

**"Future Sugar Policy Needs for the Domestic Industry"**

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Let us begin today with three key facts about the beet sugar industry:

- There are 12,000 family farmers in 12 states that produce sugarbeets for 27 beet sugar factories.
- Beet sugar accounts for over 54 percent of all the sugar produced domestically, and about half of the refined sugar marketed in the U.S.
- Our industry is globally competitive with other producers, but continues to be threatened by sugar dumped on the world market at prices below any country's cost of production.

Twenty days ago, sugarbeet grower leaders from across the country met to assess the current condition of the U.S. sugar market and the economic health of the beet sugar industry. Let me assure you that in the 25 years I have been involved in this industry, I have never seen the entire industry under such tremendous financial stress. Let's look at the evidence:

- Since the 1996 farm bill, seven beet factories have been closed.
- The largest refined sugar marketer, which owns 9 of the remaining 27 factories--one third of the industry--is in bankruptcy.
- Over half of the beet sugar factories are for sale to their growers, who we view as the owners of last resort before closure.
- Eleven of the 27 beet sugar factories are already farmer-owned cooperatives.
- Share values of our cooperatives have plunged on average by 60 percent.
- The depressed price for sugar and other commodities is pushing some of the farmers in farmer-owned cooperatives to exit farming because they cannot get financing this year.
- There is currently no reinvestment in the beet sugar business.
- Our farmers are more reliant on secondary sources of credit because primary sources are either not available or severely restricted.

- Weather problems have caused severe difficulties in some isolated areas and pose a serious financial threat to growers.

- Skyrocketing energy costs affect fuel and fertilizer prices on the farm and substantially increase processing costs, further reducing grower returns.
- CCC stocks of sugar that currently overhang the market and depress prices are harmful to all segments of the sugar industry.
- Continued circumvention of the tariff rate quota by stuffed molasses and similar products continues to oversupply the U.S. sugar market.
- The uncertainty of the terms and timing of a resolution of the sugar dispute with Mexico further reduces the confidence level of local and national lenders.
- Some companies are unable to participate in the loan program because of the inability to make the prescribed minimum grower payment due to substantially higher storage costs as a result of the forfeitures. There is then no price safety net for their growers.
- Other crops that are part of a four-year rotation with sugarbeets do not, in most instances, cash flow without substantial government payments.
- Prices for sugarbeet pulp, a co-product of sugarbeets, follow the corn market, which is also depressed, lowering returns to growers and processors.
- Production continues to shift from irrigated to non-irrigated areas, and the industry continues to become more geographically concentrated. It is important to have a geographically-diverse industry to reduce the risk of weather and disease problems.
- The problems we face are not isolated, but industry-wide. We cannot survive by living off of our equity or cannibalizing our business. This industry is in serious trouble.
- The troubles of the beet sugar industry should be a concern to both our customers and to policymakers. The sweetener market demands a reliable supply of 45 different and diverse sugars and syrups, delivered just-in-time. Beet sugar processors and cane sugar refiners are the providers of those products.

#### Solutions:

##### IMMEDIATE

- First, the government must work with the domestic industry to immediately get supply and demand back into balance by disposing of CCC-held sugar stocks by another Payment-In-Kind (PIK) or PIK-like program, or sell some sugar as an enhancement to the production of ethanol from corn. The sooner the market is signaled that steps will be taken to balance the market, the sooner the industry can begin to recover.

##### TRADE

- Second, the government must stop the import circumvention scheme of stuffed molasses and any other products for desugarization. This is a blatant circumvention of the tariff rate

quota that undermines the integrity of our trade agreements and threatens the support for further negotiations of new trade agreements. We are hopeful that the courts will rule against this unscrupulous practice that threatens every American sugar farmer.

We also believe that the trade dispute between the U.S. and Mexico on sweeteners cannot be resolved until this loophole is plugged. Until there is some assurance that these circumvention schemes are addressed, no domestic policy can perform in a predictable way, and the domestic industry will always be at great risk.

- Third, the U.S. and Mexico must resolve the sweetener trade dispute. Once the stuffed molasses scheme is properly addressed, we are hopeful that Mexico will finally come forward with a proposal that will maintain the integrity of a U.S. sugar policy by balancing supply and demand within our respective countries, and eventually among our two countries.

Let there be no question regarding the following facts.

