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NAFTA Sweetener Markets: ***The Transition Towards Integration***

USDA Annual Outlook Forum, 2007

John Cropley

LMC International, New Orleans, LA

Where Are We Now?

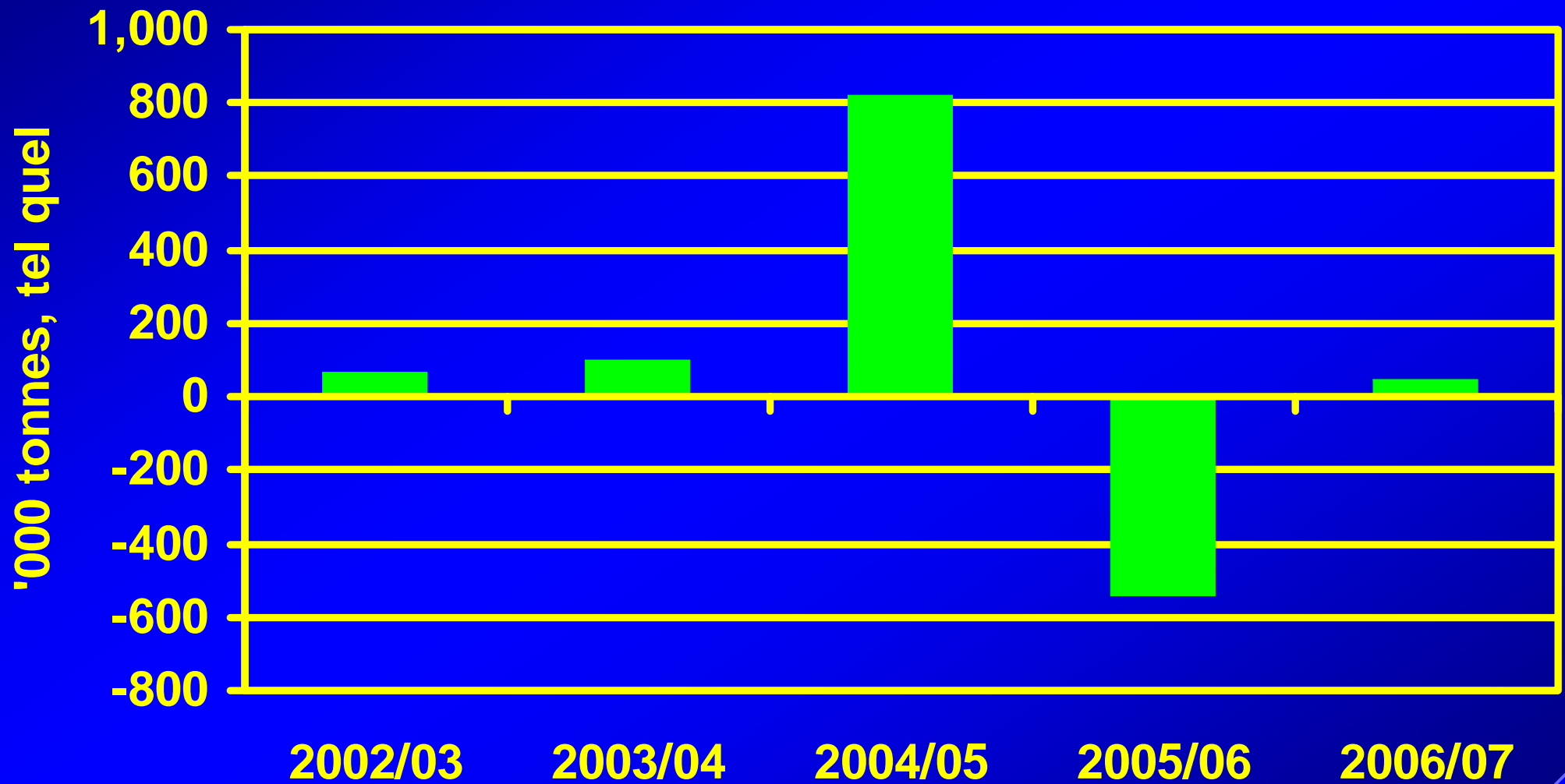
- Transition period drawing to a close
- Still long way from truly open borders
- Potential for fundamental, rapid shifts;
sweetener demand patterns
pricing structure
- Smooth landing? – Rough Ride?

Where Are We Heading?

- Next Farm Bill...
- January 1st 2008:
Will the picture be any clearer?
- Policy Environment ✕
- Fundamentals ✓

