103

PROPOSED CHANGES IN THE 1995 FARM BILL
(Sugar Program)

HEARING

BEFORE THE

SUBCOMMITTEE ON SPECIALTY CROPS
AND NATURAL RESOURCES

OF THE

COMMITTEE ON AGRICULTURE
HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRD CONGRESS

SECOND SESSION

OCTOBER 8, 1994, MOORHEAD, MN

Serial No. 103–80

Printed for the use of the Committee on Agriculture

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WITNESSES

PROPOSED CHANGES IN THE 1995 FARM BILL

SATURDAY, OCTOBER 8, 1994

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON SPECIALTY CROPS
AND NATURAL RESOURCES,
COMMITTEE ON AGRICULTURE,
Moorhead, MN.

The subcommittee met, pursuant to notice, at 1 p.m., in the auditorium at the Moorhead Vocational and Technical College, Moorhead, MN, Hon. Charlie Rose (chairman of the subcommittee) presiding.

Present: Representatives Peterson and Pomeroy.

Staff present: Keith Pitts.

OPENING STATEMENT OF HON. CHARLIE ROSE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NORTH CAROLINA

Mr. ROSE. The Specialty Crops and Natural Resources Subcommittee of the House of Representatives Committee on Agriculture will please come to order. We are here today to hold a public field hearing at the Moorhead Vocational and Technical College in Moorhead, MN. We are here to review the sugar program and proposed changes in the farm bill.

Good afternoon. I want to thank everybody for being here. We are beginning the process of reviewing the U.S. sugar program in preparation for the 1995 farm bill. I realize that this is a very busy time for sugarbeet growers and processors in the Red River Valley and your presence here today is all the more appreciated because of that.

I have been told that the intensity with which sugarbeets are harvested in the Red River Valley make it the largest uninterrupted agricultural mobilization in the world.

Now, I represent the 7th District of North Carolina, which includes the 82d Airborne Division in Fort Bragg, and I understand and some of my colleagues have suggested that the commander of the 82d could learn a thing or two about mobilization from coming to the Red River Valley.

I'm sorry that the weather has not been cooperative lately and that I will not get a chance to see beet lifting in full swing, but I do have a brother in North Carolina who is a Presbyterian minister and I spoke to him to put in a good word for the lifting process and, from today's weather, it may be working.

Before starting the hearing, I'd like to thank Red River Valley for a few things. First, I want to thank you for sitting down with the rest of the sugar family and working out an agreement on the imposition of marketing allotments for fiscal year 1995. I think your collective efforts have prevented losses to the Commodity Credit Corporation and have helped us get started for the 1995 farm bill.

Many farmers in the South produce cane and I also want to thank you for your help during the debate on the 1995 agricultural appropriations bill. As many of you know, there was an attempt by some in Congress to eliminate the peanut program, and when called upon by me, the sugar industry and its supporters in Congress turned out in force and were critical in our successful efforts to defeat the Armey amendment, and I think our efforts this year have established a solid and effective working team for next year's farm bill.

Finally, I want to thank you for sending Collin Peterson and Earl Pomeroy to Congress. Collin and Earl have well represented the Red River Valley on the subcommittee and have been instrumental in many of the successes that the sugar industry have achieved, both in the context of changing the NAFTA and the GATT debates and those agreements. With their help, loopholes were closed that had previously existed and they have helped us work with USDA to protect U.S. growers from Canadian and Mexican sugar dump.

Also, I might add that Collin and Earl have been leaders in the effort to stem the flow of wheat from Canada. Their leadership and dedication have earned the respect of many in Congress and made them trusted, dependable, and effective members of this subcommittee and the House Committee on Agriculture.

Many of you may not know this, but Collin is in line to be called upon by his colleagues on the Agriculture Committee to chair a House agriculture subcommittee next year. You and I both will need Collin and Earl to help us with the farm bill that we will navigate through a Congress that knows less and less each year about agriculture.

With that said, I'd ask my colleagues, Collin and then Earl, if you have any opening statements.

OPENING STATEMENT OF HON. COLLIN C. PETERSON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MINNESOTA

Mr. PETERSON. Thank you, Mr. Chairman, for those kind words and thank you for coming up to the Red River Valley and joining us. If you could bring weather like this every time, we'll invite you back every week.

But we do appreciate you coming up here and getting part of the farm bill debate started in our district and focusing on the concerns and issues that we're going to be dealing with in that farm bill. I think that it's useful the fact that we have, and I think this might not have happened otherwise. We have people from other parts of the country and other parts of the industry that are with us and have been, as I understand it, here yesterday out on a tour and looking at our industry, and I think that that's going to be helpful in making sure that we do work together as we put this 1995 farm bill together.

There have been some times when the partnership has gotten a little frayed in the last year or so and that has all been put back together and we hope that we can continue that kind of an effort. We need to continue that kind of an effort as we get into this farm bill.

The fact that we were able to work out the situation with marketing allotments I think pretty much to everybody's satisfaction is helpful and hopeful for a sign of what we're going to be able to do as we get into the farm bill.

I also think that we need to, in addition to continuing to watch the situation with wheat coming in from Canada, also try to do something about the dairy situation and the GATT. I'm not sure, now that the rule has passed, exactly what we can do, but we've got similar problems. We need some access into the Canadian dairy market because of what happened in the GATT. But also, you know, I think your concern about the certain sugar-containing products still leaking through the system, we need to focus on that maybe at this hearing and as we move ahead with this.

So I'm just very pleased that you're up here today with us. We appreciate all your support. For those of you that don't know Mr. Rose, he is probably one of the best or if not the best friend of the Red River Valley and Minnesota and North Dakota that we have in Congress, and you can always count on Charlie to listen and be helpful, even though he's officially a southerner, I guess. But as far as I'm concerned, we can adopt him up here and make him a Yankee. Is that what you call us down there?

Mr. ROSE. No. But you all got Diet Mountain Dew up here, so you've got to be all right.

Mr. PETERSON. With that, thank you very much and we look forward to hearing the testimony today.

Mr. ROSE. Earl Pomeroy.

OPENING STATEMENT OF HON. EARL POMEROY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NORTH DAKOTA

Mr. POMEROY. Thank you, Mr. Chairman. Welcome to the Red River Valley. You know, at 10:30 last night, Chairman Rose, Congressman Peterson, and I were casting votes on the floor of the House. To think that Charlie Rose out of North Carolina would then board the first plane out of Washington and be with us this afternoon to learn firsthand the concerns of the sugar industry from our perspective I think speaks volumes about his commitment to bringing balanced leadership to the Specialty Crops and Natural Resources Subcommittee. Certainly, as a Representative of North Dakota, I have felt that he has always given us a fair hearing and a fair shake and I have appreciated his concern on many issues, the sugar blend issues that Collin mentioned being one of them.

Mr. Chairman, you will note the tremendous importance of the sugar industry to this region: three companies, seven processing plants, thousands of growers, thousands more involved in employment in the processing component of the industry. This represents for us an aspect of the farm program that's working and that's working very well, and we certainly want to maintain its effective working status as we go into the 1995 farm bill.

One unique feature about our industry is its strong cooperative foundation, farmer-owned, and carrying it through to the finishing dimension, processing dimension of agriculture. Truly, what we've seen with our cooperatives has been a leading model as we look at value-added activity on the agricultural production that this region is so well-known for.

While we discuss sugar, we'll be very well aware that trade issues will continue to be a bargaining tool in international affairs. We have to work continually in the 1995 farm bill and beyond to protect the market share that's been established for sugar. Once again, this is one feature of the farm program that works, and that's why we are so deeply interested in the 1995 farm bill to make certain that nothing is done to deteriorate this very effective program for the upper Red River Valley, for sugar producers across the country and for sugar consumers across the country.

In closing, also, I see many faces in the audience that I recognize representing various facets of the sugar industry in addition to sugarbeets, and I think that your attendance at this hearing does speak to the fact that the industry has come together, is working cooperatively, and thank goodness for that because it's the most urban suburban house in the history of the country. If sugar is fighting amongst itself, we're going to have an awful hard time winning for sugar, any aspect of it, as we go into the 1995 farm bill fight.

With that said, Mr. Chairman, I look forward to today's hearing and thank the USDA in particular for sending Dallas up to speak to us.

[The prepared statement of Mr. Pomeroy follows:]

OPENING STATEMENT OF CONGRESSMAN EARL POMEROY

Specialty Crops and Natural Resources, Subcommittee Field Hearing
October 8, 1994
Moorhead, Minnesota

Good afternoon and welcome. Its very good to be home. I want to especially thank Chairman Rose and his staff for bringing his subcommittee to the Fargo-Moorhead metropolitan area. I also want to thank Congressman Collin Peterson for joining me in hosting this very important hearing today and the Minnesota University system for allowing us to use this fine facility.

I am pleased that Chairman Rose and his Subcommittee are able to come to the heart of the sugar beet growing region of the Red River Valley to learn from North Dakotans and Minnesotans how the sugar program has affected the industry and how it can be improved.

North Dakota and Minnesota support three sugar companies, seven processing plants, thousands of sugarbeet growers, thousands of processors and a multi-million dollar industry that has contributed to the lifestyle of every constituent that I represent.

I am very proud of this industry. It is well managed, the processing plants are the most efficient in the industry, and the grower-owned cooperatives have played a leadership role in the future development of farmer-owned cooperatives and value added production.

We are here today to get a better understanding of the sugar program and input on how the program should be molded in the future. We are all aware that trade issues will continue to be a bargaining tool in international affairs and that we must work continually to protect the market share that has been established.

I thank Chairman Rose for being here today and for bringing the Subcommittee to the Red River Valley. I look forward to the testimony today.

Mr. ROSE. Thank you. Our first panel is the representatives from the administration, Mr. Dallas Smith, the Deputy Secretary of Commodities, the U.S. Department of Agriculture, Washington, DC. He is actually from the largest agricultural county in my congressional district in the 7th District of North Carolina. I didn't have anything to do with getting him his job, but I'm proud to have him. Dallas and I both understand southeastern North Carolina agriculture, but Dallas has traveled all across this country and he certainly understands the Red River Valley.

He's accompanied by Mr. Larry Walker, Acting Deputy Administrator for Policy Analysis, U.S. Department of Agriculture, and Mr. Fred Kessel, Manager of Import Quota Team, Foreign Agricultural Service, USDA.

Secretary Smith, you may proceed.

STATEMENT OF DALLAS R. SMITH, DEPUTY UNDER SECRETARY, U.S. DEPARTMENT OF AGRICULTURE, ACCOMPANIED BY LARRY WALKER, ACTING DEPUTY ADMINISTRATOR, POLICY ANALYSIS, AND FRED KESSEL, MANAGER, IMPORT QUOTA TEAM, FOREIGN AGRICULTURAL SERVICE

Mr. SMITH. Thank you, Mr. Chairman. I want to express my thanks to you and to Mr. Peterson, Mr. Pomeroy and other members of the Subcommittee on Specialty Crops and Natural Resources for providing the Department of Agriculture the opportunity to participate in this hearing regarding the development of the 1995 farm bill.

As you mentioned, we have two experts from the Department, both from the Foreign Agricultural Service and from ASCS to assist in answering any questions at the end of our testimony.

The Department began preparing for the farm bill last May. The Secretary established a farm bill task force along with 10 subgroups based on farm bill titles and in USDA mission areas. These subgroups are meeting with varied interests both inside and outside the agricultural community, with the objectives of defining issues for a nationwide dialog. Thus, being included in this hearing here today is especially helpful to us at the Department of Agriculture in formulating those ideas.

Debate on the new farm legislation will begin in earnest early next year. More than ever before, this next farm bill will be drafted with much more broad-based participation. Other groups with different interests, not just production agriculture, will make their voices heard. This reflects the evolution of farm bills during the past 2 decades, which have gone from dealing mainly with farm price and income support programs to a range of issues such as trade, food assistance, rural development, research and environment.

Another factor is the changing role of farming in the U.S. economy. Of the 435 congressional districts in the Nation, only 50 of them generate 10 percent or more of their income from farming. Representatives from suburban districts, where consumer and environmental interests are more dominant, will add a new twist to the rural-urban alliances that were forged to pass so many farm bills in the past.

Thus, as we develop the 1995 farm bill issues and policies, we all must also devote time and attention to informing and educating everyone of the importance of agriculture and its contribution to the success of this country. Urban and suburban residents must understand that our food and fiber system, including processing and marketing, generates about $950 billion annually in economic activity, or 16 percent of our Gross National Product. It employs one in seven Americans, and it generates a positive trade balance of about $18 billion per year. Moreover, a stable, productive and profitable farm sector will mean ample supplies of affordable food, allowing nonfarm residents to spend more of their income on other items.

Focusing only on the U.S. sweetener industry, we have another excellent story to tell. In 1993, the U.S. sweetener industry provided 168,000 full-time jobs, of which 140,000 arose from agricultural activities and 28,000 from the processing sector. A total of $2.7 billion was paid in wages.

This combination of direct and indirect impacts of the U.S. sweetener industry on the U.S. economy totaled $26.2 billion and 420,000 jobs. We believe the 1995 farm bill debate should recognize the overall economic impact that farming has, particularly for certain specialty crops which have relatively small acreage, but generate much economic activity through the value-added process.

In closing, Mr. Chairman, I want to again express my appreciation for being provided the opportunity to participate in these hearings here at Moorhead, and I look forward to participating in the balance of the proceedings. Thank you.

[The prepared statement of Mr. Smith appears at the conclusion of the hearing.]

Mr. ROSE. Mr. Peterson.

Mr. PETERSON. I was curious about the time line on the farm bill debate. Is there some set time line that you're operating under? How is the process that comes up out of these committees and then is it moving on to some farming level? Could you explain that a little bit more to us?

Mr. SMITH. Yes, sir. Currently, we have the subcommittees within the Department that are analyzing issues as it relates to each of these subject areas, the different titles that are in the farm bill, and then these thoughts are then passed on to the Secretary where we are formulating some broad policy issues that the Department will need to address as you move towards the debate.

Much of this is being done in order to also involve the public in the discussion. As part of that, we are holding forums around the country to allow individuals to give input into the Department on the agriculture issues that should be considered as we debate the farm bill, agricultural, trade and environmental issues as we debate the farm bill.

Mr. PETERSON. So each of these groups or each of these 10 areas is doing a similar kind of process, having the public meetings around the country?

Mr. SMITH. Yes, sir. Some of them are overlapping in terms of the subject matter areas, but in our particular mission area, for example, we have one that's scheduled in Texas for October 15; we held one in Washington State on Saturday a week ago, where we had individuals from various groups to present testimony to the Under Secretary and a panel of others from the Department. This is also occurring in other mission areas within the Department, conservation and environment in particular.

Mr. PETERSON. The time line, is there some time you have to be done with this?

Mr. SMITH. Well, the expectation is that the debate on the farm bill will begin in earnest next year and the Department would like to be in a position to formulate some broad policy perspectives on these issues with the input from the——

Mr. PETERSON. That's what I was getting at. Are you going to have some culmination to this and have someplace where you're going to start with the farm bill at some given time or has that not been set yet?

Mr. SMITH. It's not been set as far as the Department. I think what we're anticipating in the administration is that as we move toward the farm bill, the debate will both begin in Congress and in earnest among those who would have some impact on it, and the Department is preparing to participate in that discussion.

Mr. PETERSON. So you're not going to lay out a whole farm bill for us before we get started; is that what you're saying?

Mr. SMITH. I can't say that that's the case, but certainly we would like to be a participant in that process.

Mr. ROSE. Traditionally, the Department has gone out and held some field hearings on its own just prior to the reauthorization of the farm bill. Is that correct?

Mr. SMITH. That's correct.

Mr. ROSE. But, also, these hearings will be useful as you reflect on propositions that maybe members of the Agriculture Committee might make to sort of give you a head start on what we may be hearing.

Mr. SMITH. Yes, sir, that's correct. In fact, this is one of the reasons for participating in this hearing here is to get input on commodity issues or trade issues or environmental issues that need to be factored into our thinking within the Department as we move forward.

Mr. ROSE. Mr. Pomeroy.

Mr. POMEROY. Mr. Smith, maybe in light of what you've just said, you do not have operating strategies for the sugar section in the 1995 farm bill, but my first question to you is going to be basically how is the Department approaching the sugar section of the 1995 farm bill? Do you see this essentially as a program that's working? Where would you believe the pressure points will be for reforms that might be under consideration?

Mr. SMITH. I have two experts from the Department on sugar that work with the sugar program internally, both from the domestic side and international side. I would like to ask Dr. Walker to comment on that, if that's OK, and also Mr. Kessel.

Mr. WALKER. I'd anticipate that relative to the sugar program, since it is working really pretty well, that if there were to be any changes, they would be on the fringe and on the margin area. In terms of focusing in on any specific item under the current legislation, no, I don't see that.

Mr. POMEROY. The fact that this program is operated on a no net cost certainly has alleviated this aspect of the farm program of some of the discussions you'll be having with OMB and other budget people in other aspects of the farm program. You approach the program then initially with the view that this thing is working?

Mr. WALKER. Yes. The no net cost aspect is very important. Another very important aspect of the sugar program when we look at the price that people pay for sugar in the United States compared to what they have to pay in other developed countries of the world, the American consumer has just a pretty good deal.

One thing that's always of paramount interest to anybody in the Department of Agriculture is an adequate food supply of a high quality, and that's exactly what we have right now.

Mr. POMEROY. Do you see application of future marketing allotments—I struggle a little with the relationship between marketing allotments and the import quota. It would seem to me that if marketing allotments would be imposed upon domestic producers, we would clearly be at the minimum for imports allowed underneath that range. Is that how you think the program ought to function? Do you understand my question, Dr. Walker?

Mr. WALKER. Yes. I understand the question. To the extent possible, yes. I'd say with sugar, as with any commodity, there are a lot of dynamics that have to be addressed and things can change within a relatively short time period.

There are also concerns of a base to continue in the country relative to the production of sugar, refined cane sugar, along with refined beet sugar. So in general, I don't think anyone can argue with what you said. There are times, however, given the dynamics of the situation, something different has to be done.

Mr. POMEROY. Mr. Smith.

Mr. SMITH. One comment, and then I'd like to ask Mr. Kessel to respond in terms of our international obligations with regard to the import quota and the formula on sugar. It is a complex program and it's a complex program to administer and make sure that we operate it in accordance with the intent of Congress, and that is at no net cost to the taxpayer.

So as we attempt to administer the program, the Department's very conscious of meeting its commitment and maintaining that balance that's in the law and to follow the law so that a program does not become a cost program. That is also of particular concern given the budget considerations that will impact the implementation of the farm bill in 1995. I think we're all very conscious of that.

So we do have some obligations with regard to GATT and I'd like to ask Mr. Kessel if he would respond to that in terms of the formula for set marketing allotments.

Mr. KESSEL. Thank you. In essence, there is no legal connection between the tariff rate quota and the setting of the tariff rate quota and the level of imports is 1.25 million tons that is in the 1990 farm bill.

The tariff rate quota is set under the authority of the headnote chapter 17 of our Harmonized Tariff Schedule. The 1.25 trigger for marketing allotments is, of course, in the 1990 farm bill.

But it's quite clear I think, if you look at the administration of the tariff rate quota over the last several years, that we treat 1.25 as a very important number. The previous quota period was a 2-year quota period with imports set at 2.5 million tons, which on an annual basis is 1.25.

One of the interesting things about the tariff rate quota is it's a decision that's not necessarily taken without consensus of other agencies in the Government, and there's a historical precedent there for a number of years where, for instance, the Office of U.S. Trade Representative, the Department of State, and other agencies to be involved.

I think the current quota period and the level of quota that was announced in August, when you annualize it, comes to 1.25 million tons on a 12-month basis, and I think it's fair to say over the last 2 years we've done as much as we could to play with both the quota period and the volume to approach that 1.25 million tons.

Come October 1, 1995, provided the GATT implementing legislation is enacted, we will have an annual commitment on a fiscal year basis to import 1.25 million tons. Practically speaking, that means our flexibility to extend the quota period, for instance, will be not there. We will have a GATT commitment to maintain that level imports or access on a fiscal year basis. That is, of course, provided our GATT implementing legislation is enacted.

Speaking of GATT, I'd like to mention another thing that would happen upon implementation. There has been great concern in various parts of the country, not just the Red River Valley, about the level of sugar-containing products and refined sugar entering the country from Canada. We were successful in our GATT negotiations with effectively tightening the definitions and broadening the coverage for sugar-containing products, so that we anticipate there will be a substantial decline in those imports from Canada upon implementation.

I think it was one of the many successes of GATT was to tighten some loopholes that have been taken advantage of by Canadian shippers. You mentioned that earlier, Congressman, and I thought I'd answer that question right away.

Mr. POMEROY. Thank you. You answered it squarely and candidly and I'm delighted with your assessment, that you mentioned a substantial improvement in our ability to prevent blended imports.

Mr. KESSEL. Yes. Three things happened in the GATT negotiations with respect to sugar-containing products. To start with, our section 22 quotas were tariffied, as were all our section 22 quotas. However, the coverage of those quotas was extended and extended in three different ways. One is flavored sugars, which have been coming in outside of any section 22 quota. A high sugar content will now be within one of the tariffied section 22 quotas.

The other two technical issues that were addressed in the GATT was, one, the issue of further processing. When a product comes in, is it prepared for retail sale in a package that the consumer would purchase on the store as our dairy section 22 quotas were? We negotiated that in the GATT. We succeeded in changing the language so that a product that comes in must be in general prepared for the retail consumer, the ultimate consumer. It will substantially reduce the volume of bulk shipments of sugar-containing product.

