An Outside Look at NAFTA

U.S.D.A. Outlook Forum

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NAFTA – From the Outside

- What I do concerning sugar
  - Talk to both sides – sugar buyers & sellers
  - Watch global sugar & energy markets
  - Monitor domestic & global news
  - Pour over U.S.D.A. data & comments
  - Absorb anything related to sweeteners
  - **Publish daily and weekly prices for refined beet and cane sugar and corn sweeteners**
  - **Explain why prices are where they are**

NAFTA – From the Outside

- Why I like what I do
  - Because we are the only company doing it
  - Because we have no vested interest
  - Because the U.S.D.A. uses our prices
  - Because sugar prices affect sugar imports
  - Because sugar and sweeteners are hot buttons in 2013 due to their claimed or perceived role in added calories, obesity, diabetes and other health-related issues

NAFTA – From the Outside

- So what does the NAFTA sugar market look like from the outside?

NAFTA – From the Outside

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- Right now the technical term is a -

MESS

NAFTA – From the Outside

- But don't take that wrong – the entire sweetener market is evolving and somewhat *messy*, so why should the NAFTA part be any different?

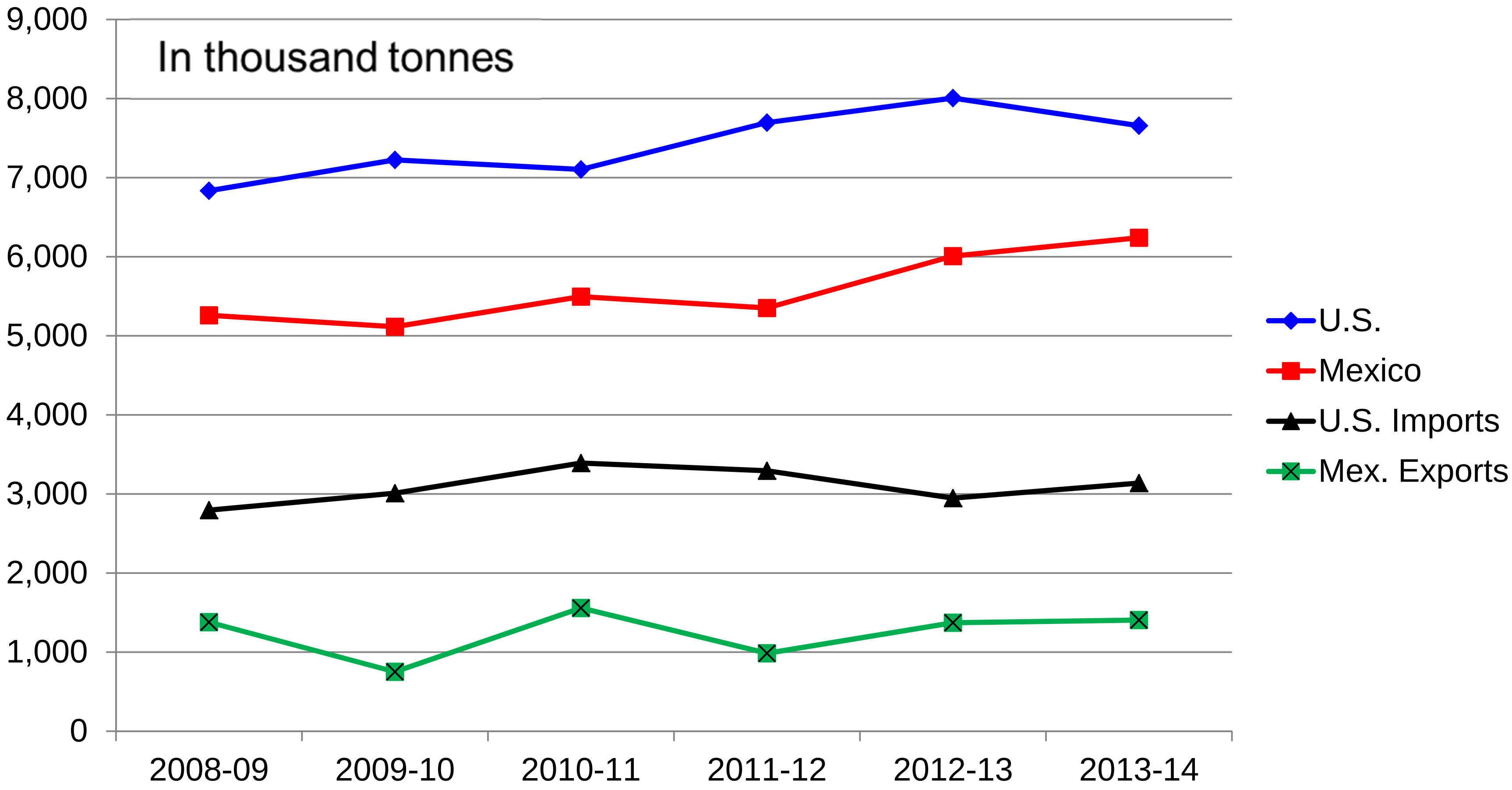
- Also – remember – the U.S. is a sugar deficit producer and Mexico typically is a sugar surplus producer