Mexico: Sugar Supply & Exportable Surpluses

Year-on-Year Changes in Mexico Sugar Output



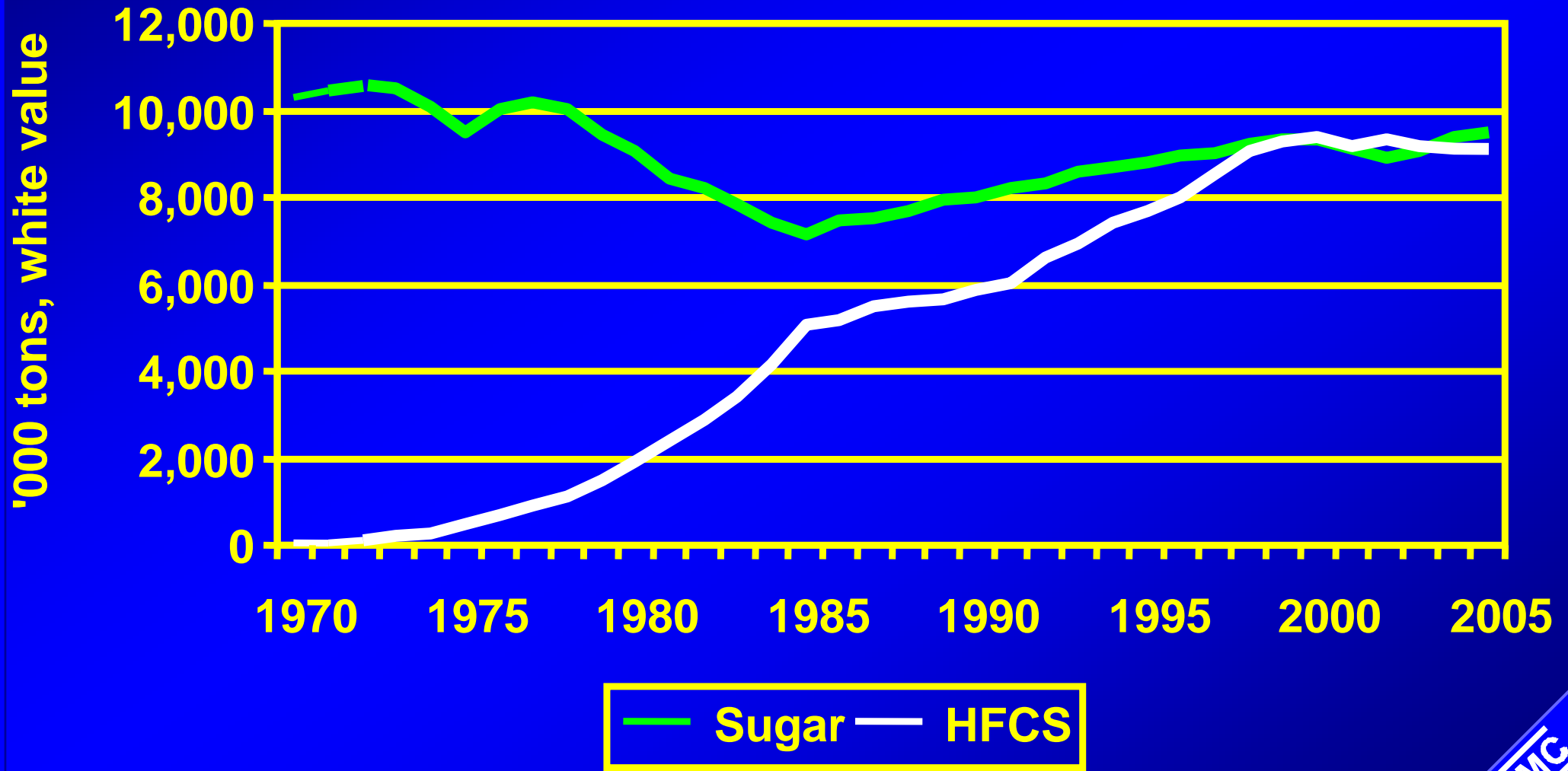
Will We See Changes in Mexico's Pattern of Sweetener Demand?

- Well suited for HFCS consumption
- “Market of tomorrow”...

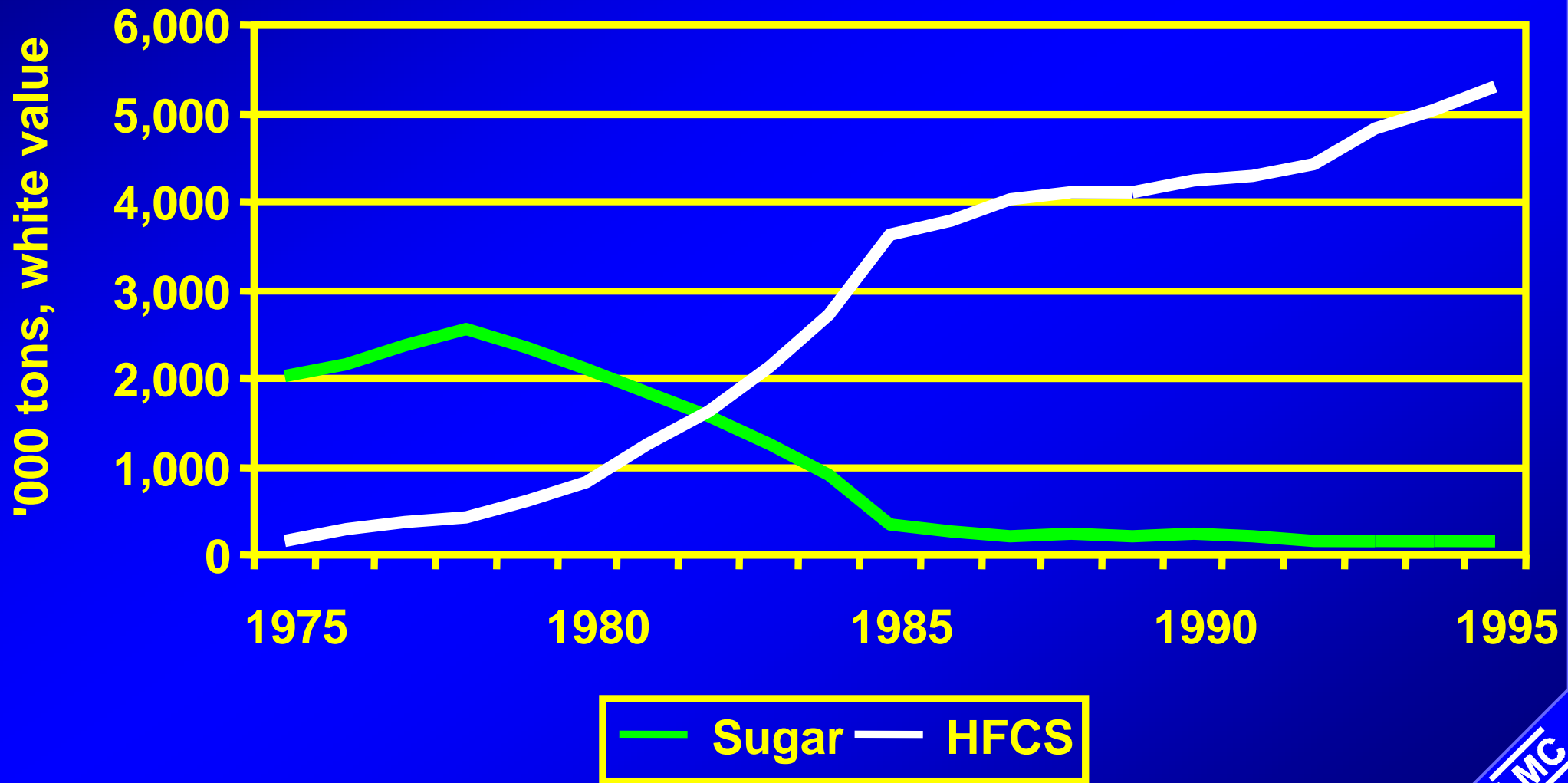
.....and always will be?