The other is, further processing and retail pack are kind of wrapped together, so those two items together are liable to—in combination with inclusion of the flavored sugars, we expect to substantially reduce the volume of product coming into the States in that manner.

Mr. POMEROY. Briefly, the 1.25 million tons, that will be a hard-get tariff quota. It essentially reflects the low range presently, the minimum of what has presently been allotted?

Mr. KESSEL. Analytically, it comes from our level of access in the base period, 1986 to 1988, where our level of imports averaged over those 3 years 1.25 million tons, a hair over, and that's the number that is in the GATT.

Mr. POMEROY. Final question, and this one for Mr. Smith. You mentioned the complexity of the present sugar program. Will the USDA be essentially trying to preserve its effectiveness and make it a little simpler?

Mr. SMITH. Yes, sir. That would be an objective of the Department in those areas where we need to make sure that we maintain the no net cost aspects of it, thus avoiding sugar forfeitures.

In those areas, as you saw with the recent announcement on the margin allotments where we changed our weights, in order to make the program more responsive to marketing conditions, those are the areas that we feel that we will need to focus on to maintain the credibility of the current programs for budget and the intent of legislation.

Mr. POMEROY. I commend the Department for those revisions which I think simply make good sense.

Mr. SMITH. Thank you.

Mr. PETERSON. Mr. Chairman, I have an article here from a trade publication where they're reporting that the Mexican surplus sugar export of the United States under the NAFTA is going to become a part of the general tariff rate quota. The administration apparently is asking that. Do you know about this situation? Does that mean that it's going to be put into the 1.25 million?

Mr. KESSEL. My understanding of this, Congressman, is that the Office of U.S. Trade Representative has made this commitment to include Mexican access under NAFTA as part of our global territory quota that would be implemented upon enactment. So yes, sir, I believe that's true. Furthermore, my understanding is that it will be essentially a technical change to our tariff schedule. When the Uruguay round tariff schedule is proclaimed, that will effect this change.

Mr. PETERSON. This improvement that's been made on the Canadian situation, do you have any estimate of the amount of that? How much do you think that might cover if it's not covered now? Do you have any idea? Does anybody have any idea?

Mr. KESSEL. It's difficult to forecast, but I can tell you a couple of things. Roughly, 60,000 tons of flavored sugar that was previously entered ex-quota will now be essentially forced back into a roughly 65,000 ton product weight metric ton quota. That will obviously create a bit of fight to fill that quota.

The issue of the volumes of the sugar-containing product depends primarily on the way industry reacts because it is conceivable that Canadians could ship under the quota some of the same products, however package them in Canada for the retail consumer. So it does create an incentive to move packaging to Canada. So to the extent that that happens, the effect will be diluted.

Mr. PETERSON. As I understand it, the beet sugar loan rates for fiscal year 1995 have not been released yet. Is that hang-up related to the calculation or is there some broader philosophical issue? Or am I right they haven't been released yet?

Mr. SMITH. You're correct, they have not been released. They are within OMB, within the clearance process. Let me ask Dr. Walker if he has any additional information on that.

Mr. WALKER. Yes. The decision memo is at OMB. It's been there for a while. Each week I hope that it will be announced before the week is over. That's been going on for a while. I would anticipate that the loan rates for the 1994 crop will be coming out this month. I can't tell you what day, but that's their status as of this point.

Mr. PETERSON. Why do you think it's bogged down over there, or is it some philosophical situation or what?

Mr. WALKER. I think that my impression is they think that the loan rates, the way they're calculated, they can be calculated differently under the current legislation. Indeed, there is discretion under the current legislation. Our concern is that when the 1990 farm bill was put together and enacted, everyone involved at the time, it was clear in their minds exactly what the wording of the legislation meant, the way the loan rates were to be calculated.

I can't see any change in that approach under the current farm bill. If there's going to be a change, it strikes me that it's going to be something addressed in the 1995 farm bill, not at this point. So I don't anticipate there's going to be any change in the way that the loan rates are calculated.

Mr. PETERSON. Dallas, what would the administration's response have been if there would have been a large forfeiture on September 30?

Mr. SMITH. What would have been our approach to the forfeiture?

Mr. PETERSON. Yes, if we'd have had a large forfeiture last September 30.

Mr. SMITH. Well, certainly that was a fear, and given the market conditions, which is not unrelated to the issue with regard to the loan rate, because there are those who believe that we could exercise our judgment on setting the loan rates and still wait back to meet our obligation on the national loan rate and change the loan rates for a particular area that supported the forfeitures.

It's very difficult once you have forfeited sugar to meet our commitment to have a no net cost program. So in administering the program, although complex, we want to be very conscious of avoiding a situation that would trigger a price response that would force forfeitures due to the price response to that action.

So it requires us to look very carefully at our obligations on the import side, to look very carefully at the way we set the loan rates and to take all of these things into consideration, as well as whether the supply and demand situation would dictate the application or the allocation of domestic market allotments.

So the answer to your question is that we would hope that we would administer the program in such a way as to prevent the forfeitures as opposed to having to deal with how to dispose of after it's forfeited.

Mr. PETERSON. You never got to the point of thinking about that; you were going to head it off before it got there?

Mr. SMITH. Fortunately, we did not have the forfeitures and we would hope the way we administered the program had some impact on that.

Mr. ROSE. Mr. Kessel, there are a great many Members of Congress who are arguing that we need to end our economic embargo of Cuba. If we lift an embargo around Cuba and they want to start selling sugar, under GATT, would Cuba not be treated just like another country and have to share in the total import quota available or would there be some other arrangement?

Now, of course, you could do anything with legislation, but nothing else appearing, if you just lift the trade embargo with Cuba and they want to start selling sugar in this country, what's the result?

Mr. KESSEL. Cuba is a member of the GATT right now; however, our access for sugar under the TRQ is not governed by membership in the GATT. It is governed by historical shipping patterns in the 1975 to 1981 base period, during which time Cuba shipped us no sugar.

We have no way to evaluate under the current regime how Cuban access—in the eventuality of normalization in relations how Cuban access will be treated. Clearly, should this ever come to be, it's likely to be decided on a much higher level than the import quota manager's level.

Mr. ROSE. But realistically, it could be done on the spur of the moment by some Member of Congress in a burst of gratitude, you understand, unless we had a sound, well thought out basis on which to guide such a decision. Don't you all think you ought to start at least planning for such an eventuality and give us some suggestions to guide us?

Rather than ask you, let me suggest that you do that, and at some later point, let's have a discussion about it. I don't want it to be a decision that we wake up one morning and find out we have to eat; I'd like it to be done in an orderly process. I think they ought to have to share in what the overall import allocation is, take a little away from other people and give it to Cuba, as opposed to adding Cuba and a base quota for everybody.

You would admit if we added an arbitrary amount of additional quota for sugar from Cuba, that that could have a disruptive effect on the program?

Mr. KESSEL. No question about it, sir. I would mention in passing that there's perhaps only one way that I can think of where we could meet our GATT commitments and accomplish what you suggest.

Mr. ROSE. How is that?

Mr. KESSEL. That would be to globalize the import quota.

Mr. ROSE. What would that look like?

Mr. KESSEL. Essentially, that would be to remove the country by country allocations and allow some form of import licensing, regardless of country of origin.

Mr. PETERSON. If you did that, you'd have a huge fight amongst these countries that now have the access. Right?

Mr. KESSEL. I think that's accurate to say, sir.

Mr. PETERSON. Is that contemplated?

Mr. KESSEL. No, sir. We've been told not to contemplate that.

Mr. ROSE. I have a letter from Michael Kanzer, our trade representative, to the Honorable Bob McMoilan, Minister of Trade, Canberra, Australia, in which he says, "I have the honor to confirm an understanding reached between the United States and Australia on sugar in the course of the Uruguay Round negotiations.

"The United States Uruguay Round schedule provides a global access commitment for imports of sugars and syrups derived from sugarcane or sugarbeets of at least 1,139,195 metric tons annually," which is what you just quoted.

"It is the intention of the United States, consistent with Article XIII of the GATT and all of the Uruguay Round commitments, to continue to allocate shares on the basis of the quota amounts of sugars, syrups and molasses, as specified in U.S. Additional Note 3 to Chapter 17 of the Harmonized Tariff Schedule of the United States. This would give Australia an 8.3 percent share of the U.S. base quota for sugar. As a result of the global access commitment, the base quota amount will be at least 1,076,000 metric tons."

Then in paragraph 3, "The United States reserves the right to modify or suspend the allocation of market shares in accordance with the provisions of GATT Article XIII. Under such circumstances, the United States would promptly enter into consultations with Australia."

That seems like it's leaving the door open for just what you suggested, a globalization. Do you agree with that?

Mr. KESSEL. It certainly leaves the door open for that. I would agree, sir.

Mr. ROSE. All right. Thank you all. Thank you very much and we appreciate you being here. Thank you.

Our next panel is a panel of producers. Mr. Lawrence Deal, sugarbeet grower, and director, Minnesota-Dakota Farmers Cooperative, and vice president and legislative chair, American Sugarbeet Growers Association. Mr. William (Buzz) Baldwin, sugarbeet grower, and president, Red River Valley Sugarbeet Growers Association. Mr. Wallie Hardie, corn grower, and chairman, Government Relations Committee and National Corn Growers, Fairmount, ND.

If you three gentlemen would come on up, and I'll be happy to hear from you. We're pleased to have you here today.

Mr. Deal, you will begin, sir.

STATEMENT OF LAWRENCE DEAL, VICE PRESIDENT AND LEGISLATIVE CHAIRMAN, AMERICAN SUGARBEET GROWERS ASSOCIATION

Mr. DEAL. Mr. Chairman, my name is Lawrence Deal. I am a farmer from Doran, MN. My wife and I farm in conjunction with my son and his family. I testify today in my capacity as vice president and chairman of the legislative committee of the American

Sugarbeet Growers Association. Our national association is comprised of 33 regional grower associations, which represent virtually all of the 12,000 sugarbeet growers in 14 States.

I want to thank you, Mr. Chairman, and members of your committee for taking the time to visit one of the finest and most productive agricultural areas in the world. We also appreciate the opportunity to share with you the successes, challenges, and importance of the sugar program and the vital need for it to continue in the future.

In my testimony, Mr. Chairman, I have four charts on the back side of my testimony. Do you have a copy of those?

Mr. ROSE. Yes.

Mr. DEAL. I'll be referring to these charts as I go through my testimony, and I won't spend a lot of time on them, but it basically tells the picture of some of the points I'm trying to make.

When an essential ingredient like sugar plays such an important role in health and nutrition of consumers around the world, it is no wonder the governments of most nations have been closely involved with their sugar industries over the decades. We believe it is our Government's role and responsibility to assure its people of a reliable supply of quality sugar at a reasonable price.

To illustrate the first chart, basically what that illustrates is the countries that have either direct or indirect aid within their systems. Basically, as you'll see, the United States has a domestic price control and import controls, and the other countries vary from probably just 1 of those 15 direct or indirect aids to supplement their domestic industries.

Over 70 percent of all sugar produced in the world is sold within the country of origin at domestic prices that provide fair returns to producers. Just under 10 percent of the world's sugar production is sold under preferential trade agreements at preferential prices. The remaining 20 percent is simply dumped on the world market to fetch whatever price the market will bear. The price received for the small amount of dumped sugar is blended with domestic and preferential sales and allows countries to avoid the cost of storage or disposal.

The supply of this dumped world sugar is highly unreliable. For the past 2 years, world consumption has been greater than production.

You'll see in chart two basically programs in the periods of the times we did not have programs was the 1975–1980 time frame and you'll see the spikes and the unreliable prices. Prices went up to the consumer. Shortly after that, it spurred more production and basically in the 1990's—1985 to 1990 period, the prices went down for the producers, basically making an unreliable price for the consumer and an unreliable price for the producers.

In a nation the size of the United States, with 263 million people consuming over 16 million tons of sweeteners, it would be unconscionable to leave such needs to the whims of an unreliable and extremely volatile world market.

When the GATT negotiations began in 1987, the U.S. position was to eliminate all export subsidies, domestic supports, and import barriers. The U.S. sugar industry was one of the first and one of the few to support such a position because of our confidence in our ability to compete.

After several years of negotiations, however, we found that the final GATT agreement in agriculture did very little to impact the world dumped sugar market. While the agreement does not particularly hurt our industry, it does not particularly help it either. We expect to see continued severe market disruption caused by export subsidies for a foreseeable future. The agreement did allow much higher European Union sugar support prices to remain in place. The bottom line is that unfair trade practices will continue to exist indefinitely; therefore, we need a strong U.S. sugar program as a defense and a proper response to those practices.

The sugar program over the last 13 years has been successful in meeting many of its objectives. Members of Congress overwhelmingly supported the sugar program in 1985 and again in 1990 by identical margins of 121 votes for a number of good reasons.

American consumers have had a reliable supply of sugar and have never had a fear of shortage like the ones in the mid-1970's or early 1980's. American consumers have received a great value for their sugar dollar without having to worry about highly volatile prices. U.S. consumers pay, on average, 10 percent less than the price paid by all consumers around the world and 25 percent less than consumers in other developed countries.

The program has been fiscally responsible. The program is designed and mandated by Congress to operate at no cost to the taxpayer. In addition, the industry pays a special tax of approximately $25 million per year to help reduce the deficit. This is a contribution by producers and processors of over $125 million over the past 5 years with the current program.

According to Landell Mills commodity studies, basically it is estimated the U.S. sweetener industry generates 420,000 direct and indirect jobs and has a direct and indirect economic impact of $26.2 billion in 42 States.

While there are many more benefits to the sugar program, there are also a few problems that we need to attend to in the renewal of the program for 1985. We are now in our fourth year of the 1990 farm bill, which dramatically changed the sugar provisions of the 1985 program. A mandatory minimum import level of 1.25 million short tons added to the existing no cost provisions required the inclusion of standby marketing allotments and allocations. This fundamentally changed the operation of the sugar program.

The biggest problem growers are voicing concern about since the passage of the 1990 farm bill is low prices for refined sugar. If you refer to chart three, you can see what has happened to these prices since 1990.

While one of the main objectives of the program is to stabilize prices for producers, it has instead had a negative impact. Sugarbeet growers are directly and significantly impacted by low refined prices since growers share a net price of sugar.

I refer you to chart four. You can see what has happened to the returns of the growers. At the same time there has been an increase in prices of sugar-containing products. It is clear that under the current program the industrial users have been quietly picking the pockets of farmers without any benefit to the ultimate consumers. Once again, the middlemen are the big winners under the current program.

When refined prices are depressed, three problems occur. First, some sugar companies have made the decision not to take out CCC loans and, thus, do not participate in the program. This is disconcerting to the growers because if the processor does not participate in the program, there is no guarantee of a minimum payment per ton to growers as required under the program. This minimum payment per ton is heavily relied upon by growers and their bankers to arrange operating loans or capital purchases in order to produce the crop.

All of the grower's costs will have been incurred in the production, harvest and delivery to the processor before his processor determines whether he will participate in the program. If the processor chooses not to participate in the program and sell at lower prices, there is nothing the grower can do to react, because all his costs have been incurred.

Growers want their processor to participate in the program because of provisions which guarantee them minimum payment should their processor go into bankruptcy before they are paid for their crop, as was the case with Great Western Sugar Company in 1984.

Second, some processors who participate in the market are forced to sell sugar at low prices in order to maintain market share, keep traditional customers, or clear storage for a new crop rather than forfeit to the CCC. That processor will have to pay the difference between the minimum payment required by the program and the lower return he achieved in the marketplace in accordance with the contract with his growers. Obviously, this is not a sustainable policy for the company and will further increase reluctance to participate in the program. This has occurred in the past year.

Third, low refined prices force processors who participate in the program to threaten or actually forfeit sugar to the CCC. As you are all aware, this also occurred in fiscal year 1994. This small amount of sugar now in the hands of CCC should be sold for more than its forfeiture price to assure that this program operates at no cost to the taxpayer. We strongly believe that this program should be administered in a manner which not only maintains the integrity of the program, but complies with the design of law and the mandate by Congress.

Mr. Chairman, all of these problems would be resolved if higher prices were achieved in the marketplace.

Clearly, there is a great debate among industry participants as to when, how and on what basis marketing allotments should be imposed. With the value of our loan rate being eaten away by inflation each year, many areas throughout the country expanded production in order to increase their efficiency and reduce per unit costs in order to be long-term producers and suppliers. For example, the growers in this region suffered from unprecedented drought during the 3 out of 5 years in the 1985 through 1989 base period, and wish to see some recognition and accommodation of their concerns. I can assure you we are looking at everyone's concerns and working to address them.

The U.S. sugar industry is unique, diverse, and fiercely competitive. Arriving at a consensus on policy has never been easy, but we have always done so and fully expect to do so in the future. In coming to a consensus position in 1990, we may have overlooked some small details. We are reviewing the program to determine the cause of some of the problems. Some of the problems are the law is simply lacking provisions; existing provisions are vague and open to various interpretation, prompting challenges through the courts; and finally, some current provisions may be inappropriate for the 1995 farm bill.

The other major concern by growers is the administration of the sugar program. The current program has been a challenge to administer for three reasons.

First, we believe that there is far too much discretionary authority given to the administration to manage this program in two specific areas, and there is an inordinate amount of influence of the interagency group on USDA. We believe that stricter guidelines as to the operation of the program in the law will reduce the meddling of other agencies within the Government. These agencies clearly have agendas other than achieving the objectives of this program as it was intended in Congress.

Mr. ROSE. Hear, Hear. Amen.

Mr. DEAL. This would significantly help USDA operate the import quota and marketing allotment provisions of the program as it was intended by Congress. For example, in 1990, the import level was increased by 400,000 tons, based on a decision by the interagency group and USDA Under Secretary Richard Crowder, who, as you know, was a former commodities buyer and founder of the Coalition of Sugar Purchasing Agents.

As you will note in chart three, that decision had a devastating impact on domestic prices and producers ever since. Such a decision should never have been allowed to happen. Our growers feel very strongly that allotments should not be imposed when imports are greater than 1.25 million tons and domestic sugar should not be stored while imports are increased. We are very adamant on these two points.

Second, as I noted earlier, USDA was left to make sensitive interpretations of the law which had or have no consensus within the industry, which always provokes a strong response by some industry sectors. We intend to resolve those issues.

Finally, Mr. Chairman, we want to make sure that any proper information which may be now lacking is provided to USDA to better administer the program.

In summary, Mr. Chairman, there are no easy answers to any of these issues, but you and the committee should be heartened, as I am, to see all segments of the sugar producing, processing, and refining industry make some difficult concessions in the spirit of cooperation to recommend the imposition of marketing allotments in fiscal year 1995. I am confident that we will achieve that unity for the successful renewal of the sugar program in 1995. Thank you.

[The prepared statement of Mr. Deal appears at the conclusion of the hearing.]

Mr. ROSE. Thank you very much. I very much like your statement and find it very helpful. Go back to page three up at the top.

Second paragraph, you say, "While one of the main objectives of the program is to stabilize prices for producers, it has instead had a negative impact. Sugarbeet growers are directly and significantly impacted by low refined prices because growers share in a percentage of the net selling price of sugar. It is clear that under the current program the industrial users have been quietly picking the pockets of farmers, without any benefit to the ultimate consumer. Once again, the middlemen are the big winners under the current program."

Now, unfortunately, I find that running through all the commodities that I have now or ever had anything to do with. It's true in peanuts, it's true in tobacco, and that's why I'm proposing to do away with the tobacco price support program as we know it and have the Government buy up all the tobacco quotas, but do it through funds raised by an increase in the tobacco tax. It's not your problem, but the general pattern is like you say and we need to very make sure that the people that write the 1995 farm bill understand what they're doing.

I have told peanut and sugar interests who want lower price levels for peanuts and lower price levels for sugar, I say, look, you show us how you will pass these lower prices on to the American housewife and we will be happy to come up with some reduction. Can you do that and put that in writing and put that in legislation? Oh, no, we can't do that. No, we can't do that.

The peanut butter people complain that we were charging too much in the peanut program for peanut butter. Mr. Schumer of New York, our good friend Mr. Schumer, asked the GAO to look into both the sugar and the peanut price support program. I said, "Mr. Schumer, when you ask for those two at the same time, it sort of is a giveaway, and the giveaway is it spells candy. Now, which candy manufacturer put you up to this?" You understand, he never fessed up. But the GAO went to the major peanut butter manufacturer in this country and said, "If you get a lower quota price on your peanuts, will you pass that along to the American housewife?" The answer was, "We can't do that. We can't do that. We might advertise a little bit more, but we can't pass on any savings."

Mr. PETERSON. Are we going to let the whole panel——

Mr. ROSE. Yes. I think we should. Mr. Baldwin, go ahead. I got carried away.

STATEMENT OF WILLIAM (BUZZ) BALDWIN, PRESIDENT, RED RIVER VALLEY SUGARBEET GROWERS ASSOCIATION

Mr. BALDWIN. Mr. Chairman, members of the committee, and other friends of agriculture, I am Buzz Baldwin, president of the Red River Valley Sugarbeet Growers Association. On behalf of all agriculture, we want to welcome you to the Red River Valley.

I represent about 2,200 sugarbeet growers from both Minnesota and North Dakota; 25 years ago, our growers made a commitment that will span generations by purchasing American Crystal Sugar Company. We made a huge investment at that time and our grower-shareholders have backed up that decision with hundreds of millions of dollars in additional investment in the company. We wanted total control of our destiny then and still do today.

