Policy Options for Raw Sugar TRQ Reallocation

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Objective

The objective of this paper is to provide the Office of the U.S. Trade Representative (USTR) with discussion options for allocating and reallocating the U.S. raw sugar tariff-rate quota (TRQ). The options are all aimed at increasing the percentage of the TRQ that actually enters the United States, and reducing the quota "shortfall" (the amount allocated to countries that is not actually imported). Reducing shortfalls is a means of enhancing supply adequacy in the U.S. market without actually increasing the TRQ.

Legal Authority

The authority for USTR to allocate raw and refined quota amounts is found in the Harmonized Tariff Schedule of the United States, Chapter 17, Additional U.S. Note 5(b)(i). Reallocation authority is found in Additional U.S. Note 5(b)(ii).

Additional U.S. Note 5(b)(iv) authorizes USTR to promulgate regulations, and regulations for the issuance of certificates of quota eligibility and for specialty sugars are codified at 15 CFR 2011.

Current Situation

For the first time in several years, USTR did not reallocate the TRQ in fiscal year (FY) 2018. The resulting shortfall (as projected in the October 2018 *World Agricultural Supply and Demand Estimates* [WASDE]) was the largest since FY 2013, and amounted to an estimated 280,000 short tons, raw value (STRV), or 254,000 metric tons, raw value (MTRV), equivalent to 23 percent of the 2018 TRQ. (Actual imports during the fiscal year were somewhat higher than the shortfall estimate implies because a portion of the FY 2017 TRQ was permitted to enter during October and November 2017.)

The table below shows that in recent years, USTR has usually reallocated TRQ shares, sometimes but not always in conjunction with a TRQ increase. In fiscal years 2014 and 2015, USTR reallocated even though there was no TRQ increase, while in FY 2016, USTR carried out a reallocation of the original TRQ prior to announcement by the U.S. Department of Agriculture of a TRQ increase.

Raw Sugar Tariff-Rate Quota Shortfalls, Fiscal Years 2014-2018

Fiscal Year	TRQ Shortfall (MTRV)	TRQ Shortfall (% of total)	Reallocation?	TRQ Increase?
2014	214,859	19	Yes (July 2014)	No
2015	62,875	6	Yes (June 2015)	No
2016	113,450	9	Yes (March 2016)	Yes (May 2016)
2017	76,276	6	Yes (August 2017)	Yes (July 2017)
2018	254,000 (est.)	23	No	No

SOURCE: Foreign Agricultural Service, *U.S. Sugar Monthly Import and Re-Exports, Final Report,* various fiscal years (FYs 2014-2017). World Agricultural Outlook Board, *World Agricultural Supply and Demand Estimates,* October 2018 (FY 2018).

Reasons for Shortfalls

Some level of shortfall in the rate of TRQ fill is to be expected. This is because –

- TRQ shares are based on trade patterns in 1975-81, and a number of the quota-holding countries no longer export sugar, and in some cases do not produce sugar at all.
- Some TRQ shares are as small as 7,258 metric tons, raw value (MTRV), and may not be commercially feasible to ship on their own.
- Occasionally (as during FY 2013), the world sugar price has risen so high that it is an attractive alternative to the U.S. market for quota-holding countries. However, the normal price relationship is a substantial premium in the U.S. market that serves to attract TRQ supplies.

The 2018 shortfall was substantially greater than recent experience.

Implications

Other things equal, shortfalls reduce the level of supplies in the U.S. market. Shortfalls may have several negative impacts:

- For cane refiners, a shortfall reduces access to their primary input, raw sugar; may reduce their refining margins as the cost of the raw material increases; and may also reduce their efficiency of operations through "lost" refining time. The latter issue evidently was not a factor during 2018 but has been in some other recent years.

- For industrial users, shortfalls compromise the adequacy of supplies. This problem can especially acute in the fourth quarter of the fiscal year, when the new sugarbeet crop has not yet been harvested and markets are dependent on imported supplies.
- For policymakers, large shortfalls tend to increase political pressures for a TRQ increase. Although TRQ increases are often justified, they are controversial, and not always welcomed by risk-averse officials.

All of these problems can be ameliorated if not eliminated through policies that routinely minimize TRQ shortfalls. The options below would all tend to have this effect. All could be carried out without a change in statute, though options 4 and 5 might require rulemaking.

Options for Discussion

1. **Establish a regular schedule for reallocating unused TRQ shares.** USTR would announce a regular schedule, either biennial or quarterly, for reviewing TRQ fill rates and reallocating some or all unused amounts to countries willing and able to supply the U.S. market. An initial reallocation could be carried out as early as the fall, since countries that no longer produce sugar will by definition not fill their quotas. It is important not to wait until too late in the year to reallocate, since there is a lag time between reallocation and arrival at U.S. ports. This option would increase transparency and convey important information to the marketplace. USTR would retain the option of not reallocating if market conditions so dictated, but would need to announce this decision.

2. **Permit routine late and early entry.** This option would smooth out supply availability by allowing a portion of the following year's TRQ to enter in the last (July-September) quarter of any fiscal year, unless a decision was made not to allow the entry because of market conditions. Similarly, unused quota from a given fiscal year could enter during the first (October-December) quarter of the following year, perhaps on a first-come, first-served basis in order to maximize quota fill. Again, the option could be suspended if market conditions were adverse. (This option appears to fall under USDA's jurisdiction rather than USTR's.)

3. **Permanently reallocate TRQ shares when countries no longer produce sugar.** Quota-holding countries derive no benefit from a share of the TRQ if they are not able to export sugar, so a permanent reallocation would not injure them. While it is true that international trade rules require TRQs to be allocated on the basis of a "prior representative period" before quotas (hence the use of 1975-81 trade patterns), it seems altogether reasonable to allocate quotas among those countries that exported to the United States in 1975-81 *and presently have the capacity to do so.* However, in the event USTR did not wish to exercise this option, options 4 and 5 below provide ways of conferring a

benefit on non-producing quota holders without the need for the U.S. government to provide compensation for loss of a tariff concession.

4. **Permit the voluntary, permanent sale of TRQ shares to other quota-holding countries.** Any country that had not filled its quota within a certain number of years would be eligible to sell that quota to any other country with a share of the TRQ. Such sales would give the non-producing countries an actual benefit from their quotas, whereas at present they derive no benefit. It would also be a net benefit to the acquiring country, which would increase its sales into the premium U.S. market. Finally, the transactions would not increase the size of the overall TRQ.

5. **Permit the temporary leasing of quotas.** As an alternative to option 4, or in addition to it, countries would be permitted to lease quota amounts from each other. Timely documentation would be required, and leasing periods might be confined to certain months of the fiscal year. Timely shipment could be required in order to prevent any efforts to manipulate markets. Under this option, the lessor country's TRQ share would return to it ("snap back") for the subsequent fiscal year, and could again be leased if the country so chose.