Testimony of
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(A Farmer-Owned Cooperative)

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Chairwoman Stabenow and members of the Committee, I thank you for bringing this important field hearing to Michigan. My name is Ray Van Driessche, and I appreciate the opportunity to speak on behalf of more than one thousand Michigan sugarbeet growers and shareholders regarding the 2012 Farm Bill.

I am a third-generation farmer, and I have farmed in a partnership with my brother Gene since 1067. I am currently employed with Michigan Sugar Company as the Director of Community and Government Relations but I am still very active in the farming operation. We are a cash crop farm growing sugarbeets, corn, soybeans, and wheat in Bay and Saginaw counties, about 100 miles north of here. I have been growing sugarbeets for 44 years for the Monitor and Michigan Sugar Companies and I am a past President of the American Sugarbeet Assn.

Sugarbeets have been grown in Michigan for over 114 years. **To encourage agricultural production on land that had been left barren after being timbered off, in 1897 the Michigan State Legislature passed a bounty law which specified a payment of one cent per pound for sugar produced. As a result of this bounty and an ever increasing demand for sugar, by 1903 Michigan had 23 sugarbeet processing facilities**. Since the introduction of sugarbeets on a commercial basis at the turn of the century, they have continuously proven to be a reliable and important cash crop for farmers in the growing region. Family farms have been passed down through several generations because of the stability this industry has provided to us and our bankers. We are essential local suppliers to Michigan's diverse fresh fruit and food manufacturing industries. As the only beet sugar producer east of the Mississippi River, we are also strategically important suppliers of sugar to customers in other Midwestern states that do not have their own sugar production—primarily Indiana, Ohio, Illinois, and Pennsylvania--as well as other vitally important markets. The Michigan sugar industry provides opportunities for growth for food manufactures here and throughout the Midwest because growers provide a reliable supply of high-quality sugar.

In 2004, 1300 growers of the Monitor Sugar Company and the Michigan Sugar Company merged to form our grower cooperative, which is based in Bay City. Four factories—in Bay City, Caro, Croswell and Sebewaing—typically produce about 12% of U.S. beet sugar production. It is very important to understand that given the high risk and traditionally low returns for beet processors, growers were faced with either buying the company or facing factory closures and losing this important industry forever. Growers took on substantial debt with many of them mortgaging their farms to purchase the two companies and save the Sugarbeet industry in Michigan. The significance of that kind of a commitment, exemplifies why we need a strong farm policy to ensure that we have a viable industry to pass on to the next generation.

The Michigan sugarbeet industry generates $1.2 billion in economic activity and supports about 10,815 direct and indirect jobs that are crucial to our rural economy. This industry has helped thousands of families and scores of small rural communities survive the economic storm over the past years. The state and local taxes collected from our company and growers have been essential to maintaining critical services in our communities.

While many crops are enjoying good returns at the moment, farmers have typically been faced with oversupply and low prices for basic commodities. It is important to remember that the loss of this industry would shift 150,000 acres of sugarbeet acres into other crops and further depress prices for those commodities.

The sugar market today is stronger for a number of domestic and international reasons. When farmers get more money from the market, they spend it by replacing equipment and making long-overdue repairs to their farms. That creates jobs far beyond those directly or indirectly related to the sugar industry. The sugar industry is proud to be part of the agricultural industry that is supporting our state and nation’s economic recovery.

UDSA Conservation policy is tied very tightly to the improvement and sustainability of sugar production and Michigan agriculture as a whole. For example, on our farm we participate in the CREP program with seven CP21 contracts totaling 26 acres of filter strips that border miles of drainage ditches to control soil and water erosion. We also have two CP 23 Wetland Restoration contracts with 23.7 acres under the program. We have planted autumn olive wind breaks to control soil erosion from wind on our highly erodible soils and we are gradually increasing the amount of no-till practices on our farm each year. Gene and I believe that incorporating conservation practices in to our operation, has not only improved the production on our farm but it also allows us to maintain sound environmental stewardship on our land in conjunction with protecting the water quality of the Saginaw Bay Watershed District.

Research: Agricultural research is one of the most important investments the government can make in the future of American agriculture. Since 1890, the USDA has provided critical assistance to Michigan’s sugarbeet industry, mainly as a source of improved genetics. Developing disease resistance varieties saved the industry in the 1940s. Year after year, the USDA-ARS supports sugarbeet research at the Sugarbeet and Bean Research Unit right here in East Lansing, providing critical genetic work to fight off soil-borne diseases that threaten the industry. Today, two scientists are detailed to develop physiological, biochemical, molecular and genomic strategies and technologies to enhance sugarbeet yield, quality, and disease resistance. Products are new germplasm, knowledge, and tools for improving sugarbeet production locally and nationwide.

