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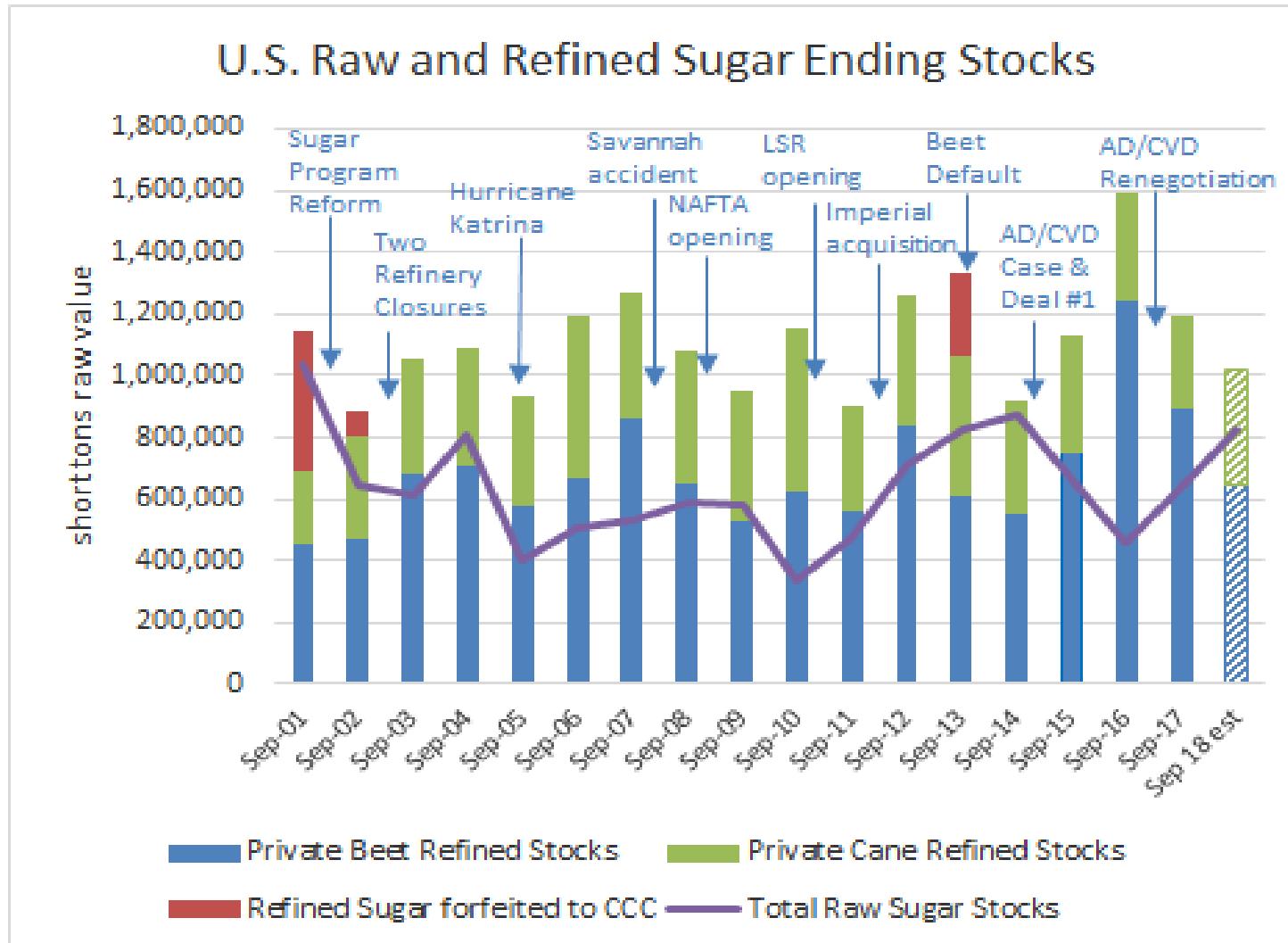
U.S. Sugar Policy

Stability at last ?

