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TO REVIEW THE IMPLEMENTATION OF THE SUGAR PROVISIONS OF THE FARM SECURITY AND RURAL INVESTMENT ACT OF 2002

HEARING

BEFORE THE

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TO REVIEW THE IMPLEMENTATION OF THE SUGAR PROVISIONS OF THE FARM SECURITY AND RURAL INVESTMENT ACT OF 2002

WEDNESDAY, MAY 10, 2006

U.S. SENATE,
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, DC

The committee met, pursuant to notice, at 10:03 a.m., in room SH–216, Hart Senate Office Building, Hon. Saxby Chambliss, chairman of the committee, presiding.

Present or submitting a statement: Senators Chambliss, Lugar, Thomas, Coleman, Crapo, Harkin, Baucus, Dayton, and Salazar.

STATEMENT OF HON. SAXBY CHAMBLISS, A U.S. SENATOR FROM GEORGIA, CHAIRMAN, COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY

The CHAIRMAN. This hearing will come to order and good morning, everyone.

We are here today to review the implementation of the sugar provisions of the Farm Security and Rural Investment Act of 2002, or the 2002 farm bill. Last week, the committee heard from USDA and representatives of the peanut industry on the peanut program. Today we continue our series of oversight hearings with a look at the U.S. sugar program.

The sugar program functions differently than all of the other commodity programs. Rather than receive direct government payments, domestic sugar producers and processors benefit from a combination of two methods which ensure a minimum price for their sugar. Marketing allotments are used to control domestic supply and import quotas are used to regulate the quantity of imported sugar entering the U.S. market. These two tools allow the Federal Government to control the domestic price of sugar, which allows the program to function without direct taxpayer support and at a no-cost basis for Federal Government outlays, a requirement mandated by the 2002 farm bill.

Unfortunately, there are many challenges facing the sugar program today, including many issues related to trade. Different sectors of the sugar industry, from growers to refiners to users and import quota holders, may view the sugar program in different ways. These views are what we expect and hope to learn here today.

We welcome all of our witnesses. We thank you all for appearing here today and we look forward to your testimony.

I understand my colleague and friend, the ranking member, Senator Harkin, will be here for a little while this morning. We will obviously let him have the opportunity to make any comments he wishes to make.

At this time, I will turn to Senator Crapo for any comments he wishes to make.

STATEMENT OF HON. MIKE CRAPO, A U.S. SENATOR FROM IDAHO

Senator CRAPO. Thank you very much, Mr. Chairman. I will be very brief. I appreciate the attention you are giving to these commodities and to the opportunities that we need to conduct the oversight necessary to prepare for the next farm bill. As you know very well, sugar is a very important issue to me and the importance of making sure that we get it right in the next farm bill can't be overstated.

I am going to save most of my comments for the question and answer period because I want to talk with our witnesses about the thick juice that is now coming in which I think is a loophole in the system that is causing a problem with the implementation of the program and some of the other issues, but I will hold those comments and questions until we have an opportunity to get into it. Thank you, Mr. Chairman.

The CHAIRMAN. Very good. Now, Senator Baucus, any comments you wish to make?

STATEMENT OF HON. MAX BAUCUS, A U.S. SENATOR FROM MONTANA

Senator BAUCUS. Yes. Thank you, Mr. Chairman. Just a brief statement, please.

Thank you very much for holding the hearing. Obviously, sugar is important not only to the country, but to a lot of our States, including the State of Montana. I might say that the sugar beet industry in Montana supports more than 3,200 jobs. It generates more than $188 million of economic activity. More than 350 Montana farmers produce 53,000 acres of sugar beets, processed at facilities in Billings and Sydney, Montana.

To further break those numbers down, for every dollar spent by the sugar beet industry in Montana, $1.85 in additional business activity is generated. Each acre of sugar beets planted generates about $4,000 in total business activity. In other words, each ton of sugar beets processed generates about $211—it must be a lot more than—for each ton, $211 in total business activity.

As we begin to discuss the next farm bill and specifically the sugar program, we must think about our producers' competitiveness over the next decades. It is our responsibility, indeed our obligation, to ensure that the farm bill provides the tools and support necessary for our producers to compete globally. U.S. agriculture tariffs currently average 12 percent. For the E.U., Japan, Korea, and India, respectively, it is 31 percent for the E.U., 51 percent in Japan, 66 percent in Korea, 114 percent for India.

On domestic supports, current WTO rules allow the E.U. to offer more than four times as much as the U.S., almost $80 billion versus about $20 billion in the U.S. Our producers can compete with anyone on a level playing field. It is our duty to try to make the playing field level.

I would also like to take a minute to read an excerpt from the Prairie Star. That is a Montana agriculture newspaper. It is a snapshot that reminds us that these sugar producers that we talk about in the abstract are not just statistics. They are real people. "While Greg Lackman started his farming career raising sugar beets, he began to diversify his operation. Today, he farms sugar beets, malt barley, and wheat in Denton. Greg isn't the only sugar beet grower in his family. His two brothers, Scott and Steven, also grow beets. Scott also grows corn and grains in addition to sugar beets in the Hysham area, while Steve grows beets and grain while raising registered Limousin cattle near Hathaway."

"Lackman talks to his brothers almost every day and he shares equipment with Scott. They work together, even though they have separate operations. Greg's wife, Lorraine, teaches kindergarten at the local school and helps take care of their children, Tina, who is 16, and David and Shane, 13. The Lackmans exemplify the disciplined yet versatile nature of sugar beet growers in Montana. They represent the faces and the future of agriculture, the producer, his family, and his work. Montana producers are hard working, the salt of the earth. They are the glue in their communities."

So I look very much forward, Mr. Chairman, to working with our producers in Montana as well as my colleagues, with you, Mr. Chairman, and the rest of the Senate to craft the next farm bill that ensures the Lackmans' future and the future of other growers in our State. Thank you.

The CHAIRMAN. Thank you very much, Senator Baucus.

Senator Lugar, any opening comments you wish to make?

Senator LUGAR. Mr. Chairman, I thank you for scheduling the hearing. We enjoyed a hearing that was tremendously educational on peanuts last week and I look forward to learning much more today from the administration and private witnesses.

I am very hopeful that there will be some discussion about sugar and ethanol and the use of sugar for energy. This is a new subject and one with which many people may be uncomfortable at this point, but it is one in which it appears to me that the sugar industry has a role to play that could be substantial and could have a different constituency altogether from that which at least normally comes around this table.

I look forward to the witnesses and I thank you for scheduling this timely hearing.

The CHAIRMAN. Thank you, and you are absolutely right. We are going to have some conversations about alternative fuels today and the impact sugar and sugar cane may have on that because it is going to be a critical part of the farm bill next year.

Senator Harkin?

STATEMENT OF HON. TOM HARKIN, A U.S. SENATOR FROM IOWA

Senator HARKIN. Thank you very much, Mr. Chairman. I want to thank you for having this very timely hearing. As we prepare for the next farm bill, it is important that we review the current farm programs, assess how they are being implemented, determine what is working well and what can be improved in the next farm bill.

The 2002 farm bill continued the no-net cost sugar program with non-recourse marketing loans to support sugar prices. Again, to all observations, it seems that it has worked fairly well. The U.S. sugar program is one that has served our people well in the past. Even though we have some of the most efficient sugar producers in the world, you can't expect our producers to compete with other governments around the world in the way other governments have supported their sugar programs.

We have a lot of challenges facing the sugar program in this country and our sugar producers, whether they are cane or beet producers. I just listened to the last part of Senator Baucus' comments. But it seems to me that, picking up on what Senator Lugar just said, that if we are going to be moving aggressively ahead—I shouldn't say if. I hope we are moving aggressively ahead toward more renewable energies and bio-based energy systems in this country. It seems to me that sugar could form one of the strong legs of that and it could either be cane or beet, either one, and we have got a lot of land in this country where beet sugar, for example, can be grown. It is not much applicable for other crops, but it certainly is for beet sugar. If that is a source for providing more ethanol production, then we ought to be thinking about it in those terms in terms of the next farm bill.

With that, Mr. Chairman, again, I thank you for these timely hearings and look forward to the testimony of our witnesses.

The CHAIRMAN. Thank you, Senator Harkin.

We have on our first panel today our friend, Dr. J.B. Penn, Under Secretary for Farm and Foreign Agricultural Services from the U.S. Department of Agriculture.

Dr. Penn, it is always a privilege to have you here. Thank you for the great work you do at USDA and we look forward to your comments this morning on the sugar program.

STATEMENT OF J.B. PENN, UNDER SECRETARY FOR FARM AND AGRICULTURAL SERVICES, U.S. DEPARTMENT OF AGRICULTURE, WASHINGTON, D.C.

Dr. PENN. Thank you, Mr. Chairman. It is a real opportunity to be here with you and other members of the committee this morning to review our experiences with the sugar program that was included in the 2002 farm bill. We now have almost 5 years' experience in operating that program and I am very pleased to be able to provide our perspective on how well the program has worked over the last 5 years and also to offer some observations on the changing business environment in which the program will be operated in the future. I think that will have relevance as the Congress begins to consider appropriate policies for the next farm bill.

Let me begin by noting that we have a very dynamic sweetener industry, one that is increasingly being driven by factors both outside the United States and inside our borders. Our market today requires about 10.5 million tons of sugar to be available across the year and our producers—we now have slightly less than 6,000 producers, about 5,000 beet producers and less than 1,000 cane producers—they provide something less than eight million tons of the

10.5 million tons that we need and the rest of the sugar then comes from foreign sources.

We are among the five largest global producers and the only producer in the world to have significant beet and cane production both. In our sector, the production is roughly half and half.

Now, as has been noted, the Congress has mandated minimum price for sugar in the domestic market and our objective in operating the program is to balance the supply against the demand as best we can and at the same time keep the price above the statutorily required minimum.

We have a variety of tools to use in pursuing that, as the chairman noted earlier. Mainly, we have got in this program that is far less market oriented than the other programs, it is much more rigid, but we have the Price Support Loan Program, which contains the minimum price. We have domestic supply controls in the form of marketing allotments that are assigned to each processor. And we have foreign supply controls that regulate the amount of sugar that may enter from each supplying country.

Now, these supply controls are used, in essence, to short the market, to obtain the desired price objective. And then, as Senator Harkin noted, there is one additional Congressional mandate and that is that this program be operated at no net budgetary cost. That is, we are directed to avoid forfeitures to the extent possible, forfeitures of the sugar that processors place under the Price Support Loan Program.

Now, there are many other details, many other requirements, rules, and regulations that govern the program, but that is the general structure that we have to operate with.

Let me just say a brief word about program operations since this program began in the 2002 farm bill. Some of the modifications that were made in the 2002 farm bill reflected the experience with the previous program, and that one had resulted in a substantial amount of forfeitures and it had incurred a very substantial cost, so the marketing allotments for domestic processors were introduced in this farm bill. And then for the period May 2002 when the farm bill was implemented until July of 2005, the domestic market was relatively tranquil. There were very few significant supply or demand disruptions. The market price stayed above the forfeiture level and the market was in relative balance. So we think for that period, the operation was fairly uneventful.

But from early August 2005 until the current time, we have seen one of the most tumultuous periods in the history of sugar in this country, perhaps more so than in 30 years or more according to a lot of the industry veterans who tell me about this. The period of turmoil started when we had poor weather in the upper Midwest as the beet harvest began and one of the suppliers was unable to meet the commitments. This industry, unlike a lot of other industries, has come to operate with a just-in-time inventory system, and when there is any disruption of supply, no matter how small, it creates reverberations across the whole sector, and that certainly happened. This was in very early August of 2005. So the industry was in a period of some disruption.

And then, as you know, on August 29, Hurricane Katrina struck and that not only damaged the cane crop in Louisiana, but it also closed two of the refineries that were operating there and one of those was closed for an extended period. So we had a reduction in the cane crop, but we also had a reduction in the amount of sugar that was being made immediately available to the market. So that created even more uncertainty and turmoil.

And then as we were trying to deal with that, on September 24, Hurricane Rita struck, and then on October 24, Hurricane Wilma then went across Florida and did damage to the cane crop there.

At USDA, we immediately began responding, using the tools that we have available that I have described. We quickly expanded the marketing allotments to processors so that we could release all of the domestic sugar stocks that were available into the market and then we increased the quotas on imported sugar so that we allowed both refined sugar to be available immediately to the market and raw sugar to come in for further processing.

So today, we are beyond the most turbulent period, but we continue to monitor the situation very closely. The market still is uneasy and somewhat unsettled, but we believe it is manageable through the remainder of this farm bill barring further highly disruptive events.

Now, we have learned a lot of lessons from our operation through the past several months and we look forward to sharing the details of these with you. Some of the things that we have learned are that it would be helpful if we had the ability to reassign surplus allotments between the beet and cane sectors. That is not now available and creates an awkward situation at times. There is a prohibition against interstate selling of cane sugar to fulfill the allotments from cane producing State to State. The calculation of the OAQ is somewhat tortured and involves carrying stocks and we think that needs some attention. And then our classification standards for refined sugar, we believe, need some attention.

So these are just some of the things that we would like to share with you and the staff as you begin to look more closely at the structure of this farm bill.

Now, looking beyond the structure of the current program, we think there are some other things that the Congress should consider as it begins to look at what would be the most appropriate policy for the future. The business environment, the operating environment for sugar, for all of agriculture is changing very rapidly and those things need to be considered. Let me just quickly name a few and then I will stop.

One of those is the changing industry structure, concentration of the industry. This has changed very rapidly in recent years. It continues to do this. So we now have a more highly concentrated, a more integrated, and a geographically changed industry, and that is going to have an impact on how any future sugar program would operate. So we think that needs to be taken into account.

Also, we need to think beyond just the production part of this sector. The competitiveness of the sugar-containing products industry needs some attention. Senator Baucus mentioned the number of jobs that are in the growing and processing industry. There is a huge number, almost a million jobs that are associated with the sugar-containing product industry. That industry has been losing competitiveness over recent years. It has been moving plants outside the U.S. Jobs have been lost. And that is in large part, not in total, but in large part due to its facing higher raw material prices than do foreign competitors, so we think that is something that should be taken into account.

And then the world market is changing. For a long time, we were able to isolate the domestic sugar industry completely from the world market and what happened outside our borders didn't much matter. That is no longer the case. We simply can't do that to that extent any longer. So the world market is changing and we need to account for that.

Three big things are happening that are offering some long-term trends. One is that the European Union is modifying its sugar program. The bottom line result is going to be that less sugar is going to be placed into the world market and world sugar prices are going to be trending higher as a result of that.

Another, as Senator Lugar mentioned, is the changed energy situation now. We see a situation where there is a competition between renewable fuels and sugar for sugar cane and that is having a bullish impact on the price of sugar and that is one of the reasons that we have seen the world price of sugar move to 25–year highs in just recent months.

Third, as has been mentioned here, is the Doha Development Agenda negotiations are, we hope, nearing a conclusion. If that round is successful, then there will be far-reaching reforms to national sugar industries all around the world and that should also have the effect of boosting world prices. So we will have a situation in which the world market price will be much less different than the domestic price, which has not been the case for years and years.

And then, depending upon the success of the Doha development agenda, free trade agreements, bilateral free trade agreements are going to become more or less important. As has been noted also, with most of the future growth of agricultural markets occurring outside the United States, then the continued prosperity of our farm sector and our food processing sector will depend on gaining ever-increasing access to consumers in the growth markets around the world. So gaining opportunities for all of our farmers and ranchers is going to mean that we can no longer shield access to individual product markets, such as sugar. Our trading partners are going to want access to our market, especially as long as it is a premium market, if they are going to grant us access to their markets.

And then finally and perhaps most importantly for the near term, Mr. Chairman, is NAFTA implementation. For a dozen years now, the duties on sugar and other agricultural commodities have been gradually coming down, and then on January 1, 2008, these go to zero, and that means that, in essence, there is no longer any border between the U.S. and Mexico for sugar and high-fructose corn syrup. This simply means that the current program structure can no longer be operated at no net cost after that time since the supply can no longer be sufficiently controlled to maintain the minimum price. So significant forfeiture would thus be expected to result and that would entail significant budgetary costs and it would violate the no net cost provision that is in the current program.

So with that, Mr. Chairman, I will close. Again, thanks for the opportunity to appear here today. We look forward to working with this committee and with the Congress as the next farm bill is developed. Thank you.

The CHAIRMAN. Thank you, Dr. Penn.

[The prepared statement of Dr. Penn can be found n the appendix on page 43.]

The CHAIRMAN. Let me start by going back to the process that you followed to increase imported sugar in order to make up for the domestic shortfall caused by the hurricanes last year. How do you allocate the amount of imported sugar needed to provide the amount of resources that we need and do our bilateral trade agreements that we have in place today, factor into your decision on who is allowed to import sugar?

Dr. PENN. Well, the first thing that we do at the beginning of each fiscal year or marketing year is to determine the overall allotment quantity, the OAQ. That is determining the amount of sugar that is going to be required. As I indicated, that is roughly ten million tons. And then we say, OK, if that is the amount we are going to need, how are we going to get sugar, and we look at that that can be supplied by the domestic industry. That is about eight million tons, around it. So that means that there are two million tons of additional sugar that will be needed.

Under our long-term trade commitments, we are obliged to import 1.25 million tons under the WTO and then under these bilateral free trade agreements, we have now committed to allow 120,000 tons from the CAFTA-DR countries and 12,000 tons from Peru. There will be some additional amount in the Colombia Free Trade Agreement once that is concluded and announced.

So then we look at how we are in terms of balance, and if that gets us the ten million tons that we need, then we move forward.

Now, that is what we did for the beginning of 2005 and then we had the hurricanes. We had the disruption. Then at that point, the first thing that we do is to monitor the situation and see where there might be domestic sugar. Are the cane processors holding stocks that could be released into the market? Are the beet processors holding stocks? If they are, then we increase the overall allotment quantity by an amount sufficient to draw in the sugar that we need. Then we turn to the cane sector. They release their stocks into the market. You turn to the beet sector and they release stocks.

Now, where we get an awkward situation and one I alluded to in my statement is that this year, we turned to the cane producers and they had no stocks. So instead of being able to say, OK, we will turn to the beet producers and let them make up for the stocks that the sugar processors don't have, the statute prohibits us from doing that. We have to reassign the shortfall from the cane sector first to the Commodity Credit Corporation, if it has no stocks, then to imports. So we are in the awkward position of allowing in imported sugar when our domestic growers still have sugar on hand. That is one of the things that we suggest that might be looked at in the future. But that is the process that we go through, Mr. Chairman.

The CHAIRMAN. Do you expect any supply issues for this year?

Dr. PENN. Well, we are looking at the situation at the moment and we are closely monitoring it. We are looking at all of the factors. We are watching demand, which has at times been unstable, and we are looking at the refining capacity in the United States. We are looking at whether that is being fully utilized or not. And then we are looking at the sugar that we have already permitted to come in. Is it entering as we expected? And as the world market changes, there is less incentive at times for people to supply sugar to us. Our market is not as attractive as it has been in times past.

So we are watching all of those factors. At the moment, I can say that it appears that the market is pretty much in balance, but we continue to monitor it and we will through the remainder of this year. We are only 15 days away from the next hurricane season, too, I think.

The CHAIRMAN. In the CAFTA negotiations, there was a provision included that required USDA to look at the utilization of sugar in the manufacturing of ethanol. I know that you and the Secretary, based upon that directive, have engaged LSU to do a study on this particular issue. Can you bring us up to date on where that is?

Dr. PENN. I can. I just had a report on that this week. The economists who are doing the study have completed a draft and they submitted it to our Office of the Chief Economist for preliminary review, and so it has been reviewed and suggestions for some further work, some additional analysis, have been made to the authors and they are doing that now. We expect them to complete that so that we have it available by early summer.

The CHAIRMAN. Without indicating what the result is, are you encouraged by what you saw in the preliminary draft?

Dr. PENN. Well, it depends on one's point of view, I guess. I had a lot of discussions about that with you and Senator Coleman. The idea was to look at the feasibility of using sugar cane, sugar beets, and sugar in the production of ethanol, and again, without prejudging what the people are going to say, I believe that the preliminary results suggest that it is not economically nor technically feasible to manufacture ethanol from crystalline sugar but that it may well be feasible, as the Brazilians are proving on a large scale, to manufacture ethanol from sugar beets and sugar cane, from the fermentation of the juice from those two crops.

The CHAIRMAN. Last, Dr. Penn, I think it is fair to say that the sugar sector is one of the more protected agriculture commodities around the world and that it is constantly giving fire to that both inside Congress as well as inside the WTO. As we move into the consideration of the sugar program in the next farm bill, can you give us an idea of what sort of distortions or potential problems exist relative to the current program so that we might apply WTO rules to that program?

Dr. PENN. I think, in general, as you indicated, all of our farm programs have been subject to some considerable criticism by our trading partners, and, of course, one in particular, cotton, was the subject of litigation in the WTO. The general charge made is that by subsidizing the production of these individual commodities, we, therefore, cause more to be produced than would otherwise be produced and that we then put that into the world market and we depress world markets and cause damage to competitor, producer, and exporter countries.

As you noted at the beginning, the sugar program operates a little differently. It does maintain a premium price. It does it in a little different way than for the other commodities. But I think some of the same criticisms are applicable there. By providing a premium price, we are encouraging the production of more sugar than would otherwise be produced inside the United States. Now, the difference with sugar is that we don't export sugar except some in sugar-containing products, but it is market access that causes the problem with respect to sugar, more so than for corn or some of the other row crops. So we have got our trading partners who are saying, again, if we are going to give you access to our corn and soybeans and chicken leg quarters, then we want access to your sugar market. We want to be able to compete there. So that is the big criticism, I think.

The CHAIRMAN. Senator Harkin?

Senator HARKIN. Thank you very much, Mr. Chairman.

It seems that basically what you are saying, Secretary Penn, is that the sugar program basically has worked well except we got hit with bad weather. We got hit with wetness up in the Red River Valley and then we got hit with the hurricanes and stuff that threw everything kind of out of whack. But you say right now it is in pretty good balance. Right now, it has been no net cost to the taxpayers, right?

Dr. PENN. Given the objectives that the Congress set for the sugar program, I mean, then we have tried to operate it as specified in the statute, and you are right. We had all of these very atypical, unusual circumstances and we found that the program was cumbersome and difficult to manage in an atypical situation like that and I just gave one example a moment ago.

In short, all of the stakeholders in the industry have to look to USDA to manage their businesses. I mean, they have to make their special needs known. They have to urge us to act in a certain way and that is cumbersome. It is difficult. It is costly for the industry. It is our belief that a more flexible program would probably operate better. It would supply the industry and serve the growers probably more effectively.

Senator HARKIN. I would like to see the concrete proposals of that as we move into the next farm bill, if you have got something that you would like to have us take a look at.

Of course, we are going to be facing some new things with the next farm bill that we weren't facing with the last one and that is the January 1, 2008, curtain that is going to fall at that time. Now, again, could you address yourself a little bit to the problem that we have been having with Mexico. Three times, we have taken them to the WTO. Three times, the WTO has found in our favor on their barricades to our high-fructose corn syrup in Mexico. And now they have not only instituted a new kind of a tariff on imports.

What is going to happen with this all on January the first of 2008? I mean, we are, what, a year and a half away from that. So what is going to happen with all of those tariffs and all those things with Mexico and how they have been treating us in terms of keeping high-fructose corn syrup out? What is going to happen at that time?

Dr. PENN. Well, this is a pretty checkered past involving sugar and high-fructose corn syrup. As you know, when the U.S.-Mexico agreement was reached, at the last minute, there was a side letter which addressed the sugar/high-fructose corn syrup situation. Well, it turned out in actuality there were two side letters. There weren't identical, one in English and one in Spanish. You know the story about the lawyers. I mean, that just provided an opportunity for a lot of disagreement as to what the agreement really was. So that has never, I think, performed as people have expected, so we have had a very difficult situation there and it, hopefully, will be resolved on January 1, 2008, when these side letters are no longer applicable. I mean, we again have no border.

But you are right. The Mexicans placed a tax on high-fructose corn syrup. We said that was illegal. We took them to the WTO. We won. They appealed and we won the appeal. They now tell us that they are going to remove the tax and they tell us they are going to do that on January 1, 2007. Under the WTO rules, we are obliged to give them a reasonable time to do that. So we are now looking to January 1, 2007, for that tax to be repealed.

Senator HARKIN. Again, no matter what we do, we always have to understand that our cane and beet farmers in America are still going to have—we are still going to have to take into account what other governments do and how other governments run their programs. You just can't say that, well, we are going to throw our farmers on the market and yet Country X or Country Y, their farmers are not on the market. It is a government system. It is a socialist type of an endeavor. So you have our farmers in an unfair market situation.

So we are always going to have to take that into account. We are going to have to take that into account in the next farm bill, also. We just don't have the kind of sugar system in other parts of the world that we have in America. So if we are going to have a domestic production capacity of sugar, we are going to have to take that into account.

That is why I need to explore with you, and this is not the place, but we will as we move ahead to the next farm bill, how we integrate both the need for sugar for our sugar-containing products in this country, how we provide for a good domestic supply where the sugar farmers are at least, I won't say guaranteed, but given the prospect of making a decent profit on their investments and labor, and at the same time provide for openings into the energy area for sugar.

To me, this is kind of the twin things that we are going to have to look at in the next farm bill. I don't have the answers right now. I just know that, somehow, we are going to have to apply ourselves to that in the next farm bill because we are going to demand—I believe the energy sector is going to grow in this area, and at the same time, we are going to still need to have a base supply of sugar for sugar products in this country. Somehow, we are going to have to balance those two and I look forward to any thoughts, suggestions, and advice that you might have as we move into next year's farm bill. Thank you.

Dr. PENN. I would be happy to work with you.

The CHAIRMAN. Senator Crapo?

Senator CRAPO. Thank you very much, Mr. Chairman.

Dr. Penn, I want to talk mostly about the sugar beet thick juice issue, but before we get to that, I want to go back to the chairman's questions about the tariff rate quotas that we are establishing. If I understood your interchange with the chairman, I understood you to say that at this point, you see things as relatively under control. You don't expect at this point to need to raise the sugar tariff rate quotas?

Dr. PENN. Well, these issues are all highly market sensitive, as you know, and as I said, we are monitoring this. At any point where we think the market is getting out of balance, then we reserve the right to take action. But at the moment, at the moment, things look reasonably calm.

Senator CRAPO. All right. That is how I see it, too, so I just wanted to be sure that we were on the same track there. And I understand that we are in a market and the dynamics can change, but as of this point in time, you are not considering an increase in the tariff rate quota?

Dr. PENN. I didn't say that——

Senator CRAPO. Are you or aren't you?

Dr. PENN. I don't think that it would be appropriate for me to say at the moment. Let me just say that we are monitoring the situation and at the point where we think more sugar might be needed into the market, then we will have to do that.

Senator CRAPO. Well, I understand that, but I guess my question is, are you evaluating it? At this point in time, do you see a need to raise the tariff rate quota?

Dr. PENN. Well, we are constantly monitoring. I mean, we have——

Senator CRAPO. I understand that, but——

Dr. PENN [continuing]. We have weekly meetings. We go through the numbers. It is sensitive, Senator——

Senator CRAPO. I am not trying to get you to say that you won't ever do it——

Dr. PENN. No, no, but on Friday, we have another lock-up. We have another WAOSB report where the World Agricultural Outlook Situation Board will go through all of the commodities and they will issue new supply demand balance sheets and, you know, I certainly will be looking at that one with great interest.

Senator CRAPO. All right. We will revisit that.

Let me turn to the sugar beet thick juice. I believe you are aware that just a few weeks ago, Senator Conrad and I sent a letter to you about this issue. It seems to me that this is a major loophole in our regulation which allows basically the avoidance of marketing allotments and the importing of thick sugar juice that would then be able to be refined into sugar and marketed in the United States and avoid marketing allotment processes.

I also am concerned because it seems to me that U.S. sugar policy in the past has been undermined by these types of things. It was the molasses that had been stuffed with sugar before that we have been fighting for years and we just don't have the time, I think, to fight another loophole like this for a long period of time.

As I understand it, the imports of thick juice have increased from almost zero in 2003, to 19,000 metric tons in 2004, over 36,000 in 2005, and the estimates are that for 2006, the imports from just one factory in Canada could be as much as 100,000 metric tons, which would be the equivalent, as I understand it, of 50,000 metric tons of sugar.

The question I have is, first of all, do you agree with me that this is a loophole and is there action being taken to address it?

Dr. PENN. I would just disagree with your numbers. If you look at the report that you are citing closely, the numbers, the 100,000 ton number for this fiscal year is from two products, thick juice and from high-test molasses or cane syrup, which is another product that is made from cane. So those two together are coming in in about equal proportions.

Senator CRAPO. So about 50,000 of each?

Dr. PENN. Yes. So thick juice is only half of the 100,000.

Senator CRAPO. All right. So let us assume that it is 50,000 metric tons. Do you agree that the thick beet juice is a loophole that we need to close?

Dr. PENN. Well, in the so-called Breaux Report that we are obliged to send to the Congress each year, we have to identify circumventions of the program and the entry of thick juice was included in that report as a circumvention.

As you indicated, this is an occurrence with these supply control programs that people are always trying to find ways to take advantage of this premium market. This molasses results from the sliced beets, comes in from Canada, and it is not classified as sugar. So the Customs Service doesn't assess any duties to this product. But once it gets into the U.S., then USDA considers it imported sugar and we count it against the 1.532 million tons import trigger that is contained in the farm bill. But it doesn't count, as you suggest, against an individual company's OAQ.

So we have that problem with thick juice. We also have the same problem with high-test molasses or cane syrup, and so at the moment, we are evaluating both of those and we are looking at the possibility of drafting regulations which would address the situation that you have written me about.

Senator CRAPO. And you can address this regulatorily?

Dr. PENN. Yes.

Senator CRAPO. I would encourage you to do that. As I have indicated, I do believe this is a loophole and I appreciate your understanding of it and would encourage you to act expeditiously to close it.

Thank you, Mr. Chairman.

The CHAIRMAN. Senator Lugar?

Senator LUGAR. Mr. Chairman, let me just pursue this line of thought for a moment. It would appear the world price of sugar is lower than the price of sugar in the United States, at least from the charts that you have. If you were outside the sugar program altogether, in discussion of these proposals for years, would it not be in the best interests of American consumers and people who use sugar to be getting sugar at the world price?

In other words, the case being made by the program is essentially that there are 1,000 sugar farmers, cane sugar, 5,000 beet sugar farmers in America and essentially an artificially higher price ought to be obtained by them than the world price, or, as the sugar producers would say, talking about the manufacturers, that, in fact, the manufacturers are the benefit, that they are receiving extraordinary subsidies from the rest of the American taxpayers. So in a nutshell, what is the rationale for the sugar program?

Dr. PENN. Well, this is a very complex topic, Senator, as you know. On the surface, it does appear that we hold the domestic price far higher than the world price. In fact, if you look at just the chart that I attached to my testimony, in recent times, the world price of sugar has been six cents a pound while we have maintained the price at 22 to 24 cents domestically. That was atypically low. It moved up to ten cents and stayed there for a while, and in recent times, the world price of sugar has moved to 19 cents. That has been as we have had some shortfalls around the world and seen increased competition for cane for ethanol.

So just looking at that, one would say that we are distorting the situation enormously. I have to say that my friends in the sugar-growing industry would advance the argument that the world sugar price is not a real market equilibrium price, that it is a distorted price, because the European Union, for instance, has been putting five million or more tons of sugar, subsidized sugar, into the world market, that it has deflated the price. Virtually every other country in the world that has the ability to produce sugar distorts the market. They have some kind of national program. So our growers then would make the argument that we need some kind of program until such a time as we get a free and fair market, as one Senator indicated.

On the other hand, you look at the sugar-containing products industry. If you are in the United States, you buy sugar at 22 or 24 cents a pound. That is a cost of production to you. But at the same time, you are competing with someone who wants to send their product to the United States and they have been able to buy sugar at six cents a pound or ten cents a pound and so you are in the United States and you are saying, I have unfair competition from outside. And so what has happened is a lot of those plants have simply closed. They have moved over to Canada or they have moved to Mexico or they have moved elsewhere where they can get the cheaper world price sugar and export it.

So on the one hand, with the domestic sugar program, we are protecting jobs in that industry, but we are losing jobs in the sugar-containing products industry. So it is a balance. As we look forward, I think we need to, as I suggested in my earlier statement, try to find a way to take all of these distortions into account.