NAFTA – From the Outside

- It (NAFTA) wasn't always a mess
  - Jan. 1, 2008, free trade in sweeteners began between Mexico and the United States
  - For four or five years it worked somewhat "seamlessly" in the view of an outsider
  - U.S. sugar supplies were tight, Mexico shipped sugar north to ease the tightness and keep prices arguably in check while U.S. exports of HFCS to Mexico soared at a time of declining domestic demand
  - Some large price moves were **not** NAFTA related
  - The U.S.D.A. ran a "no cost" Sugar Program
  - Were we smart, lucky or a little of both?

NAFTA – From the Outside

- The sweetener supply picture 2012 – 2014

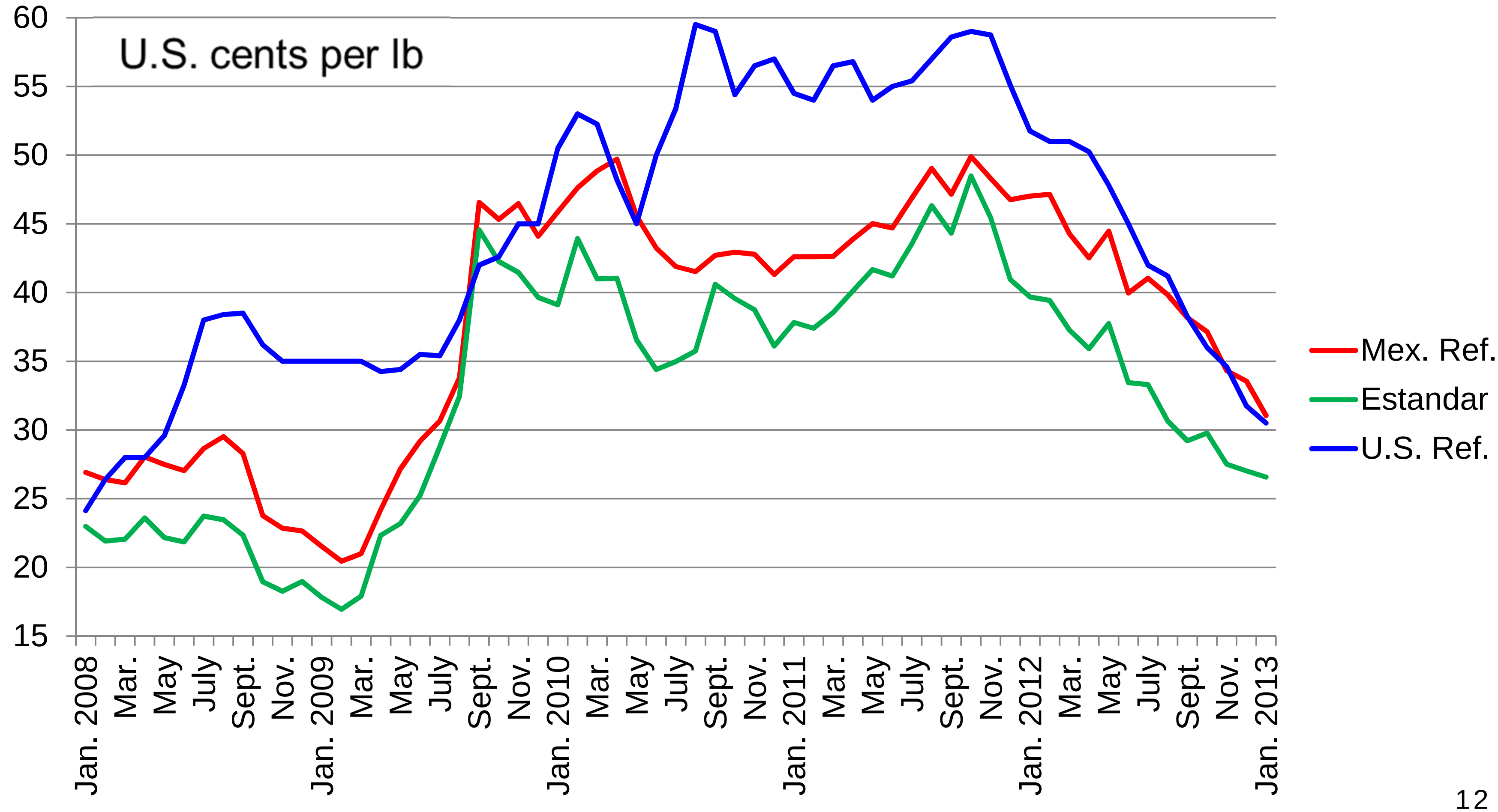


NAFTA – From the Outside

- So everyone was happy, right?
  - Well, not really
    - Sugar users continually sought a more open market with no tariff rate quota, citing job losses in the candy and food industries to Mexico and other areas, and decrying historically high prices around 65c a lb in September 2010
    - Sugar producers continually countered by noting candy makers' large profits, the benefits of domestic production stability and warnings that it was only a matter of time before the whole NAFTA thing "blew up"
    - U.S. buyers initially complained about quality of Mexican refined sugar
    - The U.S.D.A. struggled with inaccurate and incomplete data from Mexico in what had become a single market

