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IMPLEMENTATION OF THE INTERNATIONAL SUGAR AGREEMENT, 1977

MARCH 26 (legislative day, JANUARY 3), 1980.—Ordered to be printed

Mr. LONG, from the Committee on Finance, submitted the following

REPORT

[To accompany H.R. 6029]

The Committee on Finance, to which was referred the bill (H.R. 6029) to implement the International Sugar Agreement, 1977, and for other purposes, having considered the same, reports favorably thereon without amendment and recommends that the bill do pass.

I. SUMMARY

H.R. 6029 would grant the President the authorities necessary to carry out the obligations of the United States under the International Sugar Agreement of 1977 (1977 ISA), a treaty which has been accepted by nearly 60 sugar producing and sugar consuming nations, including the United States, as a means of stabilizing world sugar prices to the advantage of both sugar producers and consumers. The Senate gave its advice and consent to ratification of the treaty on November 30, 1979, and the President ratified the treaty on January 2, 1980. This legislation would empower the President to carry out U.S. obligations under the agreement principally by regulating the entry of sugar by appropriate means when required to do so pursuant to the terms of the agreement, and by authorizing a Presidentially prescribed system of reports and records. The bill would also require semiannual reports by the President to the Congress on the operations of the ISA, and reaffirm that the President protect consumers' interests, as well as producers' interests.

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II. General Explanation

BACKGROUND

World sugar trade and early sugar agreements.—International trade in sugar amounts to only about one-fourth of world production. Approximately two-fifths of international trade in sugar occurs under "special arrangements" (i.e., government to government arrangements fixing prices and other terms of trade) and about three-fifths in a "free market." Most sugar not entering international trade is subject to some form of governmental control on price or supply.

Until 1974, the United States controlled supply through the allocation of estimated consumption requirements among specified domestic and foreign suppliers under a series of Sugar Acts. As a result of this quota program, the U.S. market was isolated to a large degree from the vagaries of world sugar trends; U.S. prices were generally higher than world-market prices and suppliers generally tried to fill fixed quotas allocated to them annually under the sugar law.

The so-called free market for sugar sold in nonpreferential international markets has been subject to considerable volatility of price and supply, as it bears the brunt of the world supply variations. In times of abundant supply this market becomes a distress market for subsidized exports or for surplus sugar from countries that normally sell a substantial part of their exports under special arrangements. By the same token, if there is a world production shortfall, free-market consumers suffer disproportionately, because many producing countries give priority to filling the demand of their home markets and countries with which they have special arrangements.

Chief exporters to the free market have been Australia, the Philippines, Cuba, Brazil, the European Community, Thailand, the Dominican Republic, India, and South Africa. The chief importers have been the United States, Japan, Canada, the U.S.S.R., most of the Middle Eastern countries, and many other countries that produce little or no sugar themselves. The United States and many of its leading suppliers became dependent on the free market after the expiration of the U.S. Sugar Act.

For over a century there have been attempts by world producers and users of sugar to keep the free market from becoming a distress market. The latest attempts to stabilize the world market were a series of International Sugar Agreements beginning in 1937. The United States was a member of the 1937 agreement and some of the agreements negotiated in the 1950's, but was not a member of the 1968 agreement. In any event, U.S. participation in the earlier ISA's had been largely pro forma, because all U.S. trade continued to be regulated by domestic Sugar Acts.

The agreement of 1968 was effective for the period 1969–73. It allocated export quotas to countries normally exporting to the world market, with the level of the quotas varying with world-market prices. Exporting member countries agreed to maintain buffer stocks (accumulated when prices were low) and to give preferential treatment to importing member countries when prices rose. All signatory countries agreed to remove obstacles which restricted consumption, and signatory importing countries also agreed not to buy sugar from nonmembers when prices were low. However, prices during much of the

period were too high for the accumulation of buffer stocks. Quotas were suspended in 1972 and 1973 when world-market prices rose ultimately to very high levels. A new agreement was negotiated in 1973 with no termination date, but it contained no market-regulatory provisions because of a failure by participating countries to agree on prices. The agreement provided for little more than the gathering of statistics and a forum for the negotiation of a new agreement.

1977 ISA.—A new International Sugar Agreement was negotiated in 1977 to which the United States is a party and which H.R. 6029 provides authority to the President to implement. Final agreement on the 1977 ISA was reached on October 7, 1977. The agreement, to run for 5 years, went into effect provisionally on January 1, 1978. Following Senate advice and consent to ratification of the 1977 ISA on November 30, 1979, the President ratified the 1977 ISA on January 2, 1980, and the agreement entered into force definitively on that date. The agreement expires on December 31, 1982.