February 23rd, 2018

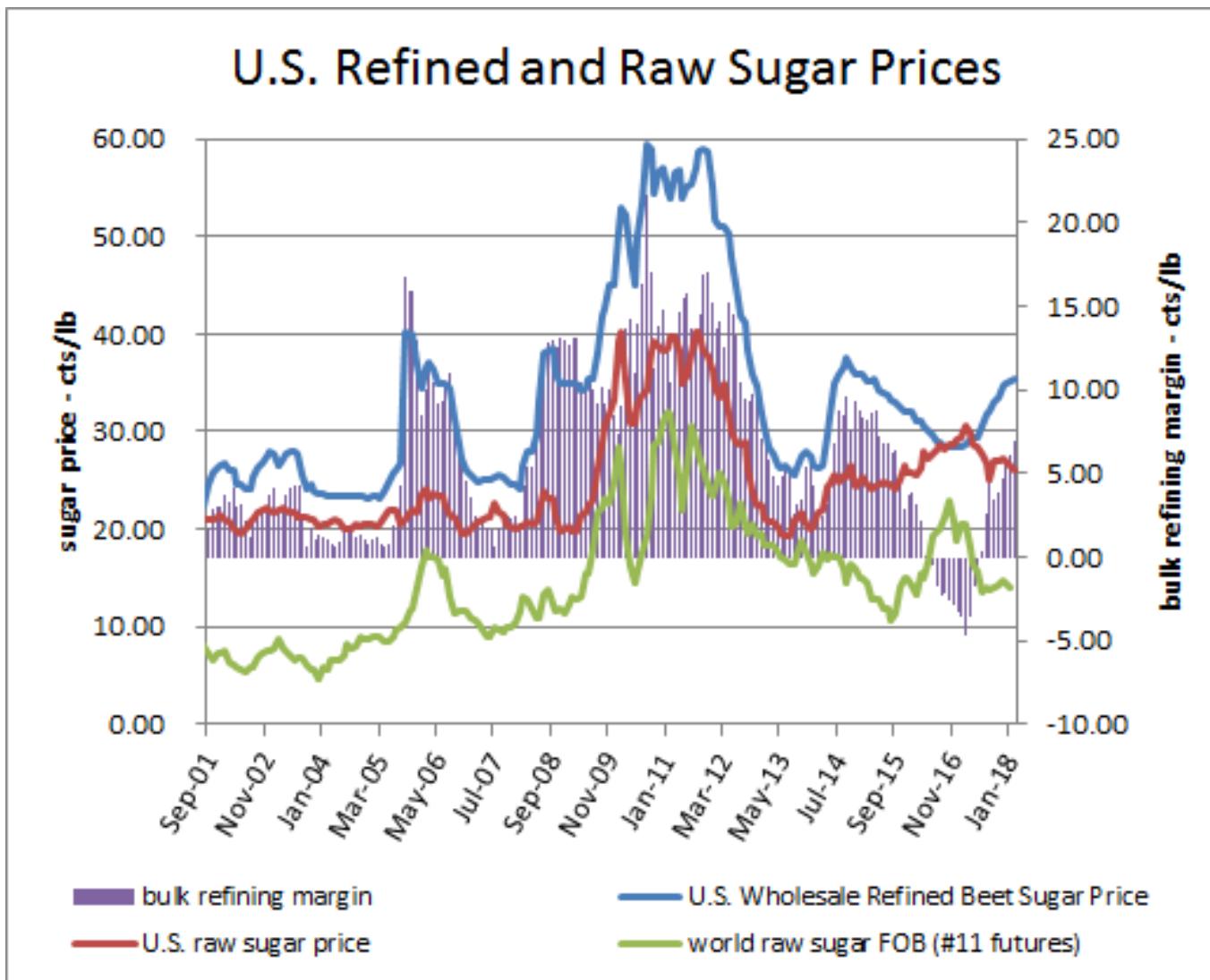


Transformational events in the U.S. sugar market



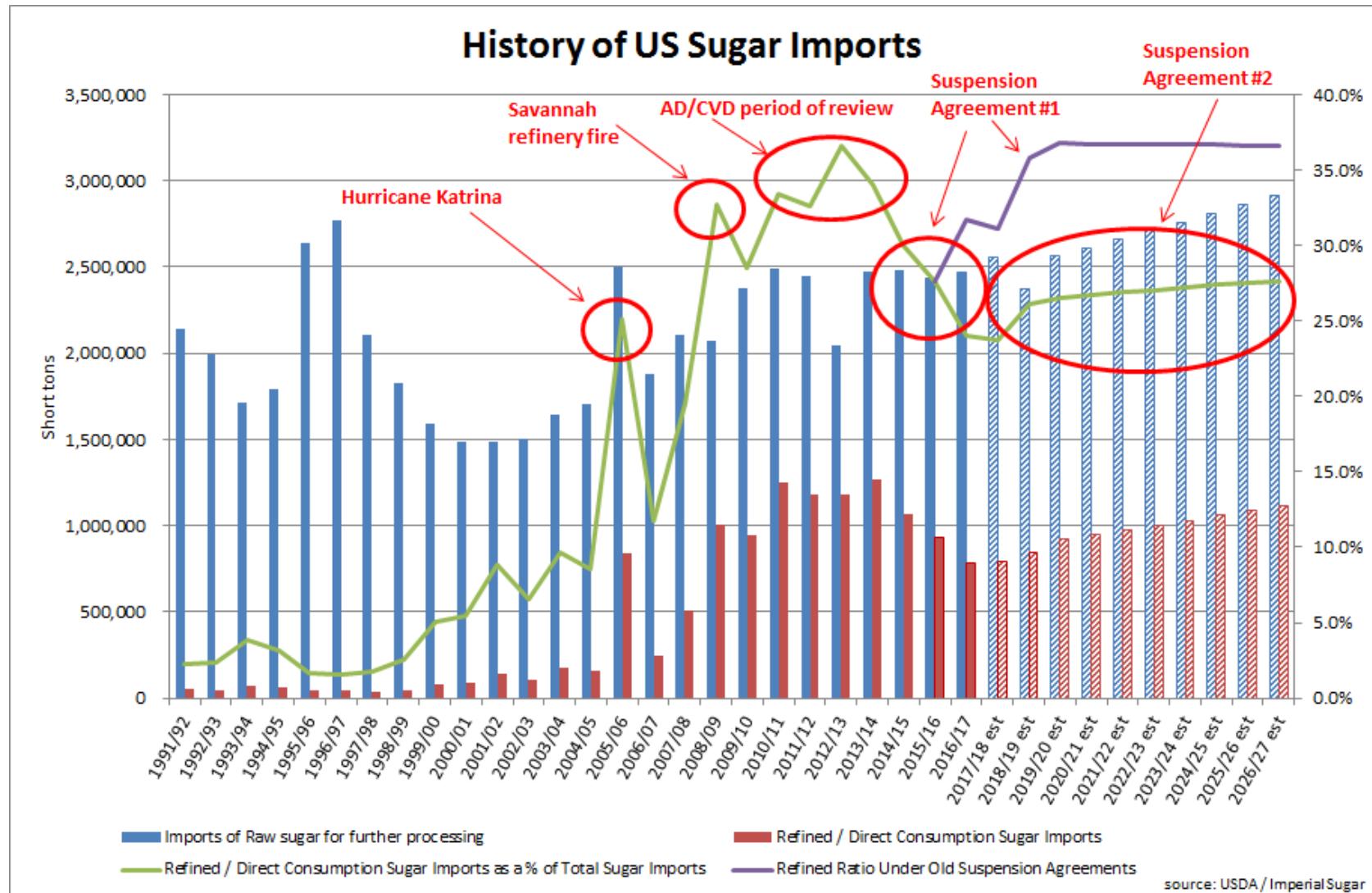
It has been a long time since the U.S. had an extended stretch of “normal”, particularly in the key market stabilizing sector (the cane refining industry)

What happens when the “stabilizing sector” becomes destabilized ?



