Testimony of
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Mr. Chairman, welcome to Colorado. The U.S. sugarour industry looks forward to working with you and the Committee to develop the sugar provisions for the 2007 Farm Bill. Our industry supports the current structure of U.S. sugar policy. We continue to work diligently to enhance the current bill in ways that will allow our 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 the program. We will be happy to share those technical details with you in the near future once the beet and cane industries finalize our recommendations.

For today, I would like to make six key observations.

First, Western Sugar Cooperative is a farmer-owned cooperative operating five factories in four states - Colorado, Montana, Nebraska, and Wyoming. Growers bought the company in 2002 and carry substantial debt as a result.. With high corn prices and low sugar prices, we are fighting to maintain acreage, because corn prices are driving up land cost substantially and in some cases making it almost unavailable for beet production. Without sufficient acreage and throughput, the cooperative can not remain efficient and competitive. Substantial penalties of at least $320 an acre will be levied on shareholders if they choose to grow corn instead of beets.

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.

Second, our 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 does not 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 does not have and that we do not need. That just isn't right.

We have plenty of sugar to ship to Mexico if it is short. We expect to have approximately 300,000 tons of sugar that we will have to store in order to balance the market. That is sugar we would like to send to Mexico, but it 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. 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 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 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 will not comply, then we need swift retaliation to counter its actions.

Third, 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 we must use taxpayer dollars wisely. While this is a positive development, we object to USDA's request that it be given sole discretion to reduce domestic sugar production 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.

Fourth, 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--a plan that sugar farmers vehemently oppose.

Fifth, everyone asks about making ethanol from surplus sugar. We view ethanol as a limited option to be used simply for the disposal of sugar that is in surplus as a consequence of current and future trade agreements. 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 is ethanol. This will take some time to develop, and additional incentives will be required. We will provide the Committee with additional thoughts as we move forward.

Finally, as the WTO Doha negotiations continue, our 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 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 our producers to be put at a disadvantage.

Thank you for this opportunity to testify, and our industry looks forward to working with you.