Senator LUGAR. Without arguing the equities, and I think you have expressed them well, the reason I am excited about the energy side is that I see potentially a way in which sugar might be utilized in a market atmosphere worldwide. I think that has been the Brazilian experience. It is why their market has changed dramatically.

In other words, if sugar works, sugar cane in particular, sugar beets for ethanol, this would be an extraordinary chance to change the whole landscape so that we have a supply and demand factor in which sugar as it is used for energy, in the Brazilian case, 52 percent of the crop right now is used for ethanol. It is a huge amount. And that would change the price in the United States if 52 percent of our crop were used for ethanol, which is not inconceivable given the size of our market in the country.

I mention this not to be invidious to any of the sugar program or all the people who have some vested interest in it, and it is honeycombed, as you pointed out, with all sorts of equities or inequities, but to try to move the argument onward to something in which we really have perhaps a crop here of sugar that is really valuable to all of us as opposed to an arbitrary figure or an arbitrary supposition.

Now, what is your analysis, and you have said it is just preliminary in this, but why would American sugar cane and beets not be as equally useful for American ethanol as the Brazilian situation has been for Brazilian motorists with flexible fuel cars?

Dr. PENN. Well, I think that it can be, and I certainly agree with your assessment of the situation. We produce more than four billion gallons of ethanol. We do it largely with corn because we started 20, 25 years ago doing it with corn and we have invested in developing new technologies around that particular feedstock. So today, we are very efficient producers of ethanol using corn.

The Brazilians have had a very different experience. They started using sugar cane and producing ethanol and they have developed systems which make them very efficient producers. I am told that they can produce a gallon of ethanol for 87 cents. It costs us about a dollar a gallon using corn. So, I mean, they have developed some real efficiencies.

My sense is that once we begin to focus, and I know Senator Coleman has been very interested in this, but once we begin to focus on using sugar beets and sugar cane as a feedstock to produce renewable fuels and we enhance and get the technology improved, the varieties of the crops, the processing technologies, then perhaps those two crops can play big roles in the production of renewable fuels, as well, and as you suggest, that moves the debate quite a long way from the use of sugar cane and sugar beets to produce sugar for food. You have got a completely different market here, different dynamics.

Senator LUGAR. Finally, Mr. Chairman, my prayer is that as this progresses, as I think it will, that we do not have endless debates within this committee and in the Senate in which we protect sugar against corn or against cellulose or whatever else. The nature of these debates is extremely parochial in which we hunker down behind whatever crop happens to be in our particular field. As a corn producer on my farm, I have an interest in all those plants going up in Indiana and I am excited about this. So it is almost counterintuitive, and I am arguing that sugar, in fact, might be an equivalent to this, might even be better. But in terms of the American people as a whole, some of us really have to take that into consideration as to how in the world we are going to develop resources, and sugar is one of these now, and I find some excitement in that process.

I thank you for your testimony. Thank you.

The CHAIRMAN. Dr. Penn, is there anything in the current program that would prohibit a farmer in Georgia, where we have no sugar grown today from growing sugar cane and using that sugar cane to market it to an ethanol producer?

Dr. PENN. No, nothing. The sugar program is defined around sugar for human consumption, so there are no prohibitions.

The CHAIRMAN. Senator Thomas?

Senator THOMAS. Thank you, Mr. Chairman. A complicated program, isn't it?

Sugar manufacturers suggest a no-cost policy be converted to a payment kind. I understand that would be pretty costly. If that were the case, where would the dollars come from to do that?

Dr. PENN. Well, I think that, as I indicated a little earlier, Senator, the sugar program is going to have to be changed because of January 1, 2008, open border with Mexico. So that is the big challenge, it seems to me, that the sugar industry confronts in trying to develop a new program. So it seems to me the challenge is one for the industry to make suggestions as to the type of program, to engage with others in trying to see if a politically acceptable program could be structured.

You know how jealously all of the other commodities—Senator Lugar just referred to that—protect their dollars, so I think it is—far be it from me to sit here and suggest how those dollars should be allocated.

Senator THOMAS. Mr. Chairman, I am anxious to hear from the other panel, so I will not ask any more questions. Thank you.

The CHAIRMAN. Senator Salazar?

Senator SALAZAR. No questions.

The CHAIRMAN. Senator Coleman?

Senator COLEMAN. Thank you, Chairman. We also want to hear from the other panel. Just let me make a follow-up on two issues.

One, the conversation with my colleague from Idaho in terms of the increase in tariff rate quotas. Is it fair to say you are looking at that now? I mean, it is something you look at all the time and you are looking at right now?

Mr. PENN. I look at it all the time, yes, sir.

Senator COLEMAN. My concern there is, and if I look back at the pattern, I think we have seen increases in foreign sugar imports this year and am concerned about the continuation of that. So my question would be, do you consult with the sugar producers before you make that determination? I mean, you are involved in a conversation with folks out there to kind of get their sense of what is happening in the market?

Dr. PENN. Yes, Senator. This is not a shy industry, as you know. I don't have to get on the phone and call and elicit their views. They make them known to me. They ask you to make your views known to me. I hear from everybody. We get ample information. We do consult, and I don't mean to be flip about this. This is important business. We do our best to get all of the factual information that we can. We assess it. We have a great team at USDA who analyze all of this, and in the end, we have to try to do what we think is best and to try to balance this as the Congress directed us to do in the statute.

Senator COLEMAN. I believe their perspective is there is no shortage in the marketplace and I just urge you to continue to have that conversation with the cane and beet producers as you go about this process. I think it is important.

Let me just add to the discussion about the energy, and I will be very candid, Dr. Penn. In my sense, some early discussion was a less than enthusiastic kind of a view of sugar to ethanol for a range of reasons. Studies are underway. The future is energy. It is out there. Obviously, there are issues about cost. I would think from a technology perspective, we already see the answer. Look what Brazil does. Look what others around the world do. So the issue obviously, there are lots of program costs, et cetera, so I share the perspective of the ranking member, who talked about the program we have on energy and I just want to end by thanking the chairman, who doesn't have a lot of sugar in Georgia but has really been a major force in generating this discussion. I just want the chairman to know that I really appreciate that.

So let us continue this focus on energy. I think there are great possibilities out there, and in the end, possibility the ability to put less pressure on trade. If sugar isn't an issue in trade, in fact, if sugar from other countries can go into an energy program, it wouldn't then have an impact on our domestic market there. So I just urge us to keep moving forward with a very open mind. Thank you.

The CHAIRMAN. Thank you, Senator Coleman. As long as you are going to say nice things, you can have another 5 minutes, if you wish.

[Laughter.]

The CHAIRMAN. Senator Dayton?

Senator DAYTON. Thank you, Mr. Chairman.

I apologize for missing your statement, Dr. Penn. I had some Minnesota constituents and this was the only time they could meet.

I would just say that it is peanuts and sugar combined that make peanut M&Ms and I have single-handedly upheld the price of both commodities by my purchases over the last number of years.

I thank you also, Mr. Chairman, for your interest in this broad array of programs that go beyond your own State. You have been extraordinary in doing so. I thank you very much. But I enjoyed the products we got from the peanut industry last week, in addition to the peanuts you provide us, as well. I think we should revisit that subject on a regular basis.

Dr. Penn, if I missed this, again, because I wasn't here, I apologize, but if you could refresh my memory, what is the—and I glanced at your testimony—the 2002 farm bill established the basic structure of the current sugar program and then, as I recall, there was some part of the CAFTA agreement that the Secretary pledged an additional aspect to the program, an increment to the program. Could you tie that in, please?

Dr. PENN. Yes, sir. The 2002 farm bill has a so-called import trigger that says that if you import more than 1.532 million tons of sugar, then you can't reduce the domestic marketing allotment. You can't reduce the amount of sugar that domestic growers are allowed to market. That is a key supply control feature, so it would make the program unmanageable for the most part if you couldn't do that. So there was some concern that when we honor our minimum import commitments under the WTO, then we add 120,000 tons from the CAFTA-DR countries, that we would exceed that trigger. After extensive discussions with several members of this committee, the Secretary gave assurances that we would not let any of the 120,000 tons of sugar from the CAFTA-DR countries in any way affect the operation of the program so that growers were not entitled to the benefits that the Congress intended.

Senator DAYTON. Has the Secretary had to act to do so? As I recall, there was a price tag associated with that. Has any of that had to be expended?

Dr. PENN. No, it has not, and it is because we have had just the opposite situation. Rather than having too much sugar in the U.S. market, we have not had enough for a while and we have had to scramble to try to find sugar from foreign sources to bring to the market rather than to try to keep sugar out.

Senator DAYTON. And what is the cause of that domestic situation, sir?

Dr. PENN. It has been largely a combination of demand and supply factors, but the hurricanes were probably the most disruptive, influencing the sugar cane crop and also refining capacity in the U.S., closing refineries in the New Orleans area.

Senator DAYTON. Looking at Chart No. 1 attached to your statement, I am recalling back when some of these issues were raised with the world price then quoted at $6 to $8 and the domestic price $20 to $22, approximately. Now, the world price has spiked up considerably and actually is not that far below the U.S. world price. What has driven the world price up so significantly?

Dr. PENN. It has been a combination of factors. We have seen some stimulation in demand for sugar around the world, and then we have seen a series of short crops in some of the major producing and exporting countries. Their supplies have been reduced somewhat. And, of course, our supply has been reduced here. We have imported additional amounts of sugar beyond what we would have traditionally imported. And then a new factor is energy prices. With $70 a barrel petroleum, you get a lot more interest in using sugar cane to produce ethanol than you do to produce sugar for human consumption. So there has been a competition there that has reduced the supply of sugar available to the world market. So there have been just a lot of uncertainties that have been created. The world market price, as you note, is at a 25–year high now.

Senator DAYTON. It is hard to predict the future, but is this an aberration or do you see the demand changes that you just described affecting the price for the considerable future?

Dr. PENN. I have watched this market for a long, long time and this is an aberration, I believe. However, I don't think we are going to see six-cent-a-pound sugar again or maybe even ten-cent-a-pound, because as I indicated in my statement, there are other structural changes that are happening in the world market. The European Union is reforming the sugar regime in the Common Agricultural Policy. That means it is going to be putting far less subsidized sugar into the world market, so that should have a bullish effect on the world market.

Senator DAYTON. Thank you. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, and Dr. Penn, we appreciate your testimony here this morning. As we move through this process of review, looking toward the next farm bill, we look forward to staying in touch with you. I thank you for coming this morning and thank you for your presentation.

Dr. PENN. Thank you, Mr. Chairman.

The CHAIRMAN. I now ask that our second panel come forward. We have Mr. John C. Roney, Director of Economics and Policy Analysis, American Sugar Alliance, Arlington, Virginia. He is accompanied by Mr. Wallace Ellender, the Chairman of the National Legislative Committee of the American Sugar Cane League from Bourg, Louisiana. He is also accompanied by Mr. Steve Williams, President of Red River Valley Sugarbeet Growers Association and President of American Sugarbeet Growers Association in Fisher, Minnesota.

We also have Dr. Margaret Blamberg, Executive Director of the American Cane Sugar Refiners' Association from Brooklyn, New York; Mr. Robert Peiser, President and CEO, Imperial Sugar Company in Sugar Land, Texas; Mr. Joe Goehring, Director of Commodity Operations, the Hershey Company, Hershey, Pennsylvania; and Mr. Mrinal Roy, General Overseas Representative, Mauritius Sugar Syndicate and Mauritius Chamber of Agriculture, Grosvenor Gardens House, London, United Kingdom.

Ladies and gentlemen, we appreciate you being here, and Mr. Roney, we will start with you for any comments you wish to make and we will come down the row this way.

STATEMENT OF JOHN C. RONEY, DIRECTOR OF ECONOMICS AND POLICY ANALYSIS, AMERICAN SUGAR ALLIANCE, ARLINGTON, VIRGINIA; ACCOMPANIED BY WALLACE ELLENDER, III, CHAIRMAN, NATIONAL LEGISLATIVE COMMITTEE, AMERICAN SUGAR CANE LEAGUE, BOURG, LOUISIANA; AND STEVE WILLIAMS, PRESIDENT, RED RIVER VALLEY SUGARBEET GROWERS ASSOCIATION, AND PRESIDENT, AMERICAN SUGARBEET GROWERS ASSOCIATION, FISHER, MINNESOTA

Mr. RONEY. Thank you, Mr. Chairman, for inviting me here today. I am accompanied today by two of our farmers. Steve Williams is a third generation beet farmer from Fisher, Minnesota. Steve is President of the American Sugarbeet Growers Association, with 10,000 beet farmers nationwide and a survivor so far of excessive rains in his region last year. Dickey Ellender is a fifth generation cane farmer from Bourg, Louisiana. Dickie leads the Legislative Committee of the American Sugar Cane League and is a survivor so far of Hurricanes Katrina and Rita that ravaged Louisiana cane country last year. Steve and Dickie will be happy to respond to your questions specific to their crop or region.

Mr. Chairman, members of the committee, the policy that you provided our industry in the 2002 farm bill is working well. It is working well for American taxpayers. It is working well for American consumers. And it is giving American sugar farmers the chance to survive.

The sugar industry recommends the Congress sustain this remarkably successful policy in the next farm bill. U.S. sugar policy ensures that American sugar farmers derive all the returns from the marketplace and not from the government, and it attempts to provide farmers a stable price horizon.

The policy is simple. USDA offers non-recourse loans to sugar producers and it is required to avoid loan forfeitures and taxpayer costs. It has two tools to balance supply and demand and maintain market prices adequate to avoid loan forfeitures. It manages imported supplies through our tariff-free quota system. We are the world's second-largest sugar importer. It manages domestic supplies through our marketing allotment system. Farmers can plant and process as much cane and beets as they wish, but if USDA determines that they have produced more than the market needs, the producers must hold that sugar back from the market and store it at their own expense. U.S. sugar policy thus places the burden of balancing supply and demand on the producers and not on the government.

How successful has U.S. sugar policy been? Consumers and taxpayers have been huge beneficiaries. American consumers enjoy some of the lowest and most stable sugar prices in the world. Consumers in the rest of the developed world pay 30 percent more for their sugar than American consumers do. The 2005 average retail price for sugar was 43 cents. What is amazing is that this is the same price sugar retailed for in 1990. It is even the same price sugar retailed for in 1980, 26 years ago.

What is even more amazing is that consumer prices remained this stable in a year when American sugar farmers and processors faced an unprecedented series of natural disasters, drought in the West, excessive rains in the upper Midwest, and three catastrophic hurricanes in Louisiana and Florida. In the wake of these weather problems, 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 they had been required to store to balance the market. USDA more than doubled imports. And cane refiners damaged by the hurricanes worked frantically to care for their workers and get their operations up and running again. None of these actions cost U.S. taxpayers a dime.

Despite sugar policy's continued success, even after being tested by last year's natural disasters, some would like to change the policy. U.S. commodity policy changed in 1996 for most programs. Commodity prices have been allowed to fall, with government providing payments to keep farmers afloat. Food manufacturers and retailers have been the biggest beneficiaries. They get the cheapest possible raw materials from reliable American farmers. Then, by not passing the savings along to consumers, they increase their profit margin. The taxpayer costs of subsidizing food manufacturers this way has totaled over $200 billion since 1996.

A conversion to the income support approach for sugar would be another boon for the food manufacturers, but it would cost taxpayers $1 to $2 billion per year and consumers would derive no benefit. During this time of severe budget constraints and tightening limits on payments to farmers, where would the money for a new high-cost U.S. sugar policy come from? Would Congress reduce benefits for other crop farmers to finance a new payment program for sugar? What happens to sugar farmers already at their payment limits for other crops? And what happens to sugar farmers when that money runs out?

American sugar farmers have not had a support price increase since 1985 and the survivors have come through a nightmare of natural disasters in 2005. Through it all, they have supplied American consumers dependably and well and they have raised more money for the U.S. Treasury than they have received. We ask the committee not to entertain the food manufacturers' suggestion we yank the price stability out from under the program and place an added burden on U.S. taxpayers. We respectfully urge the committee to continue the remarkably successful U.S. sugar policy in its current form. Thank you.

The CHAIRMAN. Thank you.

[The prepared statement of Mr. Roney can be found in the appendix on page 52.]

The CHAIRMAN. Dr. Blamberg?

STATEMENT OF MARGARET BLAMBERG, EXECUTIVE DIRECTOR, AMERICAN CANE SUGAR REFINERS' ASSOCIATION, BROOKLYN, NEW YORK

Dr. BLAMBERG. Mr. Chairman, members of the committee, I appreciate you inviting me to be here today. My name is Margaret Blamberg and I am the Executive Director of the American Cane Sugar Refiners' Association. Our association represents all but one of the cane refiners in the United States and we are strong supporters of America's no-cost sugar policy.

Last summer, this policy faced the biggest test Mother Nature has ever unleashed on our industry, and by avoiding a supply disaster of epic proportions, America's no-cost sugar policy passed that test with flying colors. Let me explain.

On August 29, Hurricane Katrina ripped through New Orleans, and for Domino Sugar, that is when refining took a back seat to rebuilding and recovering. In one fatal swoop, Katrina brought Domino's Chalmette sugar refinery to its knees. Nine feet of murky water crept into factory buildings. Sugar destined for grocery shelves dissolved into two feet of sticky goop. Roofs were ripped apart, windows shattered. The electrical infrastructure was destroyed. Ground-level machinery no longer functioned.

When Katrina's winds and waters stopped pounding the plant, Chalmette became more than just a sugar refinery. It was a sanctuary to more than 250 evacuees left homeless by the hurricane. It was a command center for the government rescue operations. It became the largest collection of FEMA trailers in St. Bernard Parish, a mini-city that became known as Chateau Domino, where hundreds of workers and their families still live.

Instead of talking about raw sugar prices during staff meetings, Chalmette executives set about figuring out how to feed employees, or how to get kids back to school, or where to put a makeshift laundromat or mobile cafeteria. During the disaster, Domino paid its employees full wages. The company put people ahead of profits, and putting people first paid off.

Even though many said that Chalmette would never reopen, its 300 workers wouldn't take no for an answer. In a testament to their determination, the wrecked refinery was rebuilt in time for the Christmas baking season, and today, it is operating at pre-hurricane capacity.

But this is not a story just about Domino. While this massive recovery effort was underway, a remarkable thing was happening in the U.S. sugar market. Despite losing 20 percent of America's cane refining capacity for 4 months, grocery shelves remained fully stocked and candy factories kept on running. That is because of sugar policy. No-cost sugar policy gives the USDA the flexibility it needs to meet demand during times of emergency by tapping an industry-funded sugar reserve and by increasing imports.

Think about it. When Hurricane Katrina wiped out a chunk of America's oil refining capacity, prices skyrocketed. But when the same hurricane wiped out a chunk of America's sugar refining capacity, retail prices barely budgeted.

But the story doesn't end there. Mother Nature wasn't finished. There was Rita and then there was Wilma and floods drenched Hawaii. It was the worst year the sugar industry ever had and it could have been the perfect storm for disaster. But chaos never came because of our country's sugar program and because of our country's sugar refineries.

In years of healthy crops, refineries supplement domestic supplies with imported raws. When hurricanes or droughts strike, more foreign raws can be tapped.

One word of caution. The USDA tried to speed fresh supplies by permitting sizable imports of refined sugar, bypassing U.S. refineries. This strategy was counterproductive and actually slowed down the process. U.S. refineries are the best source of high-quality sugar. This was a hard lesson learned for many of our customers and is an experiment that the USDA should not repeat.

In the coming months, this committee will be lobbied by large industrial users looking to turn the no-cost sugar program into one with a hefty price tag. They are looking to boost their profits on the backs of farmers and taxpayers and they are looking to give foreign countries control over our kitchens. This is a recipe for disaster. Feeding ourselves is the first rule of homeland security.

We ask you to extend the existing sugar program. It is important for consumers, for our producers, and for America.

The CHAIRMAN. Thank you.

[The prepared statement of Dr. Blamberg can be found in the appendix on page 66.]

The CHAIRMAN. Mr. Peiser?

STATEMENT OF ROBERT A. PEISER, PRESIDENT AND CHIEF EXECUTIVE OFFICER, IMPERIAL SUGAR COMPANY, SUGAR LAND, TEXAS

Mr. PEISER. Mr. Chairman, thank you. My name is Robert Peiser. I am the President and CEO of Imperial Sugar Company, which operates two major cane refineries located in Savannah, Georgia, and Gramercy, Louisiana. I am pleased to offer this testimony to the committee on behalf of Imperial's 809 employees in Texas, Louisiana, and, I might add, in Georgia, because the subject matter affects those employees plus all of our customers who get our product on a local level and all of those companies regionally who support our operation in those areas.

I am going to come about this a little bit differently. As requested by the committee, I am going to address specifics as to what is working and what is not working in the sugar program. First, let me talk a minute about Imperial.

We are an important element of agriculture in this country. Our cane refineries produce approximately 14 percent of the nation's refined sugar needs. With all due respect to Dr. Blamberg, who said she represents all but one of the cane refinery operations, there are only three, so I guess I could say that we represent all but two of the cane operations in this country.

[Laughter.]

Mr. PEISER. Our largest facility, which is located in Savannah, represents about 9 percent of the sugar refining capacity. The Louisiana facility is slightly less. We are much different than the rest of the industry in that we are the only non-integrated company in the industry, so we buy our sugar from independent suppliers, be they domestic or—producers, be they domestic or foreign.

Historically, our Savannah refinery has bought most of its sugar from Florida, but as that industry has integrated over the years and increased its refining capacity, we have relied more and more exclusively on foreign sugar. As a result, from 2006 onward, we would expect to obtain all of our raw sugar from foreign sources.

In Louisiana, we are quite different and we rely mostly domestic production to obtain our sugar in Louisiana. We are proud of our long-term association with the growers. We are very supportive of the growers and need a strong growing community to support our operation in the State.

So we are far from anti-grower. The situation that we find ourselves in in Savannah is a fact of circumstances as the industry has changed.

Let me say clearly and unambiguously that I think the sugar program is working, but it has some things that need to be changed, as well, to make it more efficient.

So, first, what is working about the program? First, I want to applaud the USDA's sugar program professionals. They have done a tremendous job in the face of constant crisis and work very hard and, I think, do a very good job.

Second, marketing allotments have generally worked in controlling domestic overproduction, although it comes at a high administrative cost and really doesn't work for cane refineries. In fact, we are often frustrated as we access supplies of sugar on an efficient basis.

Third, the re-export program in the sugar program remains a bright spot in sugar policy because it allows cane refiners to secure incremental business and provide us the flexibility of sourcing non-quota sugar to solve many short-term supply issues.

Plus, the recent removal of shipping pattern restrictions allows less sugar to flow easily into this country. Up until this year, shipping patterns that were part of our program really tend to inhibit our ability to obtain raw sugar.

Fifth, the USDA's administration of the program as it pertains to organic sugar is very important to meet the explosive needs in the organic marketplace and I applaud those efforts.

As successful as the program has been, there are several areas where it has not been working. First, the support price. The differential between the support price of raw sugar and the support price of white sugar is no longer wide enough to support operations of independent refiners when both of those prices are at support levels. As you know, cane refining is a very energy-intensive business. As the price of energy has risen, the differential between those two have made it difficult and will make it difficult in the future to sustain cane refinery operations when both of those parameters are at their support levels.

Second, while marketing allotments are useful, the import trigger that Dr. Penn mentioned earlier could very well become a problem as more and more imports come into this country, either with CAFTA or NAFTA, and we would suggest that those marketing import triggers be removed or raised in light of the dynamics of the market.

Third, the current TRQ allocations among the various countries that actually import sugar into this country is an anachronism. It is archaic. It was developed in the 1970's during a different era. There are many sugar exporting countries or countries that have those allegations that no longer ship sugar to the United States or many that don't ship as much as they are allowed and so we need to look at the allocation process within the TRQ.

We also need to look at the timing of the announcement of the annual TRQ to make sure there is a good supply of sugar into this country.

We should look at import limitations, which tend to stifle the growth of sugar refiners and participate in the growth, and we need to look at the marketing allocations in general as refiners need to have more raw sugar to efficiently support its operation.

The theme of our business really is to get enough, sufficient raw material, convert it efficiently, and distribute to our customers. That is what we are all about and we are all about getting more raw sugar into our refineries to be able to service the marketplace.

Mr. Chairman, on behalf of Imperial and its employees, I thank you for receiving our views today and I look forward to working with the committee to find a solution to the issues that face us.

The CHAIRMAN. Thank you.

[The prepared statement of Mr. Peiser can be found in the appendix on page 68.]

The CHAIRMAN. Mr. Goehring?

STATEMENT OF JOE GOEHRING, DIRECTOR OF COMMODITY OPERATIONS, THE HERSHEY COMPANY, ON BEHALF OF THE SWEETENER USERS ASSOCIATION, HERSHEY, PENNSYLVANIA

Mr. GOEHRING. Thank you. Mr. Chairman and members of the committee, thank you for this opportunity to testify at this oversight hearing on the U.S. sugar program. My name is Joe Goehring. I am Director of Commodities Operations for the Hershey Company and I am testifying today in my capacity as a past chairman of the Sweetener Users Association.

As sugar users, we want and need a strong and healthy domestic sugar industry, including beet and cane producers, processors, and independent cane refiners. We see some real problems in the design of the current sugar program, but that doesn't mean we advocate that the United States eliminate its sugar policy. Instead, we should come together as an industry—growers, processors, refiners, and users alike—to arrive at a consensus on the best government policy to meet everyone's needs and to serve the public interest. Our organization has proposed exactly that to our friends in the producer and processor community and we are gratified by their preliminary response and we hope they will agree that such an exercise will be constructive.

Compared to government support policies for other commodities, the sugar program is different in several respects. Two of the most important are our import quotas and marketing allotments. Few other commodity programs rely on import quotas and virtually none rely on marketing allotments.

The turbulent sugar markets of the past 9 months have highlighted some deficiencies in the current program. Obviously, the sugar program did not cause last year's hurricanes. Markets would have reacted no matter what policies would have been in place. The question is whether the current sugar program reacted well to sudden shocks, and unfortunately, it did not.

For example, even after the hurricanes had done significant damage to the Louisiana sugar cane crop and had closed a major cane refinery, there was still perfectly good sugar that processors were willing to sell and industrial users were more than willing to buy but which could not be legally sold because of the allotment system. Eventually, USDA did act to free up the sugar, and I want to commend USDA for the many actions they took in the wake of the hurricanes to make some sugar available to the market. But in a tight market, it shouldn't be necessary for the Federal Government to give buyers and sellers permission to enter into commercial transactions. One of the fundamental problems with current sugar policy is that it interposes the government between buyer and seller, often to the detriment of market needs.

USDA also increased import quotas a number of times in the past year, and again, we have appreciated their actions. But here, too, there have been problems, not problems of USDA's making, but problems that are inherent in a quota system. For example, USDA sought to increase imports of refined sugar, the kind that we manufacturers buy and use, to account for the temporary closure of the Louisiana cane refinery. Unfortunately, a sizable amount of that sugar entered ostensibly as refined sugar was, in fact, product that required substantial further refining simply because of the definitions that the Customs Service uses in administering the quotas. It is a technical issue that is covered in more detail in my testimony, and I won't belabor it, but the result for users was less supply of refined sugar than USDA intended and less than the market needed.

I cited two problems that occurred in a tight market and I don't want to leave the impression that the sugar program works fine except in a tight market. It doesn't. In fact, the history of the sugar program over the past 25 years has more often been a history of surplus domestic production rather than shortage. Surplus domestic production is not in the long-term interest of the industry and should not be a policy goal any more than shorting a market should be.

Looking briefly toward the future, Mr. Chairman, we believe that there are even more compelling reasons to revise the current sugar program. First off, domestic sugar usage is flat and close to a tenth of domestic sugar demand is being filled by imported sugar-containing products. The incentive to expand these imports is directly related to the usually wide spread between U.S. and world sugar prices.

In a related phenomenon, the structure of the current sugar program has been associated with the loss of thousands of manufacturing jobs. This was documented in a recent Commerce Department study. Trade policy factors, including an open border with Mexico in less than 2 years, the prospect of a Doha Round agreement that will require higher sugar import quota and also call for reductions in so-called Amber Box subsidies, like the sugar price support program, strongly suggests the need to think about alternative sugar policies.

Mr. Chairman, we know that there will be future opportunities to make more detailed recommendations for the next farm bill. We will not attempt to do so now. We prefer to work toward an industry consensus of growers, processors, cane refiners, and users which will provide the optimum policy solution for all stakeholders going forward. We believe such a consensus would be welcomed by this committee and we look forward to working with you as you develop the next farm bill. We thank you for this opportunity.

The CHAIRMAN. Thank you very much, Mr. Goehring. In response to your last comment, at our hearing last week on the peanut program, that is exactly what happened in 2002. As we all know, there had been somewhat of the same type of friction there that maybe we can see has been in the sugar industry.

Mr. GOEHRING. Absolutely.

The CHAIRMAN. I hope that we can do exactly as you say, have all segments of the industry come together with a very positive program for us.

Mr. GOEHRING. Mr. Chairman, we approach this with an open mind. I was part of the peanut work that was done on the last farm bill and would like nothing more than to be able to arrive at a consensus with all members of the industry.

The CHAIRMAN. Very good.

[The prepared statement of Mr. Goehring can be found in the appendix on page 76.]

The CHAIRMAN. Mr. Roy?

STATEMENT OF MRINAL ROY, GENERAL OVERSEAS REPRESENTATIVE, MAURITIUS SUGAR SYNDICATE AND MAURITIUS CHAMBER OF AGRICULTURE, GROSVENOR GARDENS HOUSE, LONDON, UNITED KINGDOM

Mr. ROY. Mr. Chairman, members of the committee, I am deeply honored to have been invited to testify to this hearing of the Senate Agriculture Committee on the U.S. sugar program and to present the views of the traditional sugar quota holders and exporters under the U.S. tariff rate quota on raw sugar.

I am appearing before the Senate committee in my capacity as General Overseas Representative of the Mauritius Sugar Syndicate. The Mauritius Sugar Syndicate is a private sector international marketing organization of the sugar industry of Mauritius. I was, prior to my present post, I was the Chief Executive Officer of the Mauritius Sugar Syndicate and therefore was responsible to sell sugar in our markets, including the United States. I am also currently the Chairman of the ACP London Sugar Group, which represents the 18 countries in Africa, the Caribbean, and Pacific which sell sugar under the sugar protocol to the E.U. The ACP group also includes 13 countries which currently hold allocations under the U.S. TRQ.

My testimony will underline the importance of sugar for Mauritius, the key role of the U.S. sugar program as a vector of trade-driven development in the developing country quota holders, and the imperative of continuing the U.S. sugar program and its benefits for the future.

Mauritius is a small island of 1,860 square kilometers in the Indian Ocean east of Madagascar, the size of the State of Rhode Island or Fairfax County in Virginia. Despite its small size, Mauritius ranks among the ten top exporters of sugar, exporting between 500,000 to 600,000 tons of sugar.

A total of 40 countries, all but three of them are developing, have access to the U.S. sugar market under the TRQ. By providing the guarantees of long-term access, remunerative price levels and stable price levels, and predictable revenue, the U.S. sugar program has contributed to the sustainable development of these countries through grade, not aid. The key, however, is the combination of market access coupled with the value of the remunerative price of this market access. Without market access without value, it is meaningless, especially against a background of rising trade costs to deliver the sugar to distant markets.

I would also like to respond to the contention—this was raised earlier in the morning—that the U.S. sugar program harms consumers and costs jobs because it maintains the market price at a higher level than the world market price. The world market price is not a valid benchmark for the value of sugar as it is a residual market.

An International Sugar Organization study carried out among 100 counties in June 2003, covering the period 1996 to 2002, concluded that 76 percent of the sugar which is produced is actually consumed in the countries where it is grown. It also concluded that the average world domestic price at retail level was $610 per ton, which means 27.67 cents per pound, significantly more than the support price in the U.S. sugar program or the New York Number 14 prices, and more than twice the average world price during the last decade. Most sugar industries of the world, in fact, sustain their long-term viability through principally sales to their captive higher-priced domestic markets. In short, the world price is essentially irrelevant to any evaluation of the operation of the U.S. sugar program.

Attached to my written testimony is a recent article I wrote for the 24 February 2006 education of Agra Europe on the E.U. sugar regime reform from the ACP perspective. I would like to request that this article be incorporated in the record of this hearing.

