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Outlook For Mexico As A Supplier of Sugar To The U.S.

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OUTLOOK FOR MEXICO AS A SUPPLIER OF SUGAR TO THE U.S.

FEBRERO, 2012



**CAMARA NACIONAL DE LAS INDUSTRIAS
AZUCARERA Y ALCOHOLERA**

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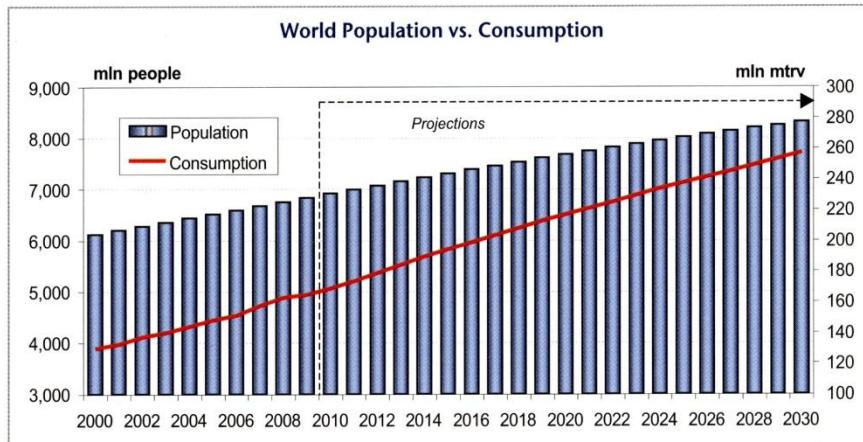
I. Sugar Outlook

DEMAND GROWTH

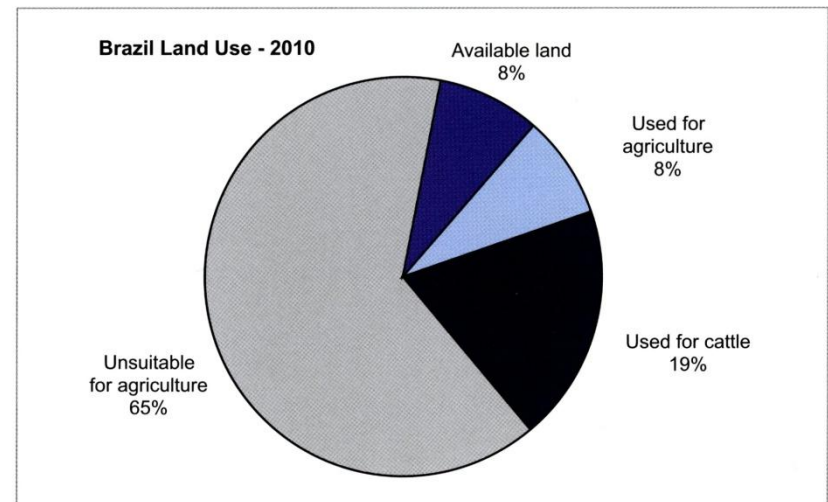
- Global sugar demand will increase to 257mmtrv by 2030. 90mmtrv - increase
- Growth is driven primarily by the emerging economies.
- Growth in consumption is around 1.3% higher than the growth in population and reflects that consumption per capita rises as countries develop.

SUPPLY GROWTH

- Over the last 20 years sugar production has risen by 44% to 157mmtrv
- The sugar industry is becoming quite concentrated; 10 biggest suppliers account for 60% of production and exports.
- Brazil alone accounts for 60% of global exports. Dependence on Brazilian sugar will continue to grow.
- Improvements in productivity could result in growth of 45mmtrv and there will be a need on the supply side of 45mmtrv primarily from Brazil.
- Sugar consumer will need to adjust to higher prices.



Source: Czarnikow/ UN Department of Economic and Social Affairs: Population Division



