

# Committee on Resources

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Testimony presented to the

Hearing of the

Subcommittee On Energy and Mineral Resources

Presented by Calvin Jones,

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Wyoming Sugar Company, LLC

June 19, 2003

Good Morning, and thank you Chairwoman Cubin and committee members for allowing me this time to testify before you.

I am here representing the Beet Sugar Industry as part of a much larger "Sweetener Industry" that consists of sugarbeet, sugar cane and corn. This industry annually creates \$21.1 billion of economic activity in 42 states. The industry provides American consumers with high quality sweeteners for various applications. American consumers pay 22 percent less than their counterparts in other developed countries. (Chart #1).

The beet sugar segment of this industry plants over 1,400,000 acres of sugar beets in 12 states that are processed by 27 beet sugar factories. The industry creates 88,200 full time direct and indirect jobs for people across the nation.

Wyoming is one of the 12 sugar beet producing states where over 400 growers produce about 56,000 acres of sugar beets. Those beets are then processed by three factories operated by two companies, Wyoming Sugar Company, LLC and Western Sugar Cooperative. The economic activity generated in the state of Wyoming each year by the Sweetener Industry is \$159,600,000.1

The US Sweetener Industry is integral to the national economy, as a well as each state where sweeteners are grown and processed. Current United States sugar policy allows efficient U.S. beet, cane and corn growers and processors to compete against unfair foreign subsidies and trade practices. The program provides reliable supplies of sugar at fair and stable prices. Moreover, it operates at a minimal cost to the taxpayer.

Sugar is the only major commodity program in the 2002 Farm Bill that is designed to operate at no cost to the U.S. taxpayers. Most years, in fact, U.S. sugar policy has been a revenue raiser for the U.S. government. (Chart # 2).

To cope with the declining real prices for their product, (Chart # 3) American sugar farmers and processors have made extraordinary adjustments. Since 1996, 19 sugar beet factories or cane processing mills have closed. That accounts for more than one-fourth of all the factories and mills operating in 1996. (Chart # 4). Some geographic regions, including portions of Hawaii sugar cane, Northern California beets, and all of Texas beets have exited the sugar business altogether. Equally upsetting, other areas, such as Louisiana cane, have been forced to concentrate their production at the most efficient mills.

The combination of a decline in sugar prices and higher cost of production is directly responsible for a number of plant closures. As a case in point, the Texas beet operations that I managed for several years were negatively impacted by high energy costs. Texas Panhandle sugar beet growers use natural gas powered water irrigation pumps to irrigate their crops. The high cost of natural gas negatively impacted the economics involved in crop irrigation. Similarly, the sugar beet processing factories were directly affected by high energy costs due to their reliance upon natural gas as a fuel source for processing the raw sugar beet. Both partners, the sugar beet growers and the factory, were unable to continue in the business. The natural

gas industry calls that type of plant closure “demand destruction.”

On February 10, 2003, the Western Sugar Cooperative announced that it was suspending maintenance operations at its Greeley, Colorado facility. Due to the drought, thousands of acres of beets will not be planted in the Greeley “growing area.”

The beets that are being grown in the Greeley factory area will be transported to Fort Morgan, Colorado for processing. The Fort Morgan plant has a higher “beet slicing capacity” and is coal fired, where Greeley is gas fired. The additional freight costs are more than offset by the differential in fuel costs.

The sugar beet industry has also been faced with another unexpected “commodity challenge.” That commodity is water, or the lack thereof. Sugar beet crops will not grow without water. In order to sustain and grow crops, the 21 states of beet sugar production require water either from reservoir systems (Irrigation projects) or natural precipitation during the growing season (Dry land production). Drought has affected both these areas from time to time. Currently, Wyoming production is “ground zero” relative to the existing drought cycle. Over the past three years, acreage planted in sugar beets and the resulting crop yields (2003 should be considered the fourth year) have been severely depressed due to the ongoing drought situation. (Chart # 5). Please note that the states most affected by the ongoing drought are indicated in red. Both “Area Harvested” and “Yield” of the 2001/2002 crops have been negatively affected. To better depict this crises, the U.S. Drought Monitor illustrates the current situation! (Chart # 6).

