Senate Agriculture Committee
Farm Bill Hearing
Washington, D.C.
July 25, 2017

Testimony by
Ervin Schlemmer
Schlemmer Farms Inc.
Joliet, Montana
On Behalf of
The American Sugar Alliance

Introduction

My name is Ervin Schlemmer and I, with my wife Julie and son Greg, his wife Rachel and his four children, grow sugarbeets, corn for grain and silage, alfalfa hay and malt barley on 1,200 acres of irrigated land. We, along with 1,000 growers in four states (Colorado, Montana, Nebraska and Wyoming) are shareholder owners of the Western Sugar Cooperative that processes our beets and markets our sugar. We also own two feedlots that handle 20,000 cattle a year. I am a third generation farmer, and want my son and grandsons to continue our family farming tradition. I have served on my local sugarbeet grower Board of Directors for the past 25 years and have held various leadership positions at the national level.

I am proud to testify today on behalf of the American Sugar Alliance – the national coalition of sugarbeet and sugar cane growers and processors, generating 142,000 jobs in 22 states. The U.S. sugar industry is the economic lifeblood for many of the small towns throughout the growing regions, generating $20 billion in annual economic activity.[1]

U.S. Sugar Industry and Policy

American sugar policy can work well for American consumers, food manufacturers, and taxpayers, can provide an adequate economic safety net for sugar producers, and help to respond to Mexican subsidizing and dumping.

In 2014 and 2015, the U.S. International Trade Commission agreed unanimously that the Mexican government and sugar industry had injured the U.S. sugar industry. The Department of Commerce calculated subsidy and dumping margins totaling more than 80%. Rather than imposing those duties, the U.S. and Mexican governments negotiated Suspension Agreements (SAs) to resume duty-free trade, with the objective of eliminating harmful dumping.

---

[1] LMC International, "*The Economic Importance of the Sugar Industry to the U.S. Economy – Jobs and Revenues*," Oxford, England, August 2011.

Those SAs proved to be ineffective. The dumping continued, and U.S. refined sugar prices were hovering near loan-forfeiture levels. Hawaii has ceased cane sugar production. Many other American sugar producers are financially vulnerable.

Today, only about 70% of U.S. sugar consumption is supplied by domestic production, with the balance coming from imports. Twenty years ago, 85% was supplied by domestic production (*Figure 1*). Growing dependence on foreign suppliers is an alarming trend that must be reversed. The sugar policy's focus must be to put American beet and cane farmer interests first. An adequate response to foreign subsidies and dumping is essential to our survival.

Background

Food security. Sugar is a strategic commodity and plays an important role in the security of our nation's food system. We are already heavily dependent on foreign suppliers for about 30% of our domestic needs. We cannot become more dependent on foreign imports because they have been proven to be unreliable in times of global shortages. The U.S. sugar industry is a key supplier, and food manufacturers and retail businesses depend on us to provide them with a high quality, safe, dependable and on-time supply of sugar.

The U.S. sugar industry is a major player in the world sugar market, the world's fifth largest sugar-producing country, and among the most efficient.

The U.S. is the 20th lowest cost producer among the 95 largest sugar-producing nations. Most of these are developing countries with far lower government-imposed costs for worker, consumer, and environmental protections. U.S. beet sugar producers, mostly in northern-tier states, are the lowest-cost beet producers in the world.[2]

U.S. beet and cane producers are among the most efficient in the world because we have reduced costs by vertically integrating. We have formed cooperatives and growers now own all of the nation's 22 beet factories, and cane growers have purchased most of their refineries.

The United States is also the world's fourth largest sugar-consuming country and the third largest sugar importer. We provide guaranteed and essentially duty-free access to 41 countries. This makes the U.S. one of the world's most open markets to foreign sugar. The amount of duty-free access is determined under the World Trade Organization and other trade agreements to which the United States is a party.

We have reduced costs through research and innovation. The adoption of modern biotechnology has raised beet sugar yields by 30% and provides 26 environmental benefits that include dramatically reduced energy, crop protection products, and water use. The sugar from genetically engineered beets is the same as sugar from conventional beets or cane. Our sugarbeets are now one of the most sustainable sugar crops in the world.

[2] LMC International, "*Sugar & HFCS Production Costs: Global Benchmarking*," Oxford, England, August 2011.

American food manufacturers and consumers depend on a reliable, dynamic, geographically-dispersed domestic sugar-producing industry to provide safe, high-quality, responsibly-produced sugar at a reasonable price. Despite a well-designed sugar policy in the 2014 Farm Bill, the low prices caused by Mexican subsidies and dumping threatened the economic viability of American sugar producers.

Justification for U.S. Sugar Policy

Since U.S. sugar producers are among the lowest cost in the world, one might ask why the industry requires a sugar policy at all. The answer is found in the distorted, dump nature of the world sugar market.

Foreign governments subsidize their producers so egregiously that many of these countries produce far more sugar than their markets demand. Rather than store these surpluses, or close mills and lose jobs, as the U.S. has done, these countries dump their subsidized sugar onto the world market for whatever price it will bring. This subsidized dumping threatens further harm to American farmers.

As a result of these dumped surpluses, the so-called "world price" for sugar has been rendered essentially meaningless. The world price has rarely reflected the actual cost of producing sugar – a minimal criterion for a meaningful market price.

The world price is so depressed by subsidies and dumping that, over the past 28 years, the world average cost of producing sugar has averaged nearly 50% more than the world price *(Figure 2)*.[3]

One European market expert noted: "The world market price is a 'dump' price…(it) should never be used as a yardstick to measure what benefits or costs may accrue from free trade in sugar."[4]

Researchers at Texas A&M University's Agricultural and Food Policy Center wrote:

"Policymakers in the United States have long recognized that the world sugar market is heavily distorted by foreign subsidies and market manipulations and have provided U.S. sugar farmers with some form of safety net for more than 200 years. Major exporters of sugar do not respond to the signals of the world market but rather to the policies of their governments that enable them to export sugar below their costs of production and their own domestic prices."[5]

How can a world sugar industry exist if the price received for the product is just a fraction of the cost of producing it? The answer is twofold:

1. Only about 20-25% of the sugar produced each year is actually traded at the so-called "world price."

[3] LMC International, *"World Sugar Prices vs Costs of Production,"* Oxford, England, March 2017.
[4] Patrick Chatenay, "*Government Support and the Brazilian Sugar Industry*," Canterbury, England, April 2013.
[5] Dr. Joe Outlaw and Dr. James Richardson, "*Analysis of the Coalition for Sugar Reform Amendments to U.S. Sugar Policy: Potential Effect on Policy and Industry*," Agricultural and Food Policy Center, Texas A&M University, May 2016.

2. The other 75-80% of sugar is consumed in the countries where it is produced, at prices considerably higher than the world price and higher than production costs.