Source: MAPA

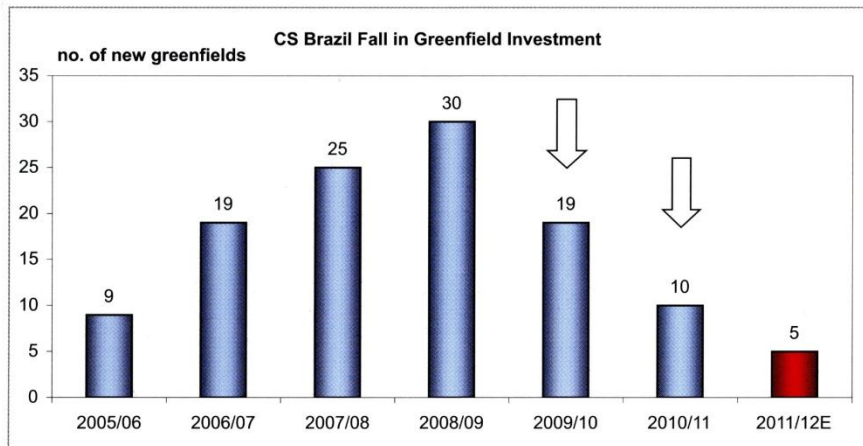
I. Sugar Outlook

Brazilian Case

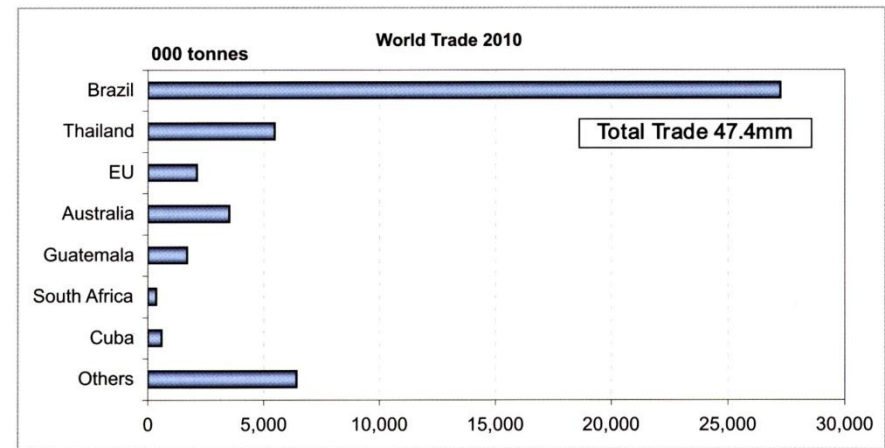
- The operational cost of sugar production is forecast to rise to over 35c/lb over the next 20 years. An increase of more than 85%.
- Agricultural costs biggest cost component (60% of total) will double in the next 20 years as a result of higher land, input and labor costs.
- Logistic cost will also double in the next 20 years.

CAPEX

- Total additional land requirements to meet the growth in global sugar and domestic ethanol demand is 9.17 m hectares. Land under cane cultivation will double.
- Factory capacity will have to be upgraded and in addition, a total of 173 new Greenfield units will be required.
- 1.4 bn tons of additional cane crushed will require an investment of approximately US\$340bn over this period.
- There is an optimistic growth target of 2.2bn tons of cane dependant on the ethanol market that would require US\$490bn in CAPEX.



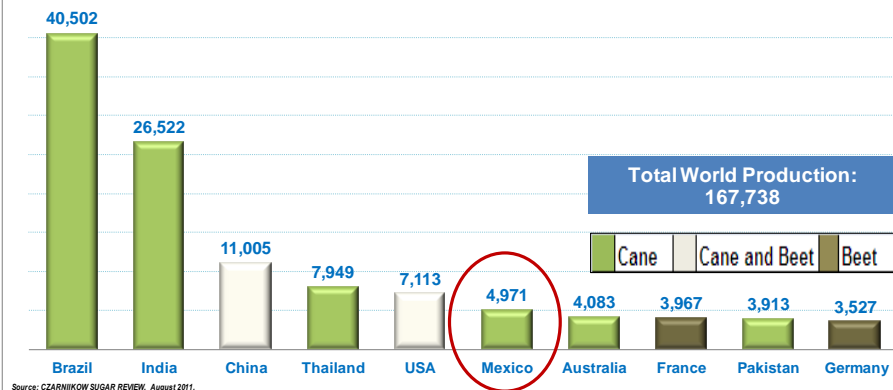
Source: Czarnikow



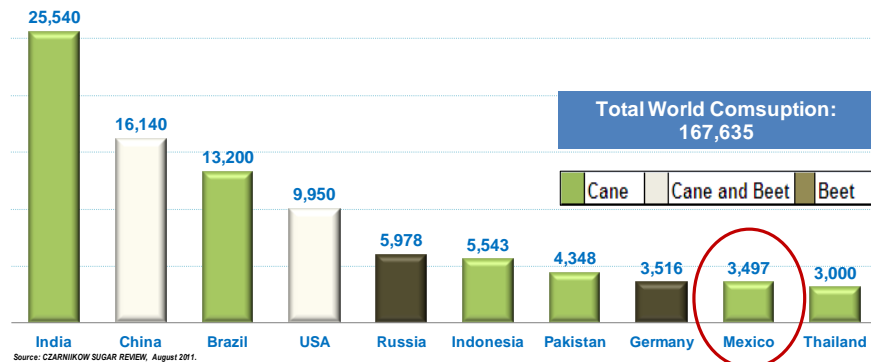
Source: Czarnikow

II. Mexico leading sugar producer with a large Sweetener Market

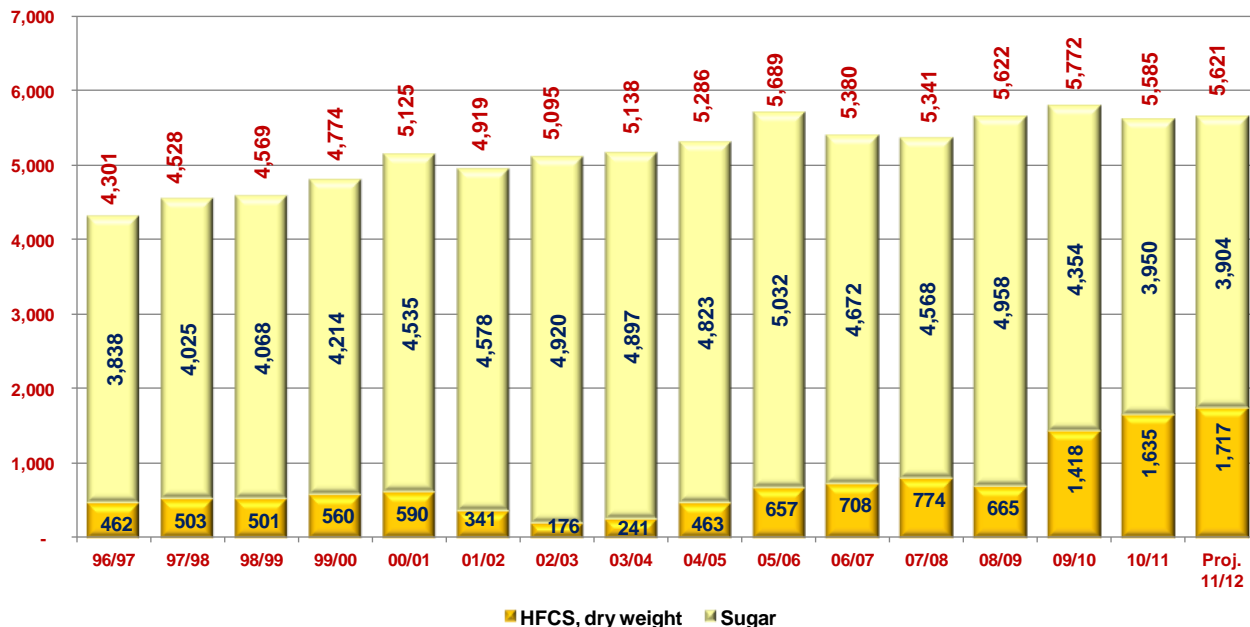
Mexico: World's Sixth Leading Sugar Producer
Cycle 2010/2011
Metric tons, raw value



