Testimony of
Ray VanDriessche
President
American Sugarbeet Growers Association
before the
Senate Committee on Agriculture, Nutrition, and Forestry
Washington, D.C.
June 26, 2000

My name is Ray VanDriessche, My brother and I are sugarbeet, corn, soybean and dry bean farmers from Bay City, Michigan. As President of the American Sugarbeet Growers Association, I represent over 12,000 family farmers who grow sugarbeets in 12 states.

Mr. Chairman, before I speak to the crisis our farmers are facing, it is critical to set the record straight on three basic points.

First, the U.S. sugar industry is efficient and globally competitive. Beet sugar produced in the U.S. is the lowest cost among beet sugar producers worldwide (Chart #1). This has been achieved through creative and innovative use of new technology and massive investments on our farms and in our factories to lower production cost. As our input costs rise and the prices we receive for our sugar have declined, lowering cost is crucial to our survival.

In fact, over half of the sugar produced in the world is produced at a higher cost than U.S. beet and cane sugar (Chart #2). This is even more impressive when one takes into account that three quarters of the world's sugar is produced in developing countries that have substantially lower health, safety, labor, and environmental standards and costs than those in the U.S. If our global competitors were held to the same standards that we must adhere to for producing sugar, most would not be in business.

The U.S. sugar and sweetener industry has a comparative advantage and an economic right to produce this essential ingredient for our market. Our nation has the largest and most sophisticated food processing industry in the world and needs a reliable supply of 45 different sugars and syrups.

Second, the world sugar market is a dump market. The price of sugar on the world market does not reflect its cost of production. Chart #3 shows that the average price of sugar on the world raw market for a 10-year period is about one half of the average worldwide cost of production of raw sugar during that same period. The world sugar market is the most distorted commodity market in the world, and governments around the world intervene in their industries and markets, as evidenced by Charts #4. 5. and 6.

Foreign export subsidies and dumping practices shift the threat of price collapse and injury from their domestic markets to our market and threaten our more efficient domestic producers here in the U.S. Sugar policy in the U.S. has been a proper response to these predatory trade practices of our competitors. If one wishes to make a fair comparison of what sugar costs in the world, then U.S. prices should be compared with prices of equivalent quality sugar in other comparable consumer markets. We have made those comparisons and found that the U.S. consumer pays 20 percent less for refined sugar than the average consumer in other developed countries. Any comparisons of U.S. sugar prices against the world dumped market price is made either out of ignorance, foolishness, or the intent to deceive those who are not informed of the facts.

Third, lower sugar prices are not passed on to consumers. Industrial users, like the ice cream and chocolate manufacturers, purchase the majority of sugar in this country. The evidence is clear that savings on lower priced sugar is not passed on to the consumer. Chart #7 shows the decline in U.S. sugar prices since the beginning of the 1996 Farm Bill and the continued increase in the price of sugar containing products. There has never been any evidence of pass through of savings to consumers. These attacks by our customers on our industry and our policy are motivated by additional profits while driving us out of business.

Mr. Chairman, I think it's time to let the rest of the country in on a secret as to why there is so much controversy over sugar. The big corporate sugar users join together to attack sugar policy because they actually have to pay the farmer for the cost of the commodity in the marketplace. You never hear them whine about the billions of dollars the government spends on other commodities that are necessary to rescue farmers from economic disaster. That is because such policies allow the big corporate users to purchase commodities below the farmers' cost of production, shifting the cost to the taxpayer. In the end, the farmer is blamed for government cost, survives but does not prosper, and the big user reaps the benefit of commodities priced below the farmer's cost and does not pass the savings on to the consumer. This is a story all of agriculture should be telling.