The International Sugar Organization (ISO) surveyed 78 countries to learn actual wholesale prices – the price producers in those countries receive for their sugar. The ISO documents that, globally, actual wholesale refined sugar prices have averaged 46% higher than the world price over the past decade. Prices in developed countries have been nearly double the world dump market price – averaging 94% higher *(Figure 3)*.[6]

This, then, explains how we can have a vast world sugar industry: governments shield their producers from the world dump market sugar and maintain prices high enough – above the dump market and above production costs – to sustain their subsidized domestic industry and generate and defend jobs.

Further, this explains why we require a sugar policy – even with American sugar producers among the lowest cost, and most responsible, in the world. Generous domestic pricing encourages over-production in many countries, and governments then seek to export their surplus. Absent this policy, those subsidized and dumped surpluses would wreck the U.S. market and displace efficient American sugar farmers.

Recent exposure of the U.S. sugar market to Mexican subsidies and dumping provides a disconcerting case in point. And Mexico is by no means unique. Its behavior is typical of foreign sugar exporters who subsidize their exports and shift the burden of their surpluses from their domestic markets onto the world market.

Damage from Mexican Subsidized Dumping

When the NAFTA went into effect in 1994, the Mexican sugar industry was struggling financially and was an occasional exporter of small volumes of sugar. In 2001, the Mexican government expropriated half of all its country's sugar mills, rather than allowing them to go out of business. With government help, Mexican sugarcane plantings increased dramatically – up about 60% since NAFTA was signed – though Mexican sugar demand was flat or declining *(Figure 4)*.

Mexico became one of the world's largest sugar exporters, with the group of Mexican government mills by far the country's leading sugar producer and exporter. Virtually all those exports have been aimed at the U.S. market, which opened fully to Mexican sugar in 2008 under NAFTA rules.

Though the Mexican government recently "officially" divested itself of its mills, the government remains closely involved in its sugar industry. In addition to government ownership, Mexican growers and processors have benefitted from federal and state cash infusions, debt restructuring

[6] International Sugar Organization, "*Domestic Sugar Prices - a Survey*," MECAS (15)06, May 2015.

and forgiveness, government grant programs to finance inventory, exports, and inputs, and a cane-grower payment system that effectively subsidizes exports.[7]

In 2013, Mexican sugar production soared to an all-time high – a stunning 38% higher than the previous year's production. Yet despite the huge domestic market surplus, Mexico was able to sustain sugar prices higher in their domestic market than in the United States. How did they manage to balance their market? By dumping their subsidized surplus on the U.S. market. Mexico doubled its exports to the U.S., shipping about 1 million more tons than our market could bear (*Figure 5*). Those sugar exports in 2013 and 2014, at 2 million tons each year, were about 250 times greater than their pre-NAFTA levels.

The subsidized and dumped Mexican surpluses collapsed the U.S. sugar market and caused the first government cost for sugar policy in a dozen years, as American farmers struggled to repay loans they normally repay fully – principal plus interest.

The U.S. sugar industry filed antidumping and countervailing duty cases against Mexico in 2014, and won. The ITC ruled unanimously that Mexico had injured the sugar industry, and the Department of Commerce calculated subsidy margins of 6-44% and dumping margins of 41-42% *(Figure 6).*[8]

U.S. producer prices plummeted by more than half from 2010 to early 2014, recovered somewhat in late 2014, and have fallen by a fourth since then. Subsidized Mexican imports continued to harm the sugar industry, despite SAs the U.S. and Mexican governments implemented in late 2014 with the intention of preventing further damage. Much of American sugar production could not survive under those market conditions.

Unfortunately, the SAs were not working as intended. Mexico, basically, has sent too little raw sugar and too much refined sugar to the U.S., relative to market needs. Cane refiners have been starved for raw sugar to process, and refined beet sugar prices are so low that loan forfeitures are a serious threat.

The U.S. and Mexican governments signed amendments to the SAs on June 30, 2017 that should address the major problems undermining sugar policy. It was a very difficult negotiation for all parties, but we are hopeful that this will restore the proper balance to the market and allow the sugar policy to operate as it was intended. We would like to express our deepest appreciation to Commerce Secretary Ross and Agriculture Secretary Perdue for negotiating these amendments. And we thank members of this Committee who supported that difficult process. We are optimistic the amended agreements will be effective, but that will only happen with close monitoring and enforcement. We will work closely with the Departments of Agriculture and Commerce and Customs and Border Protection on implementation, and we will keep the Committee informed of any problems.

---

[7] https://sugaralliance.org/mexican-export-subsidies-injuring-u-s-sugar-producers/4990

[8] U.S. Department of Commerce https://www.usitc.gov/publications/701_731/pub4577.pdf

How U.S. Sugar Policy is Working

U.S. sugar policy has had the same structure since the 2002 Farm Bill. With the elimination of Mexican dumping, it can continue to be a successful policy.

- American consumers and food manufacturers continue to have access to high-quality, safe, affordable, and responsibly-produced sugar supplies.

- American taxpayers benefit from a policy than has run at zero cost in all but one of the past 15 years and is projected to remain zero cost for years to come if the Mexican dumping problem is resolved.

- American sugar farmers have retained an economic safety net that has helped many, though not all, to survive an extended period of low prices and the catastrophic effects of Mexican dumping.

American Consumer Benefits. With U.S. wholesale prices at or below world average levels, one would expect American consumer prices, too, to be low. They are. World average retail sugar prices are 20% higher than U.S. prices; developed-country prices are 29% higher *(Figure 7)*. With a stable sugar policy and industry, American consumers get a great deal on high-quality, safe, and responsibly-produced sugar.

American Taxpayer Benefits. Farm bills have long instructed the USDA to operate sugar policy at no cost to taxpayers by avoiding sugar loan forfeitures, and language in the 2014 Farm Bill requires USDA to administer sugar policy to ensure that sugar processors can repay their operating loans at principal plus interest.

U.S. sugar policy has operated at zero cost to taxpayers thirteen of the past fourteen years and is expected to operate at zero cost this year. The only exception was 2013, when Mexico dumped subsidized sugar onto the U.S. market. USDA took action, as directed by law, to minimize loan forfeitures, taxpayer costs, and long-term harm to American sugar producers. USDA and FAPRI project zero cost over the next 10 years *(Figure 8)*.

In its June 2017 baseline, before the U.S. and Mexican governments amended the SAs, the Congressional Budget Office projected a negligible cost over the next several years, with the possibility of a small number of sugar loan forfeitures, and projects modest future costs in the unlikely event the SAs, and/or duties, are terminated and Mexican dumping resumes *(Figure 8)*. With the amended SAs, however, we are confident sugar policy will run at zero cost the next few years and well into the future.

