

Chronological: Sugar Users Group, Phoenix, Arizona

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news from

Senator DANIEL K. INOUE

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to Sugar Users Group, Phoenix, Arizona

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It is a pleasure to join you today to discuss a subject of great mutual interest -- sugar. Admittedly, we approach this subject from different perspectives. Some of us grow sugar, some trade it, some use it, most of us consume it, but we are all interested in sugar and depend on it in some way for our livelihoods.

Sugar can be a divisive issue, as we know from recent debates in Congress over Title IX of the 1981 Farm Bill and the attempt by Senators Quayle and Tsongas to cut the sugar loan level from 17¢ to 14¢ a pound. But I do not wish to dwell on the parochial issues that sometimes detract from the national debate on sugar. Rather, I wish to stress the common interests we have in this commodity and to make the point that a viable domestic sugar industry is in all of our interests.

In this time of ballooning deficits and seemingly endless recession, no federal legislator can afford to put the interests of a few above the well-being of the many. As the senior Senator from Hawaii, America's foremost sugar producing state, most people expect me to be a staunch supporter of sugar growers. And I am. But what surprises many is why I advocate the adoption of a national sugar policy and federal price support legislation. My intention is not to prop up a failing industry or to protect inefficient producers at home. Rather, I am convinced that having a domestic sugar industry is in the nation's best interests. If that is the case, then my enthusiasm for seeing sugar included in federal commodity programs stems logically from my conviction that sugar legislation benefits everyone in the U.S., not just growers.

Sugar price support programs and the mechanisms needed to make them effective, such as quotas, are a means to an end, not an end in themselves. This is why the Congress included sugar in the 1981 Farm Bill. It is also why a majority of my colleagues in the Senate voted overwhelmingly to defeat the Quayle-Tsongas amendment last summer.

In analyzing the relationship of sugar to the common good, it is necessary to review some of the basic facts and figures about the sugar industry in this country.

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Americans presently consume approximately 9.2 million tons of sugar a year, or about 74 pounds for every man, woman and child. We produce 5.6 million tons of that sugar ourselves, or about 60%. The rest we import from other sugar-producing countries around the world, of which there are over 100. Sugar is a unique agricultural commodity for two reasons: First, unlike cotton, grain, milk, soybeans, and corn, we are heavily dependent on imports to meet our needs. Second, sugar is the most tightly controlled commodity in the world, with over 80 percent of the globe's production being consumed locally or exported to other countries under long-term, fixed price contracts. The other 20 percent is sold on the "world market", with one-fifth going to the United States.

The problem for the U.S. and other importing countries is that supplies usually, but not always, exceed demand on the world market. Sugar goes through volatile cycles whereby surpluses are sold at distress or dumped prices for several years, only to be followed by a year or two of sharply reduced supply and much higher prices. A recent study by A.C. Hannah, Chief Economist with the International Sugar Organization in London, shows that over the last 30 years, worldwide supply has exceeded demand for 21 years, while consumption has exceeded supply by between 0.3% and 2.4% in nine years (1954, 1956, 1962, 1963, 1971, 1974, 1979 and 1980). These figures do not bear much significance for exporters except that it would be in their best interests to stabilize production at current levels of consumption, thus earning consistent income from their sugar exports.

For importers of sugar such as the United States, however, slight variations in world production can mean tremendous fluctuations in the price of sugar available internationally, where just a fraction of the world's sugar is sold. For example, a three percent change in the total world production means a fifteen percent change in the sugar supply on the so-called free market. Since the demand for sugar is fairly constant, the price of sugar purchased on the world market fluctuates wildly. This is why we saw raw sugar prices go from 65 cents per pound in 1974 down to between 7 cents and 10 cents from 1976 through 1978, then to 42 cents in late 1980, and finally back down below 6 cents in 1982. The price of sugar is currently 6 cents on the world market with little reason to expect much change in the foreseeable future.

With regard to sugar production in the United States, sugar ranks as one of the top ten commodities in terms of acreage and dollars earned. Sugar cane and sugar beets are major agricultural products in this country, with more than 15,000 producers and a total of 100,000 people dependent on the domestic industry for their livelihood. In many rural areas and small towns, there are no alternatives to sugar, which is the mainstay of the local economy.