NAFTA – From the Outside

- The sugar price picture 2008 – 2013



NAFTA – From the Outside

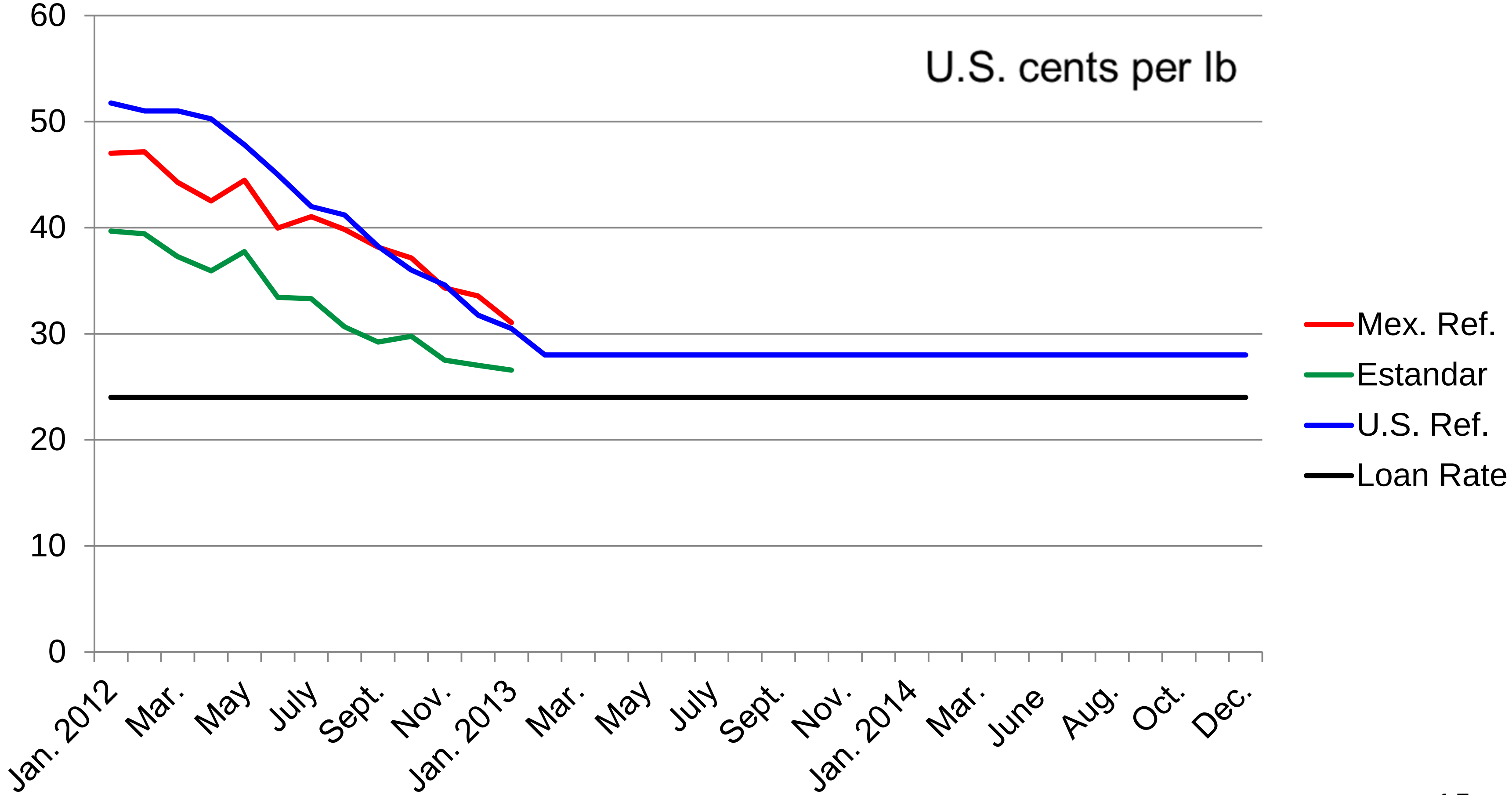
- And then, everything did "blow up" in 2012
  - The U.S.D.A. raised the T.R.Q. in April 2012
  - Mexico issued an import quota as well to keep soaring prices in check
  - It turns out both were unfortunate decisions
  - As the year progressed, U.S. sugar beet prospects improved until a record large crop was realized
  - Cane sugar production exceeded expectations, esp. in Louisiana, despite Hurricane Isaac
  - Mexico's 2011-12 crop was better than expected and its 2012-13 crop much better than its 2011-12 crop
  - The entire world is awash in sugar

NAFTA – From the Outside

- And now it's 2013 and there's a MESS
  - U.S. bulk refined sugar prices have tumbled over 50% from 2011 highs
  - U.S. sugar prices are nearing forfeiture levels and the feedstock flexibility program will likely be implemented for the first time ever – not a "no cost" program in 2013
  - Sugar prices in Mexico have dropped about 40% and growers are monitoring and in some cases blocking shipments from domestic mills to push prices higher
  - Mexican sugar mills are agreeing to export more sugar to support domestic prices, with the only feasible market being the United States

NAFTA – From the Outside

- The sugar price picture 2012-2014



NAFTA – From the Outside

- And now it's 2013 and there's a MESS
  - There's more pressure than ever to reduce sugar consumption in the United States
  - There's more supply than we have had in decades
  - Prices are near five-year lows
  - Sugar beet growers have to make planting decisions
  - Sugar users have to decide to cover needs for 2014 at current prices or wait for still lower values
  - Who knows about the weather?

