

*Senate Agriculture Committee
Hearing on U.S. Sugar Policy
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*Testimony of
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I am pleased to have the opportunity to submit testimony on behalf of the American Sugar Alliance, the national coalition of growers, processors, and refiners of sugarbeets and sugarcane.

The policy that Congress provided for the U.S. sugar industry in the 2002 Farm Bill is working well.

- It is working well for American taxpayers.
- It is working well for American sugar consumers.
- And it is giving American sugar farmers a chance to survive.

The industry and the policy have survived some major challenges over the past few years.

- A disconcerting 3-year decline in sugar consumption during 2001-2003 coincided with some unusually large crops and caused a huge buildup in producer-held stocks of sugar in 2004 and 2005.
- The threat of large imports of sugar from Mexico under the NAFTA and possible mandates for more sugar imports in other free trade agreements caused uncertainty in the market.
- An unprecedented string of natural disasters – drought in the West, excessive rains in the upper Midwest, and three hurricanes that ravaged Louisiana and Florida – sharply reduced domestic production.

But the market is on the mend and the policy has shown its adaptability to challenging circumstances.

Sugar consumption has rebounded strongly. After average annual declines of more than 150,000 tons during 2001-2003, consumption has been growing at a robust rate in excess of 200,000 tons per year since then (*Figure 1*).

USDA has responded to the coincidence of added demand and reduced supply in a manner that has defended both taxpayers and consumers. To their credit, USDA and the industry took immediate, effective steps to avoid a serious supply interruption.

- USDA allowed producers to release onto the market the half million tons of sugar producers had been required to store to balance the market.
- USDA more than doubled imports. We are now the world's second largest sugar importer.
- Cane refiners damaged by the hurricane worked frantically, with important help from USDA, to care for their workers and get their operations up and running again.

Throughout, consumer sugar supplies and prices have remained steady and U.S. sugar policy has continued to operate at no cost to taxpayers.

On the trade policy front, USDA has reassured Congress, and the industry, that it will not allow unneeded imports from Mexico or under other FTAs to jeopardize the no-cost operation of sugar policy for the remainder of the 2002 Farm Bill.

Background: Industry Size, Efficiency, Restructuring

The U.S. sugar producing industry accounts for 146,000 jobs in 19 states and generates \$10 billion in annual economic activity. Sugar is vital to the economies of many states and localities. In states such as Louisiana and Wyoming, sugar accounts for about 40% of the state's total crop receipts. Sugar accounts for 11-24% of all crop receipts in seven other states. There are small towns in every state that would most likely wither and die if they lost their sugarbeet or sugarcane processing plants.

The United States is the world's fifth largest sugar producer and consumer and second largest importer. U.S. production is about evenly divided between sugarbeets, grown in twelve mostly northern-tier states, and sugarcane, in four southern states.

Two decades of declining real prices for our product have forced U.S. producers to reduce costs. We have done so through investment in yield-improving technology, in the field and in the factory – beet and cane sugar yields per acre are up by more than a third since the early 1980's – and through a wrenching industry restructuring over the past several years.

Beet and cane growers throughout this nation are among the most efficient sugar producers in the world. We are particularly proud that we achieve this efficiency while complying with the world's highest labor and environmental standards and despite the strong dollar relative to the developing countries that dominate the world sugar market.

According to LMC International's global 2004 survey, beet growers in the Red River Valley of Minnesota and North Dakota are the most efficient beet growers in the world. U.S. beet sugar producers, as a whole, are third lowest cost of 41 producing countries or regions; U.S. cane sugar producers in the top third in efficiency among cane-producing countries, virtually all them developing countries with low social standards and costs.

In the late 1990's, even nominal sugar prices were extremely low (*Figures 2, 3*), and this accelerated the industry restructuring. Just since 1996, more than a third of all U.S. beet and cane processing mills and cane sugar refineries have closed (*Figure 4*). Independent beet processors and cane sugar refining companies sought to exit the business. When no potential buyers emerged, beet and cane growers, alarmed they would have no place to deliver their sugarbeets and raw cane sugar, organized cooperatively to purchase beet processing plants and cane refineries.

Just between 1999 and 2005, the grower-owned share of U.S. total sugar refining capacity more than doubled, from 34% to 84%. Growers' share of cane sugar refining capacity shot up from 14% to 73%; beet growers' ownership of beet processing capacity became complete, climbing from 62% to 100%. While this enables the growers/processors to achieve greater efficiencies, the enormous amount of investment involved makes the growers more dependent than ever on maintaining a stable sugar market in the U.S.

Background on U.S. Sugar Policy

In the 2002 Farm Bill, the United States Congress, by resounding majorities in both chambers – 71% of the votes cast in the Senate and 57% in the House – passed a successful sugar policy. The most recent measure of that success was a vote in June 2005 – the first Congressional vote on U.S. sugar policy that had occurred since 2001. The House defeated an anti-sugar policy amendment by a vote of 280-146, or 66% of votes cast – the widest margin of any House sugar vote in decades.

U.S. sugar policy is unique among U.S. commodity programs. Under all commodity programs, the government offers farmers operating loans which they can satisfy by repaying the loan with interest or by forfeiting to the government the crop they put up as collateral. While other programs also provide income support to farmers when market prices fall below the loan rate, sugar policy does not, and is designed to run at no cost to the government by avoiding loan forfeitures.

Sugar policy is an inventory management program. The Secretary of Agriculture has two tools to manage the market: a WTO-legal tariff-rate quota (TRQ) to control imports, and a marketing allotment program to control domestic supplies.

The TRQ is a tool of limited use. The government cannot reduce imports below the minimum to which it has committed in trade agreements. At the time the 2002 Farm Bill was written this minimum was: 1.256 million short tons in the WTO and up to 276,000 tons of surplus production from Mexico in the NAFTA. Since then, the U.S. has conceded guaranteed access for 120,000 tons from six CAFTA countries, growing by 3,830 tons per year.

