A HISTORY OF US SUGAR LEGISLATION

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The fact is, any discussion of US sugar policy must begin before there was a US.

The Molasses Act (also called the Sugar Act), passed by British Parliament in 1733 placed a heavy duty on imports of molasses and sugar into the North American colonies and was strongly resented by the American colonists.

However, the advent of the French and Indian wars in Canada somewhat muted the protest, since the colonists wanted the British around to protect them--lest the war spread to New England. In 1763, of course, England bought Canada from France pretty much negating the need for British protection and so....when the Parliament approved a new, more stringent tariff on sugar entering the colonies in 1764--the need for restraint also had disappeared.

The Colonists proceeded to do what we might expect from the good Christian inheritors of their Pilgrim forefathers' legacy...they smuggled.

Historians regard the sugar tariff as one of the two or three principal economic causes of the Revolutionary War....even though all British imposed tariffs--except on tea...were repealed in 1770.

The rest...as they say.... is history.

After the war and after the struggles of the Continental Congress to adopt a Constitution and, finally, the election of George Washington...the first Congress of the United States was convened in New York City in 1789. It didn't take them long to realize, if they're going to run a country, they have to have some money. So, ironically, one of the first Acts of the new Congress - on July 4, 1789 - was to impose some tariffs....including one-cent a pound tariff on what they called brown sugar, three cents on loaf sugar and a cent-and-a-half on all other sugars.

Later that same year, the tariff on loaf sugar was increased relative to brown or raw sugar and that was the first measure of tariff protection for the nation's infant sugar refining industry.

Nothing much happened insofar as US sugar policy is concerned for the next 79 years. During that period, some two thirds to nine-tenths of the Federal Government's total income was derived from various tariffs on imports of a lengthy list of products and commodities.

Along about 1842, the sugar import tariffs were shifted somewhat so that the emphasis was less on a means of generating revenues--and more on providing protection, thereby attempting the promotion of a domestic sugar refining industry.

Along in 1890 there was a significant change in the form of the McKinley Act that is difficult to comphrehend today.

The US government had built up a significant surplus in the Treasury (if you can imagine such a thing), so they suspended sugar tariffs - except for a half-cent a pound on refined sugar to protect US refiners - and between 1890 and 1894 the Government actually paid a bounty on sugar production in the US. The rate of the bounty was 2 cents a pound on sugar testing not less than 90 degrees by the polariscope and a cent and three quarters on sugar testing between 80 and 90 degrees. The purpose, of course, was to stimulate US production, but it was the consumers that truly benefited. The wholesale price of refined sugar in New York City dropped from 6.2 cents down to 4.1 cents during that period.

Tariffs on sugar were resumed, but at the end of the Spanish-American War (1899) the US assumed control of Cuba, Puerto Rico and The Philippines and they continued to get special treatment--some times especially good and, at other times, especially bad.

During World War I, for example, the US government bought the entire Cuban crop for several years (ranging from 2.2 to 3.3 million tons) paying 5.88 cents a pound--NY basis--and sold it to US refiners for 7.28 cents. At the same time, a cap was placed on the US price for refined sugar at 8.82 cents.

And, of course, there was rationing for the first time in US history: 3 pounds per month per person.

Little wonder that, .shortly after the war, when price controls went off, rationing was ended and the Government got out of the business of being a middle-man on Cuban sugar, prices went up - peaking at 23.57 cents in May, 1920.

The next major event in the continuing saga of government involvement in this industry was the legendary Jones-Costigan Act of 1934. Enacted as the deep economic depression gripped the country, this Act contained six main features:

1. It directed the Secretary of Agriculture to estimate how much sugar was needed to supply the nation's requirements at prices reasonable to consumers and fair to producers.
2. The Secretary then divided the market between domestic suppliers and foreigners by the use of quotas.

3. Next, he allocated these quotas among various processors in each domestic area.

4. He then adjusted the production in each domestic area to the established quotas.

5. The Act also provided for a tax on the processing of sugarcane and sugarbeets, the proceeds of which were to be used to make payments to sugar producers to compensate them for adjusting their production to marketing quotas to increase their income. This tax was found unconstitutional in 1936 but was quickly replaced with an excise tax that did the same thing.

6. And, finally, the Act provided for the equitable division of sugar returns among beet and cane processors, growers and farm workers. That means minimum payments to growers and minimum wages for farm workers. With regard to the latter, sugar farm workers were the only field hands to be covered by a minimum wage requirement until the amendments to the Fair Labor Standards Act in 1966...more than 30 years later.

The 1937 Act was supposed to expire in 1940....but it was extended to 1941, then from 1941 to 1944, to 1946, and again from 1946 until December 31, 1947. Then, there was the Act of 1948, which was amended in 1951, and extended twice up to the end of 1956. It was amended in May, 1956, extended to December 31, 1960, amended in July, 1960 to terminate sugar imports from Cuba....and amended again in 1961 and 1962, and extended through December 31, 1966...only to be amended again in 1965, and extended again in 1971, with an expiration date of December 31, 1974.

And, expire it did, as a result of a vote in the US House of Representatives on June 6, 1974.

