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Chapter 3

Crop Sector Policies

As with previous Farm Acts, commodity programmes form a central part of the 2008 Farm Act. The three core price and income supports are the Direct Payments (DP), Counter-cyclical Payments and Marketing Assistance Loans programmes. This chapter looks in detail at these support policies and their impact on certain sectors. It focuses, in particular, on support for sugar.

3.1. Support policies for "programme" crops under the 2008 Farm Act

As with previous Farm Acts, commodity programmes form a central part of the 2008 Farm Act. Direct Payments (DP), Counter-cyclical Payments and Marketing Assistance Loan are the three core price and income support programmes, as was the case under the 2002 Farm Act (see Annex A). As required under the previous legislation, participants who receive commodity payments must continue to respect the requirements of conservation compliance.

Direct payments

Following the adoption of the 2002 Farm Act, the Direct Payments programme replaced Production Flexibility Contract (PFC) payments, which were scheduled to remain in place until the 2007 crop year (see Annex A). Direct payments are fixed and do not vary with current crop production or price. They provide annual payments to producers based on a farm's historical plantings, historical yields and a national payment rate. Payment rates vary by crop. The 2002 Farm Act set fixed payment rates on a per-unit basis for 2002-07 and producers were given the option of updating their area bases.

Under the 2008 Farm Act, direct payment rates per eligible crop (*i.e.* wheat, maize, barley, grain sorghum, oats, upland cotton, rice, soybeans, other oilseeds and peanuts) are to be made on 85% of the base area in the 2008 and 2012 crop years (as under the 2002 Farm Act). However, for the crop years 2009-11, payments will be made on only 83.3% of the base area. The 85% ratio is restored for the 2012 crop year (Table 3.1). The reduction to 83.3% does not affect the CCP, which will continue to be provided for 85% of the base area. Provision of advanced Direct Payments is eliminated in the 2012 crop year and thereafter.

Counter-cyclical payments

Counter-cyclical payments (CCP) compensate for the difference between a crop's target price less the direct payment rate and the effective market price. When effective market prices exceed the target price, no payment is made. Like DPs, CCPs are based on area and yield bases, but their payment rate varies inversely with current market prices. As with DPs, the farmer is not obligated to produce any of the covered commodities in order to receive the payment. CCPs are proportional to a farm's base area and "countercyclical programme payment yield" and do not depend on current production.

The CCP programme is continued under the 2008 Farm Act, but target prices were adjusted and some additional commodities were included (Table 3.1). Support levels for countercyclical payments are adjusted, with many crops receiving increases, and support for cotton being reduced slightly. Beginning with crop year 2009, CCP payments are available for pulse crops, namely dried peas, lentils, and both small and large chickpeas.

The 2008 Farm Act maintains target prices at previous levels for 2008 and 2009, with the exception of upland cotton, whose target price is reduced (1.6%) (Table 3.1). Existing target prices are maintained for maize and rice over 2010-12. However, target prices are

Table 3.1. **Payment rates for crops under the 2002 and 2008 Farm Acts**

(USD/t)	Marketing loan rates				Direct payment rates		Counter-cyclical payments target price			
	2002 Farm Act	2008 Farm Act			2002 Farm Act	2008 Farm Act	2002 Farm Act	2008 Farm Act		
	2004-2007	2008	2009	2010-2012	2002-2007	2008-2012	2004-2007	2008	2009	2010-2012
Wheat	101.0	101.0	101.0	108.0	19.1	19.1	144.0	144.0	144.0	153.2
Maize	76.8	76.8	76.8	76.8	11.0	11.0	103.5	103.5	103.5	103.5
Grain sorghum	76.8	76.8	76.8	76.8	13.8	13.8	101.2	101.2	101.2	103.5
Barley	85.0	85.0	85.0	89.6	11.0	11.0	102.9	102.9	102.9	120.8
Oats	91.6	91.6	91.6	95.8	1.7	1.7	99.2	99.2	99.2	123.3
Upland cotton	1 146.4	1 146.4	1 146.4	1 146.4	147.0	147.0	1 596.1	1 570.9	1 570.9	1 570.9
Rice	143.3	n.a.	n.a.	n.a.	51.8	n.a.	231.5	n.a.	n.a.	n.a.
Long grain rice	*n.a.*	143.3	143.3	143.3	*n.a.*	*51.8*	n.a.	231.5	231.5	231.5
Medium grain rice	*n.a.*	143.3	143.3	143.3	*n.a.*	*51.8*	n.a.	231.5	231.5	231.5
Soybeans	183.7	183.7	183.7	183.7	16.2	16.2	213.1	213.1	213.1	220.5
Other oilseeds	205.0	205.0	205.0	222.5	17.6	17.6	222.7	222.7	222.7	279.6
Sugar cane	396.8	396.8	396.8	407.9	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Sugar beet	504.9	504.9	504.9	460.3	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Peanuts	391.4	391.4	391.4	391.4	39.7	36.0	545.8	545.8	545.8	545.8
Dried peas	137.2	137.2	119.1	119.1	n.a.	n.a.	n.a.	n.a.	183.5	183.5
Lentils	258.4	258.4	248.7	248.7	n.a.	n.a.	n.a.	n.a.	282.5	282.5
Small chickpeas	163.8	163.8	163.8	163.8	n.a.	n.a.	n.a.	n.a.	228.4	228.4
Large chickpeas	n.a.	n.a.	248.7	248.7	n.a.	n.a.	n.a.	n.a.	282.5	282.5