Sugar policy opponents, led by major sugar-containing product manufacturers, have urged opening the U.S. market to greater quantities of subsidized foreign sugar. Additional, unneeded sugar, however, would threaten USDA's ability to administer a zero-cost policy. The Texas A&M researchers wrote:

> Our analysis leads us to conclude that food manufacturers' reforms would undermine the no cost requirement of the law, resulting in taxpayer costs, jeopardizing the viability of U.S. sugar farmers and processors, and leading to higher sugar costs for consumers as domestic suppliers are lost and the volatile world sugar market is increasingly relied upon to meet domestic demand. Meanwhile, food manufacturers may benefit in the short term from depressed domestic sugar prices but, in the long-run, they would suffer from the loss of what they say they need: a viable, healthy, and geographically diverse supply of domestic sugar.[9]

Sugar Producer Safety Net; Low Sugar Market Prices. With the exception of the year of excessive Mexican dumping, when prices fell below loan forfeiture levels, sugar policy has provided an economic safety net for American sugar producers. But not for all producers, and there have been numerous casualties.

Since the loan support price was established in 1985 at 18 cents per pound of raw cane sugar, the loan rate has risen only 4%, to 18.75 cents. General price inflation since 1985 has been 123%. Real producer prices, corrected for inflation, have fallen 43% since the 1980s.

Producers who could not reduce production costs enough to keep pace with falling real prices for their product have gone out of business. We have lost 56 beet and cane operations – more than half of all those operating in 1985. Hawaii has ceased growing sugarcane after nearly 140 years of high-yielding production that was at the core of Hawaii's economic and social development. Another beet factory, in Wyoming, is expected to close permanently this year *(Figures 9-12).*

More closures would certainly have occurred over time if not for vertical integration by beet and cane growers and investment in biotechnology and other breeding and processing advancements.

With current low refined sugar market prices, payments to growers have dropped significantly, essentially putting some of our young growers out of business and jeopardizing the ability of established farms to acquire operating loans for the coming crop year.

Current low refined market prices are also reducing sugarbeet cooperatives' financial resources for maintenance and efficiency updates in our factories. Significant yield improvement – through advanced technology combined with high beet yields, high sugar content, improved storage techniques and minimal factory interruptions – is the only way we are surviving. Our cane growers face the same challenges. When we are already right on the economic "edge," problems in any of these areas would make it hard for the industry to survive.

Crop Insurance

Crop insurance is an essential risk management tool for beet growers and is usually a requirement by their bankers. With a higher investment in growing sugarbeets than most other commodities, agricultural lenders are evaluating their lending risk and basing their loan approvals on the availability of an adequate safety net, which most crop insurance coverage

---

9 Outlaw and Richardson, op. cit.

provides. Historically, crop insurance has served beet growers with minimal but adequate coverage. This past year, however, many growers were plagued by low sugar contents in their beets that insurance needed to cover, but did not. We are meeting with RMA to address several issues that will make coverage more attractive and effective for growers.

Cane farmers have worked with RMA to make important improvements to the risk management tools available to growers in Florida, Louisiana and Texas. Because of the unique cropping cycles and growing conditions of cane, growers continue to seek more effective risk management tools.

Research

The U.S. sugarbeet and sugar cane industries are dependent on ARS research funding for staffing of USDA research across the country. The advances in yields and disease control that we have seen in recent years are the direct result of ARS research shared with industry seed development specialists. Even with these advances, we continue to be challenged with disease, insect and parasite issues which, if left unaddressed, would seriously threaten the future of our industry. Continued adequate funding of ARS research is, therefore, critically important.

U.S. Sugar Policy in the Next Farm Bill

As long as there is an adequate response to Mexican subsidies and dumping, U.S. sugar policy can continue to be effective for American consumers, food manufacturers, taxpayers, and sugar producers.

Zero-for-Zero

Sugar producers recognize that subsidies and other market-distorting polices must be addressed in order for the world dump market to recover and better reflect free market principles. Therefore, American producers have publicly pledged to give up their policy when foreign producers agree to eliminate their subsidies.

The American Sugar Alliance has endorsed a congressional resolution (H.Con.Res. 40) [10] that was introduced by a member of the House Agriculture Committee, Representative Ted Yoho of Florida. This "zero-for-zero" resolution explicitly calls for the U.S. to surrender its sugar policy when other major producers have done the same.

To weaken or surrender sugar policy without any foreign concessions, as some critics of the policy have called for, would amount to foolish unilateral disarmament. We would sacrifice good American jobs in a dynamic, efficient industry in favor of foreign jobs in the countries that continue to subsidize.

---

[10] https://www.congress.gov/115/bills/hconres40/BILLS-115hconres40ih.pdf

Conclusion

U.S. sugar policy has worked well for American consumers, food manufacturers, and taxpayers. It can continue to operate at zero cost to taxpayers and provide a genuine economic safety net for American sugar farmers as long as Mexican dumping on the U.S. market does not continue.

Sugar producers across the country will work hard for an effective 2018 Farm Bill for all American farmers. Our future depends on the Congress passing strong sugar provisions that allow our growers to achieve an adequate return and on the Administration's implementation of that policy, including trade policy that complements our domestic sugar provisions.

Thank you.