The American sugar farmer is the same kind of farmer as any other American commodity grower. He is the world's most productive agriculturalist, certainly as measured in terms of output per man hour. In

Hawaii, we produce more sugar per acre per year and more sugar per worker than any other place in the world. We produce as much sugar with 8,500 workers as they do in the Dominican Republic with 85,000 workers. Similarly we produce sugar at a cost below that of such countries as Barbados and Haiti. Yet in Hawaii, we pay our workers a minimum of seven dollars an hour. This is as much as Haitian workers earn in two weeks. We pay Hawaiian workers more per day than Haitian workers receive per month, yet we still manage to produce sugar, which is labor intensive, at a lower cost than they do. I feel certain that if our Government were to guarantee American sugar beet and sugar cane growers the same prices that governments in Europe guarantee their farmers, the United States would be a major sugar exporter.

This brings me to the crux of my argument. No one is asking that one dime be spent to protect an inefficient industry that is unable to compete on the world market. What I am advocating is that the American sugar producer be given the same kind of protection that is given to producers in other countries--protection from dumping at ruinous prices during periods of excess production.

If in fact the United States were an inefficient, high cost producer of sugar, then I would join others in suggesting that we buy our sugar more cheaply abroad and concentrate on producing corn, wheat, cotton and soybeans. But we are not a high cost producer. The average cost of production worldwide is more than 19¢ a pound, which is only slightly below the average cost in the U.S. We are a lower cost producer than the European Economic Community, which is a leading sugar exporter because of its subsidy program whereby it guarantees producers 27¢ a pound, then dumps the surplus abroad.

The United States is a highly efficient sugar producer, but no one can afford to grow sugar at the current world price of 6¢ a pound. One of the world's lowest cost producers, South Africa, expects to lose \$156 million in 1982 on its sugar exports. Meanwhile our Hawaiian industry, which lost \$83.5 million on a comparable volume of sugar in 1981, incurred losses of some \$12 million last year. Instead of profiting from an excessive sugar price support system, as some critics have charged, the domestic sugar is retrenching. Since the enactment of the Farm Bill in 1981, U.S. sugar beet acreage has declined approximately 16 percent. In Hawaii, the sugar cane industry, which has a two-year crop, has announced plans for similar reductions. Louisiana growers have reduced their acreage by about 10 percent. Nationwide, only the most efficient producers in an already efficient industry are staying in business.

Given this context, the sugar price support program is clearly warranted. The existing sugar program is a common sense approach to stabilizing the price of a very volatile commodity in an unpredictable market. It is similar to the other programs we have for wheat, corn, soybeans, cotton, sorghum and rice, yet the support price is the lowest of any commodity when measured as a percent of the 1981 cost of production, minus land. The sugar program puts a floor under the price of sugar, thus guaranteeing American sugar producers a minimum price for their efforts. It does not, however, guarantee them profits. What the sugar program does is to offer domestic producers some hope of riding out bad years in the boom-or-bust market in the hope of better days ahead.

If the main benefit of a sugar program is to protect our vital domestic industry, what are the costs? It is on this subject that one hears the most confusion and misinformation.

Last summer, in arguing for their amendment to cut the sugar program from 17 cents to 14 cents a pound, certain Senators charged that the price support system is costing American consumers billions of dollars every year. Proponents of the Quayle-Tsongas amendment suggested that consumers could save \$300 million for every penny that we lowered the sugar price support level. If this were true, then in 1981, when the world market price of sugar dropped precipitously, American consumers should have saved \$3.129 billion on sugar-related purchases.

But this did not happen. Instead, the National Soft Drink Association's survey of sales in the soft drink industry (as reported in the Food Institute Weekly Digest of July 31, 1982) stated that the wholesale value of soft drinks rose some 13.2 percent in 1981, on a volume increase of only 3.8 percent. Were the savings of lower sugar prices passed on to the consumer? No! They were for the most part kept by companies as profits.

It is misleading for anyone to argue that lower price support levels for domestic sugar would be translated penny for penny into savings for the American consumer. This is because Americans consume only 20 pounds, or about one-fourth of their sugar as the refined product that you find on the coffee table. The remainder is consumed as a sweetener in soft drinks, candy bars, and other processed foods. Reductions in the price of sugar for these goods are NOT passed on to the consumer. The fact of the matter is that while food processors are often happy to raise the price of their goods when the cost of sugar goes up, we rarely see those same prices decline when the price of sugar goes down.

