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SUGAR POLICY NEEDS OF FLORIDA CANE GROWERS AND PROCESSORS

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Good morning, my name is Luis Fernandez and I am the CFO of Florida Crystals, a privately owned vertically integrated cane sugar producer. We farm, mill, refine, package, and distribute sugar. We produce about 800,000 tons of raw sugar and further refine about 500,000. We are also the only domestic producers of organic sugar.

The last few years have been very difficult ones for sugar producers and processors. Just when you thought things were bad and that they couldn't get worse, guess what, they have.

Although lots of people come to Florida for the good weather, cane farmers in Florida have been getting the short end of the stick. In late 1999 Hurricane Irene plowed through the cane fields and knocked down much of the crop. As this year got started, our farms were hit by the coldest weather anyone can remember and we are now in the throes of a drought. All this, in a little over a year.

As we all know, sugar prices have both been at historical lows. Since last summer, fertilizer, fuel, and energy costs have risen by orders of magnitude.

But let's face it, farmers should not complain about the weather, it's part of our life, there's nothing we can do about it, and sometimes it's good and other times it's bad. There is symmetry.

Likewise, raw material costs go up and down. Sometimes they are high and other times they are low. There is symmetry.

On the other hand, prices have been low with little, if any, likelihood that they will be high. We cannot make up for low prices with high prices. Why? Under current legislation, if prices are low, there is little that can be done. Whereas in the event that prices were to rise the USDA can either release CCC stocks or increase the quota. There is no symmetry.

How did we get ourselves in this predicament? The ability and flexibility of the USDA to manage the Sugar Program was significantly reduced by trade agreements, primarily the Uruguay Round and to a lesser extent, although growing in importance and consequence, NAFTA.

For example, In fiscal year 1988, domestic production of sugar was such that the USDA set the TRQ at 874,000 tons, down from 1,221,000 the prior year; this resulted in stable sugar prices (#14 averaged 22 cts). The following year, 1989, domestic production declined by over 400,000 tons and the TRQ was set at 1.4 million tons, and then 2 million tons in 1990.

The USDA no longer has the ability to reduce the TRQ below the 1.25 million WTO minimum.

So what can we do when domestic production plus imports exceed demand? If ***minimum imports*** are mandated by international trade agreements and ***demand is relatively static (growing at 1.5% per annum) and price inelastic***, then the only way to avoid devastating prices is to ***limit the domestic supply***.

If the sugar industry wants to step up to the plate and solve its problem, without asking the government for a handout, we need to agree on an equitable method to ***limit the marketing of sugar***. Most importantly, Marketing Controls, or Inventory Management, does not require government funding to solve the problem.

Any solution which relies on ***government funding will make our industry vulnerable to criticism***, especially if the budget surpluses are reduced, or disappear because of slower economic growth, or tax cuts, or increased spending, or all of the above.

In addition to the problem of domestic oversupply, our ***borders are increasingly porous***. Every year the amount of sugar that enters the US, either as stuffed or hi-test molasses, cocoa blends, or cane juice has been growing. As long as countries around the world subsidize their sugar industries and therefore encourage an artificially low so-called 'world price,' there will be pressure on our borders. In the US, there is data suggesting that may be as much as 500,000 tons of sugar a year are circumventing the TRQ in various forms. We must be vigilant in identifying these imports and forceful in prevention.

So far we have focused on how to preserve a domestic sugar industry without asking the US Government for a handout. Lets now spend a little time on why we should support the US sugar industry.

First, it is a ***world class industry*** which LMC ranked as 18^{th} out of 96 producing countries in terms of cost competitiveness in a 1997 study.

Second, it directly employs 420,000 ***high paying manufacturing jobs***. The average employee in our company is a skilled worker earning more than $30,000.

Third, it adheres to the highest ***environmental and labor standards*** in the world. For example, FCC pays close to $5 million each year towards Everglades's restoration.

Fourth, we ***reliably provide the US food industry and the American consumer with a quality product at a reasonable price***. When was the last time you heard a consumer complain about the price of sugar? As everyone is aware, at current price levels our industry is not profitable, even at historical level's, prices were not sufficient to encourage surpluses (such as the EU) or even self-sufficiency, we have always been an importer.

So far, we have addressed the need for supply management in order to achieve stable prices at acceptable levels and that it is important that we solve our problems without a government handout.

Now, let's focus a little on Mexico.

The ***integration with Mexico is inevitable***, the issue is simply when and how. According to NAFTA it will occur no later than 2008. That is just around the corner.

A few suggestions:

- If we impose ***Supply Management, Mexico needs to do the same***. The US sugar industry should not limit its output to benefit the Mexican sugar industry; this is a burden that must be shared. In fact, since NAFTA was signed, Mexican production has increased by 35% and US by 18%, about half.

- Both countries need to be mindful and vigorous in their ***border protection*** against those that are busy identifying and taking advantage of loopholes that clearly go against the intent of our national policy.

- If Mexico wants to integrate with the US, then it has to allow its sugar industry ***to restructure and shut down inefficient plants.*** This means that the government needs to stop financing inefficient sugar mills that produce sugar at a loss and contribute to overproduction, which in turn hurts the more efficient producers.

- This is very important, because in the US, our industry is subject to ***the laws of the market place***. For example, in the 1980's our cane refining industry was cut in half as HFCS made its entry. Just over the last few years we have shut down 3 beet factories, 3 sugar mills and a refinery in Florida. There is probably more to come.

- If Mexico wants to integrate, then we must compete in the market place and the Mexican Government needs to step aside.

In sum, we need Supply Management to stabilize prices at acceptable levels, we need to do this without a government handout, and we need to make NAFTA work. As farmers, we'll take our chances with the weather. It has symmetry.

Thanks for your time and attention.