Essentially by subtracting required imports from anticipated consumption, and allowing for reasonable stock levels, USDA calculates the amount of sugar that could be marketed each year without the risk of depressing prices and inviting loan forfeitures. Farmers can plant as many acres of beets and cane as they want, and process as much sugar as they want, but they

may not be able to sell it all onto the market. Sugar processors must store, at their own expense, whatever USDA judges to be in excess, until the market requires the sugar.

When Congress designed sugar policy in the 2002 Farm Bill, it specified that marketing allotments would be triggered off if imports rise above 1.532 million short tons, the total of U.S. import requirements at that time, and if those imports forced a reduction in allotments. Congress essentially was sending a message that this required import amount, about 15% of U.S. sugar consumption, was enough. Imports could grow if U.S. sugar consumption growth outstrips U.S. production growth, or if there is a crop shortfall. But U.S. producers should not have to cede larger minimum shares of their market to foreign producers.

CAFTA and Sugar Policy. CAFTA or other bilateral or regional free trade agreement (FTA) concessions, on top of the WTO and NAFTA concessions could trigger off marketing allotments and endanger no-cost operation of sugar policy. The additional 120,000 short tons of access granted to CAFTA countries exceeded the limits on the import concessions that Congress envisioned.

The Administration did, however, prior to CAFTA's passage in July 2005, promise that the new FTAs would not jeopardize no-cost operation of U.S. sugar policy, at least in the short run.

In a June 29, 2005, letter to Chairman Chambliss, Secretary Johanns provided assurance that "the DR-CAFTA will not interfere with USDA's ability to operate the sugar program in a way that provides the full benefit to domestic growers through the remainder of the 2002 Farm Bill. If the Farm Bill import trigger is exceeded and the domestic market is adequately supplied with sugar, then the excess imported sugar up to an amount equivalent to DR-CAFTA imports will be purchased by CCC and made available for conversion to ethanol." Secretary Johanns also promised a USDA study on "the feasibility of converting sugar into ethanol," which we understand will be issued in late-summer of this year.

Secretary Johanns noted that his assurance would apply to "imports from NAFTA, CAFTA, and other trade agreements" in addition to the import trigger amount of 1.532 million short tons. This assurance is valuable because of the added danger to the program's operation posed by above-quota imports from Mexico and by additional concessions since negotiated in FTAs with Colombia (55,115 short tons) and Peru (12,125 short tons) (*Figure 5*).

The U.S. sugar market has been able to absorb additional CAFTA sugar and Mexican above-quota imports this year because of the sharp drop in domestic production in 2005/06, and USDA has not needed to divert any imported sugar to nonfood uses.

Trade Policy Concerns

American sugar producers are rueful about the reality that, while they are efficient and would like to become more so by increasing throughput and minimizing unit costs, U.S. trade policy constrains them from doing so. With a large segment of the U.S. market reserved for imports, American producers are residual suppliers of their own market. To make matters worse, there is enormous political pressure to increase imports and no prospect of reducing them.

FTAs. In addition to the CAFTA which cedes another 169,000 short tons of our market to those countries over the next 15 years, the Administration is at various stages of negotiating bilateral or regional FTAs with 21 other sugar-exporting countries. These countries produced an annual average of 50 million tons of sugar during 2003/04-2005/06. They exported 25 million tons per year – nearly triple U.S. sugar consumption. All these countries already enjoy guaranteed shares of the U.S. sugar-import quota, essentially duty-free.

The Congress, and the American sugar industry, do not believe the U.S. sugar market should be carved up for subsidized foreign sugar producers, particularly without addressing the subsidies in those countries. The U.S. sugar industry urges that the Administration either exclude sugar from future FTA negotiations, or ensure that the import concessions that are granted in these agreements do not depress the U.S. sugar market. These agreements do nothing to level the playing field in the highly distorted world market for sugar.

WTO. Sugar is the most distorted commodity market in the world. The government in every country that produces sugar intervenes in its sugar market in some way. The biggest producers, and subsidizers, dump their surplus on the world market for whatever price it will bring. As a result of this pervasive dumping, so-called world market prices for sugar have averaged barely half the world average cost of production over the past two decades (*Figure 6*).

No producer could survive at prices so low. But government intervention ensures that domestic wholesale prices, at which most sugar is sold, are well above world dump market levels. Globally, domestic clearing prices for sugar average 22 cents per pound –double the historic world dump market price and virtually the same as the U.S. refined beet sugar support price of 22.90 cents per pound (*Figure 7*).

The sugar subsidy problem is a global problem. It must be addressed globally in the WTO – comprehensive, multilateral, sector-specific negotiations – all countries, all programs. The industry has supported the WTO approach since the onset of the Uruguay Round in 1986.

Piecemeal market access concessions in bilateral and regional free trade agreements will *not* help solve the global sugar subsidy problem. Such concessions could, however, put the U.S. sugar industry out of business while foreign subsidies continue unchecked.

Given the current state of WTO negotiations, however, the industry is doubtful that fundamental reform of the world sugar market can be accomplished in the Doha Round. Many of the most highly distorting foreign sugar policies are indirect and non-transparent and, thus, not easily reached by the formulaic approach being pursued in the negotiations. It seems highly unlikely that, if agreement on the basic modalities is reached, there will be sufficient energy, time, or leverage to pursue sectoral approaches.

Developing countries account for 75% of world sugar production and exports. But, given the extensive commitments to special and differential treatment and the opaque nature of most developing-country policies on sugar, such policies will be little affected by Doha. Furthermore, most sugar-producing developing countries will likely claim “special product” status for sugar to avoid opening their own markets to imports.

In the absence of comprehensive reform of the policies distorting the world sugar market, there is little justification for major changes in the U.S. sugar program or for weakening U.S. protection from the world “dump market” for sugar.

NAFTA. The 15-year NAFTA phase-in will end in 2008 with the elimination of all barriers to trade in sugar and corn sweeteners; moreover, the WTO has ruled that Mexico must eliminate the 20% tax it imposes on beverages made with corn sweeteners. Unlimited imports and use of corn sweetener in Mexico could displace as much as 2 million tons of Mexican sugar and thousands of Mexican sugar farmers. A flood of Mexican sugar into the United States would destroy the U.S. market.