It has been suggested that the U.S. should reform its sugar program because the E.U. is already reforming its regime. This is a non-sequitur. When the E.U. sugar reform is complete, the E.U. will still produce twice the tonnage that is currently produced by the United States. In fact, the E.U. production, which is currently about 90 million, will have to go down to 40 million, which is twice the U.S. production. And it will have a support price which is higher than the U.S. support price. In short, even after the reform, the E.U. sugar regime will be at higher benchmarks than the U.S. sugar program, so there is no justification for reforming the U.S. sugar program because the E.U. are doing so.

At the same time, however, the E.U. sugar reform price risks the further impoverishment of the E.U. developing country quota holders and will probably drive several of the ACP countries out of the sugar industry completely. Already, one of the countries, St. Kitts, has announced its decision to cease production after 360 years. This, in turn, will add to the serious unemployment problem, deprive these countries of much-needed export revenues, and create new barriers of economic development to these vulnerable countries. The U.S. support price, which is lower than the E.U. price after the 36 percent price cut, is already at the minimal sustainable level and cannot be reduced without causing similar damage to developing country quota holders other than DRQ.

In conclusion, Mr. Chairman, for the past 24 years, the U.S. sugar program has provided much-needed access to the U.S. market for 40 traditional suppliers, most of whom are developing countries, at stable and remunerative prices. The predictable export revenues generated by these exports through the U.S. market have contributed to the economic development of these countries through trade, not aid. From our perspective, the U.S. program has been very successful and should be extended so that it can continue to provide meaningful trade opportunities at remunerative prices which contribute to the sustainable development of numerous developing countries across the world while providing the U.S. with a broad safety net of reliable supplies to the U.S. market, and we have seen that when there was this catastrophe last year. Extension of the U.S. sugar program will also be consistent with the goal of the Doha Development Round of encouraging development through trade.

I rest my testimony, Chairman. Thank you.

The CHAIRMAN. Thank you, Mr. Roy.

[The prepared statement of Mr. Roy can be found in the appendix on page 84.]

The CHAIRMAN. I thank all of you. Unfortunately, I have been called by the leader to an immigration meeting that has just started and I am going to have to run. Senator Lugar has generously agreed to chair the remainder of the hearing. Before I leave, I want to say a special welcome to you, Mr. Ellender, because I understand that one of your uncles, Allen Ellender, left the sugar cane farm many years ago down in South Louisiana and came and walked the halls of the Senate. He was here for about 35 years, I understand, 18 of which he served as chairman of this committee.

We appreciate all of our predecessors who went before us, but most especially those who were involved in the great industry of agriculture, so we wish to issue you a very special welcome.

Mr. ELLENDER. Thank you.

The CHAIRMAN. Senator Lugar?

Mr. ELLENDER. Thank you, Mr. Chairman. I understand that you were also high school educated in Louisiana.

The CHAIRMAN. Don't hold that against me.

[Laughter.]

The CHAIRMAN. That is exactly right.

Senator LUGAR [presiding]. Thank you very much, Mr. Chairman, for allowing me to continue this very important hearing.

I congratulate you, too, Mr. Ellender, and your family. I did not want to interrupt the course of earlier testimony to intrude with this history, but I am delighted the chairman has done so. We had, during a period of time when I was privileged to serve as chairman of the committee, a history written of the committee which lists all the chairmen, something about their tenure, and so this is available to our members to have that heritage. We know about your family and we appreciate you.

Let me just ask this general question because earlier on, I suggested that the price of sugar in the United States apparently, on the charts that the USDA presented, was lower than the world price. Mr. Roy has testified that for a variety of reasons, the world price is irrelevant, that essentially, as I gather, this oversimplifies it. There are so many countries intruding into the sugar market to support either their citizens, their industry, whoever that may be involved, that this is a situation honeycombed with all sorts of protective mechanisms, defensive mechanisms, or some would say proactive mechanisms, depending upon what euphemism you want to place on all this. It really almost requires a computer study to punch in all of the data and to figure out who is doing what to whom in the process of this.

What I am curious about is as this committee begins to examine the program again, and you need not answer this immediately, but for the record, if any of you know of reputable studies that get into the weeds for 40 countries or however many are involved so that we get some idea really of where the price lies, anywhere, under any circumstances, quite apart from distortions that may come. Otherwise, we are in a situation in which the politics of this are, in part, if the E.U. doesn't move, we don't move. If WTO doesn't happen, we really have to be on guard against the rest of the world or whoever the malefactors are. As a relative amateur in this thing, I don't know who all the malefactors are. I am sure there are a lot out there and we certainly want to protect the American people against all of this.

But here within the economy, however, Mr. Goehring, you mentioned from the standpoint of Hershey and the industry of sugar users that, in fact, there are problems, if you are consumers of Hershey bars or whatever else, for consumers. Now, very rapidly, others have testified they are not so sure about you. They think maybe you are taking advantage of this program at Hershey or elsewhere, charging the American people more for Hershey bars and that is, in fact, where they are paying the money, not to the sugar people but to the users of the sugar. Where justice lies in that argument, once again, is very difficult to tell.

We always hope in a competitive market economy that somehow these things are sorted out, but what I am gathering is you are saying in a world economy, it is not that simple. Things are not sorted out. And indeed, I have argued and some have argued recently that in the area of energy, for example, if over 75 percent of all the reserves as well as the current production are controlled by governments, not by supply and demand, that if ExxonMobil has 3 percent of the market, we can all beat on ExxonMobil, but the other 97 percent is somewhere else, maybe with Vladimir Putin, maybe others who are, in fact, setting the price, or even deciding not to go into the reserves.

These are important arguments to try to get a hold of something. Now, obviously, it would be ideal if the panel here today, learned as you are, came to a consensus, came to this committee and really divests of all of the judgments or the parochial arguments or the protection of whoever else in our constituencies who feel compelled to do. To some extent, I think that has occurred with the peanut group, not entirely. There were questions raised there on storage issues, for example, and price finding issues, which seems to be very difficult to obtain in the peanut business, likewise, quite apart from the sugar business.

I think probably this debate as we get into the farm bill will take two courses, one of which is that there is a very sophisticated consensus in which we appreciate that there have to be balances between users and suppliers and the need to have peanut farmers and production in our country and a degree of protection against all predators elsewhere if they are really making it difficult for us, or we will get into the old bromides, let us protect ourselves unless we have WTO. WTO, probably we are not going to have.

Or we can say, kick the can down the road. Why have a big debate in 2007? Postpone it to 2008, or try 2009 or any other time, because it is not easy to get consensus of this committee or this body, or to conference with the House, particularly on contentious issues where many members of the House and the Senate have particular constituencies. It might come to a corn farmer or soybean farmer like me. Now listen, Lugar, don't get too harsh with regard to this because after all, perhaps, we can all, if we are thoughtful about this, reach consensus, not necessarily at the expense of any of our growers, but perhaps somebody else.

With all that in mind, just let me sort of explore for a second, is the consumption of sugar worldwide increasing? In other words, with the wealth of nations, we hear from the oil people that certainly there are a lot more consumers of that product, we are led to believe, in fact, in the whole energy group. A certain dynamism now is involved in the growth of India and China, but leaving aside one-third of humanity involved there, even in our country, despite all the constraints. But I am curious, is that true for sugar as a commodity worldwide, worldwide demand? Does anybody have any sense of that? Yes, Mr. Roney?

Mr. RONEY. Yes, Senator. World sugar consumption has been rising consistently, even slightly in excess of the rate of population growth, because of rising incomes in developing countries. And the fact that consumption has grown more rapidly than production in the last couple years is a big factor in the reason that the world sugar price has doubled.

Senator LUGAR. To what extent—maybe the fuel business in Brazil is so novel to that country that you really can't gauge that, but still, 52 percent of the Brazilian sugar crop is a lot of sugar, a lot of money. So I am wondering to what extent do you think the consumption is on the food side as opposed to the energy side. Do you have any feel for that?

Mr. RONEY. Senator, Brazil is the shining example and by far has the largest cane ethanol industry in the world. It has been built on 30 years of government programs, both to subsidize production and then more recently to mandate consumption. So they have encouraged the industry in that way and it has made sugar virtually the byproduct of the Brazilian cane industry.

So each year when you see more demand absorbed by ethanol, that can diminish the amount of sugar available for the world market, and I think that has been another factor this past year. Historically, any time there has been a little bit of an increase in world demand, Brazil has shifted some cane from ethanol to sugar and filled that demand and kept the world price low. But their ethanol demand within Brazil is so high now because of the popularity of their flex-fuel cars that they can barely meet domestic ethanol demand. So they continue to increase their cane output, but at this moment, they couldn't increase the sugar side rapidly enough to prevent the world price from rising.

But this continues to be a very interesting dynamic because Brazil is, by far, the world's biggest player in the world sugar market. They export about 18 million tons per year. That is up from two million tons just a decade ago. The question has been, can they expand ethanol and cane and sugar simultaneously and the jury is still out on that.

But with the increased world demand for ethanol, what we are seeing in a number of countries is governments stepping in and instituting programs to encourage cane ethanol. But it does take government involvement, and that is what we are seeing in every ethanol program, including the U.S. corn ethanol program, around the world. It does take government involvement and encouragement, some subsidy to some degree, to encourage the investment to make that happen, to make it economical.

Senator LUGAR. You lead into my next question, and that is, hypothetically, would it be a good policy for the U.S. Government to give assistance to the sugar industry to produce ethanol? We have a gamut of programs which we take seriously in this country, not that we are going to become energy independent, but that a much larger percentage than the low single digits is going to have to be from alternative sources or we are not credible with regard to the rest of the world. We are going to be in bad trouble.

I am not trying to suggest arguments for any of this panel, but what is sauce for the goose might be sauce for the gander. If you are serious about ethanol and you have a lot of sugar cane, you have got some possibilities and they are ones that might be more attractive to the American people than the discussion we are having this morning, which might be characterized by some editorial writers as a fairly parochial industry-centered situation involving Senators who are equally involved in the same industry.

But sort of breaking out of the pack, one of the reasons why the Brazilian thing is fairly attractive is the flexible-fuel cars can go either way. If sugar is up and oil is down, the car uses the oil or the petroleum-base. If it is the other way around, use the other. You begin to have a different dynamic in that situation than anywhere else in the picture.

I suppose I would argue that the energy dollars and monies and so forth are huge in comparison with whatever we are talking about today in sugar, and so I am just trying to suggest, even as you come together with a consensus program, think about this if you can to where this is all headed as opposed to simply the old problems of the candy maker refers the refiner or versus the grower, beets and cane, exquisitely down to the last decimal point whether beets get the money or cane or so forth.

Let me yield for a moment to my colleague before I get carried away with enthusiasm.

[Laughter.]

Senator COLEMAN. Thank you, Mr. Chairman. I appreciate the discussion. This was an issue which was raised when we dealt with CAFTA and I think it is very fair to say that—and if I say something that is incorrect, please, I would have the panel correct me—but there is a lot of concern among the industry. Right now, there is a no-cost program and so the idea of even ethanol, by the way, there is a subsidy in ethanol. But as I think the testimony has been very clear here, Brazil has got a 30–year history of subsidy across the board. Half of the 85 pumps in America, Mr. Chairman, are in our State, in Minnesota. We have 400 to 500. That is half in the country. And so you have got to spread out infrastructure, and so you have got a country that has been really a marvel.

I would just raise two issues. I just want to follow up on this discussion. We haven't even begun to deal with the energy needs of China and India. I mean, there is a possibility down the road of the U.S. and Brazil working together to export ethanol to China. I met with Hu Jintao and I raised the energy issue with him. And so we still have to deal with this issue, and I don't want to move away from it.

Mr. Williams is part of a country in Northern Minnesota that went through tremendous flooding, and I suspect that in the absence of this program, that I don't know whether he or some of his neighbors would be in business or would be worried about being in business today. So I don't want to move away, and we are going to get back to some of those questions, but I just want to follow up on what you said.

I would hope the industry would have an open mind, understanding, again, there is almost an article of religious faith, a no-cost program, and if we do anything to challenge that no-cost program, we will somehow lose the support in Congress or the support in this country. I would note, and I think if I may comment for the record, that I do have some processors in Minnesota who do want to change the program, folks in Southern Minnesota and some others. I visited with them. They would like to change the program. They have a different perspective than perhaps my friends in the

ASA. So, on the record, it is not unanimity, but I think it is fair to say, across the board, there is this concern about we don't want to cost anything. But I just want to echo your comments, Mr. Chairman, in that regard.

If I can, if I have the floor, I hope everyone reads all of Mr. Roy's testimony, your written testimony. It goes in much further than what you talked about.

I mean, what we hear again and again, and we can lay out the phrases, we have got a program here that works well, that is at no cost, that is stable, and I hope that we don't forget that as we go through.

Can I just ask, can we follow up on the energy question, because the panel has not commented. Can we get your perspective on your vision about the prospect of a sugar or beet or cane to ethanol program? Is there an openness on the part of the ASA and others to take a close look at that? Does anybody want to respond?

Mr. RONEY. Senator, from the point of view of the American Sugar Alliance, we are certainly open to that. We see that the future for U.S. energy policy is very much tied to ethanol. We see every opportunity for sugar to be a part of the biofeedstock mix that goes into ethanol. But we would also emphasize that we do need to hold on to our domestic policy until we have the reform in the world market that Senator Lugar has talked about and to maintain that kind of price stability. We see a sucrose ethanol program as potentially complementary to the program that we have now for sugar for food.

But certainly, we are open to ideas and thoughts on that, and with the acknowledgement, of course, that this would involve a government program of some sort, that this is not necessarily something that we can jump into economically and expect to be able to compete with the uncertainty of world ethanol and U.S. ethanol prices.

Mr. PEISER. Senator, if I can add, it is very difficult to argue with the use of ethanol and sugar into ethanol given what is going on in this country today and the world. And indeed, I would think if there is an alternative use for sugar, you might get some less parochial discussions about other public policy questions from growers who have only one use today. So I think the balancing of their product to service more than just one master, I think would be quite useful.

Having said that, I think we all have to recognize that there is a very, very tight balance of supply and demand in this country even before the hurricanes, and I think everybody would say that it was a pretty good equilibrium throughout the country, certainly some regional differences, but generally, it was a decent equilibrium. It was probably a little too much capacity for a while, but as you may know, several refineries had closed, two in the last couple of years, and that is what has created this very tight balance between supply and demand.

So any program that is put forward to find an alternative use of this crop has to recognize that tight balance and has to recognize that there needs to be other ways of creating supply for the consumption demands in this country, because without that, you could have clearly not a sufficient supply of sugar to satisfy consumers in this country.

Senator COLEMAN. Mr. Goehring, is it fair—by the way, I looked at the data and I understand the concern about not only relocations in the industry, but there has also been a drop in the wholesale price of sugar from 1996 to 2004. Those prices, as I understand it, the wholesale price of sugar dropped 20 percent from 1996 to 2004. That is when you had most of your relocations. I suspect that even with sugar at the world price, that folks who relocate elsewhere are not coming back to the U.S. Is there a way to truly assess the impact of this program on relocations in your industry?

Mr. GOEHRING. You know, I think it is different for each individual company, but I can speak for the Hershey Company. The vast majority of our production is located in the United States, Senator, although since the 1960's, we have produced in places like Canada and Mexico. We are constantly trying to evaluate what products ought to be made where, and, of course, input costs such as sugar are a major part of our decision process. Recently, because of the disparity between the U.S. price and access to a world sugar price, people who produce, for example, hard candies have been moving production outside the U.S. where they can get access to the cheaper-price sugar.

Senator COLEMAN. On a personal note, Mr. Williams, because I know at the same time we are having this conversation, I have been talking to the mayors in Roseau and Crookston and all about flooding in your neck of the woods, not too far from Fisher, some of those communities there. Could you talk a little bit about the program and the impact it has, because we have had a lot of discussion here about catastrophe and yet prices remain pretty stable. So the American consumers in that sense have benefited in spite of what you would see distorting market factors. Can you talk on a personal level about that?

Mr. WILLIAMS. Thank you for the question, Senator. This program is very important to the growers that I represent, but not only to the growers but the communities, because these plants located around the country are located mostly in small towns and they provide good union jobs. If these plants are lost, there is no one to replace—there is no businesses to replace these lost jobs. They also need a lot of support industries, small businesses, and through the revenue they provide, through the economics that they provide, they provide a lot of opportunities for small business and small business jobs.

Where I am from in the Red River Valley of North Dakota and Minnesota, sugar beets provide over $3 billion of annual economic activity. There just is nothing up there to replace that activity and those jobs in Northwestern Minnesota and North Dakota. So this is very important, not only to me as a grower, my growers around the country, it is also very important to my banker because we put a tremendous investment into this crop and also a tremendous investment into actually owning the plants. Every sugar beet processing plant in the U.S. is now owned by the growers, as of last year.

So there are tremendous value-added ag industries that help their communities and help their growers and they provide a low-calorie, 15–calorie product for consumers at a fair price and a good supply, on-time supply for our customers, and we think that the program works extremely well for growers and for the U.S., not to mention it does not cost the taxpayers any money. So thank you for the question, Senator.

Senator COLEMAN. Thank you, Mr. Chairman.

Senator LUGAR. Thank you very much, Senator Coleman.

Let me ask this question, which has not intruded yet in the hearing. Given the articles or even larger studies by many people interested in nutrition and health, many advise less use of sugar. I wonder whether that has affected any of your markets, either as persons who produce products or as people who produce sugar at all. Is there a trend of that sort, or by and large, in your judgment, the American people are ignoring that and love sugar products anyway, despite the controversy, say, at the school lunch program in which now soft drinks are not going to be provided in elementary school situations, largely because of obesity studies of young people, far from old people? Where does that fit into this situation, demand for the product?

Mr. PEISER. Senator, it is a very good question and I am sure Mr. Goehring has something he would like to say, as well. But I don't think people argue that people should eat less sugar but should do it in moderation, just like everything should be done in moderation. There is a lot of confusion in the country about sugar and sugars and the distinction between sucrose and fructose, and the debate over the school lunch program particularly as it relates to soda really relates to fructose, since there really is no sucrose in colas. Unfortunately, this industry, the sugar industry, gets lumped together quite often in that debate and it is very important to distinguish between the two.

Mr. GOEHRING. Yes, Mr. Senator, there is clearly an interest by the American people out there about nutrition and I think it is growing. We have seen various dietary trends over the past 30 years. Clearly, from our industry's standpoint, we say that confectionery products ought to be part of a balanced diet and not exclusively or overused. We have had trends in the 1970's and more recently with the Atkins diet where the sugars and the carbs were not considered very good. It seems to have rebounded from those very low levels of consumption and declines in consumption and it is probably a more balanced type of demand right now.

Senator LUGAR. Let me ask Mr. Peiser, you used the word tight balance in discussing the sugar situation in our country in recent months and all. If you were to play the devil's advocate, someone would say, well, why in the world was there a tight balance? After all, there is sugar all over the world, in 40 countries. Mr. Roy has testified that a great number of them gain really their development sustenance from the fact that they have a part of this situation. So why was the balance so tight?

I understand all the rudiments that have been discussed here today and the questions raised about USDA. Were they sort of fudging the standards a bit, inviting a little bit of sugar in here at that particular point? But arguing once again as the devil's advocate, why shouldn't the USDA say, you know, we can relieve this in a hurry. As a matter of fact, there is no need for tightness whatsoever. Let us reassure the whole public. Let us reassure the world that, by golly, there is a lot of sugar out there. Now, what is wrong with that point of view?

Mr. PEISER. I think the balance of different constituents' interests is very important here and everybody has somewhat of a different point of view, and you are right, everybody is a little bit parochial, but all the parochial interests tend to look at the public good.

If you went back several years ago, and I don't think you have to go back more than two or three, the balance was, in fact, tight. The refining capacity in this country was quite a bit bigger than it is today. Because of the difficulties of the independent refiners being able to create a margin that made sense, several refineries closed. Domino closed their refinery in Brooklyn. We closed our refinery in Sugar Land, Texas. That is what has created the tight balance, and both of us closed that because we couldn't make money there. Notwithstanding everybody's parochial interests, I think everybody has to make a little bit of money.

The desire to open up the borders to create more supply in this country certainly serves some interests. It might not serve others. So we are sitting here saying we don't mind some increase in importation of sugar to create a little bit more of a leeway because it is clear that any shock to the system is difficult to absorb. But talking about consensus of interests, if we go too far, we are probably hurting some other constituents too much. So we support the whole notion of a consensus among all the various groups.

We are interested in obtaining more raw material to make our factories efficient and to be able to service the customers that we have in our local regions. It is a very regional business. You can have surplus sugar out West that doesn't help the people in Georgia and North Carolina who rely on our refineries. So there is a balance. We would support some increase in imports to be able to provide more raw material for us. At the same time, we recognize the issues that others face and I think there has to be a balanced approach.

Senator LUGAR. Senator Coleman has spent a lot of time in his role as subcommittee chairman in Foreign Relations talking about CAFTA and Latin American trade. One of the issues that always arises when we discuss trade openings with our friends in Central or South America is sugar. Sometimes this is solved by a so-called sugar carve-out or compensation or what have you. But at the same time, it is apparent here that the overall interests of the United States in the stability of our hemisphere and the rise of nations that are very close to us is a very important consideration and sugar is not always an obstacle to this, but sometimes it looms very heavy on the horizon in almost any trade negotiation.

My hope is, once again, there is some thought while we are reaching consensus domestically, that some thought be given to our worldwide security. That case has been made by some of you today, that this is a security issue, and I accept that. But security is broader, perhaps, than perhaps that first definition, and without knowing what the balance is, I would just say that probably we have been inhibited in terms of our outreach to our hemisphere and we are paying a certain price for that now.

I won't go into political analysis. Left-of-center governments sort of routinely coming on, populist risings and so forth—sugar is not the whole of it, and in some cases it may be our benign neglect of the area in which we have not indicated we cared that much. But now we do care. Senator Coleman cares a lot and so do I and so do other members of this committee.

Without, once again, asking you to reformulate, what should be the position of Costa Rica, Nicaragua, or what have you, to take recent examples, leaving aside the very big issue with Brazil? I agreed to do an op-ed piece that appeared in the Miami Herald yesterday with the Brazilian ambassador just simply trying to say we care about Brazil. Brazil is really very important, particularly in the midst of perhaps Venezuela, Bolivia, others, and this is the world in which we live, sugar people and all the rest of us.

I don't mean to be obsessed about the issue. I am sort of looking for reasons why people in this world might want to use more sugar, and I keep coming back to the fact that it is probably in the energy situation and even accept the fact that in order to get sugar on some sort of a par with corn over cellulosic ethanol or with what have you. We may need to think about that, as opposed to having the same argument that we usually have among interest, parochial or not.

Mr. GOEHRING. Senator Lugar, speaking from the sugar sweetener users' standpoint, we would be open to all those types of ideas and trying to reach a consensus with the rest of the industry.

Mr. RONEY. Senator, I might just provide two quick thoughts. One is that I think that the market did work remarkably well this past year by doubling the imports. I mean, when our production dropped, our program was set up in a way that the foreign countries that do have surplus sugar were able to send that sugar——

Senator LUGAR. Good point.

Mr. RONEY [continuing]. To the U.S. in large volume an we maintained stable consumer prices.

I would also caution in terms of the potential for free trade or opening our market, throwing our market open to world trade, we know enough about the sugar industry to realize that of the 38 countries that supply us with sugar now, 37 of them would be harmed and there would be one beneficiary, Brazil, because sugar is a byproduct to its cane industry and they produce it virtually oblivious to price and have really the benefit of 30 years of ethanol subsidies and built up that industry. I believe it would be in a position to inundate our market to the detriment of all those other developing countries.

So I think this has been a dynamic in the world sugar industry that is very pronounced and that is not fully understood yet, but it is something that developing countries, I think, understand, that we understand, and we are certainly seeing the effects in the E.U. of their drop in prices, as Mr. Roy mentioned. It is potentially devastating to quite a number of developing countries and will harm them more than it will help them.

Senator LUGAR. I would invite you, Mr. Roney, or others just to back up those points and help the committee understand what the effects are on the other 37 countries, you know, who they are—we have a glimpse of that today—and why what you say has validity, if, in fact, this may be a another whole set of circumstances while we are trying to balance interests to try to think through really where everybody does lie in the world, in addition to vis-a-vis our growers or our processors here.

I suspect that you are right. This is a worldwide issue. I suspect that probably all of you are right, that some of the E.U. negotiators, if not predatory, are unreasonable on these issues. But we probably need to understand their issues, likewise, to be better negotiators as opposed to just simply throwing in the towel and saying, you are obtuse, and so as a result, we don't change. We just kick the can down the road. That is less and less satisfying, even though from the standpoint of the work of the Congress, given lots of other things to do, temporarily, often it is expedient. Let us not discuss sugar this year. Let us try something else.

I applaud the chairman for wanting to discuss sugar well in advance. We are not really in the throes of the farm bill. USDA hasn't made their very first recommendation. I hope they will make one someday and suggest their own views, really, of how this might work out.

Mr. PEISER. Senator, with all due respect to Mr. Roney, the system this year barely worked.

The CHAIRMAN. Barely worked.

Mr. PEISER. Barely worked. There were some plants of our customers that closed from time to time because of the unavailability of sugar. We came within hours at some times of running out of raw material. We all are very lucky that it might not have been worse. There was a heavy reliance on Mexico. We were fortunate that there was enough sugar that could be exported from Mexico. Often, however, it didn't come in in the right specifications of quality. It didn't come in in the right bags. When you try to change the system that quickly, from a very strict set of parameters to one that is a lot looser, there are logistics issues that don't work well.

So what I heard Dr. Penn say earlier was that he would like to see a little more flexibility in the program. We are a supporter of the program. I don't want to give anybody the impression that we don't support the program. But we do support more flexibility in the program and we do support a way of making sure that there is a sufficient amount of raw material so that the refining capacity in this country can be fully utilized.

Senator LUGAR. Senator Coleman, do you have some final questions?

Senator COLEMAN. No. I appreciate this hearing. It has been very helpful and certainly we have more work to be done, but clearly, as Mr. Williams indicated, and I believe we used the word parochial, Mr. Chairman. When I have an industry that it is $3 billion of the economy plus tens of thousands of workers, not just those in the factories but those in the towns and others, to me, that is not parochial. That is doing your job representing the people you are supposed to represent. So these are important interests here and let us figure out how to move it forward.

Mr. GOEHRING. Senator Lugar, could I make one small point here?

Senator LUGAR. Sure.

Mr. GOEHRING. I would like to respectfully disagree with some of the statements that Mr. Roney made in the sense that the price of sugar today and the wholesale price is at a very high level. It is at the highest point that we have seen in 25 years. So we have not really seen stable prices over the past three or 4 years, and especially since the hurricane. Industrial users are paying very high prices for sugar today.

Senator LUGAR. Yes, sir, Mr. Roy?

Mr. ROY. If I may, I just wanted to share perhaps the experience of Mauritius as far as energy, using sugar for energy. We principally use bagasse through co-gen projects. We currently are supplying 20 percent of our requirements in energy through bagasse and we have recently examined the possibility of ethanol. As you know, before, ethanol was not very cost effective because the price of oil was the way it was. But today, the problems with ethanol, because ethanol, you can make that from molasses, so there is no need for you to divert cane juice.

But the problems you have with ethanol is that the revenue that you get out of it is not that much. You have a tremendous problem of disposal of waste, vinasse. You have got to treat it. It is very costly to do that. And third, and this is an issue we are looking at today, that you could get ethanol imported at such a low price that whether it is worthwhile to make the capital investment to do ethanol, because as you know, ethanol, you can also do, and this was said this morning, from other more interesting inputs, such as corn. So these are the issues one must look at with ethanol when one looks at it. Thank you, Chairman.

Mr. ELLENDER. Mr. Chairman, Mr. Peiser talked about doubling the price. I received roughly 20 cents a pound on the raw price for my product last year. This year, I received roughly 21 to 22, so on my side, it didn't double. Even with my Louisiana education, I can figure that 20 to 22 cents doesn't double.

[Laughter.]

Mr. ELLENDER. The market, the program almost didn't work. Dr. Penn made the comment that we went through a tumultuous period in South Louisiana, and for anyone in South Louisiana, that is quite an understatement over the last year with Katrina and Rita, and the Florida people experienced Wilma, also. So despite three Category 3 to 5 storms hitting directly our sugar industry, the sugar still worked.

Senator LUGAR. We thank each one of you for the longevity of your experience this morning. It is a hearing that is very helpful to us. The original papers that the chairman made a part of the record in full as well as your testimony are informative to us and to our other colleagues and our staffs who will read them. We look forward to more consultation with you as you proceed and wish you well in your proceeding.

Having said that, the hearing is adjourned.

[Whereupon, at 12:15 p.m., the committee was adjourned.]

APPENDIX

MAY 10, 2006

Opening Statement
Senator Tom Harkin
Hearing to Review the Sugar Program
May 10, 2006

Mr. Chairman, I want to thank you for having this very timely hearing. As we prepare for the next farm bill, it is important that we review the current farm programs. We need to assess how the programs are being implemented and determine what is working well and what can be improved.

The 2002 farm bill continued the no-net-cost sugar program with non-recourse marketing loans to support sugar prices. Domestic inventory management was strengthened with a new allotment program. Any time there is a new program, especially one that directs the Department of Agriculture to balance supply and demand, we need to take the time to make sure the program is operating as intended.

I am a long-time supporter of the U.S. sugar program. It has been obvious to me that sugar producers in this country face not only the challenges of weather – drought, excessive rainfall and hurricanes – but also the effects of sugar policy all over the world. I don't think any commodity that is more politicized than sugar. Even though we have some of the most efficient producers in the world, we cannot expect the U.S. sugar industry to compete against other governments.

Nonetheless, we face new challenges to U.S. sugar policy. This Committee has to weigh how the program is performing today against how it can be expected to operate in the future. We have to ask the hard questions about the impact of free trade agreements on our ability to manage the total supply of sugar. We have to consider whether manufacturers of food products with high sugar content can stay competitive in a global market that allows imports of those food products. Whatever else we do, we have to take into account, the farmers who produce these crops and how their livelihoods are tied to the decisions we make.

I look forward to hearing the witnesses' statements, and I will have a question or two at the appropriate time.

Testimony of

J.B. Penn
Under Secretary for Farm and Foreign Agricultural Services
United States Department of Agriculture

before the

Committee on Agriculture, Nutrition, and Forestry
United States Senate
May 10, 2006

Mr. Chairman and members of the committee, we appreciate the opportunity to review the operation of the sugar program authorized by the Farm Security and Rural Investment Act of 2002 (2002 Farm Bill). We are pleased to share our experiences administering the sugar program for the past four years and also to offer observations on the changing business environment in which the program operates, particularly as Congress begins to consider appropriate policies for the next Farm Bill.

Overview of the Sugar Program

During several Farm Bills over the years, Congress has restructured the various commodity programs to make them much more market-oriented. The sugar program is a notable exception. Due to high budgetary costs experienced with the previous program, Congress, in the 2002 Farm Bill moved the sugar program in the opposite direction by authorizing supply controls (marketing allotments for individual companies) to reduce the risk of forfeiture of sugar pledged to the Commodity Credit Corporation (CCC) as collateral under the price support loan program.

The sugar policy pursued today consists of several interrelated programs that require the Department of Agriculture (USDA), rather than the marketplace, to attempt to balance available supply with domestic demand. One of those programs, mandated by the 2002 Farm Bill, is the price support loan program for processors of sugarcane and beets. The specific support price is set by statute. Processors pledge the sugar as collateral to receive a loan at the support price. The borrower then may either forfeit the collateral to USDA's Commodity Credit Corporation (CCC) in complete satisfaction of the loan obligation, or redeem the collateral and sell it into the market at a higher price. Thus, the borrower is always assured of receiving at least the support price.

At the same time, USDA is directed to maintain a price sufficient to prevent loan forfeiture. The 2002 Farm Bill requires the sugar program to be administered, to the maximum extent possible, with no budgetary cost (i.e., "no net cost"). Rather, the cost is shifted from the taxpayer to the users of sugar. Price is determined by controlling the supply relative to the demand. Domestic supply is controlled by a marketing allotment program while foreign supply (imports) is controlled through the application of tariffs and tariff-rate quotas (TRQ's), authorized by the Harmonized Tariff Schedule. Imports are required each year to comply with our international trade agreements/commitments, but these amounts may be increased above the minimum as needed to mitigate domestic supply shortfalls. These mechanisms are used to realize a domestic price that sufficiently exceeds the mandated support price to avoid loan forfeitures by cane and beet processors.