By this time, the Sugar Act had so many bells and whistles nobody liked it very much, particularly the growers.

It was, most assuredly, intrusive and it contained provisions, including quotas, fair-price determinations, minimum wages and child labor rules well beyond the jurisdiction of the Agriculture Committee. (In the Senate, it was handled by the Finance Committee.)

It was never a part of omnibus agriculture legislation in those days. It came to the floor of the House as a free-standing bill...and, invariably, the Rules Committee granted a so-called "Closed Rule," which meant it could not be amended.

During much of this time (from 1948 until 1966) sugar legislation was, for all practical purposes, within the private domain of House Agriculture Committee Chairman Harold Cooley of North Carolina. (For purists, it should be noted, the Republicans controlled the House during the 1947-49 and the 1953-55 sessions, so Cooley wasn't chairman.)

Among the rights and privileges assumed by Chairman Cooley was the assignment of foreign quotas. Prior to the Revolution by Fidel Castro, this wasn't that big a deal, because Cuba got about half of the entire quota.

After 1960, however, the approximately 3,000,000 ton Cuban quota was divided among some 35-38 countries and, keep in mind, the premium earned above the world price sugar entering the US made these quotas a valuable asset.

(This premium was generally around $400-600 per ton....and rose to as high as $900 a ton in 1966-67 when the world price was down around two cents per pound as opposed to a 6.5 cent US price.)

The law was relatively clear on which nations should qualify for access to the US market. They had to be friends of the US, dependable suppliers, good customers of US exports, demonstrate a need for the premium price market by showing, for instance, a dependence of sugar exports as source of foreign exchange. They had to promise to share the benefits of participation in this market with small farmers, mill workers and field hands. And, finally, location counted: The closer the better, for security reasons.

Despite these rules, it was the widely held view that how friendly a country--and its lobbyist-- were with Chairman Cooley had the greatest impact on the size of the quota allocation a country would receive.

There were other influences, too. Ireland had a quota, for goodness sakes, and it just happened to coincide with the ascension of Boston Representative John McCormick to be Speaker of the House and the election of John F. Kennedy to the Presidency!

This is all speculation, of course, based on rumor (albeit a widely spread rumor) and I certainly would not want to slander the memory of that great statesman from North Carolina.

What the Record does show clearly, however, is that Chairman Cooley used to bring the Sugar Act amendments to the Floor of the House and make a brief speech explaining to his colleagues that sugar legislation was just too darn complicated, and rather than try to explain it..."Just trust me," he'd say--and they did--voting again and again to approve its continuation.

As we all know, after Mr. Cooley retired, the new Chairman (Congressman Bob Poage from Texas) brought a sugar bill to the Floor in June, 1974--before it was ready. The price of sugar was already very high--and on its way to an all-time high (26.3 cents in June and 57.3 cents in November, 1974). And, as I said--there were a lot of things to dislike about the program--and the House voted to kill the 40-year-old Sugar Act.

The 1975 and 1976 crops were not covered by any kind of sugar program and those of you around then will remember those were tough years in the beet sugar industry. Production, that had swelled to a record 75 million bags in 1975, in response to the 1974 price spike, dropped to 73 million in 1976, and all the way down to 56 million in 1977.

The Agriculture Act of 1977 provided some reprieve. A 13-cent-per-pound loan program for raw sugar was established for the 1977 crop, and the 1978 crop loan rate was set at 14.73 cents. In

addition, import duties and fees were used to, hopefully, keep the domestic price at a level that would discourage forfeitures of sugar to the Commodity Credit Corporation. It didn't always work, unfortunately.

Meanwhile, however, since the 1977 Act was approved until the fall of that year, an interim price support payment program for the 1977 crop was instituted. Processors were paid the difference between a price objective of 13.5 cents and the average market price, raw value, and actually received some $237 million for 3.9 million tons of sugar that met the eligibility requirements. That payment program stimulated a lawsuit by the National Corn Growers Association, and it was ended when the loan program actually started in November of that year.

The loan rate went up to 14.73 cents per pound, raw value, for the 1978 crop and, while it was not included in legislation, the Secretary used price support authority provided in so-called permanent legislation (the Agriculture Act of 1949) to establish a loan program at 13 cents for the 1979 crop.

No support program was provided for the 1980 and most of the 1981 crops, because world and US market prices were high enough to sustain the industry (17.84 cents average for the 1980 crop, and a whopping 26.63 cents for the 1981 crop.)

It was the Agriculture and Food Act of 1981 that finally, once again, lent a degree of stability and continuity to the sugar program. We were now in step with the rest of the ag commodities and became a real part of the farm bloc. In retrospect, the beauty of that legislation was its brevity and simplicity: a straight-forward loan program for sugar starting at 16.75 cents for raw sugar, and wratcheting up to 18 cents in 1985.

To make the program more effective, in May 1982, the President abandoned the duty and fees scheme for sustaining domestic prices above the loan rate and issued a proclamation establishing a country-by-country import quota system.