- What can we learn from the US experience?

Caloric Sweetener Demand in the USA

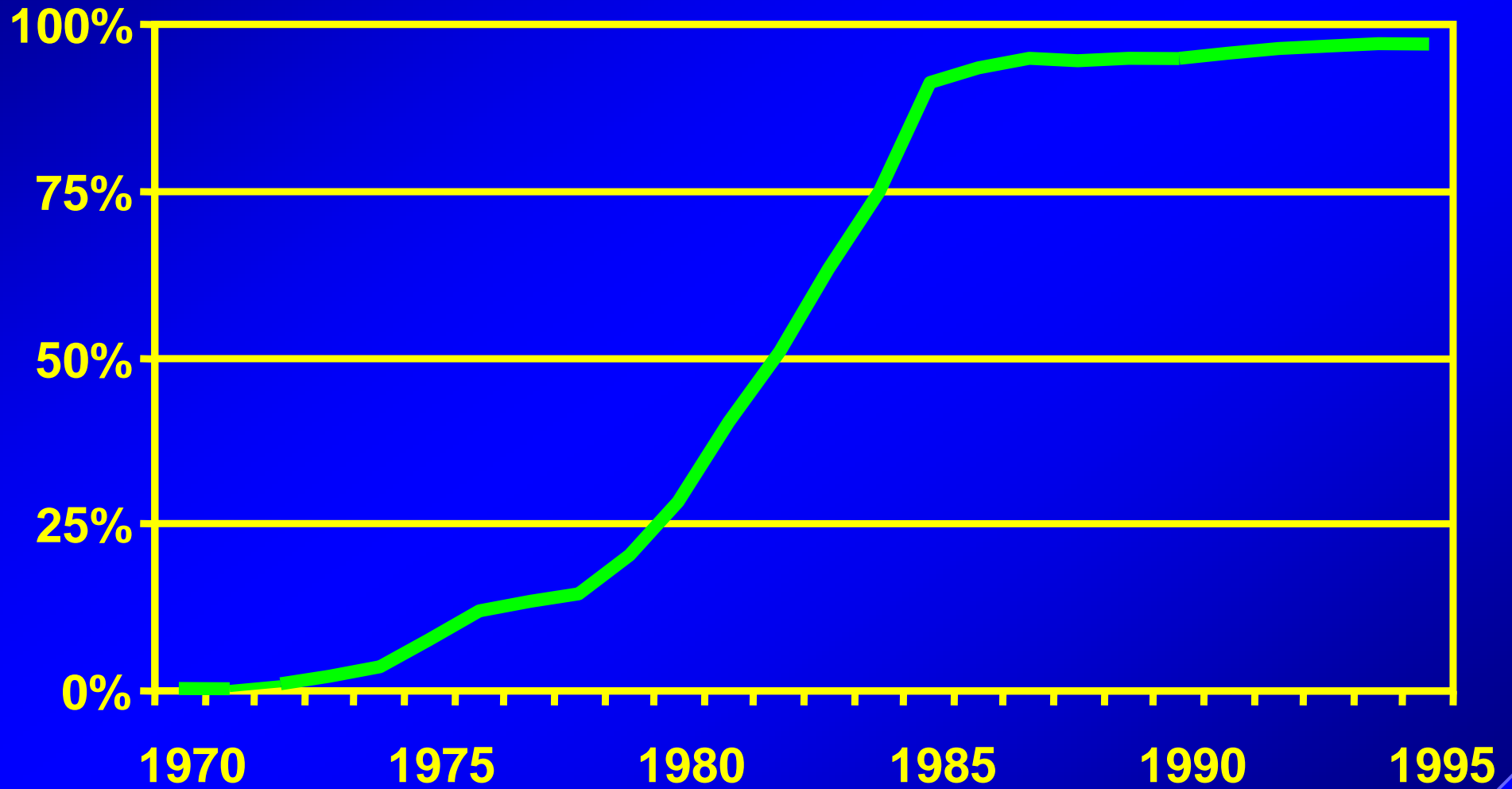


The US Beverage Sector: Caloric Sweetener Demand



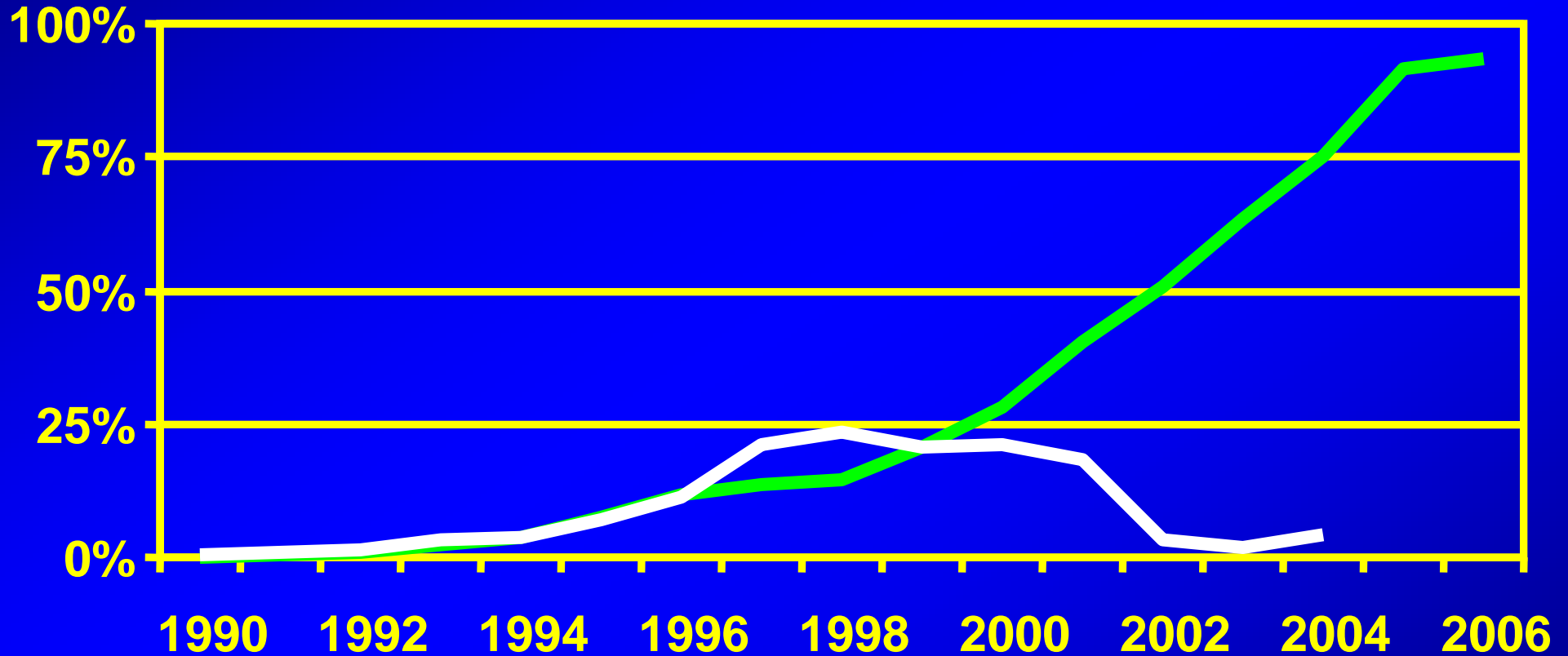
HFCS Penetration of The US Soft Drink Market