The 2002 Farm Bill established the support prices (loan rates) for processors of domestically grown sugarcane at 18 cents per pound and 22.9 cents per pound for refined sugar from beets. Unlike most other commodity programs, the processed product is supported rather than the farm commodity – sugar beets and sugarcane. This is because cane and beets, being bulky and perishable, are not viable loan collateral though their value is directly determined by the market price of sugar. Processors use the loan proceeds to finance preliminary payments to growers and generally place about a quarter of their output under loan.

To discourage forfeiture of loan collateral, the price must be kept sufficiently high to enable the processor to fully repay the loan, accrued interest, and expected marketing costs (interest is forgiven should the loan collateral be forfeited). Thus, the *effective* support level (and therefore the domestic market price floor) is considerably higher than the statutorily determined loan rate. For Fiscal Year (FY) 2006, the *minimum* raw sugar market price to prevent forfeiture is about 20.80 cents a pound (Florida), while the corresponding *minimum* refined price is about 24.20 cents a pound (Midwest). This is in contrast to the corresponding loan rates of 18.0 and 22.9 cents per pound, respectively.

The ability to control sales of domestically produced sugar to achieve the minimum price is provided by current law through the imposition of marketing allotments. If the industry produces more sugar than USDA determines the market can use at an acceptable price, marketings are restricted and storage of the surplus is the responsibility of processors.

At the beginning of each fiscal year, USDA establishes an overall allotment quantity (OAQ) intended to balance the domestic supply plus required imports with market requirements. It then continually monitors the sugar market fundamentals – consumption, stocks, production, and imports – with formal reviews each quarter and adjustments to the OAQ during the year as the market requires. The 2002 Farm Bill allocates the total OAQ to the beet (54.35%) and cane (45.65%) sectors. Any shortfall (inability to supply) must be reassigned, first to CCC and then to imports rather than to the other sector, a complicating factor at times in program administration.

The 2002 Farm Bill also includes a "trigger" on total imports. This "import trigger," is set at 1,532,000 short tons raw value (STRV). If imports for human use are estimated to exceed this amount, then domestic marketing allotments to control supply could be suspended. Without allotments, processors could market all their sugar or place it under loan and forfeit it to CCC, receiving at least the effective guaranteed price (thereby contravening the "no net cost" provision). USDA has not suspended sugar marketing allotments authorized under the 2002 Farm Bill.

The tariff rate quota (TRQ) is an integral part of the sugar program although it is not authorized as part of the 2002 Farm Bill. The World Trade Organization (WTO) *minimum* TRQ for raw cane sugar is 1,231,497 STRV, and for refined sugar is 24,521 STRV, a total of 1.256 million STRV. Whenever the Secretary of Agriculture "believes that domestic supplies of sugars may be inadequate to meet domestic demand at reasonable prices", the TRQs may be increased. The U.S. Trade Representative (USTR) allocates the *raw* sugar TRQs to supplying countries based on their share of imports into our market during the period 1975 to 1981. In recent years, the *refined* sugar TRQ has been allocated by USTR in part to Canada (51%) and Mexico (14%), and the rest to all exporters on a first-come, first-served (global) basis except for a small portion reserved for specialty sugar (recently increased specifically for organic sugar).

USDA also administers a re-export program that permits refineries and sugar-containing product manufacturers to import tariff-free sugar at world market prices and then export it as either refined sugar or an ingredient in a sugar-containing product. Over a period of several months, this has no net effect on the domestic sugar supply.

Carefully regulating the amount of foreign sugar allowed to enter the domestic market is a critical aspect of program operation. The minimum domestic price typically is well above the world market price, making ours a highly lucrative market to which access is sought by all exporters.

Program Operation Since 2002

The current version of the sugar program was developed in part based on experience with the previous program, which ended with the 2002 Farm Bill. That program resulted in a huge market imbalance and USDA acquisition of 1.1 million tons (about 13% of annual output) of sugar under the price support program at a cost of some $445 million. The imposition of marketing allotments in the 2002 Farm Bill reduced the possibility of such significant forfeitures of loan collateral but did not eliminate them entirely. Upcoming changes in the structure of the global sweetener market again make large forfeitures of price support loans a distinct possibility.

The new program is highly prescriptive, containing many rigid, and sometimes contradictory, rules that greatly increase the complexity of program administration. Even so, from the beginning of the new program in May 2002 through July 2005, the domestic market was rather tranquil and operation of the program was relatively smooth (see Chart 1). However, this belied the growing strains due to technological, policy, economic, business and other changes occurring throughout the industry and the broader global environment.

The growing difficulty for a government agency to be able to manage the sugar market became readily apparent in FY 2005 and continues. FY 2004 had ended with the general perception that the sugar market in FY 2005 would be amply supplied if not oversupplied. Beet processors still were raising the possibility of forfeiture well into the spring of 2005. FY 2005 began with small forfeitures of CCC sugar price support loans largely due to anomalous circumstances, and it ended with major market disruptions due to suppliers' inability to meet contractual commitments resulting from adverse weather affecting the beet harvest and, soon thereafter, hurricanes reducing the sugarcane crop and closing two cane refineries in the South.

In August 2005, the Red River Valley suddenly and unexpectedly began rationing deliveries as growers experienced field losses due to excessive soil moisture and anticipated new supplies did not materialize. This had the effect of creating enormous uncertainty across the market. Then, only days later, on August 29, 2005, Hurricane Katrina struck Louisiana disrupting sugar refinery operations. With the sugar supply abruptly disrupted and reduced, USDA responded by increasing the domestic marketing allotment allowing immediate entry of so-called "blocked stocks" and expanded allowable imports so that an additional 384,725 tons became available to the market by the end of FY 2005. Subsequent monitoring of market conditions resulted in further increases in the OAQ of 580,000 tons, releasing all deliverable refined beet sugar stocks into the market (cane sugar stocks already had been exhausted). The raw and refined sugar TRQ's were increased, allowing an additional 174,700 STRV to enter in FY 2005.

The August and September 2005 weather events immediately and severely damaged refined sugar supplies and clearly indicated the cumbersomeness of quickly obtaining refined sugar meeting the specifications of most manufacturers. The Harmonized Tariff Schedule defines refined sugar as having a polarity (sugar content) over 99.5 percent. However, many domestic manufacturers have such specific needs that much sugar from the world market meeting this requirement (polarity above 99.5) still must undergo further refining before use. Increases in the refined TRQ tend to be filled by nearby suppliers who can technically meet import specifications, but not the more stringent requirements of many product manufacturers. USDA does not have a trade-compliant way to satisfactorily meet acute domestic industry needs for such high quality imported refined sugar.

Overall, the challenges of the past several months have clearly illuminated several deficiencies in the 2002 Farm Bill's rigidly structured sugar program.

Considerations for the Future

The domestic sugar market once could be rather effectively isolated from influences outside our borders. This enabled domestic price to be maintained well above prevailing world market price through the use of border measures. However, that is increasingly less possible. At the same time, recent events have pointed up vulnerabilities in the current sugar program. The rapidly changing industry and broader business environment very likely will bring even more pressures, suggesting that new approaches to sugar and sweetener policy may need to be examined. Otherwise, the program, as now structured, could well become impossible to operate within the current statutory specifications.

Some factors that merit consideration as the Congress contemplates sweetener policy for the future are briefly characterized below.

Changing Structure of the Domestic Industry

The U.S. sweetener market is the largest and most diverse in the world, both in terms of consumption (including high fructose corn syrup) and sugar imports. The United States also ranks among the top five global sugar producers and is one of the few countries with significant production of both sugarbeets and sugarcane.

Sugar production has been relatively stable in recent years averaging about 7.7 million STRV while utilization has grown to about 10.4 million STRV. Even so, the domestic sugar industry has been undergoing considerable structural change. In the production sector, the number of operations continues to decline but with a corresponding increase in size. The most recent Census of Agriculture (2002) shows beet and cane operations to have declined to 5,980 from 8,136 in the previous Census (1997). Beet operations declined from 7,057 to 5,027 while cane operations fell from 1,079 to 953. Average beet acreage harvested per farm rose from 205 to 272 and for cane from 825 to 1,027.

Other parts of the industry have been characterized by rapid integration and consolidation. For instance, all sugar beet processing facilities, which can be considered fully integrated, now are cooperatively owned by producers. Likewise, 10 of the 15 cane processors now are cooperatively owned. In addition, cane farmers, through vertical integration, own over 70 percent of the refining business. Combined, beet and cane farmers now account for 84 percent of domestic refined sugar production, with 58 percent of the market share controlled by two companies. These changes have resulted in the closing of four beet processing facilities, five cane processing facilities, and two cane refineries since the inception of the 2002 Farm Bill.

Shifting Competitiveness of the SCP Industry

Structural change also has been occurring in other parts of the industry, some related to the economic effects of the sugar program. Evidence indicates that the domestic sugar containing product (SCP) industry has lost competitiveness vis-à-vis foreign manufacturers and is shifting to off-shore production as a result of domestic sugar prices being kept well above world prices. This in part is reflected in the amount of sugar imported in sugar-containing products, which reached 1.15 million STRV in FY 2005, outpacing exports of sugar in products by 573,000 tons. The loss in U.S. market share in the SCP business has been increasing since 1996, when imports and exports of sugar-containing products were nearly balanced.

A recent Department of Commerce study found that many SCP manufacturers have closed or relocated to Canada, where sugar prices average less than half of U.S. prices, and to Mexico, where prices average about two-thirds of U.S. prices. Sugar costs appear to be a major factor in relocation decisions for the confectionery industry, in particular where high domestic sugar prices represent a larger share of total production costs than labor. The study also suggested that for every one sugar growing or harvesting job saved through high U.S. sugar prices, nearly three confectionary manufacturing jobs are lost.

The Changing World Market

Another recent development is the significant structural change altering some long-enduring trends in the world sugar market. One of the more notable changes is the reform of the European Union's sugar regime under the Common Agriculture Policy (CAP). The EU long has been a major supplier of sugar to the world market and a contributor to longstanding low market prices. While the reform does not alter the structure of the EU production quota system, and quotas will not be tradable between countries, internal prices will be lowered by 36 percent. According to most analysts, these program changes will result in some five million tons less sugar going onto the market each year, resulting in a significant boost in prices.

In fact, the EU could become a net importer, since its commitments to import sugar from its traditional suppliers could exceed its permitted (subsidized) exports. The EU also faces the prospect of potentially unlimited imports under the "Everything-But-Arms" (EBA) protocol, which permits a group of least developed countries duty and quota free access after 2009. The EU plans include compensation for traditional suppliers for the price cuts. But it is likely that many of these former colonies will reduce or cease sugar production, as has already occurred in St. Kitts.

Another major development in the world sugar market is the growing role of renewable fuels from sugarcane as petroleum prices continue to be record-high. This already is having a perceptible influence on the world sugar market and, as more and more sugar producing countries explore ethanol production, could have a considerable long-term impact.

Continuing pressure on world energy prices is expected to divert more sugarcane, chiefly Brazilian, into ethanol production, which would tend to boost sugar prices. While the world price is expected to remain below the current domestic support price, increasing demand for ethanol and firmer world prices could reduce the incentive to supply the U.S. market should our production again be adversely affected by weather or other factors.

In 2005, Brazil was the world's largest producer and exporter of both sugar and ethanol, with 18.5 percent of the world's sugar production and 37 percent of world sugar exports. Likewise, Brazil produces 36 percent of world fuel ethanol production and exports 47 percent of the world total. Brazil's current sugarcane crushing capacity of over 400 million tons at 347 mills is expected to expand by 105 million tons capacity (another 70 mills) within the next four years to meet future demands.

Trade Agreements/Market Access

The future prosperity of the domestic farm sector and food industry is highly contingent upon gaining greater access to more and more global consumers in growth markets. Recognition of this has spurred the pursuit of both multilateral and bilateral trade agreements to provide that access.

As the U.S. continues to seek expanded opportunities for our farmers and ranchers in the international markets through free trade agreements, trading partners in turn request increased access to the U.S. sugar market, especially as long as our domestic price substantially exceeds the world price.

The minimum import access required by U.S. trade commitments in 2002—under the WTO and in the North American Free Trade Agreement (NAFTA)—was 1.256 million tons. By 2008, U.S. total trade commitments could increase to 1.388 million tons [up to 120,000 tons attributed to the Central America-Dominican Republic Free Trade

Agreement (CAFTA-DR), and up to 12,000 tons attributed to the United States-Peru Trade Promotion Agreement (Peru TPA), assuming both are fully in force]. Any access for sugar under other free trade agreements that are under negotiation (Colombia, Thailand, SACU, etc.) would be additional. In addition, elimination of customs duties on Mexican sugar imports on January 1, 2008, as provided in the NAFTA, could mean increased imports in some years, as well.

Denial of further access to our sugar market very likely will lead to denial of access by our trading partners to some U.S. agricultural and food products, precluding a comprehensive agreement.

NAFTA Implementation

On January 1, 2008, full implementation of the NAFTA eliminates all customs duties for sweetener trade between Mexico and the United States. Market forces will determine adjustments in the sweetener production and processing sectors of both economies. The most immediate policy question, however, concerns the impact this will have on the ability of both countries to operate a sugar program that provides a premium market. Significant quantities of Mexican sugar coming into our market would mean exceeding the "import trigger" of 1.532 million short tons, suspension of marketing allotments, and likely considerable forfeitures and substantial program costs.

In the long run, relative costs of production, transportation and other market factors will determine where sugar crops are grown and processed following elimination of customs duties on sweeteners trade after January 1, 2008. Over time, prices for sweeteners in the United States and Mexico would be expected to equilibrate. If the loan program is left intact, market prices could fall below the forfeiture level, causing sugarcane and sugar beet processors to forfeit loan collateral to CCC and the U.S. sugar program to support the price of sugar to both U.S. and Mexican producers.

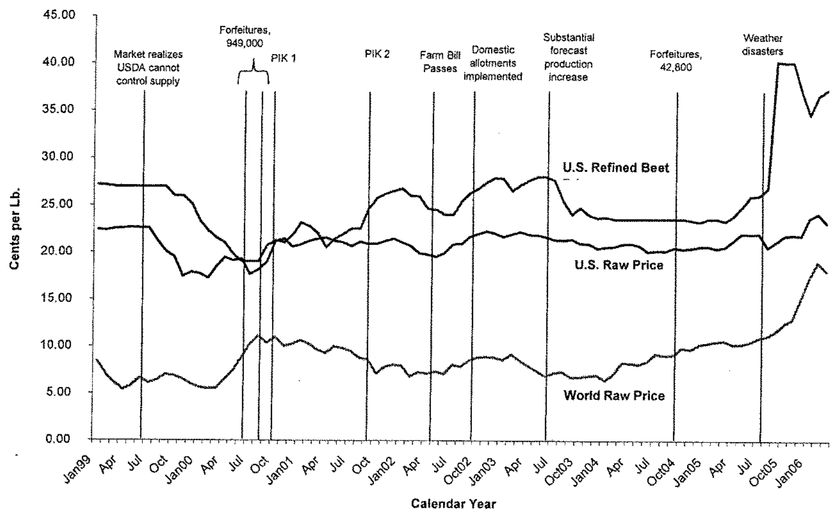
This likely would not be a politically acceptable outcome, thus suggesting that alternative approaches will need to be explored. One alternative the United States will not consider is any reopening or renegotiation of the NAFTA. As noted above, with respect to new trade agreements, any attempt to limit the long-agreed to access to our sugar market for Mexico will frustrate the expectations of our corn, bean and dairy farmers that have waited 14 years for the elimination of Mexico's barriers to their products

Conclusion

The formulation of a sustainable safety net for American sugarcane and sugar beet producers in the future must consider the challenges presented by the rapidly changing domestic and international environment. Sugar program administration has become increasingly difficult within the past year and is not expected to get any easier. Direct federal management of the nation's sugar supply has always been a difficult proposition at best. The development of an appropriate policy for 2008 market conditions and beyond will require foresight and innovative thinking.

Chart 1

U.S. and World Sugar Prices



Senate Agriculture Committee
Hearing on U.S. Sugar Policy
May 10, 2006

Testimony of
Jack Roney
Director of Economics and Policy Analysis
American Sugar Alliance

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 perceptive.

- 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

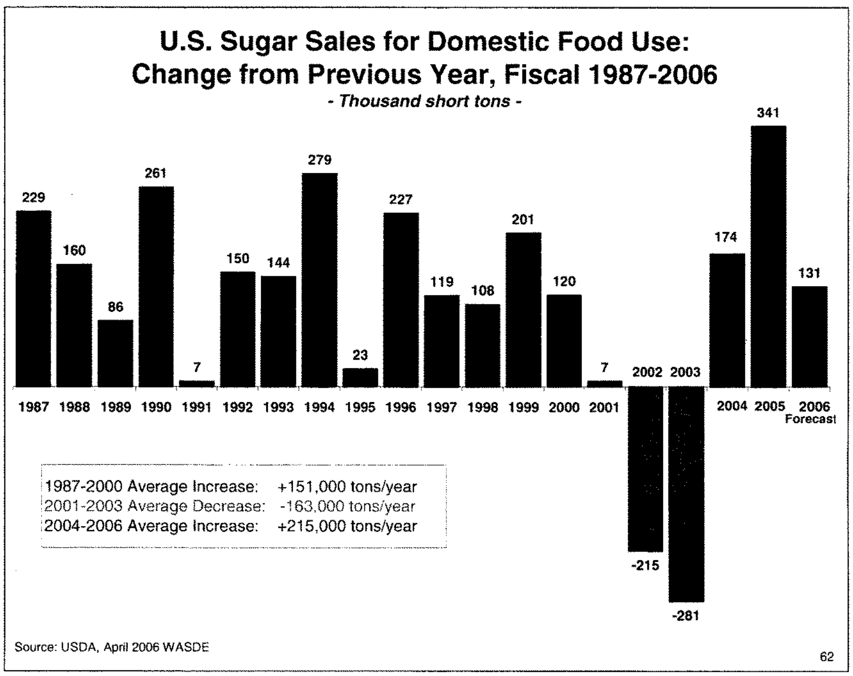


Figure 2

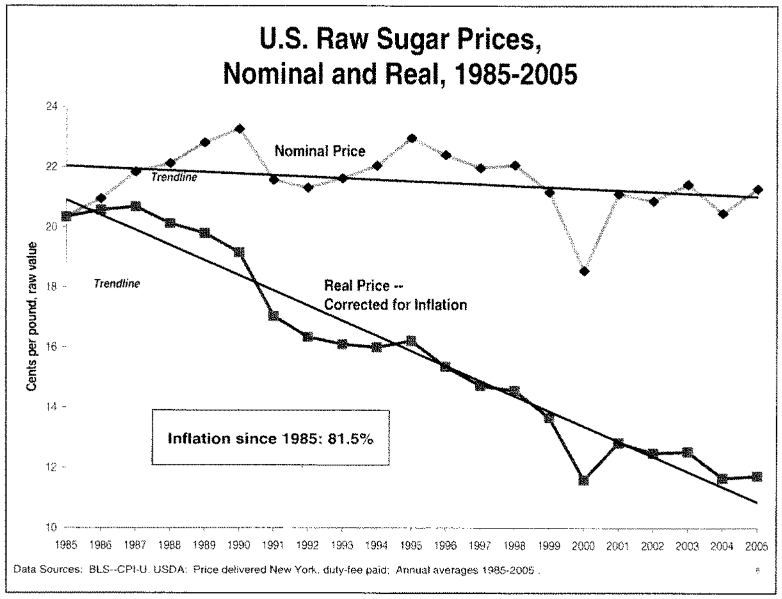


Figure 3

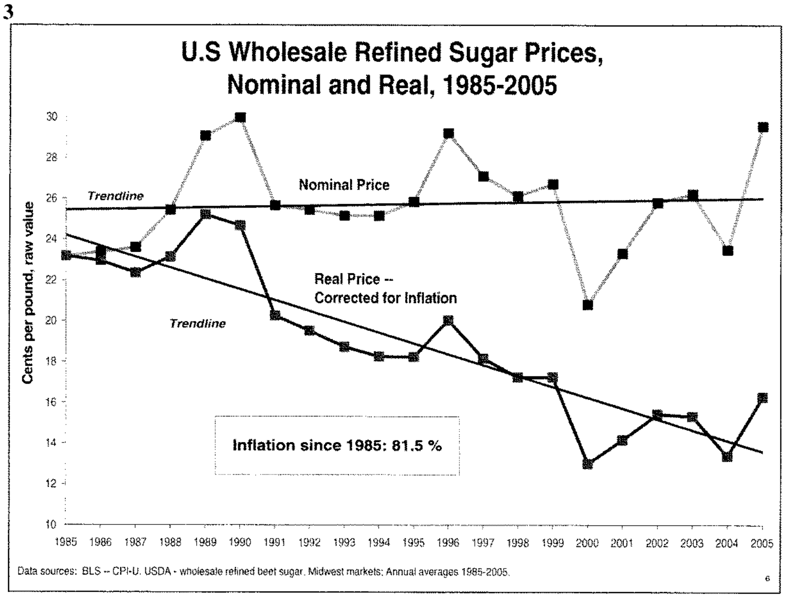


Figure 4

33 Sugar Mill and Refinery Closures Since 1996

BEET CLOSURES

Spreckels Sugar, Manteca
California, 1996

Holly Sugar, Hamilton City
California, 1996

Western Sugar, Mitchell
Nebraska, 1996

Great Lakes Sugar, Fremont
Ohio, 1996

Holly Sugar, Hereford
Texas, 1998

Holly Sugar, Tracy
California, 2000

Holly Sugar, Woodland
California, 2000

Western Sugar, Bayard
Nebraska, 2002

Pacific Northwest, Moses Lake
Washington, 2003

Western Sugar, Greeley
Colorado, 2003

Amalgamated Sugar, Nyssa
Oregon, 2005**

Michigan Sugar, Carrollton
Michigan, 2005**

CANE CLOSURES

Ka'u Agribusiness
Hawaii, 1996

Waialua Sugar
Hawaii, 1996

McBryde Sugar
Hawaii, 1996

Breaux Bridge Sugar
Louisiana, 1998

Pioneer Mill Company
Hawaii, 1999

Talisman Sugar Company
Florida, 1999

Amfac Sugar, Kekaha
Hawaii, 2000

Amfac Sugar, Lihue
Hawaii, 2000

Hawaiian Commercial & Sugar, Paia
Hawaii, 2000

Evan Hall Sugar Cooperative
Louisiana, 2001

Caldwell Sugar Cooperative
Louisiana, 2001

Glenwood Sugar Cooperative
Lousiana, 2003

New Iberia Sugar Cooperative
Louisiana, 2005

Jeanerette Sugar Company
Louisiana, 2005

U.S. Sugar, Bryant
Florida, 2005*

Cinclare Central Facility
Louisiana, 2005*

Atlantic Sugar, Belle Glade
Florida, 2005**

CANE REFINERY CLOSURES

Aiea, C & H
Hawaii, 1996

Everglades, Imperial
Florida, 1999

Sugarland, Imperial
Texas, 2003

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 *-Metric tons-*	Comment
In Place		
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
Not yet approved		
Peru	11,000	Grows by 180 mt/yr forever
Colombia	50,000	Grows 750 mt/yr forever
Being, or to be, negotiated		
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

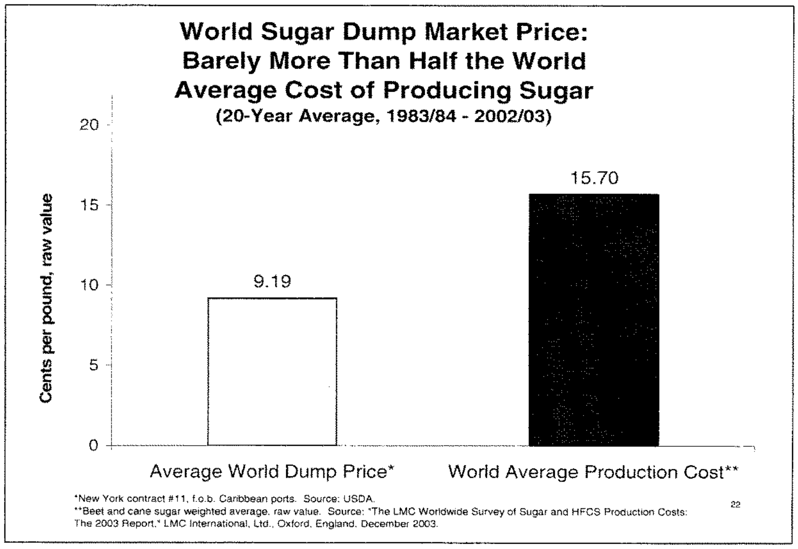


Figure 7

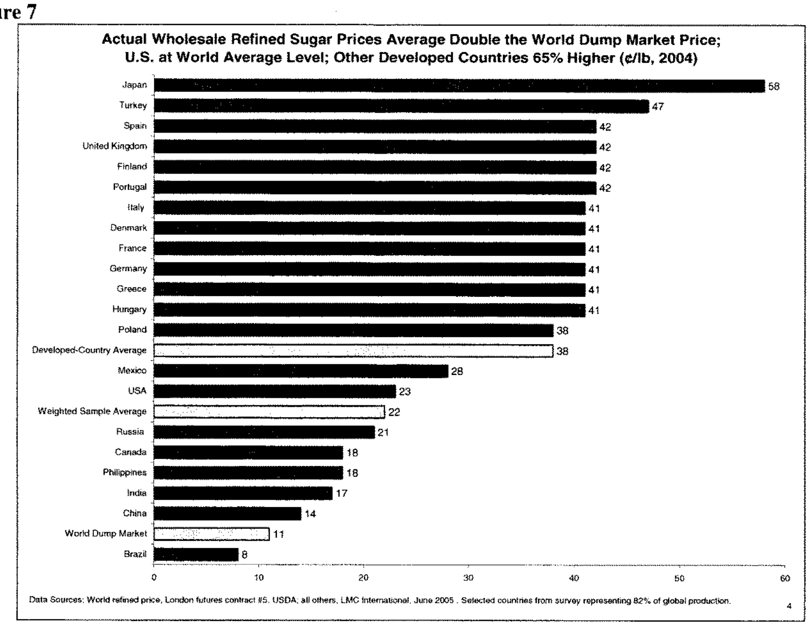


Figure 8

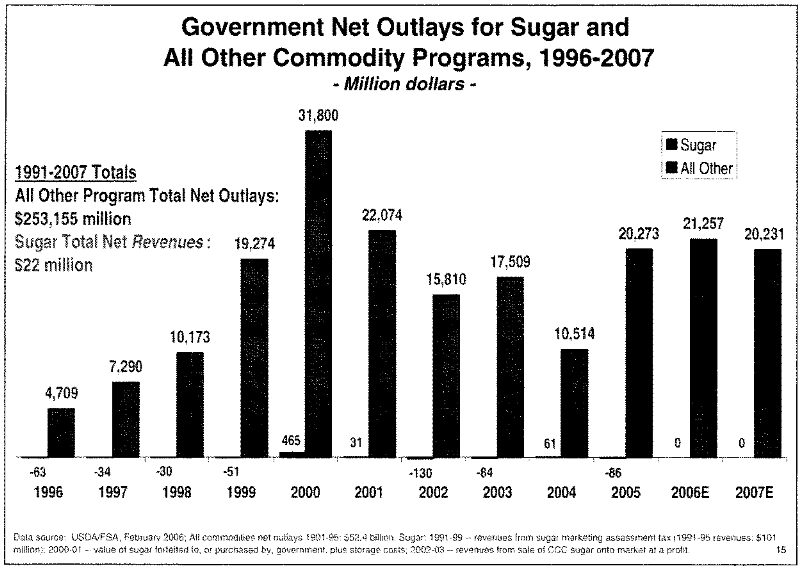


Figure 9

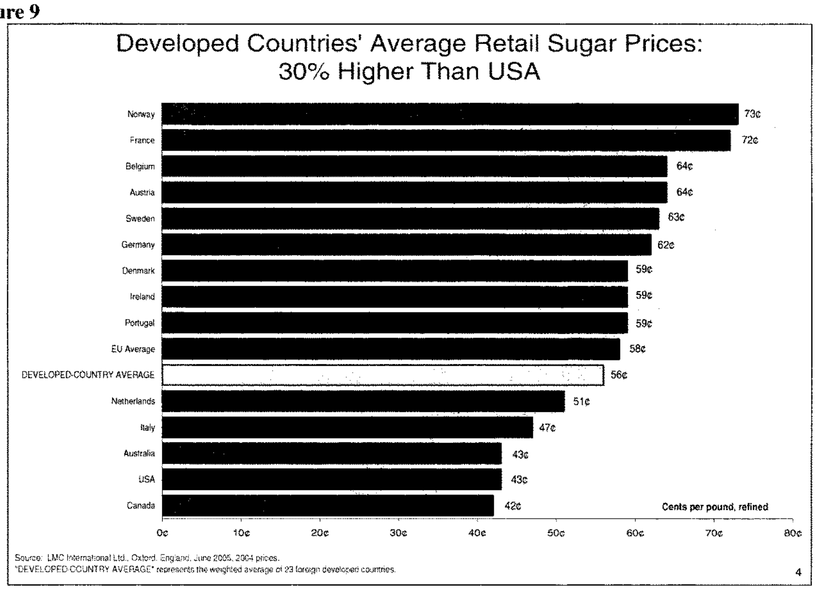


Figure 10

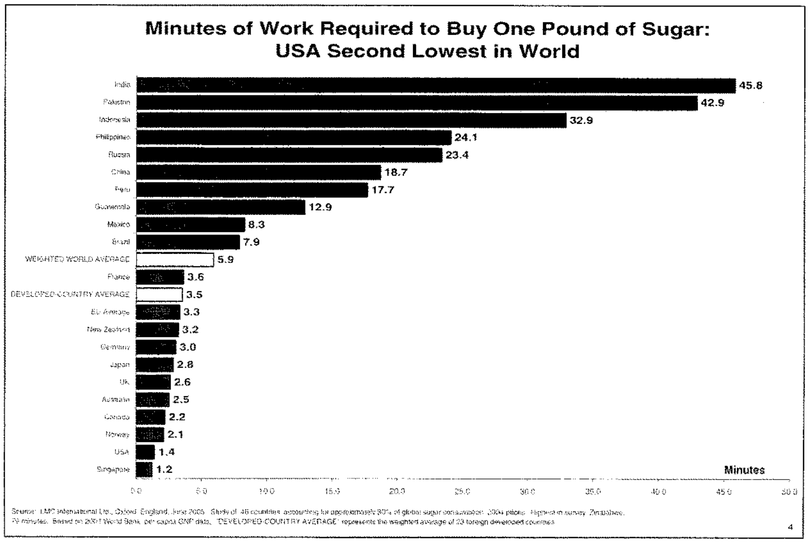
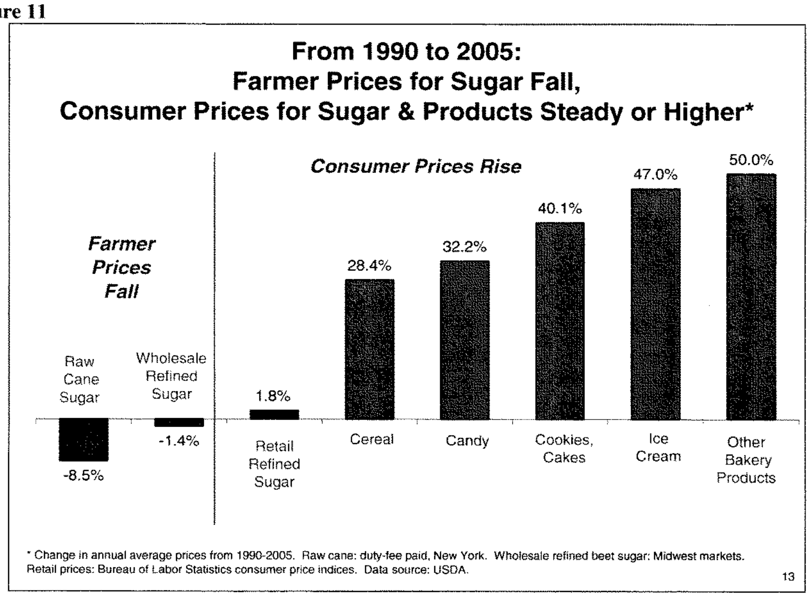


Figure 11



United States Senate Committee on Agriculture, Nutrition and Forestry Hearing on U.S. Sugar Policy

Testimony of Margaret Blamberg
American Cane Sugar Refiners' Association
May 10, 2006

Mr. Chairman, members of the Committee, I appreciate you inviting me to be here today.

