

SUGAR POLICY NEEDS OF LOUISIANA CANE GROWERS AND PROCESSORS

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Hello, and good morning. I am Dean Gravois. As John Love described in his introduction of me, I am a sugarcane farmer from Louisiana. My family and I operate more than 2,000 acres in Vacherie, a small town located along the Mississippi River, between New Orleans and Baton Rouge. If you are here today, you are already aware of the mounting problems facing the U.S. sugar industry. It is no secret that we have too much sugar. For the past few years, production has been rising and pressure from imports has been increasing. As a result, prices have been suffering. At even a cursory glance, the future appears terribly unstable.

To be successful, domestic sugar policy must address this supply imbalance, and it cannot do so unless it also integrates foreign-supplied sugar in a way that is both fair and reasonable. Failing that, the incessant import pressure created by the massively subsidized world dump market will overwhelm our efficient but unsubsidized farmers. For now, we have no balanced sugar market. Our market and our policy are in serious crisis.

To the outside observer, the answer to this crisis, at least for the individual farmer, should be simple: grow something else. That's supposed to be the most appealing aspect of Freedom to Farm, isn't it? Choose another crop. Find something that provides the stability and the revenue that sugar cannot provide. Yet, for the Louisiana sugarcane farmer, there is no flexibility. Growing sugarcane is what we do best. More than that, sugarcane is the only crop those of us in south Louisiana are able to grow successfully.

We have tried to grow other crops. Rice, soybeans, cotton, corn, you name it, we have tried it. Yet, due to the uniqueness of our soil and our climate, especially our weather extremes, sugarcane is the only crop we can grow effectively. It is perhaps ironic then that a significant reason for the increasing production in Louisiana has been the influx of acreage in the western and more central portions of our state that have traditionally been devoted to growing rice and soybeans. As prices for these other commodities fell, these farmers began searching for other crops, any crop, with which they could get some productivity out of their land. So, they took AMTA and marketing loan payments received for other crops and used them to enter the sugar business.

Of course, the introduction of a new variety, LCP85-384, in Louisiana also explains our rising production. This new variety, specifically bred in Louisiana for our shorter growing season, has been a boon, improving yields, increasing stubbling ability, and lowering fixed costs per unit as compared to the older varieties. As more and more land has been planted with this new variety, both efficiency and production have increased.

Industry yield of sugar per acre in the last three years (1998-2000) has averaged 43 % higher than the three years prior to LCP85-384 occupying significant acreage in Louisiana (1991-1993). Additionally, growers have kept at least one or two extra stubble crops of the new variety before having to fallow the land for replanting. This has allowed for an expansion in harvested acreage in existing production areas - a comparison of the same periods of years shows a 26 % increase. The combined increase in yield and harvested acreage

has resulted in an increase in total sugar production in Louisiana during the last decade of 75 %. This type of production increase, and subsequent efficiency, is what our government and our detractors contend we should be doing in order to be more competitive. Well, we're there! And what do we get for it - no price!

As a result of higher yields and subsequent lodging that occurs with this heavier cane, a new harvest system was required to capture the potential of this new variety. This has meant an investment of some half million dollars per unit for a combine harvester, high dump transport wagons, tractors, and highway transport trailers. Industry wide, this amounted to an investment of some \$200 million. This is a huge investment for an industry whose future appears terribly unstable.

Without the enhanced efficiency that the new variety and harvesting system offer, we could not survive. As long as production outstrips demand, nationwide and worldwide, and as long as the pressure from imports sits on our market like an 800-pound gorilla, the only way our industry can survive is to lower per unit costs. To do this, our mills need greater and greater amounts of cane to grind. Thanks to this new variety, and the years of research and millions of dollars needed for its development, our farmers can meet these mills' growing need for more cane. Yet, research such as this is only one part of the high investment required to produce sugar from cane, and is only one facet of an integrated network that comprises our agriculture community.

Growing sugarcane is long-term commitment since, as a multiyear crop, a farmer can make four and sometimes five harvests off a single planting. It also means that the investment horizon is every long. Because it is a perishable crop, farmers have a very short period of time to get harvested cane to the mill for processing. From the moment a stalk of cane is cut, the sugar inside it begins to deteriorate. So, farmers rely on quick and easy access to a mill. In turn, the mill requires a certain amount of cane throughput, in order to cover all the capital and labor that go into a running mill. To build and equip a modern mill in Louisiana costs upwards of more than \$100 million. After adding to this the millions more that are needed annually to operate the mill and to keep up with technology, it quickly becomes obvious that running a mill is a very expensive proposition. In this day and time, it is now necessary for a raw sugar mill to be processing a million or more tons of sugarcane annually in order to hope for black, rather than red, ink on its financial statement. Unfortunately, even this volume of cane alone is no guarantee of profit for the cane processing side of the industry.