1. Without the sugar side letter, there would not have not been enough votes to pass the NAFTA in the U.S. Congress.
2. The challenge to the side letter by Mexico is yet another case of an attempt to dispute the rules in order to avoid the rules.
3. Should Mexican sugar come in over the tier two tariff and harm our market and threaten our industry, there will be no hesitation on our part to bring antidumping and countervailing actions. By the end of next week, our growers will have completed the preparatory work for our industry's legal counsel to bring the cases at any point in the future. We are ready.

Let me be clear on what our growers believe should happen between our two countries. We should work together to transform the Mexican sugar market into a mature sweetener market, like those in the U.S. and Canada. Over the past 25 years, the U.S. built 13 high fructose manufacturing facilities and closed 73 beet and cane factories, mills and refineries. Mexico must make a similar transition in a fourth of that time. This needs to be done in a manner that does not harm the U.S. market or the U.S. industry, which has already borne the burden of a changed market.

As future partners in an increasingly global trading system, we must work together in future multilateral, regional, and bilateral negotiations to maintain the integrity of the U.S./Mexico sweetener market. We must become close partners--not distant adversaries—as we look to the future. Let us work diligently to bring together a workable and lasting solution.

- Fourth, as we move forward in future trade negotiations in WTO, FTAA, and other bilateral agreements, our negotiators must not provide more access to the U.S. sugar market than the residual needs of our market. The fact is that the U.S. sugar market, like any market, is finite--it is only so big. If it is oversupplied by imports, no policy can work and no industry can be sustained. We will support trade negotiations that provide supplies that are balanced with demand.

I have listed trade issues first because they are crucial to the development of domestic policy. Without clarity or certainty of our imports, no domestic policy can work and no industry can be sustained.



## DOMESTIC POLICY

- As we look to future sweetener policy, it must be based on basic fundamental truths about the importance of our 45 different sugars and syrups, the uniqueness of our industry, and the nature of our domestic market.
- Just as we have viewed our market in trade policy and trade negotiations, we must also view it in our domestic policy development. The market is finite--it is only so big. If domestic producers expand beyond demand, the market is oversupplied, and the entire industry goes into an economic meltdown. We are experiencing this problem now, and it must be avoided in the future.
- Some of the unique characteristics of sugar industry are:
  - Two entirely different crops eventually produce the identical commodity.
  - All beet sugar production is either contracted to a designated processor or share-owned in a farmer-owned cooperative.
  - No acreage is planted for sugar without the assurance of processing.
  - Sugarbeet processors have no supply other than a local supply.
  - Sugarbeets are a perishable vegetable with no value until processed.
  - Sugarbeet farmers do not store beets on the farm.
  - Sugarbeet farmers do not store refined sugar, pulp, or molasses on the farm.
  - Sugarbeet farmers have no input on the marketing of their products.
  - Sugarbeet farmers cannot hedge or forward-contract the sale of sugar and co-products.
  - Sugarbeet farmers have specialized production and harvesting equipment not suitable for any other commodity.
  - No refined sugar futures market exists in the U.S.
  - Sugarbeet farmers have a two-year investment/return cycle.
  - Beet sugar processors must have a critical mass of growers every year.
  - Beet farmers and processors cannot flex in and out of production in response to market volatility.
  - Beets can only be grown on the same land every 3-4 years, verses cane that is a multi-year crop that does not require rotation.
  - Beet processors make refined sugar from beets and sell about 40 different products in many different packages to thousands of buyers. Each company must be 12-month suppliers and provide just-in-time delivery. Sugar cane growers produce raw sugar for six cane sugar refiners.
  - The world sugar market is a dumping ground for global producers who do not wish to have the surpluses produced in their country harm their domestic market. Dumping shifts injury from a domestic producer to a foreign producer.

### Principles and elements of a market-oriented sugar policy:

- Foreign imports are the residual supplier to the market.
- Adequate tools must be available to balance foreign and domestic supplies with demand.
- Returns to industry should be from the market, not the government.
- Policy must be flexible to adjust to seasonal crop volatility and structural changes in the industry.
- Policy must recognize the realities of how particular commodity markets operate.

- Policy recognizes that the market is finite.
- Policy provides an opportunity for adequate returns for farmers and margins for processors/refiners.
- Policy provides stability and security to the banking community to transition to a farmer-owned cooperative industry.
- Policy encourages continued investments to increase efficiency.