n.a.: not applicable.
Note: Crop year periods vary between different commodities.
Source: OECD Secretariat calculations based on ERS, USDA, *www.ers.usda.gov/Briefing/FarmPolicy/data.htm*.

increased, over the same period, for the following crops: wheat (6.4%); barley (17.4%); oats (24.3%); grain sorghum (2.3%); and soybeans (3.4%). Base acreage and payment yield for direct and counter-cyclical payments remain the same as under the 2002 Farm Act.

Marketing Assistance Loan Program

Under the Marketing Assistance Loan (ML) Program, producers of specified crops can receive a loan from the government, using crop production as loan collateral. The primary aim of the programme is to provide interim financing to producers to meet cash flow needs at harvest time, while at the same time allowing them to store production for sale at a later date, when prices may be higher. A producer may realise a "marketing loan gain" if the market price falls below the loan rate plus interest, resulting in a repayment rate that is less than the value of the principal, plus interest.

As an alternative to taking out a loan, producers may choose to accept a cash payment – a "loan deficiency payment" – at any time after harvest when the repayment rate for the commodity produced is less than the loan rate. The farmer taking the loan deficiency payment remains free to sell the crop on the open market.

Marketing assistance loans have a nine-month maturity and accrue interest, but if the loan repayment rate is less than the principal, plus accrued interest, the interest need not be repaid (USDA/FAS, 2007a). The loans are non-recourse, in that the collateral can be forfeited at the end of the term without penalty, even if the market price of the commodity at repayment is less than the loan rate. Interest is also forgiven on loan forfeitures.

Unlike the CCP, marketing assistance loan benefits are paid on current production of the specific programme commodity. Moreover, whereas, under the CCP, loan rates are set

at national level, under the ML they vary according to county (except for peanuts). Commodities eligible for marketing assistance loans and loan deficiency payments include all of the commodities eligible for DP and CCP, plus extra-long staple (ELS) cotton, wool, mohair and honey.[1]

Marketing loan gains and loan deficiency payments are calculated as being the difference between the statutory loan rate and the county price – as determined by the Commodity Credit Corporation (CCC) – (for wheat, feed grains and oilseeds), or the CCC-determined national price (peanuts), or an adjusted world price (for rice and upland cotton).[2] Payments to farmers under the ML Program averaged USD 6 billion over the 1999-2002 period, but have since declined to under USD 500 million as market prices have increased.

The 2008 Farm Act continues the non-recourse marketing loan programme under the same framework as the previous Act, but modifies coverage, levels of payment and payment limits (Table 3.1).[3] Coverage of eligible crops is extended to include large chickpeas (starting in 2009) and a distinction is made between long- and medium-grain rice (previously described collectively as “rice”) – each category now has its own national loan rate.

The loan rate has increased for eight out of twenty commodities (wheat, barley, oats, minor oilseeds, graded wool, honey, cane sugar and beet sugar); decreased for two (dried peas and lentils), and has become applicable to one additional commodity (large chickpeas). Repayment rates may be modified in the event of severe disruption to marketing, transportation or related infrastructure.