Mr. Chairman, last Friday I met with the grower leaders in our industry, and they have asked me to convey to you and to this Committee that economic crisis is plaguing our industry. This is not a crisis of a particular group of growers, or growers in a particular region. Without exception, this economic crisis is hitting every grower throughout the industry because every grower's income is directly tied to the price of refined sugar. As evidence of this, Chart #8 (Beet Sugar Price & Forfeiture Range) shows the collapse of the refined sugar market since late last year. Refined sugar prices have dropped by thirty-four percent since the beginning of the 1996 farm bill, and now prices in every production region are well below the forfeiture price. The current market conditions have not only put our farmers at risk, but also our processing factories, their workers, and our rural communities.

The price collapse is a result of three factors.

1. Tariff rate quota circumvention by stuffed molasses from Canada;
2. Threat of increased Mexican imports under the NAFTA;
3. Increased domestic production that is a result of:
    a) Lack of profitable alternative crops
    b) Three consecutive years of good weather that produced excellent crops.
    c) Companies attempting to maximize efficiencies by greater throughput.

For fifteen years, the U.S. sugar policy has run at no cost to the taxpayer, and in the last decade, sugar producers contributed $279 million in marketing taxes to help reduce the reduce the federal budget deficit. We do not believe that any other U.S. agricultural commodity program has a more exemplary history of fiscal responsibility. This was achieved because we had a balanced market and both the legislative authority and the Administrative tools to properly balance supply and demand. The major reforms of the 1996 Farm Bill and the effects the NAFTA and Uruguay Round import commitments have thrown our industry into our current crisis. Congress has appropriately stepped in over the past 5 years with billions of dollars to assist other commodities that have been and are currently in an economic crisis. We believe our industry is equally threatened and deserves some form of relief.

We have encouraged the Administration to purchase a minimum of 370,000 tons of sugar to bring supply and demand into greater balance and help strengthen prices, and avoid larger forfeitures. The initial purchase of 132,000 tons is equivalent to the approximate amount of sugar that is circumventing the tariff rate quota from Canada in the form of stuffed molasses. In fact, this minimal purchase has had the opposite effect, and market prices have in fact dropped. Over the course of the next two months, the Administration will have to decide whether it will purchase additional sugar to avoid greater amounts of forfeitures. Our industry believes that immediate purchases are a more fiscally responsible option at this time.

When we prepared our land last fall for sugarbeets and signed our legal and binding contracts with our processor last winter to produce a crop this year, farmers and bankers did so on the basis that there would be a safety net for the price of sugar through the non-recourse loan program. If recourse loans were to be imposed, it would pull the rug out from under our farmers and our financial commitments to our bankers, posing an additional and significant threat to the entire industry.

The irony is that in spite of such circumstances, under the current law and international trade agreement obligations, the United States would still be obligated to import an amount of sugar equal to about 12% of our market; we would be obligated to absorb a portion of Mexico's surplus sugar production; and sugar could still be imported into this market in the form of stuffed molasses, quota free, and the sugar could be spun out and further distort the domestic market.

CONCLUSION

Mr. Chairman, four things need to be fixed immediately to save our farmers and our industry. First, the Administration must buy more sugar to avoid massive forfeitures. Second, we must retain non-recourse loans for the crop we are about to harvest. Third, the circumvention of our tariff rate quota from products like stuffed molasses must be stopped. And finally, we need to resolve the dispute with Mexico over the NAFTA provisions.

Thank you, Mr. Chairman, for this opportunity to bring the concerns of our growers to your Committee, and we look forward to working with you to resolve these matters.

Chart 1

U.S. Cost of Production Rank Among World Sweetener Producers, 1994/95

	U.S. Rank	Number of Producing Countries/Regions
Beet Sugar	1	35
Cane Sugar	29	62
All Sugar	**18**	**96**
Corn Sweeteners	1	15
All Sweeteners	**12**	**112**

Source: "A World Survey of Sugar and HFCS Field, Factory and Freight Production Costs: 1997 Report," LMC International Ltd., Oxford, England, 1997.