Mexico: World's Ninth Leading Sugar Consumer
Cycle 2010/2011
Metric tons, raw value

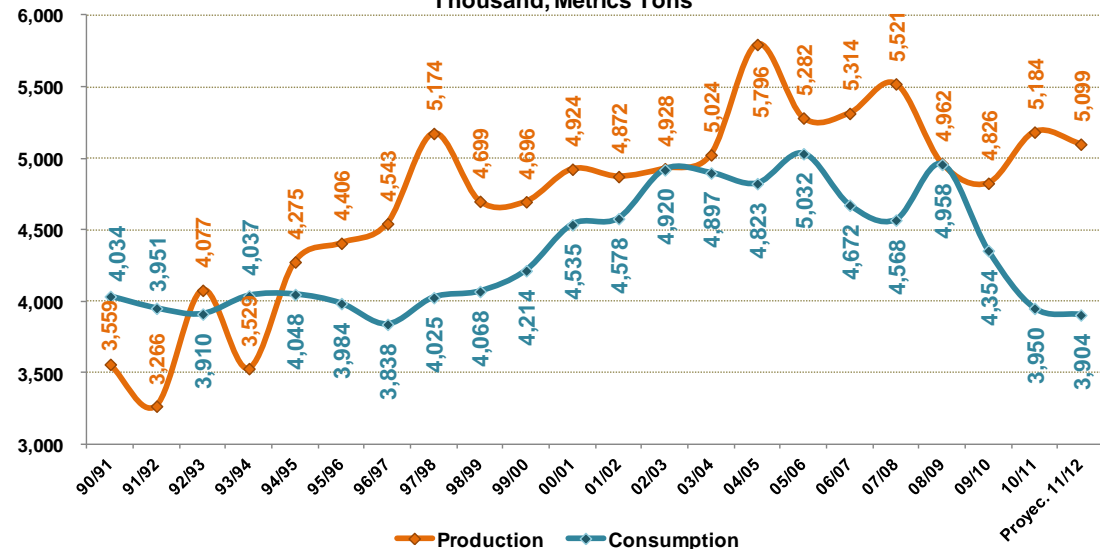


Mexican market: Sugar and HFCS Consumption Thousand Metric Tons

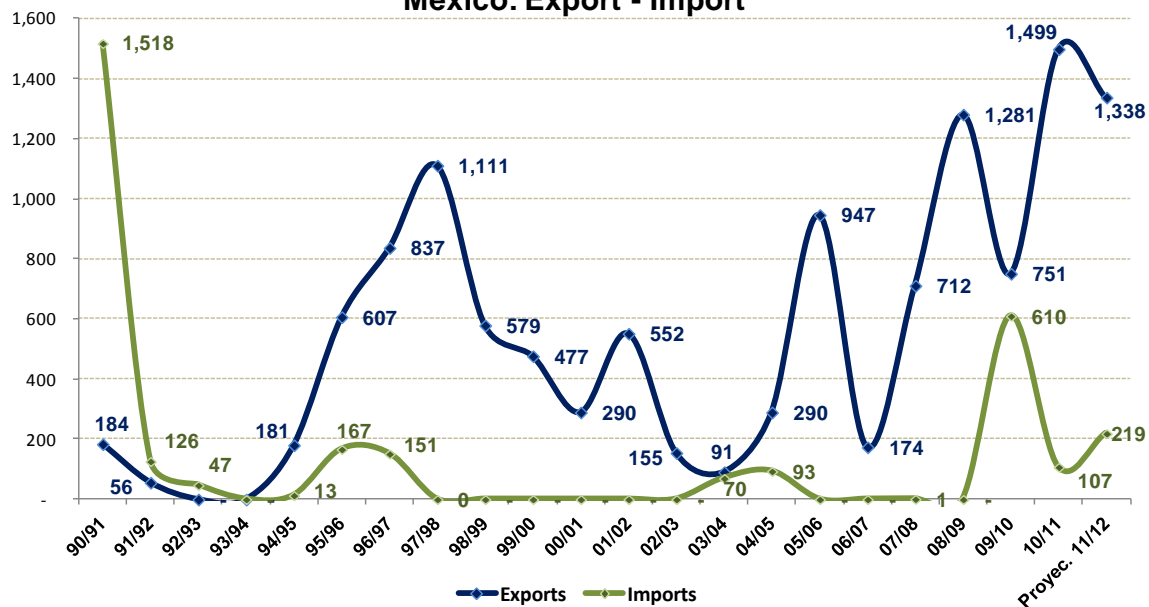


II. Mexico leading sugar producer with a large Sweetener Market

Mexican Sugar: Production and Consumption
Thousand, Metrics Tons



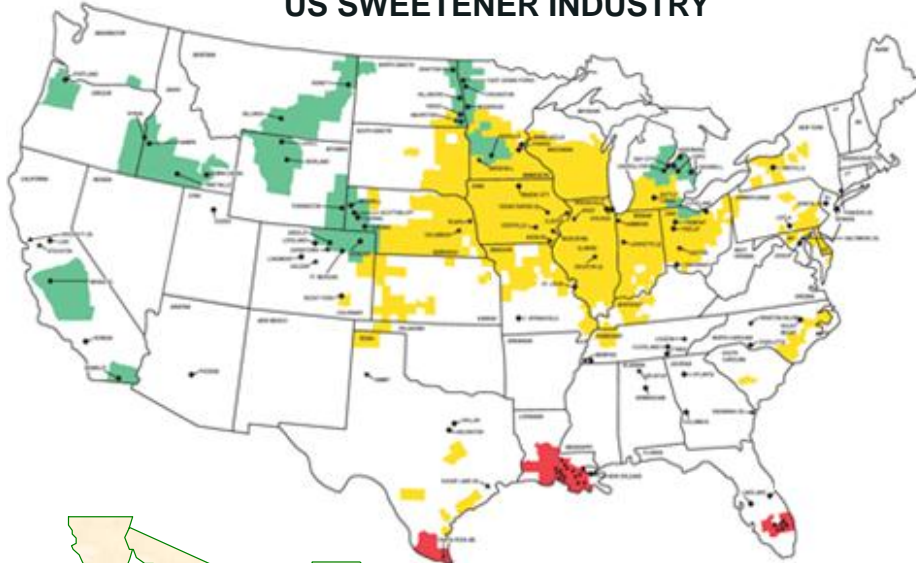
México: Export - Import



Source: CNIAA

III. North American Regional Market a Reality

US SWEETENER INDUSTRY



MEXICAN SUGAR INDUSTRY

