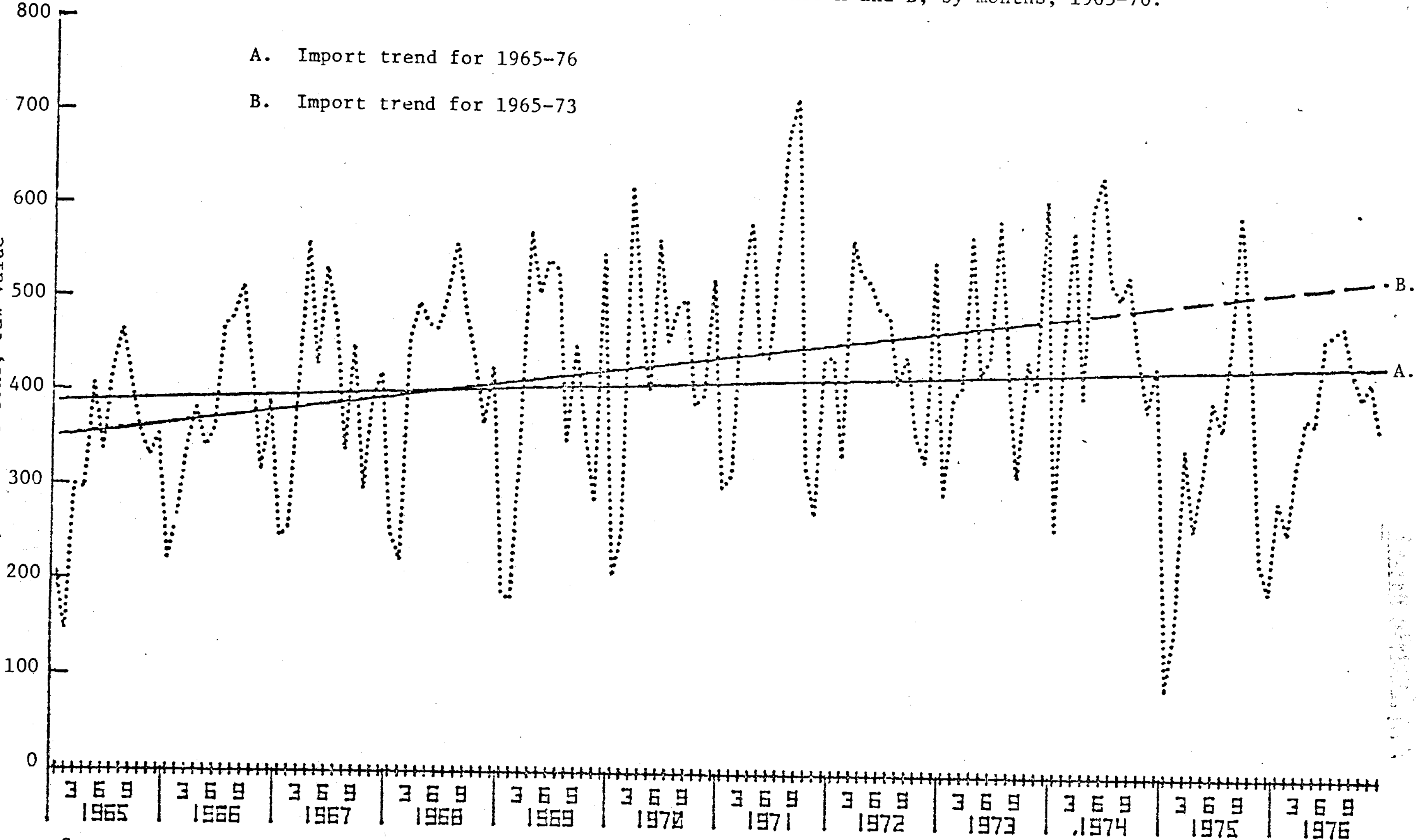
Table 8.--Wholesale prices of high-fructose corn sirup, dry basis, Decatur, Ill., in bulk; corn sirup, dry basis, New York, in bulk; refined sugar, Northeast, in 100-pound bags; by quarters 1975, and by months, 1976

(In cents per pound)