As the Vice President of Supermarkets General Corporation stated in Business Week on April 19, 1982, "They have used increases in sugar prices as an excuse to raise their prices, but decreases in sugar prices never seem to get translated down." Indeed, while the price of raw

sugar in New York fell 70 percent from October 1980 to October 1981, the price of 14 major sugar-containing products increased by an average of 8.4 percent. The consumer cost argument is thus a smoke screen which is used to conceal the fact that it is large corporate users and traders who stand to benefit the most from temporary surpluses on the world market, not individual consumers.

With regard to the sugar program's cost to the U.S. Government, there isn't any. In fact, the duties and fees assessed on imports under the present program have generated several million dollars in revenues for the Treasury. During the term of the original Sugar Act in 1937, and its subsequent extensions, the government consistently experienced net earnings. There were no net outlays on the part of the government. The loan program which was in effect during 1977 and 1978 resulted in a net gain from the sale of forfeitures totalling \$67 million. The sugar program was the most stable commodity program in the United States, and throughout this period the price of sugar at the consumer level remained relatively stable while other commodity prices fluctuated, usually upward.

Rather than focus on the cost of the sugar program to the consumer, which is minimal, I think we should focus on the cost of NOT having a sugar program. Sugar users are very vocal about their desire to gain access to world sugar supplies in periods of overproduction, but what about those years when there is a shortfall? We should not be lulled into a false sense of security by the current glut of sugar on the world market. Don't take it for granted in planning for the future. It would be a serious mistake to assume that we do not need a domestic industry as the world market is an unpredictable source of sugar. Nor can we assume the survival of our domestic industry without a program such as we have -- I know it would not survive in Hawaii. Yet without a domestic sugar industry, we would become completely dependent on foreign producers, thus losing control over both the price and supply of sugar in years of worldwide shortages. Without American sugar growers, the USDA has warned in testimony before the House Ways and Means Subcommittee on Trade that consumers would face price increases of several hundred percent.

Although Americans may pay a slightly higher price for sugar under the current price support system when the world price of sugar is depressed, the moderating and stabilizing influence of our sugar program benefits sugar consumers in the long run. Free market forces have made things worse for the American consumer since the expiration of the Sugar Act in 1974, and we have been riding a roller coaster of sugar prices in those years we have not had a program. Consumers are hurt more by high prices in years of world shortages than they are helped by the low prices they are promised when the sugar market is depressed. Indeed, the sugar loan program had a major beneficial impact on consumer prices in 1980.

Excess sugar from the 1977 and 1978 crops had been stored by the government for producers, and when world prices increased from 9 to 42 cents per pound in 1980 because of the worldwide shortage, the government sold about half a million tons of sugar on the domestic market. This action moderated the 1980 price increase.

A final concern of those opposed to the present price support system is the trade issue. In pointing out the alleged "costs" of the domestic sugar program--which I have shown to be minimal or non-existent--some sugar users have suggested that the sugar program is hurting the President's Caribbean Basin Initiative and harming our agricultural exports. They have further warned that the imposition of sugar quotas might lead to protectionism and retaliation by our trading partners.

Ladies and gentlemen, proponents of this argument have put the cart before the horse. There are already numerous trade barriers abroad which our sugar program will do nothing to change. Why should sugar be any different than textiles, steel, chemicals, beef, and grain, where we protect American jobs and American industry against unfair foreign competition?

Thomas K. Hitch, former member of the Council of Economic Advisors and until recently Senior Vice President for Research at the First Hawaiian Bank, summarized the situation as follows:

"The U.S. sugar industry will not be killed by cheap foreign sugar that is produced more efficiently than ours: it will be killed by foreign sugar that is dumped into our market at either a loss to the producer or at a profit that is provided by subsidies from the government of origin."