The Mexican sugar industry, nearly half of which is still owned and operated by the Mexican government, is also concerned about competition with efficient American sugar producers. American sugar could begin flowing into the Mexican market in 2008.

The sugar industries of both countries are exploring ways in which their governments might manage sweetener trade flows between the countries and maintain stable market conditions beyond 2008. The U.S. marketing allotment system may prove to be the model for the future for both countries.

Sucrose Ethanol Solution to Trade Policy Pressures?

With oil, gasoline, and ethanol prices at record highs, and with sugar and other agricultural commodities generally in surplus, a sucrose ethanol program deserves serious examination. USDA is preparing a study for release in the summer of 2006 on the efficacy of a sucrose ethanol program in the United States.

The U.S. sugar industry is intrigued by what the Administration might propose. The Administration has made clear that in order to complete trade agreements with sugar-exporting countries it will concede access to the U.S. market for sugar we do not need. An ethanol program for that surplus sugar could prove to be a viable complement to U.S. sugar policy relative to the Administration goals regarding trade policy and reducing U.S. dependence on foreign oil. However, ethanol production from sugar in the U.S. is not now economically practicable. A policy shift in this direction away from maintaining primary focus on the effective farm bill sugar policy currently in place simply is not realistic.

U.S. Sugar Policy: Success for Taxpayers

American sugar farmers are proud of the fact that sugar is the only major U.S. commodity program run at no cost to taxpayers. We derive all our returns from the marketplace. We receive no income supports from the government to cushion the blow when market prices drop. We have not had an increase in our support price in 21 years, though inflation since 1985 has been 81%.

In many years U.S. sugar policy has been a revenue raiser. During the 17-year period of fiscal years 1991 to 2007, government outlays for all other commodity programs are estimated to be \$253 billion. In contrast, sugar net *revenues* to the government are estimated

to be \$22 million. Since the start of the 2002 Farm Bill, sugar policy net revenues have been \$239 million (*Figure 8*).

U.S. Sugar Policy: Success for Consumers

American consumers get a great deal on sugar. Consumer prices are low and affordable by world standards, and extremely stable. Foreign developed-country consumers, on average, pay 30% more for their sugar than American consumers do. And, remarkably, U.S. retail sugar prices are essentially unchanged since the early 1990's. In terms of minutes of work to purchase a pound, sugar in the U.S. is about the most affordable in the world (*Figures 9, 10*).

Even after the shock to the U.S. sugar supply chain from the weather disasters in 2005, U.S. retail prices still averaged 43 cents per pound – the same level as in 1990 and even in 1980.

American consumers' savings on sugar could be even greater, but history has shown that consumers do *not* benefit when producer prices for sugar fall: Grocers and food manufacturers routinely absorb their savings as higher profits rather than passing the lower sugar prices along to consumers. Food manufacturers have enjoyed retail price increases for sweetened products at least in line with inflation, while paying producers lower prices for the sugar the manufacturers buy (*Figure 11*).

Higher Wholesale Prices in 2005/06

Food manufacturers complain that wholesale refined sugar prices have risen and that at times during the post-hurricane period supplies were tight. It is important to put these developments in perspective.

- The wholesale price increase has been only the third significant rise in the past 21 years – on a par with modest rises in 1989-90 and 1996 related to weather-related crop disruptions. Corrected for inflation, prices food manufacturers paid for sugar in 2005 were 30% lower than in 1985 (*Figure 3*).
- Food manufacturers have, in effect, been victims of their own success. In bringing policy pressure to keep producer prices for sugar low the past two decades, they have forced many producers out of business (38% of all sugar production facilities have closed just since 1996) and reduced capacity. Manufacturers have shifted storage burdens on producers and demanded just-in-time delivery. These factors have made manufacturers vulnerable to transportation and producer-facility disruptions.
- The food manufacturers have demanded extremely high-quality sugar and this has made them vulnerable to the type of quality problems they have experienced with foreign sugar.
- Their first market price rise in 10 years is enabling producers to cope with soaring costs for fuel, fertilizer, and weather damage and, perhaps, buy down some of their debt.

The lesson to the food manufacturers, and to Congress, is clear: If food manufacturers are to expect reliable high-quality supplies of refined sugar, they cannot afford to force more U.S. beet processors or cane refiners out of business.

Policy Alternatives?

Despite sugar policy's continued success, even after being tested by last year's natural disasters, some would like to change the policy. Food manufacturers and retailers have been the biggest beneficiaries of the change in U.S. policy since 1996 for most commodities. Commodity prices have been allowed to fall, but farmers are kept afloat by government payments.

The food manufacturers get the cheapest possible raw commodities from reliable American farmers and, by not passing their savings along to consumers, increase their profit margins. The taxpayer cost of subsidizing food manufacturers this way has totaled over \$200 billion since 1996.

The U.S. sugar industry in no way is critical of the cash payment programs now operated for other commodities, and we are pleased that approach may be working well for those producers. But we reject the suggestion this is a model that sugar policy should follow. The sugar industry is different and a buyout or payment approach does not fit.

The U.S. sugar industry is more vertically integrated and characterized by larger farm operations in some areas of the country. The cost of income supports alone would likely be in the range of \$1-2 billion per year and buyout costs would be much higher.

With the agricultural budget under enormous pressure for reductions, other commodity programs would have to be cut to make the money available to convert sugar policy from no cost to high cost.

Payment limitations would also be a huge hurdle, since cane operations tend to be quite large, and many diversified beet farmers may already be at their payment limits for the other program crops they grow.

As history has shown with sugar and other commodities, consumers do not benefit when raw ingredient prices fall. A conversion to the income-support approach for sugar would be another boon for the food manufacturers, but these already profitable corporations would be the sole beneficiary.

Conclusion

U.S. sugar policy is working for American taxpayers and consumers. It is giving American sugar growers a chance to survive in a highly subsidized and distorted world market.

The greatest threat to continued no-cost operation of this successful policy is the horde of FTAs with sugar-exporting countries that could carve up our market to subsidized foreign producers, without addressing any of the foreign subsidies that so badly distort the world

market. These foreign distortions must be addressed, but that can only occur in the multilateral context of the WTO.