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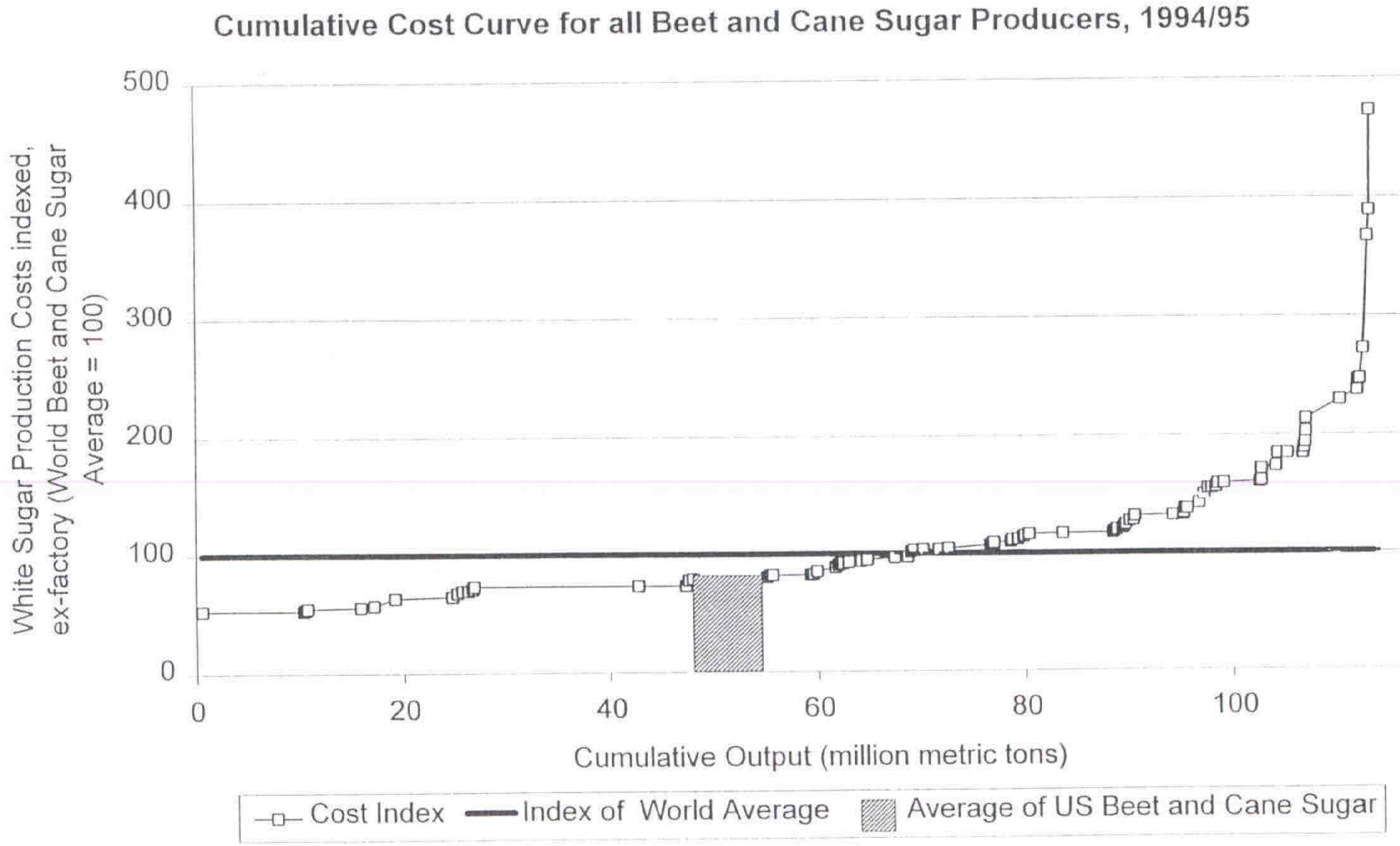
Chart 2

