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CAFTA’s Projected Impact on U.S. Sugar

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The Central American Free Trade Agreement (CAFTA) is a trade agreement between the United States and Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and the Dominican Republic. Trade representatives from these Central American countries signed CAFTA in August 2004, and the Dominican Republic joined in 2005 (it is now officially abbreviated CAFTA-DR). CAFTA is targeted at reducing or eliminating trade barriers among the countries for many sectors, including information technology, agriculture, construction, pharmaceuticals, automobiles, medical equipment, and services.

In agriculture, corn, wheat, rice, soybeans, poultry, pork, beef, dairy, fruits, and vegetables are expected to benefit from CAFTA. The House just approved the agreement, a month after the Senate passed the bill, and CAFTA is now headed for the president’s signature.

SUGAR, PAST AND PRESENT

One area of CAFTA that has received a great deal of attention is the sugar agreement. The Central American countries and the Dominican Republic will eliminate their sugar tariffs over 15 years. The United States will establish additional tariff rate quotas (TRQs) for the CAFTA countries, starting with an additional 107 thousand metric tons in the first year and adding 2.64 thousand metric tons each year thereafter. The United States is also allowed to provide alternative forms of compensation to limit some sugar imports for stock management purposes.

The U.S. sugar industry had lined up in opposition to CAFTA. To look at the impact of this agreement on the U.S. sugar industry, we examined the historical, current, and projected sources of sugar for U.S. sugar utilization (consumption, stock changes, and exports). Figure 1 shows the breakdown for 1997. Total U.S. sugar utilization was 9.98 million short tons. U.S. sugar production accounted for 72 percent of this amount, while imports made up 28 percent. The CAFTA countries provided 6 percent of the sugar. Figure 2 shows the current situation. Total U.S. sugar utilization is 10.11 million short tons. Domestic production covers 83 percent, CAFTA country imports make up 3 percent, and other imports contribute 14 percent. Sugar imports from CAFTA countries fell from 661 thousand short tons in 1997 to 344 thousand short tons in 2005.

SUGAR FUTURE, WITH AND WITHOUT CAFTA

Figures 3 and 4 show projections for 2014. In Figure 3, the projections do not include the effects of CAFTA. U.S. sugar production covers 81 percent of U.S. sugar utiliza-
tion, while CAFTA countries supply 3 percent. The Figure 4 projections include the effects of CAFTA and assume 2014 is the eighth year of the agreement. This implies a total sugar TRQ for the CAFTA countries of 488 thousand short tons in 2014. If the additional CAFTA imports directly replace U.S. production, the impact of CAFTA on the U.S. sugar market is a 1 percent shift in market share from domestic production to the CAFTA imports. Assuming that sugar loan rates remain at their current levels, the biggest shift would be in government stock holdings of sugar. In a March 2004 report, the USDA’s Economic Research Service analyzed a much larger sugar TRQ expansion for the Free Trade Area of the Americas. This study found that imports rose with the TRQ expansion, U.S. production fell by nearly the same amount (mainly because of use of USDA’s Payment-in-Kind Diversion Program), government sugar stocks increased, and prices remained at similar levels. This implies that there will be no impact on U.S. sugar prices under CAFTA. Figure 5 shows that the U.S. sugar price will remain far above the price at which we could import with or without CAFTA.

**Figure 3. Projected Breakdown of U.S. Sugar Utilization in 2014 by Source, Assuming No CAFTA**

2014 U.S. Sugar Utilization
= 10.56 Million Short Tons

- U.S. Production: 81%
- Imports from CAFTA Countries: 16%
- Other Imports: 3%

**Figure 4. Projected Breakdown of U.S. Sugar Utilization in 2014 by Source, Assuming Passage of CAFTA**

2014 U.S. Sugar Utilization
= 10.56 Million Short Tons

- U.S. Production: 80%
- Imports from CAFTA Countries: 16%
- Other Imports: 4%

**Figure 5. U.S. and World Sugar Prices and Projections**

Source: FAPRI.