We urge that the highly successful no-cost U.S. sugar policy be allowed to continue.

Figure 1

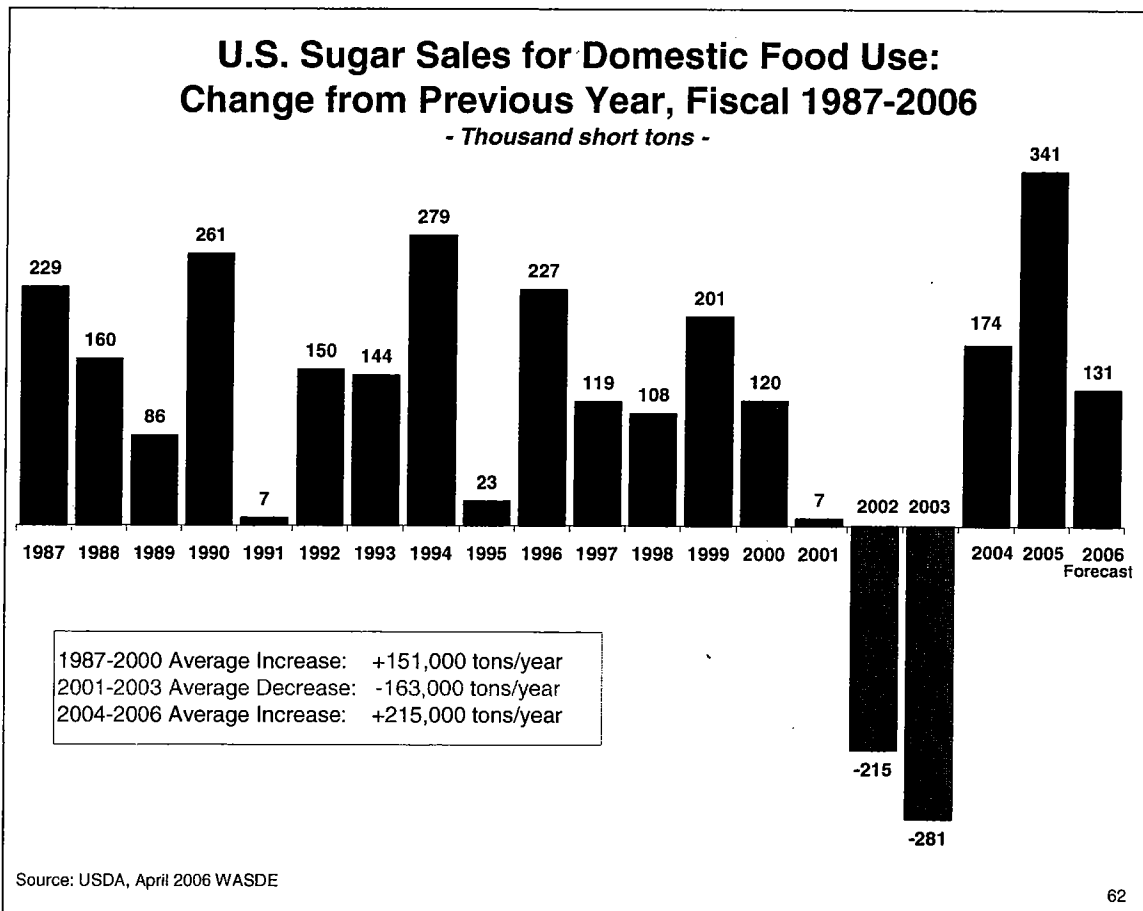


Figure 2

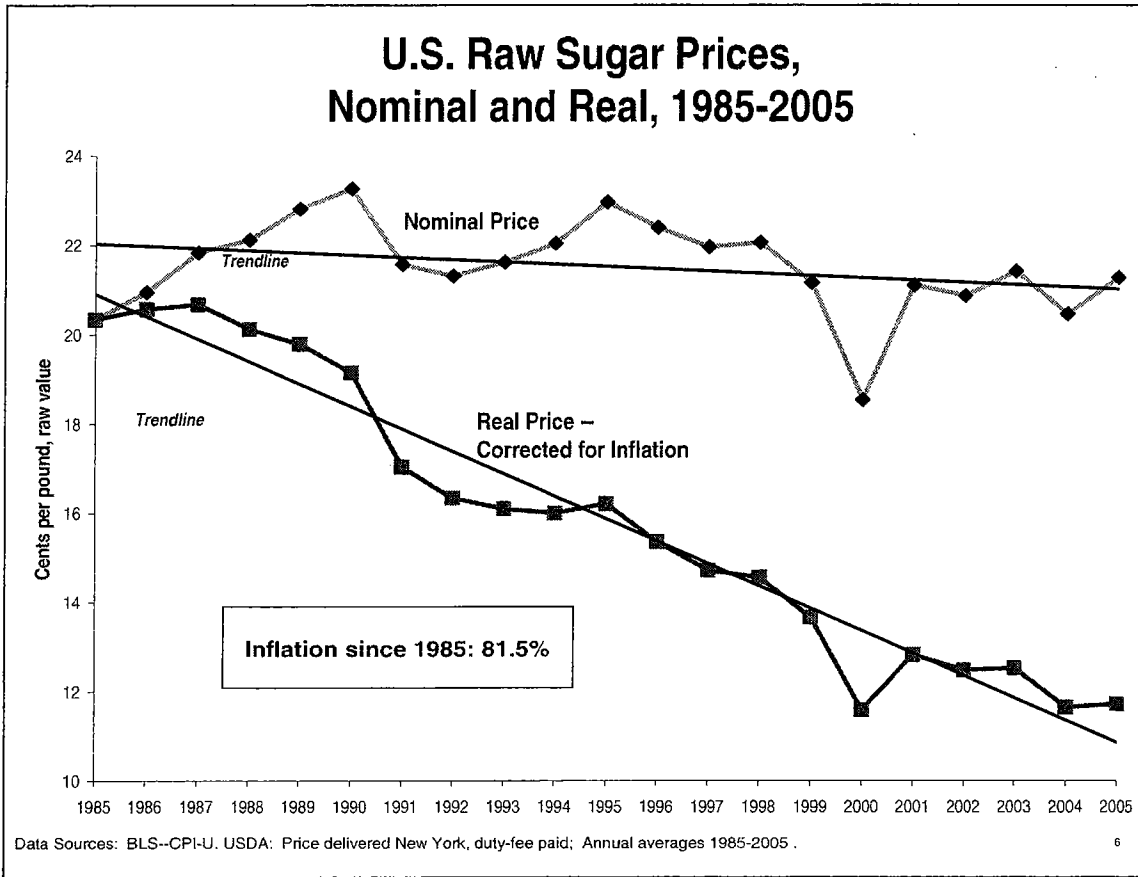


Figure 3

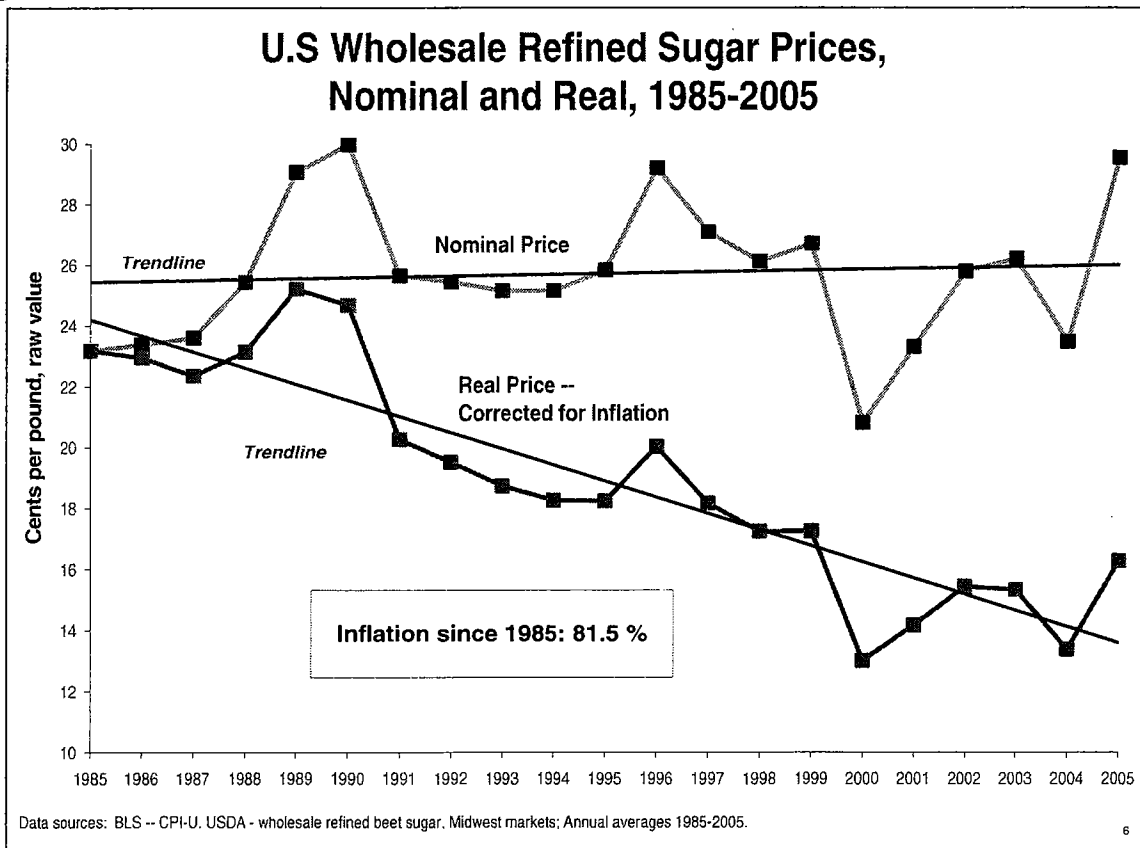


Figure 4

33 Sugar Mill and Refinery Closures Since 1996		
<u>BEET CLOSURES</u>	<u>CANE CLOSURES</u>	
Spreckels Sugar, Manteca California, 1996	Ka'u Agribusiness Hawaii, 1996	Evan Hall Sugar Cooperative Louisiana, 2001
Holly Sugar, Hamilton City California, 1996	Waialua Sugar Hawaii, 1996	Caldwell Sugar Cooperative Louisiana, 2001
Western Sugar, Mitchell Nebraska, 1996	McBryde Sugar Hawaii, 1996	Glenwood Sugar Cooperative Louisiana, 2003
Great Lakes Sugar, Fremont Ohio, 1996	Breaux Bridge Sugar Louisiana, 1998	New Iberia Sugar Cooperative Louisiana, 2005
Holly Sugar, Hereford Texas, 1998	Pioneer Mill Company Hawaii, 1999	Jeanerette Sugar Company Louisiana, 2005
Holly Sugar, Tracy California, 2000	Talisman Sugar Company Florida, 1999	U.S. Sugar, Bryant Florida, 2005*
Holly Sugar, Woodland California, 2000	Amfac Sugar, Kekaha Hawaii, 2000	Cinclare Central Facility Louisiana, 2005*
Western Sugar, Bayard Nebraska, 2002	Amfac Sugar, Lihue Hawaii, 2000	Atlantic Sugar, Belle Glade Florida, 2005**
Pacific Northwest, Moses Lake Washington, 2003	Hawaiian Commercial & Sugar, Paia Hawaii, 2000	
Western Sugar, Greeley Colorado, 2003		
Amalgamated Sugar, Nyssa Oregon, 2005**	<u>CANE REFINERY CLOSURES</u>	
Michigan Sugar, Carrollton Michigan, 2005**	Aiea, C & H Hawaii, 1996	Sugarland, Imperial Texas, 2003
	Everglades, Imperial Florida, 1999	Brooklyn, Domino New York, 2004

*Phasing out operations, 2005-07. **Suspended operations for 2005/06.
 Note: In 2006, 23 beet factories, 19 raw cane mills, and 8 cane refineries remain in continuous operation, a 39% drop since 1996.
 American Sugar Alliance, March 2006.