Marketing loans are authorised for ELS cotton for crop years 2008-12, but the loans must be repaid at the established loan rate plus interest. The 2008 Farm Act requires the Secretary of Agriculture to revise the ML Program for upland cotton in order to reflect more accurately the commodity’s market value, it eliminates warehouse location differentials and it no longer allows modifications in loan premium and discount schedules. Cotton storage payments are continued, but at reduced rates (down by 10% from rates provided in 2006 for 2008-11 and by 20% for 2012).

The 2008 Farm Act re-authorised the provision of commodity certificates only for the 2007-09 crop years. Certificates were a loan repayment option. They were issued by the CCC and could be purchased at the posted county price for wheat, feed grains and oilseeds, or at the effective adjusted world price for rice or upland cotton, for the quantity of commodity under loan. The producers then exchanged them for the collateral, and thus repaid the loans. Certificates were used mainly during the mid-1980s in lieu of cash to compensate programme beneficiaries and to reduce the large, costly and price-depressing commodity surpluses held by the CCC.

The Average Crop Revenue Election Program

The 2008 Farm Act created a new, optional, revenue-based, counter-cyclical programme, the Average Crop Revenue Election (ACRE) programme. Unlike traditional farm programmes, the ACRE programme provides farmers with protection against revenue loss for each crop, regardless of the cause (price decline, yield loss, or some combination of the two).

The programme, which is based on state and farm revenue shortfalls, is available to farmers as from the beginning of the 2009 crop year, as an alternative to receipt of

payments under the CCP, plus a reduction of 20% in DP and a 30% reduction in the loan rate for each commodity. Enrolled farmers receive payments when revenue from programme crops (including peanuts) falls below levels determined from moving averages of past yields and market prices. More specifically, in order to qualify for an ACRE payment, two triggers must be met:

- the actual state revenue for the crop must be less than the amount of the state revenue guarantee; and
- an individual's actual revenue from the crop must be less than the farm's benchmark revenue.

The second trigger ensures that farms will not receive payments should the state as a whole (but not the individual farm) sustain a loss in revenue for the crop. Benchmark yields at the state and farm levels are calculated from averages for the previous five years, with the highest and the lowest excluded, while national average market prices are calculated from the previous two years. If both triggers are met, a producer will receive an ACRE payment calculated as the difference between the state's actual revenue and the ACRE guarantee per acre, multiplied by a percentage (83.3% or 85%, depending on the crop year) of the farm's planted acreage, but multiplied by the ratio of the individual farm's yield history to the state's yield history.

The state programme guarantee is set at 90% of the moving average yield multiplied by the moving average price. The ACRE state revenue guarantee for a given crop over the period 2010-12 cannot change by more than 10% from the previous crop year. ACRE payments are calculated on planted area, but the total number of eligible acres for all crops on a given farm cannot exceed the farm's total base area (historical plantings as determined under the Direct and Counter-cyclical Program [DCP]) for the farm. If the area planted is greater than the base, the farmer elects which planted acres to enrol in ACRE. In this respect, the ACRE programme is a closer match with current plantings than both the DP and CCP programmes, which use historical base acres for calculating payments.

In addition, as a condition for the farm's enrolment in ACRE, all CCP payments are given up, the *direct payments* it receives are based on 80% of the legislated direct payment rate and *marketing loan rates* are based on 70% of the legislated national marketing loan rate. The programme applies to all DCP crops on the farm, and payments for each crop are calculated separately. A farmer who operates more than one farm administrative unit is permitted to enrol (or not enrol) each one separately in ACRE. Importantly, once a farm is enrolled, all the crops on the farm come under the programme and must remain so for the duration of the 2008 Act. Enrolment can begin in any of the years from 2009-12.

Another key feature of ACRE is that, by using a recent average of farm prices and yields for calculating the programme guarantees, the programme provides a moving income support level, rather than one that is fixed over time, as occurred under traditional programmes. As a result, the guarantee level for a given year depends on the prices and yields in the years immediately preceding it. Also, to prevent a rapid increase or decrease, the programme guarantee cannot change more than 10% from year to year.