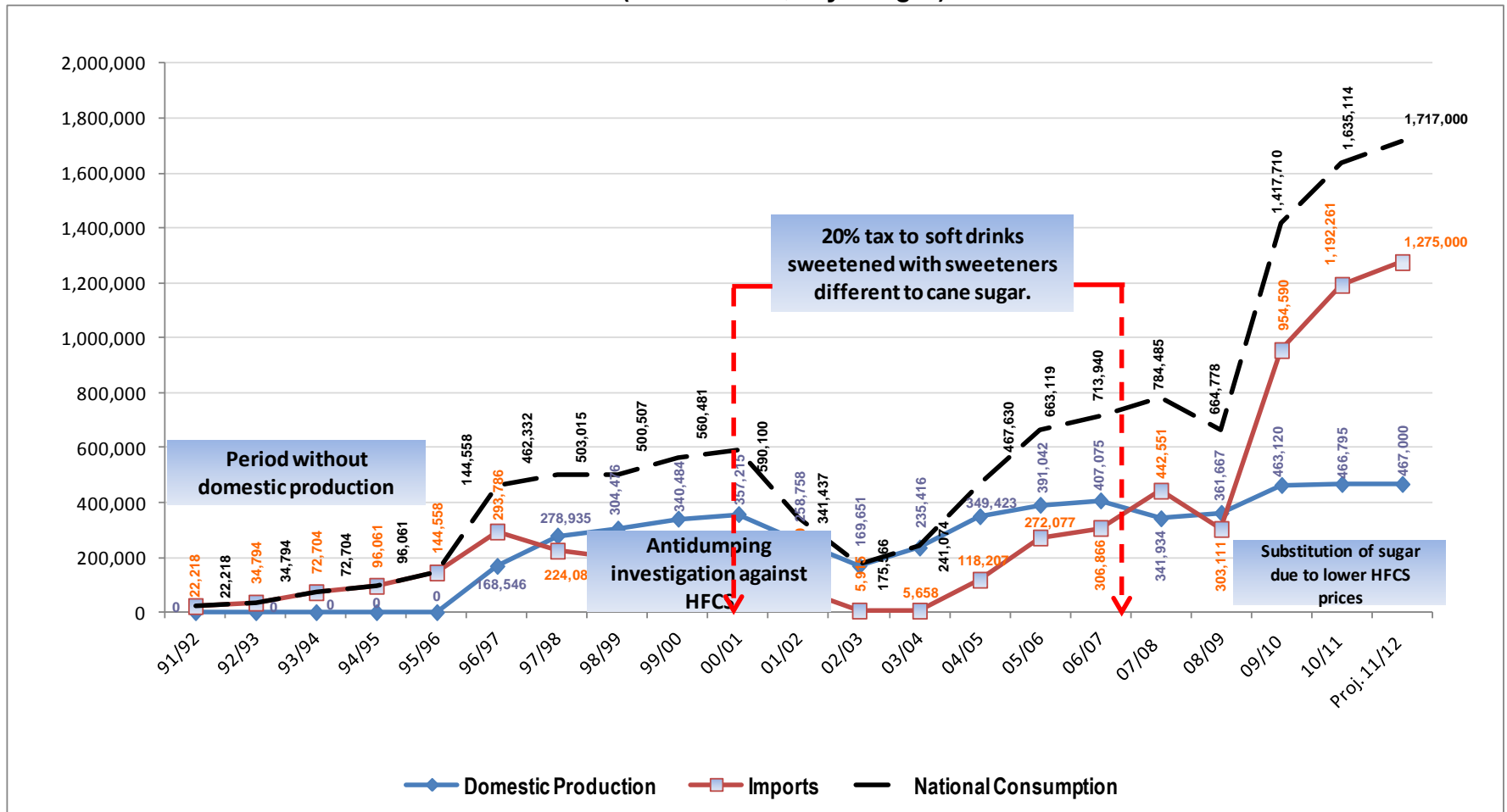


- ✓ North American Sweetener market fully integrated.
- ✓ Since the market opened:
 - Mexico has exported more than 2,9 millions sugar tons to U.S.
 - Mexico has imported around 2,6 millions tons dry of HFCS from U.S.
- ✓ Good Coordination and cooperation between Mexican and U.S. Governments regarding sweeteners:
 - The Administration in each country sugar program consistent with NAFTA obligations.
- ✓ Mexico is a reliable supplier in the integrated North American Regional Market.