Period	High-fructose corn sirup	Corn sirup	Refined sugar
1975:			
January-March	31.73	17.81	47.47
April-June	25.14	17.89	31.60
July-September	19.11	18.33	25.75
October-December	16.48	18.11	20.84
1976:			
January	15.14	16.33	21.31
February	15.14	15.18	20.86
March	15.14	15.18	22.20
April	15.14	15.18	21.41
May	15.14	15.18	21.87
June	14.85	18.74	20.22
July	14.79	14.73	20.46
August	14.34	14.50	17.04
September	11.89	12.56	15.85
October	11.75	12.00	16.90
November	11.30	12.12	16.28
December	11.48	11.61	15.97

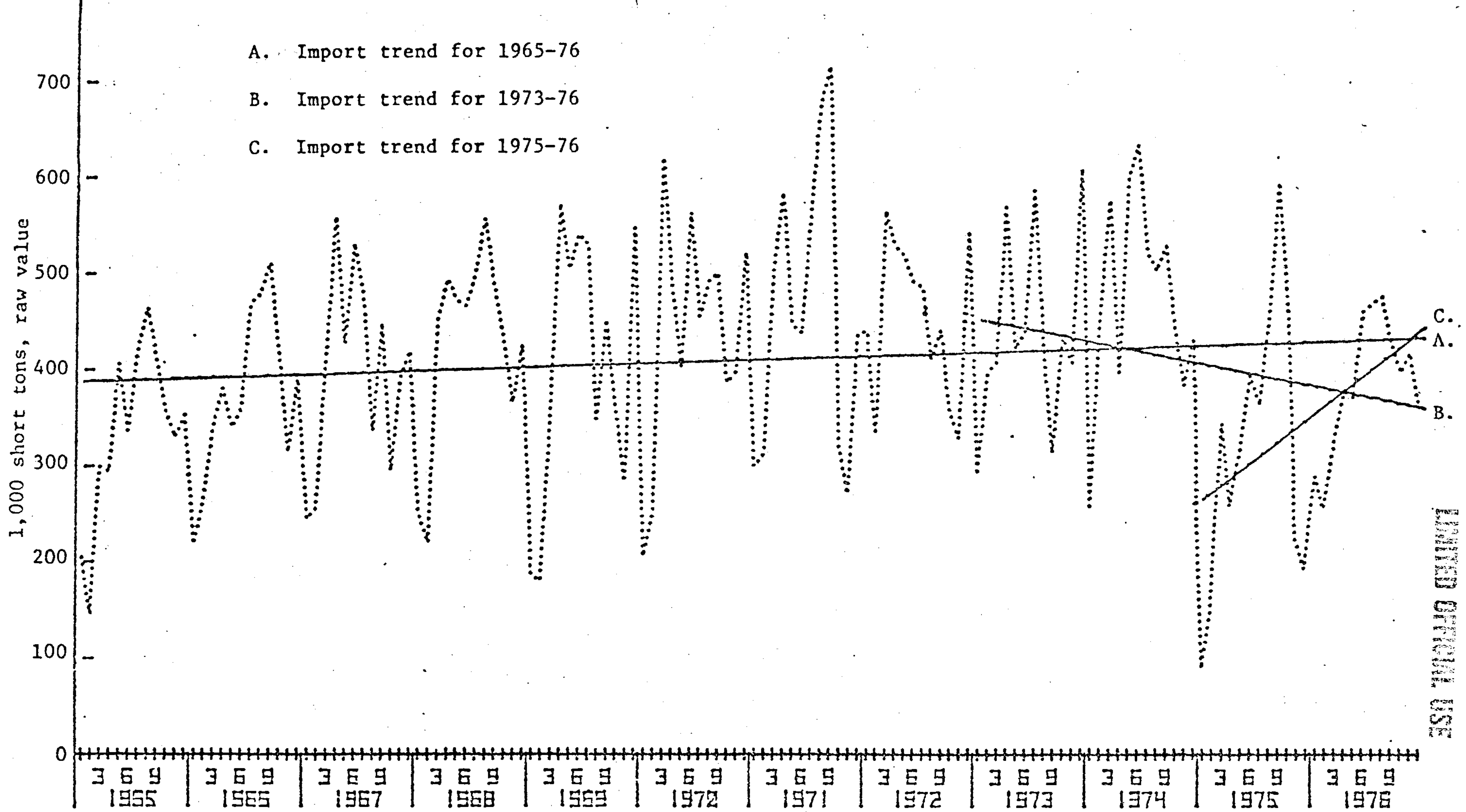
Source: Compiled from official statistics of the U.S. Department of Agriculture.