The Upland Cotton Economic Adjustment Assistance Program

The 2008 Farm Bill introduces a new provision, the Upland Cotton Economic Assistance Program, to provide adjustment assistance to US users of upland cotton (cotton millers), whether it has been domestically produced or imported. From 1 August 2008 to

31 July 2012, economic adjustment assistance equal to USD 88 per tonne will be provided to domestic users of upland cotton for all documented use during the previous month, regardless of the cotton's place of origin. The payment rate will be reduced to USD 66 per tonne on 1 August 2012. Support can be used only for acquisition, construction, installation, modernisation, development, conversion, or expansion of land, plant, buildings, equipment, facilities, or machinery.

Payment limits

Two types of payment limits exist for farm commodity programmes: one sets the maximum amount of farm programme payments that one person can receive annually; the other sets the maximum amount of income that an individual can earn, while still remaining eligible for programme benefits.

The 2008 Farm Act makes several changes to payment limits, some by tightening the limits and others by relaxing them. Limits are tightened by *a)* reducing the Adjusted Gross Income (AGI) limit, *b)* eliminating the "three-entity rule", which allowed individuals to double their payments by having multiple-ownership interests and *c)* requiring "direct attribution" of payments to a living person instead of to a corporation general partnership, etc.

Regarding the maximum amount of payments permitted, the 2008 Farm Act sets the ceiling for DP at USD 40 000 and for CCP payments at USD 65 000. ACRE payments do not have a separate payment limit: instead, the limit for CCP is adjusted to account for the 20% reduction in DP under ACRE. Specifically, for ACRE revenue payments, the limit is the sum of the CCP limit (*i.e.* USD 65 000) plus the 20% reduction amount in DP; for DP, the limit is the difference between the DP limit of USD 40 000 per person minus the 20% reduction in DP.[4] The total amount of payments must be attributed to one specific person. Payment limits on marketing loan benefits and loan deficiency payments are abolished.

Under the 2002 Farm Act an exception to the AGI limit was made in cases where a certain proportion of income has been earned from farming sources: this exception is now revoked, and a distinction is made between adjusted gross non-farm income and adjusted gross farm income. If a three-year average of non-farm adjusted gross income exceeds USD 500 000, then no programme benefits are allowed (DP, CCP or marketing loan assistance). Higher-income producers, with an adjusted gross farm income of more than USD 750 000 (averaged over 3 years), are not allowed DP, but continue to receive CCP and marketing loan assistance benefits.

Planting flexibility for fruits and vegetables for processing

As described above, under the DP and CCP, farmers may plant crops other than the programme crop and still be entitled to receive direct payments – this is known as planting flexibility. Recipients of these payments are, however, prohibited from planting fruits, vegetables and wild rice (excluding mung beans, lentils and dried peas) on programme crop base acres, unless the farm/farmer had a history of planting these commodities on programme crop base acres, although payments were reduced acre-for-acre on such plantings. Double cropping of fruit, vegetables and wild rice was permitted without loss of payments if region had a history of such double cropping.

The 2008 Farm Act retains the overall provision on planting restrictions for fruits, vegetables and wild rice, excluding mung beans and pulse crops (dried peas, lentils and small and large chickpeas) on base area. Beginning in 2009, the 2008 Farm Act creates a

pilot planting flexibility programme for fruits and vegetables for processing in seven mid-western states. Farmers in these states are allowed to plant base area to cucumbers, green peas, lima beans, pumpkins, snap beans, sweet maize and tomatoes grown for processing. Their base acres are temporarily reduced for the year concerned (resulting in lower direct and counter-cyclical payments), but restored for the following crop year. Participation is limited to producers with processing contracts, and the amount of acreage eligible for the programme is limited for each state.

Insurance and natural disaster payments

The federal government provides subsidised insurance coverage against losses caused by natural disasters, price fluctuations and revenue shortfalls for crops. Livestock losses, in general, have not been eligible for federal crop insurance, except under several pilot programmes offered in certain geographic areas by USDA's Risk Management Agency (RMA).[5] However, livestock losses due to drought or other natural disasters have been eligible for *ad hoc* emergency assistance, mainly to help livestock producers to defray the cost of purchasing off-farm feed.

Under the Federal Crop Insurance Program, producers may select between yield or revenue insurance. Insured producers receive a payment when actual yield or revenue falls below an expected level. In recent years, an increasing proportion of risk protection has been provided by revenue insurance, which protects against shortfalls in both yields and prices.