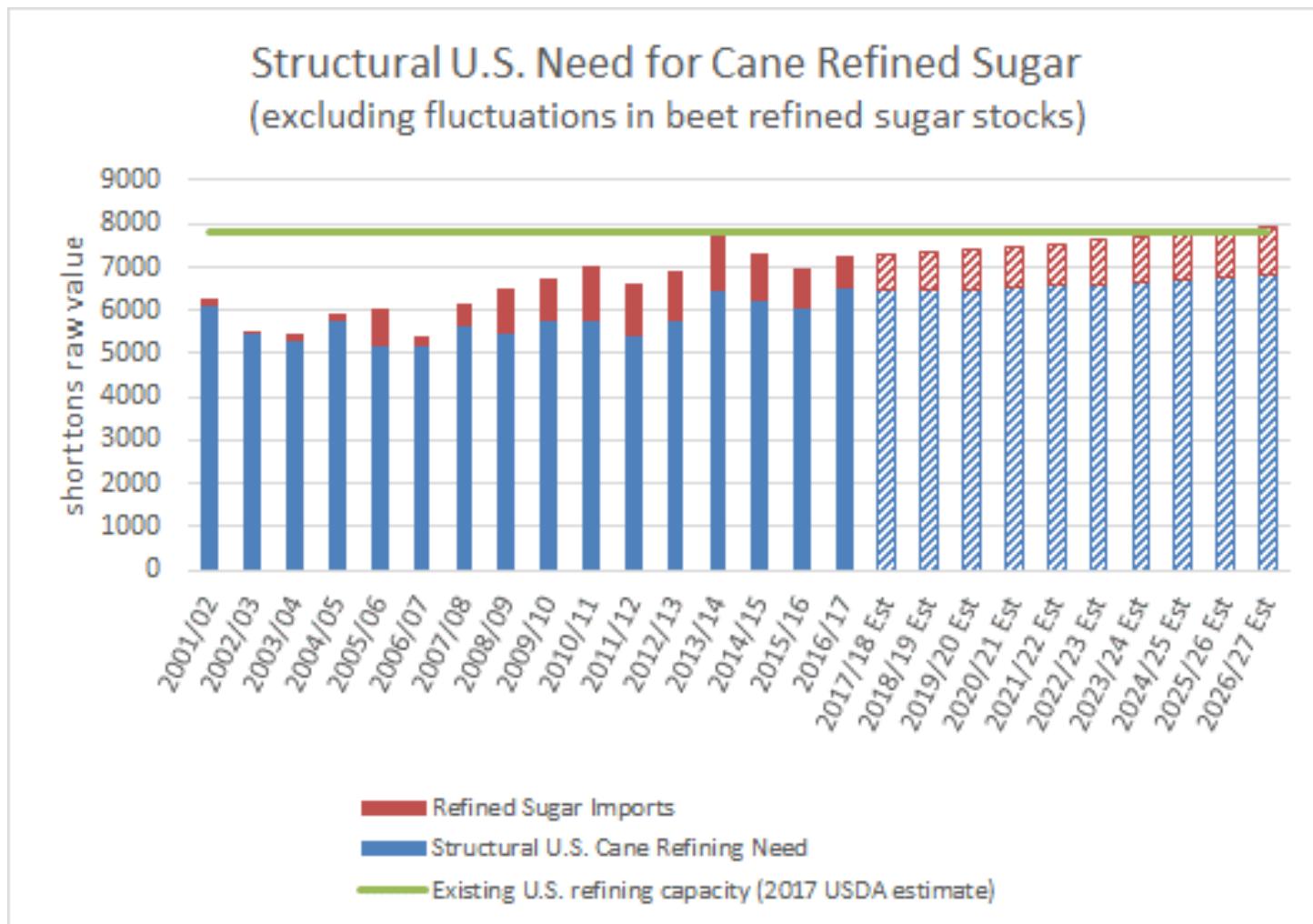
Price volatility becomes unmanageable for everyone while supply disruptions plague the sweetener user community. . .

SA#1 – another dangerous episode for the cane refining industry



Without suspension agreement reform, the market was heading toward another major destabilizing event in the cane refining sector

But at last, it looks as if stability may return



While price supports have effectively been raised by the suspension agreements, at least sweetener users can look forward to a more stable cane refining sector with significant remaining buffer capacity (i.e., more security in supply)

What could possibly go wrong ?



If it ain't broke,
don't fix it.

Bert Lance

How should we define “adequate supplies”

- Since the 2002 Farm Bill, the USDA has been targeting a range of 13.5% to 15.5% stocks-to-use ratio when managing the supply of sugar into the United States.
- The 13.5% threshold was embedded in the Mexico-USA suspension agreements as the stock target used to define Mexico's market access each year. The USDA deemed it necessary to further increase raw sugar supply during 2016 and 2017 to respond to raw sugar shortages.
- Recently some market participants have been suggesting that 11.5% to 13.5% is a more appropriate stock-to-use target range than 13.5% to 15.5%.
- History shows that a policy target of 11.5% to 13.5% would lead to a routinely dangerous supply situation and increase the likelihood of the market trading at high tier import duty levels (which prioritizes refined sugar imports).
- An “11.5% to 13.5%” policy is unnecessary in the current landscape of Mexican suspension agreements that guarantee prices well above default levels. Such a policy would also serve against the intent of giving Mexico first look at additional access while diverting raw sugar supply away from the U.S. cane refining sector.

The USDA/CCC Dual Mandate:
“avoid forfeiture” and “ensure adequate supplies of raw and refined sugar”

§1435.303 Adjustment of the overall allotment quantity.

(a) The overall allotment quantity may be adjusted, as CCC determines appropriate, but never to a quantity less than 85 percent of the estimated quantity of sugar for domestic human consumption for the crop year:

- (1) To **avoid forfeiture** of sugar loan collateral to CCC,
- (2) **Ensure adequate supplies of raw and refined sugar** in the domestic market, and,
- (3) To reflect changes in estimated sugar consumption, stocks, production, or imports based on re-estimates under §1435.301.

