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“Challenges to Survive in the 21st Century”

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The Western Sugar Cooperative
Overview

- Background on Western Sugar, U.S. sugar market
- Effect on the U.S. sugar producing industry from 23 years of essentially flat market prices: industry restructuring, contraction, consolidation
- Recent developments: increased dependence on foreign sugar, related dangers
- Going forward: avoiding further industry contraction?
- Recent price recovery in longer-term perspective
- Importance of sustaining price recovery
History

• 1901 - “The Great Western Sugar Company” was founded
  – First factory built in Loveland, Colorado
  – At the height of production - operated over 20 factories in 4 states

• 1985 - Tate & Lyle purchased the company
  – 6 factories operated in “Western Sugar”

• 2002 - “The Western Sugar Cooperative” was formed
  – 1000 Farmers joined together to purchase the assets from Tate & Lyle

• 2010 – The Western Sugar Cooperative supplies 10.5% of U.S. Beet Sugar
  – Consumer Packaged Products (30+ private labels & GW)
  – Industrial Packaged Products (Large food manufacturers)
  – Bulk Sugar
Our Growers
US Sugar Beet Industry
Industry is Capacity Limited

- 6 Beet Cooperatives make up this 1.1 million acre industry
- Each Cooperative’s asset base is designed to operate at capacity every year
  - Each year it takes fewer acres of production to produce similar sugar yields
- 4.8 – 5.0 million tons of sugar is industry capacity
- When the industry has a bumper crop we have 3 choices
  - Sell to neighboring cooperative who may have a poor crop
  - Plow the excess crop into the soil before harvest
  - Harvest the crop and throw away what will not store in the spring
- All 3 of these solutions have been utilized the past 3 years in the industry
Events Leading to Industry being Capacity Limited
U.S Wholesale Refined Sugar Prices, Nominal and Real, 1985-2007

Producer prices for sugar: Flat for 23 years; Sharply lower in real terms

Last sugar loan rate increase: 1985
Inflation 1985 to 2007: 93%

Since 1985:
Farm Input Costs -- Huge Increases

Sugar Price Support -- No Change, 1985-2009

Key farm input costs have increased more than the general rate of inflation

Since Last Sugar Loan Rate Increase in 1985
More Than Half of U.S. Sugar-Producing Operations Have Shut Down

1985 Total = 102

Beet Factories

Cane Mills

Cane Refineries

2009 Total = 48

1985

42

18

2009

22

18

8

Source: American Sugar Alliance, Jan. 2009
### 35 Sugar Mill and Refinery Closures, 1996 - 2009

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<thead>
<tr>
<th>BEET CLOSURES</th>
<th>CANE CLOSURES</th>
<th>CANE REFINERY CLOSURES</th>
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<tr>
<td>Holly Sugar, Hamilton City, California, 1996</td>
<td>Waialua Sugar, Hawaii, 1996</td>
<td>Sugarland, Imperial, Texas, 2003</td>
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<td>Great Lakes Sugar, Fremont, Ohio, 1996</td>
<td>Breaux Bridge Sugar, Louisiana, 1998</td>
<td>Everglades, Imperial, Florida, 1999</td>
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<td>Holly Sugar, Tracy, California, 2000</td>
<td>Talisman Sugar Company, Florida, 1999</td>
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<td>Holly Sugar, Woodland, California, 2000</td>
<td>Amfac Sugar, Kekaha, Hawaii, 2000</td>
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<td>Western Sugar, Bayard, Nebraska, 2002</td>
<td>Amfac Sugar, Lihue, Hawaii, 2000</td>
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<td>Western Sugar, Greeley, Colorado, 2003</td>
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<td>Amalgamated Sugar, Nyssa, Oregon, 2005</td>
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<td>Spreckels Sugar, Mendota, California, 2008</td>
<td>Everglades, Imperial, Florida, 1999</td>
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**Note:** In 2010, 22 beet factories, 18 raw cane mills, and 8 cane refineries remain in continuous operation, a 41% drop since 1996. U.S. Sugar, FL, has announced plans to close after 2015.
ASA 2010
Independent processors exit business because of low prices; desperate growers organize cooperatively to keep beet factories in operation.

Consolidation, Increased Efficiency: Beet sugar production steady while number of factories declines by 37%  
1995/96 - 2009/10

Data sources: USDA, American Sugar Alliance, February 2010
Recent Developments

• Declining beet acreage
• But rising yields – constant investment in best seed varieties, cultural practices, factory efficiency
**U.S. Harvested Area of Sugarbeets and Sugarcane**

--- Thousand acres ---

**Beet Acres**

- **Beet acreage:**
  - Down 7 of past 10 years;
  - Up 15% in 2009/10

**Cane Acres**

- **Cane acreage:**
  - Down 8 years in a row;
  - Up 1% in 2009/10

Data source: ERS, USDA.
U.S. Beet Sugar Yield Improvements:
Tons of Beets/Acre; Sugar Recovery; Tons of Sugar/Acre