Producers participate in the Federal Crop Insurance Program on a voluntary basis. Crop insurance is delivered to producers through private insurance companies, which are partially reimbursed for their delivery expenses and receive underwriting gains in years of favourable loss experience. The government costs associated with the Federal Crop Insurance Program include: premium subsidies to producers; indemnity (in excess of *premia*); underwriting gains paid to private companies; reimbursements to private companies for delivery and other administrative expenses.

Coverage levels range from catastrophic risk coverage (50% of yield, indemnified at 55% of expected price for the 1999 and subsequent crop years), for which the producer pays none of the premium, to additional or "buy-up" coverage, which provides a higher level of cover (up to 75%, or in some cases 85%, of expected yield or revenue), for which the producer pays a portion of the premium. The Federal Crop Insurance Corporation (FCIC) pays the balance of the premium.

The agricultural commodities eligible for insurance are predominantly crops (as opposed to livestock). According to the USDA, in 2008 the Federal Crop Insurance Program provided coverage to over 100 crops, covering more than three-quarters of planted acreage in the country (286 million acres). Although the list of covered commodities has grown in recent years, 80% of total policy premiums (and federal subsidies) are accounted for by just four commodities – maize, soybeans, wheat and cotton.[6]

The total cost to the federal government of the crop insurance programme averaged USD 3.7 billion per year between 2004 and 2008. In 2008, around 60% of the policies sold were revenue products. Of the USD 4.4 billion of actual total government costs in 2008, nearly 84% (USD 3.7 billion) was for producer premium subsidies and payments to the private insurance companies to deliver the programme and the remaining

(USD 732 million) was for net indemnities to producers (gross indemnities minus producer paid *premia*) (USDA, *FY 2010 Budget Summary and Annual Performance*).

The 2008 Farm Act formalises the *ad hoc* measures used to provide disaster assistance by establishing an Agricultural Disaster Relief Trust Fund to finance agricultural disaster assistance to be available on an ongoing basis over the FY2008-FY2011 period through five new programmes. The Congressional Budget Office estimated the total cost of the Trust Fund to be around USD 3.8 billion over the four years and is funded from 3.08% of the duties received under the Harmonised Tariff Schedule.

The Supplemental Revenue Assurance Program (SURE), which is the largest of the five programmes funded by the Trust Fund, is designed to supplement the protection producers can purchase from private crop companies. It provides assistance to eligible crop producers on farms in primary and contiguous "disaster counties", as designated by the Secretary of Agriculture, or for farms in other counties on which weather-related losses exceeded 50% of the normal revenue for all crops for the year concerned. Additionally, at least one crop on the farm must suffer a production loss (yield or quality) of 10% or more for the farm to qualify to receive a payment.

Unlike previous natural disaster assistance programmes, SURE encompasses the entire farm and all the crops produced on it in determining a target level of revenue. It provides payments at 60% of the difference between a target level of revenue and the actual total farm revenue for the entire farm. The target level of revenue is based on the amount of crop insurance coverage selected by the farmer: 115% of the insurance protection purchased, or 120% of the Non-insured Assistance Program coverage signed up for on the farm, but it may not exceed 90% of the farm's expected revenue.

Total farm revenue includes the actual value of crop production; insurance indemnities; any other disaster assistance; 15% of the Direct Payments for the farm; all loan deficiency payments and marketing assistance Loan Benefits; and all Counter-cyclical and ACRE payments. In addition, SURE participation requires insurance for all crops – with an exception made for 2008, when producers had the opportunity to obtain a waiver through a buy-in provision.

The other four additional disaster programmes authorised under the 2008 Farm Act aim to provide assistance to livestock, forage, and orchard and nursery tree producers until FY2011: *i)* the Livestock Indemnity Payments Program, which compensates ranchers at a rate of 75% of market value for livestock mortality caused by a disaster; *ii)* the Livestock Forage Disaster Program, to assist ranchers who graze livestock on drought-affected pasture or grazing land; *iii)* the Tree Assistance Program, which entitles orchard and nursery growers to receive a payment to cover 70% of the cost of replanting trees or nursery stock following a disaster (up to USD 100 000 per year per producer); and *iv)* the Emergency Assistance for Livestock, Honey Bees and Farm Raised Fish Program, which provides up to USD 50 million to provide assistance for a number of disaster losses not covered under other disaster programmes.