My name is Margaret Blamberg and I'm the Executive Director of the American Cane Sugar Refiners' Association. Our Association represents all, but one, of the cane refiners in America. And we are strong supporters of America's no-cost sugar policy.

Last summer, this policy faced the biggest test Mother Nature has ever unleashed on our industry. And by avoiding a supply disaster of epic proportions, America's no-cost sugar policy passed that test with flying colors. Let me explain.

On August 29, Hurricane Katrina ripped through New Orleans. And for Domino Sugar, that's when refining took a back seat to rebuilding and recovering.

In one fatal swoop, Katrina brought Domino's Chalmette sugar refinery to its knees.

Nine feet of murky floodwater crept into factory buildings. Sugar destined for grocery store shelves dissolved into two feet of messy goop. Roofs ripped apart. Windows shattered. The electrical infrastructure was destroyed. Ground-level machinery no longer functioned.

When Katrina's winds and waters stopped pounding the plant, Chalmette became more than just a sugar refinery. It was a sanctuary to more than 250 evacuees left homeless by the hurricane. It was a command center for government rescue operations. It became the largest collection of FEMA trailers in St. Bernard Parish—a mini-city known as Chateau Domino where hundreds of workers and their families still live.

Instead of talking about raw sugar prices during staff meetings, Chalmette executives set about figuring out how to feed employees, or how to get kids back to school, or where to put a makeshift laundromat and mobile cafeteria.

During the disaster, Domino paid its employees full wages. The company put people ahead of profits. And putting people first paid off.

Even though many said the Chalmette refinery would never reopen, its 300 workers wouldn't take no for an answer. In a testament to their determination, the wrecked refinery was rebuilt in time for the Christmas baking season. And today, it is operating at pre-hurricane capacity.

But this is not just a story about Domino. While this massive recovery effort was underway, a remarkable thing was happening on the U.S. sugar market. Despite losing 20% percent of America's cane refining capacity for four months, grocery shelves remained stocked and candy factories kept running.

That's because of sugar policy. No-cost sugar policy gives the USDA the flexibility it needs to meet demand during times of emergency by tapping an industry-funded sugar reserve and by increasing imports.

Think about it. When Hurricane Katrina wiped out a chunk of America's oil refining capacity, prices at the pump skyrocketed. But when the same hurricane wiped out a chunk of America's sugar refining capacity, retail prices barely budged.

But the story doesn't end there. Mother Nature wasn't finished. Floods drenched Hawaii. Rita left yet more acres of cane in Louisiana under water. And Hurricane Wilma parked over the sugar-producing region of Florida for hours.

It was the worst year the industry's ever had, and it could have been a perfect storm for market chaos. But chaos never came because of our country's sugar program and because of our country's sugar refineries. In years of healthy crops, refineries supplement domestic supplies with imported raws. When hurricanes or droughts strike, more foreign raws can be tapped.

One word of caution: The USDA tried to speed fresh supplies by permitting sizable imports of refined sugar, bypassing U.S. refineries. This strategy was counterproductive, and actually slowed down the process. U.S. refineries are the best source of high quality sugar. This was a hard lesson learned for many of our customers, and is an experiment that USDA should not repeat.

In the coming months, this Committee will be lobbied by large industrial sugar users looking to turn the no-cost sugar program into one with a hefty price tag. They are looking to boost their profits on the backs of farmers and taxpayers, and they are looking to give foreign countries control over our kitchens. This is a recipe for disaster. Feeding ourselves is the first rule of homeland security.

No-cost sugar policy will play a central role as our industry recovers and rebuilds from the tragedies of last year. From the Florida cane farmer left cropless...to the Louisiana banker pondering farm foreclosures...to the mom buying a five-pound bag of sugar at a low and stable price, America needs policy stability now more than ever.

We're asking you to extend the existing sugar program.

God willing, America's sugar producers will never face a tragedy like Katrina again. But if we do, let's hope we still have a strong refining industry and a proven sugar policy in place that can steer this country through tumultuous times. Thank you.

IMPERIAL SUGAR COMPANY

TESTIMONY OF

ROBERT A. PEISER, PRESIDENT AND CEO, IMPERIAL SUGAR COMPANY

RE: IMPLEMENTATION OF THE SUGAR TITLE OF THE FARM SECURITY AND RURAL INVESTMENT ACT OF 2002

BEFORE THE SENATE COMMITTEE ON AGRICULTURE, NUTRITION & FORESTRY

May 10, 2006

My name is Robert A. Peiser. I am the President and CEO of Imperial Sugar Company which is headquartered in Sugar Land, Texas and operates two major cane refineries located in Savannah, Georgia and Gramercy, Louisiana. I am pleased to offer this testimony to the Committee on behalf of Imperial's 809 employees because the subject matter affects those employees very substantially every day of their working lives.

From the outset, let me say clearly and unambiguously that the US sugar program provides valuable benefits for the domestic industry and provides a more stable structure under which to conduct business than would be the case without the program. Benefits accrue to many parties, not just the domestic growers, and some level of protection from unlimited imports from the world market seems prudent. This said, there are several issues that face the independent cane refiner sector that may not be well handled by the current policy and need the Committee's attention, most notably issues relating to raw cane sugar availability and relative support prices. My testimony addresses these and other concerns below.

I. Overview of Domestic Sugar Industry in a Changing World Market: Key Issues

Independent Cane Refiners Have a Unique Role: Traditionally, the Committee has been very familiar with the positions expressed by the grower segment of the sugar industry and the sugar users, including manufacturers of food products who use large volumes of refined sugar in their products that they provide to the wholesale trade and to the retail consuming public. Cane refiners sit between those two entities in the industry and provide a critical and necessary service to both. We are the market for the sugar growers' raw sugar, and in turn the sugar users are our customers for the refined sugar products we make. While occupying a low profile compared to the attention focused on the growers and sugar users, cane refiners serve a necessary and critical role in the domestic sugar industry when viewed broadly; without cane refiners there simply is no domestic sugar industry as we know it today. And as you set public policy in this area, the domestic sugar program needs to recognize the critical role and contributions of cane refiners or the program is destined to fail.

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Imperial is an independent refiner—meaning that we do not grow the raw cane sugar or sugar beets that we refine. Other than Imperial, and a couple of relatively small processing facilities, the rest of the domestic sugar industry has become partially or fully vertically integrated, as for-profit or cooperative sugar growers purchased previously independent refining and processing assets. As a result, the vertically integrated grower-refiners supply themselves with the raw cane sugar or sugar beets grown by their integrated affiliates. In contrast, Imperial totally depends on our ability to purchase raw cane sugar from unaffiliated third parties, which include both US and foreign growers.

Independent cane refiners like Imperial provide a critically important relief valve for periods of short supply in the domestic marketplace. We are able to acquire raw sugar from foreign sources and convert it into refined products packed and delivered in a form acceptable to US buyers during periods of domestic crop shortfalls. As critical as this market function is, the Committee should observe that over the last two decades US sugar policy has unintentionally, but nonetheless effectively, undercut the independent cane refining sector. Specifically, domestic sugar policy has encouraged the expansion of domestic crops at the expense of imports. The ensuing decline in import supply from the mid 1980s to the present time has caused the closure of 15 cane refineries, leaving only eight remaining today.

The cost of this very real adverse impact of US sugar policy has been significant. The many now-closed refineries provided high paying jobs with benefits to urban markets, especially in coastal cities such a Brooklyn, Boston and Philadelphia. While the goal of the policy has been to protect domestic growers to a reasonable degree, the unanticipated result of that policy has been that those benefits to growers have come at the expense of cane refiners. Imperial believes that the Agriculture Committee should be highly concerned with preserving US cane refining jobs—especially so when the jobs in jeopardy are in the ***independent*** cane refining sector which provides strong competition to the integrated refiners who make their money either as growers, refiners or both.

The disruptions in the market for sugar in the Fall of 2005 caused by the temporary closure of the Domino facility in Chalmette after Hurricane Katrina illustrate that the relief valve provided by cane sugar refiners is currently in a finely balanced state and that even a temporary reduction in cane refiner capacity may lead to periods of shortage and higher than normal pricing. Imported refined sugar can help to temper this situation, but differences in quality, packaging and transport of these foreign supplies limit the ability of many buyers to utilize these products on a short term basis. Domestic cane refiners provide the quickest source of additional sugar of the quality and form demanded by US buyers. It is our considered opinion that current and future policy should seek to preserve the vital function of the domestic cane refining sector in the US sugar industry and ensure that programs are administered in a manner that allows cane refiners to operate at levels of economic capacity utilization and with competitive profitability.

Imperial's Operations in Savannah, GA and Gramercy, LA: Imperial views itself as an important element of the agriculture industry in this country. Imperial's two cane refineries produce approximately 14 percent of the nation's refined sugar needs and we provide a full range of refined sugar products to the retail, food service and industrial markets.

Our largest facility—the cane refinery located in the port of Savannah, GA, which represents about 60 percent of our entire production capacity—has historically refined large volumes of US-grown raw sugar, particularly from Florida growers. But as the Florida industry has vertically integrated over the last several years and expanded refining capacity locally there, Imperial has lost nearly all previous access to that traditional source of raw sugar. **We are now confronted with the reality that in 2006 and for the indefinite future, our Savannah refinery is almost wholly dependent upon foreign raw sugar for its operations.**

The Savannah refinery is one of the largest and most efficient in the nation. By itself, the Savannah refinery represents about 9 percent of the nation's sugar refining capacity. Its loss or even a decline in productivity would have significant adverse impacts on the price and supply dynamics of the US sugar market. We directly employ about 374 people at Savannah, and there are many more jobs in the Savannah economy dependent upon the vitality of our refinery, including local small businesses, stevedores, dockworkers, truck drivers and many others in the service industry either serving that facility or the approximately 60 ships that each year bring raw sugar to our plant, or delivering our refined product to our customers.

Imperial buys all the US grown raw cane sugar we can. In fact, in normal years, almost 100 percent of the raw cane sugar that we refine at our Gramercy facility is grown by US farmers. We are proud of our long-term association with our domestic growers and given their importance to the Gramercy refinery we have a strong interest in having a financially stable and vibrant domestic sugar producing community. No one should accuse Imperial of being anti-US grower. As some of the Louisiana growers who currently supply our plant are considering their own vertical integration our attention is again focused on obtaining an alternate supply source to support that facility and its 279 employees. We do not oppose the right of growers to invest in the business and vertically integrate.

We do object to the restrictions of the policy (marketing allotments and import limitations) that make it difficult or impossible for an independent refiner to obtain replacement supplies and compete on a level playing field. As imports are limited by quotas and domestic supplies are limited by marketing allotments for the cane and beet sectors, it is possible for vertical integration to occur with the knowledge that after the integration the current domestic sugar program will starve non-vertically integrated competitors (i.e. independent refiners) of supply which could lead to the closure of other cane refineries. This is a serious disadvantage and to the extent that this part of the US sugar program aids and abets such a dynamic it should be changed. In the last three years we have seen the closure of over 1 million tons of refining capacity for what appears to be such raw sugar access related issues. We at Imperial must stabilize our supply against this contingency and will be taking action to acquire sugar from offshore sources, but we are very concerned that the program may limit our ability to adequately complete this important task.

Lessons of CAFTA Must Be Appreciated: Given our now nearly total dependency on foreign raw sugar at Savannah, Imperial's support for CAFTA last year was understandable as a part of our search for sufficient reliable sources of raw sugar. We hasten to note our deep appreciation for the skillful and judicious manner in which the Members of this Committee, under the leadership of Chairman Chambliss, negotiated a series of commitments from USDA that lead to the enactment of CAFTA last summer. The additional 110,000 tons of sugar which CAFTA permits to enter the US is insignificant relative to the total size of the US sugar market in general—representing about 1 percent of the over 10 million ton market. The addition of that incremental supply to the marketplace is important to Imperial's ability to maintain Savannah's operations, fully serve our customers, and continue full employment for our direct employees at the refinery, as well as the many jobs dependent on us in the port of Savannah and the broader local economy.

The Administration has announced it is negotiating additional FTA's with other nations, many of whom would desire access to the US sugar market. Imperial remains supportive of additional access of raw sugar to the US marketplace. **Imperial would also support an increase in available supply from domestic raw cane sugar producers that would result in additional supply to our facilities.** The ability to increase available domestic supply is hamstrung by the overall cane sector allotment levels provided in the current sugar policy. Imperial would support an increase in the cane share of the overall allotment quantity to facilitate our access to more domestic cane production.

The Committee should further observe that during the CAFTA debate Imperial and other supporters of CAFTA reliably estimated that in FY-06 the US sugar market needed at least an additional 700,000 tons of sugar beyond the current 1.250 million ton WTO-mandated minimum level of imports to meet projected market needs. All observers now acknowledge those estimates proved completely correct. As such, the 110,000 tons from CAFTA fades to insignificance in the real world we actually have experienced in 2006. I raise this CAFTA experience because it illustrates very vividly the Committee's obligation while reviewing the state of the current Farm Bill's sugar program to carefully separate fact from rhetoric if we are going to seriously consider proposals for what to do in the upcoming Farm Bill reauthorization debate. Time has long passed where we can afford to allow public policy in this area to be premised on misperceptions and outdated caricatures of the world which do not correspond to the economic reality of the increasingly integrated international sugar market.

II. The 2002 Farm Bill's Sugar Program: What Works? What Does Not Work?

We view the essential mission of today's hearing to illustrate what works and what does not work in the sugar program established by the 2002 Farm Bill. We applaud the Committee in its effort to fully explore these questions before entertaining proposals with regard to what changes may be appropriate or may be needed in the next Farm Bill reauthorization.

A. What does work in the current USDA sugar program:

USDA Professionals: The first thing that must be said about what is good about the current sugar program is the enormously talented and dedicated professionals administering that program. Whatever you might says about the wisdom of any particular provision of the program they were handed by the 2002 Farm Bill, the USDA's personnel has performed admirably and effectively under a virtual constant crisis scenario to use all the tools Congress gave them to make that program work for the range of interested parties and the public interest in general. The USDA has done a great job in working through a difficult maze of political and market problems in dealing with the sugar program. They have struggled, especially in the past year, to rise to unprecedented challenges caused by natural disasters, changing international treaties and evolving market forces to effectuate Congress's intent to adequately supply the US market without net cost to the US taxpayer. This Committee ought to know the near heroic lengths to which the USDA sugar program professionals have gone to meet these challenges. Imperial certainly appreciates their work as do many others in our sugar sector.

Programmatic Elements: As for specific programmatic elements that appear to be working, there are several which we would bring to your attention:

- **Marketing Allotments**: We conclude that marketing allotments have generally worked in controlling domestic over-production although it comes at a high administrative cost. This is not to say that these marketing allotments work for cane refiners however (indeed, we also include them in our discussion of problem areas below). In fact, they often frustrate our access to supplies of sugar on an efficient basis, forcing us to jump through many hoops that would not exist in a market free of such supply controls. Our observation also is that administering the marketing allotment provisions entails very substantial dedication of USDA's personnel resources. Perhaps this is not surprising in that the marketing allotments are inherently an artificially imposed deviation from the efficiency of the unregulated market place where producers would make their own decisions as to how much to plant and sell.

- **Re-Export Program**: The re-export program remains a bright spot in sugar policy. With the re-export program, cane refiners can secure incremental business and we obtain the flexibility of sourcing non-quota sugar that allows us to solve many short term supply issues that would otherwise require regulatory solutions. We applaud the USDA for flexibly administering this program. In the current year the USDA has allowed an extension of the time allowed between importation of raw sugar and the subsequent re-export of refined products. We urge the Department to make this change permanent and to consider an increase in the size of the licenses granted to refiners. The Department has been working for some time on an updating of the regulations surrounding this program and we urge Department to complete this project and promulgate revised rules.

- **Removal of Shipping Pattern Restrictions**: When quotas were large and domestic crops traded freely (before vertical integration) quota arrivals from the largest shippers were limited so that offshore sugar would not flood the market and prevent the local crop from being marketed at harvest. Last year, the USDA wisely removed shipping patterns from the administration of the quota and we urge them to make this a permanent practice. This would allow offshore sugars to flow to the US in enough quantity to satisfy the demands of independent refiners who do not have domestic production early in the year. The majority of the foreign suppliers in the current quota have crop cycles that generate shipments to the US from December onwards, so we need to remove limits from those who can ship during the first 3 or 4 months of the crop year in order to ensure adequacy of supply in that busy, multi-month holiday season (the period leading up to and including Halloween, Thanksgiving and Christmas).

- **Organic Sugar**: We thank the USDA for aggressively expanding the access to the US for organic sugars. This market is growing at a very rapid rate and it is important for all in the sugar industry to support access to our markets for these sugars to ensure that demands are met. US sugar policy must encourage the market responsiveness of the domestic sugar program to the growing consumer demand for the slate of organically grown sugar products, ***none of which are grown in this country.***

B. What is not working (or not working well enough):

There are several important provisions of the sugar program that are not working or not working well enough—perhaps because they are either ill-conceived conceptually or because they are not efficient tools to deal with realities in the market place.

- **Support Prices**: The difference between the raw sugar support and the white sugar support is too narrow to allow independent processors to survive with current energy prices. Refining raw cane sugar is an energy intensive business and the rising cost of natural gas, coal, fuel oil and electricity have dramatically increased the conversion costs facing the industry over the last several years. The difference between the white sugar support price and the raw sugar support price embodied in the price support loan program is no longer wide enough to allow profitable operation of refineries when both markets are at the support level. This differential needs to be widened in future legislation if cane refiners are to survive at the low end of the sugar cycle.

- **Marketing Allotments**: Current TRQ imports plus imports from Mexico and FTA's will likely threaten the allocation import trigger at 1.532 million tons and this may have to be revised in order to preserve marketing allotments. As marketing allotments are a useful (although flawed) policy tool, the Committee should consider removing or raising this limitation in the next legislation.

- **TRQ Imports**: The current Tariff Rate Quota (TRQ) allocation among the world's nations is archaic and hinders refiners from developing an efficient and flexible supply chain with preferred high quality raw sugar suppliers. The base period for determining the country allocations of the US quota was in the late 1970s and early 1980s. This was a period of extremely high sugar prices and the list of suppliers that created the current allocation was distorted as a result. Since that time some of the quota holders have ceased being net exporters, some no longer produce sugar, and others do not have production large enough to satisfy increased demands from the US without importing for their local markets. We ask the Committee to urge our trade negotiators to work diligently to change the allocations of sugar applicable to the quota to a more market responsive system that would allow refiners to source sugar more flexibly from suppliers of high quality raw sugar and to respond to changes in production and export status of quota holding nations.

- **Timing of Announcement of TRQ Each Year**: As the quota can always be presumed to be at least the minimum, it does no harm to make an early announcement of at least the minimum quota. The administrative process has many time consuming components involving the USDA setting a base quota, USTR issuing country allocations and issuing CQE's, and notification of the Certifying Authorities in the quota holding nations. Starting this series of events earlier would jump start a process that often delays the earliest potential arrivals of offshore sugar to the US market. This matters because with so much vertical integration now domestic crops do not flow immediately to market, but are held for shipment throughout the year and those sugars are not available to independent refiners like Imperial. It puts us in the position of being held hostage. Elimination of shipping patterns is also critical in this regard.

- **Import Limitations in General**: The confluence of marketing allocations and TRQ controls in the current program basically allow domestic processors to capture all of the demand increase in the US market. While some FTA's now allow for small growth over time, **the sugar program should allow imports to grow or shrink each year at the same rate as estimated demand increases or decreases.**

- **Information Gathering in a NAFTA environment**: With the prospect of a unified North American market for sugar soon upon us, we at Imperial are concerned about the lack of good publicly available information from Mexican sources about the supply and demand for sugar and sweetener within Mexico. The USDA does an outstanding job of collecting information and disseminating it in the US, but we lack similar information from Mexico. We urge the development of a structured exchange of information, coordinated by the USDA, that would disseminate information from Mexico to the interested public in the US.

Conclusion: On behalf of all our Imperial Sugar Company employees, we thank the Committee for allowing us the opportunity to provide our views on the state of the US sugar program. While this hearing is intended to serve an oversight function as to what is the current status of that program, we look forward to a future opportunity to share our views on what might constitute valuable changes in the US sugar program that should be included in the next Farm Bill in order to make the domestic sugar program serve America's interests even more efficiently and more productively. As is evident from our testimony today, Imperial supports revising the current sugar program in the next Farm bill to address the concerns we have raised. We do not support simply extending the current program without addressing these serious problems since their adverse impact will only increase if not addressed. We look forward to working cooperatively with the growers, processors, refiners and users who make up the domestic sugar industry to come to an agreement on policies that will create a healthy, profitable industry for all interested parties.

Testimony of
JOE GOEHRING
On Behalf of the
SWEETENER USERS ASSOCIATION

Senate Committee on Agriculture, Nutrition, and Forestry
May 10, 2006

Mr. Chairman, thank you for the opportunity to testify at this oversight hearing on the U.S. sugar program. My name is Joe Goehring, and I am the Director of Commodity Operations for The Hershey Company. I am testifying today in my capacity as a past chairman of the Sweetener Users Association. SUA members are the companies who use nutritive sweeteners in their confectionery, bakery, cereal, beverage, dairy product and food manufacturing operations, as well as trade associations representing those same industries.

Sugar Users' Goals

As sugar users, we want and need strong and healthy domestic sugar production and processing. We believe it is in our interest to have a geographically diverse production base in the United States for both sugar beets and sugar cane. Likewise, we believe there is a need for a strong, independent U.S. cane refining industry.

We see some real problems in the design of current U.S. sugar policy, and I will mention some of those in my testimony. But that does not mean we advocate that the United States eliminate its sugar policy entirely. Instead, we should come together as an industry – growers, processors, refiners and users alike – to arrive at a consensus on the best government policy to meet everyone's needs and serve the public interest. Our organization has proposed exactly that to our friends in the producer and processor community, and we hope they will agree that such an exercise would be constructive.

Today's hearing is especially important in helping the Committee and the public consider some of the challenges facing the current sugar program and why we believe that consideration should be given to a broad range of new policy options. First, I will point out differences between the sugar program and other agricultural support policies. I will also examine some of the limitations of the current sugar program in both design and administration. Next, I will identify some of the long-term consequences of past and current sugar policies. Finally, I will point out future challenges and provide some recommended principles which we believe should help to guide future sugar policy.

Differences from Other Agricultural Programs

Compared to government support policies for other commodities, the sugar program is different in several respects. Two of the most important are import quotas and marketing allotments, both of which affect the availability of supplies to the marketplace, as well as who decides which supplies will be made available, and when, to the market.

Sugar is one of the few U.S. commodities whose domestic program relies on import quotas as an integral part of the support structure. Current sugar policy employs a tariff rate quota (TRQ) to limit supplies and ensure that the domestic loan program does not result in sugar forfeitures to the government. The past 25 years have shown that this policy tool, despite the best efforts of USDA, is virtually impossible to administer efficiently and effectively and has often resulted in market dislocations and sugar forfeitures to the government.

In addition to import quotas, sugar is now virtually alone among U.S. commodities in employing marketing allotments - a mandatory supply management program. Most other program crops had acreage controls until the mid-1990s, but policies were changed in the 1996 and 2002 farm bills to meet the challenges of an evolving marketplace and the realities of international trade, including the Uruguay Round Agreement and the North American Free Trade Agreement. Conversely, the last farm bill took a step backward by re-introducing marketing allotments as a foundation for sugar policy, contributing to market dislocations and administrative difficulties for USDA. Sugar is the only major commodity for which the government attempts to actively manage supplies.

The use of these tools in past and current sugar policy has had negative consequences for the entire sugar industry. I will cite several examples, but what they have in common is that the government interjects itself into the marketplace, and that often causes problems for some or all stakeholders. More important, we believe that an overhaul of sugar policy is required to avoid greater problems in the future.

Import Quotas

One of the government's primary supply-control tools is the tariff rate quota (TRQ). During the past quarter of a century, USDA has used this tool in an attempt to balance the conflicting goals of maintaining adequate domestic sugar supplies and avoiding forfeitures.

We believe that it is difficult if not impossible for USDA (or anyone else) to accurately forecast market fundamentals, including the effects of nature, trade agreements and consumer trends, to name just a few. It is also our belief that the TRQ supply-control tool has been and will become increasingly ineffective, as the pace of change in the world increases and our multilateral and bilateral commitments expand. We believe that a more market-oriented approach will best serve future sugar policy needs.

Two specific examples of the TRQ's limitations as a policy tool were apparent in recent months after USDA announced several TRQ increases in the wake of last summer's hurricanes. Both examples are related to market circumstances which compelled USDA to allow quota imports of large quantities of refined sugar – something that is quite unusual.

The United States is obliged by World Trade Organization (WTO) rules to import minimum amounts of both raw and refined sugar. However, refined imports are normally dwarfed by raw imports. Our WTO minimum quota is 1,117,195 metric tons for raw cane sugar, but only 22,000 metric tons for refined sugar. Importing mostly raw sugar helps maintain throughput in our nation's cane sugar refineries, and that is important because this part of the sugar industry has been shrinking for many years.

Since Hurricane Katrina idled a large New Orleans-area sugar refinery for several months, the U.S. market was short of refined sugar. That shortage was apparent from the fact that refined sugar prices rallied much more sharply than raw sugar prices. The temporary loss of that refinery reduced demand for raw sugar while tightening refined sugar supplies.

USDA announced several import quota increases for refined sugar, but these quotas were less effective in increasing refined supplies than they might have been, largely because of problems that are not of USDA's making. First, U.S. Customs and Border Protection differentiates between raw and refined sugar on the basis of polarity – a measurement of purity. For U.S. industrial users, sugar needs to be refined to a polarity of 99.8 or 99.9, but Customs considers any sugar with a polarity of 99.5 or greater to be refined sugar, and therefore eligible to fill a refined sugar quota. (This practice stems from a definition of raw sugar in the Harmonized Tariff Schedules of the United States.)

Mexico produces a sugar called *estandar* which is approximately 99.6 polarity. Some other origins, including Brazil, produce similar sugars. These sugars can be imported as refined sugar, and thus help to exhaust the available quota – but they do not immediately add any refined sugar to the U.S. market, since they require further refining in the United States before they can meet normal U.S. manufacturing standards, and be delivered to an industrial user. Thus, USDA's intentions to add refined sugar to the market have in some cases been frustrated. The actual amount of refined sugar imported under the quotas has not been as great as the quota amount.

It is difficult enough to conduct business under challenging market conditions and an intrusive regulatory system. It is even more difficult when the regulation fails to match up to commercial realities. Simply put, the government considers all sugar above 99.5 polarity to be refined, but the U.S. market does not. This inconsistency should be fixed.

Another example of a TRQ problem concerns the type of quota that has been used for refined sugar. A portion of the quotas has been "first-come, first-served," meaning it is open to all origins, but if early-arriving cargoes fill the quotas, then sugar that has not yet arrived may be charged the prohibitive over-quota duty if it is imported, since it will not enter under the TRQ.

There are numerous benefits to a first-come, first-served system, but there are also disadvantages. Such a system strongly favors Canada and Mexico as origins, because the goods can enter U.S. customs territory more quickly than products that must be shipped longer distances. If there are quality issues with the nearby sugar – and there were such issues with Mexican sugar in some cases – then extra costs get built into the system, reflecting the additional steps that must be taken by industrial users before the sugar is really usable.

Again, we cite these examples to show the problems and limitations of the TRQ as a policy tool. If sugar policies were modified so as to make the TRQ unnecessary or less important we believe that these particular problems would have been addressed more efficiently and effectively, because sellers and buyers would simply source the sugar from other origins. A quota system, by definition, arbitrarily limits sellers', processors' and users' choices.

Marketing Allotments

The government's other primary supply-control tool is marketing allotments. USDA uses this policy tool in an attempt to balance the conflicting goals of limiting domestic production, maintaining an adequate balance of domestic beet and cane sugar supplies, meeting minimum import requirements under international trade agreements, and avoiding forfeitures.

Marketing allotments were part of the 1990 farm bill, but were little used. More recently, the principal policy change for sugar in the 2002 farm bill was the re-introduction of marketing allotments. Once again, despite USDA's best efforts, the use of marketing allotments has resulted in several instances of market distortions such as volatile prices, production limitations and supply shortfalls.

USDA first established an Overall Allotment Quantity (OAQ) before the 2002/03 marketing year, and the Department's initial announcement was more conservative – that is, smaller – than the market expected. A sharp run-up in prices was the result. Subsequently, market conditions caused USDA to increase the OAQ, and prices fell.

Such price spikes and sharp declines, caused not by supply-demand fundamentals but by unexpected government action, are not a desirable result of program operations.

In subsequent years, USDA has generally done a good job of setting the OAQ and making adjustments. However, the process by which the OAQ is established remains somewhat opaque. The Department has often operated as if it had a rough stocks target in mind when making its OAQ decisions, but has never said so explicitly. As a result, the market has to try and outguess the government. Market participants must forecast not only what the government will do, but also when the action will take place. As a result, government decisions can have as much impact on the market as planting patterns, weather events or shifts in demand. That is not the case for most other agricultural commodities today, and I would suggest to you that it is not desirable from the standpoint of public policy.

More recently, the shortcomings of this policy tool have become especially obvious. Since last September, sugar markets have been dominated by the aftermath of Hurricanes Katrina and Rita (as well as Hurricane Wilma a little later). Spot prices for refined sugar cited by *Milling & Baking News* reached 50¢ per pound and even higher in a few cases, compared to a more normal range of 22-28¢ per pound. (They are still much higher than during previous periods, according to this publication, which USDA uses as its official price source since there is no futures market for refined sugar.)

Yet even in such an extreme market situation, there were still limited domestic stocks of perfectly good sugar that sellers were willing to sell, and buyers were willing to buy, that were "blocked" from the marketplace because of the allotment system. Buyer and seller could not come together to consummate a business transaction that was in their mutual interest until they got permission from the government. The result was to exacerbate the already-severe logistical problems – which beset sellers and buyers alike – and further limit the availability of sugar to the marketplace.

Something is wrong with a program that produces that kind of result. Eventually, USDA did act to permit the marketing of the "blocked" sugar. And indeed, Mr. Chairman, SUA would like to commend the Department for the multiple actions it took last fall to try and restore balance to the market. The Department paid attention to the sugar market's needs and acted promptly.

As we pointed out earlier, the use of marketing allotments as a policy tool creates market distortions and it is virtually impossible for USDA to manage such a program effectively and efficiently. Even at its best, government usually cannot react as quickly as the marketplace demands, especially in turbulent times when all buyers and sellers are scrambling to match up available supplies with pressing demands. In that kind of environment, it is problematic to have a policy which says it is illegal to sell sugar until the government decides otherwise.

I do not want to leave the impression that our concerns about the sugar program relate solely to the aftermath of last year's hurricanes. After all, no government program can control the weather. In fact, though, the program has not performed well even in calmer markets. More often than not, this sugar program has been associated with surplus domestic production, not shortage. Chronic surplus domestic production should no more be a policy goal than persistent shortage, and a program that tends to produce one or the other stands in need of change.

We have identified several shortcomings of current sugar policy, but there are also positive aspects. Three examples may be of interest to the Committee. First, the re-export programs for refined sugar and sugar-containing products have generally worked well; they supply additional throughput for cane refiners, and permit food manufacturers to be competitive in export markets.

Current policy delivers program benefits through processors rather than directly to producers as is the case for most other supported crops. This system reflects both the agronomic characteristics of sugarcane and sugar beets -- which are not storable for long periods in their unprocessed form -- but also the cooperative structure of most U.S. processing. This delivery system may well continue to be appropriate even if the support program itself undergoes changes.

Third, although SUA is generally opposed to marketing allotments, the requirement to reassign shortfalls in the cane allotment to imports is a positive feature in the current environment where allotments are legally required. The reassignment requirement, which has been used by USDA several times in recent years, helps to assure throughput for the cane refining sector even when domestic sugarcane production is lower than expected.