NAFTA – From the Outside

- So what can be done
  - It's easy to be on the outside and point fingers
    - At U.S.D.A., at Mexico, at corn refiners, etc.
  - It's not so easy being on the inside and trying to manage a sugar program when a couple hundred thousand tons can throw the market into complete disarray and you may have bad data on which to make irreversible decisions
  - And – we have one set of rules to play by in the United States and a different set of rules in Mexico
  - Maybe the question is: Can the mess be fixed?

NAFTA – From the Outside

- Let's look at the different "factions" affecting the sugar market
  - Consumer groups and not a few state and local governments want to decrease sugar consumption, result – potentially more supply
  - Sugar users want the U.S. to be totally open to the world market, or at least to give U.S.D.A. greater flexibility in making decisions about imports and domestic allocations, result – potentially more supply and at odds with attempts to reduce consumption
  - Mexico wants to ship as much sugar as possible to the U.S., result – potentially more supply

NAFTA – From the Outside

- Let's look at the different "factions" affecting the sugar market
  - U.S. sugar beet and cane growers want to produce as much sugar as the U.S.D.A. will allow, if not more, as is the nature of farmers, result – potentially more
  - In a totally open market where U.S. growers are at the mercy of imports, the lure to grow other profitable crops with less risk increases, result – less sugar
  - If U.S. beet processing plants close, U.S. cane refinery capacity is inadequate to handle enough imported raws to meet demand, result – tight supplies
  - U.S. corn refiners "depend" on Mexican HFCS market

NAFTA – From the Outside

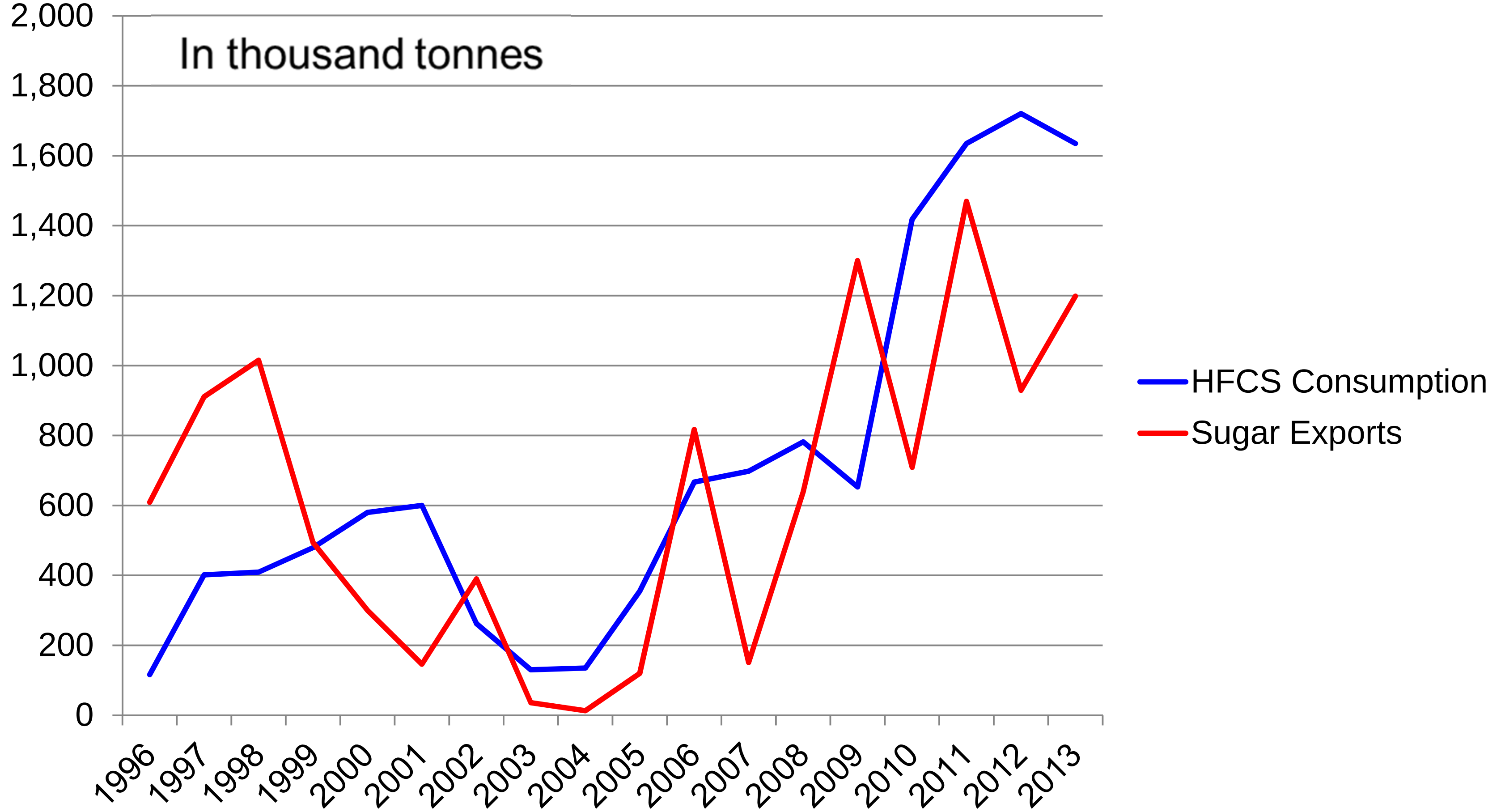
- So maybe a better question is: How much sugar does the United States need?