Figure 1.--Sugar: U.S. imports, with trend lines A and B, by months, 1965-76.



Source: Compiled from official statistics of the U.S. Department of Agriculture.

Figure 2.--Sugar: U.S. imports, with trend lines A, B, and C, by months, 1965-76.



Source: Compiled from official statistics of the U.S. Department of Agriculture.

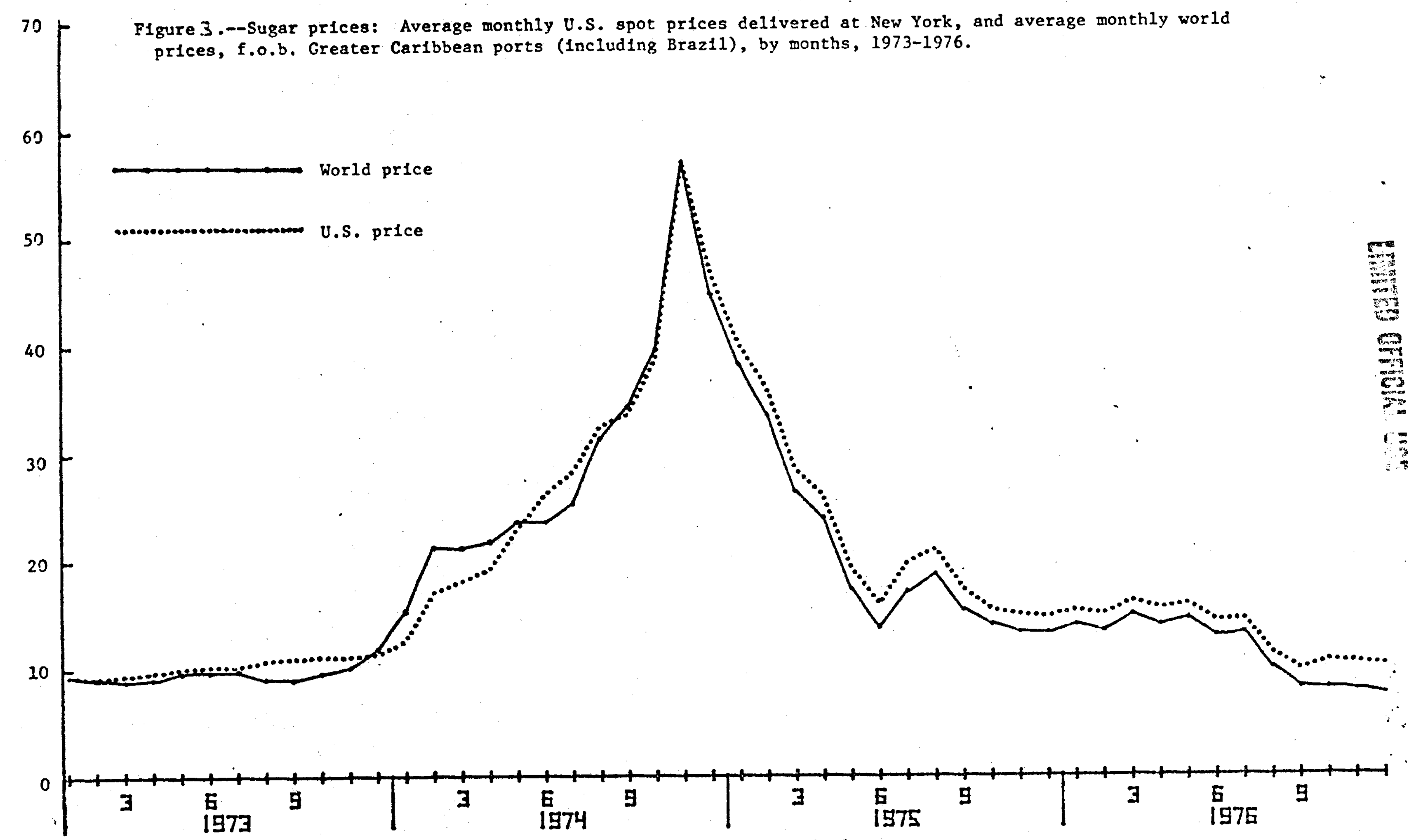


Figure 3.--Sugar prices: Average monthly U.S. spot prices delivered at New York, and average monthly world prices, f.o.b. Greater Caribbean ports (including Brazil), by months, 1973-1976.