Sugarbeets are one of the few crops that we can grow profitably in the valley. That is one of the most important reasons that we need a sugar program today. Without that safety net provided by the program, growers here and in the rest of the country would be exposed to sugar dumping onto the world market at subsidized prices. We have worked hard to become efficient here in the Valley, but there is no way that we can compete with hundreds of millions of dollars in subsidies paid by foreign Governments.

My grandfather and father raised sugarbeets on our farm in the northern end of the Red River Valley, and I have raised them myself for almost 30 years. I am proud to say that my son has completed his 4-year college degree and has made the decision to return to the farm as the 4th generation. He has a 4-year-old daughter who we hope some day will carry on the tradition of growing sugarbeets. I only tell you this because we treat this company as something more important than just one more crop in the rotation. It is truly the lifeblood of the valley and we don't ignore that fact for 1 minute.

For that reason, we pay a lot of attention to what goes on at American Crystal, and to factors that are affecting the company from outside the valley. As I said before, the grower-owners have invested many hundreds of millions of dollars in buying and upgrading our factories. Just about a week ago, our board of directors approved an update to our strategic plan that calls for even greater commitment to efficiency.

We don't make these decisions lightly. As I said, my livelihood, my son's, and my granddaughter's future are riding on them. When I hear that American Crystal is going to spend money to upgrade its factory, my response is not to ask "Why risk the money?" Instead, I think to myself "Now I know I'll be part of the sugar industry for as long as my farm can produce those sugarbeets." My hope is that there will be a Baldwin raising sugarbeets on our farm for many years in the future.

American Crystal has been investing in making its factories as efficient as any in the world in terms of capacity, extraction, and energy usage. I think these efforts are essential to our long-term survival because there is always a threat that trade agreements or something unforeseen could further expose us to the unfair foreign trade practices of other countries.

I mentioned earlier the factor that affects American Crystal from outside the Valley. One of the most important factors is marketing allotment program, and the way it has been used over the past 2 years. We do not think that allotments should be forced onto the market in order to allocate market share from one region of the country to another. We also do not think that allotments should be used to hobble the efforts of any sector to become more efficient.

We recognize that allotments are a part of the current farm bill and that there are circumstances when they must be used. However, we think it is critical that the industry reach a definitive agreement as to when allotments may be triggered and that those recommendations be supported by the Secretary and Congress. The uncertainty and the lobbying of USDA to do one thing or another is counterproductive for the Government, the industry, and the customers.

I think that one last comment about allotments is necessary; 3 months ago, sugar was forfeited to the Government for the first time in nearly 10 years. We in the Red River Valley Sugarbeet Growers Association were very disappointed that forfeitures of such a small amount of sugar would be allowed to undermine the no-cost nature of the program. We don't believe that companies should use this threat of forfeiture to bring on marketing controls.

Management of the sugar program will be made much simpler if imports of sugar-containing products are significantly reduced. Many of the issues related to the allotments and forfeitures will be eased if the blends issue is finally brought under control.

Once again, I appreciate the opportunity to discuss with you these topics of importance to the growers of our organization. Thank you for your time and your interest in our industry.

[The prepared statement of Mr. Baldwin appears at the conclusion of the hearing.]

Mr. PETERSON [acting chairman]. Thank you, Mr. Baldwin, for that fine statement. I think we'll hear from Mr. Hardie and then we'll have a few questions.

STATEMENT OF WALLACE HARDIE, CHAIRMAN, GOVERNMENT RELATIONS COMMITTEE, NATIONAL CORN GROWERS ASSOCIATION

Mr. HARDIE. My name is Wallace Hardie. I'm a corn and soybean farmer from Fairmount, ND. I am currently serving as chairman of the government relations committee of the National Corn Growers Association, which I represent here today. I also served on the organizing committee of the Golden Growers Cooperative, which is finalizing plans for a new corn sweetener plant in this region.

It's a pleasure to have the opportunity to discuss with you the great importance of the U.S. sugar program for corn farmers in this country. Today I will cover the importance, benefits, and economic impact of the corn sweetener market, Government or taxpayer savings, reduction in the trade deficit, the thousands of jobs it provides for corn farmers and wet millers, and our efficiency and competitiveness. After reviewing the facts, it will be clear that the benefits of the sugar program to corn farmers, consumers, and taxpayers are impressive.

One of the greatest challenges faced by corn farmers over the decades is what to do with the bountiful crops that we grow. Our ability to produce has always seemed to outpace our ability to find enough uses and markets for that production. Surplus production and the lack of markets always translates into lower prices for producers, and frankly, Mr. Chairman, we cannot survive lower prices. I can assure you that the corn growers in this country are committed to finding additional uses and new markets for our product. The sweetener product is our finest and most important example.

When Congress did not renew the sugar program in the mid-1970's, shock waves were felt around the world and prices for sugar skyrocketed. It caused consumers to panic when shortages appeared at the local grocery store. It sent prices of sugar-containing products soaring, which hurt consumers. When the price of sugar finally plunged, it devastated producers.

The only winners in the game of highly volatile markets are the industrial purchasers of sugar. It has been shown time and time again that these middlemen do not pass the savings on to the consumer. We have learned from our experiences with both the sugar shortage and the oil shortage in the 1970's that a Nation of our size and importance must not be dependent upon foreign suppliers for commodities that are essential to us.

The shortages of the 1970's provided an opportunity to launch the major commercialization of corn sweeteners. The sweeteners made from corn are glucose, dextrose, and high fructose corn syrup, or HFCS, which is used extensively in soft drinks. Literally hundreds of products on the supermarket shelves contain corn sweetener, either exclusively or in conjunction with sugar. Soft drinks account for almost three-quarters of the total domestic production of HFCS; 33 pounds of sweetener can be extracted from a bushel of corn, which is enough to sweeten 324 cans of soda.

Congressman Peterson, I'd like to commend you in your choice of soda this afternoon. I was going to admonish the chairman for drinking diet soda and I'll have to do that when he gets back.

In the United States today, over half of the natural sweeteners consumed come from corn. The remaining half is about equally split between sugar from beets and sugar from cane.

Corn sweeteners account for the largest portion of all industrial uses for corn. The USDA estimates that in 1994, about 660 million bushels of corn will be used to produce sweeteners, which is 10.4 percent of the total corn crop.

What does this mean for farmers in terms of dollars? Corn used for sweeteners adds 25 cents or more to the value of every bushel of corn sold in the cash market. This is good news for the 924,000 American corn farmers. Minnesota corn farmers produce 670 million bushels, according to the 1992 U.S. census of agriculture, and the added value of their corn amounts to over $167 million.

Not only is this good news for all corn farmers, it is good news for the corn program as well. As a result of the added value of corn as sweetener, USDA estimates that the corn deficiency payment is reduced, saving taxpayers between $500 and $700 million every year.

In addition to these savings, the sugar program is designed and mandated by Congress to operate at no cost to the taxpayers. In fact, because of a marketing tax on domestically produced beet and cane sugar, the Government actually makes over $25 million each year. I doubt that there are any other Government programs which combine no cost, money saved in other programs, and money added into the U.S. Treasury to help reduce the budget deficit.

The annual U.S. trade deficit is staggering and harmful to our economy. Every pound of corn sweetener that is sold in the U.S. market saves American dollars which would otherwise be spent overseas for imported foreign produced sugar. Production of high fructose in 1994 reduced the need for imports of sugar by $3.4 billion.

In addition to the tremendous economic benefit of the sugar program to the corn sweetener industry, there is also a huge impact on people and their employment. An August 1994 study entitled "The Importance of the Sugar and Corn Sweetener Industry to the

U.S. Economy," by Landell Mills Commodities, based in Oxford, England and New York City, estimated the number of jobs involved in producing corn sweetener. An equivalent of 90,537 corn farmers is needed to produce all the corn needed for sweeteners, with an additional 8,500 workers in the wet milling industry to make the sweetener. Maintaining 100,000 good jobs is important to rural America.

The U.S. corn sweetener industry is the lowest cost producer of caloric sweeteners in the world. There are no ifs, ands or buts about it. We can compete head to head with any sweetener producer in the world.

The problem we face as corn sweetener producers is the same one faced by sugar producers. We cannot compete against the vast export subsidies of foreign treasuries. If it were not for the U.S. sugar program, which has a feature of import quotas built into it, foreign governments would be able to dump unchecked amounts of subsidized sugar into our markets. The result would be to depress prices to the point of destroying much of the domestic sweetener production.

In the meantime, uses for corn sweetener would most assuredly be curbed dramatically as the market became flooded with dumped foreign sugar. The sugar program is a proper and effective response to foreign governments that highly subsidize sugar production and then dump surplus supplies of sugar on the world market.

In short, the use of corn as a sweetener is good for farmers, consumers and taxpayers. The continued and increasing use of corn as sweetener depends to a large measure on a sound and solid domestic sugar industry. Our efforts to open new markets and find new uses are only beneficial if existing markets and uses are maintained. That is why those of us in the corn industry favor and support a strong and reliable U.S. sugar program.

It is our position that the current U.S. sugar program has a tremendous economic impact on the corn market, saves money for the Government and taxpayers, reduces the trade deficit, generates 100,000 jobs for corn farmers and wet millers, and allows our efficient industry to compete against unfair foreign trade practices. After reviewing the facts, we believe that it is in the best interests of American taxpayers, consumers and farmers to defend, promote, and extend this policy. Thank you, Mr. Chairman.

[The prepared statement of Mr. Hardie appears at the conclusion of the hearing.]

Mr. ROSE. Mr. Peterson.

Mr. PETERSON. In your testimony, Buzz, you were talking about—I think it was you that was talking about you want more—sounds to me like a more definite mechanism so that you can rely on how it's going to work, you don't have to worry about what might be going into it. Is that what you're saying?

Mr. BALDWIN. That's essentially what we're meaning is certain trigger points be set so you'd have to——

Mr. PETERSON. They're pretty definite, so I think everybody knows what's going to happen when you get those. That's pretty much the consensus at least in this area?

Mr. BALDWIN. Yes.

Mr. PETERSON. This year—and I've been out in Washington too much, what I've been hearing is we got a pretty good looking crop. Is that the case at least in some areas?

Mr. BALDWIN. We do have a good-looking crop, but that crop is in the field. I would say that in our area, the crop is probably 40 percent harvested, maybe a tish over. But mainly for American Crystal as a whole, it's probably in the high twenties or maybe 30 percent.

We probably, and I'm just saying this, have 20 percent that is very marginal, and we probably need a very good word from the good chairman's brother-in-law out in North Carolina and we would be willing to tithe very well if he'd continue this weather for another 2 weeks or so. But we do have 20 percent that is probably in dire needs of good weather to get that out, and that 20 percent in the co-op means whether it's a good year or a bad year, and yes, we do have a potential for a good year, but the jury is still out.

Mr. PETERSON. That's the one variable that I don't know how you control. I mean, we can maybe eventually get a handle around the imports and try to get everything included. I don't know enough about cane to know whether that's more predictable than sugarbeets are, but in our area here, that's the one thing that's hard to take out of it from one year to the other.

Mr. BALDWIN. Mother Nature plays that role, and I'm sure with cane they have their problems, too, with weather and hurricanes and heavy winds.

Mr. PETERSON. Say if we get into a system that's pretty rigid and we have a tremendous crop that comes in way beyond what you've had say for the last number of years, and then what happens? You know, say that happens all over the United States?

Mr. BALDWIN. How do we handle it?

Mr. PETERSON. Yes. That's the one variable I guess that you just let the farming allotments take care of it and chips fall where they may. You just have to live with it?

Mr. BALDWIN. Live with it and work with it to the best of the industries, you know. The industry as a whole will have to address that problem and we hope that we can work together in forming the 1995 farm bill.

Mr. PETERSON. I was going to ask the same question of all of you. Is there a process going on in your group now on the farm bill where you're actually sitting down and trying to formulate where you're going to be, or has that not been formalized at this point?

Mr. BALDWIN. We have amongst ourselves in the co-op in the Red River Valley, between the co-ops, Southern Minnesota, Minn-Dak and American Crystal and the Growers Association, have a legislative committee where we sit down and we do have some guidelines that we would like to address on the next farm bill, things we'd like to correct and work out. We realize that we probably can't get them all, but we would like to sit down and talk. And we do have an agenda, yes.

Mr. PETERSON. You've got that put together?

Mr. BALDWIN. We've got that pretty well put together and are preparing it.

Mr. PETERSON. Do you feel like the Department is listening to you? They were describing they have this process going on. Are you being included in that?

Mr. BALDWIN. Yes, we do. We hope. We hope they are listening. Lawrence, do you want to comment on that?

Mr. DEAL. Yes. Actually, as far as working on this program, we started probably a year ago last July at one of our meetings on the American Sugar Growers group, and basically the feedback that we had on the regional level between the three cooperatives here was carried into that group and, of course, then at that point all of the sugar growers in the United States are represented, and it's been a long process.

One of the meetings that took place that led to some of the testimony I gave here today was in March when all the growers got together and were complaining, you know, about the low prices and they weren't receiving what they felt they should get out of the market, and, of course, those conversations and discussions are leading to what we're going to be asking for.

At this point, I would say the progress we're at, we're pretty well on target I think. We'll be trying to reach some type of—of course, it's a long process because we can get together on the beet side and the cane side has to get together and we have to meet a consensus between all of those groups plus the refinery interests.

Hopefully, by the first of December or somewhere in that time frame, we should have some type of a consensus so that when you have hearings this spring we can come and lay those wishes and desires and recommendations from the industry on the table.

I'm glad to see the administration testifying today and we hopefully would like to work very closely with them, and I do believe that in the last year or so we have worked very closely with them and I think that has improved our relationship and improved the implementation of the program very much.

Mr. PETERSON. Thank you. Thank you, Mr. Chairman.

Mr. ROSE. Now, who was it that made a crack about my diet drink?

Mr. PETERSON. Wasn't me.

Mr. HARDIE. It came from the corn industry. As you know, there's no corn in Diet Mountain Dew.

Mr. ROSE. It says it's aspartame made from Red River Valley beets.

[UNIDENTIFIED SPEAKER]. We haven't diversified that far yet, sir.

Mr. ROSE. I'm sorry, I was out for a minute, the comment you made, Mr. Hardie, about how much you support the sugar industry and obviously you do for many, many reasons and we appreciate that. But it's like I had a good Jewish classmate in college who ran a department store and he said he and his daddy sat around the cash register on Christmas Eve singing "What a Friend We Have in Jesus." I think that kind of applies to the corn sweetener industry. I love the relationship, but we thank you for your support.

Mr. HARDIE. You're very welcome. As it was mentioned, the formation of Golden Growers Cooperative here in this region is a real unique opportunity to combine the sugarbeet—it's an opportunity for sugarbeet farmers and corn farmers to join hands in a joint venture and this is going to be a great thing for this region.

Mr. ROSE. Thank you all very much. No other questions. You're excused.

Mr. POMEROY. Mr. Chairman, I've got a couple.

Mr. ROSE. I'm sorry.

Mr. POMEROY. I might have gone on a little long last time. I'll keep it a little short.

Mr. ROSE. No. Keep going.

Mr. POMEROY. First of all, Wallie, congratulations on your election to the chair of the government relations committee. That's great. Be seeing a little more of you.

Mr. HARDIE. Yes. I'll be out this winter to visit you quite often.

Mr. POMEROY. Great. This question is for both Mr. Baldwin and Mr. Deal. It involves, first of all, your experience as producers during the time we didn't have a program and you saw such radical price swings. What was that like, just briefly?

Mr. BALDWIN. Congressman, everybody likes $60 sugar or $50 sugar, but it's hard to plan for your future with that, with the trends up and down. With the sugar program, we have the ability to see a level pricing and at that time we can plan our expansions—or not expansions, but our operations for investment in upgrading our plans on improving maintenance, whatever. We can budget much better. The farmer itself can budget his income, his managing. I guess when you have the peaks and the valleys, you have a lot of people in and out and the industry is very unstable and uncertain at that time. That's why we feel that the farm bills are essential to the industry.

Mr. DEAL. Congressman, I would be remiss not to say that I like the high times because that's when we can kind of make up for the low times and those low prices. However, any time you have a spike in the price like we see in the chart in 1975 and 1980, and as commodities go and as charts go, there's always the low end, and basically, we've seen some of those lower prices. Especially in my case, trying to get the next generation started and trying to get new growers and new people involved in growing sugarbeets to kind of take over, and as some of the older folks retire, it's tough during those periods of times that you have those low prices for anybody to even consider getting into the business and it's also tough on the operation of your sugar plants, such as we have as cooperatives, to meet their costs and still pay a decent return to the grower.

Mr. POMEROY. While it may not be quite as bad as the price swing phenomenon, the imposition of allotments in a good year really hits. That's a tough hit. Would you describe a little just briefly your experience with that last year?

Mr. DEAL. Well, yes, very well. Because as it ended up, we were in a real fiasco. Minn-Dak Farmers Co-op—I'm talking about the company I grow for at this point. At that point, we had already had sugar marketed over the allocation we had allotted to us, putting us in a triple damage position to where it would have been totally devastating on our company. Of course, those got worked out much to your credit, Congressman, in the Reconciliation Act that finally straightened that problem out just in the regs and in the language of that.

But moreover, beyond that, I did see, sitting on the board of directors at Minn-Dak, some of the letters that we had received back from our customers, and I have never read letters—I mean I've got a few enemies, not a lot, but I have a few of them that I don't agree with, and I've had responses, but I've never seen a response back from a customer telling us that we were completely out of the market because we were under our allotted allocations and we couldn't deliver that sugar. That's devastating. You're losing market shares. We just as an industry cannot live under those circumstances.

Mr. POMEROY. Buzz, Crystal's was similar.

Mr. BALDWIN. Yes. Crystal's was a similar deal. We didn't get caught in triple damages as they did, but yet we were coming off a drought situation. The base years were from 1985 to 1989 and we had 2 years severe drought. So that restricted us, plus we'd have had to carry that sugar over to next year's crop and our storage situation at that time was enabling us not to do that because we didn't have storage and it put us under depression.

Mr. POMEROY. It would seem to me that there's a troublesome point then to the existing program that we ought to try and do something about if possible, would be trying to alleviate the tough hit to producers of allotments, particularly imposed at the end of a marketing year. Do you have ideas between the two of you in terms of what might be done to keep the program at no net cost but shy of the allotment, particularly as we saw used in 1993?

Mr. DEAL. I think one of the things that you have seen happen was that the consensus was reached that the industry would accept allocations for the 1995 fiscal year. That didn't come easy, but I think throughout the industry, knowing the crop that was out there and so on, that we felt that if allocations were going to come any time, we're better off having them come on at the beginning of the year so that our companies can better direct their marketing efforts to live within those and still maintain our market share.

I think that that's very important, that we be able to take care of customers and not get those nasty letters that we had the last time when they were imposed in the fourth quarter.

Mr. POMEROY. I haven't had the experience, but Collin tells me even he gets a nasty letter from time to time. But, Buzz, do you have any other ideas how this might operate in a nonallocation or different allocation mechanism?

Mr. BALDWIN. We have a lot of ideas, a lot of things we'd like to try. Working with the industry as a whole in trying to work these out so it doesn't hurt anybody is our main purpose now. Going into our next farm bill is the time to sit down and try to work this, because we've seen some of our problems in the past that has let us put some triggers up. Sitting down, coming into the next farm bill, looking at some of these things, taking them head on, working them out for the best of the industry, and I guess it's my feeling that we can accomplish that before going into the farm bill, and probably Dave Berg or something—I'd like to confer with them before making any statement.

Mr. POMEROY. I understand. No more questions, Mr. Chairman.

Mr. ROSE. Thank you, gentlemen. Our next panel list is a single panel of testimony by Dr. Larry Leistritz, professor of the Department of Agricultural Economics at North Dakota State University in Fargo.

STATEMENT OF F. LARRY LEISTRITZ, PROFESSOR, DEPARTMENT OF AGRICULTURAL ECONOMICS, NORTH DAKOTA STATE UNIVERSITY, FARGO, ND

Mr. LEISTRITZ. Chairman Rose, Congressman Peterson, Congressman Pomeroy, ladies and gentlemen, my name is Larry Leistritz. I'm a professor of agricultural economics at North Dakota State University.

The information that I'll be presenting briefly here this afternoon is derived from a study that my colleagues and I at North Dakota State University conducted about a year ago. The purpose of the study that we have done was to estimate the economic contribution of the sugarbeet industry to the economy of North Dakota and Minnesota. The area we'll be looking at, then, we see here the sugarbeet producing counties in eastern North Dakota and the Red River Valley area and then down here in the Renville area, further south in Minnesota. Here we see the location. Of course, we're located right here, and the counties with the most beet production. Many of you know more about the geography of the sugar industry here than I do, so I'll move right along.

The purpose of the study was to estimate the economic contribution of the sugarbeet industry to the North Dakota and Minnesota economy and we were making these estimates as of 1992. You're looking at the crop production and processing for 1992.

The major steps are then estimating or determining from secondary statistics, the sugarbeet production in eastern North Dakota and Minnesota, then estimating the sugarbeet production expenditures and returns and sugarbeet processing expenditures. These were important steps then because this becomes what we refer to as the direct impacts or the direct economic contributions of the sugarbeet industry.

Then using a technique called input-output analysis, we estimated the secondary economic impacts. That's those impacts that arise from the multiplier process, some people call it, that generate economic activity and jobs in other sectors of the economy as a result of the initial stimulus by the beet production and processing.