This year we don't need all of the combined domestic production, Mexican exports and W.T.O. imports, with the latter likely to lose out.

- And, where does U.S. HFCS go in the absence of the Mexican market?

NAFTA – From the Outside

- Mexican HFCS Consumption vs Sugar Exports



NAFTA – From the Outside

- **Way more than NAFTA**
  - There's more pressure than ever to reduce sugar consumption in the United States
    - Sugar Reform Act introduced in both Houses of Congress on Valentine's Day
    - CSPI has petitioned F.D.A. to set "safe limits" for sweeteners in beverages, hinting at 10 grams as a "reasonable" limit
    - Several cities, states and groups are pushing for sugar "taxes" and/or restrictions on the sale of sugary beverages
    - The new 2015 Dietary Guidelines may impact consumption
  - At some point, per capita sweetener consumption is going to decline – but will it be enough to offset population growth and affect total sweetener use?

NAFTA – From the Outside

- Conclusions
  - NAFTA worked for five years; should it be judged or discarded on one year of seemingly not working?
  - It has accomplished a fair amount of what sugar users want in increasing sugar supply in the U.S.
  - It still allows for protection of U.S. sugar producers, which we also do for grain and oilseed producers
  - It provides a market for U.S. HFCS
  - Change is underfoot; pressure to reduce sugar consumption may significantly alter the game
  - Let's see where we are a year or two from now; looking back, we may be pleasantly surprised

NAFTA – From the Outside

- Conclusions
  - It's important to remember that U.S.D.A.'s focus on administering the Sugar Program is based more on supply than on price
  - Much of Mexico's "sugar program" is seemingly more affected by price, because cane growers are paid based on domestic sugar prices and sugar prices are somewhat of a political "hot button"
  - The U.S. Sugar Program can't function in a vacuum, and neither can NAFTA
  - It will likely get more complicated/confusing going forward because of outside influences

Thank you!

And thanks to the U.S.D.A. for the incredible job they have done administering the Sugar Program under difficult conditions!

And – check out the Feb. 14 *Sugar and Sweeteners Outlook* from the U.S.D.A.

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