Unfortunately, the lack of funding and inflation has threatened sustained research. The Unit has not received additional funding since prior to 1994, and lost one scientist and one technical position in 2000 as a result. No other public agency or entity in the U.S. has responsibility for sugarbeet genetic improvements to meet changing needs, and the dwindled resources have seriously affected the tremendous potential of genomics to finally put these problems to rest. Nonetheless, the East Lansing program has preserved and pioneered genomics to both understand sugarbeet development and the response-to-environment genes, and decipher undiscovered biochemical processes that will allow the continued profitability of this very resilient, but vulnerable, Michigan sugarbeet industry.

The following are the key reasons we need to maintain a strong domestic sugar industry and an effective U.S. sugar policy.

Food Security

Sugar is an essential ingredient in our nation's food supply. As an all-natural sweetener, bulking agent and preservative, it plays an important role in about 70% of processed food products and is called for in a multitude of favorite home recipes. Dependence on unreliable and unstable foreign suppliers is a threat to our food security, which is why a strong, diversified and reliable domestic industry has long been recognized as important to the nation. We have control of the product from seed to shelf, and consumers can be confident that the sugar they buy is safe and a quality product.

U.S. sugar producers are globally competitive, but for decades we have been threatened by unfair competition. Approximately 120 countries produce sugar, and all the governments intervene in their sugar markets in some way. Many countries subsidize their producers and dump their surpluses on the world market-- represents an extremely limited supply of sugar-- for whatever price it will bring. This depressed, so-called "world price" has averaged below actual global costs of production for many years. American producers are competitive, but cannot be expected to compete against these foreign treasuries and unfair predatory trade practices.

Importance, Size, Efficiency

In addition to the vital role it plays in local economies, sugar is a significant job producer and revenue-generator nationally. The U.S. sugar producing industry, with sugarbeets and sugarcane grown or processed in 18 states, generates more than 146,000 jobs and more than $10 billion per year in economic activity. These jobs range from the cane fields of Hawaii and the beet fields of Michigan to the cane sugar refineries in the vicinity of New Orleans, New York City, San Francisco and other cities along the coasts.

The United States is the world's fifth-largest sugar producer. We are also the fifth-largest sugar consumer and the world's second-largest net importer. And we are good at what we do. Our sugar farmers are among the lowest cost producers in the world. We are doubly proud of this distinction because we have achieved it while being fair to our workers and responsible stewards of the land. Farmers in the developing world, who dominate the world sugar market, generally operate with little or no enforced requirements for worker safety and benefits, or for air, water, and soil protection. Our standards and compliance costs are among the highest in the world.

Restructuring
Despite our efficiency, we are an industry that has been under enormous stress. From 1985 until 2009, we did not receive any increase in our price support level. Over this long period of essentially flat nominal prices, the real price we received for our sugar dropped sharply because of inflation.

Only producers who could match the declining real price with efficiency gains and lower production costs were able to survive. More than half could not. From 1985 to 2009, 54 of America's 102 cane mills, beet factories, and cane sugar refineries shut down, with terrible consequences for families and communities. Just since 1996, 35 mills, factories, and refineries have closed and will never-reopen. In our region, the industry was eliminated in Ohio and we closed a factory in Saginaw as a result of the merger of our companies.

Trade Challenges
The U.S. is one of the most open sugar markets and one of the world's largest sugar importers. The U.S. provides access to its market to 40 countries, as it is required to do under trade laws. Virtually all are developing countries, and most are supportive of U.S. sugar policy because it provides an import price at which many can recover their costs of production.

In addition to coping with the problems of rising costs, pests, disease, and natural disasters, American sugar farmers have had to deal with another threat: trade agreements that have ceded more and more of the American sugar market to foreign producers – even if the foreign producers are subsidized and inefficient. And more such concessions are always being contemplated.

Trade agreements force the U.S. to provide duty-free access for 1.4 million short tons of sugar each year, whether the country needs the sugar or not. This amounts to about 15% of domestic sugar consumption.

In addition, Mexico enjoys unlimited access to the U.S. sugar market. It is difficult to predict how much sugar Mexico might send north each year. Key variables include Mexican sugar production, government decisions (one-fourth of the sugar mills are owned and operated by the Mexican government), the pace at which corn sweetener, mostly from the U.S., replaces sugar in the massive Mexican beverage industry, the peso/dollar exchange rates and Mexican sugar imports from other countries to free up domestic sugar to send to the U.S. market. Mexican sugar exports to the U.S. have varied widely in the past, and could in the future **– 807,000 short tons in 2010; over 1.5 million tons are forecast for this fiscal year**.