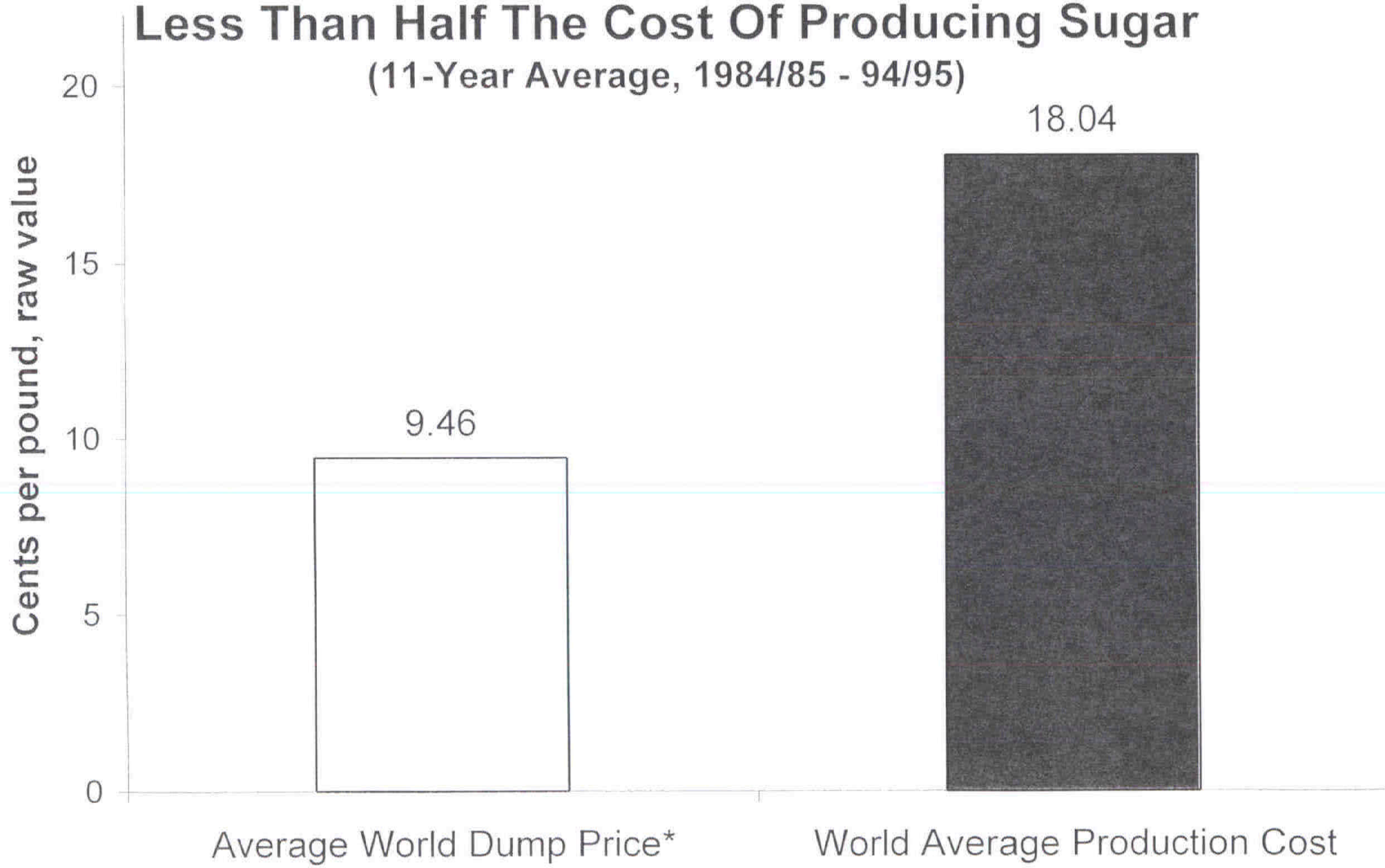


SOURCE: "A WORLD SURVEY OF SUGAR AND HFCS FIELD, FACTORY AND FREIGHT PRODUCTION COSTS: 1997 REPORT"

Chart 3

World Sugar Dump Market Price Less Than Half The Cost Of Producing Sugar

(11-Year Average, 1984/85 - 94/95)



* New York contract #11, f.o.b. Caribbean ports.