HFCS Share of Caloric Sweeteners



Comparing US & Mexico over Time – HFCS% Share in Caloric Soft Drinks

HFCS Share of Caloric Sweeteners

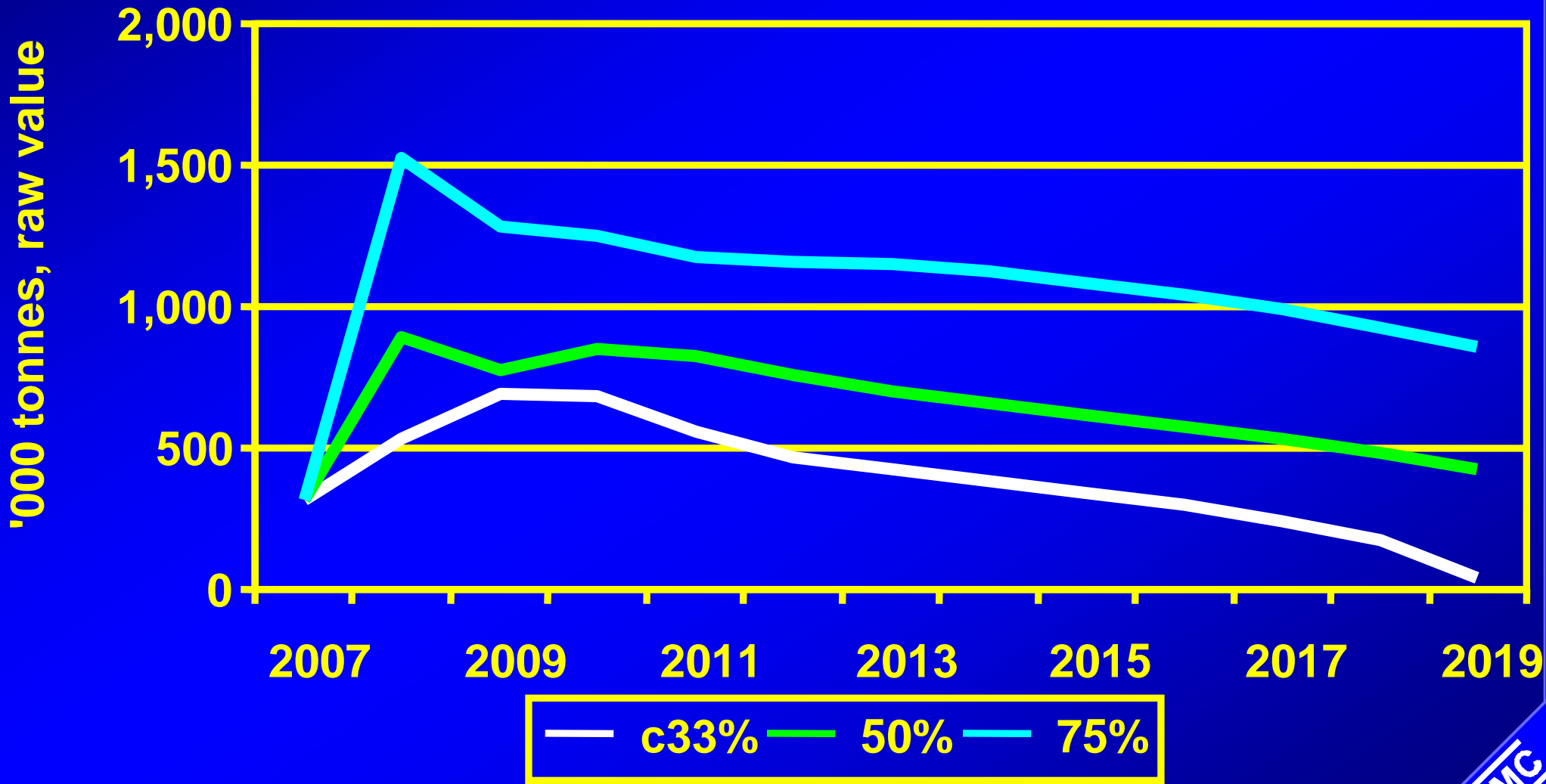