The first three programmes are similar in application and benefit levels to previous *ad hoc* disaster programmes. Except for the Livestock Indemnity Program, these programmes require prior insurance from either crop insurance or the non-insured crop disaster assistance programme. Arrangements apply from 2008 to 2012, but farmers who had not taken out crop insurance for 2008 (when the new Farm Act came into force) had the option to buy into the programme for 2008 by paying an administrative fee.

Other commodity provisions

To address the issue that is often raised of farm programmes making payments to non-farmers, or making payments for land that is not in production, two provisions were created. First, DP, CCP and ACRE payments to farms with fewer than four hectares are now prohibited, unless the farm is owned by a socially disadvantaged or limited-resource farmer or rancher.[7] Second, the base area is eliminated on land that has been sub-divided into multiple residential units or other non-farming uses. Prior Farm Acts had eliminated base acreage only for land developed for non-agricultural commercial or industrial use.

3.2. Sugar support policies

Policy background

The United States is a large net sugar importer. Support and protection for the US sugar sector is substantial. In fact, in percentage terms, sugar is the sector that receives the highest level of support in the United States, with SCT of 28% over 2006-08 (Figure 2.6). Whereas support to programme crops (discussed earlier) is primarily financed through budget outlays, support for sugar is provided primarily by maintaining domestic market prices at levels that are well above world market prices. In other words, the high level of support received by the US sugar industry is funded directly by sugar users, who pay domestic market prices far in excess of world market prices. OECD calculations show that, for 2006-08, the price paid by US sugar users was, on average, as much as 65% higher than the world price.

The origin of the current sugar support programme can be traced back to the legislation in the Agricultural and Food Act of 1981. The sugar support programme has since been re-authorised, and some modifications have been made in successive Farm Acts. Recent Farm Acts have stipulated that the programme should operate to the maximum extent at no cost to the government by avoiding forfeiture of sugar to the government's stock management agency (the CCC).

Key elements of the sugar support programme include:

- domestic price support through the loan rate;
- supply control to limit the amount of sugar marketed by processors through "marketing allotments" ;
- trade restrictions on imports of sugar through tariff-rate quotas (TRQs); and
- the sugar-for-ethanol programme, created under the 2008 Farm Act, whereby sugar intended for food-use, but deemed to be in surplus, is diverted to ethanol production.

Domestic price support

A key objective of the support policy for sugar is to maintain internal US prices above the price at which processors would have the incentive to forfeit sugar under loan to the CCC. Under the 2008 Farm Act, price support loans are extended to sugar processors who meet certain requirements concerning the transmission of benefits from the programme to producers of sugar cane and beet. Through the CCC the government provides loans to processors of domestically grown sugar crops to enable them to hold stocks. Raw cane sugar and refined beet sugar are pledged as collateral. The loans are "non-recourse", meaning that millers or processors have the option of forfeiting sugar to the CCC, should market prices be insufficient to enable them to repay the loan.

Loan rates for raw cane sugar have not changed since 1985; and for refined beet sugar, not since 1992. The loan rates for sugar cane are to be raised progressively, from USD 397 per tonne in FY 2008, to USD 413 per tonne by FY 2011. For refined beet sugar, the 2008 loan rate remained at its previous level of USD 505 per tonne. From FY2009 to FY2012, the rate was set at 128.5% of the rate for raw cane sugar, bringing it up to USD 531 per tonne in FY2011 and FY2012.

Supply control

Sugar sold in the United States for human consumption by domestic sugar beet and sugar cane processors is subject to mandatory limits – so-called "marketing allotments" – as a way to guarantee the sugar loan programme operates at no cost to the federal government.

In the 2008 Farm Act, marketing allotments are designed to secure a minimum of 85% of domestic consumption for the domestic sugar sector. During the course of the marketing year, USDA is required to adjust allotment quantities to avoid the forfeiture of sugar under certain circumstances.

Overall allotment quantity allocations are divided between refined beet sugar (54.35% of the overall quantity) and raw cane sugar (45.65%), although the allocations can be adjusted during the year to compensate for short supplies of either beet or cane sugar. Beet sugar processors are assigned allotments based on their sugar production in crop years 1998-2000. The 2008 Farm Act sets out allocation conditions for new entrants and for the sale of factories between processors. It also states that sugar forfeited to the CCC counts against marketing allotments made in the year in which the loan to the processors was made. This makes it impossible to forfeit sugar that is in excess of a processor's allotment at the end of the marketing year.