Figure 1

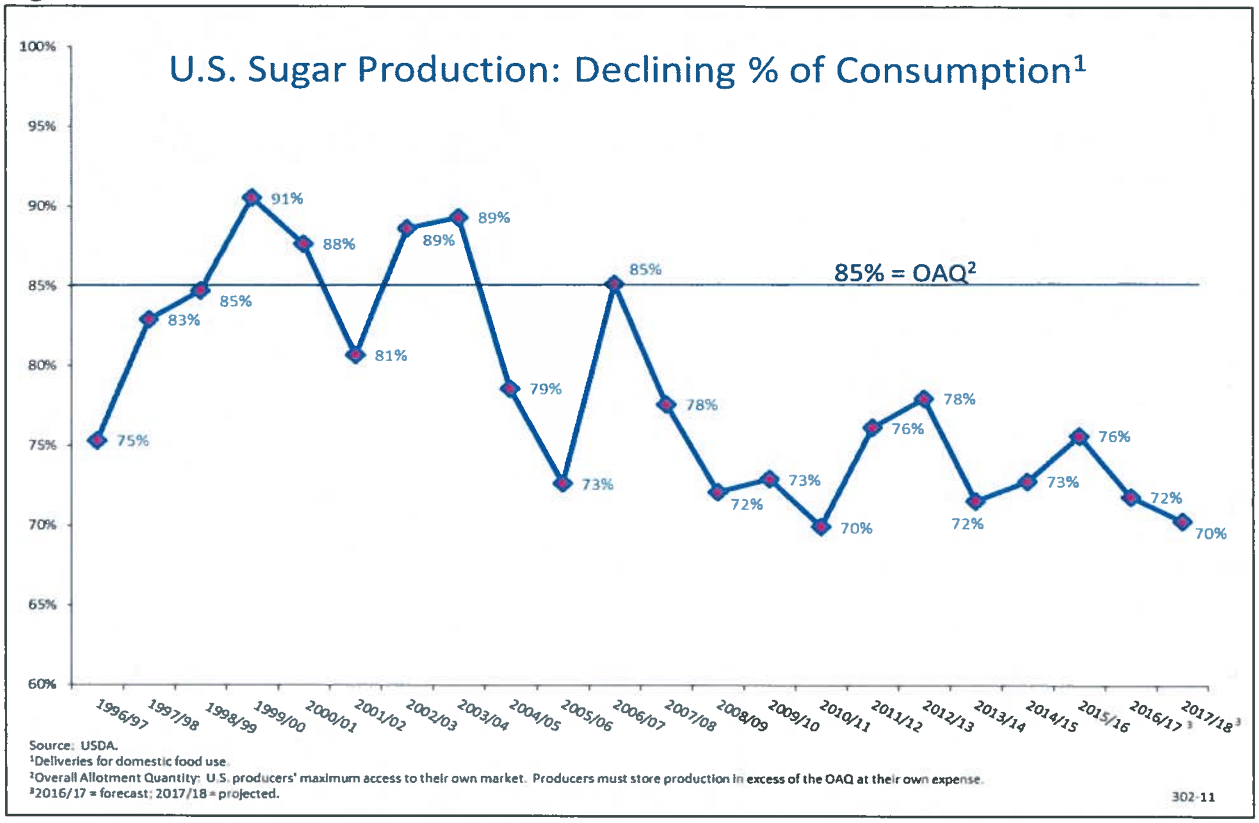


Figure 2

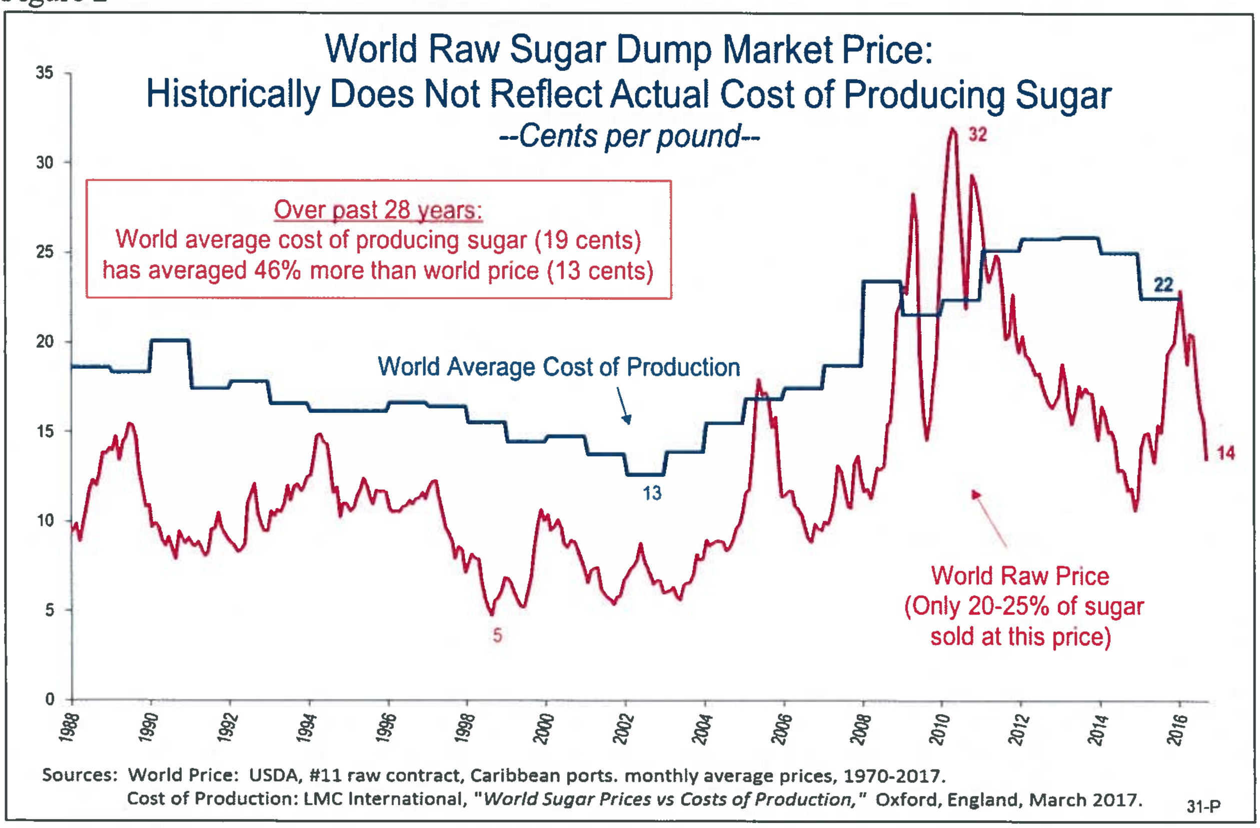