Furthermore, the U.S. is negotiating a Doha Round of the WTO that would result in additional market access concessions. The TPP (Trans-Pacific Partnership) trade negotiations, recently launched by the Obama Administration, could also eventually result in substantial market commitments for sugar to the many countries lining the Pacific Rim. Such trade concessions threaten to reduce U.S. sugar producers' access to our own market even further, and reduce prices as well, making it impossible for those of us who are struggling to survive.

Previous Farm Bills
In the 2002 Farm Bill, USDA had only two tools to balance U.S. sugar supplies with consumer demand.

1. It could limit foreign supplies to minimum import levels required by the World Trade Organization (WTO) and other trade agreements.
2. It could limit domestic sugar sales through marketing allotments. Each year, USDA would forecast domestic sugar consumption, subtract required imports, and allow U.S. producers to supply the balance.
   - If U.S. production was insufficient to fill demand, USDA could increase imports by expanding the tariff-rate quota (TRQ).
   - If U.S. production exceeded the allotment quantity, American producers had to store the excess at their own expense, not the government's.

This market-balancing system worked reasonably well until 2008, although misjudgments in setting the TRQ in 2006 seriously depressed the U.S. sugar market. That's when Mexico gained unlimited access under the NAFTA, and USDA effectively lost control of the market.

In 2008**,** Congress, in its wisdom, designed a sugar policy that is working to the considerable benefit of consumers and at **zero cost** to taxpayers. Let me repeat that. **Zero cost to taxpayers**. It is giving American sugar farmers the opportunity to survive, it provides consumers and manufacturers with a reliable and safe supply of a vital food ingredient, and it fully complies with the rules of the WTO.

While retaining the basic-market-balancing tools I have described, Congress made a number of important improvements in 2008. The Farm Bill minimizes the erosion of American sugar farmers' share of their own market by limiting reductions in their marketing allotments to not less than 85% of consumption. It's worth noting that in many years, imports amount to much more than 15% of the U.S. market.

If imports exceed the difference between domestic market allotments and consumption, USDA will divert surplus sugar into fuel ethanol production and restore balance to the sugar market for food. The added ethanol production would be consistent with national goals to reduce American dependence on foreign oil and improve air quality.

In addition to the use of ethanol as a market balancing mechanism, two other Farm Bill measures are helping to stabilize the market and improve producer prospects:

1. The first increase in the sugar support price since 1985. The raw cane sugar loan rate rose by ¼ of a cent per pound this year, and will rise the same amount in fiscal years 2011 and 2012. Refined beet sugar rates will rise by a commensurate amount. In fiscal year 2012, the raw cane loan rate will be 18.75 cents per pound and the refined beet sugar rate will be 24.09 cents.

2. USDA may not announce a TRQ above the minimum required by trade agreements until halfway through the crop year (April 1), unless there is a supply emergency. By April, much more is known about actual U.S. sugar production and consumption and the volume of imports from Mexico. This will prevent a recurrence of situations such as that in the summer of 2006, when USDA announced an excessive TRQ for the coming year, the market was badly oversupplied, and producer prices languished for almost two years.

Consumer Benefits
American food manufacturers and consumers continue to benefit from reliable supplies of sugar that has been produced responsibly and is reasonably priced, high in quality, and safe to consume. In real terms, corrected for inflation, U.S. wholesale and retail prices have declined substantially over the past three decades. Food manufactures and consumers in the rest of the developed world pay about 10% more for sugar than Americans do. Taking per capita income levels into account, sugar is more affordable in America than in virtually every other country in the world – rich or poor.

Taxpayer Benefits
Sugar is the only major commodity program that operates at **no cost to taxpayers**, and CBO projections through 2021 say it will remain no cost over all these years. Projections prior to the enactment of the 2008 Farm Bill suggested significant costs because of excessive imports from Mexico, low prices, and government loan forfeitures. But thanks to steady consumption growth, stable domestic production, manageable import levels from Mexico, and sound program management by USDA, costly surpluses have not occurred.

The 2012 Farm Bill
The U.S. sugar industry has endured a wrenching restructuring over the past two decades. American sugar farmers who remain are grateful to Congress for crafting a sugar policy that is balancing supply and demand, ensures that consumers have a dependable, high-quality supply of a vital food ingredient, and is improving market prospects for sugar producers. The policy achieves all these goals at **zero cost** to American taxpayers.

With some prospect of continued market stability, producers should be able to reinvest in their operations, further reduce their costs of production, and survive. We strongly urge the continuation of this successful, **no-cost** policy in the next Farm Bill.

Thank you again, Chairwoman Stabenow, for holding this important hearing and for all that you and the Committee do for American agriculture. We look forward to working with you and the Committee as you craft the next Farm Bill.