The sweetener business is driven by three main costs. Of course, the growing and harvesting of the raw product accounts for the greatest cost, which, in our case, is the sugarbeet. Our growers are our partners in this business since the sugar price influences the compensation the grower receives for the crop they have invested in throughout the growing season. This concept, which is unique to the sugarbeet industry, is defined as a “participating contract.” The Wyoming Sugar Company’s contracted growers made a financial commitment to our company through the purchase of stock shares in the company. However, an investment is not required by our company by growers to contract and grow sugar beets for processing.

The other major costs driving the sweetener business are labor and process purchases. Labor refers to the jobs and associated economic activity within the local communities. Our labor force at Wyoming Sugar Co. bought into the business with an “in kind” contribution of 21 days without pay last year. These are family “bread winners” who risked their family budgets to see this industry succeed. Worland’s labor force has also agreed to a wage freeze for the next two years, another indication of their commitment to our business.

“Process purchases” refers to process supplies and energy needs. The greatest single cost in this category is energy. I am mainly referring to Natural Gas since this is the fuel of choice for our company. Recently, the NYMEX prices for natural gas (Chart # 7) have dramatically risen. In contrast, sugar prices have been plummeting (refer to chart #3). Because of these opposing price trends, one can see the squeeze sugar companies are facing!

The beet sugar business is very labor and energy intensive. We are one of the few industries within the United States that processes a raw product into a consumer available finished product all within close proximity (80 miles) to the factory. Our effort is an example of a value added effort in the conversion of a raw product to a finished product!

Sugar is more affordable in the United States than virtually anywhere else in the world. In terms of “minutes of work” to purchase a pound of sugar, the United States is the third lowest of the 49 countries that LMC International LTD (LMC)[i] studied, both developed and developing. (Chart # 8). The “1.9 minute” U.S. figure is below the “free Market” Australia and Canada numbers, less than half the developed-country average, only a third of the work average, and 70% below Brazil.

In terms of sugar expenditures as a percent of per capita income, the United States is the lowest in the world. (Chart # 9). American consumers also benefit from the availability of low-priced, U.S. made corn sweetener.

Beet sugar economics also directly impact the value of farmland. Sugar beet production affects irrigated farmland prices even in counties that do not produce sugar beets. A significant reduction in Montana irrigated farmland prices (19 percent to 35 percent) can be expected in the absence of sugarbeet production.[ii] The same affect can be expected in other sugar beet producing states that utilize similar

rotational crop choices.

That is the industry I am representing, more pointed I am representing my company, Wyoming Sugar Company, LLC, and the beet sugar industry of Wyoming. Wyoming is the second highest ranking state in natural gas production. It is ironic and alarming that industries within the state of Wyoming are at risk of closing due to high natural gas prices. Perhaps even more ironic, natural gas producers in Wyoming currently receive the lowest price for their commodity as compared to any other natural gas producing region in North America. Despite the relative "price lag" relationship for Wyoming gas producers, the Wyoming Beet Sugar factories will see their cost of gas increase nearly 2.5 times last year's actual price paid.

Wyoming Sugar Company, having been a part of the state's economy for 97 years, is at risk of closing as a result of high natural gas prices. Unlike natural gas utilities that purchase and supply natural gas to residential and commercial customers, the beet industry cannot simply vote to immediately "pass through" its higher cost of gas to its customers.

As the Federal Reserve Chairman, Alan Greenspan, stated on Tuesday, June 10, 2003, high natural gas prices could weaken some key American Industries' ability to compete. I am here today to inform you from grass roots America that this is, in fact, happening!