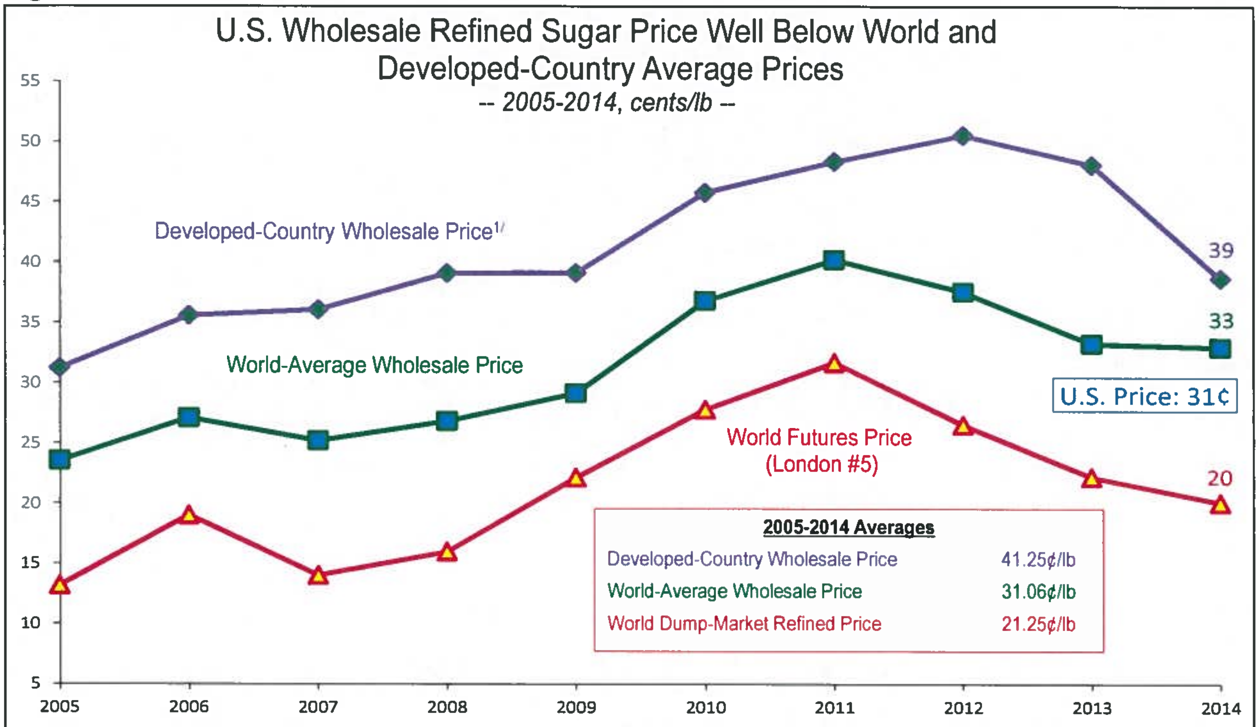
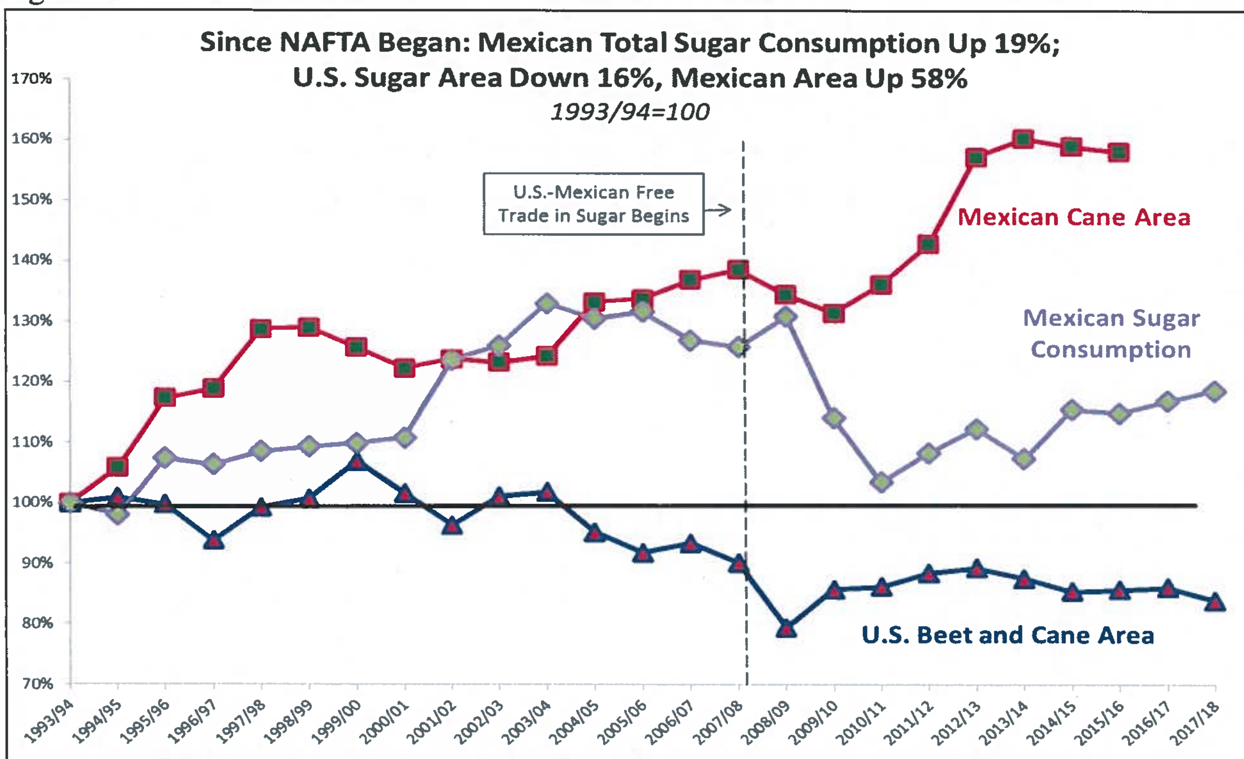