The purpose of the 1977 ISA is to stabilize the price of sugar in a 10-cents range set by the governing bodies under the agreement. The present range is from 11 to 21 cents per pound. These prices would be supported under the agreement by export quotas in exporting countries when prices are in the lower part of the range and, in some cases, by import controls in consuming countries on imports from nonmembers of the agreement. Further, there is a system for exporting members to accumulate stocks, with the cost of holding such stocks to be partially financed by a fee on each pound of sugar traded under the agreement; the fee is to be paid by traders to a 1977 ISA fund and payment of the fee is to be evidenced by "certificates of contribution" that must accompany other customs documents when sugar is entered into consuming member countries. When prices rise into the middle of the price range under the agreement, export quotas are suspended, and if prices reach the upper part of the price range, stocks that have been accumulated would be released, tending to dampen price increases.

Under the terms of the agreement a global quota is established annually at the level of estimated free-market demand. The quota is distributed among exporting members approximately in accordance with each country's recent export performance to the free market. When the price of sugar falls below 14 cents per pound (world basis), the global quota becomes effective and a country may not export quantities in excess of its distributive share of the quota or its minimum export entitlement set for that country in the agreement (and also based on recent export performance), whichever is higher. When the market price moves below 13, 12, and 11.5 cents per pound, the global quota will be reduced by 5 percent at each level, with a concomitant reduction in each country's share of the quota. If the market price remains below 11 cents per pound for 75 consecutive market days, there will be a further 2.5 percent cut in the global quota. When the market price moves above 13, 14, and 14.5 cents per pound the global quota will be increased by 5 percent at each level. At 15 cents per pound there can be no quota restriction.

The agreement provides for a buffer stock of 2.5 million metric tons to be built up during the first 3 years of the agreement when quotas are in effect in the lower part of the price range. Each exporting country will set aside a quantity for the buffer stock pro rata to its individ-

ual basic export tonnage. During the first 2 years of the agreement, 40 percent of the total obligation is to be set aside in each year, and the remainder is to be set aside in the third year in which quotas are in effect. Exporting countries are supposed to give priority to establishing special stocks over their annual export quotas. Certain small exporting members are not required to hold special stocks. A stock financing fund, a part of the agreement, will provide interest free loans of 1.5 cents per pound annually for sugar held under the buffer stocks provisions. The stock financing fund will be constituted through the sale of "certificates of contribution." These will be sold at the initial rate of 0.28 cents per pound. The certificates must accompany other customs documents when the sugar is entered into consuming countries. The certificate may be purchased by the importer or the exporter. Importing countries are under no obligation to collect or pay the contribution, but are obliged to deny entry to imports not accompanied by certificates.

When the price is between 15 and 19 cents, the free market will operate. Quotas will not be in effect and the buffer stock will not be added to nor drawn down.

To defend the ceiling price, the agreement uses a system of releasing the nationally held reserve stocks. When the price reaches 19 cents per pound, one-third of the stocks will be released and shipped to the free market. At 20 cents a further third will be released. If the price should continue to rise, the final third will be released at the ceiling price of 21 cents per pound. Upon release of stocks, the interest free loans provided by the stock financing fund must be repaid.

The 1977 ISA establishes the International Sugar Council, consisting of all the members of the agreement, as the highest authority of the International Sugar Organization to exercise all the powers necessary to carry out agreement provisions. Quota adjustments, the price range, and stock disposals described above may be altered by action of the Council of the Agreement. Vote distribution on the Council allows the United States and other major consuming countries to block proposals that might be detrimental to importer interests.

The agreement makes provision for hardship reserves, declaration of shortfalls, and shortfall reallocations as in past agreements. Importing members are obligated to restrict quantities of sugar that can be imported from nonmember countries. When market prices are below 11 cents per pound, nonmember imports will be restricted to 55 percent of these imports, and when prices are above 11 cents per pound, to 75 percent. No restrictions will apply when prices are above 21 cents per pound, but will be reinstated when prices fall below 19 cents per pound.

Actions under the 1977 ISA.—The agreement came into force witl quotas in effect, and these quotas were maintained through 1979, as prices remained depressed below the 11 cent minimum through the first half of 1979. In the fall of 1979, world sugar prices began to run up. By mid-November, the ISA "prevailing price" (15-market-day-average) had reached the specified level of 13 cents to permit an increase in the global quota. Because under the 1977 ISA quotas may

not be increased in the last 45 days of a quota year, no action was taken to adjust the global quotas at that time; but the restrictions on imports of sugar from non-members were relaxed slightly, and shortfalls in export quotas were redistributed (as allowed by the agreement at 11- and 12-cent-per-pound trigger points, respectively).