— HFCS % of US Soft Drink Demand from 1970
— HFCS % of Mexico Soft Drink Demand

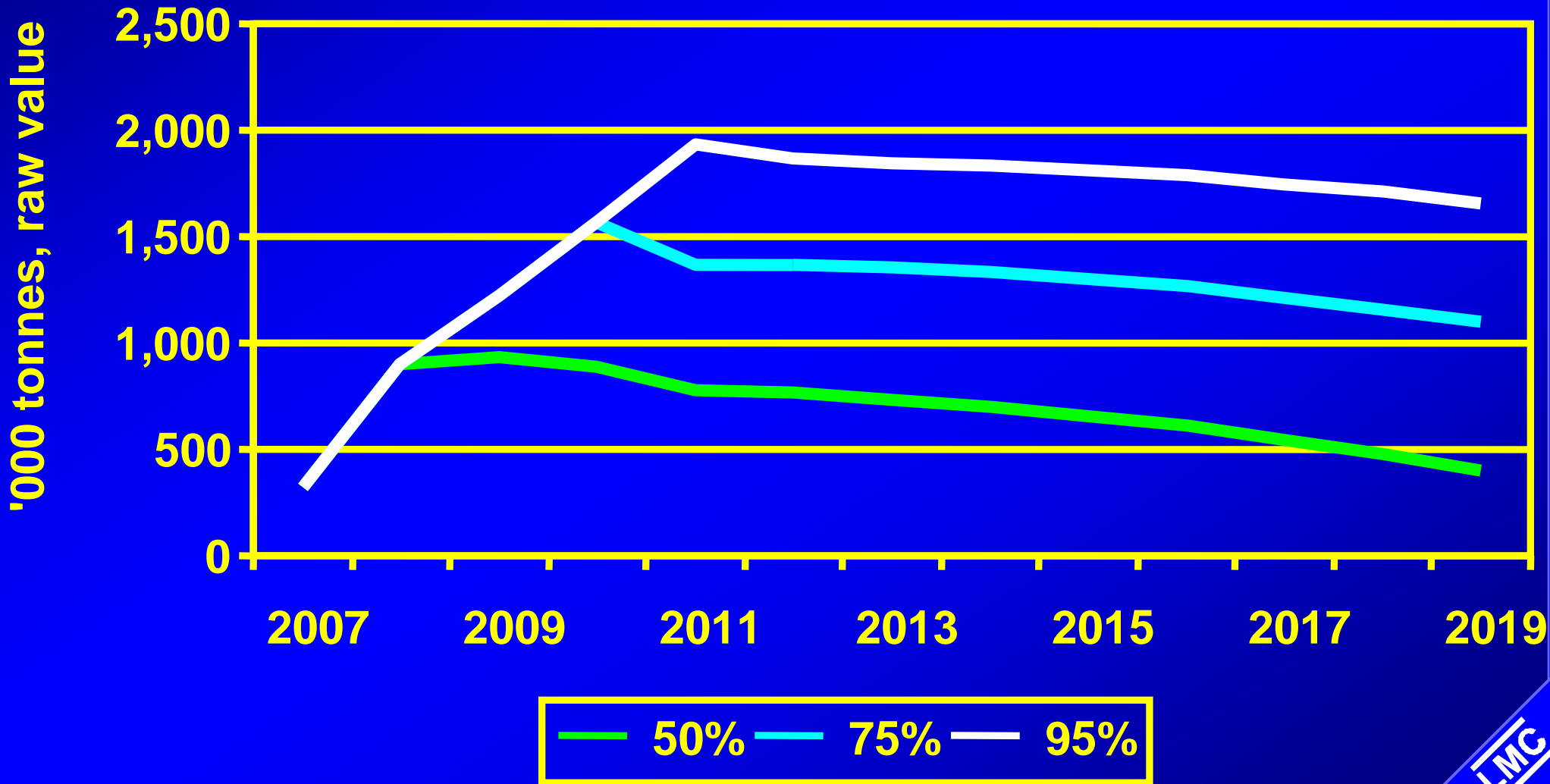
How Far Will it Go?