Just as a point of reference then, in 1992, we had about 551,000 acres of sugarbeets harvested in this eastern North Dakota, northwestern Minnesota area, and with an average yield a little over 18 tons to the acre, or about 9.97 million tons of beets harvested. So that was the production activity that was the basis for our subsequent analysis.

We look here, we have basically the direct and then the secondary impacts of the sugarbeet industry in this region. The direct impacts then are those direct expenditures by the beet producing and beet processing entities, by the sugarbeet growers and by the co-ops in the processing activities.

We see major expenditures to households. We see the expenditures are distributed by economic sector. What we're seeing here is, where do the payments go, what were they for. Households includes primarily wages and salaries as well as producer returns. Retail trade includes a high percentage of those expenditures for inputs, for fertilizers, fuel and all the other things that it takes that you have to buy in order to raise a crop of beets, as well as similar expenditures by the processors.

Then when we look at the secondary column, that's the result of those multiplier effects that result from the initial expenditures in the beet industry. We see the secondary impacts showing up across the board, but especially large impacts in the retail sector, finance, insurance, and real estate, and up and down the line in the trade and service sector, household sector and so on, for a total impact or direct outlays here of about $575 million and secondary impacts totaling almost twice that, for about a little over $1 billion in secondary impact. So we can see that the sugarbeet industry has a total impact in this region of about $1.6 billion—a very substantial economic impact.

The employment impacts from the sugarbeet industry, of course, as so many of us in this region know after going through a period there in the 1980's when good jobs were hard to find and still no surplus of them in many rural areas, but sugarbeet processing directly accounts for a little over 2,400 full-time equivalent jobs. Those are the jobs basically involved with the sugarbeet companies, the three co-ops, the seven plants and so on.

What we do not include here is the on-farm jobs. And, of course, anyone here from the beet industry can give you probably an up to the minute account of how many growers are growing for the different co-ops, and, of course, in addition to the growers themselves, then you have a number of hired workers as well. But excluding the on-farm jobs, we have about 2,400 here directly employed in the processing activity in 1992, and then the secondary jobs, in the ag supply sector, in the retail sector, up and down main streets, people selling crop insurance and the like, secondary jobs then are estimated to total more than 20,000 FTE jobs in this eastern North Dakota and northwestern Minnesota area. As most of you well know, but as important I think for the Congress and others to realize, this is very significant to the economy of this region. Almost 23,000 jobs here in addition to the on-farm jobs is extremely significant to the economy of this whole region.

Another dimension of economic impact, which is always important, especially like here in North Dakota it's every 2 years that our legislature meets to try and find money to finance State operations and State services for another biennium, so the State tax collections, payments of State taxes are another important dimension of economic impact.

Here we look at just three significant State taxes. There would be other less major taxes that are also paid by the sugarbeet industry, but we see here sales and use tax, personal income and corporate income tax, estimating about $34 million in tax payments for the industry. This is tax payments resulting directly and indirectly, including those multiplier effects.

In addition, we estimated that the sugarbeet growers are directly paying about $6.5 million in property tax that could be associated with the sugarbeet production. Those were included in the direct impacts that we looked at a little earlier.

Well, these tables of numbers, they're really exciting, but after a while, why, you know, what the heck. You can probably look at those at your leisure in my prepared remarks. But just for a few little summary comments, I guess, what we were really finding—one thing we were finding from the study was that for every dollar spent by the sugarbeet industry, those direct expenditures by the growers and by the processors, each dollar spent generates about another $1.84 in additional business activity in other sectors. That's that multiplier effect that we often talk about.

So for every dollar spent in the industry, another $1.84 shows up as cash register receipts in the local retail stores, as sales by farm supply companies, as receipts to the service sectors and so on.

Another way of looking at it is that every acre of sugarbeets planted in 1992 generated about $2,950, almost $3,000 of total business activity. That would be, again, roughly a thousand dollars directly and the rest would be in secondary impacts in the other sectors. Or looking at it another way, every ton of sugarbeets processed generated about $176 in total business activity.

So those are some ways of visualizing the economic importance of the sugarbeet industry here in the eastern North Dakota and northwestern Minnesota. I hope these estimates are helpful in giving some perspective. Thank you.

[The prepared statement of Mr. Leistritz appears at the conclusion of the hearing.]

Mr. ROSE. Thank you very much for your very informative presentation. Has there been a trend line in that economic impact or has it been pretty steady through the years, from looking at the say last 5 years?

Mr. LEISTRITZ. The economic importance of the industry, I guess that over about the last 5 years we have two points because we did a study, a similar study for the industry in 1988. At that time, we were estimating that the total economic impact of the industry at about $1 billion annually, so that would compare to 1.6 in this recent study. One has to, of course, take inflation into account in that whole process. So yes, the economic contribution of the industry has been growing.

Mr. ROSE. Thank you, sir. Questions? We appreciate you being here. We don't have too many questions because we've got them all answered by what you presented. Thank you very much.

The next panel is agribusiness representatives. Mr. Lynn Paulson, branch manager, Farm Credit Services, Grafton, ND. Mr. Mark Froemke, representative of Grain Millers Local No. 264, East Grand Forks, MN. Mr. Lyle Roelofs, vice president, general manager, Red River Distributing, Inc., Crookston, MN.

Thank you all for being here and we'll start with you, Mr. Paulson.

STATEMENT OF LYNN PAULSON, BRANCH MANAGER, FARM CREDIT SERVICES, GRAFTON, ND

Mr. PAULSON. Mr. Chairman, thank you for allowing me the opportunity to provide testimony to this committee and hopefully provide some additional unique insights into the current and future sugar program and the area sugarbeet industry.

I'll keep these comments brief as I've got a date to pheasant hunt in about a half-hour or so. Today is opening for pheasants in North Dakota. Do you have pheasants in North Carolina?

Currently, I manage the Farm Credit Services office in Grafton and also in Devils Lake. We have a large diversity of agriculture comprising our loan portfolio, with the main emphasis in terms of loan volume being in the valley, primarily with row crops, mainly beets, potatoes, and beans. Presently, our Farm Credit Services Association provides financing to over 5,000 farmers in our 20 county territory in northeastern North Dakota and northwestern Minnesota.

I grew up and later farmed on our family farm 15 miles southeast of Maddock, ND, which is located in Benson County in the north central part of the State. I'm not a native valley farmer or resident, having moved to the Grafton area 8½ years ago. My mother still lives on the family farm and I have two brothers who currently farm in the area, having taken over the operation when my father died approximately 20 years ago.

I also farmed and operated the family dairy for about 7 years until the entire facility burned in 1985. At that time I realize it wasn't the long-term stability and opportunity that provided the needed cash flow and profitability for the farm and explored the possibility of changing careers, which I ultimately did by going to FCS.

As a result of still having an interest in the family farm, I'm very cognizant of the struggles of making a living in that area. When I was recently back home, I couldn't help but notice the changes in the continuing decline in the number of active farm operations from about 15 years ago. At that time there were probably 12 to 15 active operations along the way to town. Recently, I only noticed three or four.

Benson County essentially has only two or so machinery dealers of any consequence with no furniture stores to my knowledge, not a car dealership, nor hospital, with the nearest hospital care about an hour away for most residents, and I don't believe it has any clothing stores, et cetera. It's basically become a county of grain elevators and basic farm and family living needs. Any major purchasing is done in the larger regional centers such as Devils Lake, Minot, Grand Forks, and Fargo.

In large part, although we may have seen a relatively minor decline in the overall economy in the valley, both in the farm and nonfarm sectors, the decline appears to be significantly less.

Additionally, the average age of farmers in the nonvalley areas is getting older with each passing year, with many nearing retirement age. Few young farmers, which represent the next generation of agriculture, are in a position or have a desire to take over the family farm because of the lack of opportunities, mainly the ability to generate adequate income without farming large amounts of land to meet their debt servicing obligations and basic family living needs. Consequently, the situation I mentioned previously regarding my home area only continues to worsen with each passing year.

On the other hand, I find the Walsh County and valley area in many situations has that next generation of farmers already there or in the process of positioning themselves to take over or become part of an existing operation. The relative agricultural strength and stability of the area, due in large part to the stable beet industry, has provided reasonable opportunities to generate sufficient income and subsequent profits required to make a decent living and to service the capital investment needed to be a player in this area and in these commodities.

The young farmers in this area are sharp, typically well-educated, aggressive, and poised to handle the constant and rapid change agriculture is going through, including computer technology, agronomic changes and recommendations, et cetera, and will have the ability and wherewithal necessary to feed a hungry world as we move into the 21st century.

Competition is high and merely starting up a farming operation does not guarantee profitability in the Valley or anyplace else for that matter, nor should it. Fine tuned management is necessary and the farm needs to be run as a business, keeping an eye on the bottom line. However, it can and is being done in such a way that it keeps the family farm tradition alive and well and also provides the accompanying strong family and moral values that are being lost in many segments of our economy and of our country.

Risk is obviously still there and I'm not advocating now or in the future to make raising beets or any farming enterprise a risk-free venture. Obviously, there's an assumption of risk in raising sugarbeets as well as other crops both for the existing and the new farmer. However, I would submit one of the main reasons for the relative difference in the agricultural economies, both present and future, between my home area and the valley is the strength of the row crops anchored by a strong, stable sugar program and industry.

Clearly, we need to stop the exodus of our young people from the State and the area. The young people and their accompanying talents are probably the biggest resources the area has. We need to continue to find ways to develop a strong agriculture economy and the support industries and services that accompany it. In doing so, the young people we need to keep will have the opportunity to maintain a decent standard of living, while enhancing the region with their talents and resources.

It has been my contention for several years that the valley has operated under a fairly delicate balance of crops. Between the beets, potatoes, beans, sunflowers and other row crops along with the small grains, there seemingly, on average, has been room for all of them to find their own niche in terms of the marketplace. However, if you start disrupting that balance to any large extent such as destabilizing the beet industry, this delicate balance gets thrown out of alignment and has a negative trickle down domino effect on all other commodities grown in the area. There's only so many potatoes, so many beans, and so many other crops that can be raised without having a long-term detrimental impact to price and potential profitability because of the supply/demand factors being totally out of economic sync.

The job that the beet industry contributes to the economy and area both in terms of nonfarmers and farmers alike are substantial. In many operations the bottomline profit in large part is predicated or enhanced with a part-time income generated from the beet industry, albeit working at the beet plants during the winter, the transportation companies hauling beets to the processing plants, or working during the actual beet harvest. Personally, for several years I took vacation time and drove beet trucks to supplement my income, the dollars of which were, in turn, spent or reinvested into the local communities and economies.

By removing the stability of the beet industry in the area, you will likely have a detrimental effect on land values. In absence of another high gross return crop like beets or potatoes, you have difficulty supporting land values at their current levels. This will have a negative impact from the standpoint of lowering the tax base for schools that are already having significant financial problems. It will also detract and reduce equity from the financial statements of farmers, thereby possibly hindering their borrowing capacity to expand and replace equipment, make improvements, et cetera.

That, in turn, limits the amount of purchases they will make and the rolling of those dollars through their communities, which would provide additional employment, economic growth and subsequent tax revenue for the area. Furthermore, landowners, many of whom are elderly and retired, rent out their farmland in order to supplement their other income such as Social Security. These landlords may see a reduction in their rental income because of falling land values and subsequent rents for their farmland.

The capital investment initially needed to get into and also needed to maintain the existing operations within the beet industry is large and long-term, not only for the purchase of the beet stock but for the equipment and technology that's needed in order to be a long-term, viable beet producer. To justify such an investment and the accompanying benefits for the area and its economy, a certain amount of long-term stability is needed both from a farmer's and a lender's perspective.

The strength of the beet industry and the cooperatives that make up the industry, such as American Crystal and Minn–Dak, are providing a model for some very interesting offshoots in other farmer-owned cooperatives and ventures. Examples include the Drayton Grain Processors in Drayton, ND, the Dakota Growers Durum Processing Plant in Carrington, ND, the Farmers Choice Pasta Plant in Leeds, ND, a possible potato processing plant in the northern part of the valley, and cattle feeding cooperatives, as well as others.

The relative success of the beet industry in the valley has spawned a real and intense interest in other agricultural value-added processing cooperatives. A stable beet industry through a long-term stable sugar program is the cornerstone and bench mark in large part for the future success of the other value-added cooperative ventures, all of which can have a real positive impact on the future of rural America.

Again, I appreciate the opportunity to express my thoughts and support for the agricultural economy of our region, specifically the beet and sugar program and industry. I think I've provided evidence that the current program is working and any concerted effort to overhaul it would lead to significant problems and hardship that would be felt from the farms to the main streets in our communities. Thank you.

[The prepared statement of Mr. Paulson appears at the conclusion of the hearing.]

Mr. ROSE. Thank you very much. Mr. Froemke.

STATEMENT OF MARK FROEMKE, REPRESENTATIVE, GRAIN MILLERS' UNION, LOCAL 264, EAST GRAND FORKS, MN

Mr. FROEMKE. Thank you, Mr. Chairman. My name is Mark Froemke. I represent the Grain Millers' Union, local 264 with offices in East Grand Forks, MN.

Our employees and members thank you very sincerely for coming here and supporting our sugar industry.

This is an area that has been dependent on agriculture almost exclusively throughout its history. It is an area that has not seen very much processing or manufacturing until recent years. So for working people, many of whom have lost their farms or their farm-related businesses, there is not abundance of good jobs.

I work for American Crystal Sugar, and while the company people know that the union doesn't agree with every part of our employment contracts, they know and we know that this is a very vital company and industry. We all know that the company's success depends upon employees all through the system that care about the company's customers and that care about the company's owners, who are the farmers. Many, many of them are our friends, relatives and neighbors.

Mr. Chairman, there have been a great many people who unfortunately treat employees only as expense items on their voucher receipts. There are many who knowingly destroy our communities with no concern for our rural way of life.

We are here today to show you that we are partners with this industry. Our families absolutely need this industry to make our lives more manageable here. We have school bills, we have food bills, we have car bills just like any other American, and life is difficult at best, and our companies need us. We are skilled, dedicated working men and women.

We surely do not want to all move to the big cities where there is crime, drugs and other violence that will only be made worse by continued rural migration to these cities.

We need industries like the sugar industry. We need companies like American Crystal Sugar, Minn-Dak and Southern Minnesota to be successful. If they are, they pay good salaries to good employees who share in the company's zeal for their customers and farmer owners.

Mr. Chairman, Congressman Pomeroy, Congressman Peterson, thank you for your continued caring about ordinary people in rural Minnesota and North Dakota and America. We want to be part of the American success story too. This industry, the sugar industry, can make that possible. Thank you.

[The prepared statement of Mr. Froemke appears at the conclusion of the hearing.]

Mr. ROSE. Thank you, sir. Mr. Kyle Roelofs.

STATEMENT OF KYLE ROELOFS, VICE PRESIDENT AND GENERAL MANAGER, RED RIVER DISTRIBUTING, INC.

Mr. ROELOFS. Chairman Rose, Congressmen Peterson and Pomeroy, I would first like to thank you for the opportunity to testify before your panel today. The subject of the sugar industry is very important to my company and to the rest of our region and I appreciate the chance to speak with you about it.

My name is Kyle Roelofs and I am vice president and general manager of Red River Distributing, Inc., of Crookston, MN. We are about 75 miles north of here. We sell and service farm equipment and specialize in sugarbeet equipment. Crookston, our community, is the county seat of Polk County, which is the biggest sugarbeet raising county in Minnesota. As you may know, Minnesota is the biggest sugarbeet raising State in the Nation. We are proud of our position in the sugar industry, and I would personally like to thank you and your colleagues in Congress for your continued support of the industry.

My own business is concentrated on farm machinery. Equipment dedicated for use in the production of sugarbeets makes up over 25 percent of our annual sales, and the greater majority of our total sales come from sugarbeet growers.

Dave Selland, a local Moorhead truck dealer, had planned to be here to discuss the investment local sugarbeet growers have in the trucks they need and the impact those investments have on his business in both sales and service. Unfortunately, he is unable to be here today. I would like to briefly touch on the investments made on other equipment the growers need to produce this special crop, and maybe later discuss how this impacts my business.

Some equipment like tractors can be used in other parts of the farming operation. For the most part, however, the following list is a minimum of equipment necessary for a farmer to successfully run an average sized, 200 acre sugarbeet operation here in the valley.

Conservatively, for this size farm, a person would need one large 4-wheel-drive tractor and two 2-wheel drive row crop tractors. They would also need a planter, cultivator, band sprayer, defoliator, harvester and at least three trucks. Again, this is just a minimum for the average grower. The total cost of the package, if the farmer buys it all new, is over half a million dollars. To buy it used would cost nearly a quarter of a million dollars. These are dollars we needed working in communities such as Crookston.

Needless to say, these are purchases that a farmer would not even consider making on a short-term basis. He needs to be able to plan capital investments of this size over an extended period of time. In the same fashion, dealers such as myself face similar capital investments. Our ability to make these commitments is directly related to the farm economy. The sugar program makes it all possible.

On a more personal note, ours is a family business. We've recently begun the process of passing the torch of ownership. More accurately, buying out my father's interests. Taking on the financial burden of an implement dealership in a stable economy is quite a commitment. My taking on a financial commitment associated with a dealership whose lifeblood lies in the sugar industry may give you a better idea of my concern and the reason I am here today. I question whether I would make this kind of commitment to this industry under different circumstances. Many other businessmen and women, particularly the sugarbeet growers themselves, I'm sure feel the same way.

In closing, the message I would like to leave you with today is the fact that the sugarbeet industry is healthy in the Red River Valley because of the sound sugar policy that you have put in place. As a supplier to the industry, I would like to recommend that Congress keep this policy working in the future.

Mr. Chairman, Congressmen, thank you again for your time.

[The prepared statement of Mr. Roelofs appears at the conclusion of the hearing.]

Mr. ROSE. Thank you. Thank all of you. They were three very good statements and they're very helpful. I'd say, Mr. Roelofs, I really appreciate the way you put your statement about your financial commitment, but I'd say as long as you got people like Peterson and Pomeroy in Washington fighting for the sugar program, your investment is safe.

The representative to the Grain Millers, I thank you for your statement. Mr. Paulson, that was really from the heart. Not that all of them weren't, but you were going back into your history there. That meant a great deal to me.

I'm going to let my colleagues ask questions first. Mr. Peterson.

Mr. PETERSON. Well, Mr. Chairman, I just want to thank each of you for your statements. I guess along the lines of my big concern is all of us getting ready and getting together the farm bill. I don't know if it's a question or a statement, if each of your groups can work nationwide to bring your groups in to help us with this farm bill, that's the kind of thing that we need, bring in allies that we wouldn't necessarily have otherwise. Because as all of you have heard, we've got less and less rural people in the farm district being represented.

So at this point, have any of you been involved very much in the farm bill or has anybody asked you to be involved?

Mr. ROELOFS. I'm not.

Mr. PETERSON. Well, we're asking you today. I think, for example, Mr. Froemke was involved with the fight that we were doing against the NAFTA. We didn't win that fight, but there were a lot of good things that came out of it. We got some things that changed that we wouldn't have gotten changed and that shows you some of what we can do if we work together.

It's getting to be a long hearing and I'm not going to ask a lot of questions. I appreciate you being here and look forward to working with all of you as we put this farm program together. We're going to have a good sugarbeet program.

Mr. ROSE. Absolutely. Mr. Pomeroy.

Mr. POMEROY. I don't have any questions. I want to thank you for your testimony. The macro numbers we saw from Dr. Leistritz were very important in terms of understanding the true economic impact of the sugar industry in the Red River Valley, but behind numbers like that are stories like yours. And like Charlie said, you told them from the heart and I think that they're a very important part of our hearing record because behind these macro numbers are people and families and futures. That's what we've got to remember as we try to put this together. Thank you.

Mr. ROSE. Thank you gentlemen. Last panel, processors. Mr. Larry Steward, president and chief executive officer of Minn-Dak

Farmers Cooperative. Mr. Joe Famalette, president and chief executive officer of American Crystal. Mr. Steward.

STATEMENT OF LARRY D. STEWARD, PRESIDENT AND CHIEF EXECUTIVE OFFICER, MINN-DAK FARMERS COOPERATIVE

Mr. STEWARD. Good afternoon, Chairman Rose. Good afternoon, Mr. Peterson and Mr. Pomeroy. I am Larry Steward, president and CEO of Minn-Dak Farmers Cooperative in Wahpeton, ND. On behalf of our 345 shareholders, I would like to welcome you here to the Red River Valley. I'd also like to thank you for your support in the sugar industry and coming here this afternoon.

Minn-Dak Farmers Co-op was formed in 1974 by a group of farmers who saw an opportunity to take control of their own destiny. Nearly all of what those farmers produce is sold at a local elevator, and moves hundreds or even thousands of miles away before it is processed or consumed. The men and women who founded the co-op in the 1970's decided they wanted to be able to produce a crop which they could also process and market. Although sugarbeets presented a substantial risk, it was where our growers decided to put their money.

By almost any measure, the investments made by Minn-Dak shareholders over the last 20 years have been successful. Our cooperative has grown in number of growers, in tons of sugarbeets processed, and in dollars contributed to our local economy. Part of the credit for this success goes to the growers and employees of Minn-Dak, of course. But some of the credit also belongs to you and to your predecessors in Congress.

The sugar program has provided Minn-Dak and the rest of the sugar industry in the United States with an environment where growers and processors can make investment decisions with a long-term horizon. You have already heard testimony about the large dollar amounts that our growers invest in equipment for their farms, so I won't belabor that point. But I do want to make clear the fact that for our growers and for the other two sugar cooperatives in this region, the investment doesn't stop at the farm level.