** "A World Survey of Sugar and HFCS Field, Factory and Freight Production Costs: 1997 Report," LMC International, Oxford, England, August 1997.

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Summary of Policy Measures in Selected Countries, 1997

Chart 4

Cuba	4	5	6	9	10	11	12
European Union	3	4	5	6	8	9	12
Brazil	2	4	6	7[4]	9	12	
Poland	4	5	6	8	9	12[7]	
India	4[5]	5	6[6]	9	12		
Thailand	4	5	6	9			
Turkey	4	5	6[9]	12			
Australia	1	9	10[3]	11			
China	4	5	6	12			
United States	4	5	6[10]	12[11]			
Russia	4	5	12[8]				
Philippines	4	9					
Mexico	4						
Argentina	4						

Production Controls [1]
1. Land Quotas
2. Production Quotas
3. HFCS Quotas

Domestic Price Support
4. Import Tariff
5. Non-Tariff Barriers [2]
6. Fixed/Minimum Sugar Prices
7. Regional Subsidies
8. Export Subsidies

Marketing Arrangements
9. Domestic Market Sharing/Sales Quotas
10. Single Channel Marketing – Domestic
11. Single Channel Marketing – Export

Growers/Processor Relationships
12. Fixed/Minimum Crop Prices

1. These controls refer to absolute limits on total cane, beet or sugar production, rather than controls on the volume of sugar that can be sold in domestic or preferentially priced markets (see Marketing Arrangements).
2. These include measures such as the retention of single-channel import agencies, the requirement for import licenses and import quotas.
3. In Queensland, the Sugar Corporation is the sole seller of raw sugar in the domestic market. Refined sugar is marketed independently by individual refiners.
4. The North/Northeast receives a higher institutional anhydrous ethanol price. However, it is expected that ethanol prices will no longer be set, beginning May 1998.
5. Although the government has the right to set an import tariff of up to 150%, it usually waives this right, and tariffs have been set at 0% for the past three years.
6. For the 40% of the (levy) sugar that is sold through the Public Distribution System, the government establishes a fixed price. For the remaining 60% of sugar, the price is determined by market forces, but the government is able to exert considerable influence over these prices.
7. There is no national sugarbeet price; the price is negotiated privately between growers and processors.
8. Most sugarbeets are processed on a payment-in-kind basis, under which beet producers deliver beets for processing and receive as payment white sugar equal to about 70% of their beet deliveries. The exact share varies from factory to factory, and from season to season.
9. Although the government continues to announce ex-factory prices for sugar, because Turkseker is no longer the sole seller of sugar, these represent more of a guide than a mandatory price.
10. Applies only when the tariff-rate quota is greater than 1.5 million short tons and loans are non-recourse.
11. Applies only to sugar under loan when loans are non-recourse (i.e., when the tariff-rate quota is greater than 1.5 million short tons).

Source: "A World Survey of Sugar and HFCS Field, Factory and Freight Production Costs: 1997 Report"

LMC

Summary of Policy Measures in Selected Countries, 1997

	Production Controls [1]			← Domestic Price Support →					Marketing Arrangements			Grower/Processor Relationships
	Land Quotas	Production Quotas	HFCS Quotas	Import Tariff	Non-tariff Barriers [2]	Fixed/Minimum Sugar Prices	Regional Subsidies	Export Subsidies	Domestic Market Sharing/ Sales Quotas	Single Channel Marketing Domestic	Single Channel Marketing Export	Fixed/Minimum Crop Prices
Argentina				✓								
Australia	✓								✓	✓[3]	✓	
Brazil		✓		✓		✓	✓[4]		✓			✓
China				✓	✓	✓						✓
Cuba				✓	✓	✓			✓	✓	✓	✓
EU			✓	✓	✓	✓		✓	✓			✓
India				5	✓	✓[6]			✓			✓
Mexico				✓								
Philippines				✓					✓			
Poland				✓	✓	✓		✓	✓			7
Russia				✓	✓							8
Thailand				✓	✓	✓			✓			
Turkey				✓	✓	9						✓
US				✓	✓	✓[10]						✓[11]