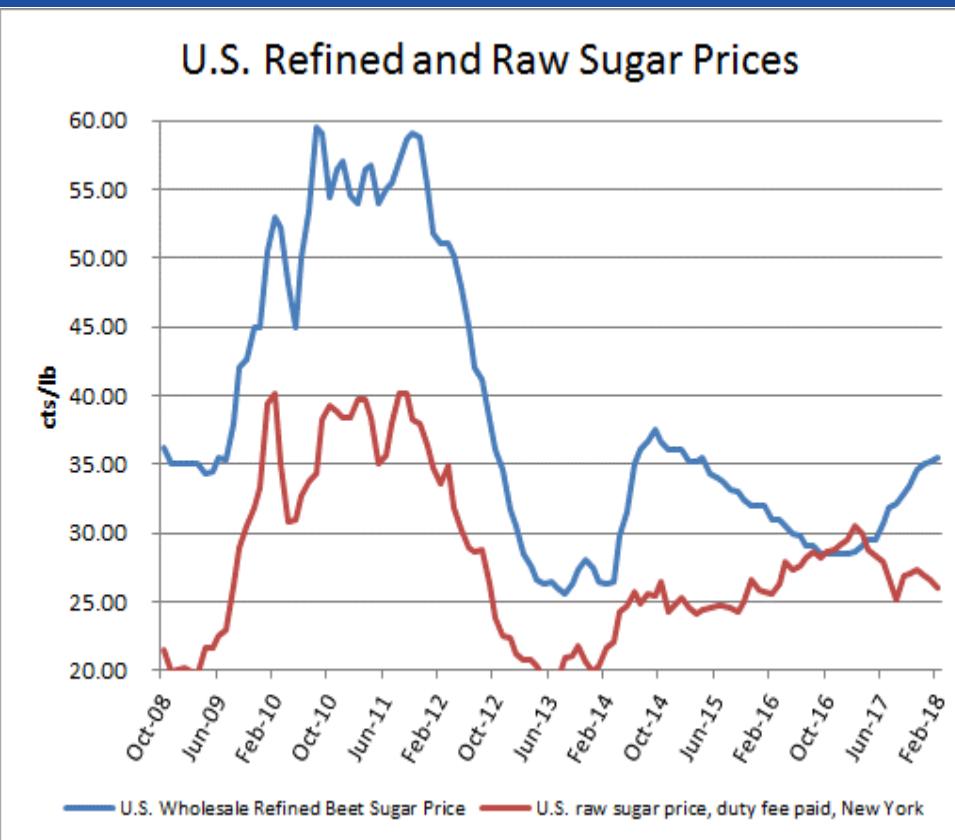
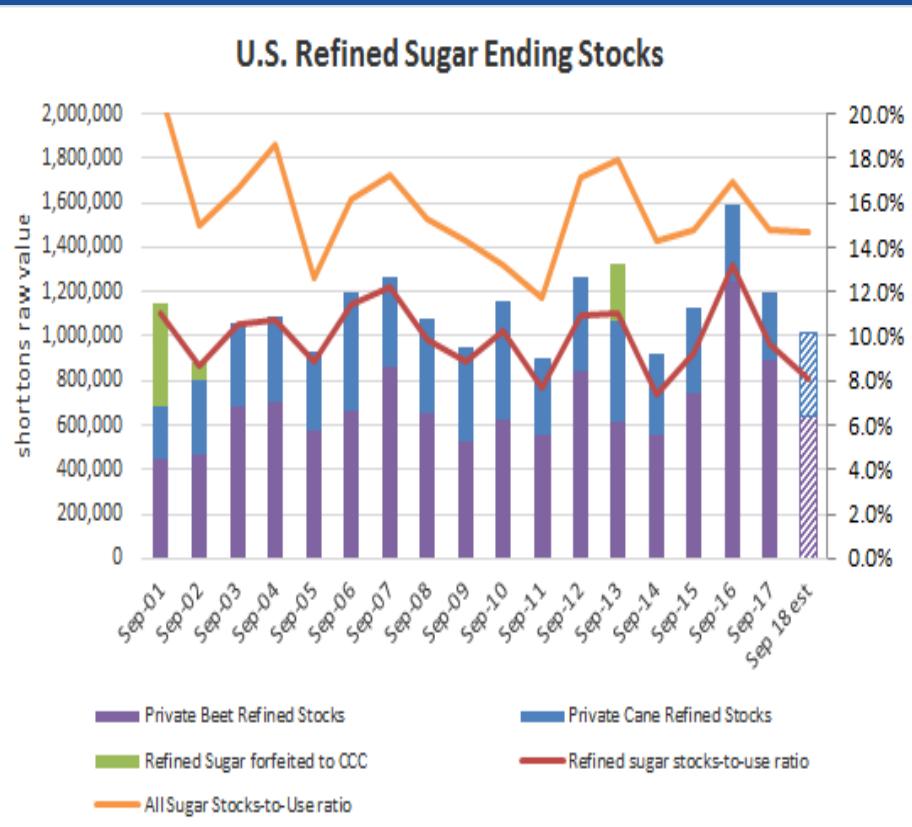
- Meanwhile, **§1435.309 “Reassignment of deficits”** requires the USDA to reallocate unutilized marketing allotments to imports of raw cane sugar
- These two mandates, combined with the Mexican suspension agreements, allow the USDA to target the level of ending sugar stocks in the United States