The Food Security Act of 1985 didn't change the program very much. The loan rate remained at 18 cents, but could be increased by the Secretary if he found conditions warranted such an increase (he never did) and he was directed by the Congress to operate the program at no net cost to the Federal Government--which he did.

In 1990, the Food, Agriculture, Conservation and Trade Act got considerably more more complicated insofar as sugar was concerned. The loan rate remained the same... 18 cents for raw sugar... and the term of the loan was extended from six months to nine.

In response to a ruling that our import quota system was illegal under the terms of international trade law, the new Act established a minimum import level at 1.25 million strv, thus making domestic producers for the first time residual suppliers in our own market.

Further, in order to make sure there was room here for that 1.25 million strv of foreign sugar, the

Secretary was given authority to impose marketing allotments and allocations on domestic producers. Subsequently, the Secretary determined this authority included the right to impose allotments in order to keep the price of sugar sufficiently above the loan rate to ensure there be no forfeitures of Commodity Credit Corporation sugar loans--thus violating the no-cost mandate of Congress.

Finally, included in the 1990 Budget Reconciliation legislation that cleared Congress about the same time as the farm bill, was a marketing assessment on domestically-produced sugar (0.18 cents per pound on raws and 0.193 cents on refined), a scheme to make sure sugar producers shared in the budget-balancing pain felt by other commodities--all of whom took substantial cuts in their price support programs in 1990.

In the 1993 Budget Reconciliation Act, that marketing assessment was increased 10%, bringing the refined beet sugar assessment to 21.23 cents per bag.

Heading into consideration of the 1995-96 farm bill, we were warned by the new, reform-minded Congress that this legislation had to require less government involvement in agriculture and it had to be more market-oriented.

Without going into all the machinations, contortions, compromises and down-right agony associated with getting that piece of legislation enacted, let me simply enumerate the reforms included in the new Act:

Elimination of marketing allotments: During years of high production and low prices, some domestic producers could be put out of business, according to some analysts.

Guaranteed minimum price eliminated: Minimum access for foreign sugar is put at 1.5 million strv per year and when the import quota is set below that level, sugar loans are recourse--which, of course, means they must be repaid in full--with interest--without regard to the value of the sugar put under loan. This means there's no incentive for the Government to keep domestic sugar prices above the forfeiture level. It also makes sugar crops less "bankable" and more susceptible to fluctuations in the prices of competing crops.

Loan rate frozen at the current level--through crop year 2002: Under the previous law, the beet sugar loan rate was based on a formula involving an historic ratio between beet and cane grower returns, plus the national average marketing costs for refined beet sugar. In fiscal 1993, while the cane loan rate remained at 18 cents, the beet loan rate climbed to 23.62 cents, but based on this formula, it dropped to 22.9 cents in fiscal 1995--and it will remain there.

A one-cent-per-pound penalty will levied when sugar loans are forfeited--effectively lowering the support rate yet another penny.

Finally, the marketing assessment was increased another 25%. That tax that started out at 19.3 cents per bag of refined beet sugar--went to 21.23 cents in 1993--is now 26.505 cents.

That's a pretty devastating list, but before you suggest we gave up too much, let me recite some numbers for you. In 1985, we beat off a challenge to the sugar program in the House of Representatives by a 121-vote margin. In 1990, we again defeated an anti-sugar amendment by the same margin: 121 votes.

In 1996, an amendment offered on the House floor to dismantle the sugar program was defeated again...but, this time, by a margin of only 9 votes.

I submit, we didn't leave anything on the table.

The sugar provisions of the 1996 farm bill have already been challenged, in connection with the fiscal 1997 agriculture appropriations bill, and they are likely to be challenged again at every opportunity.

And, keep in mind, this seven-year farm bill is seen by many as "transition" legislation--moving American agriculture into a totally free market--with no price support programs, commodity loan programs or any other legislative prop for American farmers after the year 2002.

Besides that, as you may be aware, we're having some problems with the Mexicans with regard to the North American Free Trade Agreement, and of course, yet another round of international negotiations aimed at liberalizing global trade is about to get under way. It's very likely this will involve demands by our trading partners for even greater access to our sugar market.

Despite all this gloom and doom, I have confidence in the future of this industry and, quite frankly, it's because of the confidence I have in you--the people in this room this morning.

Look at the record. Compare the last three crop years (1992-95) with 1982-85, and your accomplishments are nothing short of amazing. You're getting more beets--and more sugar off every harvested acre. Recovery rates, according to the Department of Agriculture, have increased by almost 12.5%.

You have endured more stringent environmental restraints, more workplace safety requirements and general all-around higher labor standards than your counterparts anywhere in the world.

And then there's inflation. Between the average for 1982-85 and 1992-95, this country has experienced a total inflation of over 46 percent! What you paid a dollar for back in the early 80's cost nearly a buck and a half in the 1992-95 period..

Nevertheless, comparing the same 1982-85 period to 1992-95, according to the USDA you have reduced the cost of producing and processing beet sugar by a nation-wide average of some 6%. You have absorbed that 46% inflation and still reduced costs!

You have made the American beet sugar industry one of the most efficient in the entire world. You're doing a whale of a job and I'm proud to be associated with you.