Source: Compil d from official statistics of the U.S. Department of Agriculture.

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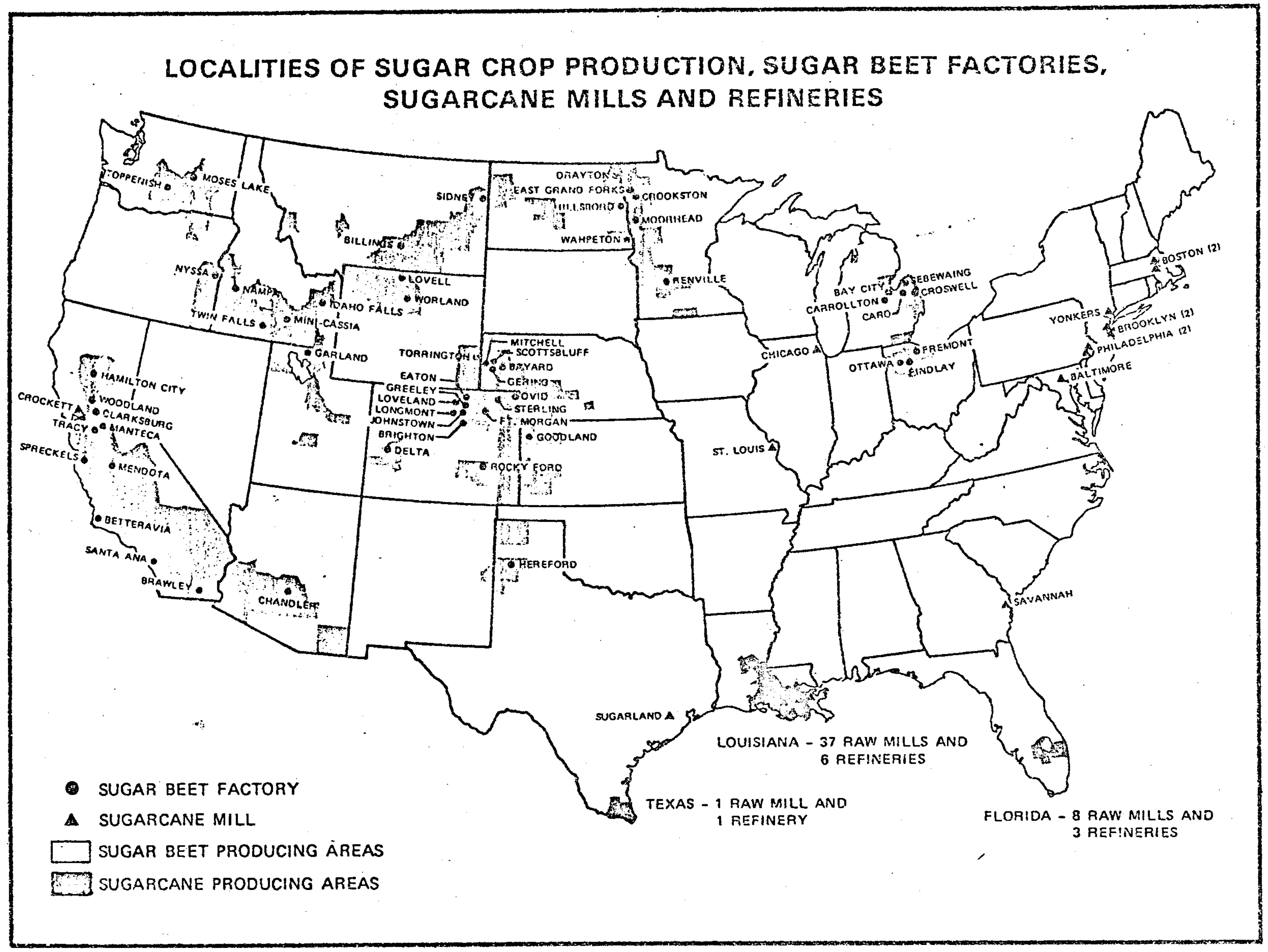

Figure 4