Figure 3



Source: International Sugar Organization (ISO), "*Domestic Sugar Prices - a Survey*", MECAS(15)06, May 2015. A survey of 78 countries, representing 79% of world sugar consumption. U.S. 2005-14 average: 37 cents; U.S. June 2017 price: 30.7 cents per pound.
1/ EU-28 and other OECD countries in ISO survey.
10

Figure 4



Sources: USDA; CONADESUCA. North American Free Trade Agreement (NAFTA) went into effect Jan. 1, 1994; U.S.-Mexican free trade in sugar began Jan. 1, 2008.
Note: Since 1994, 38 U.S. sugar processing plants have closed. In Mexico, the Mexican government expropriated half the sugar mills in 2001, rather than allowing them to close, and still owns and operates one fifth of Mexican sugar mills. Since 2007/08, Mexican domestic sugar demand fell 11% because of increased HFCS consumption.
21-2e

Figure 5

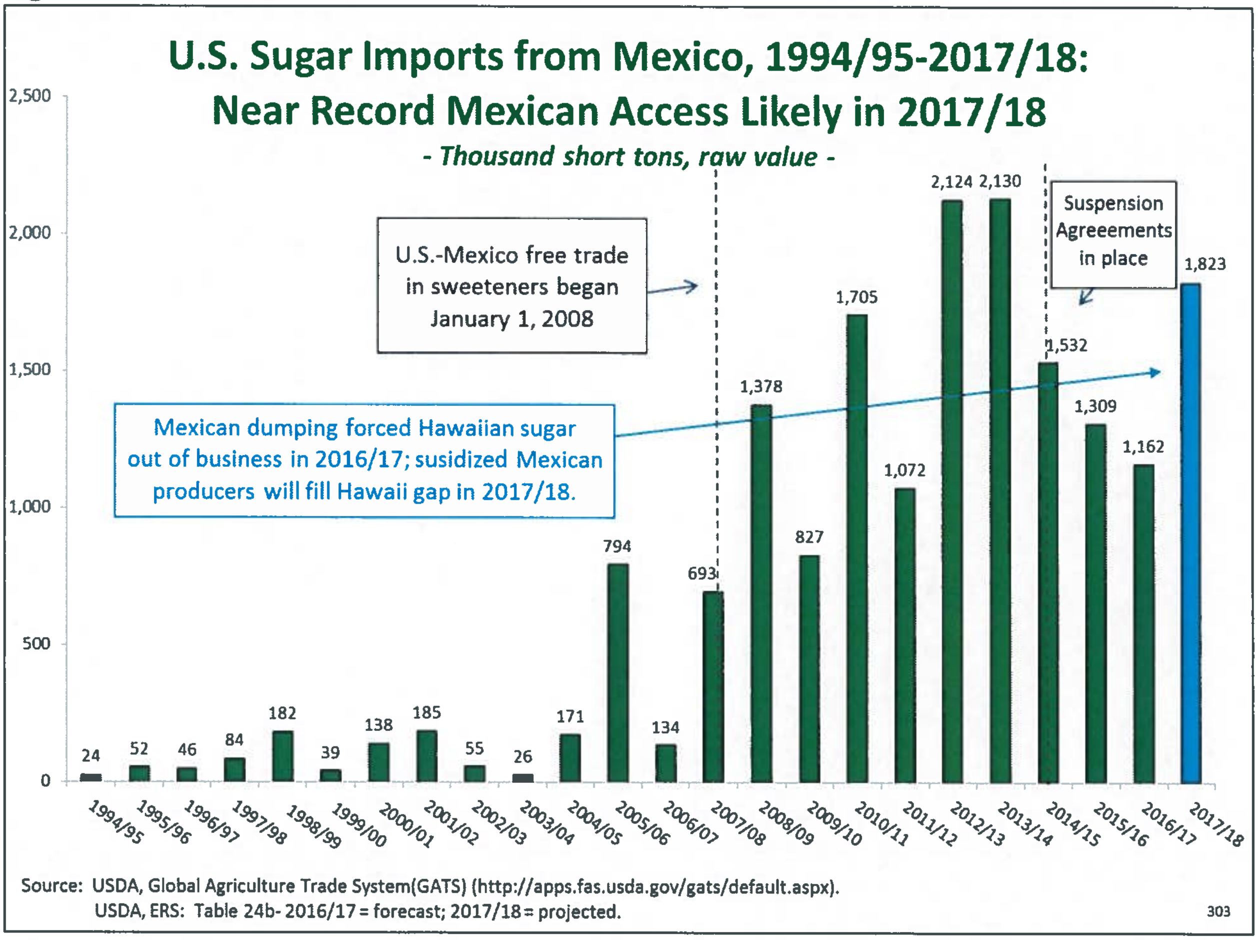

U.S. Sugar Imports from Mexico, 1994/95-2017/18:
Near Record Mexican Access Likely in 2017/18
- Thousand short tons, raw value -
U.S.-Mexico free trade in sweeteners began January 1, 2008
Suspension Agreeements in place
Mexican dumping forced Hawaiian sugar out of business in 2016/17; susidized Mexican producers will fill Hawaii gap in 2017/18.
2,500
2,000
1,500
1,000
500
0
24
52
46
84
182
39
138
185
55
26
171
794
134
693
1,378
827
1,705
1,072
2,124
2,130
1,532
1,309
1,162
1,823
1994/95
1995/96
1996/97
1997/98
1998/99
1999/00
2000/01
2001/02
2002/03
2003/04
2004/05
2005/06
2006/07
2007/08
2008/09
2009/10
2010/11
2011/12
2012/13
2013/14
2014/15
2015/16
2016/17
2017/18
Source: USDA, Global Agriculture Trade System(GATS) (http://apps.fas.usda.gov/gats/default.aspx).
USDA, ERS: Table 24b- 2016/17 = forecast; 2017/18 = projected.
303

Figure 6

	U.S. Anti-Dumping (AD) and Countervailing-Duty (CVD) Cases vs. Mexican Sugar
2012/13	Mexican sugar production rises by 38%; Mexican sugar exports to the U.S. double (to 2 million tons); U.S. sugar price collapses.
2014	
March	U.S. files AD/CVD cases vs. Mexican sugar.
May	U.S. International Trade Commission (ITC) preliminary finding, by 5-0 vote, that Mexico has injured the U.S. sugar industry.
August	U.S. Department of Commerce (DOC) finds that Mexico has been subsidizing and imposes preliminary CVDs at 3-17%.
October	DOC finds that Mexico has been dumping (selling below domestic cost of production or prices) and imposes preliminary ADs at 40-47%.
	U.S. & Mexican governments announce draft Suspension Agreements (SAs) to suspend duties and resume duty-free sugar trade, with Mexican exports to the U.S. no longer to exceed U.S. needs.
December	U.S. & Mexican governments sign the SAs. Mexico may fulfill 100% of U.S. import needs above trade commitments; reference prices and limit on refined share of imports set.
2015	
September	DOC finds final dumping margins of 41-42%.
October	DOC finds final subsidy margins of 6-44%. Combined final subsidy and dumping margins total 48-84%.
	ITC final finding, by 6-0 vote, that Mexico injured U.S. sugar industry.
2016	
December	DOC preliminarily determines in an administrative review of the SAs, covering 2015, that some companies may not be in compliance with the SAs and that not all statutory requirements for the SAs are still being met.
2017	
May	DOC May-1 letter to Government of Mexico states that the SAs will be terminated and duties imposed unless the U.S. and Mexican governments can reach a new agreement by June 5, 2017.
June	U.S. and Mexican governments agree to amendments to improve operation of the SAs.
	400