Long Term Consequences – Unsustainable Future

Mr. Chairman, we believe that there are even more compelling reasons to revise current sugar policy. These reasons include the long-term consequences of over a quarter of a century of ill advised sugar policy. We also believe that current sugar policy is unsustainable, and the sooner we can begin to talk about workable alternatives, the better for everyone, including users, refiners, processors and producers alike. Let me review just a few examples:

Use of Domestic Sugar is Flat. The reasons are straightforward and go far beyond the often-cited Atkins Diet, a factor which has recently faded. Price support policies kept domestic sugar priced substantially above alternative sweeteners, which took over entire demand segments. At the same time, the differential between domestic and world sugar prices created an incentive to import sugar-containing products that were not (and under WTO rules could not be) subject to import quotas. Close to a tenth of domestic sugar demand is now being filled by these products.

Loss of U.S. Manufacturing Jobs. High domestic sugar prices provide an added incentive to relocate U.S. food processing jobs overseas. I should note that several factors are used to determine whether or not to relocate manufacturing overseas, including labor and foreign exchange rates. However, the prospect of lower sugar input costs provides an additional powerful incentive to relocate food processing overseas. The past decade has seen several examples of the migration of food manufacturing jobs to overseas locations – and as the Commerce Department stated in a recent report, there has been a sharp difference in job growth within the food industry, with those segments that use sugar losing jobs while non-sugar-using segments experienced modest job growth.

International Trade. The current sugar policies of the United States are difficult to reconcile with the future direction of international trade policy, and our own trade liberalization objectives and obligations. We believe future sugar policy should be redesigned to be more closely aligned with the realities of world trade rules while still protecting producer incomes and promoting greater market orientation.

For example, in 2008 sugar trade with Mexico will be unrestricted. Mexican sugar producers are not subject to marketing allotments. Will U.S. producers be locked into a declining share of their own market? Meanwhile, any eventual Doha Round agreement is likely to require both an expansion of the sugar TRQ, and reductions in "amber box" subsidies – and today's U.S. sugar program is entirely "amber."

And while our policies ought to aim at securing the U.S. demand base for domestically produced sugar, the current program has led to approximately 10% of domestic demand being filled by sugar contained in imported products that were manufactured with world-price sugar.

Principles to Guide Future Sugar Policy

Mr. Chairman, the problems we have identified in current sugar policy can also lead to principles that Congress should consider in shaping sugar policy for the next Farm Bill.

The current program interposes the government among all industry stakeholders through the tariff-rate quota and marketing allotments. Future policies should aim at less government interference in normal business transactions.

For the past quarter of a century, sugar policy has not been sufficiently responsive to market signals and changes in the world economy. This has resulted in unintended consequences such as supply shortages, loan forfeitures, slow growth of domestic sugar consumption, inhibition of international trade, and the relocation of U.S. manufacturing jobs overseas. Future policies should feature greater market orientation, which will address these problems, while still recognizing producers' need for an economic safety net.

Perhaps most importantly, the current sugar policies of the United States are difficult to reconcile with a rapidly changing world and the future direction of international trade policy, and our own farm and industrial trade objectives. We believe future policies should be redesigned to be more closely aligned with the realities of world trade rules while still protecting producer incomes and promoting greater market orientation.

Mr. Chairman, we know that there will be future opportunities to make detailed recommendations for the next farm bill. We will not attempt to do so now. We prefer to work for the development of an industry consensus of growers, processors, cane refiners and users which would provide the optimum policy solution for all stakeholders going forward.

We believe change is coming, and that all of us – farmers, processors, refiners and ourselves – would be well advised to work together toward a sustainable policy that will meet the needs of all stakeholders alike. We believe those goals are also shared by this Committee, and look forward to working with you as you develop the next Farm Bill.

We thank you for this opportunity.

United States Senate
Before the
Committee on Agriculture

Testimony of Mrinal Roy
Mauritius Sugar Syndicate and Mauritius Chamber of Agriculture
May 10, 2006

1. I am deeply honoured to have been invited to testify at this hearing of the Senate Agriculture Committee on the US sugar program. It is my privilege to present the views of the traditional sugar quota holders and exporters under the US tariff rate quota (TRQ) on raw sugar. I wish to thank the Committee to provide me with this opportunity.

2. I am appearing before the Senate Agriculture Committee in my capacity as General Overseas Representative of the Mauritius Sugar Syndicate (MSS) and the Mauritius Chamber of Agriculture. The MSS is the private sector international sugar marketing organization of the sugar industry of Mauritius. I am also the Chairman of the ACP London Sugar Group which regroups the overseas representatives of the ACP sugar industries and has a long standing proactive rapport with EU and UK services to safeguard our sugar interests in the EU. The ACP are the African, Caribbean and Pacific countries supplying sugar to the EU under the Sugar Protocol

3. My testimony will underline the importance of sugar for Mauritius, the key role of the US sugar program as a vector of trade driven development in the developing country quota holders and the imperative of its continuation and consolidation in order to strengthen its benefits for the future.

Importance of Sugar to Mauritius

4. Mauritius is a small island of some 1860 km^2 in the Indian Ocean east of Madagascar i.e. the size of the State of Rhode Island or Fairfax County in Virginia. Despite its small size, Mauritius ranks among the top ten sugar exporters in the world, annually exporting between 500,000-600,000 metric tons (tonnes).

5. The sugar cane industry in Mauritius is in fact a cluster of sugar, energy, molasses and rum production components in an integrated sector that forms an integral part of the social, environmental and economic fabric of Mauritius. It plays a key multifunctional role in our economy. Thus,

- Sugar cane covers 40% of the island's land area and is grown on 90% of total agricultural land. The island also has a very fragile ecosystem and is vulnerable to cyclones every year during the December-May period as it is situated in the cyclonic belt of the Mascareignes.

- Some 28,000 small farmers grow cane and receive the full benefit of the country's sugar market access to the EU and the US as well as their share of revenue from molasses and the various elements of the cane biomass. Approximately 60,000 of the country's 1.2 million inhabitants are employed directly or indirectly in the sector, representing some 11% of the total workforce. One family out of every three thus depends on the sugar industry which anchors rural livelihood and rural development. Employees and small planters own 20% of the milling companies and have a 10-20% stake in cogeneration entities thereby strengthening the partnership among the different stakeholders of the sugar cane cluster. Labour laws safeguard the workers rights and remuneration levels. These has been key factors underpinning the vibrant democracy that thrives in Mauritius.

- Proceeds from the export of sugar amount to some US $ 300M on average, enabling the country, a Net Food Importing Developing Country (NFIDC) to meet a very high proportion of its food import bill.

- The environmental benefits of sugar cane are significant, in that almost all of the cane bio-mass, by-products and waste streams are utilised in some way or other in an environment friendly manner, e.g. bagasse/cane trash for power generation, filter cake/combustion ash as a soil conditioner, molasses as livestock feed ingredient or for the production of bio-fuel, vinasse for fertigation, composted, incinerated or concentrated vinasse as an organic fertiliser etc.

- Cane-based products — sugar, molasses and electricity — account for 5-6% of national income and make a net contribution of 30% to foreign exchange earnings.

- Around 20% of the energy needs of Mauritius_are supplied by electricity produced from bagasse, a renewable green combustible resulting from cane milling, thereby reducing the country's dependence on costly fossil fuel . The sugar industry is in the process of an ambitious re-engineering plan to inter alia upgrade the cogeneration plants according to state of the art technologies and project norms aimed to earn Emissions Reduction Credits (CERs) under the Kyoto Protocol.

- The new Accelerated Sugar Sector Strategic Plan includes the setting up of a molasses based ethanol producing distillery.

- Of all cultivated agricultural crops, sugarcane is known as one of the most efficient sequestrator of atmospheric carbon, and, as such, has global environmental benefits in line with the objectives of the Kyoto Protocol.

- The sugar industry contributes significantly to social development and welfare in the country through its central role as a service provider to rural communities. This includes the provision of housing, healthcare, education and training, recreational facilities, technical and financial assistance to its employees and their families.

- Sugar cane cultivation industry contributes to the protection and preservation of the environment through biological control of pests, minimal use of pesticides, a minimal treated effluent load in comparison to other tropical crops or fruit and vegetable growing. Sugar cane is wind resistant and its strong root system binds the soil. Being a perennial crop, it is a very effective in controlling soil erosion especially in slopy areas under cane.

- The landscape of well ordained and lush green planted cane fields also have a positive fall-out on the aesthetic beauty of Mauritius as a prime tourist destination.

Why sugar cane?

6. Owing principally to its considerable resilience to drought and more particularly to cyclones, sugar cane has become the core viable agricultural activity by rational choice. A wide range of other crops have been tried over time, but none has been found to be suited to the inherent climatic conditions and to be viable in the long term. Through the 366 years of cane cultivation in Mauritius, cane has been validated as the only sustainable core agricultural activity on the national scale. A world reputed cane research centre has through the development of higher yielding, drought or cyclone resistant or high fibre content cane varieties and the continuous induction of improved cultural practices helped consolidate the sector. Mauritius has thus opted for a policy of "diversification within sugar" aimed at generating supplementary revenue from the cane by-products and biomass as well as the production and marketing of a unique range of 18 value added up market speciality sugars in some 33 countries across the world including the US and 14 of the EU countries. With global sales of specialty sugars of some 75,000 tonnes, Mauritius is by far the world leader in this segment of the sugar market.

7. In order to maximize use of scarce arable land resources, food crops are grown in cane interlines and cane rotational lands farmed out to small growers.

The US Market

8. The US has been an important traditional export market for Mauritian sugar for decades well before the establishment of the current US Sugar Program. As a long standing traditional supplier, Mauritius benefited from a quota allocation of 1.2% under the US TRQ. It has, barring the adverse effect of cyclones, diligently supplied its quota over the years in spite of its distance from the US market and the costlier freight. It has readily accepted to deliver the additional quota allocated in February 2006 to help make good the deficit in US sugar requirements resulting from the adverse effects of hurricanes Katrina, Rita and Wilma against a background of rising freight costs and soaring world prices. The US market remains a priority market owing to the guarantees of long term market access, remunerative price level and predictable revenue assured by the US Sugar Program.

9. In order to maximize revenue from its quota allocation, Mauritius has developed the sale of its range of special cane sugars in the US through targeted buyers as well as cogent marketing initiatives in the US and currently markets a large portion of its quota as specials.

Access to the US Market Is Important for the Developing Country Quota Holders

10. A total of 40 countries hold allocations under the US TRQ. Most of these quota holders are developing countries for which sugar exports are an important source of predictableand remunerative revenues. Of these, some 24 countries are small, island, land locked vulnerable developing countries or LDCs. The market access provided under the TRQ and the stable revenue flow has assisted these countries in assuring their sustainable development and rural livelihood through trade.

11. But market access is moot unless it is coupled with a remunerative and stable price that covers production and the increasing delivery costs to the US market, related to rising freight. This has been achieved over the past 24 years through market management instruments underpinning the US Sugar Program such as marketing allotments governing domestic production, the TRQ on imports and the safety net of the non-recourse loan programme, at no cost to the US budget.

12. The US Sugar Program also maintains a reasonable market price of sugar for consumers as the retail price of sugar remains one of the lowest priced food items in the standard shopping basket of the US household, as compared to the retail price of sugar in other developed countries.

13. It is equally important to contest the flawed argument that the US Sugar Program maintains a market price that is higher than the world market price. That is a red herring. The world market price is not a valid benchmark for the value of sugar as it is a residual market. According to an International Sugar Organization (ISO)

study carried out amongst more than 100 countries in June 2003, covering the period 1996-2002, some 76% of the world's sugar production is consumed within the country in which it is grown and the world average domestic price at retail level was $610 per tonne (27.67 per cents/lb) i.e. significantly more than the support price of the US Sugar Program or the NY No 14 prices and more than twice the average world price of the last decade. This confirms the generally held view that most sugar industries in the world sustain their long term viability through principally sales to their captive higher priced domestic markets. The world market is marked by generally bearish and unstable price trends and the dominant position of Brazil. Since 1999, world prices have fluctuated between 6 – 10 cents per lb i.e. below the cost of production of most of the efficient producers of the world, before rising to above 19 cents per lb in February 2006 and subsiding to some 17.30 cents per lb presently. The volatility of world prices is illustrated in the annexed graph covering the last decade based on NY No 11 (Annex 1).

EU Sugar Regime Reform: A model not to emulate

14. I am annexing for the record a recent article I wrote for the 24 February edition of Agra Europe on the EU Sugar Regime reform from an ACP perspective (Annex 2).

15. The EU Sugar Regime reform was driven inter alia by:

- The adverse ruling of the WTO Panel on EU export subsidies
- The policy decision to align EU Sugar Regime with the objectives of the reform of the Common Agricultural Policy
- The need to ensure that domestic support measures in Agriculture are compliant with WTO green box criteria in the context of Doha Round
- Budgetary constraints
- The perceived threat of massive disruptive exports of sugar from LDCs under the EBA Initiative and the consequential pressure from the EU producers to have a deeper price cut than needed in order to stem investment in sugar production expansion projects in LDCs.

16. The EU reform Agreement concluded in November 2005 is therefore anchored on the twin principles of a deep price cut over a short time frame coupled with comprehensive and adequate resources to enable the various EU stakeholders to adapt to the reform. It thus comprised the following key elements:

- Reduction of the EU price by 36% by 2009/10 with no change in the first two years

- The setting up of a restructuring Fund estimated at Euros 4 billion through a restructuring levy to assist the adjustment of EU stakeholders to the EU sugar reform

- Decoupled payments to beet farmers equivalent to 60% of the price cut totaling some Euros 8 billion

- E 2 billion as adjustment aid in favour of the cane sugar industry in European overseas territories

- E150 million as restructuring assistance to full time cane refiners

- Various flexibilities to address the specific concerns of the more vulnerable counties of the EU

17. The reform is essentially Eurocentric. In practice, it initiates a major overhaul of the EU sugar sector to concentrate production of some 13 – 14 million tonnes of sugar per year amongst the more efficient world class producers and entities in Northern Europe (principally in Germany, France, the United Kingdom, Holland, Belgium) and some East European countries. The EU sugar sector is in the throes of a pan-European rationalization process with the emergence of a handful of key players positioning themselves to seize the trade opportunities of the post reform EU sugar market place. Although the reform is expected to reduce sugar production from the current 19 million tonnes to some 13 – 14 million tonnes, hence downsize surplus production, the EU will remain the third largest world producer of sugar after Brazil and India. In contrast the US produces some 7 million tonnes. Similarly the post reform refined sugar price after the 36% price cut of E404.40 per tonne is equal at the current E/$ exchange rate to 23.11 cs per lb i.e. a price level higher than the loan rate of 22.90 cs per lb for refined sugar in the US Sugar Program.

18. The US situation is not comparable to that of the EU. It is materially different. The US sugar industry is already fairly well rationalized. The US market is a deficit market. The Sugar Program is budget neutral, already includes a WTO compatible TRQ benefiting 40 traditional quota holders, is supported by the US sugar producers and there are no threats of quantum imports except from Mexico under the NAFTA Accord. Furthermore, any price reform far from benefiting producers or consumers will thwart the role of the TRQ under the Sugar Program as an instrument of trade driven development especially among the vulnerable quota holders and solely benefit industrial users and the major players in the retail distribution sector.

19. The EU sugar reform risks the further impoverishment of the developing country quota holders and will probably drive several of the ACP countries out of the sugar industry completely. Already St Kitts and Nevis has announced its decision to cease sugar production after 360 years. This in turn will add to already serious unemployment, deprive these countries of much-needed export revenues and create new barriers to the economic development of these vulnerable countries. The United States should definitely not look to the EU sugar reform as a model to follow.

Conclusion

20. At a time when the WTO membership is examining meaningful ways to translate the undertakings of the Doha Development Round Agenda, it is important to remember that the US Sugar Program is a potent instrument of trade driven development among the developing country quota holders. Accordingly, continuation and reinforcement of the US Sugar Program would be fully consistent with the central underlying objectives of the Doha Development Round.

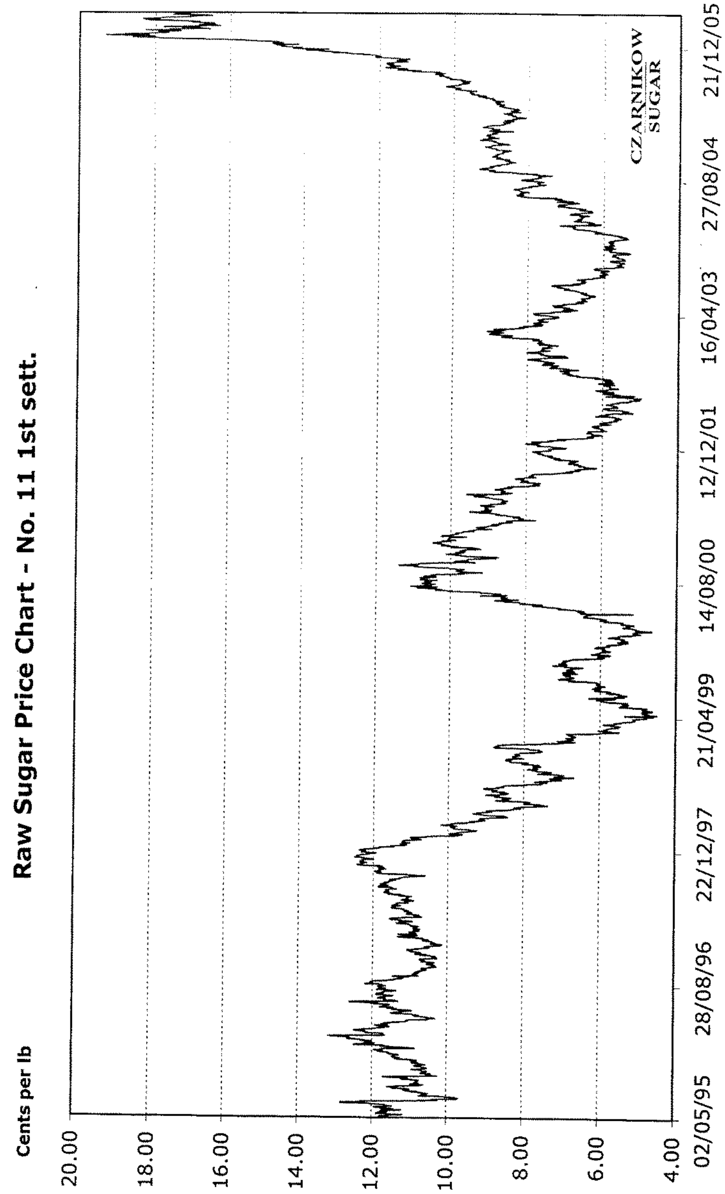
21. It is equally important to preserve the value of market access under the sugar program through appropriate border protection as an inadequate tariff barrier for sugar will expose, akin to the flux of Chinese textile exports in the wake of the end of the Multi-Fiber Agreement, the US sugar market to the threat of cheap third country exports which would seriously undermine both the US Sugar Program as well as the sugar price level to the detriment of sugar producers and traditional exporters.

22. For the past 24 years, the US sugar program has provided much needed access to the US sugar market for 40 traditional suppliers, most of whom are developing countries, at stable and remunerative prices. The export revenues generated by these exports to the US market have contributed to the economic development of these countries through trade, not aid. From our perspective, the US sugar program has been very successful, and should be continued and reinforced so that it can continue to provide meaningful trade opportunities that will in turn contribute to the sustainable development of numerous developing countries around the world.

23. For all the stated reasons let us collectively maintain and consolidate the US Sugar Program through related initiatives and measures in the context of the Doha Round to strengthen its benefits and development oriented dimension.

Mrinal Roy.
May 10th 2006

Annex 1


Raw Sugar Price Chart - No. 11 1st sett.
Cents per lb
20.00
18.00
16.00
14.00
12.00
10.00
8.00
6.00
4.00
02/05/95
28/08/96
22/12/97
21/04/99
14/08/00
12/12/01
16/04/03
27/08/04
21/12/05
CZARNIKOW SUGAR

Annex 2

EU sugar reform – an uphill battle for survival for the ACP
Friday February 24 2006

*A personal perspective by Mrinal Roy**

Whatever its impact may be within Europe, the reform of the EU sugar regime will seriously undermine the sugar industry - the core agricultural activity - in ACP Sugar Protocol countries, and will harm the sustainable development of their economies.

The 36% cut in EU sugar prices over four years will result in an annual loss of revenue of about €265.3 million for the 18 ACP developing countries of the Sugar Protocol (SP), who are small, vulnerable, landlocked or island economies. The collective shortfall in revenue for the SP countries will amount to some €1.77 billion by 2014/15, at the end of the new sugar regime.

Such a huge fall in revenue will thwart the sugar industry's multifunctional role in ACP states - in rural development, in environmental protection, in assuring food security (most SP states are Net Food Importing Developing Countries), in its capacity to produce biofuel, and generally to act as an engine of growth.

Furthermore, the ACP are made to bear a heavier and unfair burden of the reform, as the reduced price payable on an ex-mill basis to the EU sugar beet sector is applicable on a cif basis for the ACP – which means these states have to bear rising transportation costs. As sugar exports can account for up to 25% of Gross Domestic Product, the overall impact will blunt the thrust of their development efforts and their ability to meet their Millennium Development Goals, as well as threaten the livelihoods of millions who depend on the sugar cluster in ACP countries.

Adapt or perish

Conscious of the writing on the wall for the sugar regime, the ACP States anticipated the reforms by investing considerable sums in preparing their sugar industries for a more competitive environment. In the case of Mauritius, the industry invested heavily to modernise and rationalise its operations according to various national sugar sector Strategic Plans - a costly exercise which has been totally underwritten by the stakeholders of the industry from the predictable income flows of the ACP-EU sugar preferential arrangements. Mauritius has already submitted its reform adaptation Action Plan to the Commission and other ACP countries are doing so shortly.

There is however deep apprehension among the ACP countries at the critical delay of the EU in committing commensurate funds to underwrite these ACP Action Plans. Against the background of such a vast fall in their revenue, the Sugar Protocol countries will not be able to adapt to the reform without the urgent support of adequate funds from the EU.

Equity of treatment

In the final sugar reform agreement reached at the November 2005 Council meeting, an extensive process of trilateral consultations with Member States enabled the UK Presidency and the Commission to identify and comprehensively address the specific concerns of each Member State. Additional funds were committed in the quest to reach a Council agreement.

But no similar consultation process was adopted for the ACP who, through the Sugar Protocol, are equally stakeholders in and parties to the EU sugar regime.

Although the ACP assiduously lobbied the Member States, the Commission and the EU Parliament on their specific concerns, these received only limited attention in this negotiating process, which remained essentially Eurocentric.

The ACP are the only stakeholders of the EU Sugar Regime whose specific adaptation funding requirements have not been established nor clearly earmarked by the EU through a comparable process of proactive dialogue. There is need for equity and parity of treatment towards long-standing and reliable stakeholders in the EU sugar regime.

It is now vital that the EU make a firm and bankable commitment of adequate and specific funds to underwrite the ACP multiannual adaptation strategy, ahead of the exercise of agreeing on detailed budgetary allocations for the 2007-13 Financial Perspectives.

Adequacy of EU funds

The sum of €40 million for 2006 earmarked by the EU and the sum of €190m per year indicated in the context of the 2007-2013 financial perspectives for the whole of the 18 ACP beneficiary countries of the Sugar Protocol are largely inadequate to cover the costs of the Action Plans, which were estimated by independent research carried out by at least one EU Member State at some €500 million per year of the adaptation period.

It should be noted that the EU has committed some €8 billion in favour of EU beet growers and allocated €2 billion in 2007-2013 to the DOMs, who produce 280 000t annually under similar topographical and geographic conditions as the Sugar Protocol countries who export 1.3 million tonnes per year to the EU.

Now that the ACP countries have started to submit their adaptation strategies, the EU support must urgently move into a delivery and implementation mode, with front-loaded funds disbursed on a fast-track basis as soon as possible.

Options for diversification

It should be clearly stated at the outset that diversification options for the agricultural sector in ACP states are, in most cases, non-existent. The experience of numerous initiatives taken by the ACP countries to diversify their agriculture has shown that, as in the case of the DOMs, no crop can adequately replace sugar cane, owing essentially to inherent climatic constraints in these geographic regions. Most of the ACP countries are annually subjected to the threat of cyclones, and sugar cane, opted for by rational choice, has consistently been found to be the most suitable crop to adapt to these extreme conditions.

Mauritius has had relative success in judiciously investing part of the its sugar export revenue to broaden its economic base through diversification into manufacturing, tourism and the service sector, but it is nevertheless vital for the country to maintain a core agricultural activity over its arable land in order to anchor rural development, and protect the environment and the ecosystem.

The presence of an organised sugar cane sector and lush green planted fields also add to the attraction of Mauritius and other ACP countries as a prime tourist destination. A similar rationale justifying the choice of sugar cane prevails in the other ACP States.

However, Mauritius has since 1978 diversified its sugar production into a unique range of 18 value-added cane special sugars produced according to HACCP norms, and currently markets some 75 000 tonnes to 33 countries across the world including the US and 14 countries within the EU - its main market. It is by far the world leader in this segment of the sugar market.

As part of its Action Plan, this marketing strategy will also aim at tapping other value-added segments of the EU sugar market to shore up the significant fall in export revenue.

Will current world prices last?

In the minds of the uninitiated, the current high world prices of some 17.50c per lb for bulk raw sugar (about $386 per tonne fob) is perceived as a viable long-term sales option for the ACP. Although world prices are currently at their highest level since 1981, this is principally due to present fundamentals which project a world market trading imbalance of some 2 million tonnes.

In absolute terms, the present world price is still lower than the ACP price of $564 per tonne fob in 2006/07 in the context of the reform, and in constant terms will be only marginally higher than the estimated ACP price of $370 per tonne fob in 2009/10 after the 36% price cut. It would only bring a temporary benefit to those ACP with current surplus availabilities of sugar.

It should be highlighted that owing to the bearish weight of expanding Brazilian exports - from some 1.3 million tonnes in 1990 to more than 16 million tonnes presently - average world prices have fluctuated between 6.14 to 9.99c /lb ($135 - $220 per tonne fob) during the 1998-2005 period.

The cognoscenti in the sugar trade forecast that once Brazil and other origins with the potential to expand production make good the present imbalance, world prices are expected to subside to uneconomic levels in the medium term, in line with the generally bearish long-term world price trends.

Projections carried out by the International Sugar Organisation show that Brazil's exports will continue to grow to reach some 23 million tonnes by 2010, in spite of pursuing in parallel its ethanol production expansion programme. The current bull run is thus a market distraction from the ACPs long term interests.

At the time of the Sugar Protocol negotiations in 1974/75 world prices had reached a record £674 per tonne, but the ACP countries deliberately opted for a significantly lower price of £150 per tonne on the assurances of the long-term guarantees of market access and predictable trade-related income flows enshrined in the Sugar Protocol to assure the socio-economic sustainability of their economies, in the knowledge that as a general rule no sugar industry in the world can sustain its long term viability on fluctuating and generally uneconomic world price levels.

The long history of bearish prices since then has systematically validated this judicious choice.

* *Mrinal Roy is General Overseas Representative of the Mauritius Sugar Syndicate and the Mauritius Chamber of Agriculture, and Chairman of the ACP London Sugar Group*

DOCUMENTS SUBMITTED FOR THE RECORD

MAY 10, 2006

Written Statement by Senator Pat Roberts
U.S. Senate Agriculture, Nutrition and Forestry Committee
Hearing on the Sugar Provisions of the 2002 Farm Bill
May 10, 2006

Mr. Chairman, thank you for holding this timely hearing. I appreciate your taking the initiative to get the ball rolling on discussions of our current farm programs in preparation for the next Farm Bill. It is important to stop and see where we've been before we move into the next bill.

We need to take a good look at all of our programs, but, in particular we need to look at sugar. Sugar is one of the most protected U.S. agricultural programs. When compared to the rest of the world, American sugar producers enjoy the highest world price for their product. In some cases, this price is often two and three times the international market price for sugar.

These higher prices have a serious impact on the American marketplace and consumers. And, these price setting policies have driven a wedge between the competing objectives of sugar producers and users.

I have been particularly concerned with how these differing objectives have affected our international trade relationships. We set a dangerous precedent in the free trade agreement we recently signed with Australia. In the Australian FTA, we allowed an exemption for a single commodity at the expense of others, particularly wheat and beef. We revisited this issue when we went to work on the Central American Free Trade Agreement (CAFTA).

With the exemption of one commodity, we loose the cohesive, unified support of U.S. agriculture and it becomes a situation where everyone is out for their own.

With the conclusion of the recent Brazil Cotton Case, we've only just begun to get a taste of the tactics and agenda of emerging economies in their attempts to pick apart U.S. farm programs. This is no time to for divisions in farm country.

In the past, whether in trade agreements or trade disputes, whether it be in farm bills or budget reconciliations, commodity and producer groups sank or swim together. And we must continue to work together if we hope to have any success in the WTO and looking a little further down the road – in the farm bill.

We are at an important crossroads with sugar policy in regards to high fructose corn syrup from Mexico, and import quota changes as a result of NAFTA.

As we move forward it is imperative that sugar producers and users must come together to develop a workable policy proposal. And, now, more than ever, it's crucial that all of the commodities work together as we consider what our farm programs will look like in the coming years.

Testimony of American Crystal Sugar Company
Moorhead, Minnesota

Senate Committee on Agriculture, Nutrition and Forestry
May 10, 2006

Full Committee hearing to review the implementation of the sugar provisions of the Farm Security and Rural Investment Act of 2002

Mr. Chairman and Members of the Committee:

We appreciate the opportunity to submit comments on the operation of the sugar provisions of the 2002 Farm Bill. American Crystal Sugar Company is the nation's largest sugarbeet processor, operating six factories in Minnesota, North Dakota and Montana. Our 3,000 farmer-shareholders employ 2,000 people, generate over $2 billion in annual economic activity in the region, and through a partnership with Minn-Dak Farmers Cooperative of Wahpeton, North Dakota and United States Sugar Corporation of Clewiston, Florida, operate as the second largest marketer of sugar in the United States.

Congress showed wisdom, fairness and forethought in its writing of the sugar provisions of the 2002 Farm Bill. Congress showed wisdom by recognizing that the reasons the sugar program was created in the first place – to protect U.S. producers from subsidized, dumped foreign sugar and to provide price stability – still exist, and in fact those characteristics required an improved system of stability. This added stability came in the form of the flexible marketing allotment and allocation system. Congress was fair in its creation of the allotment system by taking into account the unique makeup and recent history of the domestic sugarbeet and cane industries. And Congress showed foresight by incorporating flexibility into the marketing allotment system to manage crop surpluses, shortages, new or modified international trade agreements, potential industry consolidations, transactions, and the sugar market's unique characteristics.

The success of this program is self evident. Note the testimony of Jack Roney, the American Sugar Alliance Director of Economic and Policy Analysis, who is the sugar industry's lead witness at today's hearing, in which Mr. Roney describes the major successes the sugar program has achieved, even in the face of recent weather, consumption, and trade agreement challenges. Mr. Roney, who speaks on behalf of the national coalition of growers, processors and refiners of sugarbeets and sugarcane, concludes his remarks by saying, "We urge that the highly successful no-cost U.S. sugar policy be allowed to continue." Congress, this committee, and the American people wouldn't hear an industry make such a strong statement of support for the sugar program if it weren't well received by the individual producers, processors, and workers who make up this industry. American Crystal Sugar Company couldn't agree more, and we appreciate the wisdom, fairness, and foresight Congress showed in crafting the sugar provisions of the 2002 Farm Bill.

American Crystal Sugar Company feels compelled to address comments submitted by another witness, that of the Southern Minnesota Beet Sugar Cooperative (SMBSC) and its subsidiary, the sugarbeet suppliers of California. In its testimony, SMBSC makes several assertions that require a response because they distort the history and implementation of the sugar program. The basic thrust of SMBSC's testimony is that it is unhappy with the allocation percentage the 2002 Farm Bill allocation proscribes to it, and that the system put in place by Congress is somehow flawed. We disagree, and we suggest that the rest of the sugar industry disagrees as well as evidenced by its strong statement of support noted in Mr. Roney's testimony. The purpose of the marketing allotment system is to bring added stability to the sugar market. Congress recognized this, and that is why it reinstated these provisions that were suspended by the Federal Agriculture Improvement and Reform Act of 1996. The inherent purpose of the marketing allotment system is to place restrictions on the marketing of sugar which then indirectly inhibit beet and cane processors from overproduction. By its very design the marketing allotment system prevents processors from producing as much sugar as they may like, but the industry supported its inclusion in the 2002 Farm Bill because the resulting market stability creates a preferable business environment. No company, including American Crystal Sugar Company, is satisfied with its marketing allocation; all would prefer to produce more sugar. Yet Congress deemed it more important to provide market stability and it therefore chose to design a system that fairly balanced processors' ability to produce sugar with the needs of the domestic sugar market.