Mexico's HFCS Demand
&
Sugar Exports

Projecting Mexico Export Availability: USDA



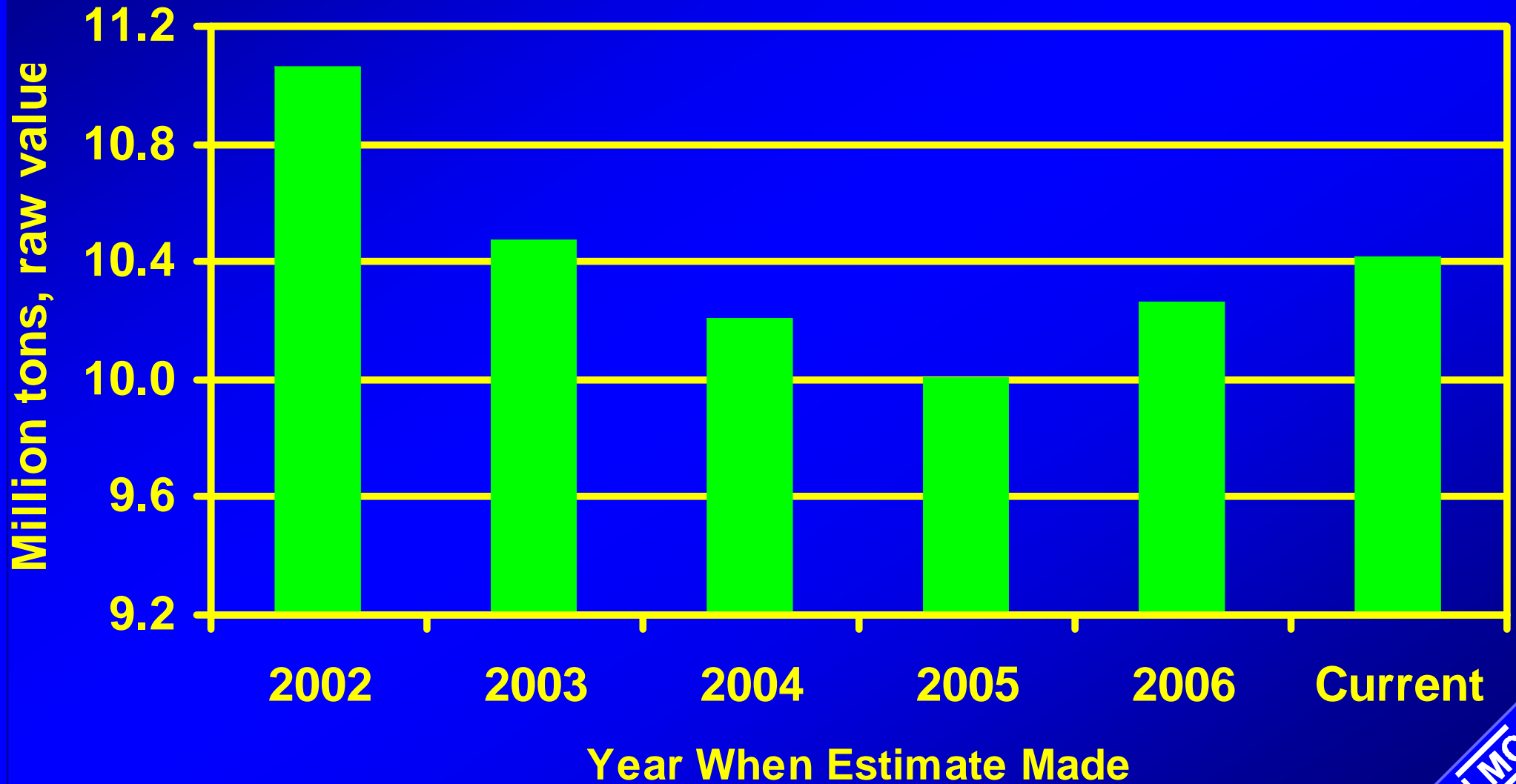
Mexico Export Availability – Alternative Scenarios



Where Would All this Sugar Go?

(How large is the US market?)