As the ISA prevailing price reached higher levels in December 1979 and in January 1980, increases in the ISA sugar export quotas were triggered. On January 11, the Executive Committee of the International Sugar Organization Council suspended export quotas altogether, thereby freeing the export of sugar by member countries (except for buffer stocks). As of December 31, 1979, special (buffer) ISA stocks were reported at close to 2 million tons, the quantity required by the ISA. These entire stocks have been released, as the ISA's "prevailing price" exceeded 21 cents and remained above 21 cents for 5 consecutive market days in early 1980.

PRESENT LAW

Under present law, there are two systems of controls which have been used with respect to sugar imports, neither of which was designed to implement the ISA and each of which is inadequate to permit full implementation.

Under the provisions of section 22 of the Agricultural Adjustment Act of 1933, as amended (7 U.S.C. 624), if the Secretary of Agriculture has reason to believe that any article or articles are being, or are practically certain to be, imported into the United States under such conditions and in such quantities as to render or tend to render ineffective, or materially interfere with any loan, purchase, or other program or operation conducted by the U.S. Department of Agriculture, or to reduce substantially the amount of any product processed in the United States from any agricultural commodity with respect to which any such program is undertaken, he will so advise the President.

If the President agrees that there is reason for such belief, he will cause an immediate investigation to be made by the U.S. International Trade Commission with a report to him of its findings and recommendations. Following receipt of the Commission's report, the President may impose either an import quota or an appropriate import fee (not in excess of 50 percent ad valorem) to alleviate the interference. In any case where the Secretary of Agriculture determines and reports to the President that a condition exists requiring emergency treatment, however, the President may take immediate action under section 22 without awaiting the recommendations of the U.S. International Trade Commission, such action to continue in effect pending the report and recommendations of the U.S. International Trade Commission and action thereon by the President.

Under the Tariff Schedules of the United States (headnote 2 of subpart A of part 10 of schedule 1), a quota or duty may be imposed on sugar imports by the President in periods when a domestic sugar act is not in effect and he finds that such a quota or duty will give due consideration "to the interests in the United States sugar market of domestic producers and materially affected contracting parties to the General Agreement on Tariffs and Trade."

The committee adopted, without amendment, the provisions of H.R. 6029 as it passed the House. In both 1978 and 1979, the committee held hearings on and reported legislation containing provisions similar to those contained in H.R. 6029 as well as other provisions. While these other provisions proved controversial, the provisions relating to implementing the 1977 ISA have not been.

The bill sets forth three explicit authorities for the President to implement the 1977 ISA. These include authority (a) to regulate the entry of sugar by appropriate means, including, but not limited to, restricting the entry of sugar from countries, territories, or areas not members of the International Sugar Organization, and prohibiting entry without a valid certificate of contribution or other documentation required under the ISA; (b) to require appropriate persons to keep records, statistics, and other information and submit reports, relating to the entry, distribution, prices, and consumption of sugar and alternative sweeteners as may be prescribed; and (c) to take other action, including issuing and enforcing regulations, as may be necessary or appropriate to implement the rights and obligations of the United States under the ISA. These powers may only be used under the bill "in order to carry out and enforce the provisions of the agreement." The bill would make it a crime, punishable by a fine of not more than $1,000, to fail to keep any required information or to fail to submit a required report; to submit a knowingly false required report; or to violate a rule or regulation promulgated pursuant to the act.

A biannual (May 1 and November 1) report to Congress on the operation and effect of the 1977 ISA is required under the bill. It must at a minimum contain—unless this information is regularly available elsewhere in a Government report—information on and projections of world and domestic sugar demand, supplies and prices, and a summary of international and domestic actions under the ISA and U.S. law to protect the interests of U.S. consumers and producers of sugar.

The bill provides that the President is to exercise his authorities as he considers appropriate to protect U.S. consumer interests. If the President determines that there has been an unwarranted price increase due in whole or in part to the ISA, or to market manipulation by members of the ISA, the President shall request the various governing boards of the ISA to take off-setting actions to increase sugar supplies. If the International Sugar Council fails to take corrective action within a reasonable period of time after such a request, the President shall submit to Congress recommendations on ways to correct the situation. Further, if those who have been engaged in market manipulation which has increased prices fail to take corrective actions within a reasonable period of time, the President shall suspend the exercise of the authorities provided under the bill to implement the ISA until such market manipulations have ceased.

REASONS FOR THE BILL

The 1977 ISA has been ratified by the United States. The implementation of the agreement will enable the United States to help re-

duce fluctuations in sugar prices that hurt both producers and consumers of sugar in the United States. The burdens it places on the United States compared to the benefits of the ISA are relatively minor.