-- 1980-82 Average = 100% --

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<th>1980-82 Avg</th>
<th>2007-09 Avg</th>
<th>Increase</th>
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<tr>
<td>Tons of Beets/Acre</td>
<td>20.8</td>
<td>26.0</td>
<td>25%</td>
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<tr>
<td>Recovery Rate</td>
<td>12.9%</td>
<td>15.1%</td>
<td>17%</td>
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<tr>
<td>Tons of Sugar/Acre</td>
<td>2.68</td>
<td>3.93</td>
<td>47%</td>
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</table>

Source: USDA, ERS. January 2010.
Recent Developments

- Fewer refined sugar sellers = potential problems when one region experiencing production, transportation problems: The post-Katrina experience, 2005-06:
  - Sugar available, but transportation not
  - Fallback supplies from Mexico prove to be low in quality
More than half of post-Katrina "refined" sugar imports required re-refining to meet U.S. standards.
Recent Developments

• Fewer refined sugar sellers = potential problems when one region experiencing production, transportation problems: The post-Katrina experience, 2005-06:
  – Sugar available, but transportation not
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• Welcome change in Sweetener User view of sugar industry and policy prior to 2008 Farm Bill: Recognize need for a strong, dynamic domestic producing industry – appreciate the value of just-in-time delivery, high-quality, high-safety, exact specifications
Going Forward

• What will it take to sustain U.S. sugar producing capacity, avoid further closures?

• Sustain recent price recovery: Opportunity to pay down debt, reassure financial community, invest more in cost-reducing technology.
Price Recovery in Perspective

- Real prices still down
Nominal Price

Real Price -- Corrected for Inflation

Despite 2009 price rise, real prices still down sharply. Inflation since 1985: 99%

Price Recovery in Perspective

- Real prices still down
- World prices have risen twice as much as domestic
U.S. Sugar Price Rise in 2009: Less than Half of World Price Rise
-2009 Average Compared with 2008 Average-

Raw Cane Sugar

17.0%  35.3%

U.S.¹  World²

Wholesale Refined Sugar

17.1%  38.7%

U.S.³  World⁴

Sources:
USDA.
¹ICE, #14 or #16 contract, duty fee paid New York.
²ICE, #11 contract, f.o.b. Caribbean ports.
³Midwest Markets.
⁴LIFFE, #5 contract, f.o.b. Europe.
Price Recovery in Perspective

- Real prices still down
- World prices have risen twice as much as domestic
- Other commodity prices have risen more
Wheat, corn, soybean farmers receive income supports; sugar producers do not. Sugar policy no net cost to taxpayers since 2001.

2009 avg raw price of 24.93 cents = 108% of 1996

2009 avg refined price of 38.10 cents = 130% of 1996

Sources: ERS, USDA; Annual averages prices received by farm, No. 2 yellow corn, all wheat, soybeans, raw cane sugar (#14 futures contract).
Price Recovery in Perspective

- Real prices still down
- World prices have risen twice as much as domestic
- Other commodity prices have risen more
- Sweetened product prices have risen more
Recent wholesale sugar price rise a fraction of rises for retail sweetened products.

Real Price Changes (*Corrected for Inflation*) Since 1990: Wholesale Sugar and Retail Sweetened Products

1990=100 percent

- Cereal & Bakery Products
- Ice Cream
- Candy & Chewing Gum
- Wholesale Refined Sugar

Sweetened-product real prices: keep pace with cost inflation; wholesale refined sugar: real prices down 23%

Price Recovery in Perspective

- Real prices still down
- World prices have risen twice as much as domestic
- Other commodity prices have risen more
- Sweetened product prices have risen more
- Vast majority of sugar actually sold at prices well below the spot market prices quoted by Milling & Baking News and USDA
U.S. Wholesale Refined Sugar Prices:
Milling & Baking News Spot Pricing

--- Dollars per hundredweight ---

Data sources: Milling & Baking News, wholesale refined beet sugar, Midwest markets.
U.S. Wholesale Refined Sugar Prices: Milling & Baking News Spot Pricing vs Actual Contract Pricing

-- Dollars per hundredweight --

Data sources: Milling & Baking News, wholesale refined beet sugar, Midwest markets;

M &B News Spot Prices

Post hurricanes

Post Savannah Explosion

World price run-up

Actual contract pricing trend averages 25-30% below spot market quotes
Conclusion

- We pride ourselves in providing high-quality, safe sugar, at more than 40 specifications, and when our customers want it – we are the food manufacturers’ sugar warehouses.

- We cannot easily be replaced:
  - Mexican sugar of uncertain quality
  - World sugar of uncertain reliability

- We are pleased our customers recognize this
Conclusion

• If recent price recovery can be sustained:
  – Producers might be able to improve returns over past years, re-invest, continue to improve efficiency, and stay in the business;
  – Users can depend on high quality American sugar;
  – Taxpayers/consumers continue to benefit from no-cost program, economic activity and tax revenues from a $10-billion, 146,000-job domestic sugar producing industry