Which stocks ?

- Included in ending stocks are any sugar stocks reported as owned by the U.S. government (CCC) plus those stocks held by the owners of:
 - 22 sugar beet processing plants
 - 14 non-integrated sugarcane mills
 - 2 integrated sugarcane mills / refineries
 - 11 registered raw sugar refineries (dry + liquid)
- Not included in ending stocks are stocks held by entities that are not required to report to the USDA:
 - Industrial users (just-in-time inventory with somewhat volatile usage patterns)
 - Grocers (just-in-time inventory with seasonal usage patterns)
 - Distributors / melt stations (volatile but in what quantity ? ? ?)
 - Refined sugar importers (volatile during refined sugar import surges)

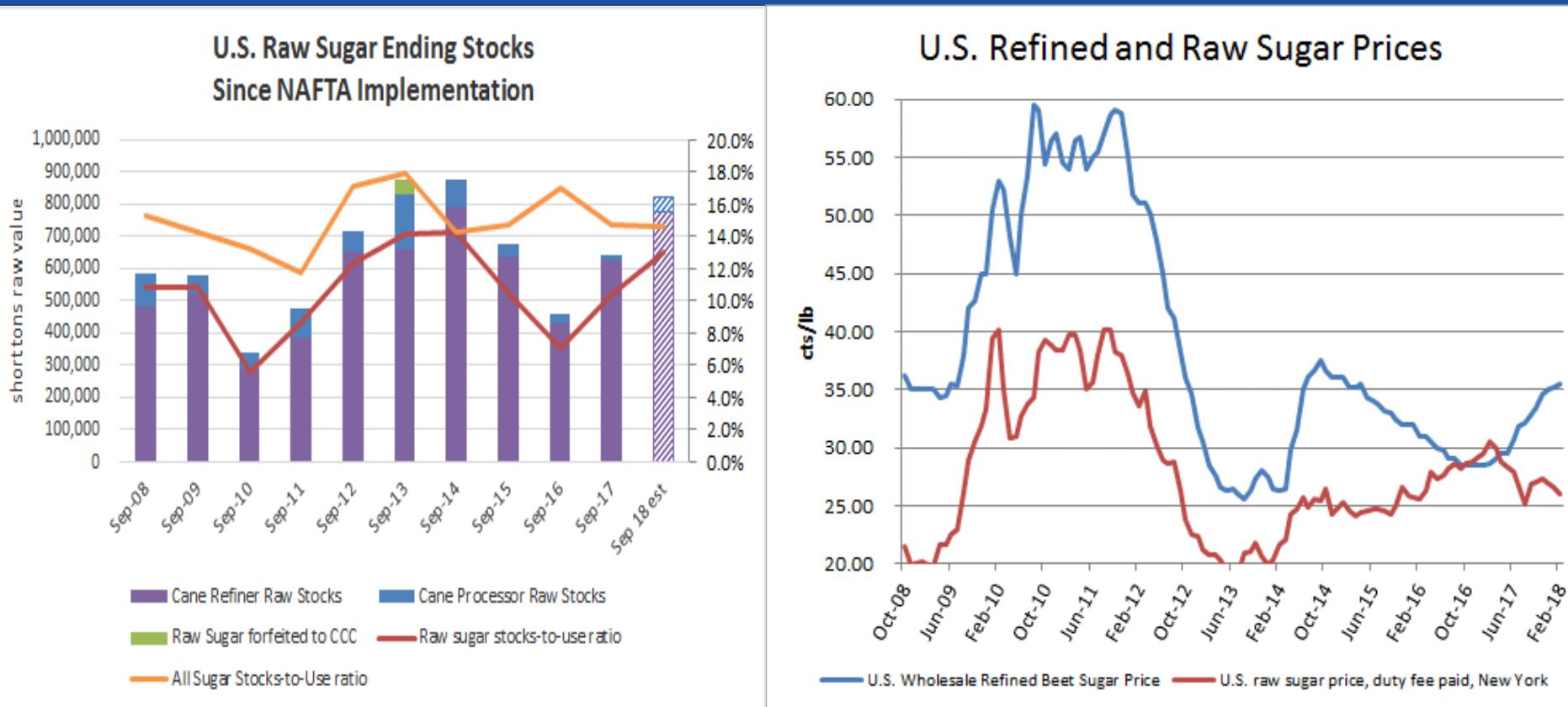
Spread across 49 factories that must deal with significant downstream volatility / seasonality, 13.5% - 15.5% is not an excessive stocks-to-use target ratio