Notes:
1. These controls refer to absolute limits on *total* cane, beet or sugar production, rather than controls on the volume of sugar that can be sold in domestic or preferentially priced markets (see Marketing Arrangements).
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SOURCE: "A WORLD SURVEY OF SUGAR AND HFCS FIELD, FACTORY AND FREIGHT PRODUCTION COSTS: 1997 REPORT"

Market Regulation Mechanisms: Summary

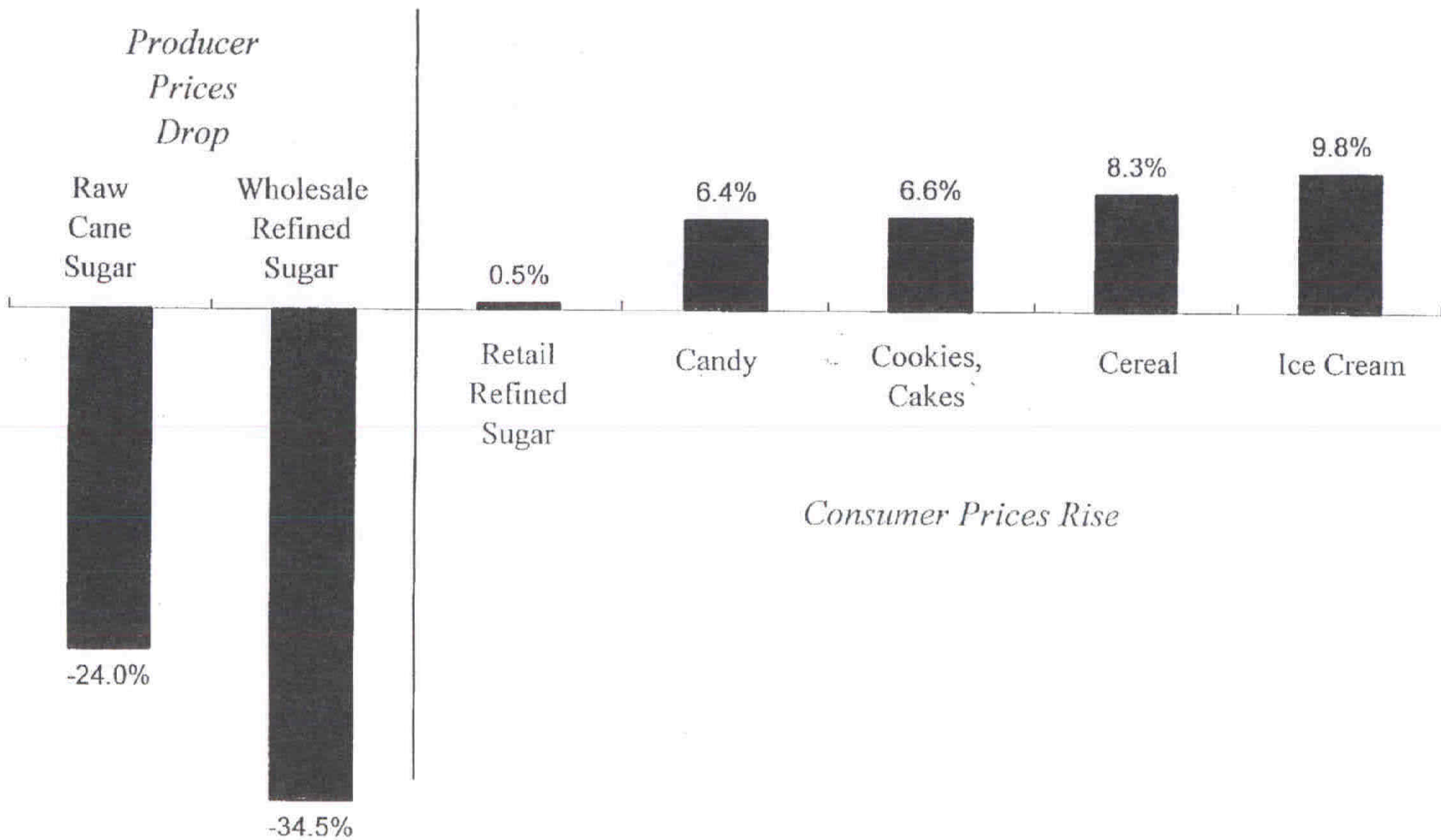
Country	Domestic Market Sharing/ Quotas	Single Channel Marketing: Domestic	Single Channel Marketing: Export	Single Channel Marketing: Import	Licensing System: Export	Licensing System: Import	Summary
Argentina							Independent marketing of sugar
Australia [1]	✓	✓	✓				Government marketing Board - **QSC** - handles 95% of raw sugar sales in Australia
Brazil	✓				✓		Quotas & export licenses designed solely to ensure alcohol production met
Canada							2 companies dominate the market but are open to competition from imports
China [2]				✓		✓	State-owned trading agency - **Ceroil Foods** - handles most imports
Colombia	✓		✓				Industry authority for export - **CIAMSA**. Mills export pro rata share of production
Cuba		✓	✓	✓	✓	✓	State-owned marketing company - **Cubazucar** - handles 100% of sugar sales
Dom Rep						✓	3 groups control the sugar industry.
EU	✓				✓	✓	Marketing quota system in place to remove surplus sugar from the domestic market
Fiji		✓	✓	✓			Quasi government marketing body - **Fiji Sugar Marketing Company** - handles 100% of sugar sales.
Guatemala	✓	✓	✓				2 industry authorities market 100% of sales - **DAZGUA** (domestic sales) & **ASAZGUA** (exports)