Since we are cooperatives, all of the investment capital for our business comes from our grower members. There are no outside funds we can tap into to run our business. Let me emphasize that sugarbeet factories have a tremendous appetite for big-ticket capital items. Just the routine annual replacement of equipment in our factories runs well into the millions of dollars.

But, of course, we can't just stop with just maintaining the factories. Our customers demand what has become known as total quality, meaning that every car, truck or bag of sugar we ship must be guaranteed to meet their quality standards. Making sure we meet those standards can also cost a lot of money. We consider ourselves to be good environmental citizens, and we back that commitment up with millions of dollars each year. Finally, we are constantly fighting competitive pressures in the market as well as inflation in the farm and factory costs.

A lot of people who don't like the U.S. sugar program will tell you that the program guarantees producers a profit. I don't have to tell you that a lot of sugar farmers and processors in the United States today are not profitable. The objective of the sugar program is to create an environment where domestic producers are protected from subsidized foreign competition. Such a large proportion of the sugar available on the world market is subsidized in one way or another so that domestic producers simply can't hope to compete with it.

Congress has shown the wisdom to recognize this fact and to counter it with a rational U.S. sugar policy. Sugar farmers, processors and consumers all get major benefits from this program. The shareholders of Minn-Dak Farmers Cooperative want to encourage you to keep this common sense program in place.

I don't have to tell you that there are issues within the context of the sugar program where the sugar industry is not in total agreement. The last two years have seen an ongoing conflict over the use of allotments to control sugar marketings. You know where Minn-Dak and its cooperative partners stand on this issue, but for the sake of clarity I will repeat our position.

We feel that allotments are a necessary part of the sugar program, in that they guarantee a share of our market for foreign suppliers. We do not feel that allotments were intended to restrain competition within the U.S. industry, however.

Economic forces mean that resources will move within an industry over time. It is our feeling that these forces should be allowed to operate, in the interest of overall efficiency and competitiveness of the U.S. industry. We are certain that these issues will be addressed in close detail as we work towards a 1995 farm bill.

Once again, thank you for taking the time for visiting us here in the Red River Valley.

[The prepared statement of Mr. Steward appears at the conclusion of the hearing.]

Mr. ROSE. Thank you very much. Mr. Famalette.

STATEMENT OF JOSEPH P. FAMALETTE, PRESIDENT AND CHIEF EXECUTIVE OFFICER, AMERICAN CRYSTAL SUGAR CO.

Mr. FAMALETTE. Thank you, Mr. Chairman. I think I'm the last speaker and the room is emptying, and so I'm going to keep my comments to just a few.

My name is Joe Famalette and I am awful proud to be the chief executive officer of American Crystal Sugar Co. and represent the shareholders of that sugarbeet company. My background is about 25 years in Fortune 500 food companies and I come to the Red River Valley just in the last 3 years to get involved with the sugarbeet business.

I want to thank you for coming, Mr. Chairman, and I want to thank you for coming because it may not be as glamorous to sit on the floor of the Congress and not talk about troops in Haiti or Bosnia, but we came to this hearing because we think that your committee and Congressmen like Mr. Peterson and Mr. Pomeroy have the fate of the best food chain in the world in their hands in the 1995 bill.

While it's not glamorous, having worked for food companies in this country, the one thing I am sure of is the American public takes the farmer for granted. While we know there are other interests for this country, there is one thing that is true that all trading partners know, and that is one of the reasons we find it difficult to trade with everybody is there are other parts of the world that have taken their food chain for granted and suffered for it. Americans are spoiled, quite frankly. The fight to keep the food chain viable is an extremely important one.

It has been my pleasure to work with these two Congressmen. Once again, the burden of the fact that American farmers have gotten more and more efficient puts a burden on our Representatives. There are less constituents feeding more people and your Congress is going to be faced with an urban Congress who takes food for granted. Even though there are fewer of us doing it doesn't make it any less important. So I appreciate the fact that you came here and we realize the burden that you have both in the committee and in the Congress. Anything we can do to help, we will do it.

A lot of the points I was going to cover have been covered already, so I'd like to just touch on a couple of them. First of all, as you well know, two third to three fourth of all the processed foods in this country have basic sugar components. Some of those foods contain a lot of sugar, some contain a little bit.

Your observations I found were absolutely charming about asking the users if they would guarantee that the price reductions would be made. I would go one step further, and that is, that if you were to simply compare the price of sugar today with 10 years ago, you will find that it's averaged exactly the same. With the cost of inflation, that means the net payments in loans or the price of sugar for the growers in the United States, whether they be cane or beet, is probably 75 percent of what it was before.

I would hasten to comment to you not only can you not look at one of our major customers having prices that resemble 75 percent of what they were 10 years ago, but I would ask you to challenge them which one of them has not grown market share both domestically and internationally. This country is very proud to have the largest soft drink industries in the world and the largest confectionery industries in the world, all of which we are major players of.

I've been in the Red River Valley now for 3 years and these are just amazing people. I have been in an awful lot of Fortune 500 board rooms where the decisions about America's food chain is based on what we're going to do for Wall Street in the next quarter.

I think that one of the biggest things happening in America today is the board rooms of corporate 500 companies are changing. They want real shareholders in board rooms.

Larry Steward and I have a tremendous advantage, Mr. Chairman. When we go to our directors meetings, they are the shareholders. I have been here for 3 years now watching them make decisions. I know it sounds corny when you're in a hearing like this, but having been in Fortune 500 companies where we made the decisions based on the quarterly dividends, when a farmer walks into a board room as a director and makes a commitment for capital expenditures, they are doing it for their grandsons. When they don't like the performance of a fat little chief executive officer, the real truth of the matter is they can't sell their stock because the performance of that company is the way they live. That puts a tremendous burden on the management team of any company.

In 1973, these farmers borrowed heavily at $103 a share in what everybody thought was the most ridiculous exercise they've ever seen, and that's buying a sugar company. They have spent almost $200 million in those 10 to 20 years making their products and their plant sufficient.

A long time ago, sugar production here was considered the poor cousin to much of the rest of the industry. That has changed and it's changed for a very good reason. The attitude of these growers has been changed because 2 years ago we did what we called a market data survey and we bench marked our performance against every domestic sugar company in the United States and every foreign sugar company.

Out of that study, we decided that we were concerned about the next 20 beet trends and we had to get ready for what you have been telling us we have to get ready for, and that's a world that is shrinking and getting smaller. That meant that we had to become more efficient, not only to become competitive in the United States but to meet world competition.

We have spent in the last 3 years $110 million of $180 million these growers have committed to make their processing facilities more efficient. We have taken out 15 percent of our internal costs in 24 months. We have, in fact, made a commitment last Friday afternoon to spend an additional $67 million to build the most efficient beet plant in the world in Drayton, MN.

These are people who have long-term commitments to an industry that is already serving the customers of the United States extremely well. Nevertheless, I suggest to you that the farm bill has sugar sections in it that are essential to maintain.

When we did our bench mark against the other sugar companies in the world, one of the most interesting things was out of all the world, we were the fifth most efficient producer of sugar. If we got our plants up to speed, we could get up to third.

You asked earlier in the hearing about Cuba, and when you analyze our customers and their choices, one of the most interesting things is if you will ask any of our customers if they will pay in the United States the price they pay in any western EC country for sugar, we'd be glad to get rid of the sugar program because you know and I know that they pay twice as much.

The other difficulty that I think this sugar program is essential in protecting is that what sugar would be sold for in the United States has nothing to do with the economic costs of producing sugar because in third world nations besides tourism and some other issues, sugar is one of the few things that can bring in hard currency. As a result, it's protected by every government to bring in currency. As a result, the sugar structure of costs for a domestic industry is up against really foreign governments.

In that regard, I happen also to be the chairman of the executive committee of United Sugars, which is a selling pool of three co-ops. I suggested that in the last year of that existence of that marketing pool we have gained 75 new customers, we have booked long-term contracts with our customers. That does not say to me that they are not being competitive with anyone else.

We encourage the committee to continue to fight for the sugar program. As you know, the Secretary of Agriculture, in the use of marketing allotments a year ago, imposed a formula which was really unfair to efficiency. In the last 5 years from the bill, weather, spending, the way companies have managed has changed who's efficient and who isn't. I think that's why there's a bill every 5 years so that you can accommodate those changes.

In fact, last week the Secretary did announce allotments. This time, however, he used a formula, which is in his discretion, which is a lot fairer to those that are efficient because it reflects today and not what took place in the early 1980s.

You are about to deal with a bill that will get us into the 21st century and we suggest that we make sure that the bill reflects the changes that we need to make it as an industry to be competitive for the 21st century.

We're looking to the farm bill and there will be changes, of course. We believe the loan rates—considering the effect that inflation has on our growers, the only way they've been able to stay where they are is to invest and make themselves profitable. Therefore, we believe the loan rates provided under the loan should be sustained. We believe that if marketing allotments are again provided for, the formula used to determine both sector allotment division and the divisions within each sector.

I'd like to repeat again—having come from some of the biggest brands in the United States and realizing that world events sometimes make food boring, the reality is I just want you to know that we appreciate the work you've done, we know that there's going to be a lot of tax on agriculture and some of them may even end up being personal, and the reality of that is it's not worth it. These farmers and this food chain is the most powerful one in the world and we need to protect it. Anything you can do to help us do that, we'll be glad to support. Thank you very much.

[The prepared statement of Mr. Famalette appears at the conclusion of the hearing.]

Mr. ROSE. Thank you both very much. That was an incredible two statements and will bring a great end to our hearing. Mr. Peterson.

Mr. PETERSON. I too want to thank these gentlemen for their statements and everybody for the way that you've worked with us and have been responsive to us and we look forward to continuing that relationship.

I was sitting here talking about this age-old problem of the middleman making the money, looking at those charts, and the chairman here has got peanuts on his district and we've got sugar. I don't know why we don't team up and we could get a candy factory going here, one here and one in North Carolina, and ship the commodities back and forth.

Mr. ROSE. We've been talking about that in tobacco too, making our own cigarettes.

Mr. PETERSON. But eventually I think that that is something that we in my office have been working on trying to—with the processing. You're doing that at one level, but I really think that we do have a potential for us to get into another level of agriculture processing at some point.

Mr. FAMALETTE. Absolutely no doubt about it.

Mr. PETERSON. We've got the work force here, we've got the product here, and a lot of it, and it's just a natural and I think that's the next step. I understand you guys have got to be a little bit careful because you're selling to those people, but I think eventually that's going to come. We've got some of that going on now and that's really where the future of agriculture is going to be is in these cooperatives and adding value to these commodities.

The day of us being able to guarantee a price from the Congress——

Mr. FAMALETTE. I would just simply say that I can't agree more. I think that with trade and the effect of farm bills, the protection of co-ops gets to be a really important issue because it's the last thing farmers are going to be able to fall back on to protect themselves to go up the food chain, and that's extremely important.

Second, I would say that in Europe, as an example, a company like Grand Met. does not produce anything anymore. They've handed over production to their farmers. I think you're going to see that in the next 5 to 10 years in American agriculture where farmers, products that have 80 or 90 percent sugar, there's no reason for us to ship sugar to a plant a thousand miles away. We can package the product for our customer right next to the sugar plant.

I think those kind of joint ventures, mergers and acquisitions are going to be the future of where farming, and farmers, in particular, are going to find a way up the food chain to where the money is.

Mr. PETERSON. I really think that's the only way we're going to get enough money out of the marketplace for people to survive, and I think we have to do it and I think you folks have provided some leadership and I think somebody mentioned that showing people how it can be done now that the corn plant is coming. We've got a lot of things happening around the area. You know, it's coming.

Mr. FAMALETTE. I'd like to just add that as a chief executive officer when you make a commitment to spend $180 million to add efficiency, one of the big things that I think gets to be an issue of dealing with this farm bill is as a chief executive officer you can't spend all the money in 1 year. I mean, it takes you 3 years or 4 years to spend the money to get efficient.

I think what happens is your negotiations for a bill in 1995 to get us to the year 2000, you just can't turn a switch and get them efficient. You just can't turn a switch and do the joint ventures and move up a food chain. You need time to execute those strategies and an extension and changes in the bill allows these farmers to get ready for a future that's coming.

Mr. ROSE. Earl.

Mr. POMEROY. First, I would commend each of you for your leadership. It's been exemplary, both in terms of running efficient operations, but also seeing where we need to go and positioning your cooperatives to get there.

Second, a question I had for Mr. Famalette, how is George Sinner working out? Is he working out?

Mr. FAMALETTE. Well, the real truth is he's probably qualified to do something different than what he's doing because I can't keep him working hard enough.

Mr. POMEROY. I can think of another beleaguered chief executive who could use his talents.

Mr. FAMALETTE. I will say one thing about George that has been for working like me coming out of the sugarbeet industry but not out of the food business. I was at the top of the food chain dealing with brands like Pepperidge Farms and Campbell Soup. One thing George feels very strongly about is no country should let their energy policy or their food policy up to something else. That is something you can't free trade.

I suggest that I really believe that and I also think it's a great opportunity for farmers because between the grower and the customer there is no inherent reason why the grower doesn't take more control over the food chain than they have in the past.

Mr. POMEROY. As you move toward greater efficiencies, it seems to me inevitable there's going to be intrasugar tensions inevitably. On the other hand, the prospect of a fragmented sugar insurance industry going into the 1995 farm bill is deeply alarming. How is this coming along? Are you working well within the community?

Mr. FAMALETTE. Yes. I'm not as afraid of it as everybody else is. First of all, I think that things have changed since 1990. The Department had to leave because the reality is the Department is being asked to do something that the bill in 1990 never meant it to do. They're being asked to use tools that weren't designed to do what they're being asked to do.

There are certain segments in the industry that have, for whatever reason, not been as efficient as others and they're trying to get the program to decide market share. I, quite frankly, think the way you're going to get everybody on the table is to get everybody in the room much like we did in the last 2 weeks and really get down to the essential issues that are the difference. The minute we start talking about a national allotment and national quota which gives the department the ability to control supply, the prices will, in fact, come up for the growers and we will not be using the program to decide market share.

The reality is the parts of the program that are being defended right now are being defended because there are official attempts at market share. The real truth is the industry does not have a lot of problems if they will simply deal with the fact that each person's efficiency is their own responsibility.

Between the price of sugar and what the grower gets, there's a lot of stops along the way of that money for a chief executive officer. I know our group did not fly to Washington in corporate jets. The minute you get everybody talking about supply side, which is a national allotment where the program that you hand to the USDA cannot be manipulated for market share, there will be no problems.

Mr. POMEROY. Mr. Steward, is that your opinion as well?

Mr. STEWARD. Yes. We agree with that. We think a national allotment is very important and we're looking forward to negotiating that in the 1995 farm bill.

Mr. POMEROY. Good. Look forward working with you. Thank you.

Mr. ROSE. Gentlemen, thank you very much. I believe we'll see you later and look forward talking to you some more. Thank you. Any closing comments?

Mr. PETERSON. Chairman, I just want to again thank you for taking your Saturday after you were up the last couple of nights.

Mr. ROSE. You were too.

Mr. PETERSON. Well, we're back home in God's country again.

Mr. POMEROY. That's right.

Mr. PETERSON. We don't have to get on a plane and go back to North Carolina and we want to thank you for coming up here and for everything that you've done to help our area. We just can't say enough good things about you.

Mr. ROSE. Glad to be here and thank you all for fighting for your farmers so much. No other testimony, we stand adjourned.

[Whereupon, at 3:50 p.m., the subcommittee was adjourned, to reconvene, subject to the call of the chair.]

[Material submitted for inclusion in the record follows:]

October 8, 1994

Testimony of: Kyle Roelofs
Red River Distributing, Inc.
P.O. Box 118
Crookston, MN 56716

For: Subcommittee on Specialty Crops and Natural Resources
U.S. House of Representatives
Room 1301, Longworth House Office Building
Washington, DC 20515

Held: Moorhead Vocational/Technical College
Moorhead, MN

Chairman Rose, Congressmen Peterson and Pomeroy, I would first like to thank you for the opportunity to testify before your panel today. The subject of the sugar industry is very important to my company and to the rest of our region, and I appreciate the chance to speak with you about it.

My name is Kyle Roelofs, and I am Vice President and General Manager of Red River Distributing, Inc. of Crookston, Minnesota, about 75 miles north of here. We sell and service farm equipment and specialize in sugarbeet equipment. Crookston is the county seat of Polk County, which is the biggest sugarbeet raising county in Minnesota. As you may know, Minnesota is the biggest sugarbeet raising state in the nation. We are proud of our position in the sugar industry, and I would personally like to thank you and your colleagues in Congress for your continued support of the industry.

My own business is concentrated on farm machinery. Equipment dedicated for use in the production of sugarbeets makes up over twenty-five percent of our annual sales, and the greater majority of our total sales come from sugarbeet growers. Dave Selland had planned to be here to discuss the investment sugarbeet growers have in the trucks they need, and the impact those investments have on his business, in both sales and service. Unfortunately, he was unable to be with us today. I would like to briefly touch on the investments made on other equipment the growers need to produce this ***special*** crop, and maybe later discuss how this impacts my business.

Some equipment, like tractors, can be used in other parts of the farming operation. For the most part, however, the following list is a minimum of equipment necessary for a farmer to successfully run an average sized, 200 acre sugarbeet operation here in the Valley.

Conservatively, for this size farm, a person would need one large four wheel drive tractor and two, two wheel drive row crop tractors. They would also need a planter, cultivator, band sprayer, defoliator, harvester and at least three trucks. Again, this is a minimum for the average grower. The total cost of this package, if the farmer buys it all new, is over half a million dollars. To buy it used would cost nearly a quarter of a million dollars. These are dollars we need working in communities such as Crookston, Minnesota.

Needless to say, these are purchases that a farmer would not even consider making on a short term basis. He needs to be able to plan capital investments of this size over an extended period of time. In the same fashion, dealers such as my self face similar capital investments. Our ability to make these commitments is directly related to the farm economy. The sugar program makes it all possible.

On a more personal note, our's is a family business. We've recently begun the process of "Passing the Torch" of ownership. Taking on the financial burden of an implement dealership in a stable economy is quite a commitment. My taking on the financial burden associated with a dealership whose lifeblood lies in the sugar industry, may give you a better idea of my concern and the reason I am here today. I question whether I would make this kind of commitment to this industry under different circumstances. Many other businessmen and women and particularly the sugarbeet growers themselves I'm sure feel the same way.

In closing, the message I would like to leave you with today, is the fact that the sugarbeet industry is healthy in the Red River Valley because of the sound sugar policy that you have put in place. As a supplier to the industry, I would like to recommend that Congress keep this policy working in the future.

Thank you very much for your time.

STATEMENT BY DALLAS R. SMITH, DEPUTY UNDER SECRETARY
INTERNATIONAL AFFAIRS AND COMMODITY PROGRAMS
U.S. DEPARTMENT OF AGRICULTURE
BEFORE THE
COMMITTEE ON AGRICULTURE
SUBCOMMITTEE ON SPECIALTY CROPS AND NATURAL RESOURCES
U.S. HOUSE OF REPRESENTATIVES
OCTOBER 8, 1994

Mr. Chairman, I want to express my thanks to you and members of the Subcommittee on Specialty Crops and Natural Resources for providing the Department of Agriculture the opportunity to participate in this hearing, regarding the development of the 1995 Farm Bill.

The Department began preparing for the farm bill last May. The Secretary established a Farm Bill Task Force along with 10 subgroups based on Farm Bill titles and USDA mission areas. These subgroups are meeting with varied interests both inside and outside the agricultural community, with the objective of defining issues for a nationwide dialogue. Thus, being included in this hearing here today is especially helpful to us at the Department of Agriculture.

Debate on new farm legislation will begin in earnest early next year. More than ever before, this next farm bill will be drafted with much broad-based participation. Other groups with different interests--not just production agriculture--will make their voices heard. This reflects the evolution of farm bills during the past two decades, which have gone from dealing mainly with farm price and income support programs to a range of issues such as trade, food assistance, food safety, rural development, research and environment. Another factor is the changing role of farming in the U.S. economy. Of the 435 Congressional Districts in the nation, only 50 of them generate 10 percent or more of their income from farming. Representatives from suburban districts--where consumer and environmental interests are more dominant--will add a new twist to the rural-urban alliances that were forged to pass so many farm bills in the past.

Thus, as we develop 1995 Farm Bill issues and policies, we all must also devote time and attention to informing and educating everyone of the importance of agriculture and its contribution to the success of this country. Urban and suburban residents must understand that our food and fiber system, including processing and marketing, generates about $950 billion annually in economic activity, or 16 percent of our Gross National Product. It employs one in seven Americans. And, it generates a positive trade balance of about $18 billion per year. Moreover, a stable, productive and profitable farm sector will mean ample supplies of affordable food, allowing nonfarm residents to spend more of their income on other items.

Focusing only on the U.S. sweetener industry, we have another excellent story to tell. In 1993, the U.S. sweetener industry provided 168,000 full-time jobs, of which 140,000 arose from agricultural activities and 28,000 from the processing sector. A total of $2.7 billion was paid in wages. The combination of direct and indirect impacts of the U.S. sweetener industry on the U.S. economy totaled $26.2 billion and 420,000 jobs. We believe The 1995 Farm Bill debate should recognize the overall economic impact that farming has, particularly for certain specialty crops which have relatively small acreage, but generate much economic activity through value-added processing.

In closing Mr. Chairman, I want to again express my appreciation for being provided the opportunity to participate in these hearings here at Moorhead, and I look forward to the rest of the proceedings.

