# INTERNATIONAL SUGAR TRADE COALITION, INC.

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November 14, 2023

Mr. Trevor White
House Committee on Agriculture
1301 Longworth House Office Building
Washington, D.C. 20515

Mr. Clark Ogilvie
House Committee on Agriculture
1010 Longworth House Office Building
Washington, D.C. 20515

Re: GAO Report and Sugar TRQ

Dear Trevor and Clark:

As you are no doubt aware, on October 31, 2023, the Government Accountability Office (GAO) issued a report criticizing the U.S. sugar program and the U.S. tariff rate quota (TRQ) on sugar, and urging the U.S. Trade Representative (USTR) and the U.S. Department of Agriculture (USDA) to consider modifying the allocation of the TRQ. We are writing to present the views of our members[1] on the GAO Report, and to urge Congress to oppose GAO's proposed changes to the TRQ allocation scheme. Instead, we reiterate our prior recommendation that Congress should amend the Farm Bill to mandate implementation of TRQ shortfall reallocation annually at the same time the TRQ is announced.

GAO's critical views on the U.S. sugar program are based in large part upon the false conclusion that the sugar program adds costs to the economy generally and to consumers in particular by comparing the U.S. sugar market price with the world market price. But the world market price is not a meaningful benchmark as it is below the cost of production in almost all countries, including the United States in most years. The vast majority of the sugar produced in the world is consumed in the same country where it was produced. Only relatively small volumes of sugar are traded on the so-called world market, which in fact is a market of last resort for surplus sugar, which is dumped below the cost of production to lower marginal cost. If GAO's policy goal is to bring the U.S. market price down to the level of the world market price, it would drive most of the U.S. sugar industry out of business. In the long run, this would not be in the interest of U.S. consumers and is the opposite of "food security." GAO's failure to grasp this critical point about the world sugar market has led it to false conclusions concerning the U.S. sugar program.

Starting from these false conclusions, GAO urges USTR and USDA to evaluate whether alternative TRQ allocation schemes exist, and if so, whether they would be more efficient than the current system. But this is a *non sequitur* because the TRQ allocation scheme plays only a minor role

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[1] The International Sugar Trade Coalition (ISTC) is an association of sugar industries in countries that hold allocations under the U.S. raw sugar TRQ. ISTC's members account for about half of the TRQ. The members of ISTC are the sugar industries of Barbados, Belize, the Dominican Republic, Eswatini, Fiji, Guyana, Jamaica, Malawi, Mauritius, Panama, the Philippines, and Zimbabwe.

in the supply of sugar and, therefore, the price of sugar in the U.S. market. In fact, changing the TRQ allocation system would fix a problem that does not exist because the TRQ regularly fills to a level of at least 90%. This is because of the current system of annual TRQ shortfall reallocation. During the course of the quota year, USDA regularly polls the quota holders to ascertain whether they will fill their respective TRQ allocations. The quota shares assigned to those that cannot perform are reallocated among the quota holders that can perform. This system works well.

Just 7% of the TRQ totaling 78,071 metric tons (MT) is assigned to countries that regularly do not perform: Congo, Cote d'Ivoire, Gabon, Haiti, Madagascar, Papua New Guinea, St. Kitts & Nevis, Taiwan, Trinidad & Tobago, and Uruguay. Most of these non-performing quota holders are assigned the so-called "minimum boatload" allocation of 7,258 MT, which is extremely inefficient to ship. In addition, in any given year other quota holders may experience drought, crop failure or other *force majeure* events that prevent them from performing. In a typical year, the total TRQ shortfall is approximately 100,000 MT, which USDA reassigns to other quota holders that are able to ship.

The only problem with the current TRQ shortfall reallocation system is that the reallocation has typically been done relatively late in the quota year – usually in May or June - which makes it difficult to impossible for those countries reassigned small additional volumes to arrange shipment on short notice and after they have already shipped their base allocation. If the shortfall reallocation were done at the same time that the TRQ is announced (typically in August or September), the amount of the shortfall reallocation would be shipped with the base allocations already assigned to those countries that have sugar available. This would maximize the amount of the shortfall reallocation that actually enters and increase the TRQ fill level. Moreover, earlier shortfall reallocation would not increase the administrative burden on USDA. Rather, it would simply move up the time the polling of the quota holders is done and the results of the reallocation are announced.

In short, the relatively small TRQ deficit can be ameliorated by a much less disruptive solution than those proposed by GAO: mandatory shortfall reallocation at the time the TRQ is announced. ISTC has previously submitted proposed draft legislative language to mandate TRQ shortfall reallocation. For ease of reference, a copy of that draft language is enclosed.

For all these reasons, we respectfully urge Congress to oppose GAO's proposed permanent changes to the TRQ allocation system, and instead to mandate annual TRQ shortfall reallocation at the same time the TRQ is announced. Thank you for considering our views on this important issue.

Respectfully submitted,

Paul Ryberg
President

Enclosure