Existing authorities in U.S. law are inadequate to implement fully U.S. obligations under the agreement. The United States has been granted by other signatories a waiver of the obligations which it cannot carry out without such new authority until April 1, 1980; this waiver could be further extended by agreement of the signatories.

The President's authority under the bill includes but is not limited to limiting entry of sugar from non-member countries and requiring the certificate of contribution. These are the two principal actions necessary to carry out U.S. obligations. Importing countries are required to restrict quantities of sugar that can be imported from non-member countries. When market prices are below 11 cents per pound, non-member imports will be restricted to not more than 55 percent of the imports which occurred during an historical base period. When prices are above 11 cents per pound, imports will be limited to not more than 75 percent of that historical base. No restrictions will apply when prices rise above 21 cents per pound, but will be reinstated when prices fall below 19 cents per pound. The principal U.S. supplier potentially adversely affected by this requirement is Colombia. Taiwan, since it is not a member of the United Nations, may not participate in the ISA. However, under the terms of the ISA, the permissible level of U.S. imports from Taiwan is higher than for other exporting countries who are nonmembers by choice, and the permissible level of imports is sufficiently large so as to not reduce imports at this time.

The other principal obligation of importing nations is to insure that imported sugar has documentation, such as a stamp, which indicates that a fee (contribution) (not to exceed 0.33 cents per pound and currently set at 0.28 cents per pound) has been paid on that sugar. The fees provide capital for the ISA Stock Financing Fund to assist exporters in building up and storing buffer stocks. The U.S. Government will not be responsible for collection or payment of the fee; rather, the fees are to be managed by parties in the sugar trade acting as agents for the International Sugar Organization for transfer to an international account.

The bill's provisions relating to the protection of the interests of U.S. consumers is not in response to any indication of abuses of the provisions of the 1977 ISA or outside efforts to manipulate the sugar market. These provisions restate the need of the President to consider U.S. consumer interests in his actions implementing the 1977 ISA, just as he must consider the interests of the U.S. sugar producing industry. The ISA is intended to benefit both producers and consumers. A strong U.S. industry, vital to protecting U.S. consumer interests, is in turn dependent on consumer interests being adequately protected.

III. Regulatory Impact of the Bill

In compliance with paragraph 11 of rule XXVI of the Standing Rules of the Senate the following evaluation is made of the regulatory impact which would be incurred in carrying out the bill.

Imports of sugar are already subject to quotas under existing law; any additional regulatory and paperwork impact as a result of requir-

ing certificates of contribution with respect to imports should be small and such certificates will, as a matter of course, be included in the entry documents examined for applying quotas and for assessing existing duties. The information and reports which could be requested under the bill by the President mainly would be information or based on information normally collected by suppliers of the requested information or reports, and if aggregated and released by the Government should be of significant economic benefit to U.S. producers and users of sugar. The bill has no impact on personal privacy.

IV. Vote of the Committee in Reporting the Bill

In compliance with paragraph 7(c) of rule XXVI of the Standing Rules of the Senate, the following statement is made relative to the vote by the committee to report the bill.

The bill was ordered reported by a voice vote.

V. Budgetary Impact of the Bill

In compliance with paragraph 11 of rule XXVI of the Standing Rules of the Senate and sections 308 and 403 of the Congressional Budget Act, the following statements are made relative to the costs and budgetary impact of the bill.

The provisions of the bill do not provide new budget authority or tax expenditures. The committee accepts the estimates of the Congressional Budget Office on the impact of the bill. The committee notes that the agreement to which this bill is addressed expires on December 31, 1982. The report received by the committee from the Congressional Budget Office is included in this report.

U.S. Congress,
Congressional Budget Office,
Washington, D.C., March 25, 1980.

Hon. Russell B. Long,
Chairman, Committee on Finance,
U.S. Senate, Washington, D.C.

Dear Mr. Chairman: Pursuant to section 403 of the Congressional Budget Act of 1974, the Congressional Budget Office has reviewed H.R. 6029, a bill providing for the implementation of the International Sugar Agreement, as ordered reported by the Senate Committee on Finance on March 25, 1980.

Enactment of this legislation authorizes the President to limit the entry into the United States of sugar from nonmembers of the International Sugar Organization (ISO), prohibit the entry into the United States of sugar from members of the ISO which is not accompanied by documentation required by the Agreement, and to keep necessary records and statistics concerning trade in sugar. As a member of the ISO, the United States would be assessed for contributions to the ISO of approximately $250 to $300 thousand per year in fiscal years 1980 through 1983. Payment of these contributions would require subsequent appropriation action.

Sincerely,

Alice M. Rivlin, *Director.*

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