TRADE-DISTORTING POLICIES IN THE WORLD SUGAR MARKET

The listing below identifies key foreign policies that distort the world sugar market, but is not exhaustive. It was compiled by the American Sugar Alliance, based on LMC International’s 2003 study, “Review of Sugar Policies in Major Sugar Industries: Transparent and Non-Transparent or Indirect Policies,” and other sources.

EXPORTERS

BRAZIL

- Through the huge subsidies and government-mandated blending requirements provided by its Proalcool program, Brazil has fostered a huge expansion of its ethanol production from sugarcane. The value of the subsidy to the Brazilian ethanol industry has been estimated at more than $3 billion per year (“Proalcool and Sugar in the Mercosur,” Alberto De Las Carreras). The cost savings resulting from the co-production of sugar and ethanol are estimated at $1 billion per year (LMC International).
- Direct subsidies are provided to sugar producers in Northeast Brazil totaling about $200 million per year.
- The accumulated non-payment of debt (unlikely to be recovered) by Brazilian sugar and ethanol producers is estimated at $2.1 billion.
- Subsidized credit received by cane processors in the 1970’s enabled them to write off their capital investment in a short period of time.
- The Brazilian currency has depreciated dramatically – by 35% in real terms between 1995 and mid-2002, greatly benefiting Brazil’s agricultural exports. Further major devaluation occurred in the second half of 2002.
- Brazil exports as much as 13 million tons of sugar per year.

EUROPEAN UNION (EU)

- The EU maintains very high domestic wholesale prices for sugar (over 30 cents/lb for white sugar). These prices are sustained through a comprehensive system of import tariffs, production quotas, and export subsidies.
- Subsidies for exports of so-called A and B quota sugar total about $500 million per year.
- Sugar produced above the A and B quota levels (termed C sugar) must be exported. While it does not benefit from direct export subsidies, there is still great incentive to produce and export C sugar. Most EU countries “overplant” to ensure quotas are met; for some EU countries, the support prices are sufficiently high to cover fixed costs and C sugar is deliberately produced for export.
- The EU exports 5-6 million tons of sugar per year. The WTO counts only 1.3 mmt of these exports against the EU’s WTO commitments; the export of an additional 1.3 million, equal to the amount of preferential imports, is also subsidized; the remainder of EU exports is indirectly subsidized, via the high domestic price. The WTO does not recognize these indirect subsidies.
THAILAND

- Thailand maintains high import duties as well as licensing requirements for sugar. No imported sugar has entered the country for a number of years.
- The government maintains a domestic sales quota system that is used to shelter growers and processors from world price fluctuations. In addition, under government supervision, banks have postponed and rescheduled debts of approximately $1.1 billion. Other government programs include pre-financing of the cane crop ($250 million credit line) and supplementary payments ($260 million expended in 2002/03.)
- The Thai baht has depreciated 22% in real terms since 1995.
- Thailand exports 3-5 million tons of sugar per year.

AUSTRALIA

- In Queensland, which produces 95% of Australia’s sugar, all raw sugar is acquired and sold by an industry-owned body, Queensland Sugar Limited (QSL). This monopoly power enables QSL to confer some indirect price support to the industry.
- Over the past few years, Australia has introduced a number of programs (e.g., emergency income support, interest rate subsidies) subsidizing sugar producers. These programs, which are funded partly by the State government, total over A$250 million.
- Although applied tariffs on raw and refined sugar have been set at zero since 1997 and domestic refined prices are relatively high, sugar imports have been negligible.
- Australia exports 3-4 million tons of sugar per year.

CUBA

- All sugar production and related activities are under strict control of the Ministry of Sugar Industries (MINAZ). Mills are state-owned. Thus, it is difficult to identify individual measures of assistance. But it is clear that in recent years the government has absorbed substantial losses.
- Cuba exports about 3 million tons of sugar per year.

SOUTH AFRICAN CUSTOMS UNION (SACU)

- The SACU domestic market is protected by a variable levy system whereby tariffs are set as the difference between an arbitrary reference price and the world market price, subject only to a WTO-bound rate of 105 percent.
- A single marketing body (SASA) effectively controls both the export and domestic marketing of sugar. This control combined with the tariff system enables South Africa to maintain domestic prices far above world price levels.
- South African sugar exports have been greatly aided by the very substantial devaluations of the Rand (40% in real terms between 1998 and 2002.)
- South Africa exports 1-2 million tons of sugar per year.
GUATEMALA

• All sugar for the domestic market is sold through a distribution company owned by the sugar industry; all marketing of sugar for export is handled by Asazgua, an association that represents sugar millers. The monopoly power exercised by these organizations enables the industry to maintain domestic sugar prices well above world market levels.
• Guatemala exports 1.1-1.3 million tons of sugar per year.