Refined sugar stocks-to-use ratio versus price



- History shows that the refined sugar market functions reasonably well within the 8.0 – 10.5% to Total Use range (i.e., 1.0-1.3myn strv basis current consumption levels)
- Recent incidents below this level have caused supply issues (2011 and 2014), while above this level has caused excess storage issues (2012, 2013, and 2016)

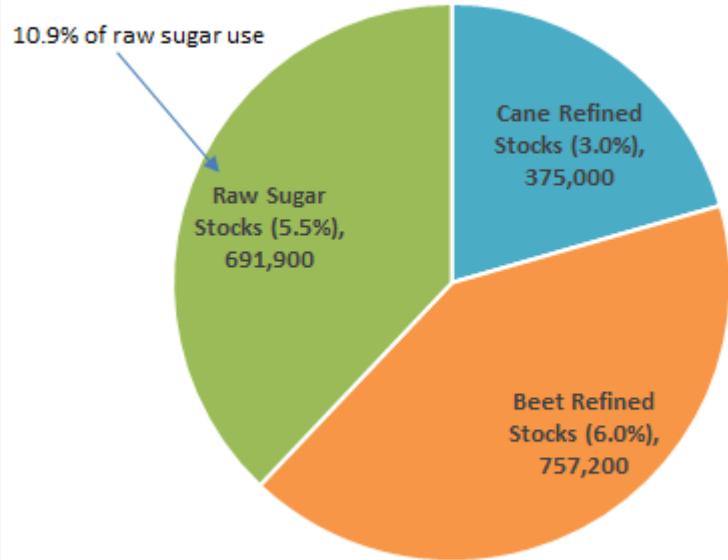
Raw sugar stocks-to-use ratio versus price



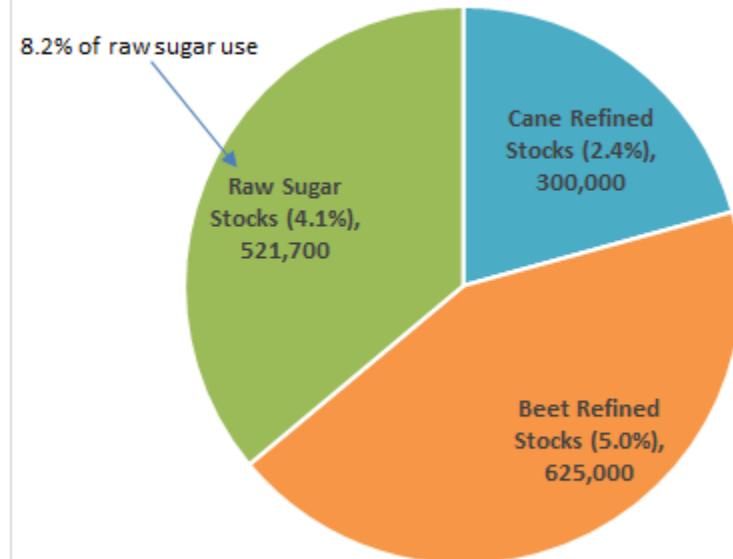
- Recent history shows that the raw sugar market functions reasonably well within the 10.0 – 13.0% of raw sugar use range (i.e., 650-825k strv basis current raw sugar melt)
- As Louisiana sugar is refined at home now, the market requires a slightly higher raw ratio than refined as September 30th is not the traditional low point for the import based refiners. **Q4 is a deficit period each year without supply intervention by USDA.**