Figure 7

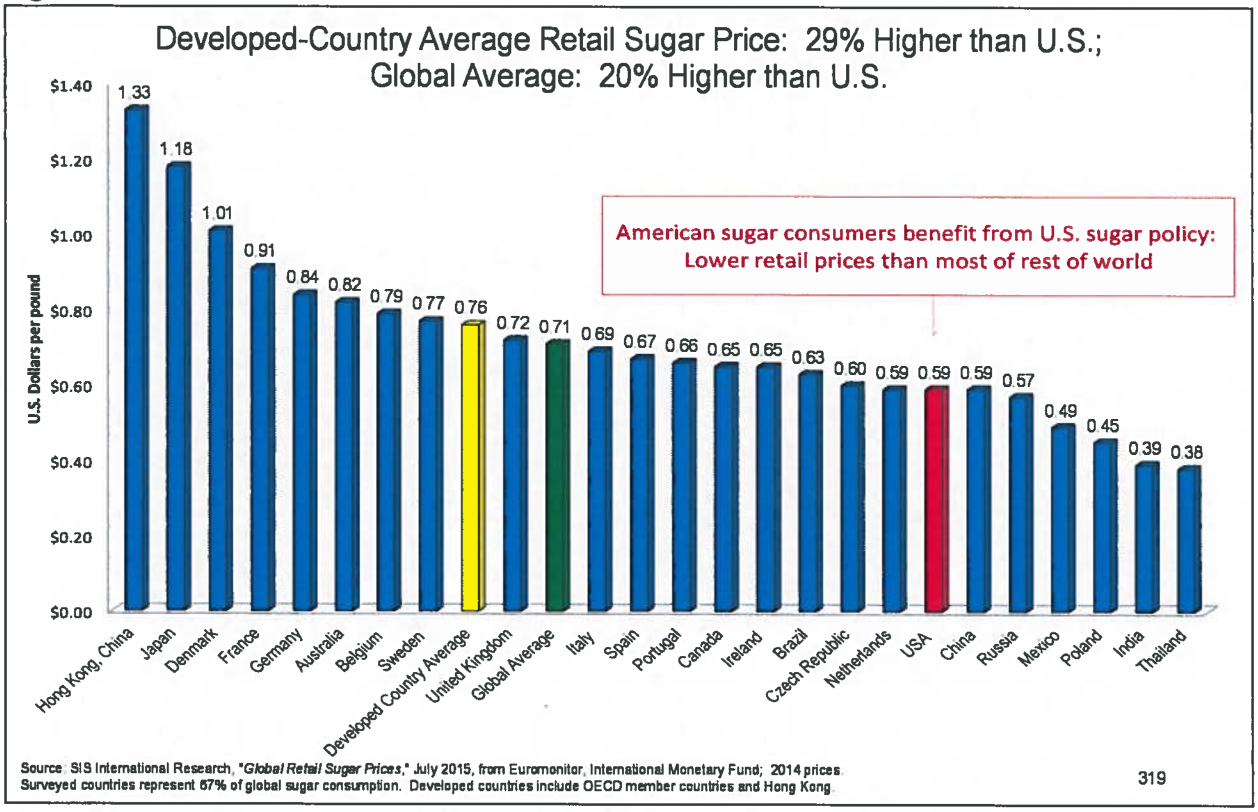


Figure 8

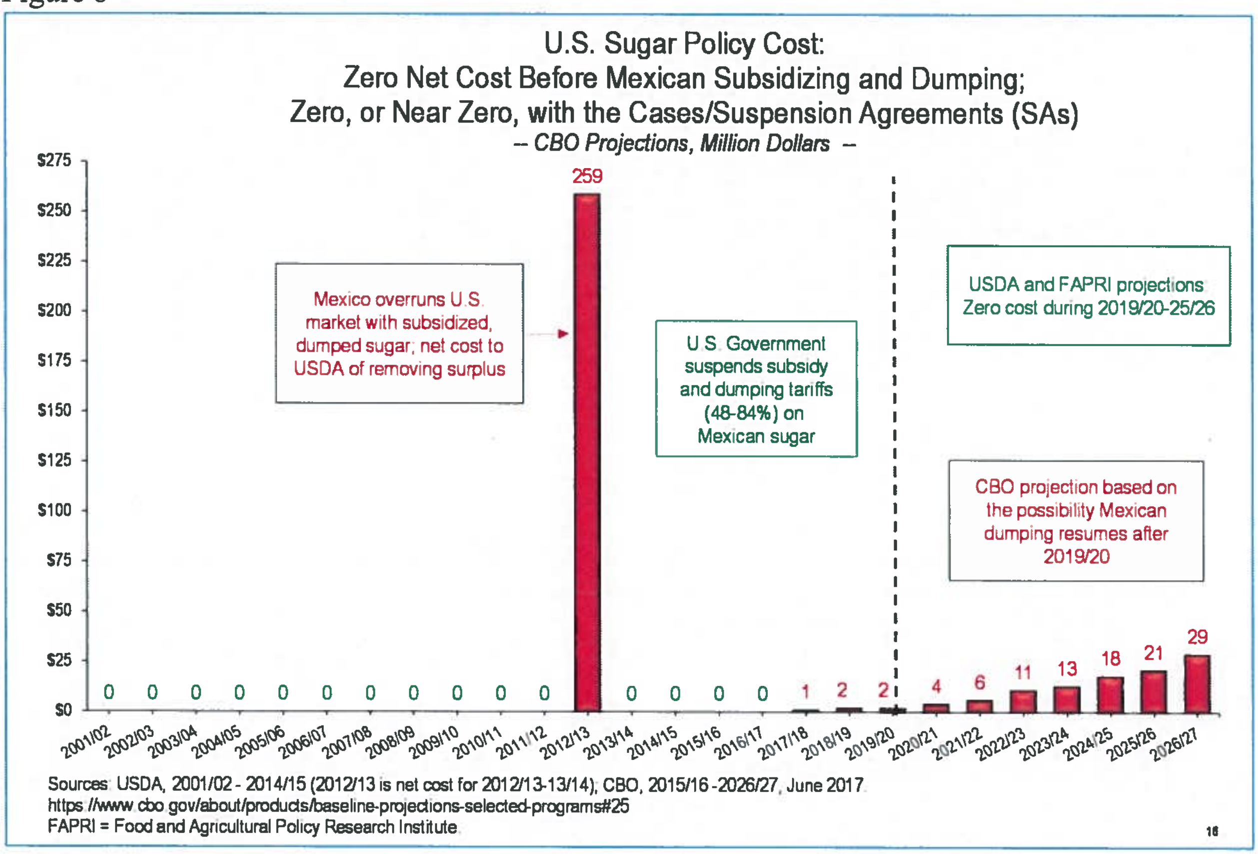


Figure 9

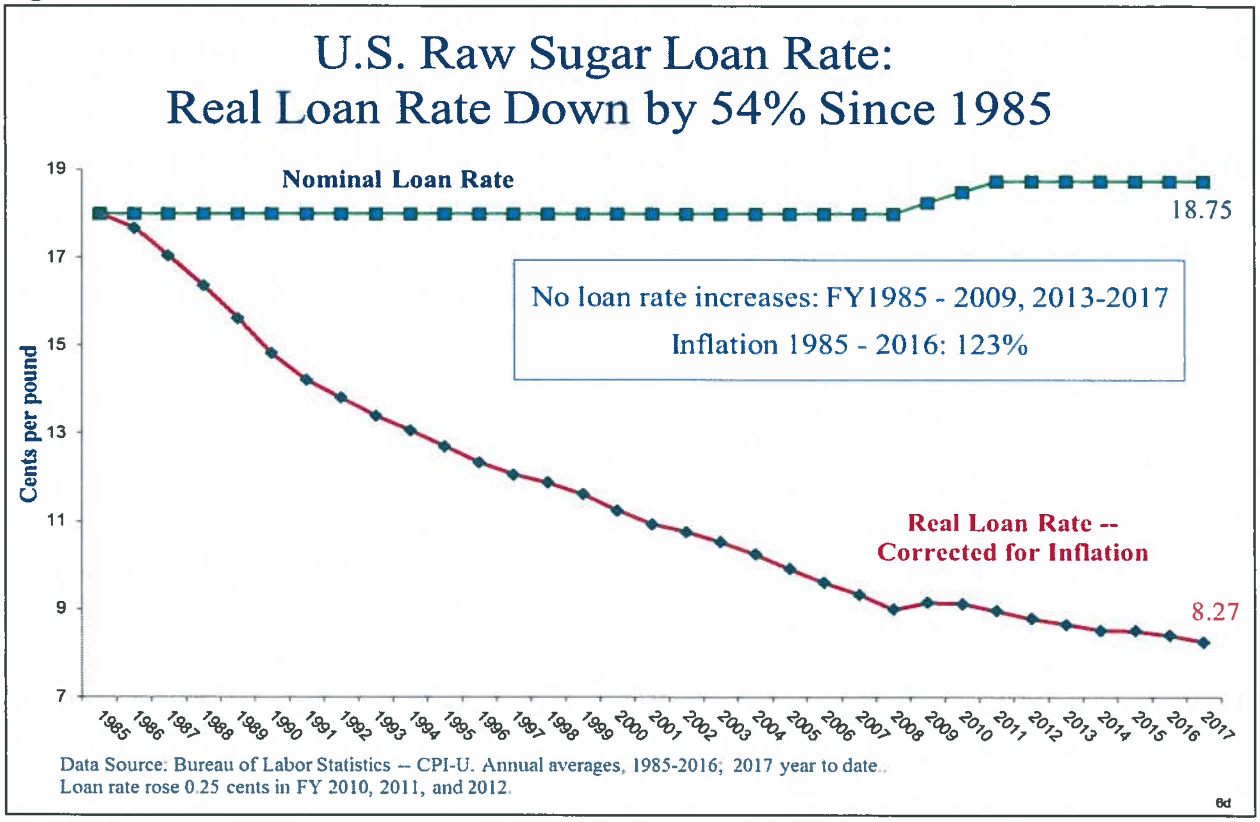