Tariff rate quotas

At the outset, it should be noted that the trade policies that constitute a major feature of US sugar policy are not included in the Farm Act because tariffs are set under legislation that implements international trade agreements. US commitments under international trade agreements affect the level and allocation of TRQs. Under the WTO Uruguay Round Agreement on Agriculture, the United States should maintain access to at least 1.139 million metric tonnes (raw value) a year, comprising 1.117 million metric tonnes of raw sugar and 22 000 metric tonnes of refined sugar, using TRQs.

Tariff rate quotas permit imports up to the stipulated levels to enter at duty rates that are below the rates that would otherwise apply. Tariffs on over-quota imports of sugar are high, in order to maintain high internal support prices without the need for excessive government stockholding. The in-quota tariff for sugar is equal to USD 13.8 per tonne. The over-quota tariff is USD 338.7 per tonne for raw sugar and USD 357.4 per tonne for refined sugar. In addition to the over-quota tariffs, there are safeguard duties based on the value or quantity of the imported sugar. Currently, these duties are based on value. As of January 2008, sugar imports from Mexico are duty-free under NAFTA and are not subject to quota restrictions.[8]

The TRQ for raw cane sugar is allocated to about 40 countries; the TRQ for refined and specialty sugar is allocated to Canada, with an additional portion made available to all countries on a first-come, first-served basis (WTO, 2009). For FY2010, TRQs on imports of

raw sugar are established at the minimum amount to which the United States is committed under the WTO Uruguay Round Agreement on Agriculture (*i.e.* 1.117 million metric tonnes). For refined and specialty sugar, the TRQ was set at 90 039 metric tonnes (99 251 short tons raw value). This amount includes the WTO minimum amount of 22 000 metric tonnes, of which 1 656 metric tonnes are reserved for specialty sugar, as well as an additional 68 039 metric tonnes for specialty sugar to accommodate a rapidly expanding organic food sector.

The United States also operates the Refined Sugar and Sugar-Containing Products Re-Export Programs to allow US refiners and food manufacturers to be more competitive in the global markets for refined sugar and sugar-containing products.

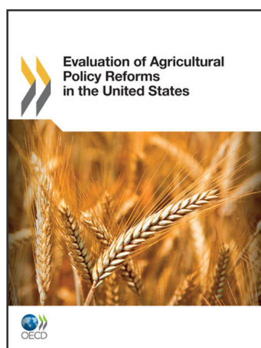
Sugar-for-ethanol programme

This new programme, called the “Feedstock Flexibility Program”, aims to address the potential for a US sugar surplus (and the resulting loan forfeitures) caused by unrestricted imports from Mexico, under NAFTA, and from other countries, under other free trade agreements, by diverting sugar from food use to ethanol production.

More specifically, USDA is now required to purchase US-produced sugar in quantities roughly equal to the amount of excess imports, in order to avoid forfeitures of sugar under loan to the CCC. The sugar purchased must then be sold to bio-energy producers for processing into ethanol. Purchases of sugar from processors would be made through competitive bids, at prices not lower than support levels under the sugar programme. USDA’s CCC will provide open-ended funding for this programme, in order to ensure the no-cost requirement of the sugar programme.

Notes

1. Sugar processors are eligible to receive non-recourse loans, but are not eligible for marketing loan benefits.
2. The CCC is a federal corporation operated by USDA and manages most financial transactions for federal commodity programmes.
3. While national-level loan prices are set by the Farm Act, USDA adjusts the national average loan rate to local (usually county) loan rates to reflect spatial difference in markets and transportation.
4. This same amount is added to the USD 65 000 limit for CCP/ACRE payments. The total limit (USD 40 000 plus USD 65 000 = USD 105 000) can be effectively doubled to a combined USD 210 000 for a sole proprietor’s farm should he/she have a spouse.
5. For example, RMA enables some producers to purchase income insurance protection against losses of pasture, rangeland and forage.
6. Over 90% of the cotton-producing area is covered by federal crop insurance.
7. This provision would also result in reducing the cost of the programme.
8. The USITC (2007) study estimates that the removal of barriers on imports of raw and refined sugar would expand imports of these two products by 281% and 553%, and increase national welfare by USD 811 million.



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