India			✓		✓	✓	Government controls releases of sugar onto market. Industry authority for exports - **ISIEC**.
Indonesia		✓		✓			State owned trading agency, **BULOG**, handles 100% of imports & almost 100% of local sales
Japan							Independent marketing of sugar. Regulation by quasi government agency - **SPSA** - on marketing of sugarbeet/cane.
Korea					✓	✓	3 companies dominate the sugar sector with sole permission to make imports/exports
Malaysia	✓				✓	✓	Much of industry is controlled by Kuok Group. Only mills & refineries are permitted to import
Mauritius		✓	✓	✓			Industry authority - **MSS** - handles 100% of sales.
Mexico					✓		Government owned marketing body - Azucar SA - abolished & sector deregulated
New Zealand							1 company dominates the domestic market but it is open to competition from imports
Philippines	✓					✓	Quedan system establishes marketing quotas to ensure that US quota & domestic needs met
Russia							4 companies dominate the imports of sugar. Independent domestic marketing
South Africa	✓	✓	✓	✓			Industry authority - **SASA** - handles 100% of export sales & domestic market sharing agreement
Swaziland	✓	✓	✓	✓			Industry authority - **SSA** - handles 100% of sales (raw & white)
Thailand	✓						Month-by-month sales are controlled by the **TCSC**, whose sales of a specified volume of exports fix the cane price.
Ukraine					✓	✓	Government agency - **Ukrsukr** - controls imports & issues import licenses
USA							No marketing alliances are permitted. Restricted competition from imports through TRQ