As you can see, the survival of every local farmer, and his commitment of cane, is crucial to the survival of the mill. If even two farmers in a growing area go out of business or, if they're able, use their land for some other purpose, the stability of the mill begins to weaken. If the price of raw sugar falls lower, and a larger fraction of farmers goes out of business, the mill can lose enough cane supply that it, too, will slip under. At this point, the remaining farmers now must find another place to grind their cane. A mill further away will mean higher transportation costs and greater deterioration rates of cane. If the new costs are too high, then many of these farmers will go out of business. For some mills and many farmers, the squeeze between costs and price has been too tight. We have already lost three mills in Louisiana since 1995, and is destined to lose more mills in the very near future.

And, as with all of rural America, as farmers and mills go out of business, the communities that support them and are supported by them suffer greatly. The symbiotic relationship between the farmer and the processor that plays such an important role within the community can unfortunately serve to magnify the threat of economic disaster. Something as simple as two lost farmers can have a domino effect, directly impacting the viability of the mill. This, in turn, impacts other farmers and, consequently, can bring economic devastation to one or more

rural communities.

Given the link to his mill, to his fellow farmers, and to the rest of his community, a decision by a farmer to leave sugarcane cultivation assumes even greater significance than such an important business decision might otherwise entail. Couple this fact to the inability by many in south Louisiana to grow anything other than sugarcane, even if they wanted to, and you begin to see the deeper irony within the "freedom" offered by current farm law. Not only do I not have easy flexibility to grow another crop, but this flexibility that is so crucial to the survival of other farmers can actually threaten my livelihood, my mill, and my community, since other non-sugar farmers can choose to add more production into my market.

So, where does this leave Louisiana as we try to develop a workable sugar policy? Clearly, no program will work unless supply and demand are in balance. In the current market, this means that imports should exist as a residual supply. This also means that the stuffed molasses loophole must be plugged. And it means that some reasonable solution to the dispute with Mexico must be found.

The side letter agreement to NAFTA sets out a structure of transition until the common market arrives in 2008. In rejecting the validity of the side letter, Mexico rejects an appreciation for the importance of a stable transition. Indeed, their reaction to NAFTA seven years ago was to fund an explosion of their industry through financing arrangements that amount to nothing more than billions of dollars of free capital. A large portion of a Louisiana mill's cost of production is dedicated to financing the plant and capital. So far, mills in Mexico have not had to face up to this fundamental cost of doing business, nor to other pressures of competition that have utterly transformed the U.S. industry. As I mentioned, in Louisiana we have already lost several mills. For the past twenty years, we have faced competition from high fructose corn syrup and have rationalized our industry and our market accordingly. To develop a mature industry, Mexico must face the same process of rationalization with HFCS. We will not let Mexico throw upon us the burden of doing it for them. If a reasonable solution to the side letter dispute cannot be reached, the U.S. industry will have no choice but to institute antidumping and countervailing lawsuits. We stand ready to do so!

Now, I can already hear the criticism that comes from those opposed to our sugar program. Why shouldn't we simply open up our market completely? Isn't "Freedom to Farm" rested on the principle of free markets? The simple answer is that while we may wish for a free market within our country, there is and never has been a free and unfettered global market in sugar, and that is a shame. I believe in a free market and so do my colleagues within the U.S. sugar industry. That is why we were the first commodity to support genuine, multilateral free trade at the outset of the Uruguay Round negotiations. Yet, very few of our global competitors are willing to risk sharing that sentiment. Virtually every one of the nearly 130 countries that produces sugar supports its industry in some significant way. Export subsidies, production subsidies, state trading enterprises, financing subsidies, alcohol subsidies. These programs all exist beyond our borders, not within. The accumulated result of all of these foreign subsidies is a world dump market that bears no resemblance to a free market. The world price averages barely half the world's average cost of production, which is why none of our trading partners who target our market are willing to open their own borders. Though we are very efficient sugar producers, and can compete in a truly liberalized and unfettered global market, we cannot be subjected unilaterally to these distortions and dangers created by foreign governments.

Until the global market is truly unfettered and truly free, we need a sugar policy that is both realistic and fair. We must find a way to balance supply and demand. And we must find a way to reward efficient American

production rather than foreign subsidized production. Why should the hard work and huge investment of our sugar farmers be penalized by policies that protect other WTO and NAFTA nations?

As all of you know, sugarcane production is a risky business these days. Nevertheless, I am in it for the long haul, come hell or high water. Sugarcane has been cultivated continuously in Louisiana for more than 200 years, longer than anywhere else in this country. It is an inextricable part of our culture. Its roots run as deep within us as the French language, Creole cuisine, and Cajun music that define us. I am very proud to be a part of this unique, organic community and I will give everything I have to leave it better than I found it.