SMBSC claims the base period for calculating the marketing allocations is unfair. We believe it is fair, and we believe making adjustments to it in a farm bill extension bill, the next farm bill, or in any other legislation would reward one company at the expense of the rest of the industry that has been playing by the rules of the 2002 Farm Bill. Many business decisions have been made by American Crystal Sugar Company and other companies, and these companies may be unfairly disadvantaged by changes to the base period.

American Crystal Sugar Company would note that SMBSC filed or participated in at least four legal actions against the Department of Agriculture pertaining to various aspects of the beet sugar allotment, and in each case SMBSC did not prevail. The law in no way inhibits further litigation, but apparently SMBSC has chosen to not pursue those avenues but instead to air its complaints with this committee. We think the law and the legal decisions speak for themselves.

Finally, it has been suggested that transactions between American Crystal Sugar Company and other beet processors were in some way inappropriate. American Crystal Sugar Company and its business partners simply followed procedures clearly envisioned by Congress in the statute and fully implemented by the USDA in the sugar program regulations. The entire system of sugar marketing allotments and allocations was designed to be appropriately rigid to achieve Congress' objective of adding market stability yet sufficiently flexible to satisfy customer demands for sugar. Not only were transactions between processors anticipated, the statute and regulations provide direction to processors to improve the fulfillment of allocations. This is detailed in Section 359(b)(c)(1) of the 2002 Farm Bill and Section 1435.307 of the regulations.

American Crystal Sugar Company is pleased to offer this testimony. We believe the sugar program works well, is worthy of this committee's support, is fair, and should be extended well into the future.

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STATEMENT PREPARED FOR U.S. SENATE AGRICULTURE COMMITTEE
HEARING ON THE SUGAR PROGRAM
WASHINGTON, D.C.
MAY 10, 2006

Mr. Chairman and Members of the Committee:

Thank you for the opportunity to submit this statement for the Committee's hearing on the federal sugar program.

California is the home of the first successful sugar beet processing plant in the United States. This plant was in Alvarado, California and originally built in 1880. During the last 126 years, sugar beets continue to be the foundation for many farm operations in California; however, their importance to the state economy has declined over the past twenty years.

This decline is not because California growers are not productive; California beet producers have always had a yield of sugar-per-acre advantage over other U.S. producers because of the temperate climate in California. Today, the remaining growers in the state produce an average yield of 38 tons per acre compared to the national average of less than 23 TPA. California growers, like other American sugar beet and sugar cane growers, are the best in the world at what they do -- high yields and low-cost production.

In the mid 1980's there were over 200,000 acres planted to sugar beets in California. Today there are less than 50,000 acres planted in the state. The last decline in sugar beet production in the state was because of urbanization and poor business decisions made by the processor.

Today the plant sites are in Mendota, in the San Joaquin Valley, and Brawley, in the Imperial Valley. They are important contributors to the economies of the small valley towns where they are located and provide jobs in communities where unemployment is high. In September 2005, Imperial Sugar Company sold its Holly Sugar operations in California to the Southern Minnesota Beet Sugar Cooperative. These included the Mendota and Brawley factories and a packaging and distribution facility at the former factory site in Tracy.

The farm gate value of sugar beets in California is approximately 66.7 million dollars, and when the sugar and by-products value are added, sugar beets in California contribute $130.8 million dollars to the California economy.

We have two concerns that we want to place before the Committee:

1. **California Production Is Unfairly Limited by Allotment Allocation Formula**

The marketing allotment allocation formula in the 2002 Farm Bill took 2.5% of the national allotment away from California because of the closure of factories at Woodland and Tracy, California during
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the 1998-2000 time period. Since that time, there have been numerous other closures, including Bayrd, Nebraska; Greeley, Colorado; Moses Lake, Washington; Carrollton, Michigan; Nyssa, Oregon; and a molasses desugarization operation at Hereford, Texas. However, the way the Farm Bill works, only Holly Sugar's California operations were penalized by downward allocation adjustments due to closures. The six other closures since then took place outside the arbitrary base period in the Farm Bill, so that the processors did not get their allocation cut by 1.25% for each closure. There are efficient sugar beet growers in California who would like the opportunity to produce and compete in the future. For that to be possible, we hope the Committee will consider restoring to California some, or all, of the allocation that we have lost under the Farm Bill.

2. <u>We Are Competitive, But We Cannot Compete Against Subsidized Imports</u>

In the last few years, a number of trade agreements have been passed that guarantee access to foreign producers whether the U.S. needs the sugar or not. The U.S. producers are allowed to supply what is left of the market. Each trade agreement that passes with additional commitments to import subsidized sugar, be it NAFTA, CAFTA, Peru and Colombia FTA's, dooms more U.S. sugar workers and growers. Import more foreign sugar; export more American jobs. These trade agreements should not take away the American sugar farmer's ability to exist, to compete for the U.S. sugar market, or to have a place alongside other commodity programs in the Farm Bill.

The U.S. Sugar Policy is working for American taxpayers, and its design operates at no cost to the taxpayer. In fact, since 1991 government outlays for other commodity programs have totaled $215 *billion*. The U.S. sugar program has generated net revenues over the same period of $110 million. Sugar growers receive all their income from the marketplace. They receive no income support from the government when prices fall.

It is no secret that sugar prices have increased over the past few months. These increases in the U.S. have been from weather-related problems, mainly in Florida and Louisiana, and worldwide concern about product availability has driven the world price of sugar to nearly three times the normal average. History has shown that these types of price increases are shortly followed by drastic price reductions that drop the price below production costs. It is necessary to continue a farm program to moderate price fluctuations especially in times where high energy prices are affecting the economy. Long term, the program must be assessed and adjusted to meet the international trade rules and changes in the worldwide sugar economy.

In California, over 99% of the sugar beet growers are members of the Association, and I appreciate the opportunity to express the views of the California Beet Growers Association.

Respectfully submitted,
CALIFORNIA BEET GROWERS ASSN., LTD.

Ben Goodwin

Ben Goodwin
Executive Manager

BG:vn

CORN REFINERS ASSOCIATION

Comments for the Record

From the

Corn Refiners Association

Regarding the

Senate Agriculture, Nutrition

And Forestry Committee

Hearing on

"Sugar Program Implementation"

May 10, 2006

The Corn Refiners Association (CRA) submits these comments for the record in response to the Senate Agriculture, Nutrition and Forestry Committee hearing on the Sugar Program Implementation.

CRA is the national trade association representing the corn refining (wet milling) industry of the United States. CRA and its predecessors have served this important segment of American agribusiness since 1913. Corn refiners manufacture sweeteners, ethanol, starch, bioproducts, corn oil, and feed products from corn components such as starch, oil, protein, and fiber.

The CRA has no higher priority than the resolution of the longstanding high fructose corn syrup (HFCS) dispute with Mexico.

Toward that end, the CRA has concluded that the resolution of this dispute rests on the resumption of two-way trade in sweeteners between the United States and Mexico, as envisioned by the NAFTA. However, the 1.532 million short ton marketing allotment level for sugar that was established in the 2002 Farm Bill will enable only 276,000 short tons (approximately 250,000 metric tons) of imported sugar from Mexico after the U.S. WTO commitment is satisfied. The NAFTA allows for free trade in sugar in 2008, thereby rendering the 276,000 cushion under the existing marketing allotments for sugar imports from Mexico insufficient to resolve this dispute.

The CRA wishes to submit its position for the 2007 Farm Bill:

- The corn refining industry has an enormous economic stake in resolving the Mexico HFCS dispute, and has suffered through a decade of failed sweetener trade. It is important that two-way trade in sweeteners is restarted immediately and ultimately results in significant sales of our product to that market, as envisioned under the NAFTA.

- The marketing allotment is a barrier to sweetener trade with Mexico. If maintained in the next Farm Bill, it should not stand in the way of, or act as a limit to, full implementation of two-way trade in sweeteners with Mexico consistent with the NAFTA on January 1, 2008.

- The CRA will take more drastic measures regarding its position on the U.S. sugar program for the next Farm Bill, up to and including support for the total elimination of the marketing allotments or any aspect of the sugar program that jeopardizes full implementation of the NAFTA sweetener obligations, if the marketing allotment remains at its current level and Mexico's sugar imports are subjugated to it.

Background on the Mexico HFCS Dispute

In 1997, Mexico imposed preliminary, and later final, antidumping duties on U.S. exports of high fructose corn syrup. Both the World Trade Organization and the NAFTA dispute settlement panels found Mexico's antidumping investigation to be illegal. In January of 2002, Mexico lifted its antidumping duties on U.S. HFCS exports and instead imposed a 20% tax on all beverages sold in Mexico that are sweetened with HFCS. This tax closed the Mexican market overnight for U.S. exports of HFCS and bulk corn for production of HFCS in Mexico by U.S. owned firms. The WTO ruled issued a preliminary ruling on August 8, 2005, and later a final ruling on October 7, 2005, that the Mexican soda tax is a WTO violation. Mexico appealed the WTO ruling and the WTO Appellate Body ruled in favor of the United States on March 6, 2006.

On October 1, 2005, Mexico established a tariff rate quota of 250,000 metric tons of HFCS access for U.S. exporters. The CRA welcomed this TRQ as a first step in resolving the HFCS dispute, but continues to assert that significantly greater HFCS access to Mexico is necessary to rectify the near closure of the Mexican market for the past several years.

Since 1997, the sweetener impasse with Mexico has resulted in more than $4 billion in lost HFCS sales, both HFCS exports and U.S.-owned HFCS sales in Mexico, or in excess of 800 million bushels of corn production, including lost corn sales to Mexico intended for sweetener production. Each year that this dispute continues, the U.S. corn industry loses $944 million in HFCS sales to Mexico, which represents 168 million bushels of corn, and additional sizable losses to investments. Full resolution of the HFCS dispute with Mexico would result in a $0.06 per bushel increase in the price of corn nationally, or $0.10 per bushel in key corn states.

Thank you for the opportunity to submit these comments for the record in conjunction with the Senate Agriculture, Nutrition and Forestry Committee hearing on the Sugar Program Implementation.

STATEMENT
OF
THE INTERNATIONAL SUGAR POLICY
COORDINATING COMMISSION
OF THE
DOMINICAN REPUBLIC
ON
THE OPERATION OF THE U.S. SUGAR PROGRAM

MAY 16, 2006

The International Sugar Policy Coordinating Commission of the Dominican Republic (Dominican Sugar Commission)[1] welcomes the opportunity to submit this statement to the Committee on Agriculture, Nutrition and Forestry in connection with the Committee's May 10, 2006, hearing on the operation of the U.S. Sugar Program. This statement is submitted for inclusion in the printed record of the proceedings.

The Dominican Sugar Commission believes the U.S. sugar program has provided significant benefits to the traditional suppliers of raw sugar to the United States. These benefits have been in the form of higher prices than would be achieved by selling sugar to the world market where low prices have generally prevailed over the past two decades. However, as a result of decreases in the TRQ over this period, the Dominican Republic's exports to the United States have declined to less than 25% of traditional levels and far less than the 780,000 metric tons contemplated under the Caribbean Basin Initiative. Nevertheless, from the perspective of the Dominican Republic, the largest off-shore supplier, the program should be continued in essentially the same form in the next Farm Bill, with the improvements recommended below.

In brief, the Dominican Sugar Commission believes that changes should be made to the operation of the sugar program with respect to (1) shipping schedules; (2) the announcement of shortfalls and increases in the Tariff Rate Quota (TRQ); (3) carry-forward and carry-back of quotas; (4) importation of raw and refined sugar from Mexico; (5) the importation of Sugar Containing Products (SCPs); and (6) the importation of other

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[1] The International Sugar Policy Coordinating Commission of the Dominican Republic is an umbrella organization comprised of the sugar producers in the Dominican Republic. Its purpose is to communicate the views and analyses of its members on international issues that may affect the Dominican sugar industry, including Dominican sugar exports to the United States and other markets.

products in circumvention of the TRQ which displace domestic and imported sugar, particularly "thick" syrups and "high-test" molasses.

IMPORTANCE OF U.S. SUGAR PROGRAM TO THE DOMINICAN REPUBLIC

The Dominican Republic is the principal foreign supplier of raw sugar to the United States, having a 17.6 percent share of the allocated quota. Moreover, sugar is more important to the economy of the Dominican Republic than to any other country's economy. For these reasons, the Dominican Sugar Commission is interested in any changes in the U.S. Sugar Program which could affect Dominican sugar exports to the United States.

History of Dominican Sugar Industry

Historically, the sugar industry was the engine of the Dominican economy; sugar was more important to the Dominican economy than to any other country.[2] Until the early 1980s the Dominican Republic maintained a fairly stable level of sugar production, with about 1 million short tons, representing 80% of total production, available for export. In 1976 production reached a peak volume of roughly 1.25 million short tons, and exports to the United States totaled 900,389 MT. The country's sugar exports to the United States averaged 730,291 MT during the 1975-1981 period, entitling the Dominican Republic to the largest share of the allocated Tariff Rate Quota. At the request and encouragement of the United States, the country has since diversified its agricultural economy away from its dependence on sugar. Despite ongoing diversification efforts, in the late 1980s the Dominican Republic was one of the world's largest producers of sugarcane.

The role of sugar changed markedly in the 1980s as external conditions (including actions by the United States - reductions in the U.S. sugar quota and assistance for diversification in Dominican agriculture) forced the national economy to diversify.[3] Sugar prices had reached unprecedented highs in 1975

[2] Columbus introduced sugarcane to Hispaniola, but sugar plantations did not flourish in the Dominican Republic until the 1870s. Investment by United States sugar companies, such as the United States South Porto Rico Company and the Cuban-Dominican Sugar Company, rapidly transformed the Dominican economy. These companies had established themselves by the 1890s, and between 1896 and 1905 sugar output tripled.

[3] In November 1981, U. S. Ambassador Robert L. Yost announced the possibility that by 1990 the United States could end its sugar importations, due to increases in production of high fructose corn syrup and its potential displacement of sugar. For this reason, he urged nations such as Dominican Republic to diversify their agricultural economies away from their dependence on sugar. To help in this effort, the United States provided special funding, which was later used to stimulate the production of non-traditional crops. While the Caribbean Basin Initiative offered the Dominican Republic increased duty-free access to the U.S. sugar market (780,000 MT), this promised access

(when sugar export revenues peaked at $577 million) and again in 1979. The international recession of the early 1980s, however, pushed prices to their lowest levels in forty years. Lower world prices hurt the Dominican economy, but the reduction of sales to the United States market, as a result of quota reductions that began in the early 1980s, was even more costly because of the preferential price the United States paid under the quota system. The international market continued to be depressed in the late 1980s. The market had been glutted by over-production, caused principally by European beet growers; major soft-drink manufacturers had also switched to high-fructose corn sweeteners and away from cane sugar. This resulted in a substantial decrease in Dominican sugar production. It made no economic sense for the Dominican sugar industry to continue exports to the depressed world market when profitable exports to the United States, needed to offset losses on world market sales, were severely restricted by the reductions in the U.S. TRQ throughout the 1980s and 1990s.

Dominican Exports to the United States

The Dominican Republic is the largest exporter of raw sugar to the United States, holding 17.6 percent of the allocated Tariff Rate Quota. Historically, the sugar industry had been the nation's largest employer and the main source of the country's export earnings.[4] From 1978-1987, sugar exports provided roughly 30 percent of the Dominican Republic's foreign exchange, which is needed to finance the purchase of the many essential imports that cannot be produced in the Dominican Republic. (The great bulk of manufactured items the Dominican Republic imports are of U.S.-origin). For example, the Dominican Republic's sugar exports to the United States averaged 805,000 tons per year during the 1975-1981 period, and under the Caribbean Basin Initiative it was contemplated that the Dominican Republic could export 859,794 tons (780,000 MT) per year duty-free. Because of the operation of the U.S. sugar quota program, the Dominican Republic's sugar quota has steadily eroded. The country's TRQ for FY 2004 was 185,335 metric tons. The TRQ was increased in late FY 2005 to 186,555 metric tons for the year; and for FY 2006 the country's TRQ is currently 252,935 metric tons. The increases in late FY 2005 and in FY 2006 arose because of the hurricane damage to the U.S. domestic crop. To quantify the economic impact, over the past two decades the Dominican Republic has failed to realize

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was severely limited by the application of the sugar quota program. Economic development took place in other sectors, such as free zones, tourism, and alternative agriculture. This diversification was financed in part by direct foreign investment and also by USAID, which made significant contributions to a number of projects.

[4] The elimination of United States sugar quotas for Cuba after the Cuban Revolution of 1959 further enhanced the economic role of sugar, as the Dominican Republic assumed Cuba's former status as the main supplier under the quota system.

some $2 billion in potential sales to the United States due to the shrinkage in its U.S. sugar quota.

Recent Developments in the Dominican Sugar Industry

There have been several recent developments that have affected the Dominican Republic's sugar production, and thus its ability to supply domestic needs and have sugar available for shipment to the world market, and to the United States. Among the most important are the damage caused by Hurricane Georges in 1998, and the restructuring and privatization of the sugar industry beginning in 1999. In September 1998, Hurricane Georges hit the Dominican Republic with winds over 120 mph and more than 20 inches of rain. Significant amounts of sugarcane were destroyed in the fields and several mills suffered severe damage. In 1999 the Dominican Government completed the process of privatizing its government-owned sugar operations, Consejo Estatal del Azúcar (CEA), and private producers began operating the CEA-owned mills in 2000. However, this process suffered setbacks as some of the new producers experienced financial difficulties and technical problems in re-opening the old mills or starting up new production facilities. As a result, the Dominican Republic had to import raw and refined sugar for domestic production several times in the past few years.

A number of mills have ceased production in recent years encouraged by U.S. policy. [Angelina, Rio Haina, Ozama, Santa Fe, Catarey, Esperanza, Amistad, and Quisqueya]. Central Romana, Cristóbal Colón, CAEI, Consuelo, Boca Chica, Barahona, and Monte Llano currently produce sugar. Porvenir is not producing at this time but could be in operation for next crop. Production improved in 2003-2004, reaching a level over 530,000 metric tons. Production for FY 2006 is projected at 520,000 metric tons. The Dominican Republic has reached a level of production where there is generally no need for additional imports of raw or refined sugar to meet demand, except that in FY 2006 there will be limited imports to offset increased exports to the Unites States due to increases in the TRQ because of hurricane damage to the U.S. domestic crop in 2005.

Problem of HFCS Imports

The DR-CAFTA agreement provides for substantially increased access of HFCS into the Dominican Republic over 15 years. It is the view of the Dominican sugar industry that HFCS could eventually displace as much as one third of domestic cane sugar in various applications in the Dominican Republic. This loss of domestic markets to HFCS would be especially harmful to a cornerstone of the country's economy, particularly under the circumstances described above, where the sugar industry is in the process of recovering from the blows of a decreased U.S. sugar quota, depressed world prices, natural disasters, and reorganization and contraction in the industry. Moreover, the harm would not be limited to a few major sugar producers, but a large number of Dominican cane producers and workers, including Haitians. To repeat, allowing HFCS to access the Dominican market over 15 years could be the death knell for the Dominican sugar industry. HFCS will displace sugar in soft drinks and food products and force Dominican sugar producers to close mills and lay off workers. This could be disastrous for the Dominican economy and pose a serious threat to the social fabric of the country as well.

RECOMMENDED CHANGES TO THE U.S. SUGAR PROGRAM

The Dominican Sugar Commission submits the U.S. Sugar Program could be improved for the traditional off-shore suppliers if the following changes were made in the next Farm Bill.

(1) Shipping Schedules. Since the establishment of the TRQ in the early 1980s, the Dominican Republic has been subject to shipping schedules that allow it to export no more than 25% of its TRQ each calendar quarter, beginning October 1 each year. The shipping schedules are subject to a carry-forward of unused amounts each quarter. The purpose of the shipping schedules is to maintain an orderly supply of imported sugar so not to disrupt domestic marketings. However, the shipping schedules have prevented the Dominican Republic from exporting carry-over stocks early in the quota year, increasing inventory costs and preventing the country from taking advantage of any favorable prices during the period. The Philippines and Brazil, the two other largest quota-holders, have been subject to shipping schedules as well. For FY 2006 USDA eliminated the shipping schedules for the Dominican Republic, the Philippines and Brazil. The Dominican Republic regards this as a positive development and believes the elimination of shipping schedules should be made permanent in the next Farm Bill.

(2) Announcement of Shortfalls and TRQ Increases. In FY 2005 USDA announced increases in the TRQ close to the end of the quota year. The Dominican Sugar Commission understands these increases were the result of unforeseen circumstances, hurricane damage to the U.S. sugar crop. However, to the extent possible, the Dominican Sugar Commission submits that any TRQ shortfalls and TRQ increases should be announced sufficiently far in advance to allow foreign suppliers time to allocate remaining supplies to the U.S. market

(3) Carry-forward and Carry-Back of Quotas. Under the existing program, foreign suppliers are not able to enter any sugar at the end of the quota year in excess of their quota. The problem is that no one knows exactly how much sugar has been entered against the quota until months after the quota period has closed, due to the time it takes for Customs to obtain the results of polarity testing. This forces the foreign supplier to guess how much sugar to load in his last shipment of the quota year, and hope the amount loaded on ship will not exceed the quota limit. If it does, the foreign supplier is forced to store the sugar in a bonded facility or in a foreign trade zone, with attendant expenses, until the new quota year opens. Even worse, if no such storage is available on-shore, the foreign supplier may have to keep the sugar on the ship, incurring expensive demurrage charges. The solution is for USDA to adopt provisions for reasonable carry-forward and carry-back. The Dominican Sugar Commission hopes that the next Farm Bill will address this problem.

(4) Importation of Raw and Refined Sugar from Mexico. The issue of imports from Mexico received extensive attention at the May 10 hearing. From a program management point of view, it appears USDA does not have the ability to determine in advance how much sugar Mexico will ship to the United States during upcoming periods. Part of the problem is that under the NAFTA, the second tier tariff on Mexican raw sugar will be staged down to zero by January 1, 2008, eliminating the second tier duty's functionality as a limit on imports outside the TRQ and Mexico's NAFTA quota. This has an adverse impact on USDA's ability to manage the supply situation in the United States, as USDA Under Secretary Penn testified at the May 10 hearing. Another part of the problem is that USDA may not have the resources on the ground in Mexico to monitor production, distribution and potential exports of Mexican sugar. This leads to a situation like in the current World Agricultural Supply and Demand Estimates (WASDE) May 12, 2006, where Mexico's supplies to the U.S. market in the current quota year are projected at 600,000-700,000 metric tons, but the supply and demand situation in Mexico for next year appears confused, with stocks and drawdown unclear. Since Mexico will have unlimited access to the U.S. market on January 1, 2008, with a corresponding impact on imports under the TRQ, it is very important for USDA to have the best possible tools to monitor Mexico's sugar industry. The next Farm Bill should enhance USDA's monitoring and analytical capabilities vis-à-vis Mexico.

(5) Importation of Sugar Containing Products (SCPs). The Dominican Sugar Commission is extremely concerned about the ever-increasing imports of Sugar-Containing Products (SCPs). Under Secretary Penn pointed out the magnitude of this problem in his May 10 testimony. At the May 10, 2006, hearing he stated that imports of SCPs reached 1.15 million STRV in FY 2005. Such increases displace domestic and imported raw and refined sugar, to the detriment of the U.S. sugar industry and traditional suppliers like the Dominican Republic. While the Dominican Sugar Commission cannot offer a constructive solution to the problem at this time, it is important for USDA to be able to distinguish between legitimate commercial products and those developed to circumvent the TRQ. Hopefully the next Farm Bill will enhance USDA's ability to do so, and to prevent the importation of illegitimate products.

(6) TRQ Circumvention by Thick Syrups and "High-test" Molasses. Also in his May 10 testimony Under Secretary Penn addressed the problem of increased imports of "thick" beet juice and "high-test" molasses. Approximately 50,000 metric tons of each of these products (100,000 metric tons total) will enter the United States this year, with 50,000 metric tons of "thick" beet molasses entering from one factory alone in Canada. These items circumvent the TRQs on raw and refined sugar, with negative effects on traditional off-shore suppliers. USDA identified "thick juice" in its "Breaux Report" to the Congress identifying circumvention problems. The Dominican Sugar Commission believes imports of "high-test" molasses present a similar circumvention problem. "Thick juice" is a product with sugars added in, like the "stuffed molasses" imported in the mid 1990s; "high-test" molasses is the product of additional manufacturing steps beyond the normal process in traditional molasses production. Both products create circumvention problems similar to the "stuffed molasses" issue in the mid-1990s, which the U.S. Government solved. We understand USDA is drafting regulations on this issue, which may solve the problem. Nevertheless, USDA should be given sufficient statutory tools in the next Farm Bill to solve the circumvention problems that keep arising again and again involving the same countries, and products artificially designed to circumvent U.S. quotas.

CONCLUSION AND RECOMMENDATIONS

The Dominican Sugar Commission appreciates the opportunity to submit this Statement in connection with the Committee's oversight of the operation of the U.S. Sugar Program. We will be pleased to provide additional information or answer any questions to help the Committee in its work which is extremely important to the U.S. sugar industry and to the traditional off-shore suppliers as well.

Robert W. Johnson II
Balch & Bingham LLP

Washington Counsel
International Sugar Policy
Coordinating Commission
of the Dominican Republic

Statement
of

<u>Southern Minnesota Beet Sugar Cooperative</u>
Renville, Minnesota

Senate Committee on Agriculture, Nutrition and Forestry
May 10, 2006

Hearing

on

<u>Implementation of the Sugar Program in the 2002 Farm Bill</u>

Mr. Chairman and Members of the Committee:

We appreciate the opportunity to share our views with the Committee and ask that our complete statement be included in the hearing record. With 33 U.S. sugar processing facilities having closed in the past ten years – seven of those since the passage of the 2002 Farm Bill – the effectiveness of the sugar program certainly deserves this attention.

In this statement we will primarily concentrate on our experience since enactment of the 2002 Farm Bill, in accordance with the subject of this hearing. In the future, we will look forward to the opportunity to provide the Committee with more complete and detailed recommendations for designing the sugar program in the next long-term Farm Bill.

I. <u>History and Structure of SMBSC</u>

The Southern Minnesota Beet Sugar Cooperative (SMBSC) is wholly owned by 585 producers of sugar beets who farm in fifteen counties in the region west of Minneapolis and extending to the South Dakota border. SMBSC was formed by producers in 1973 after the decision of the American Crystal Sugar Company to close its factory in Chaska, Minnesota, rather than to modernize it and upgrade its environmental controls. SMBSC's producers and their ancestors had delivered their crop to the Chaska factory since 1911 and American Crystal's decision to close it left them with nowhere to process their sugar beets. SMBSC built a processing plant for its producer/shareholders in Renville, Minnesota, in 1975. In 1999, the cooperative began construction to replace that factory on the same site with a new, larger, more efficient and environmentally compliant processing plant. The present factory at Renville is arguably the largest and most efficient beet sugar processing facility in the world.

II. Temporary Extension of the 2002 Farm Bill

A temporary extension of the current Farm Bill appears to be the most realistic approach Congress can take next year. For decades, Administrations of both parties have pursued a policy of increasing trade in agricultural products. Most American agricultural producers believe such trade will have a positive effect on them. The policy of expanding trade is now in a period of great uncertainty, given the failure thus far of the Doha Round of multilateral trade negotiations. If the Doha Round continues, and if Congress chooses to extend the President's trade promotion or "fast track" authority beyond its expiration next summer, it is difficult to see how Congress could write a comprehensive new Farm Bill without knowing what changes are about to be made to the rules of the World Trade Organization.

However, agreeing to an extension does not mean that the law should remain completely unchanged. Conditions since the last Farm Bill have changed and the dates and calculations in the sugar program must change with changing times. In addition, certain unexpected consequences of the current law can and should be addressed in an extension.

III. SMBSC Supports the Sugar Program

The fundamental purpose of the sugar program enacted in the 2002 Farm Bill was to stabilize sugar prices in the United States while ensuring an adequate supply of high quality U.S. sugar for consumers and industrial users. The most dramatic change in that legislation for sugar beet growers was the marketing allotment system. This portion of the current Farm Bill has almost no legislative history, other than brief remarks on the Senate floor at the time the program was inserted as an amendment. The amendment containing the language that became the beet sugar marketing allotment program beginning in 2002 was approved on a voice vote. Its language was a result of discussions within the sugar industry, led by the largest processors. The late stage in the Farm Bill process at which the language became final was largely due to the fact that there was not unanimity in the industry on what it should say. As we now approach the writing of the next Farm Bill, there is also a lack of unanimity in the sugar industry.

All of this makes it difficult to say how Congress really wanted the new program to operate, a program that amounted to a radical reversal from the Freedom to Farm approach of the 1996 Farm Bill. Using what legislative history there is in the Congressional Record,[1] it is fair to say that, in many respects, the program has been successful. In a few respects, there are some very serious problems. Most importantly, those serious problems have fallen on producers in different parts of the country in a very uneven way.

IV. Successes of the Sugar Program

In the category of what has worked, SMBSC supports the Sugar Loan Program, which provides nonrecourse loans to processors of domestically grown sugar cane and sugar beets. We suggest that the Committee consider lengthening the loan maturity period under the program

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[1] 148 Cong. Rec. S513-514, February 8, 2002.

from the current nine months to a much longer term, or establishing a complementary loan program with a term of several years in order to allow the storage of blocked stocks to serve as a kind of strategic reserve. This would respond to the concern expressed by sugar users that there may be shortages caused by hurricanes or other unexpected events. The price and supply aberrations of recent months following last summer's closure of the Domino refinery in Chalmette, Louisiana, and the damage to sugar cane crops in Louisiana and Florida, were in part caused by the absence of a significant reserve supply of stored sugar.

We believe that the decision by Congress in 2002 to make in-process sugars eligible to serve as collateral for the loan program was a positive step and should be continued. The bulk storage of beet thick juice is an important part of our operations and it provides us flexibility to respond to our customers' needs in the marketplace.

SMBSC also believes that the creation of the sugar storage facility loan program in the 2002 Farm Bill was a positive step that is consistent with the policy that processors, rather than the Department of Agriculture (USDA), should preferably store unsold sugar. Despite the fact that the producers who own SMBSC had already invested their own money in larger storage facilities than those of many other processors, we believe this loan program is worthwhile and should be continued in the next Farm Bill.

The dilemma facing Congress and our industry is whether the present use of a tariff rate quota (TRQ) is a more reliable support mechanism in a world where questionable regional and bilateral trade agreements keep opening the U.S. market to more imports, or whether a support program for sugar such as exists for corn, soybeans, and other crops, is a more reliable mechanism in a world where budget pressures make funding uncertain and where WTO subsidy rules put programs at risk. Either approach faces serious problems, and this is the challenge facing you who will write the next long-term Farm Bill. In addition, given the present federal budget deficit, it will be difficult in the foreseeable future for sugar beet growers to have confidence in a program that relies primarily on taxpayer dollars. Continuation of the TRQ is the more realistic choice at present.

We believe that Congress should consider improving this price support mechanism by adding a floor or minimum level of the beet sugar overall allotment quantity (OAQ). The way the current program works, the OAQ goes down each time the United States makes a trade agreement to increase imports, assuming sugar consumption stays level. That means that each processor's allocation goes down incrementally and each processor gets less efficient with each new trade agreement allowing additional imports. A minimum OAQ would stop the trend of U.S. processors getting less and less productive. In times of surplus, a longer-term storage loan program, as described above, would help absorb the surplus, perhaps along with an ethanol program for surplus stocks, where sucrose could be added to augment corn ethanol fermentation, if proven to be technically and economically feasible.

In considering the policy options, it is extremely important to keep in mind that sugar is cheap for Americans. Even at a price that is sufficient for producers to make a living, the cost of sugar to Americans is low and for many years price increases have remained well below the average level of inflation. Whatever mechanism Congress uses to support sugar prices, you can be confident that it will not be a significant burden on consumers or taxpayers.

V. Need to Correct and Update Marketing Allotment Allocation Formula

As part of the 2002 Farm Bill, Congress decided to re-impose a national marketing allotment for beet sugar, with the overall allotment to be allocated to processors according to a historical formula. This formula needs to be updated and corrected, both in an extension of the current Farm Bill and in the next long-term bill.