COLOMBIA

• Colombia operates a “price band” system on sugar imports whereby a variable duty (equal to 120% of the difference between the world price and a fixed reference price) is imposed in addition to the basic duty. The total tariff charged is not to exceed the WTO bound rate (117%).
• Until early 2002, the Colombian government paid export subsidies on sugar; these have recently been discontinued.
• All exports are made through a single-industry owned company (CIAMSA). By virtue of a tacit marketing agreement between CIAMSA and the individual sugar mills, and subsidies provided by the government-financed Sugar Price Stabilization Fund, supplies on the domestic market are managed to maintain domestic prices well above world price levels.
• Colombia exports about 1 million tons of sugar per year.

INDIA

• The government controls supply on the domestic market through its “levy system” and “monthly release system.” The former requires mills to sell a certain percentage of their production to the Public Distribution system, generally at prices lower than the “free market” price within India. The latter sets mill-by-mill monthly quotas. Imports are also subject to these mechanisms.
• Imports are controlled by relatively high tariffs (60% applied for raw sugar; 150% WTO-bound rate for both raw and refined) plus a countervailing duty on raw sugar – in addition to the mechanisms described above.
• Exports are encouraged by payment of a “transport” subsidy and by granting larger domestic “free market” sales quotas to producers who export large quantities of sugar.
• India is the world’s first or second largest sugar producer.

TURKEY

• Turkey has maintained domestic prices far above world price levels through a combination of high import barriers, export subsidies, consumer subsidies and high domestic prices. (Turkey apparently is now adding production quotas.)
• As a result of high import tariffs (138% applied rate), import licensing, and a requirement that all sugar imports enter Turkey through Istanbul, Turkish imports are kept at negligible levels.
Turkey has exported approximately 2.6 million tons of sugar since 1995/96 with the assistance of export subsidies estimated at over $1 billion. (This program is reportedly to be phased out.)

The state-owned Turkish Sugar Corporation (TSC) owns 25 of the 30 sugarbeet factories; TSC is part owner of the remainder.

Turkey exports 0.4-0.8 million tons of sugar per year.

**MEXICO**

- Mexico maintains domestic sugar prices far above world price levels through a combination of high import tariffs (18 cents/lb) and domestic marketing allocations. Any production above these allocations must be held as stocks, sold for non-food uses or exported.
- The heavy involvement of the Mexican government in the sugar industry -- encompassing expropriation of mills constituting half of production, debt restructuring, capital borrowing concessions, and inventory financing -- has provided massive but difficult-to-quantify support to the Mexican industry. The value of this support has been estimated by non-LMC sources at more than $1 billion per year.
- Mexico exports about 0.5 million tons of sugar per year.

**IMPORTERS**

**JAPAN**

- Through a complex system of high support prices and state-trading, Japan maintains domestic sugar prices at levels far above those of any other country in the world. The average domestic wholesale price for sugar over the past three years was 83.8 cents/lb.
- All imported and domestically produced sugar must be sold to the Agricultural and Livestock Industries Corporation (ALIC), a quasi-governmental body. On the import side, ALIC resells the sugar to importers at a higher price, thereby effectively applying a tariff.
- Domestically produced sugar is immediately resold by ALIC to processors (who must purchase beet and cane at high support prices fixed by the government) at lower price levels, thereby providing a direct subsidy to the industry.
- Japan is one of the world’s leading sugar importers.

**CHINA**

- The Chinese government is heavily involved in the sugar industry. State or provincial ownership of processing facilities is widespread and state-trading enterprises account for approximately 70 percent of domestic sugar sales.
- As part of its WTO accession commitments, China was required to establish an initial TRQ of nearly 1.8 millions tons subject to a 20% duty. However, the government retains import-licensing requirements and, in addition, 70% of the
TRQ allocations are to go to state-trading enterprises. Moreover, early in 2002, China unilaterally suspended imports under the TRQ for several months.

- Although figures are not yet available, it is believed that imports have been far below the TRQ amount -- despite the fact the Chinese domestic prices are well above world price levels. Thus, there is serious doubt as to the effectiveness of the TRQ in providing real access to the Chinese market.
- China is one of the world's leading sugar producers and is often a major importer.

OTHER COUNTRIES/POLICIES

Similar trade-distorting policies and practices to those highlighted above also appear to be widespread in most other significant sugar-exporting countries. ASA believes that the policies of these “middle-tier” countries should also be examined and brought within the ambit of the negotiations. In addition, the trade-distorting sugar policies of the EU will soon be widened to cover a much larger group of countries, including Poland, an important sugar producer; this development also needs to be taken into account in the WTO negotiations. The policies of other important sugar-importing countries not covered by the LMC study (e.g., Russia, Indonesia, and Egypt) also warrant careful examination and inclusion in WTO negotiations, as it appears that many such countries have established significant barriers, sometimes non-transparent, to imports.

Finally, it should be noted that in many of the countries cited above, environmental standards are low or absent, and enforcement is often poor. This creates further distortions in world trade.

*American Sugar Alliance*  
*January 2003*