Should we really offer up our domestic sugar industry as a sacrificial lamb in the name of free trade when almost every other sugar producing country has import restrictions, price supports, or artificially high, long-term sale contracts? Are we supposed to take free trade seriously when President Reagan himself did more than anyone else to outrage our European allies by barring the sale of pipeline technology to the Soviets? The ultimate irony is that one of the sponsors of the Quayle-Tsongas amendment last year also offered his own bill to protect the American steel industry from foreign competition--and he cited sugar as an example of an American industry being hurt by dumping from abroad.

I recall that some people criticized the imposition of sugar quotas in May of 1982 as being contradictory to established U.S. trade policy. Yet quotas are but a temporary measure necessitated by massive

dumping of sugar on the so-called world market. What these critics overlooked is that in imposing these quotas, the Administration acted within both the law and our agreements under GATT, the General Agreement on Tariffs and Trade. For example, the U.S. Cane Sugar Refiners Association brought suit in the United States Court of International Trade in New York in an effort to halt the use of quotas to defend our sugar program. However, Judge Newman ruled in favor of the Government. The Association then appealed the case to the Court of Patent and Customs Appeals in Washington, and again the Court found that the President had acted within his authority and consistently with established trade practices.

I would also point out that quotas are an accepted part of the International Sugar Agreement's price stabilization mechanism. The United States is a member of this group, but unfortunately the European Economic Community is not. As a result, the International Sugar Agreement has been ineffective in stabilizing the international price of sugar, yet some people continue to be worried about offending the European Economic Community by using quotas to defend our domestic sugar industry. This is unusual considering that the EEC is the principal cause of distortion in the world market for agricultural commodities. This argument just does not make sense.

There is another aspect of the trade agreement which puzzles me, namely, the claim that the quota program is hurting our friends and allies who supply us with sugar. This too is false. Let me illustrate by pointing out that at the same time the Senate debated the Quayle-Tsongas Amendment, sugar exporting countries, especially in the Caribbean, received a 10 cent premium for their sugar sales in the United States under the current price support program. This number was derived by taking the price of raw sugar in New York, subtracting freight and insurance costs, import fees, duties, and the price of raw sugar on the world market. This premium under the current price support system increased recently because of the continued drop in world sugar prices and the discontinuance of the fee.

Foreign producers now receive prices in New York that are more than double the price abroad. For example, the Dominican Republic, which has 17.6 percent of the import quota established by the USDA, will earn almost \$200 per ton more for sales to the United States this year. That will mean \$115 million in additional income for this Caribbean ally, thanks to the quota program. The same calculus that applies to the Dominican Republic also applies to the other Caribbean countries which the United States wants to help.

Finally, one fact which some sugar users overlook in arguing the trade issue is that for every pound of sugar we produce in the U.S., our money stays at home, thus benefitting our overall economy. By contrast,

purchases of foreign sugar exacerbate our country's balance of payments deficit. This deficit for sugar imports totalled approximately \$2 billion in 1980. Had we depended completely on imports, our balance of payments deficit for sugar would have been at least \$4.7 billion, and quite possibly more. Yet some amongst us here today would let our American sugar industry go bankrupt for the sake of short-term profits by a few large companies. They would force sugar producers out of sugar, which we already import in large volume, into crops we produce in great surplus and must store at great expense to the taxpayer.

The economic arguments associated with the debate over sugar are complex and facts often hard to come by, but the basic question is very simple. Is a viable domestic sugar industry in the national interest? I think it is, and it is thus easy to support the programs necessary to uphold sugar growers throughout the U.S.

I have attempted today to show that the U.S. Government has a constructive role to play in protecting American sugar producers from unfair foreign competition. I have also argued that the domestic sugar industry is worth saving.

Indeed, I call saving thousands of American jobs in an era of record unemployment a good reason for maintaining the present sugar price support level at 17 cents a pound.

I call an improved balance of trade an important reason for supporting our current federal sugar policy.

I consider the long-term interests of both American consumers and American corporations excellent reasons for protecting the domestic sugar industry.

Congress knew what it was doing in 1981 when it approved the current sugar program, as did the President of the United States when he signed the Farm Bill into law. A year later, the Senate soundly defeated the Quayle-Tsongas Amendment, which could not have come at a worse time for American farmers already hard-hit by recession. There is a single reason for all of this: A viable domestic sugar industry is clearly in the national interest, and I hope that you will join with me in the years ahead to strengthen our country's long-term position in the very uncertain world sugar market.