Testimony of
Lawrence Deal
Vice President and Legislative Chairman
American Sugarbeet Growers Association
before the
House Agriculture Committee
Subcommittee for Specialty Crops and Natural Resources
U. S. House of Representatives

Moorhead, Minnesota
October 8, 1994

Mr. Chairman, my name is Lawrence Deal and I am a farmer from Doran, Minnesota. My wife and I farm in conjunction with my son and his family. I testify today in my capacity as Vice President and Chairman of the Legislative Committee of the American Sugarbeet Growers Association. Our national association is comprised of 33 regional grower associations, which represent virtually all of the 12,000 sugarbeet growers in 14 states.

I want to thank you, Mr. Chairman, and members of your committee for taking time to visit one of the finest and most productive agricultural areas in the world. We also appreciate the opportunity to share with you the successes, challenges, and importance of the sugar program and the vital need for it to continue in the future.

When an essential ingredient like sugar plays such an important role in the health and nutrition of consumers around the world, it is no wonder governments of most nations have been closely involved with their sugar industries over the decades. We believe it is our government's role and responsibility to assure its people of a reliable supply of quality sugar at a reasonable price.

To give you an example of how governments are involved in their domestic industries, all you have to do is look at Chart No.1. This is a list of 14 countries which produce 80% of all of the sugar produced in the world and the corresponding types of sugar programs they have in place to buffer both producers and consumers from the highly volatile world dump market.

Over 70% of all sugar produced in the world is sold within the country of origin at domestic prices that provide fair returns to producers. Just under 10% of world sugar production is sold under preferential trade agreements at preferential prices. The remaining 20% is simply dumped on the world market to fetch whatever price the market will bear. The price received for the small amount of dumped sugar is blended with domestic and preferential sales and allows countries to avoid the cost of storage or disposal.

The supply of this dumped world sugar is highly unreliable. For the past two years, world consumption has been greater than production.

The U.S. has been without a domestic sugar program only twice since the 1930's, and on each occasion prices soared, devastating consumers. This was followed by plunging prices well below the cost of production, which drove producers out of business. This was clearly evident during the mid-1970's and again in 1980-81, as highlighted in Chart No. 2.

In a nation the size of the U.S., with 263 million people consuming over 16 million tons of sweeteners (8.5 million tons of sugar and 7.6 million tons of corn sweetener), it would be unconscionable to leave such needs to the whims of an unreliable and extremely volatile world market.

When the GATT negotiations began in 1987, the U.S. position was to eliminate all export subsidies, domestic supports, and import barriers. The U.S. sugar industry was the first and one of the few to support such a position because of our confidence in our ability to compete. The U.S. sugar industry is an efficient and competitive industry. More than one-half of the world production is produced at a higher cost than in the U.S. The USDA estimates the U.S. to be the 7th lowest-cost producer among the world's 31 major beet-producing countries, and 33rd lowest among the 61 cane-producing countries. Those are numbers we are very proud of, and we are continually working to be even more efficient.

After several years of negotiation, however, we found that the final GATT agreement in agriculture did very little to impact the world dump sugar market. While the agreement does not particularly hurt our industry, it does not particularly help it, either. We expect to see continued severe market disruption caused by export subsidies for the foreseeable future. The agreement did allow much higher European Union sugar support prices to remain in place. The bottom line is that unfair trade practices will continue to exist indefinitely; therefore, we need a strong U.S. sugar program as a defense and proper response to those practices.

The sugar program over the last 13 years have been successful in meeting many of its objectives. Members of Congress overwhelmingly supported the sugar program in 1985 and again in 1990 by identical margins of 121 votes for a number of good reasons.

American consumers have had a reliable supply of sugar and have never had to fear a shortage like the ones in the mid-1970's and early 1980's. American consumers have received a great value for their sugar dollar without having to worry about highly volatile prices. U.S. consumers pay, on average, 10 percent less than the price paid by all consumers around the world and 25 percent less than consumers in other developed countries.

The program has been fiscally responsible. The program is designed and mandated by the Congress to operate at no cost to the taxpayer. In addition, the industry pays a special tax of approximately $25 million per year to help reduce the deficit. That is a contribution by producers and processors of over $125 million over the five years of the current program.

According to Landell Mills Commodity Studies, it is estimated that the U.S. sweetener industry generates 420,000 direct and indirect jobs and has a direct and indirect economic impact of $26.2 billion in 42 states.

While there are many more benefits of the sugar program, there are also a few problems that need to be attended to in the renewal of the program in 1995. We are now in our fourth year of the 1990 farm bill, which dramatically changed the sugar provisions of the 1985 program. A mandatory minimum import level of 1.25 million short tons added to the existing no cost provisions required the inclusion of standby marketing allotments and allocations. This fundamentally changed the operation of the sugar program.

It is no secret that there have been technical problems with the current program, which we expect to correct in the 1995 farm bill. In March of this year we spent many hours talking with grower leaders from every area of the country on specific problems that had to be addressed. Many of those issues are not yet resolved because they are under review, but I know our growers will be working very hard later this fall with all other industry segments to arrive at a consensus, and they will come before your committee next spring with a unified industry position on all outstanding issues.

The biggest problem growers are voicing concern about since the passage of the 1990 bill is the low prices of refined sugar. In Chart No. 3, you can see what has happened to these prices since 1990. While one of the main objectives of the program is to stabilize prices for producers, it has instead had a negative impact. Sugarbeet growers are directly and significantly impacted by low refined prices because growers share in a percentage of the net selling price for sugar. Looking at Chart No. 4, you can see what has happened to returns to growers. At the same time, there has been an increase in the prices of sugar-containing products. It is clear that under the current program the industrial users have been quietly picking the pockets of farmers, without any benefit to the ultimate consumers. Once again, the middlemen are the big winners under the current program.

When refined sugar prices are depressed, three problems occur. First, some sugar companies have made the decision not to take out CCC loans and thus do not participate in the program. This is disconcerting to their growers, because if the processor does not participate in the program, there is no guarantee of a minimum payment per ton to growers as required under the program. This minimum payment per ton is heavily relied upon by growers and their bankers to arrange operating loans or capital purchases in order to produce the crop. All of the grower's costs will have been incurred in the production, harvest and delivery to the processor before his processor determines whether he will participate in the program. If the processor chooses not to participate in the program and sell at lower prices, there is nothing the grower can do to react, because all his costs have been incurred. Growers want their processor to participate in the program because of provisions which guarantee them the minimum payment should their processor go into bankruptcy before they are paid for their crop, as was the case with Great Western Sugar Company in 1984.

Second, some processors who participate in the program are forced to sell sugar at low prices in order to maintain market share, keep traditional customers, or clear storage for the new crop, rather than forfeit to the CCC. That processor will have to pay the difference between the minimum payment required by the program and the lower return he achieved from the marketplace in accordance with the contract with his growers. Obviously this is not a sustainable policy for the company, and will further increase reluctance to participate in the program. This has occurred this past year.

Third, low refined prices force processors who participate in the program to threaten or actually forfeit sugar to the CCC. As you are all aware, this also occurred in Fiscal Year 1994. The small amount of sugar now in the hands of the CCC should be sold for more than its forfeiture price to assure that this program operates at no cost to the taxpayer. We strongly believe that this program should be administered in a manner which not only maintains the integrity of the program, but complies with the design of the law and the mandate by Congress.

Mr. Chairman, all of these problems would be resolved if higher prices were achieved in the marketplace.

Clearly, there is great debate among industry participants as to when, how, and on what basis marketing allotments should be imposed. With the value of our loan rate being eaten away by inflation each year, many areas throughout the country expanded production in order to increase their efficiency and reduce per unit costs in order to be long term producers and suppliers. For example, the growers in this region suffered from unprecedented drought during three out of five years in the 1985-89 base period, and wish to see some recognition and accommodation of their concerns. I can assure you we are looking at everyone's concerns and working to address them.

The U.S. sugar industry is unique, diverse, and fiercely competitive. Arriving at a consensus on policy has never been easy, but we have always done so and fully expect to do so in the future. In coming to a consensus position in 1990, we may have overlooked some small details. Some contentious issues for which we could not find consensus were simply left to the administration to resolve, which in the end is always viewed by some industry groups as unfair. We are reviewing the program to determine the cause of some of the problems. Some of the causes are: 1) the law is simply lacking provisions; 2) existing provisions are vague and open to various interpretation, prompting challenges through the courts; and finally, 3) some current provisions may be inappropriate for the 1995 farm bill.

The other major concern by growers is the administration of the sugar program. The current program has been a challenge to administer for three reasons.

First, we believe that there is far too much discretionary authority given to the Administration to manage this program in two specific areas. There is an inordinate amount of influence of the interagency group on USDA. We believe that stricter guidelines as to the operation of the program in the law will reduce the meddling of other agencies within the government. These agencies clearly have agendas other than achieving the objectives of this program as it was intended by the Congress.

This would significantly help USDA operate the import quota and marketing allotment provisions of the program as it was intended by Congress. For example, in 1990 the import level was increased by 400,000 tons, based on a decision by the interagency group and USDA Undersecretary Richard Crowder, who, as you know, was a former commodities buyer and founder of the coalition of sugar purchasing agents. As you will note in Chart No. 3, that decision had a devastating impact on domestic prices and producers ever since. Such a decision should never have been allowed to happen. Our growers feel very strongly that allotments should not be imposed when imports are greater than 1.25 million tons, and domestic sugar should not be stored while imports are increased.

Second, as I noted earlier, USDA was left to make sensitive interpretations of the law which had or have no consensus within the industry, which always provokes a strong response by some industry sector. We intend to resolve those issues.

Finally, we want to make sure that any proper information which may be now lacking is provided to USDA to better administer the program.

In summary, Mr. Chairman, there are no easy answers to any of these issues, but you and the committee should be heartened, as I am, to see all segments of the sugar producing, processing, and refining industry make difficult concessions in the spirit of cooperation to recommend the imposition of marketing allotments for FY 1995. I am confident that we will achieve that unity for the successful renewal of the sugar program in 1995.

Thank you.

[Charts follow:]

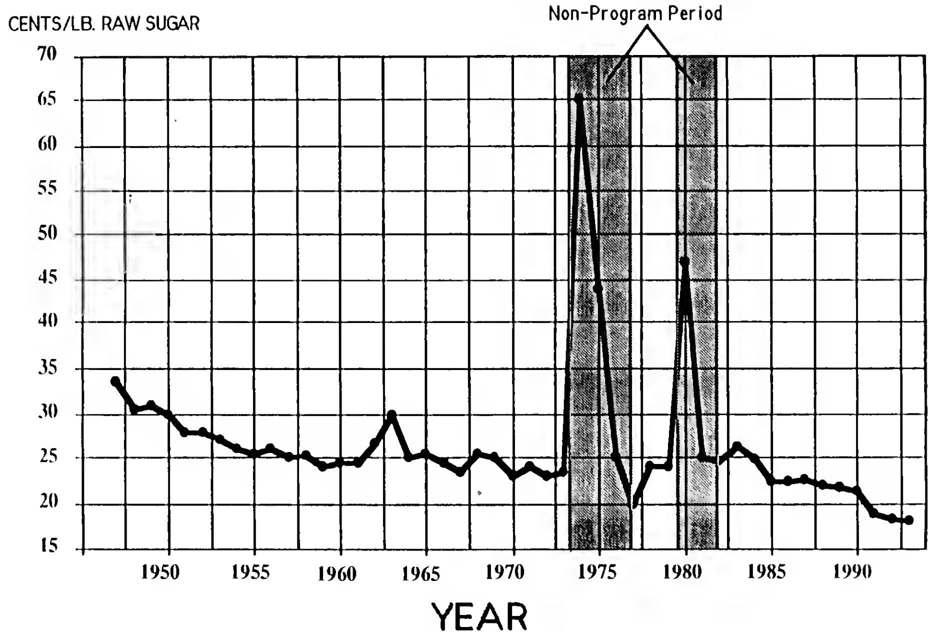
Chart 1

World Sugar Programs

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Argentina			*				*	*					*	*	
Australia						*	*		*		*	*	*	*	
Brazil				*	*		*		*	*			*		
China, P.R.								*	*						
Former USSR						*		*					*		
Cuba									*						
EC - 12		*	*		*			*	*				*	*	
India							*	*	*					*	
Mexico					*			*	*					*	
Philippines											*		*	*	
Poland		*			*			*	*		*			*	
Thailand									*				*	*	
Turkey	*	*			*			*	*		*			*	
U. S.									*					*	

1. Indirect aid
2. Export subsidy
3. HFCS quotas
4. Reg. subsidies
5. Export controls
6. Gov't process/distr.
7. Consumption control
8. Minimum farm price
9. Domestic price control
10. Export loss absorption
11. Direct aid
12. Land quota
13. Prod. quota
14. Import control
15. Sub. dom. Sales

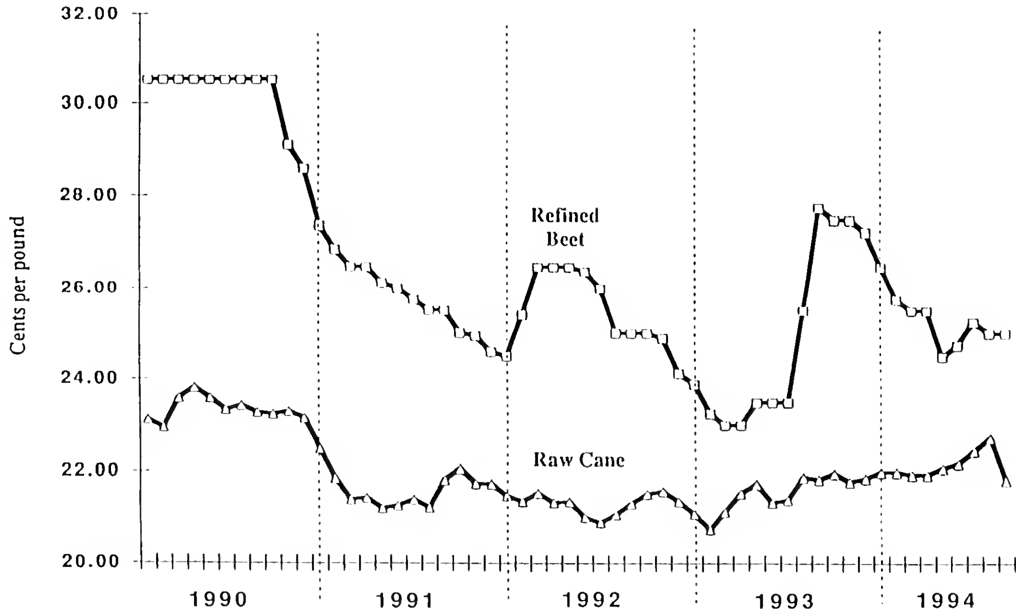
REAL U.S. RAW SUGAR PRICES, 1947-1993*
(1988 dollars)



* New York market price, duty-free paid; corrected for inflation.
Source: USDA

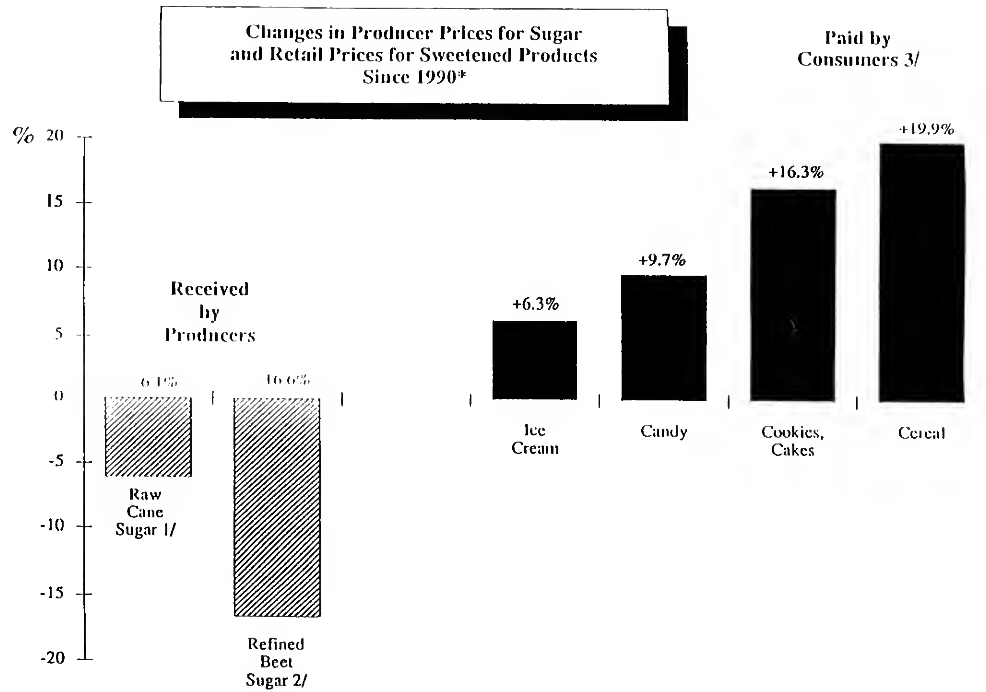
Chart 3

Producer Prices for Raw Cane and Refined Beet Sugar, 1990-94*
(Monthly Averages)



* Raw cane sugar: duty-paid New York; Refined beet sugar: Midwest markets.
(Thru August 1994)

Chart 4



* August 1994 compared with 1990 annual average
Sources: U.S. Department of Agriculture, U.S. Bureau of Labor Statistics

1/ Duty paid, New York.
2/ Midwest market.
3/ Consumer price index.

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Red River Valley
Sugarbeet Growers Assoc.
MINNESOTA NORTH DAKOTA

MARK F. WEBER
EXECUTIVE DIRECTOR

Remarks to House Agriculture Committee
Buzz Baldwin, President
Red River Valley Sugarbeet Growers Association
October 8, 1994
Moorhead, Minnesota

MR. CHAIRMAN, MEMBERS OF THE COMMITTEE, AND OTHER FRIENDS OF AGRICULTURE: I AM BUZZ BALDWIN, PRESIDENT OF THE RED RIVER VALLEY SUGARBEET GROWERS ASSOCIATION. ON BEHALF OF ALL OF AGRICULTURE, WE WANT TO WELCOME YOU TO THE RED RIVER VALLEY.

I REPRESENT ABOUT 2,200 SUGARBEET GROWERS FROM BOTH MINNESOTA AND NORTH DAKOTA. TWENTY YEARS AGO, OUR GROWERS MADE A COMMITMENT THAT WILL SPAN GENERATIONS BY PURCHASING AMERICAN CRYSTAL SUGAR COMPANY. WE MADE A HUGE INVESTMENT AT THAT TIME AND OUR GROWER-SHAREHOLDERS HAVE BACKED UP THAT DECISION WITH HUNDREDS OF MILLIONS OF DOLLARS OF ADDITIONAL INVESTMENT IN THE COMPANY. WE WANTED

1401 32nd STREET SW
FARGO, ND 58103-3430
PHONE: (701) 239-4151 FAX: (701) 239-4276

TOTAL CONTROL OF OUR DESTINY THEN AND STILL DO TODAY. SUGARBEETS ARE ONE OF THE FEW CROPS THAT WE CAN GROW PROFITABLY IN THE VALLEY. THAT IS ONE OF THE MOST IMPORTANT REASONS THAT WE NEED A SUGAR PROGRAM. WITHOUT THE SAFETY NET PROVIDED BY THE PROGRAM, GROWERS HERE AND IN THE REST OF THE COUNTRY WOULD BE EXPOSED TO SUGAR DUMPED ONTO THE WORLD MARKET AT SUBSIDIZED PRICES. WE HAVE WORKED HARD TO BECOME EFFICIENT HERE IN THE VALLEY, BUT THERE IS NO WAY THAT WE CAN COMPETE WITH HUNDREDS OF MILLIONS OF DOLLARS IN SUBSIDIES PAID BY FOREIGN GOVERNMENTS.

MY GRANDFATHER AND FATHER RAISED SUGARBEETS ON OUR FARM IN THE NORTHERN END OF THE VALLEY, AND I HAVE RAISED THEM MYSELF FOR ALMOST 30 YEARS. I'M PROUD TO SAY THAT MY SON HAS COMPLETED HIS FOUR-YEAR COLLEGE DEGREE AND HAS MADE THE DECISION TO RETURN TO THE FARM AS THE FOURTH GENERATION. HE

HAS A FOUR YEAR OLD DAUGHTER WHO WE HOPE WILL CARRY ON OUR TRADITION OF GROWING SUGARBEETS. I ONLY TELL YOU THIS BECAUSE WE TREAT THIS COMPANY AS SOMETHING MORE IMPORTANT THAN JUST ONE MORE CROP IN THE ROTATION. IT IS TRULY THE LIFEBLOOD OF THE VALLEY, AND WE DON'T IGNORE THAT FACT FOR ONE MINUTE.

FOR THAT REASON, WE PAY A LOT OF ATTENTION TO WHAT GOES ON AT AMERICAN CRYSTAL, AND TO FACTORS THAT ARE AFFECTING THE COMPANY FROM OUTSIDE THE VALLEY. AS I SAID BEFORE, THE GROWER-OWNERS HAVE INVESTED MANY HUNDREDS OF MILLIONS OF DOLLARS IN BUYING AND UPGRADING OUR FACTORIES. JUST ABOUT A WEEK AGO, OUR BOARD OF DIRECTORS APPROVED AN UPDATE TO OUR STRATEGIC PLAN THAT CALLS FOR AN EVEN GREATER COMMITMENT TO EFFICIENCY.