Figure 10

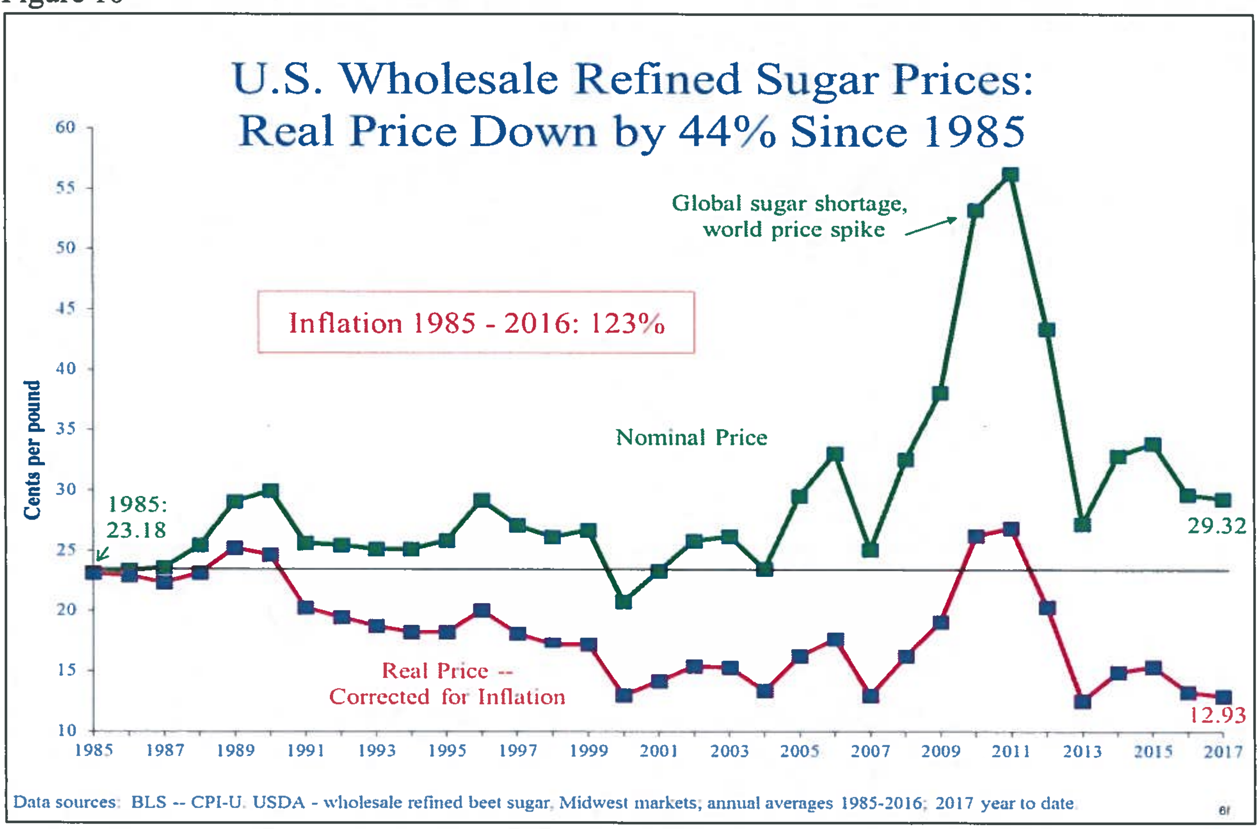


Figure 11

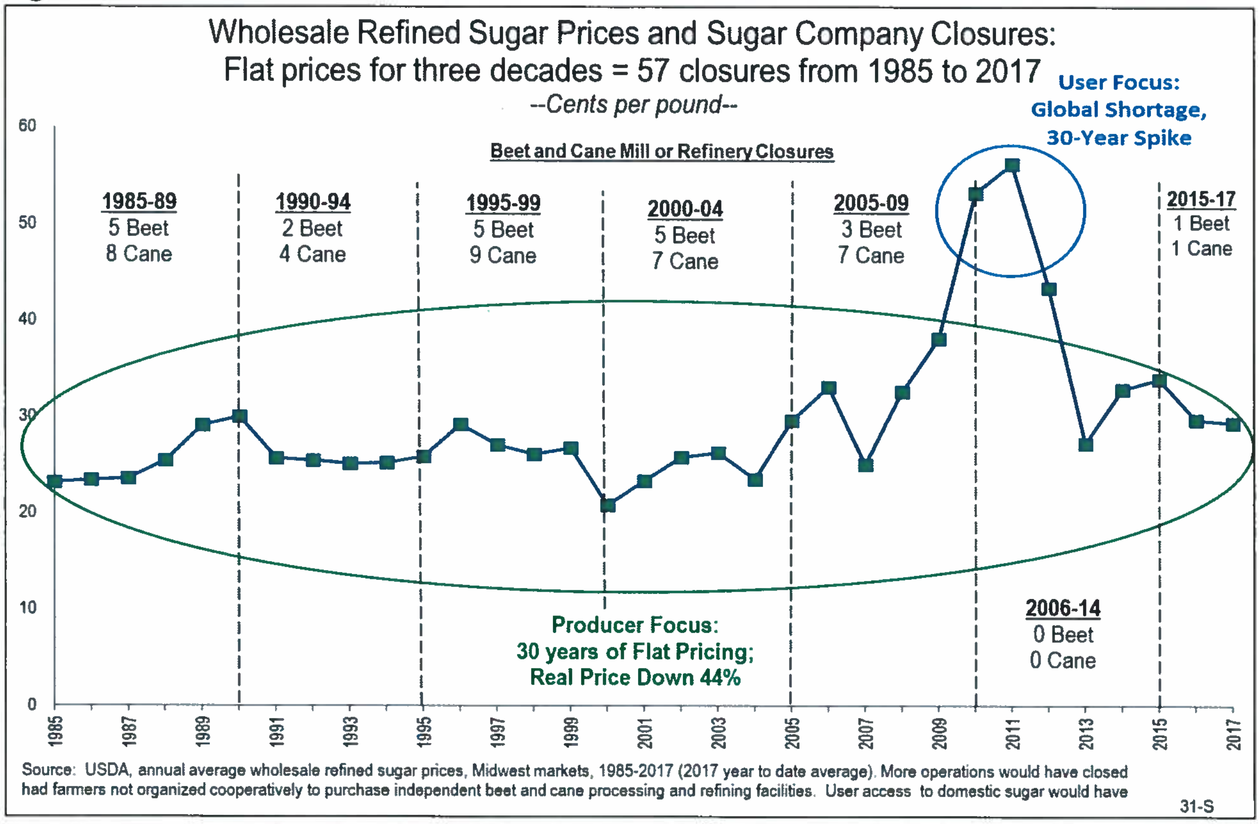


Figure 12