III. North American Regional Market a Reality

a) Mexican Sweetener Market

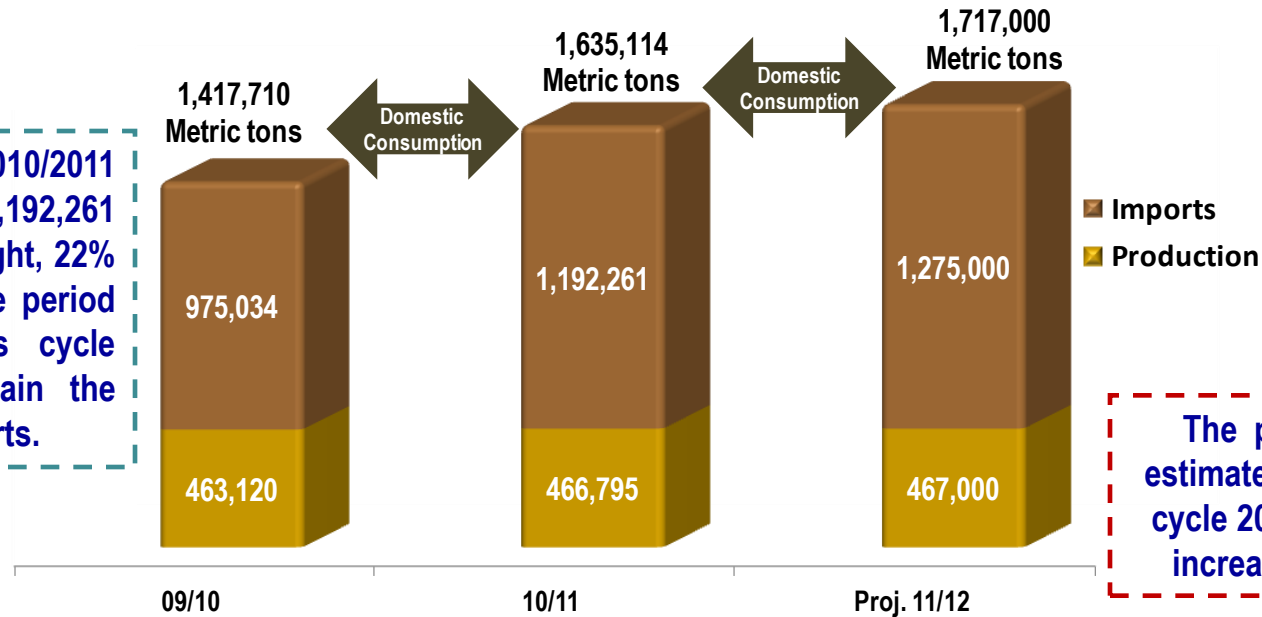
Mexico: Production, imports and national consumption of HFCS, Marketing years 1991/92 to 2011/12 (projected)
(Metric Tons, dry weight)



III. North American Regional Market a Reality

a) Mexican Sweetener Market

HFCS Imports and Production, cycles 2009/2010, 2010/2011
and 2011/12
Metric tons, dry weight



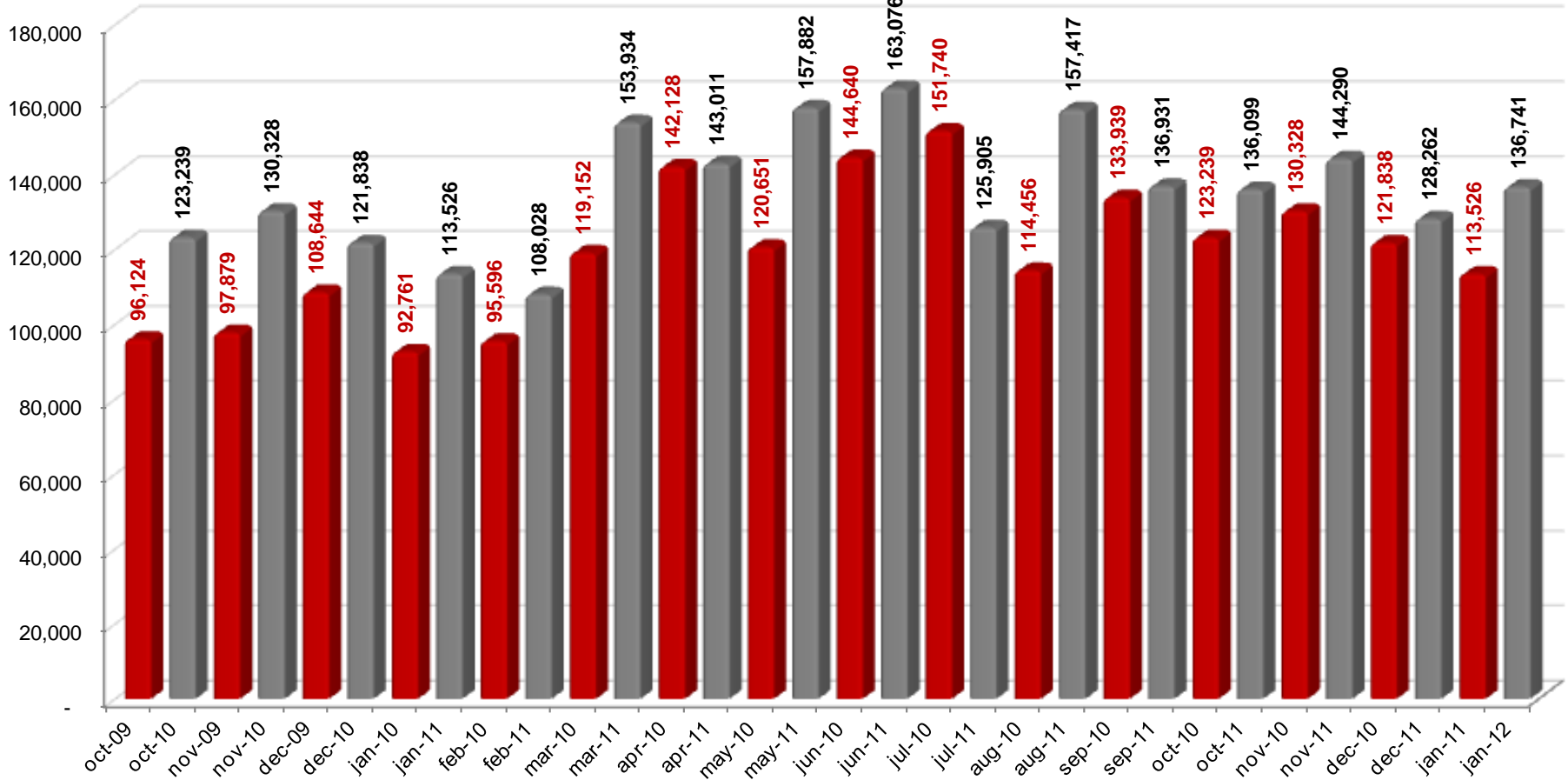
In the cycle 2010/2011 Mexico imported 1,192,261 metric tons dry weight, 22% up that in the same period last cycle. In this cycle 2011/2012 will remain the same levels of imports.