Notes. 1. Applies to raw sugar only

2. Government owned Ceroil Foods also handles most toll refining, i.e., imports of raw sugar/re-export of refined sugar

Chart 7

3-1/2 Years Since Start of 1996 Farm Bill: Producer Prices for Sugar Fall, Consumer Prices for Sugar & Sweetened Products Rise

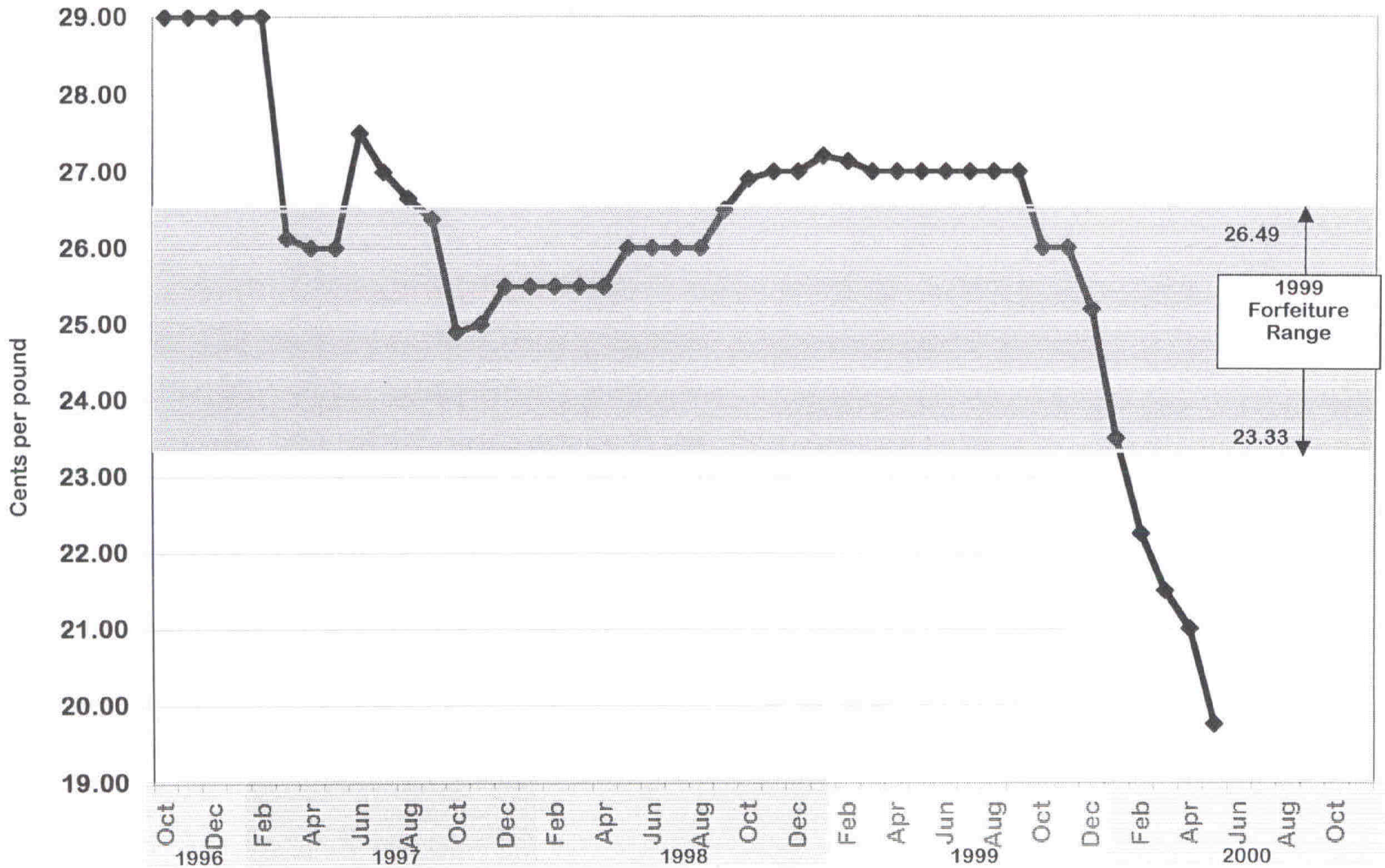


Monthly avg. prices, Sept. 1996 to June 2000; July preliminary. Raw cane: Duty-fee paid, New York. Wholesale refined beet: Midwest markets. Retail prices: BLS indices. Data source: USDA.

rawvsretail96

Chart 8

U.S. Wholesale Refined Beet Sugar Prices Since Start of 1996 Farm Bill



Source: USDA. Wholesale refined beet sugar, Midwest markets. Monthly average prices October 1996 - May 2000.