Current Year (2006/07) Domestic Deliveries



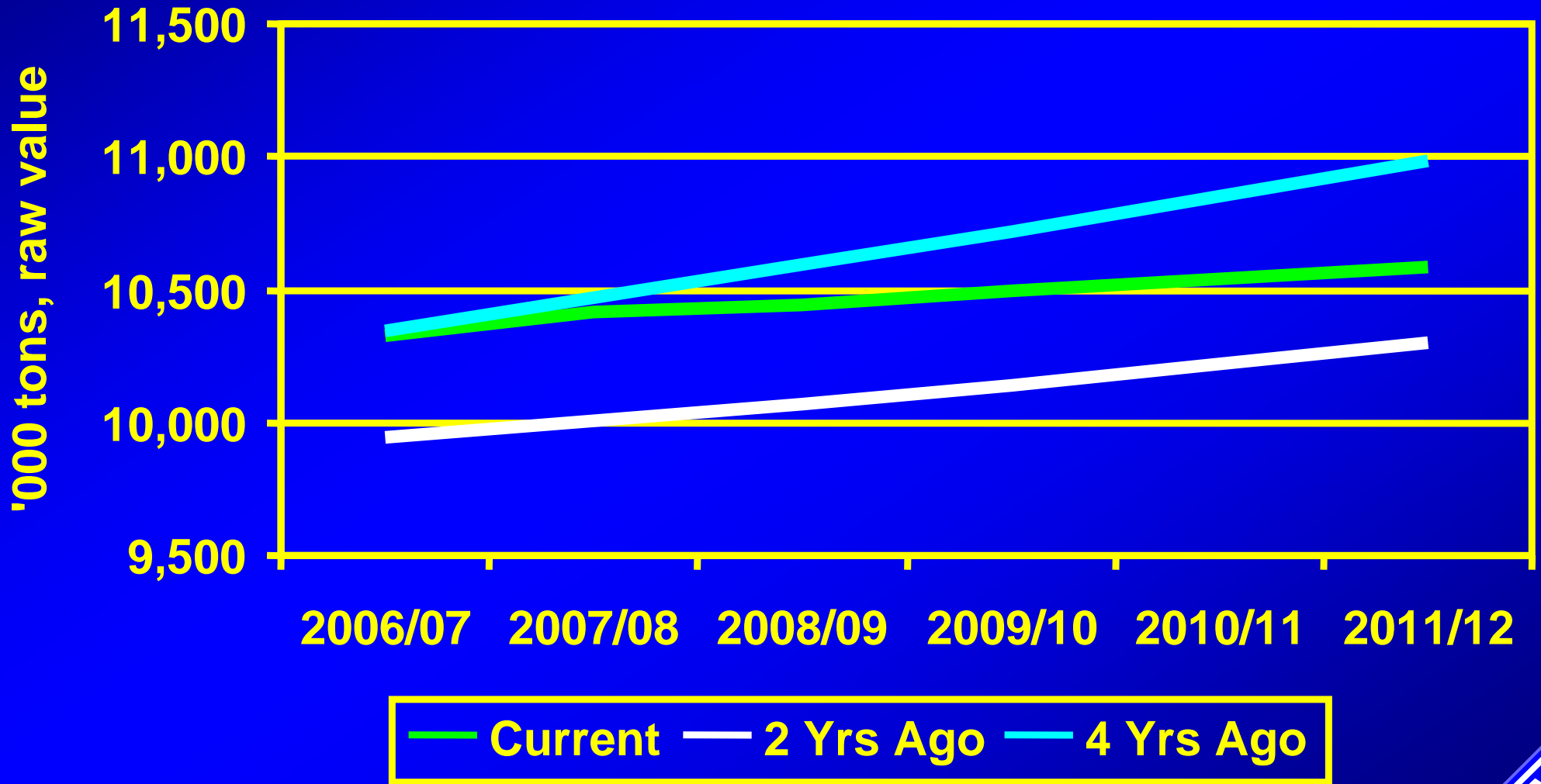
Projecting US Demand for Sugar



Projecting US Demand for Sugar



Projecting US Demand for Sugar



What Would this Sugar Do to the US Market?

Possible policy frameworks

- **JOHANNES ANNOUNCES FISCAL YEAR 2006
SUGAR PROGRAM PROVISIONS**

WASHINGTON, Sept. 29, 2005;

....“As part of the Administration's commitment to
fully implement NAFTA.....”

USDA 2007 Farm Bill Proposals

“...continue to maintain domestic prices near *historical levels*...”

USDA 2007 Farm Bill Proposals

“Revise the sugar program to operate at ***no net cost*** to taxpayers by balancing supply and demand for sugar through domestic marketing allotments & the TRQ”