WE DON'T MAKE THESE DECISIONS LIGHTLY. AS I SAID, MY LIVELIHOOD, MY SON'S, AND MY GRANDDAUGHTER'S

FUTURE ARE RIDING ON THEM. WHEN I HEAR THAT AMERICAN CRYSTAL IS GOING TO SPEND MONEY TO UPGRADE ITS FACTORIES, MY RESPONSE IS NOT TO ASK "WHY RISK THE MONEY?" INSTEAD, I THINK TO MYSELF "NOW I KNOW I'LL BE PART OF THE SUGAR INDUSTRY FOR AS LONG AS MY FARM CAN PRODUCE BEETS!" AND MY HOPE IS THAT THERE WILL BE BALDWINS RAISING BEETS ON OUR FARM FOR MANY YEARS INTO THE FUTURE.

AMERICAN CRYSTAL HAS BEEN INVESTING IN MAKING ITS FACTORIES AS EFFICIENT AS ANY IN THE WORLD, IN TERMS OF CAPACITY, EXTRACTION, AND ENERGY USAGE. I THINK THESE EFFORTS ARE ESSENTIAL TO OUR LONG-TERM SURVIVAL, BECAUSE THERE IS ALWAYS A THREAT THAT TRADE AGREEMENTS OR SOMETHING UNFORESEEN COULD FURTHER EXPOSE US TO THE UNFAIR FOREIGN TRADE PRACTICES OF OTHER COUNTRIES.

I MENTIONED EARLIER THE FACTORS THAT AFFECT AMERICAN CRYSTAL FROM OUTSIDE THE VALLEY. ONE OF

THE MOST IMPORTANT FACTORS IS THE MARKETING ALLOTMENT PROGRAM, AND THE WAY IT HAS BEEN USED OVER THE PAST TWO YEARS. WE DO NOT THINK THAT ALLOTMENTS SHOULD BE FORCED ONTO THE MARKET IN ORDER TO ALLOCATE MARKET SHARE FROM ONE REGION OF THE COUNTRY TO ANOTHER. WE ALSO DO NOT THINK THAT ALLOTMENTS SHOULD BE USED TO HOBBLE THE EFFORTS OF ANY SECTOR TO BECOME MORE EFFICIENT.

WE RECOGNIZE THAT ALLOTMENTS ARE A PART OF THE CURRENT FARM BILL, AND THAT THERE ARE CIRCUMSTANCES WHEN THEY MUST BE USED. HOWEVER, WE THINK IT IS CRITICAL THAT THE INDUSTRY REACH A DEFINITIVE AGREEMENT AS TO WHEN ALLOTMENTS MAY BE TRIGGERED AND THAT THOSE RECOMMENDATIONS BE SUPPORTED BY THE SECRETARY AND CONGRESS. THE UNCERTAINTY AND THE LOBBYING OF USDA TO DO ONE THING OR ANOTHER IS COUNTERPRODUCTIVE FOR THE

GOVERNMENT, THE INDUSTRY, AND OUR CUSTOMERS.

I THINK THAT ONE LAST COMMENT ABOUT ALLOTMENTS IS NECESSARY. THREE MONTHS AGO, SUGAR WAS FORFEITED TO THE GOVERNMENT FOR THE FIRST TIME IN NEARLY 10 YEARS. WE IN THE RED RIVER VALLEY SUGARBEET GROWERS ASSOCIATION WERE VERY DISAPPOINTED THAT FORFEITURES OF SUCH A SMALL AMOUNT OF SUGAR WOULD BE ALLOWED TO UNDERMINE THE NO-COST NATURE OF THE PROGRAM. WE DON'T BELIEVE THAT COMPANIES SHOULD USE THE THREAT OF FORFEITURE TO BRING ON MARKET CONTROLS.

MANAGEMENT OF THE SUGAR PROGRAM WILL BE MADE MUCH SIMPLER IF IMPORTS OF SUGAR-CONTAINING PRODUCTS ARE SIGNIFICANTLY REDUCED. MANY OF THE ISSUES RELATED TO ALLOTMENTS AND FORFEITURES WILL BE EASED IF THE BLENDS ISSUE IS FINALLY BROUGHT UNDER CONTROL.

ONCE AGAIN, I APPRECIATE THE OPPORTUNITY TO DISCUSS WITH YOU THESE TOPICS OF IMPORTANCE TO THE GROWERS OF OUR ORGANIZATION.

THANK YOU FOR YOUR TIME AND YOU INTEREST IN OUR INDUSTRY.

STATEMENT OF WALLACE HARDIE

Mr. Chairman, my name is Wallace Hardie, and I am a corn and soybean farmer from Fairmount, North Dakota. I am currently serving as Chairman of the Government Relations Committee of the National Corn Growers Association, which I represent here today. I also served on the organizing committee of the Golden Growers Cooperative, which is finalizing plans for a new corn sweetener plant in this region.

It is a pleasure to have the opportunity to discuss with you the great importance of the U.S. sugar program for corn farmers in this country. Today I will cover the importance, benefits, and economic impact of the corn sweetener market, government (taxpayer) savings, reduction in the trade deficit, the thousands of jobs it provides for corn farmers and wet millers, and our efficiency and competitiveness. After reviewing the facts, it will be clear that the benefits of the sugar program to corn farmers, consumers, and taxpayers are impressive.

One of the greatest challenges faced by corn farmers over the decades is what to do with the bountiful crops that we grow. Our ability to produce has always seemed to outpace our ability to find enough uses and markets for that production. Surplus production and the lack of markets always translates into lower prices for producers, and frankly, Mr. Chairman, we cannot survive lower prices. I can assure you that the corn growers in this country are committed to finding additional uses and new markets for our product. The sweetener market is our finest and most important example.

When Congress did not renew the sugar program in the mid-1970's, shockwaves were felt around the world and prices for sugar skyrocketed. It caused consumers to panic when shortages appeared at the local grocery store. It sent prices of sugar-containing products soaring, which hurt consumers, and when the price of sugar finally plunged, it devastated producers. The only winners in the game of highly volatile markets are the industrial purchasers of sugar. It has been shown time and again that these middlemen do not pass the savings on to the consumer. We have learned from our experiences with both the sugar shortage and the oil shortage of the 70's that a nation of our size and importance must not be dependent on foreign suppliers for commodities that are essential to us.

The shortages of the 1970's provided an opportunity to launch the major commercialization of corn sweeteners. The sweeteners made from corn are glucose, dextrose, and high fructose corn syrup, or HFCS, which is used extensively in soft drinks. Literally hundreds of products on the supermarket shelves contain corn sweetener, either exclusively or in conjunction with sugar. Soft drinks account for almost three-fourths of the total domestic production of HFCS. Thirty-three pounds of sweetener can be extracted from a bushel of corn, which is enough to sweeten 324 cans of soda.

In the United States today over half of the natural sweeteners consumed come from corn. The remaining half is about equally split between sugar from beets and sugar from cane.

Corn sweeteners account for the largest portion of all industrial uses for corn. The U.S. Department of Agriculture estimates that in 1994 about 660 million bushels of corn will be used to produce sweeteners, which is 10.4 percent of the total corn crop.

What does this mean for farmers in terms of dollars? Corn used for sweeteners adds 25 cents or more to the value of every bushel of corn sold in the cash market. This is good news for the 924,000 American corn farmers. Minnesota corn farmers produced 670 million bushels, according to the 1992 U.S. census of agriculture, and the added value of their corn amounts to over $167 million.

Not only is this good news for all corn farmers, it is good news for the corn program as well. As a result of the added value of corn as sweetener, USDA estimates that the corn deficiency payment is reduced, saving taxpayers between $500 and $700 million every year. In addition to these savings, the sugar program is designed and mandated by Congress to operate at no cost to taxpayers. In fact, because of a marketing tax on domestically produced beet and cane sugar, the government actually makes over $25 million each year. I doubt that there are any other government programs which combine:

1) no cost;
2) money saved in other programs; and
3) money added into the U.S. Treasury to help reduce the budget deficit.

The annual U.S. trade deficit is staggering and harmful to our economy. Every pound of corn sweetener that is sold in the U.S. market saves American dollars which would otherwise be spent overseas for imported foreign produced sugar. Production of high fructose in 1994 reduced the need for imports of sugar by $3.4 billion.

In addition to the tremendous economic benefit of the sugar program to the corn sweetener industry, there is also a huge impact on people and their employment. An August, 1994 study entitled The Importance of the Sugar and Corn Sweetener Industry to the U.S. Economy by Landell Mills Commodities Studies, based in Oxford, England and New York City, estimated the number of jobs involved in producing corn sweetener. An equivalent of 90,537 corn farmers is needed to produce all the corn needed for sweeteners, with an additional 8,500 workers in the wet milling industry to make the sweetener. Maintaining 100,000 good jobs is important to rural America.

The U.S. corn sweetener industry is the lowest-cost producer of caloric sweeteners in the world. There are no "ifs, ands, or buts" about it--we can compete head to head with any sweetener producer in the world. The problem we face as corn sweetener producers is the same one faced by sugar producers. We cannot compete against the vast export subsidies of foreign treasuries. If it were not for the U.S. sugar program, which has a feature of import quotas built into it, foreign governments would be able to dump unchecked amounts of subsidized sugar into our markets. The result would be to depress prices to the point of destroying much of the domestic sweetener production. In the meantime, uses for corn sweetener would most assuredly be curbed dramatically as the market became flooded with dumped foreign sugar. The sugar program is a proper and effective response to foreign governments that highly subsidize sugar production and then dump surplus supplies of sugar on the world market.

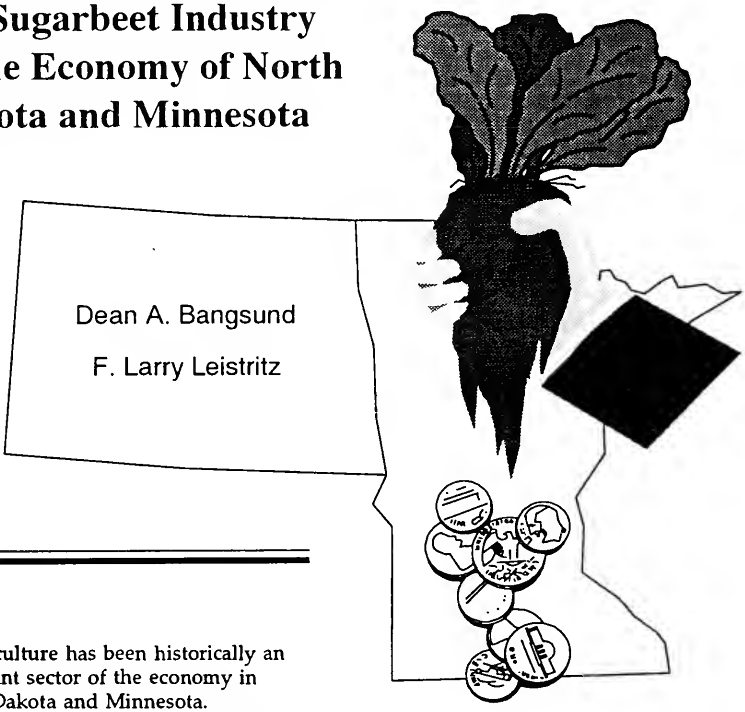
In short, the use of corn as a sweetener is good for farmers, consumers, and taxpayers. The continued and increasing use of corn as sweetener depends to a large measure on a sound and solid domestic sugar industry. Our efforts to open new markets and find new uses are only beneficial if existing markets and uses are maintained. That is why those of us in the corn industry favor and support a strong and reliable U.S. sugar program. It is our position that thecurrent U.S. sugar program has a tremendous economic impact on the corn market, saves money for the government and taxpayers, reduces the trade deficit, generates 100,000 jobs for corn farmers and wet millers, and allows our efficient industry to compete against unfair foreign trade practices. After reviewing the facts, we believe that it is in the best interest of American taxpayers, consumers, and farmers to defend, promote, and extend this policy. Thank you, Mr. Chairman.

Agricultural Economics Report No. 305-S September 1993

Economic Contribution of the Sugarbeet Industry to the Economy of North Dakota and Minnesota

Dean A. Bangsund

F. Larry Leistritz



Agriculture has been historically an important sector of the economy in North Dakota and Minnesota. Agriculture comprised over 41 percent of total sales to final demand in North Dakota from 1985 to 1989 (Leistritz and Coon 1991). Correspondingly, agriculture in Minnesota, not including the forest industry, accounted for 22 percent of all out-of-state sales in 1990, or if measured in terms of overall business activity, generated 13 percent of all economic activity in the state (Senf et al. 1993).

Agriculture in North Dakota is dominated by crop production, while in Minnesota, crop and livestock production are nearly equal in importance. North Dakota typically is considered a small grain-producing state, leading the nation in the production of nearly all small grains and ranking nationally in the production of dry edible beans, sunflowers, and potatoes (North Dakota Agricultural Statistics Service 1993). Minnesota ranks nationally in the production of corn, soybeans, sunflowers, navy beans, alfalfa hay, some small grains, and several livestock categories (dairy, turkeys, hogs, and cattle) (Minnesota Agricultural Statistics Service 1993).

However, in addition to many traditional crops, Minnesota and North Dakota also rank nationally in sugarbeet production. Minnesota has been the leading sugarbeet-producing state since 1989 and the leading state 8 out of the last 10 years, while North Dakota has been ranked fourth for the last 10 years. However, sugarbeet production is often overshadowed by the sheer acreage of small grain in North Dakota and the acreage of corn and soybeans in Minnesota. For example, in 1992, North Dakota planted 11.6 million acres of wheat and Minnesota planted 12.7 million acres of corn and soybeans, compared to only 570,000 acres of sugarbeets in the two states (North Dakota Agricultural Statistics Service 1993; Minnesota Agricultural Statistics Service 1993).

Sugarbeets, unlike most traditional crops (e.g., small grains, corn, beans), are difficult and expensive to transport long distances and have unique storage problems not found with most crops (i.e., they are bulky, require specialized handling equipment, and have limited storage life). As a result, several sugarbeet processing facilities have been established in the sugarbeet-producing areas by three producer-owned cooperatives: American Crystal Sugar Company with headquarters in Moorhead, Minnesota; Minn-Dak Farmers Cooperative located in Wahpeton, North Dakota; and Southern Minnesota Beet Sugar Cooperative located in Renville, Minnesota. Sugarbeet production is generally more capital intensive and geographically concentrated than small grains and most row crops; this, along with local processing facilities, has historically contributed to the industry's impact on the two-state economy.

PROCEDURES

The purpose of this study is to estimate the economic contribution of the sugarbeet industry to the North Dakota and Minnesota economy in 1992. Analysis of the sugarbeet industry required (1) estimating sugarbeet production in eastern North Dakota and Minnesota, (2) estimating sugarbeet production expenditures, (3) obtaining sugarbeet cooperative expenditures, and (4) using input-output analysis to generate secondary impacts.

In 1992, North Dakota had 7 counties in the Red River Valley that collectively produced about 3.1 million tons of sugarbeets, and Minnesota had over 19 counties that collectively produced about 6.8 million tons of sugarbeets (Figure 1). The two states had over 550,000 acres of sugarbeets in 1992 and produced over one-third of the nation's sugarbeet crop, with about two-thirds of the crop produced in Minnesota. The three sugarbeet cooperatives processed about 9.3 million tons of sugarbeets in 1992.

A sugarbeet production budget was used to estimate costs and returns from growing sugarbeets in the two states. The budget was based on a survey of sugarbeet growers in the Red River Valley (Johnson and Coon 1990), and adjusted to reflect 1992 production costs. The three sugarbeet cooperatives in Minnesota and North Dakota were surveyed to obtain estimates of their cash expenditures made within North Dakota and Minnesota in the last fiscal year.

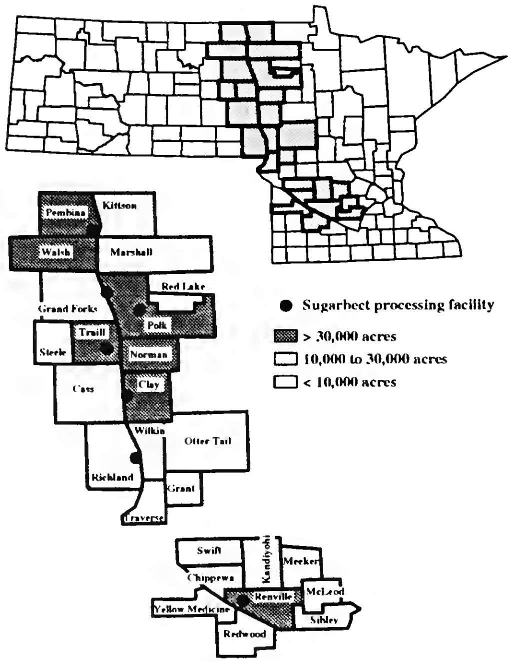


Figure 1. Sugarbeet Producing Counties and Sugarbeet Processing Plants in Minnesota and Eastern North Dakota, 1992.

Direct economic impacts are typically expressed as changes in output, employment, or income that represent the initial or direct effects of a project, program, or activity. Secondary economic impacts result from subsequent rounds of spending and respending within the economy. Input-output (I-O) analysis traces linkages (i.e., the amount of spending and respending) among sectors of an economy and calculates the total business activity resulting from a direct impact in a basic sector (Coon et al. 1985). An economic sector is a group of similar economic units (e.g., communications and public utilities, retail trade, etc.).

This process of spending and respending can be explained by using an example. A single dollar from a sugarbeet cooperative employee's paycheck (*households* sector) may be spent for a loaf of bread at the local store (*retail trade* sector); the store uses part of that dollar to pay for the next shipment of bread (*transportation* and *agricultural processing* sectors) and part to pay the store employee (*households* sector) who shelved or sold the bread; the bread supplier uses part of that dollar to pay for the grain used to make the bread (*agriculture-crops* sector) ... and so on (Hamm et al. 1993).

RESULTS

The economic contribution from the sugarbeet industry was estimated from production and processing expenditures, which represent the direct economic impacts from the sugarbeet industry. Subsequently, the direct impacts were used with an input-output model to estimate the secondary impacts. Total business activity (direct and secondary impacts) was used to estimate tax revenues and secondary employment.

Direct Impacts

Farmers and producers generate direct economic impacts to the area economy through (1) expenditures for production outlays (e.g., hired labor, seed, fertilizer, chemicals, machinery) and (2) returns to unpaid labor, management, equity, and risk (e.g., family labor, land investment). Direct economic impacts from sugarbeet production (i.e., production outlays and producer returns) were estimated from a crop production budget and from payments made to sugarbeet growers by the three sugarbeet cooperatives.

Total direct impacts from sugarbeet production in the two states were estimated to be $676 per acre or $374.6 million, which included $140 million in variable cash costs, $48.5 million in fixed cash costs, $74.2 million in noncash variable and fixed expenses, $46.9 million in land expenses, and $65 million in producers' returns over costs. About two-thirds of the direct impacts from sugarbeet production were generated in Minnesota.

Sugarbeet cooperatives and their processing facilities impact local economies through expenditures for processing inputs, labor, and investment in facilities and capital. Based on survey results, direct impacts in the two states from the cooperatives were $200.9 million in 1992, with 33 and 67 percent of the direct impacts generated in North Dakota and Minnesota, respectively.

Total direct impacts from the sugarbeet industry (production and processing) in North Dakota and Minnesota were estimated at $575.5 million in 1992. Sugarbeet production accounted for 65 percent ($374.6 million) of all direct impacts, while sugarbeet processing accounted for 35 percent ($200.9 million) of all direct impacts. Total direct impacts in Minnesota were estimated at $385 million ($133.7 million from cooperatives and $251.3 million from growers). Total direct impacts in North Dakota were estimated at $190.5 million ($67.2 million from cooperatives and $123.3 million from growers).

Secondary Impacts

Sugarbeet production expenditures, returns to sugarbeet growers, and production outlays by sugarbeet cooperatives were allocated to various economic sectors of the North Dakota Input-Output Model. Total direct impacts of $575.5 million from the sugarbeet industry in North Dakota and Minnesota generated about $1.06 billion in secondary impacts (Table 1).

Secondary economic impacts were greatest in the *households* ($332.4 million), *retail trade* ($322.4 million),

TABLE 1. DIRECT, SECONDARY, AND TOTAL ECONOMIC IMPACTS FROM THE SUGARBEET INDUSTRY IN MINNESOTA AND NORTH DAKOTA, 1992

	Economic Impacts of the Sugarbeet Industry		
Economic Sector	Direct	Secondary	Total
	dollars (000s)		
Agriculture-livestock	0	41,916	41,916
Agriculture-crops	0	32,894	32,894
Nonmetal Mining	0	3,208	3,208
Construction	18,861	38,543	57,404
Transportation	22,926	5,671	28,597
Communication and Public Utilities	19,139	50,429	69,568
Agricultural Processing and Miscellaneous Manufacturing	28,686	43,370	72,056
Retail Trade	141,168	322,450	463,618
Finance, Insurance, and Real Estate	30,683	71,836	102,519
Business and Personal Service	17,715	26,651	44,366
Professional and Social Service	6,393	39,409	45,802
Households	274,928	332,351	607,279
Government	15,029	51,571	66,600
TOTALS	575,527	1,060,301	1,635,828

finance, insurance, and real estate ($71.8 million), and *government* ($51.6 million) sectors. Secondary industry impacts also affected the *agriculture-crops* and *agriculture-livestock* sectors, two sectors that had no direct impacts, but had noticeable secondary impacts. The economic activity in the *households* sector represents economy-wide personal income resulting from industry expenditures and their subsequent secondary effects.