We feel these price increases may be temporary. However, temporary or not, our company and industry cannot survive long term with these cost increases.

Natural gas producers face a dilemma as well. The approval and issuance of permits to drill following an application has increased three fold in the past year. I am told that in one particular Wyoming BLM office, what in the past took 45 days for federal land permitting, is now, taking approximately 175 days. If this process were streamlined, more natural gas production, or at least the potential for more production, might be available. Additionally, the federal government should consider some method of encouraging marginal natural gas wells to become more productive or brought back into production. Such an effort would increase supplies or at least have the potential to do so.

We can manage with the non-controllable factors such as the drought and weather related issues. The controllable items are the ones we all have to address to continue our way into the future. As I have explained today, one of these items is the burner tip cost of natural gas at our processing factory.

Grass Roots America is suffering, and we need your help.

[1] "The Importance of the Sugar and Corn Sweetener Industry to the U.S. Economy," LMC International LTD., August 2001

2 "The Effects of Sugarbeet Production on Montana Land Prices" Montana State University - Bozeman

Chart # 1

Chart # 2

Chart # 3

Chart # 4

19 PERMANENT SUGAR MILL CLOSURES SINCE 1996

BEET CLOSURES  
CANE CLOSURES

Spreckels Sugar, Manteca  
California, 1996  
Ka'u Agribusiness  
Hawaii, 1996

Amfac Sugar, Kekaha  
Hawaii, 2000

Holly Sugar, Hamilton City  
California, 1996  
Waialua Sugar  
Hawaii, 1996  
Amfac Sugar, Lihue  
Hawaii, 2000

Western Sugar, Mitchell  
Nebraska, 1996  
McBryde Sugar  
Hawaii, 1996  
Hawaiian Commercial & Sugar, Paia  
Hawaii, 2000

Great Lakes Sugar, Fremont  
Ohio, 1996  
Breaux Bridge Sugar  
Louisiana, 1998  
Evan Hall Sugar Cooperative  
Louisiana, 2001

Holly Sugar, Hereford  
Texas, 1998  
Pioneer Mill Company  
Hawaii, 1999  
Caldwell Sugars Cooperative  
Louisiana, 2001

Holly Sugar, Tracy  
California, 2000  
Talisman Sugar Company  
Florida, 1999

Holly Sugar, Woodland  
California, 2000

Western Sugar, Bayard  
Nebraska, 2002

\*In 2003, 27 beet and 25 cane mills remain

Chart # 5

Crop Production Report

U.S. Department of Agriculture, National Agricultural Statistics Service

Released June 11, 2003

Sugarbeets: Area Planted and Harvested, Yield, Production,  
Price, and Value by State and United States, 2001-2002 1/

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: Area Planted : Area Harvested : Yield

State :-----

: 2001 : 2002 2/ : 2001 : 2002 2/ : 2001 : 2002 2/

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: ----- 1,000 Acres ----- Tons -----

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CA : 46.6 50.2 44.7 49.9 35.7 39.5

CO : 41.5 43.9 36.8 39.5 22.4 20.1

ID : 199.0 212.0 179.0 210.0 25.9 24.3

MI : 180.0 179.0 166.0 177.0 19.4 18.1

MN : 468.0 505.0 426.0 476.0 18.3 18.6

MT : 57.4 58.0 53.5 55.9 21.5 19.6

NE : 48.6 57.0 41.4 42.0 20.3 18.1

ND : 261.0 265.0 237.0 258.0 18.1 18.6

OH : 0.8 1.9 0.6 1.8 20.0 20.6

OR : 11.9 11.3 9.7 11.0 29.9 27.4

WA : 7.2 4.0 7.1 4.0 35.6 35.0

WY : 48.5 40.0 41.6 36.0 20.6 18.3

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US : 1,370.5 1,427.3 1,243.4 1,361.1 20.7 20.4

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Chart # 6

Chart # 7

Chart # 8

Chart # 9

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