The production estimated of HFCS in cycle 2011/2012, will increase less 1%.

III. North American Regional Market a Reality

a) Mexican Sweetener Market

HFCS consumption, from Oct-09 to Jan-12 Metric tons, dry weight

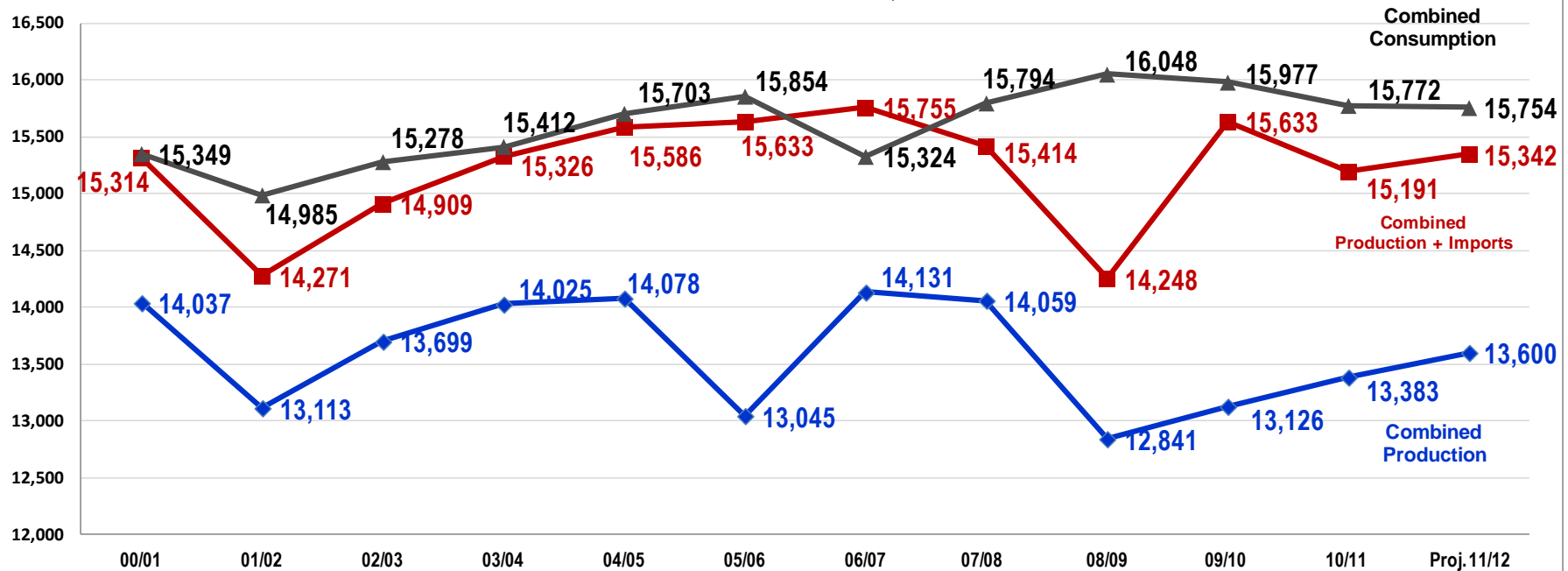


Source: CNIAA

III. North American Regional Market a Reality

b) USA Sweetener Market

U.S and Mexico Sugar: Combined Production plus Minimum of U.S. Imports and combined Consumption
Thousand Metric Tons, raw value

