Testimony of
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Mr. Chairman, members of the Committee, welcome to the Red River Valley of North Dakota and Minnesota. My name is Bill Hejl. I am a farmer from Amenia, ND and am currently serving as President of the Red River Valley Sugarbeet Growers Association. Like all beet growers I also raise other crops on my farm. In my case those crops are spring wheat, soybeans and this year corn.

The sugarbeet growers in our region look forward to working with you to develop the sugar provisions for the 2007 Farm Bill. Our industry supports the current no net cost structure of U.S. sugar policy. We appreciate the leadership put forward by Chairmen Conrad and Harkin and others to maintain an adequate baseline to fund the new Farm Bill. We understand the importance of keeping Agriculture united when developing this legislation. It is our intention to continue to work diligently with other commodities to enhance the current bill in ways that will allow American farmers to remain in business and provide the food security that is so essential to our nation.

We are also working to make the program more predictable in order to improve the Secretary of Agriculture's ability to properly administer U.S. sugar policy. We will be happy to share those technical details with you in the near future once the beet and cane industries finalize our legislative recommendations.

The sugar industry in our region is comprised of three farmer owned cooperatives operating 10 factories in 4 states (Minnesota-4, North Dakota-3, Montana-1, California-2). Growers have owned these cooperatives since the 1970's and continue to work to be efficient low cost producers in a highly competitive business. This requires continual investment and updates in plants and equipment to maintain efficient processing of our crop.

Our growers have all felt the direct impact of higher costs both on the farm and in our factories. The increased demand for corn and other commodities has driven up land costs substantially. As a cooperative, we know the acres have to be planted, but we also know there is a limit on the amount of land which is suitable for sugarbeet production. Without adequate sugarbeet throughput for our factories, our cost of production for sugar increases dramatically and we lose our efficiencies. In our factories we face higher energy, transportation and environmental costs.

The U.S. sugar industry has not had an increase in our support rate in 20 years. Yet our costs

for fuel, fertilizer, and virtually every other input have increased substantially over that time. This has taken a toll on the industry and we have lost more than 35 beet and cane factories during that time. This problem needs to be addressed in the new farm bill.

Our fourteen year trade relationship with Mexico remains problematic. Sugar prices have plunged since last summer, when the USDA announced on July 27, 2006 a commitment to import 250,000 tons of sugar from Mexico and an additional 250,000 tons from our WTO trading partners. This action, on top of a bumper crop in the U.S., has significantly over-supplied our market. Mexico had a short crop and doesn't have 250,000 tons to ship to us, so it is buying sugar from neighboring countries at world prices to use as a substitute domestically so that Mexican sugar can be shipped to our market. The bottom line is that Mexico is shipping us sugar that it doesn't have and that we don't need. That just isn't right.

Sugar farmers from North Dakota and Minnesota have plenty of sugar to ship to Mexico if it is short. Growers nationwide expect to have approximately 300,000 tons of sugar that they will have to store in order to balance the market. That is sugar we would like to send to Mexico, but Mexico has a 12-cents-per-pound tariff in place that effectively prohibits our exports. The U.S. has a non-restrictive 1.5-cent tariff on Mexico's exports to us. Twelve cents versus one and a half cents; once again, it isn't fair and it isn't right. We believe that USTR and USDA should ask the Mexican Government (1) to increase its duty-free tariff-rate quota (TRQ) for U.S. origin sugar from the current 21,774 metric tons, raw value, to 100,000 metric tons, raw value, and (2) to give U.S. sugar producers the right of first refusal to fill any additional Mexican import needs on a duty-free basis. Mexico's refusal under these circumstances would clearly call into question its commitment to the principles embodied in the NAFTA.

Our growers are also deeply concerned that Mexico has a long history of not complying with its obligations on sugar trade. All efforts need to be made by our respective governments to make sure that sweetener trade between our two nations allows our domestic farm bill sugar policy to continue. If Mexico does not comply, then our government must act swiftly to retaliate. We cannot survive financial injury for years while these disputes are being debated. There is no justice or victory once your business has died.

For the 2007 Farm Bill, USDA proposes to retain the basic structure of the existing sugar program and continue to operate it at no cost to U.S. taxpayers. We agree that taxpayer dollars must be spent judiciously. While the Administration's support for continuing the current sugar program is a positive development, we object to USDA's request that it be given sole discretion to reduce domestic sugar marketings without parameters or guidelines. Efficient U.S. sugar farmers should not be asked to take a back seat to subsidized foreign sugar producers who could flood the U.S. market with unneeded sugar, forced into our market as a result of free trade agreements. We in the industry need room to expand in order to remain competitive.

In complete contradiction to fiscal responsibility, large food manufacturers are lobbying Congress to eliminate the no-cost sugar policy in favor of a $1.3 billion-a-year plan built around sugar subsidy checks. Sugar farmers vehemently oppose this plan as we are proud of our no net cost to taxpayers. And we are certain that all those subsidy checks would not result in lower prices at the grocery store.

As the world's second largest sugar importer, an oversupplied market is not the fault of U.S. producers, but a result of concessions made in free trade agreements. During a recent FTA debate, Agriculture Secretary Johanns and USTR Ambassador Portman pledged to dispose of surplus imports to balance the market, but only for the current Farm Bill. Now Secretary Johanns proposes to balance the market on the backs of our farmers by constricting our marketings. He needs to extend his commitment to dispose of surplus foreign imports of sugar for the life of the new farm bill.

Therefore, we need a mechanism to efficiently use surplus sugar if we are to remain no net cost to taxpayers. We view bio-fuels as a potential option that may provide one way to better use surplus imported sugar. U.S. producers are in the business of providing sugar for the food market, which is and always will be our primary market. However, when the market is oversupplied as a result of excessive access provided by trade agreements, one of the few alternative uses for that sugar may be bio-fuels. Sugar, as an addition to America's bio-fuel needs will take some time to develop, and may require government interventions similar to those used in competing countries such as Brazil and the European Union. We will provide the Committee with additional thoughts as we move forward.

Finally, as bilateral and WTO Doha negotiations continue, beet farmers are deeply concerned that the developing nations that produce and export 75 percent of the world's sugar will not play by the same labor, safety and environmental trade rules we do. We are concerned that those foreign producers who are less efficient than our producers will gain an advantage simply because of the way the agreement is negotiated. We ask that you watch those negotiations closely and not allow any trade agreement to put American producers at a disadvantage.

Thank you for this opportunity to testify, and we look forward to working with you.