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Figure 5

U.S. Import Concessions: In Place, Proposed, or Being Negotiated		
	Import Amount <i>-Metric tons-</i>	Comment
<u>In Place</u>		
WTO (41 Countries)	1,154,192	Could rise in Doha Round
NAFTA - Mexico ¹	250,000	Unlimited in 2008
CAFTA	109,000	Grows by 3,475 mt/yr years 2-15: by 2,640 mt/yr thereafter
<u>Not yet approved</u>		
Peru	11,000	Grows by 180 mt/yr forever
Colombia	50,000	Grows 750 mt/yr forever
<u>Being, or to be, negotiated</u>		
Panama	?	Exports 40,000 mt/yr, 3/4 to U.S. duty free
Ecuador	?	Exports 48,000 mt/yr, 1/4 to U.S. duty free
Thailand	?	World's 3rd largest exporter
South Africa/Swaziland	?	Export 1.4 mmt/yr
FTAA ²	?	Exports 22 mmt/yr

¹ Up to 250,000 tons of surplus production, through 2007.
² Free Trade Area of the Americas -- 24 sugar exporting countries.

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Figure 6

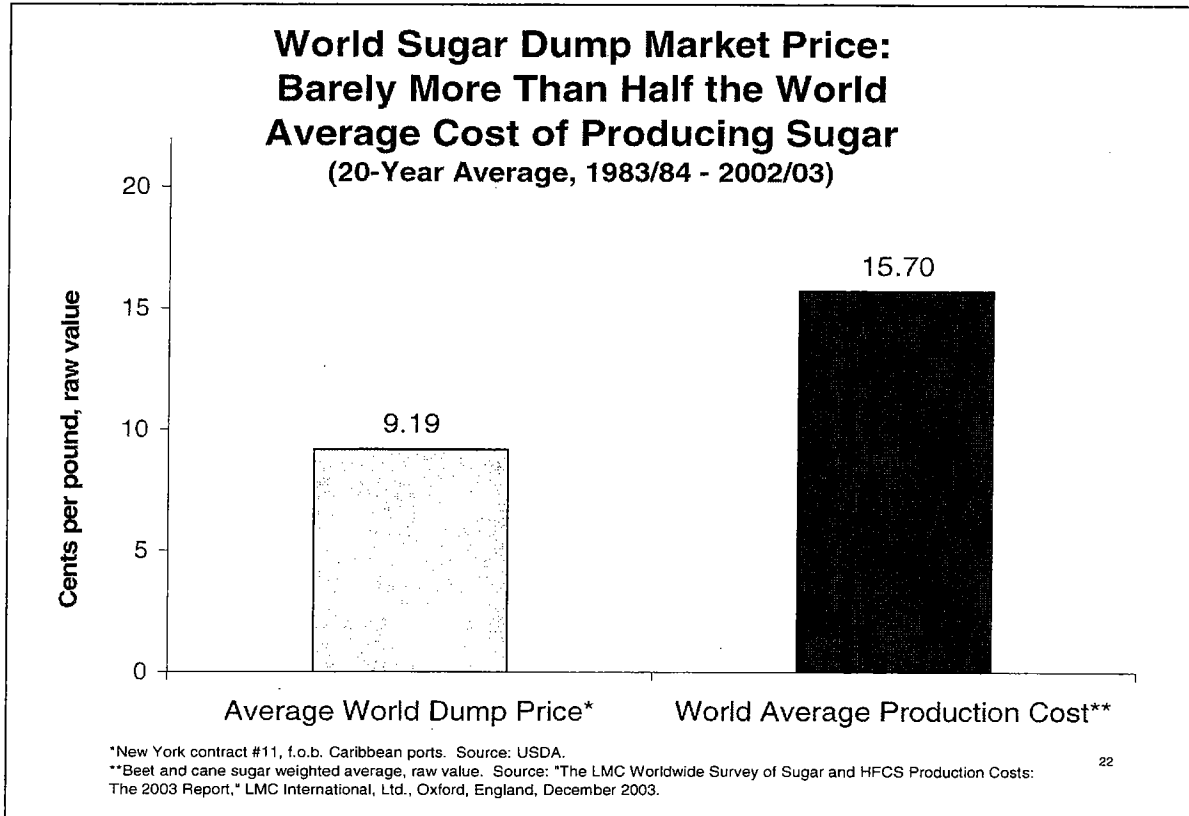


Figure 7

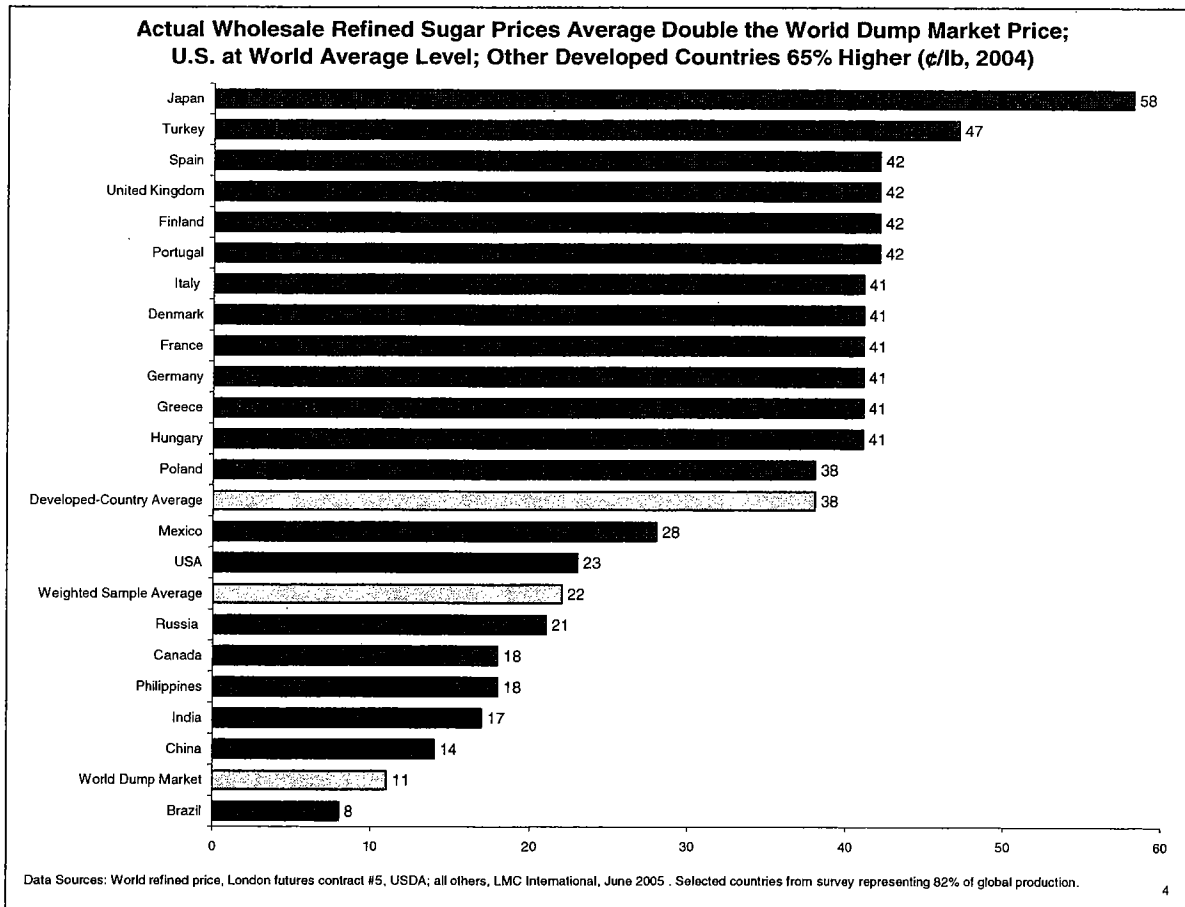


Figure 8

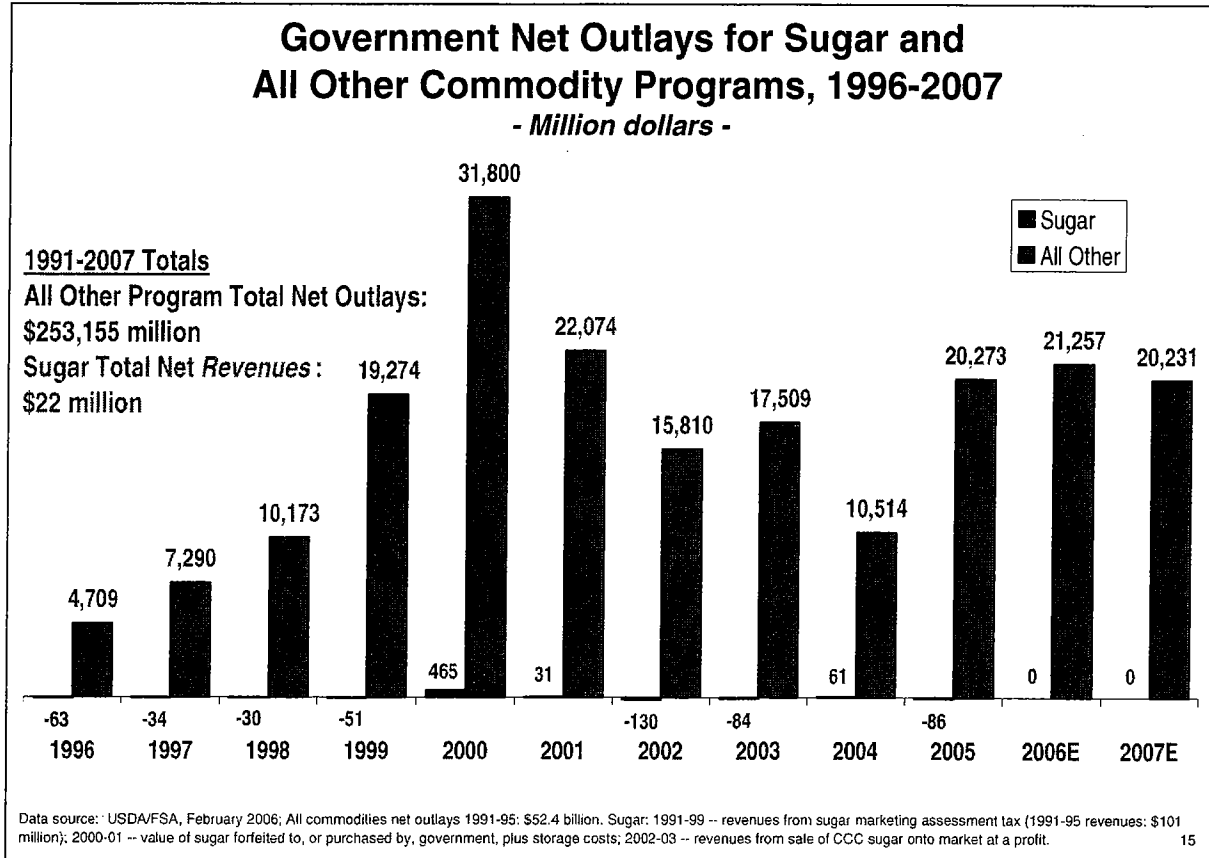


Figure 9

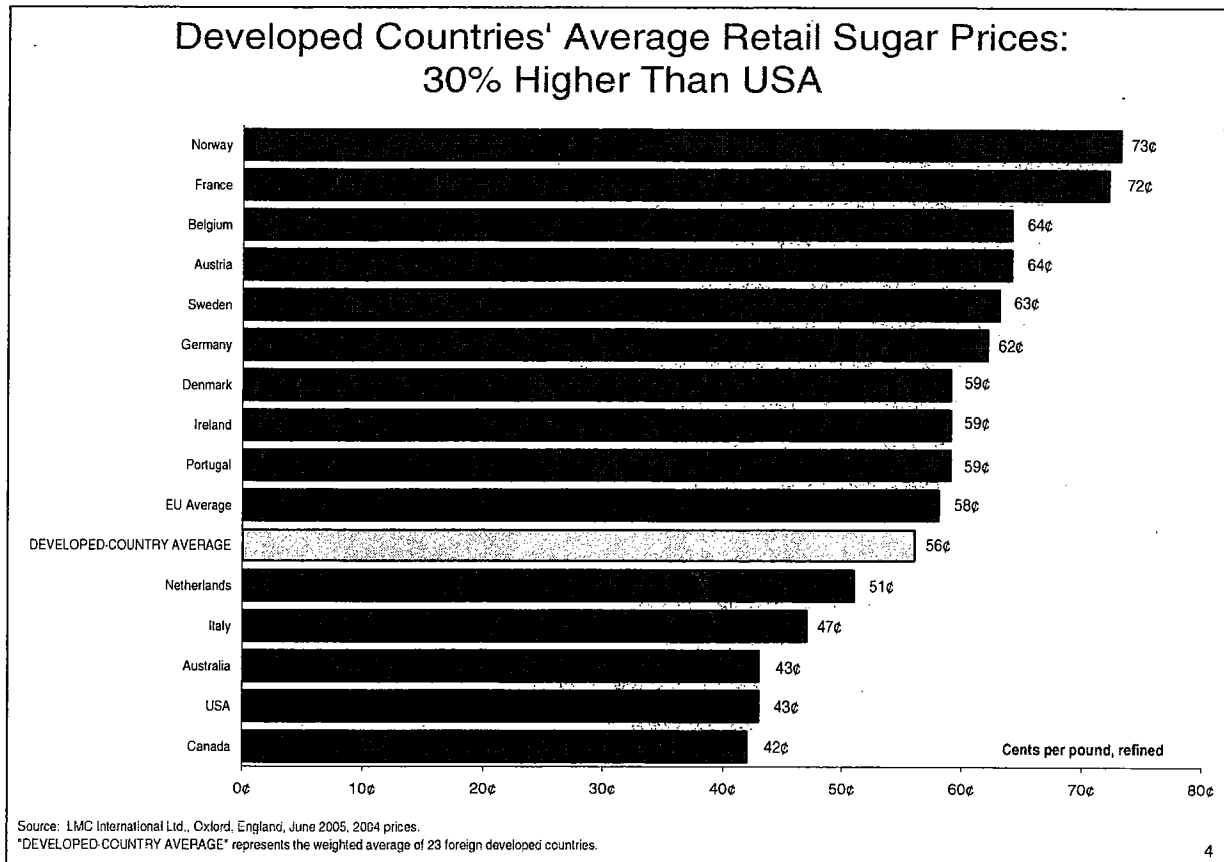


Figure 10

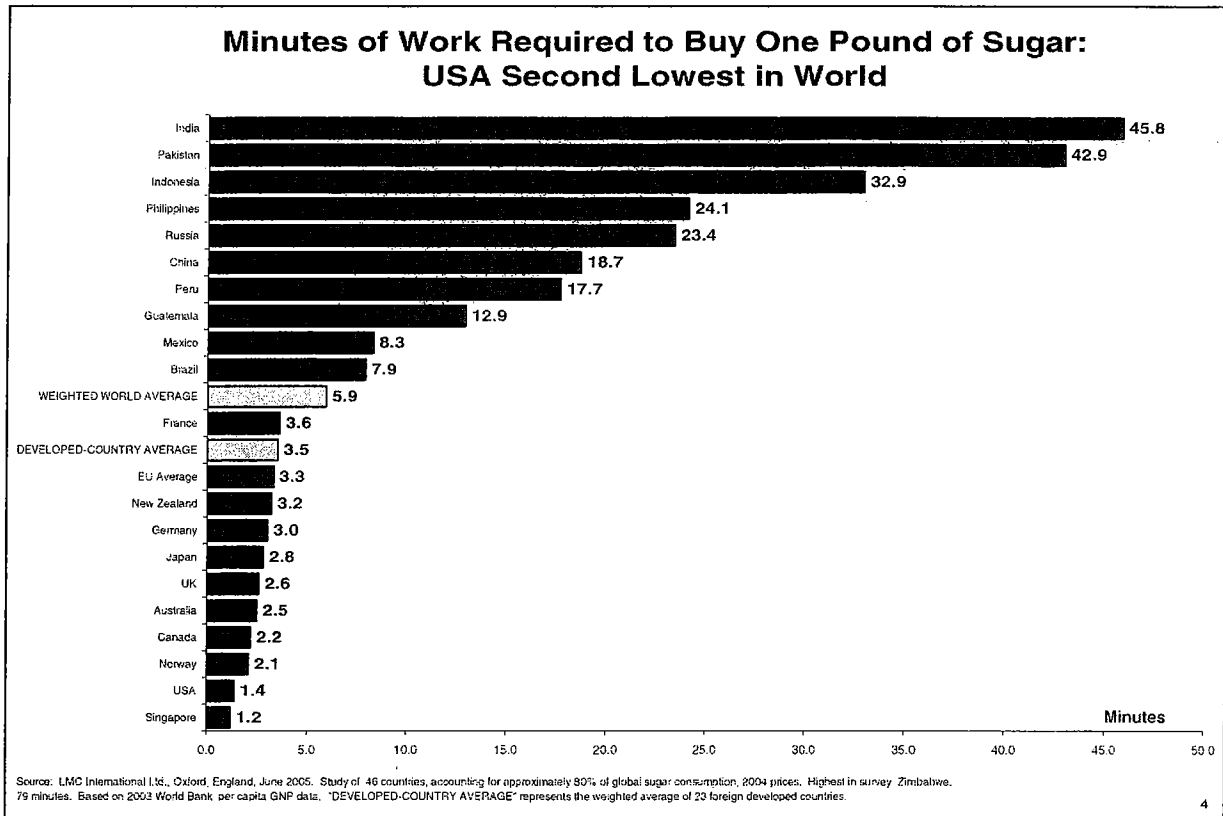


Figure 11