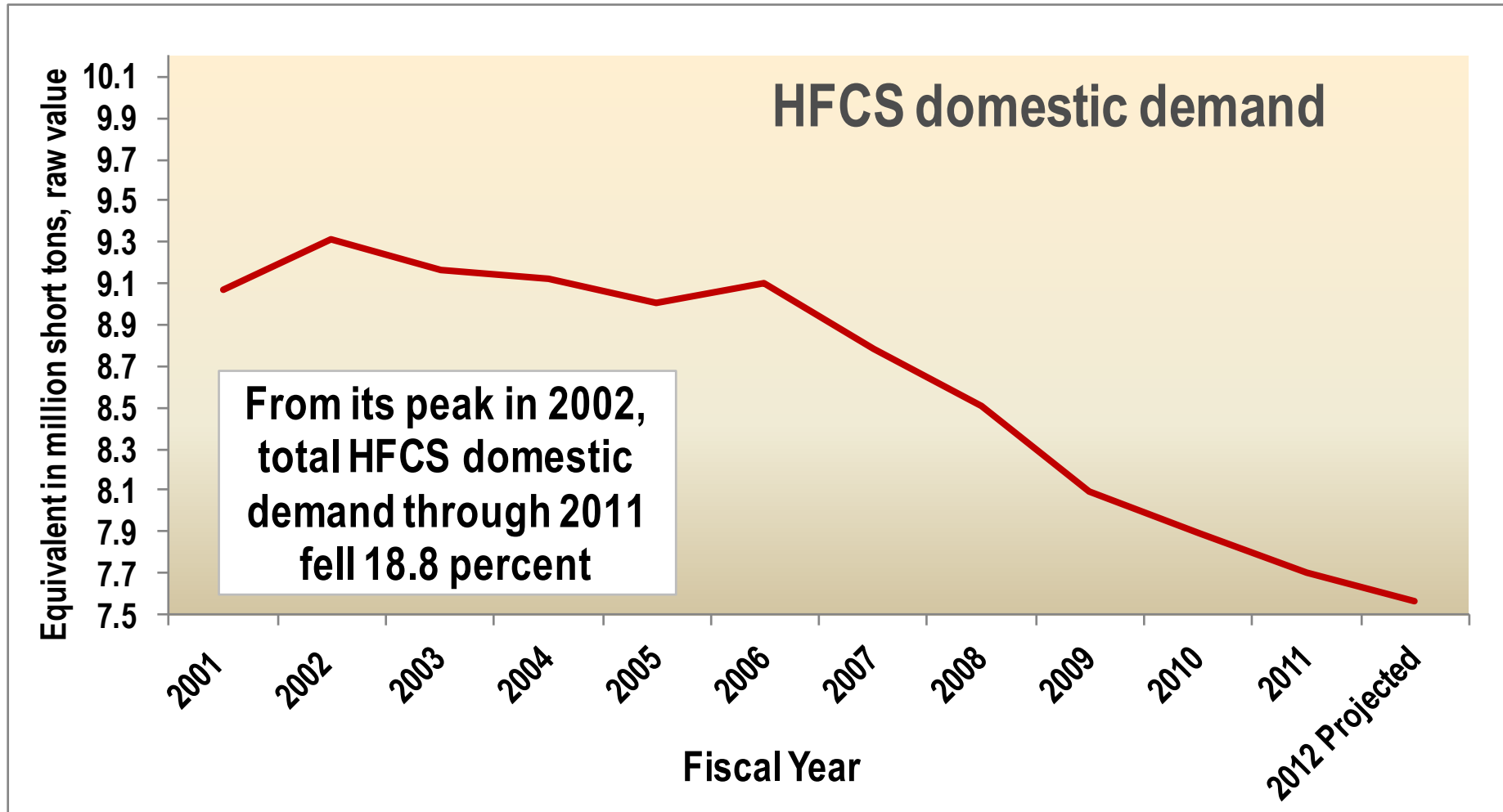


Sources: U.S., USDA and México, CONADESUC

Source: USDA, 2010/2011 forecast

III. North American Regional Market a Reality

b) USA Sweetener Market

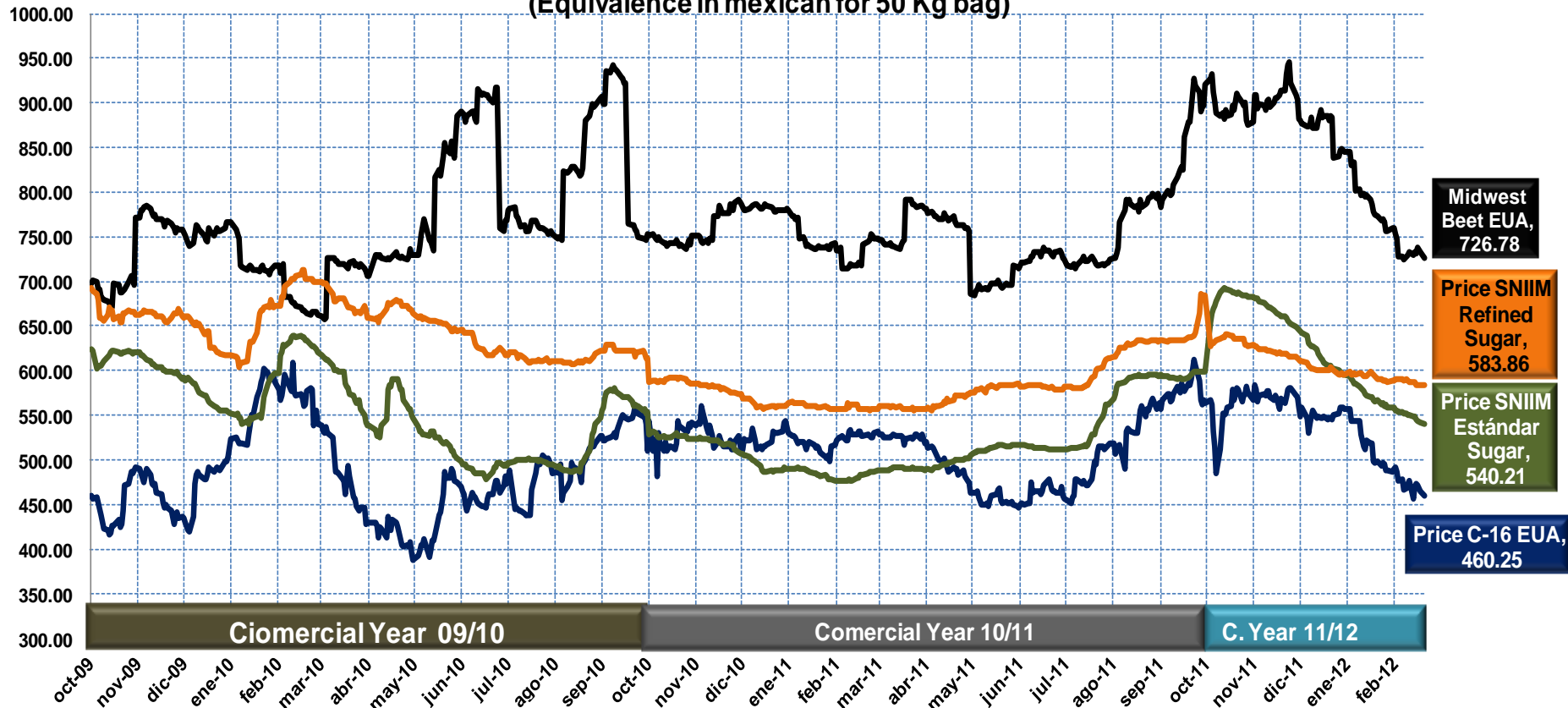


Source: USDA

III. North American Regional Market a Reality

c) U.S. and Mexico Sweetener Market

México and U.S.: Behaviour of prices under NAFTA FOB Sugar mill price Oct'09 - Feb'12: México (SNIIM standard and refined) and U.S. (C-16 and Sugar Beet Midwest)
(Equivalence in mexican for 50 Kg bag)



Source: Sugar Beet Midwest [Milling and Baking](http://millingandbaking.com) News C-16 ICE (IntercontinentalExchange): <https://www.theice.com> and Sugar Mexican Prices standard and refined SNIIM www.economia-sniim.gob.mx

IV. Mexico: Sweeteners Balance

Estimated Sweetener Balance (thousands of metric tons.)			
Concept	Commercial year		
	2009/2010	2010/11	2011/12 (Estimate)
Begining Stocks (sugar)	588	918	760
Sugar Production	4,826	5,184	5,099
Import quota	610	107	219
HFCS production	463	467	467
HFCS imports	975	1,192	1,275
Total Sweeteners Supply	7,462	7,868	7,820
Sugar Exports	751	1,499	1,338
NAFTA	664	1,370	1,193
World Market	5	18	21
IMMEX	82	111	124
HFCS exports	20	24	25
Total Sugar Consumption	4,354	3,950	3,904
Sugar Mills Domestic Sales	3,744	3,843	3,685
Import Consumption	610	107	219
HFCS Consumption	1,418	1,635	1,717
Total Sweeteners Demand	6,544	7,108	6,983
Sugar Ending Stocks	918	760	836
Strategic Reserve			
Sweeteners Consumption = Domestic Sugar sales plus sugar import and HFCS Consumption	5,772	5,585	5,620

Source: CNIAA

V Striving for Competitiveness, changes in the Mexican Sugar Industry

Before

Prices	<ul style="list-style-type: none"> ■ High volatility
Demand	<ul style="list-style-type: none"> ■ Internal demand and insignificant exports to the U.S. ■ Exports to the world market ■ Limited use of HSCF
Sugarcane price	<ul style="list-style-type: none"> ■ Annual negotiations to determine price ■ Based on past price differential ■ Governmental “referee” between parties
Land	<ul style="list-style-type: none"> ■ No agreements to incentivize vertical integration into sugarcane land ■ Ambiguity in land ownership/leasing