Even for those who defend the allotment allocation formula in the 2002 Farm Bill and who agree with USDA's decisions interpreting that formula, it is impossible not to admit that a Farm Bill that will operate until 2011 or longer should not freeze in place a distribution of market share from 1998. Surely Congress will want to consider the changes that have taken place in the market and in the structure of the sugar industry. Updating the program could involve moving forward the baseline period from 1998-2000 to 2003-2005. In other words, a genuine extension of the current Farm Bill could include shifting forward the dates used in the bill, not just the effective date at the end of the bill.

Beyond the possibility of advancing these dates, SMBSC believes that the beet sugar allotment allocation formula in the 2002 Farm Bill is unfair and is flawed as a matter of sound policy. SMBSC further believes that some of the decisions of USDA interpreting that formula have resulted in a program that is more unfair and more flawed than necessary, even given the problematic language in some parts of the law.

a. The Effects of the Allocation Formula Fall Unevenly on Producers in Different Parts of the Country

Even a short term extension can correct provisions that fall unevenly on different regions and have had effects that most Members of Congress did not foresee when they voted for the 2002 Farm Bill.

California's beet sugar industry has particularly suffered under the present law. The size of the California crop has decreased by over 50 percent since 2000. This was originally the result of the closure by Imperial/Holly of factories at Woodland and Tracy. However, the damage is perpetuated by the provision in the Farm Bill that caused the Californians to suffer a reduction in their allocation by 1.25 % of the national allotment for each of the two factory closures. California producers have been stripped of the ability to plant 50,000 acres of sugar beets. The 2.5% total reduction means that California producers are prevented from returning even part way to their much higher former level of planted acres at a time when crop economics are more favorable. They pay this painful price because their factory closures took place during the arbitrary baseline period in the Farm Bill. Numerous other plant closures have occurred since the end of the Farm Bill baseline period, but those shutdowns have not triggered acreage reductions. They include factories and molasses desugarization facilities in Texas, Washington, Colorado, Nebraska, Oregon and Michigan. It is hard to see why this result can be called fair.

It would be easy to include in a Farm Bill extension a provision that, for the short period of time it would cover, baseline production would be recalculated without any adjustments for plant openings or closures. This would help alleviate the harm done uniquely to California.[2] Adjustments for disasters and for new technology in the form of molasses desugarization could be left in place as a matter of fairness and good policy. Another option available to the Committee would be to add a provision to a Farm Bill extension that would provide for sharing among processors of increases in the allotment from increased domestic sugar consumption in a way that alleviated some of the unevenness in the impact of the present law, rather than following the existing formula.

b. 1998-2000 Baseline is Not an Accurate Measurement of Market Share

The marketing allotment allocation formula as written in the Farm Bill is unfair, in part, because it relies on sugar production during a three-year baseline (1998-2000) to serve as a "snapshot" of the relative market shares of beet sugar processors in the United States.[3] Two of those three years were the worst in the history of SMBSC, a fact that was well known to others in the industry who wrote the formula that became the Senate floor amendment. In the formula, the year 2000 is weighted at 40%, 1999 at 35% and 1998 at 25%.[4] The use of the 1998-2000 baseline does not provide an accurate measurement of SMBSC's market share in a normal year. A five-year baseline period would have been a much more accurate way to measure market share, as would have been the use of an "Olympic average," throwing out the highest and lowest years over a five-year period.

c. Some USDA Decisions in the Administration of Allotment Allocations Have Exacerbated the Unfairness

Congress empowered USDA to make adjustments in allocations to processors, but USDA has interpreted its power to make such adjustments in a very narrow manner. For example, the 2002 Farm Bill allowed USDA to increase by 1.25% of the national allotment the allocation assigned to a processor if that processor "opened a sugar beet processing factory" during the 1996 through 2000 crop years." Within this window of time, SMBSC replaced its 1970s vintage factory and build a new factory that was more than twice as large. This decision was made by SMBSC in full reliance on the terms of the 1996 Farm Bill, which allowed processors to sell beet sugar without the limitation of an allotment system. SMBSC asked USDA to grant it the 1.25% adjustment for opening a factory, believing that the provision was a transitional provision intended to "grandfather" decisions made in good faith based on existing law. USDA refused to grant the adjustment to SMBSC, using the explanation that SMBSC had not really "opened" a factory but had merely expanded an existing factory. USDA cited the fact that SMBSC had re-used a few elements of its old plant.

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[2] SMBSC acquired the Holly Sugar Company in California (now known as Spreckels Sugar) from Imperial Sugar Company in September 2005 and would therefore benefit from this change.
[3] 7 U.S.C. § 1359dd(b)(2)(A).
[4] 7 U.S.C. § 1359dd(b)(2)(C).

The decision means that, if SMBSC had made the business judgment to continue operating its old factory while expanding by building a small new factory across the road, then SMBSC would be seen as having "opened" a factory and it would have received the 1.25% increase in its allotment allocation. Such an adjustment would have increased SMBSC's share of the national allotment by more than 19% (from 6.42% to 7.67%), a very significant marginal amount that would have been fully justified by the facts and the policy of the Farm Bill. It did not happen, and it stands as a powerful example of how the current Farm Bill and the way USDA has interpreted it have had the unintended consequence of discouraging efficiency and sound business decisions. USDA's decision severely penalizes SMBSC for having made the investment in a factory that is more efficient and is fully compliant with environmental requirements. SMBSC's business plan was to use its increased margin of sugar sales to pay off the $100 million in capital that it borrowed to build the new factory, relying on the policy in the 1996 Farm Bill with no allocations. USDA's decision has prohibited SMBSC from selling that increased margin of sugar, making the cooperative's debt service highly burdensome and putting the producers and their families at serious financial risk.

This is a clear case of a business decision made under one law, followed by a major change in the law. It is a classic case that calls for a grandfathering transition rule, but USDA refused to use its power to interpret the phrase "opened a factory" to achieve the fair transition that is obviously called for. Other processors opposed the SMBSC request for an adjustment, because each of them would have lost a pro rata share of the 1.25%. Those processors argued that they also had made capital expenditures to improve their facilities. What their arguments left out, however, was that their expansions had taken place earlier and they received full credit in their allocations for their resulting increased production during the baseline period. SMBSC carried out its construction project later and it did not have the resulting increase in sugar production early enough to get credit for it in the calculation of its allotment allocation.

The current Farm Bill also allows USDA to increase a processor's allocation by 1.25% if the processor suffered substantial quality losses on sugar beets stored during crop years 1998-2000. SMBSC suffered such losses in both 1999 and 2000, but USDA interpreted the law as permitting only one adjustment.

Underlying these problems are arbitrary dates in the Farm Bill, ambiguous adjustment language in the Farm Bill, and a zero-sum system where an adjustment adding to one processor's allocation results in a pro rata reduction of the allocations of all other processors. This leads USDA to interpret the provisions timidly, not so as to achieve a fair and logical policy purpose, but so as not to offend the large players in the industry. The result is a real financial hardship for the 585 producers who own SMBSC and a policy that penalizes our investment in a more efficient and environmentally compliant operation.

d. USDA Has Made Allotment Allocations into the Private Property of Those Who Can Afford to Pay

A fundamental policy question is whether the allocation of part of the national beet sugar marketing allotment is the private property of the processor that receives it from USDA, or is the allocation a government-granted license to be used for a limited period of time under rules that serve the public interest. There is no question that the allocations created by the policy reversal of the 2002 Farm Bill are worth hundreds of millions of dollars. There is a big question, however, about what are the rules that go along with processors receiving these valuable allocations.

Moses Lake, Washington

The case of the Pacific Northwest Sugar Company (PNSC) in Moses Lake, Washington, is one of the most blatant examples. At the enactment of the 2002 Farm Bill, the PNSC factory had stopped operations for two years and was, according to the USDA's Inspector General, in liquidation, its factory was being dismantled, and its employees had mostly been laid off. The local producers had given up on growing sugar beets. Despite this, USDA awarded PNSC an allocation of the marketing allotment,[5] using the justification that the factory had operated during the 1998-2000 baseline period and therefore had a production history. Then, USDA allowed the American Crystal Sugar Company to obtain the PNSC allocation merely by purchasing a small portion of what had been PNSC's assets, paying an extremely low price. USDA's own Administrative Law Judge said that "CCC has encouraged what appears to be a sham transaction contrary to objectives of the Act." He called it "conduct of the type the APA [Administrative Procedures Act] instructs reviewers to set aside for being 'arbitrary, capricious, an abuse of discretion . . .'"[6] Unfortunately, the USDA Judicial Officer, who has the final word, reversed the ALJ with minimal explanation and upheld the decision in favor of American Crystal's bargain purchase of the PNSC allocation.

The 2002 Farm Bill says that, when a processor has been dissolved, liquidated in bankruptcy or otherwise has permanently terminated operations, USDA shall eliminate its allocation and distribute it pro rata to the other processors.[7] The USDA staff and the Judicial Officer relied on a different provision of the 2002 Farm Bill, which allows transfer of an allocation where there is a purchase of a viable, functioning processor.[8] The Administrative Law Judge who held a five-day hearing and wrote an exhaustive decision saw clearly that the applicable provision was the one for a processor that has terminated operations, but USDA's final decision went the other way, in order to allow American Crystal to enjoy the benefits of what the judge called its "sham transaction."

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[5] USDA News Release No. 0414.02, October 1, 2002.
[6] Decision of Administrative Law Judge Victor W. Palmer, In re Amalgamated Sugar Company L.L.C., Petitioner; USDA SMA Docket No. 04-0003, February 7, 2005, at 36.
[7] 7 U.S.C. § 1359dd(b)(2)(E).
[8] 7 U.S.C. § 1359dd(b)(2)(F).

Hereford, Texas

The case of the former beet sugar factory in Hereford, Texas, is another example of USDA allowing American Crystal to buy up allocation and keep it, even when the language of the 2002 Farm Bill appears not to allow it. Imperial/Holly Sugar's Hereford factory was out of operation well before the enactment of the current Farm Bill on May 13, 2002, but it did have some production history during the 1998-2000 baseline period. Again, USDA granted an allocation to Imperial/Holly based on the production history of Hereford, even though the factory was closed. The inability of Imperial/Holly to produce and market that allocation of beet sugar should have triggered the "reassignment of deficits" provision in the Farm Bill,[9] causing USDA to reassign the Hereford-based allocation to processors like SMBSC and Amalgamated Sugar Company, L.L.C., who had the capacity to fill it and who had a shortage of allocation.

If USDA had followed the reassignment of deficits provision in the law, American Crystal would never have acquired Hereford and its allocation in the first place. Given, however, that Crystal did acquire Hereford, USDA should have enforced against it the provision in the 2002 Farm Bill that says, when a processor such as American Crystal buys a factory of another processor, the buyer must continue to operate the factory for the year of the purchase and the subsequent crop year.[10] USDA said that this provision requiring continued operations was there to protect the producers, and since production had already ceased at Hereford, there was no policy reason to enforce it. The Committee should contrast this liberal interpretation of the statute with the strict construction of the statutory language on "opening a factory" described above, where USDA resorted to the narrowest of dictionary definitions to interpret the law.

Michigan and Minn-Dak

Perhaps the most creative use of the artificially-created "property right" that is called a marketing allotment allocation is found in contracts between American Crystal and two much smaller processors – the Michigan Sugar Company and Minn-Dak Farmers Cooperative, each roughly six percent of the industry.[11] These documents came to light as evidence in the hearing on USDA's transfer of allocation to American Crystal because of its acquisition of the Moses Lake assets. Both Michigan Sugar Company of Saginaw and Minn-Dak Farmers Cooperative of Wahpeton, North Dakota, needed additional allocation to be able to sell their producers' crops. American Crystal, having been allowed to buy up artificially created allocation from closed up processors around the country, had more allocation than it needed. The contracts show, in effect, that the producers who deliver their sugar beets to Michigan Sugar and Minn-Dak are to receive less in payment for their crop than they otherwise would, because the current allocation system

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[9] 7 U.S.C. § 1359ee(b)(2).
[10] 7 U.S.C. § 1359dd(b)(2)(G).
[11] These contracts were made public during the appeal hearing to review the reassignment by USDA to American Crystal of the Moses Lake factory allocation. They can be found in the public record at the Office of the Hearing Clerk, USDA in In re: Amalgamated Sugar Company, L.L.C., Petitioner, SMA Docket No. 04-0003, Exhibits ACS-85 and ACS-88.

requires their processors to "rent" allocation and it allows American Crystal to collect a fee just for allowing others to sell their crop.

A careful reading of the contracts shows how these transactions of "renting" out allocation for a fee work. In this case, either Minn-Dak or Michigan Sugar "sells" sugar to American Crystal, which is a "processor to processor" transaction not counted against the allocation limit of the seller under USDA's regulations.[12] Then, American Crystal makes a second "sale" of that same sugar to Minn-Dak or Michigan Sugar, with the second sale counting against American Crystal's purchased allocation. Of course, no sugar has actually moved; it has just changed title back and forth between the processors while remaining in the same storage bin. Now, Minn-Dak or Michigan Sugar is free to sell that same sugar, which has already been recorded as a sale (for purposes of allocation documentation) to any customer that it chooses, since re-sales of sugar already accounted for as an allocation sale are not further or double counted against allocations. The "sales" are simply an exchange of e-mails, with no delivery of sugar and no exchange of money other than a one-time transaction fee paid by the small processor to American Crystal at the time of signing the contract.

Another remarkable part of these contracts is the commitment made by each of the small processors to support the position of American Crystal in the administration of the current Farm Bill and in the writing by Congress of the next Farm Bill. The promise of the small processors to provide political support to American Crystal is part of the consideration in the contract that is exchanged for the use of allocation. The transaction fee is the balance of the consideration. One can only wonder how much larger the transaction fee would have been if no pledge had been extracted to provide the appearance of broader grassroots support for continuation of the allocation system that American Crystal led the way in adding to the 2002 Farm Bill.

e. Delay in USDA Appeals

The allocation provisions for beet sugar include a right to take an appeal to the Secretary from any decision establishing allocations by any person adversely affected by the decision.[13] USDA's regulations make this appeals process more difficult than necessary, and USDA's practices make the appeals essentially meaningless and even harmful to the adversely affected party. By its regulations, USDA inserted a requirement that an appellant first file a request for informal reconsideration of the decision by the Executive Vice President of the Commodity Credit Corporation (CCC). The request must be filed within ten days, but USDA then has no deadline by which it must respond and has taken months simply to say "no" a second time. Once the CCC answers the request with its predictable negative reply, the appellant then has twenty days in which to file a formal appeal petition, seeking a hearing before an administrative law judge. The judges have no deadlines in their handling of the appeals. After months of an appeal proceeding and a decision by the ALJ, the appellant who is still not satisfied must appeal the ALJ decision to the USDA Judicial Officer. The appellant has twenty days to file and the Judicial

[12] 7 CFR § 1435.307(e)(3).
[13] 7 U.S.C. § 1359ii.

Officer has no deadline, often taking months to issue what is, invariably, an opinion upholding the decision of the USDA bureaucracy.

The administrative appeal process easily takes two years, but the adversely affected party has no choice but to pursue it. This is because the courts require parties to exhaust the available administrative remedies before seeking judicial review and courts will typically only review a final decision of an administrative agency such as USDA. The result is that it is impossible to get a decision reviewed by an independent court in a timely way. USDA's in-house appeals process uses up one-third or more of the life of the Farm Bill before it is possible to begin asking for relief from a U.S. District Judge. During consideration of the 2002 Farm Bill, dissenting parties such as SMBSC were given assurances that their concerns could be addressed in the appeals process, so they should stop objecting and acquiesce in the beet sugar allocation provisions. Given the record since the fall of 2002, no one can seriously contend that there is a meaningful or effective appeals process at USDA.

Conclusion

A short-term extension of the Farm Bill may be the most practical approach, given the uncertainty of the WTO negotiations. An extension could update base periods inside the bill as well as extend the effective date. An extension should also correct some of the most obvious mistakes with unintended consequences. Mistakes like these are always made in legislation, but there is no reason to perpetuate them. This would include reining in some of the most excessive uses of the allotment allocation privilege and correcting the unique harm done to California. An extension can also add a loan program for a reserve against potential future shortages.

Thank you for the opportunity to comment for this hearing.

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April 28, 2006

The Honorable Saxby Chambliss
Chairman, Committee on Agriculture,
Nutrition, and Forestry
Room SR-328A, Russell Building
Washington, DC 20510

Dear Chairman Chambliss:

I am writing to you on behalf of the Sugar Alliance of the Philippines, a private association of Philippine sugarcane planters, sugar millers, and traders. I would like to take the opportunity provided by the upcoming hearings on implementation of the U.S. sugar program to describe how that program affects the Philippines, and I ask that this letter be entered in the record.

The world sugar market is grossly distorted. For the past decade, until the last few months, the world market price has stayed below the average cost of production of nearly every producer. For prolonged periods during that span, the world market price has failed to cover production costs of even the most efficient producers.

Many people wonder why production does not fall when prices are low, until supply and demand balance at a fair price. Low world prices persist because sugar production is widely subsidized, internal markets are widely protected, and 80 percent of all the world's sugar is sold into domestic markets. The only sugar that enters world trade is sugar that cannot be sold domestically or under preferential trading arrangements. Once sugar has been produced that cannot be sold domestically, it will be traded so long as the price exceeds the cost of bringing it to market.

Most of the world's subsidies, of course, are paid out in rich countries that can afford them. The U.S. sugar program, however, is different from the beggar-your-neighbor policies of certain other wealthy sugar producers. Unlike the European Union, for example, the United States does not spend government money to support sugar production and does not dump sugar on the world market. On the contrary: the U.S. program effectively regulates U.S. production and provides an ample market for sugar imports at a fair price.

For the Philippines, the United States provides a duty-free quota for a minimum of about 142,000 metric tons of raw sugar each fiscal year, in accordance with historical patterns of trade and commitments bound in the World Trade Organization. The Philippines is the third largest supplier of sugar to the United States under the WTO quota, after the

Dominican Republic and Brazil. Shipments under the minimum quota generate gross export revenues for the Philippines of about $60 million a year. This year, because of U.S. production losses following the storms of 2005, the Philippines expects to supply about 200,000 metric tons of raw sugar.

Access to the United States market is an important benefit to the Philippine economy. The Philippines is a nation of about 90 million people, one third of whom live below a poverty line set at $200 per year. The country produces, without subsidy, more sugar than it consumes, most of it from small, family-owned farms (80 percent of sugarcane farmers have plots of less than five hectares). Sugar directly employs over 600,000 people and indirectly contributes to the livelihood of about 5,000,000 people. The Philippines exports about seven percent of its production to the United States (more this year), so it is fair to say that the U.S. market for raw sugar directly provides over 40,000 jobs and indirectly provides 340,000 jobs.

The U.S. sugar market is changing. On January 1, 2008, under the North American Free Trade Agreement, the United States, Mexico, and Canada are scheduled to complete the elimination of all tariffs and quotas on raw and refined sugar, creating a single North American market. Limited preferential access for sugar is also part of a number of bilateral free-trade agreements the United States has concluded in recent years, and more agreements are under negotiation. The sugar that may enter the United States market under these agreements is additional to the minimum volume of sugar that may enter under the WTO tariff-rate quota, from which the Philippines and 39 other countries benefit.

Over the next few years, the base level of U.S. imports may rise faster than U.S. consumption. Assuming the return of more normal weather patterns, restraints on imports from sources outside North America will need to stay in place, along with marketing allotments that adjust U.S. production. Otherwise world-market sugar, with its grossly distorted price structure, may undermine the viability of fairly-priced imports from traditional suppliers and force U.S. producers to seek the subsidies that keep their counterparts in business in Europe, Japan, and elsewhere, or go out of production.

Producers in developing countries rarely see any merit at all in restraints on their access to markets in the industrialized world. But in this area as in so many others, sugar is an exception. In the absence of a global trade agreement that ends subsidies in all major sugar-producing economies, Philippine sugar producers are willing to accept restraints on access to the U.S. market, in accordance with WTO rules, to protect the benefits that even limited access to a fairly-priced market provides.

Sincerely,

Harry Kopp

Harry Kopp

May 16, 2006

Chairman Saxby Chambliss
Senate Committee on Agriculture, Nutrition & Forestry
United States Senate
Room SR-328A
Russell Senate Office Building
Washington, DC. 20510-6000

Re: May 10, 2006 hearing on the implementation of the U.S. sugar program

Dear Chairman Chambliss:

At the May 10 hearings of the Senate Committee on Agriculture on implementation of the U.S. sugar program, Robert A. Peiser, President and CEO of the Imperial Sugar Company, an independent refiner, criticized the allocation of the tariff-rate quota (TRQ) for raw sugar. "There are many exporting countries," he said, "that have those allocations that no longer ship sugar to the United States or that no longer ship as much as they are allowed." (Mr. Peiser made this statement in oral testimony. Similar statements are included in his written testimony, pp. 6-7.)

In fact, as the attached table shows, the countries that hold allocations under the TRQ have consistently filled the quota. The average fill rate for the past four years has been about 97 percent. The current system of allocations clearly brings in to the United States all of the sugar that the Department of Agriculture intends to be imported.

Moreover, contrary to Mr. Peiser's suggestion, very few quota holders have regularly failed to perform under the TRQ. During 2001-2005, a total of only three quota holders failed to ship any sugar, and these three all hold very small TRQ allocations, totaling a mere 21,887 MT, which is only 1% of this year's TRQ.

Finally, the WTO has specific rules that govern the allocation of access under TRQs. The current U.S. TRQ allocations are in full compliance with those rules.

Sincerely,

May 16, 2006
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Enclosure

cc: Robert A. Peiser

May 16, 2006
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U.S. Sugar Quota Results: 2001-2005

in MT

Country	2001-2002 Quantity Allocated	2001-2002 Quantity Entered	2001-2002 % fill	2002-2003 Quantity Allocated	2002-2003 Quantity Entered	2002-2003 % fill	2003-2004 Quantity Allocated	2003-2004 Quantity Entered	2003-2004 % fill	2004-2005 Quantity Allocated	2004-2005 Quantity Entered	2004-2005 % fill
Argentina	45,281	44,668	98.65%	45,281	45,350	100.00%	45,281	46,741	100.00%	54,171	54,225	100.00%
Australia	87,402	87,610	100.00%	87,402	85,757	98.12%	87,402	87,501	100.00%	104,561	104,812	100.00%
Barbados	7,371	0	0.00%	7,371	0	0.00%	7,371	0	0.00%	0	0	0.00%
Bolivia	8,424	8,435	100.00%	8,424	8,535	100.00%	8,424	8,353	99.16%	10,078	8,497	84.32%
Brazil	152,691	95,738	62.70%	152,691	152,564	99.92%	152,691	156,808	100.00%	182,668	181,820	99.54%
Belize	11,583	11,716	100.00%	11,583	11,686	100.00%	11,583	11,571	99.90%	13,857	11,862	85.60%
Congo	7,258	7,552	100.00%	7,258	7,345	100.00%	7,258	7,387	100.00%	7,258	7,389	100.00%
Cote d'Ivoire	7,258	13	0.18%	7,258	0	0.00%	7,258	0	0.00%	7,258	7,316	100.00%
Colombia	25,273	24,113	95.41%	25,273	25,308	100.00%	25,273	25,061	99.16%	30,235	30,144	99.70%
Costa Rica	15,796	16,088	100.00%	15,796	15,784	99.93%	15,796	15,947	100.00%	15,796	15,947	100.00%
Dominican Republic	185,335	185,760	100.00%	185,335	187,000	100.00%	185,335	187,529	100.00%	186,555	187,990	100.00%
Ecuador	11,583	0	0.00%	11,583	11,591	100.00%	11,583	11,654	100.00%	13,857	11,732	84.67%
Fiji	9,477	9,603	100.00%	9,477	9,576	100.00%	9,477	9,534	100.00%	11,338	9,544	84.17%
Gabon	7,258	0	0.00%	7,258	0	0.00%	7,258	0	0.00%	0	0	0.00%
Guatemala	50,546	51,025	100.00%	50,546	50,071	99.06%	50,546	49,744	98.41%	60,469	60,993	100.00%
Guyana	12,636	12,734	100.00%	12,636	12,820	100.00%	12,636	12,662	100.00%	15,117	15,117	100.00%
Honduras	10,530	10,835	100.00%	10,530	10,988	100.00%	10,530	10,598	100.00%	12,597	12,609	100.00%
Haiti	7,258	0	0.00%	0	0	0.00%	0	0	0.00%	0	0	0.00%
India	8,424	8,619	100.00%	8,424	8,606	100.00%	8,424	8,588	100.00%	164	164	99.72%
Jamaica	11,583	0	0.00%	11,583	0	0.00%	11,583	11,628	100.00%	2,950	2,950	100.00%
St Kitts-Nevis	7,258	7,258	100.00%	7,258	0	0.00%	7,258	0	0.00%	0	0	0.00%
Madagascar	7,258	5,885	81.08%	7,258	0	0.00%	7,258	0	0.00%	7,258	0	0.00%
Mauritius	12,636	11,663	92.30%	12,636	2,332	18.46%	12,636	12,768	100.00%	15,117	12,183	80.59%
Malawi	10,530	11,912	100.00%	10,530	10,363	98.42%	10,530	10,537	100.00%	10,530	10,523	99.93%
Mozambique	13,690	13,601	99.35%	13,690	13,915	100.00%	13,690	13,924	100.00%	16,378	16,361	99.90%
Nicaragua	22,114	22,277	100.00%	22,114	22,573	100.00%	22,114	22,193	100.00%	26,456	26,456	100.00%
Panama	30,538	30,256	99.08%	30,538	30,720	100.00%	30,538	30,824	100.00%	36,533	36,534	100.00%
Peru	43,175	43,499	100.00%	43,175	43,940	100.00%	43,175	42,882	99.32%	51,651	52,013	100.00%
Papua New Guinea	7,258	7,448	100.00%	7,258	7,205	99.27%	7,258	7,506	100.00%	7,258	7,371	100.00%
Philippines	142,160	78,677*	55.34%*	142,160	141,819	99.76%	142,160	141,786	99.74%	142,160	141,878	99.80%

Paraguay	7,258	7,293	100.00%	7,258	7,325	100.00%	7,258	6,495	89.49%	7,258	7,272	100.00%
El Salvador	27,379	27,747	100.00%	27,379	27,219	99.42%	27,379	27,920	100.00%	32,754	32,754	100.00%
Swaziland	16,849	17,219	100.00%	16,849	17,125	100.00%	16,849	17,429	100.00%	20,157	17,068	84.67%
Thailand	14,743	69	0.47%	14,743	14,669	99.50%	14,743	14,732	99.92%	17,637	14,657	83.11%
Trinidad-Tobago	7,371	7,347	99.68%	7,371	7,282	98.80%	7,371	0	0.00%	0	0	0.00%
Taiwan	12,636	12,636	100.00%	12,636	12,677	100.00%	12,636	12,913	100.00%	15,117	12,636	83.59%
Uruguay	7,258	7,362	100.00%	7,258	7,578	100.00%	7,258	7,739	100.00%	7,258	7,380	100.00%
South Africa	24,220	24,696	100.00%	24,220	24,795	100.00%	24,220	25,216	100.00%	28,975	29,051	100.00%
Zimbabwe	12,636	13,333	100.00%	12,636	13,232	100.00%	12,636	12,745	100.00%	15,117	12,769	84.47%
TOTAL	**1,109,934**	**924,686**	**83.31%**	**1,102,676**	**1,047,750**	**95.02%**	**1,102,676**	**1,068,911**	**96.94%**	**1,186,543**	**1,160,015**	**97.76%**
CQE Swap*		161,050										
TOTAL after adjustment	**1,109,934**	**1,085,736**	**97.82%**									

* In 2001-2002 a one-time USDA program allowed exporting countries to swap certificates of quota eligibility (CQEs) for sugar held in the CCC stocks. The Philippines swapped CQEs in the amount of 64,119 metric tons raw value, raising its effective fill rate to 100.4 percent. Brazil, Cote d'Ivoire, Ecuador, and Jamaica also participated in the swap program.

QUESTIONS AND ANSWERS

MAY 10, 2006

UNITED STATES SENATOR MAX BAUCUS
Questions for Undersecretary JB Penn
Agriculture Committee Hearing on Sugar Program
May 10, 2006

Q1) Under the NAFTA, all customs duties for sugar and other sweeteners will be eliminated between the United States and Mexico on January 1, 2008. What impact does USDA estimate this will this have on the U.S. sugar market, in terms of market prices for refined sugar, producer prices for beet and cane sugar, production, consumption, trade and government outlays?

A1) USDA will continue to operate the sugar program through the end of the 2002 Farm Bill, as intended by Congress, by supporting the prices of raw cane and refined sugar at the statutory levels specified in the 2002 bill. In addition, USDA will continue to establish marketing allotments for domestically-produced sugar when needed to balance supply and demand unless imports exceed 1.532 million short tons (excluding any reassignment of marketing allotment deficits to imports), which would force suspension of domestic marketing allotments

Significant adjustments are already occurring in the market as the trade barriers between the U.S. and Mexico are phased out by January 1, 2008 in accordance with NAFTA. The prices for sugar in Mexico and the U.S. are already very similar. On January 1, 2006, the duty on sugar imports from Mexico declined to $0.03 per pound and will fall to $0.015 per pound on January 1, 2007, before being eliminated entirely on January 1, 2008. Hurricane damage to Louisiana's and Florida's sugarcane production and processing sectors boosted U.S. prices for raw and refined sugar, increasing over-quota imports of Mexican sugar.

As the past year demonstrates, many factors will determine the volume of Mexican sugar imports following the elimination of the duty on January 1, 2008, including Mexico's sugar production and consumption, the U.S and world prices of sugar, and sugar production and consumption in Brazil and other major sugar exporting countries. USDA continues to evaluate the effects of the elimination of the duty on Mexican sugar imports following the sharp increase in the world price of sugar, declining sugar production prospects in Mexico and the European Union, strong prices for oil and increasing conversion of sugarcane to ethanol in Brazil and other countries, and uncertain sugar production prospects in the United States. With full implementation of NAFTA, there is a strong possibility of incurring federal costs.

Q2) Given the lack of progress in the Doha Round, there seem to be limited prospects for reforms in our trading partners' sugar policies. What is USDA doing to level the international playing field for U.S. sugar producers?

A2) As you know, the U.S. put forth an ambitious negotiating proposal last October at the World Trade Organization negotiations. This proposal called for substantial cuts in tariffs and trade distorting subsidies. Despite a stalemate on the major issues of market access and domestic support, U.S. negotiators did achieve progress at the Hong Kong Ministerial last December. One issue, which was resolved in Hong Kong, was that of export subsidies. Negotiators agreed to eliminate export subsidies, which many sugar exporters use to dump sugar onto the international market.

Recently, USDA and USTR have reaffirmed the United States' determination to conclude successful negotiations in 2006. Instead of giving in and accepting a compromise that would not level the playing field, our negotiators are still calling for substantial increases in market access. This means our trading partners will be required to cut trade distorting subsidies, lower trade inhibiting tariffs, and expand restrictive tariff-rate quotas, helping create a more level playing field for sugar.

UNITED STATES SENATOR DEBBIE STABENOW
Questions for Undersecretary JB Penn
Agriculture Committee Hearing on Sugar Program
May 10, 2006

I understand that commercial sugar users are suggesting a new program based on payments to sugar producers rather than our current price support system. I have read that such a program could cost anywhere from $500 million - $1.6 billion per year.

Q1) Has USDA estimated the cost of such a program?

A1) USDA has not examined the cost of such a program and has not been asked by the sugar industry to review or evaluate the program proposal you mention.

Q2) What is the USDA's position on a payment program in lieu of the current sugar program?

A2) USDA continues to review the information obtained from the Secretary's Farm Bill listening sessions and is preparing theme papers for use in developing the Administration's Farm Bill proposals. USDA does not have any specific recommendations regarding the next Farm Bill at this time.

Q3) How would USDA recommend funding for such a program in the agriculture budget?

A3) USDA does not have a recommendation for funding such a program at this time. Funding for such a program would depend on the budget target for the next Farm Bill as well as proposed changes in existing Farm Bill funded programs, including sugar. USDA continues to review the information obtained from the Secretary's Farm Bill listening sessions and is preparing theme papers for use in developing the Administration's Farm Bill proposals. USDA does not have any specific recommendations regarding the next Farm Bill at this time.