Employment

The sugarbeet cooperatives were directly responsible for 2,410 full-time equivalent jobs in 1992. Secondary employment generated by the sugarbeet industry was estimated using input-output analysis. An additional 20,942 full-time equivalent secondary jobs were generated by the sugarbeet industry in Minnesota and North Dakota in 1992. Secondary jobs represent employment outside of the sugarbeet industry, but employment that is dependent on the existence of the sugarbeet industry.

The number of jobs created directly from sugarbeet production would include growers and other hired labor. However, full-time equivalents were unknown and are difficult to estimate because most sugarbeet farmers also raise other crops, and if they did not raise sugarbeets, likely would remain employed raising other crops. Also, sugarbeet labor requirements are seasonal, fluctuating with weeding and harvest situations, and typically are met by employing a large number of temporary workers for relatively short periods.

Tax Revenue

Tax collections are another important measure of economic impact. In an era of reduced federal funding, revenue shortfalls, and growing public demand on governments to balance their budgets while providing constant or increased levels of services and benefits, tax collections have become an important factor in assessing economic impacts.

Tax collections were estimated separately for North Dakota and Minnesota. Total business activity was estimated for each state by determining direct expenditures and secondary activity by state. Personal income, retail trade, and other business activity (components of total business activity), along with tax coefficients for each state, were used to estimate tax revenue.

Tax revenue generated by the sugarbeet industry in North Dakota included $6.0 million in sales and use taxes, $2.7 million in personal income taxes, and $0.9 million in corporate income taxes in 1992. The sugarbeet industry in Minnesota generated $7.9 million in sales and use taxes, $13.9 million in personal income taxes, and $2.2 million in corporate income taxes in 1992. Total tax collections from these three taxes alone in North Dakota and Minnesota generated by the sugarbeet industry in 1992 were about $33.6 million. The sugarbeet cooperatives and growers also paid an estimated $6.5 million in property taxes in North Dakota and Minnesota in 1992. Property taxes were included in the direct impacts and estimated from survey and secondary information.

SUMMARY AND CONCLUSIONS

The purpose of this study was to estimate the economic contribution of the sugarbeet industry to the North Dakota and Minnesota economy in 1992. Farmers and producers generate direct economic impacts to the area economy through (1) expenditures for production outlays and (2) returns to unpaid labor, management, equity, and risk. Similarly, sugarbeet cooperatives and their processing facilities impact local economies through expenditures for processing inputs, labor, and investment in facilities and capital.

Direct economic impacts from the sugarbeet industry (sugarbeet production and processing) were estimated at $575.5 million in 1992. An input-output model was used to estimate the secondary impacts ($1.06 billion). Total economic activity (direct and secondary impacts) was estimated to be $1.635 billion in Minnesota and North Dakota, including $607.3 million in economy-wide personal income and $463.6 million in retail sales. About one-third of the economic impacts were generated in North Dakota and two-thirds in Minnesota.

The sugarbeet industry employed 2,410 full-time equivalent workers and supported an additional 20,942 full-time equivalent secondary jobs in the two-state area. Also, the sugarbeet industry in 1992 generated tax collections of about $9.6 million in North Dakota and $24 million in Minnesota, and also paid an additional $6.5 million in property taxes.

For every dollar the sugarbeet industry spent in North Dakota and Minnesota, $1.84 in additional business activity was generated. Each acre of sugarbeets planted generated about $2,950 in total business activity (production, processing, and secondary impacts) or, expressed alternatively, each ton of sugarbeets processed generated about $176 in total business activity.

The sugarbeet industry in Minnesota and North Dakota contributes substantially to the two-state economy. Not only is the dollar volume of business activity considerable, but most processing plants are located in rural areas of the two states. This, along with the size and structure of the sugarbeet-growing area, suggests most of its economic activity affects local economies. Expenditures for crop inputs and returns to growers (*households* and *retail trade* sectors), which represent a majority of the economic activity, are evenly distributed throughout the growing area. In addition, those activities take place at the local level, enhancing rural economies. This is in contrast to some industries, which concentrate economic activity in sectors of the economy that do not generate much economic activity in rural economies. Although the sugarbeet industry in Minnesota and North Dakota is not large in terms of acres or geographic area, if measured in terms of personal income, retail sales, total business activity, tax revenue collections, and employment (direct and secondary), its economic contribution is highly apparent.

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This report is a summary of a larger report, Economic Contribution of the Sugarbeet Industry to the Economy of North Dakota and Minnesota, by Dean A. Bangsund and F. Larry Leistritz, Department of Agricultural Economics, North Dakota State University, Fargo, ND 58105 (701) 237-7441.

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FARM CREDIT SERVICES
OF GRAND FORKS
At The Heart of a Growing America ℠

1005 Hill Avenue • P.O. Box 637 • Grafton, ND 58237 • (701) 352-1651 • FAX (701) 352-1921

Good afternoon! My name is Lynn Paulson.

Thank you for allowing me the opportunity to provide testimony to this distinguished committee and hopefully provide some unique insights into the current and future sugar program and the area sugar beet industry.

Currently, I manage the Farm Credit Services (FCS) offices in Grafton and also in Devils Lake, ND. The Grafton office is located in the northern Red River Valley, which we like to consider the "heart" of the Valley, having some of the best land and accompanying farmers anyplace in the country. I say that with a high degree of certainty having been part of several farming operations in different parts of the state and being fairly familiar with other parts of the country as well. The Devils Lake office is located in north central North Dakota and is significantly different in terms of the types of farming and the main enterprises that make up the loan portfolio of that region. The Grafton and Devils Lake branches of FCS are part of the Grand Forks FCS association, which takes in the majority of northeastern North Dakota as well as northwestern Minnesota. We have a large diversity of agriculture comprising our loan portfolio, with the main emphasis in terms of loan volume being in the Valley, primarily with row crops, mainly beets, potatoes, and beans. Presently, our FCS association provides financing to over 5,000 farmers in our 20 county territory.

I grew up and later farmed on our family farm 15 miles southeast of Maddock, ND, which is located in the north central part of the state. I'm not a "native" Valley farmer or resident, having moved to the Grafton area 8 1/2 years ago. My mother still lives on the family farm. I have two brothers that currently farm in the area having taken over the operation when my father died approximately 20 years ago. They were more or less thrust into the position of running the family farm, and likely at the time it wasn't a conscious choice in terms of it being something they really wanted to do. I, too, was part of the farm, having taken over the family dairy operation after graduating from North Dakota State University and subsequently teaching for a couple of years. I farmed and operated the dairy for approximately seven years until the entire facility burned in 1985. At that time, I realized that there wasn't the long term stability and opportunity that provided the needed cash flow and profitability for the farm and explored the possibility of changing careers, which I ultimately did by going to FCS. As a result of still having an interest in the family farm, I'm very cognizant of the struggles making a living in that area. When I was recently back home, I couldn't help but notice the changes and the continuing decline in the number of active farm operations from about 15 years ago. At that time there were probably 12-15 active operations along the way to town. Currently, there's probably not more than 3 or 4 left.

Benson County essentially has only two or so machinery dealers of any consequence with no furniture stores to my knowledge, not a car dealership, nor hospital, with the nearest hospital care about an hour away for most residents and I don't believe it currently has any clothing stores, etc. It's basically become a county of grain elevators and basic farm and family living needs. Any major purchasing is done in the larger regional centers such as Devils Lake, Minot, Grand Forks and Fargo.

In large part, although we may have seen a relatively minor decline in the overall economy in the Valley, both in the farm and non-farm sectors, the decline appears to be significantly less than what I see in my home area, which I believe is typical of the non-Valley areas.

Additionally, the average age of the farmers in the Devils Lake FCS Office as well as in my home area is getting older with each passing year, with many nearing retirement age. Few young farmers, which represent the next generation in agriculture, are in a position or have the desire to take over the family farm because of the lack of opportunities, mainly the ability to generate adequate income without farming large amounts of land to meet their debt servicing obligations and basic family living needs. Consequently, the situation I mentioned previously regarding my home area only continues to worsen with each passing year.

On the other hand, I find the Walsh County area that our Grafton FCS office provides agriculture financing and related services to, in many situations has the next generation of farmers already there or are in the process of positioning themselves to take over or become part of an existing operation. The relative agricultural strength and stability of the area, due in large part to the stable beet industry, has provided reasonable opportunities to generate sufficient income and subsequent profits required to make a decent living and to service the capital investment needed to be a player in this area and in these commodities. The young farmers in this area are sharp, typically well educated, aggressive and poised to handle the constant and rapid change agriculture is going through, including computer technology, agronomic changes and recommendations, etc and will have the ability and wherewithal necessary to feed a hungry world as we move into the 21st century.

Competition is high and merely starting up a farming operation does not guarantee profitability in the Valley or any place else for that matter, nor should it. Fine tuned management is necessary and the farm needs to be run as a business, keeping an eye on the bottom line. However, it can and is being done in such a way that it keeps the family farm tradition alive and well and also provides the accompanying strong family and moral values that are being lost in many segments of our economy and of our country.

Risk is obviously still there and I'm not advocating now or in the future to make raising beets or any other farming enterprise a risk free venture. Obviously, there's an assumption of risk in raising sugar beets as well as other crops both for the existing and new farmer. However, I would submit one of the main reasons for the relative difference in the agricultural economies, both present and future, between my home area and the Valley is the strength of the row crops anchored by a strong, stable sugar program and industry.

Further, we need to stop the exodus of our young people from the state and the area. The young people and their accompanying talents are probably the biggest resources that the area has. We need to continue to find ways to develop a strong agricultural economy and the support industries and services that accompany it. In doing so, the young people we need to keep will have the opportunity to maintain a decent standard of living, while enhancing the region with their talents and resources.

It has been my contention for several years that the Valley has operated under a fairly delicate balance of crops. Between the beets, potatoes, beans, sunflowers and other row crops along with the small grains, there seemingly on average, has been room for all of them to find their own niche in terms of the market place. However, if you start disrupting that balance to any large extent such as in destabilizing the beet industry, this delicate balance gets thrown out of alignment and has a negative trickle down domino effect on all other commodities grown in the area. There are only so many potatoes, so many beans, and so many of the other crops that can be raised without having a long term detrimental impact to price and potential profitability because of the supply/demand factors being totally out of economic sync.

The jobs that the beet industry contributes to the economy and area both in terms of non-farmers and farmers alike are substantial. In many operations the bottom line profit in large part is predicated or enhanced with the part-time income that is generated from the beet industry, albeit working at the beet plants during the winter, the transportation companies hauling beets to the processing plants, or working during the actual beet harvest. Personally, for several years I took vacation time and drove beet truck to supplement my income, the dollars of which in turn were spent or reinvested in the local communities and economies.

By removing the stability of the beet industry in the area, you will likely have a detrimental effect on land values. In absence of another high gross return crop like beets or potatoes, you have difficulty supporting the land values at their current levels. This will have a negative impact from the standpoint of lowering the tax base for schools that are already having significant financial problems. It will also detract and reduce equity from the financial statements of farmers, thereby possibly hindering their borrowing capacity to expand and replace equipment, make improvements, etc. That in turn, limits the amount of purchases they will make and the rolling of those dollars through their communities, which would provide additional employment, economic growth and subsequent tax revenue for the area. Furthermore, landowners, many of whom are elderly and retired, rent out their farmland in order to supplement their other income such as social security. These landlords may see a reduction in their rental income because of falling land values and the subsequent rents for their farmland.

The capital investment initially needed to get into and also needed to maintain the existing operations within the beet industry is large and long term, not only for the purchase of the beet stock but for the equipment and technology that's needed in order to be a long term, viable beet producer. To justify such an investment and the accompanying benefits for the area and it's economy, a certain amount of relative long term stability is needed, from both a farmer's and lender's perspective.

The strength of the beet industry and the cooperatives that make up the industry, such as American Crystal and Minn-Dak, are providing a model for some very interesting off shoots and ideas in other farmer owned cooperatives and ventures. Examples include the Drayton Grain Processors in Drayton, ND, the Dakota Growers Durum Processing Plant in Carrington, ND, along with other possible new ventures such as the Farmers Choice Pasta Plant in Leeds, ND, a possible potato processing cooperative somewhere in the northern part of the Valley, and cattle feeding cooperatives, as well as others. The relative success of the beet industry in the Valley has spawned a real and intense interest in other agricultural value added processing cooperatives. A stable beet industry through a long term stable sugar program is the cornerstone and benchmark in large part, for the future success of the other value added cooperative ventures, all of which can have a very real positive impact on the future of rural America.

Again, I appreciate the opportunity to express my thoughts and support for the agricultural economy of our region, specifically the beet and sugar program and industry. I think I've provided evidence that the current program is working and any concerted effort to overhaul it would lead to significant problems and hardship that would be felt from the farms to the mainstreets of our area.

Thank you.

STATEMENT OF MARK FROEMKE

Mr. Chairman, my name is Mark Froemke. I represent Grain Millers' Union Local 264 with offices at East Grand Forks, Minnesota.

Our employees thank you sincerely for coming here and for supporting our sugar industry.

This is an area that has been dependent on agriculture almost exclusively throughout its history. It is an area that has not seen very much processing or manufacturing--at least until recent years.

And so for working people, many of whom have lost their farms or their farm related business, there is not an abundance of good jobs.

I work for American Crystal, and while company people know that the union doesn't agree with every part of our employment contracts, they know (and we know) that this is a very vital company. We all know that this company's success depends on employees all through the system that care about the company's customers and that care also about the company's owners, the farmers. Many, many of them are our relatives and friends.

Mr. Chairman, there are a great many people who unfortunately treat employees only as an expense item on their ledger sheet. There are also many who knowingly destroy jobs in our community with no concern for our rural way of life.

We are here today to show that we are the partners within this industry. Our families absolutely need this industry and more like it to help keep life manageable here. We have school bills and food bills and car bills just like everyone else. And life is difficult at best, and the companies need us. We are skilled, dedicated working men and women.

We surely do not want to all move to big cities where crime and drugs and violence of all kind are only made worse by rural migration to those cities.

We need the industries like the sugar industries. We need companies like American Crystal and Minn-Dak and Southern Minnesota to be successful. If they are, they can pay good salaries to good employees who share the company's zeal for their customers and their farmer owners.

Mr. Chairman, Congressman Pomeroy, Congressman Peterson, thank you for your continued caring about ordinary people in rural America. We want to be part of the American success story too. This industry can help make that possible.

Statement by:
Larry D. Steward
President and CEO
Minn-Dak Farmers Cooperative
Before the House Agriculture Subcommittee on Specialty Crops
Moorhead, Minnesota
October 8, 1994

Good Afternoon, Congressmen Rose, Pomeroy, and Peterson. I am Larry Steward, President and CEO of Minn-Dak Farmers Cooperative in Wahpeton, North Dakota. On behalf of our 345 shareholders, I would like to welcome you to the Red River Valley. I'd also like to thank you for your support for the sugar industry, and for coming here this afternoon.

Minn-Dak Farmers Co-op was formed in 1974 by a group of farmers who saw an opportunity to take control of their own destiny. Nearly all of what those farmers produce is sold at a local elevator, and moves hundreds or even thousands of miles away before it is processed or consumed. The men and women who founded the co-op in the 1970s decided that they wanted to be able to produce a crop which they could also process and market. Although sugarbeets presented a substantial risk, it was where our growers decided to put their money.

By almost any measure, the investments made by Minn-Dak's shareholders over the last 20 years have been successful. Our cooperative has grown in number of growers, in tons of sugarbeets processed, and in dollars contributed to our local economy. Part of the credit for this success goes to the growers and employees of Minn-Dak, of course. But some of the credit also belongs to you and to your predecessors in Congress.

The sugar program has provided Minn-Dak and the rest of the sugar industry in the United States with an environment where growers and processors can make investment decisions with a long-term horizon. You have already heard testimony about the large dollar amounts that our growers invest in equipment for their farms, so I won't belabor that point. But I do want to make clear the fact that for our growers and for the other two sugar cooperatives in this region, the investment doesn't stop at the farm level.

Since we are cooperatives, ALL of the investment capital for our business comes from our grower-members. There are no outside funds we can tap into to run our business. And let me emphasize that sugarbeet factories have a tremendous appetite for big-ticket capital items. Just the routine annual replacement of equipment in our factories runs well into the millions of dollars.

But of course, we can't stop with just maintaining the factories. Our customers demand what has become known as Total Quality, meaning that every car, truck, or bag of sugar we ship must be guaranteed to meet their quality standards. Making sure we meet those standards can also cost a lot of money. We consider ourselves to be good environmental citizens, and we back that commitment up with millions of dollars each year. And finally, we are constantly fighting competitive pressures in the market as well as inflation in farm and factory costs.

A lot of people who don't like the US sugar program will tell you that the program guarantees producers a profit. I don't have to tell you that a lot of sugar farmers and processors in the United States today ARE NOT profitable. The objective of the sugar program is to create an environment where domestic producers are protected from subsidized foreign competition. Such a large proportion of the sugar available on the world market is subsidized in one way or another so that domestic producers simply can't hope to compete with it. Congress has shown the wisdom to recognize this fact and to counter it with a rational US sugar policy. Sugar farmers, processors, and consumers all get major benefits from this program. The shareholders of Minn-Dak Farmers Cooperative want to encourage you to keep this common sense program in place.

I don't have to tell you that there are issues within the context of the sugar program where the sugar industry is not in total agreement. The last two years have seen an ongoing conflict over the use of allotments to control sugar marketings. You know where Minn-Dak and its cooperative partners stand on this issue, but for the sake of clarity I will repeat our position. We feel that allotments are a necessary part of the sugar program, in that they guarantee a share of our market for foreign suppliers. We DO NOT feel that allotments were intended to restrain competition within the US industry, however. Economic forces mean that resources will move within an industry over time. It is our feeling that these forces should be allowed to operate, in the interest of the overall efficiency and competitiveness of the US industry. We are certain that these issues will be addressed in close detail as we work towards a 1995 Farm Bill.

Once again, thank you for your time and for visiting us here in the Red River Valley today. I'd be happy to answer any questions you might have at this time.

Testimony of
JOSEPH P. FAMALETTE
President and CEO
American Crystal Sugar Company
to the
U.S. House of Representatives
Committee on Agriculture
Subcommittee on Specialty Crops and Natural Resources
Re: Review Recent Sugar Market and Sugar Program Future

October 8, 1994

Mr. Chairman, my name is Joe Famalette. I am the Chief Executive Officer of the American Crystal Sugar Company, a cooperative located in this area known as the Red River Valley of the North.

All of us at American Crystal appreciate very much your coming here to get first hand testimony from farm food producers, from merchants and bankers from this area.

We appreciate also, Mr. Chairman, the work that your colleagues Congressman Peterson and Congressman Pomeroy do on our behalf to make certain that the interests of food producers are understood and to make certain that those interests are compatible with the needs of American consumers.

You know, Mr. Chairman, between 2/3 and 3/4 of all processed foods in this country have a basic sugar component. Some of those foods contain a lot of sugar. Some contain very little. And yet in all cases an assured supply of properly prepared sugar is absolutely critical.

High real interests costs and 'just in time' management principals have reduced inventories in virtually every user warehouse throughout the world.

That fact alone makes an assured quality supply an absolute essential for American food processors.

I have only been here in the Red River Valley for three years. And yet I must tell you that this is an amazing place. It is inhabited by amazing people who truly are dedicated to providing that food supply for American people.

Mr. Chairman, in 1973, the farmers here borrowed heavily to buy a sugar company of their own. They have spent large amounts of money for research. They have spent money to make their company more efficient. They do, in fact, provide for American sugar customers the best, most efficient service supplied any where in the industry.

Sugar production here was once a kind of 'poor cousin' to much of the rest of the industry. These people have never been given access to the Mississippi River water for irrigation. They have a cold widely varied climate that has a knack for making farming a constant challenge.

And yet, through their own diligence and willingness to invest in research in processing efficiency and in marketing efficiencies and quality service, they are setting new standards for cooperative and outside investor-owned businesses alike. They have turned obstacles into challenges and successes. They are the most efficient food producers in the world.

Nonetheless, the farm bill and the sugar section in it are essential to maintain this kind of superb food quality and reliability.

Americans spend less for sugar than the average price paid in other developed countries. They are in fact paying less than the world average and the sugar program actually makes money for the government.

We encourage your committee, Mr. Chairman, to continue a sugar program. As you know, the Secretary of Agriculture in the use of marketing-allotments a year ago imposed a formula which was very unfair to farmers here. This year (just last week, in fact), the Secretary again announced allotments. This time he came much closer to a fair formula and we commend him for his understanding of the problems that resulted from the form of the imposition a year ago.

The new announcement makes the allotment process more fair and more equitable and the promise to redistribute extra unused allocations will vastly improve the system and correct one of the major errors of a year ago.

Looking to the farm bill, there are changes needed that could clarify the bill's usage. We believe the loan rate loans provided under the program should be sustained. And we believe that if marketing allotments are again provided for, the formula used to determine both sector allotment division and allocation division within each sector need to be changed.

And so Mr. Chairman, let me repeat, we are grateful for the work of Congressman Pomeroy and Congressman Peterson. But we know, Mr. Chairman, that without your interest in and support for our industry, a sugar program would not happen. We wish you Godspeed in your difficult work of writing a farm bill. America's food producers will only be able to continue to make the American people the most efficiently and best fed people in the world if these moderate programs of support are maintained.