Energy	<ul style="list-style-type: none"> ■ No alternative energy generation allowed for sale to third parties
Labor	<ul style="list-style-type: none"> ■ Inflexible labor contracts <ul style="list-style-type: none"> – 70 strikes in 80 years

Now

<ul style="list-style-type: none"> ■ NAFTA market opened since January 2008 ■ Sugar prices in line with US prices ■ Effective price floor based on the US Farm Bill ■ Expected stability in prices going forward
<ul style="list-style-type: none"> ■ Unlimited access to US market ■ Increased usage of HSCF ■ Investments in higher production capacity in mills and fields
<ul style="list-style-type: none"> ■ Price based on current year sugar market prices ■ Aligned interests between growers & producers ■ Well defined and transparent formula
<ul style="list-style-type: none"> ■ Agreement with government and sugarcane growers creates incentives to invest in land ■ Sugarcane land projects increase mills capacity utilization ■ Land operation clearly stated in agreements with sugarcane growers
<ul style="list-style-type: none"> ■ Sugarcane considered renewal and intermittent source ■ Alternative energy allowed through cogeneration <ul style="list-style-type: none"> – For auto consumption and sale to third parties through CFE grid Clear rules for transmission costs ■ Ethanol <i>Bio Energy Law</i> in place; mid to long term reality
<ul style="list-style-type: none"> ■ Flexible labor contract <ul style="list-style-type: none"> – New labor relationship in place

VI A sugar policy for México

Date of publication	06-agu-09	07-sep-09	18-sep-09	Total	09-feb-10	07-oct-10	Total	29-jun-11	20-oct-11	Total	Total imported sugar
Validity of the quota	31-dec-09	31-dec-09	31-dec-09		30-jun-10	15-apr-11		31-dec-11	31-jan-12		
Allocation scheme	Public Bid	Public Bid	Direct allocation		Public Bid	Public Bid		Public Bid	Public Bid		
Posted amount (TM)	393,000	207,000	300,000	900,000	250,000	100,000	350,000	150,000	150,000	300,000	
Assigned amount (TM)				550,000	186,478	100,000	286,478	105,800	150,000	255,800	
% of allocation				61%	75%	100%	82%	71%	100%	85%	
Imported volume				395,489	185,359	68,778	254,137	84,971	150,000	234,971	884,597
% import				44%	74%	69%	73%	57%	100%	78%	
Weighted cost of quota						1,467.34		806.00	530.78		