Comparison of stock levels at 14.5 % versus 11.5%

Balanced Stock Allocation at 14.5% ratio



Danger levels in both segments at 11.5%

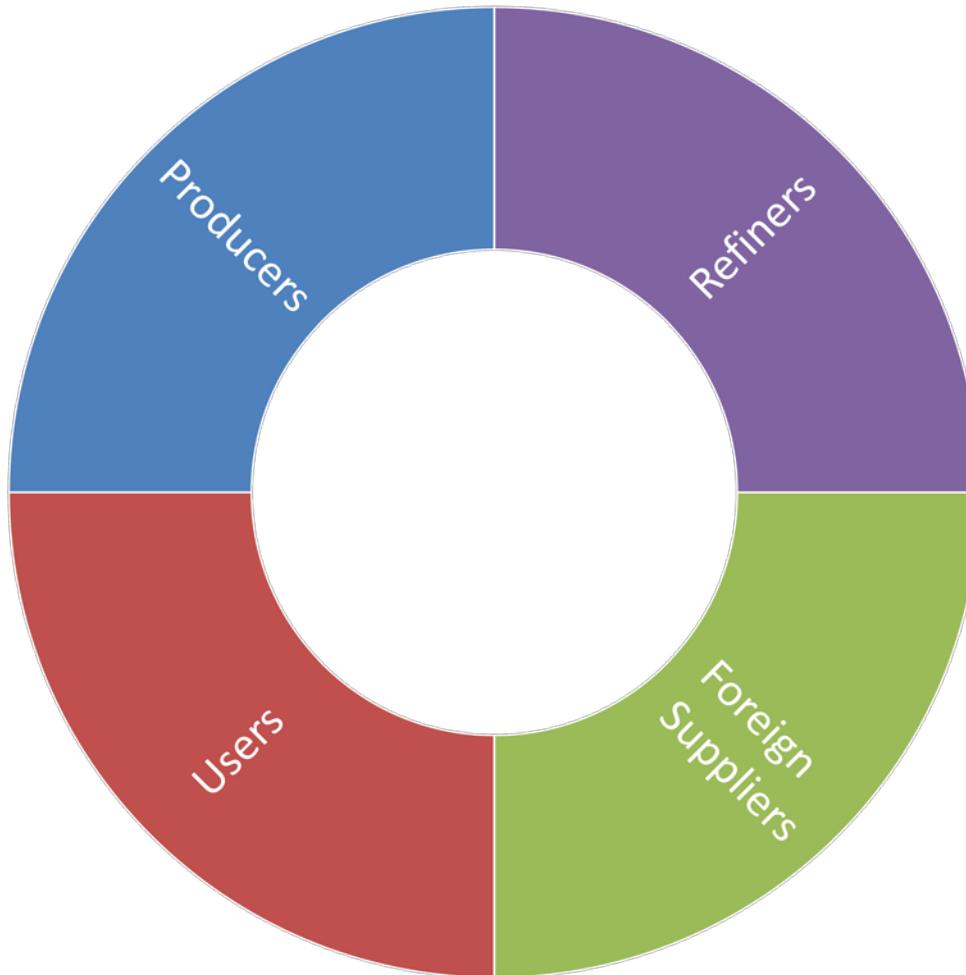


- An even supply distribution at 14.5% will lead to each sector operating normally. Even distribution is not always the case, as seen during 2016, which led to USDA increasing supply to greater than 15.5% overall stocks-to-use ratio
- However, at 11.5% both refined and raw sugar stocks will be at danger levels, leading to disruptions at the end user level and an inability of the cane refining sector to respond appropriately

Conclusion

- Recent investment into the cane refining sector combined with the renegotiation of the Mexican suspension agreements should lead to a more stable market environment after nearly two decades of market instability.
- In absence of radical change from the Farm Bill renewal, industry focus will turn toward program management under the current law. We saw signs of that last summer / fall leading up to and in response to the TRQ increase.
- The law requires the USDA to balance a dual mandate of 1) avoiding defaults; and 2) ensuring adequate supply of raw and refined sugar to the market
- The 13.5% to 15.5% stocks range has proven over the years to deliver adequate supply so long as raw/white imbalances remain limited
- The industry should continue to support the USDA in managing the program in this manner, reacting to imbalances as and when they occur

2018 Farm Bill - - time for collaboration toward a better future



Thank you