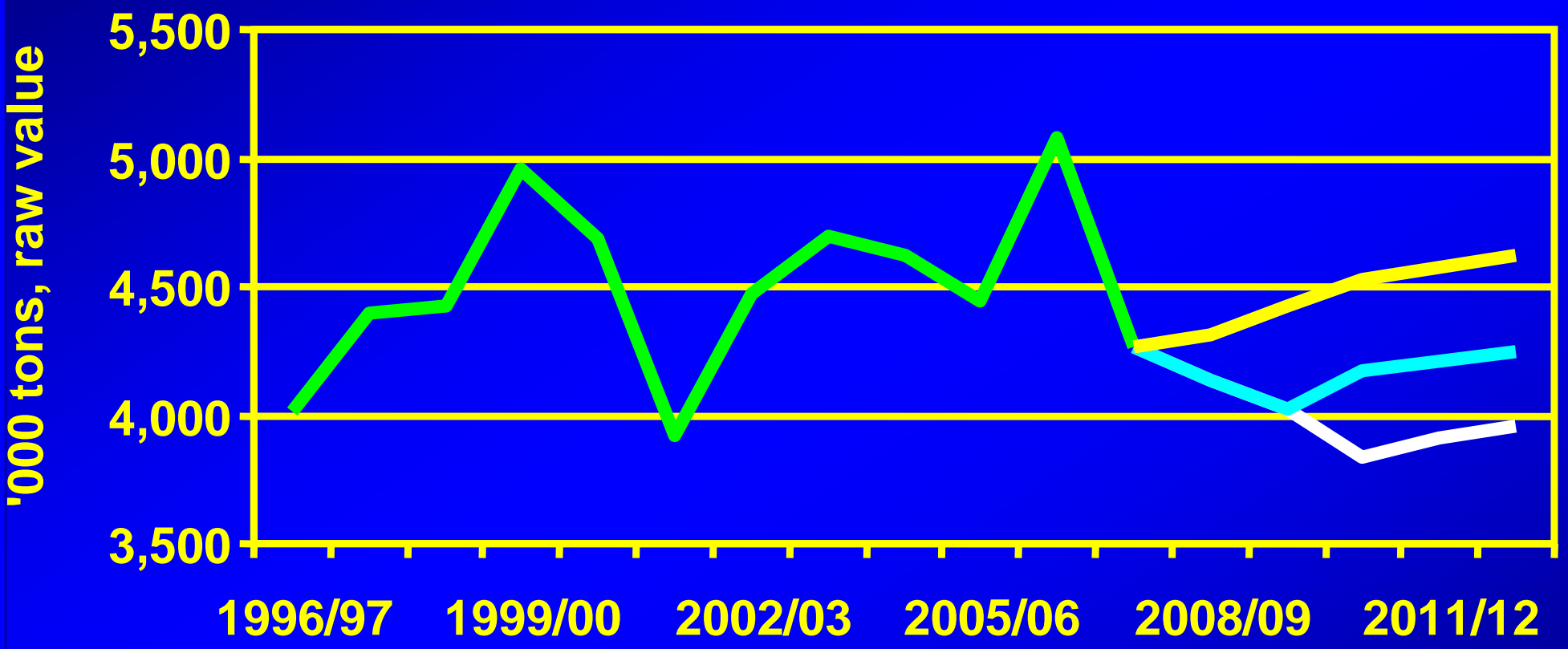
USDA 2007 Farm Bill Proposals

“eliminating the provision.... to ***suspend marketing allotments*** when sugar imports are projected to exceed 1.532 million short tons”

USDA 2007 Farm Bill Proposals

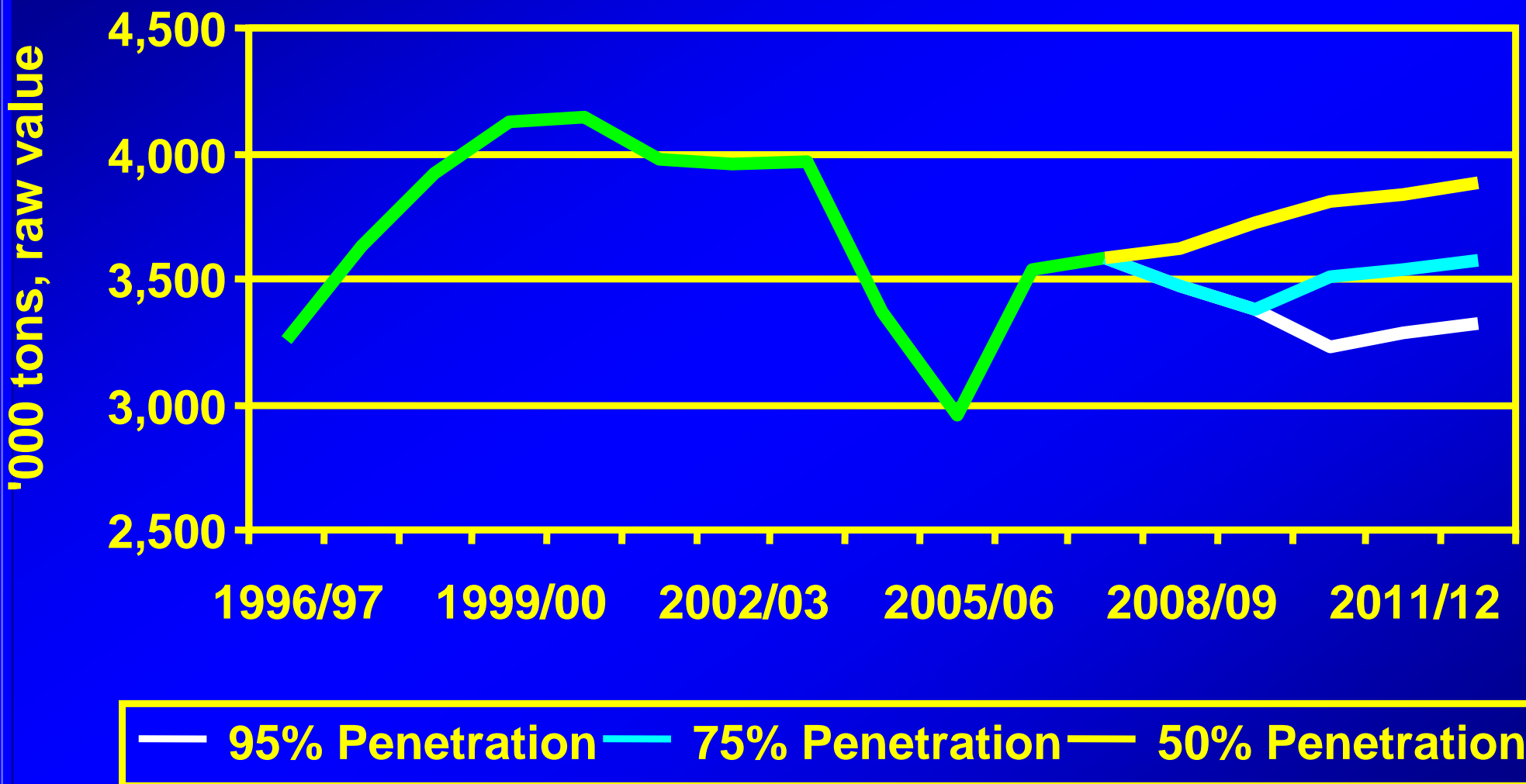
“*Domestic marketing allotments* for sugarcane and sugar beets could be *reduced*, as needed, to balance sugar supply and demand”

Potential Requirements for Domestic Sugar Supplies - Beet

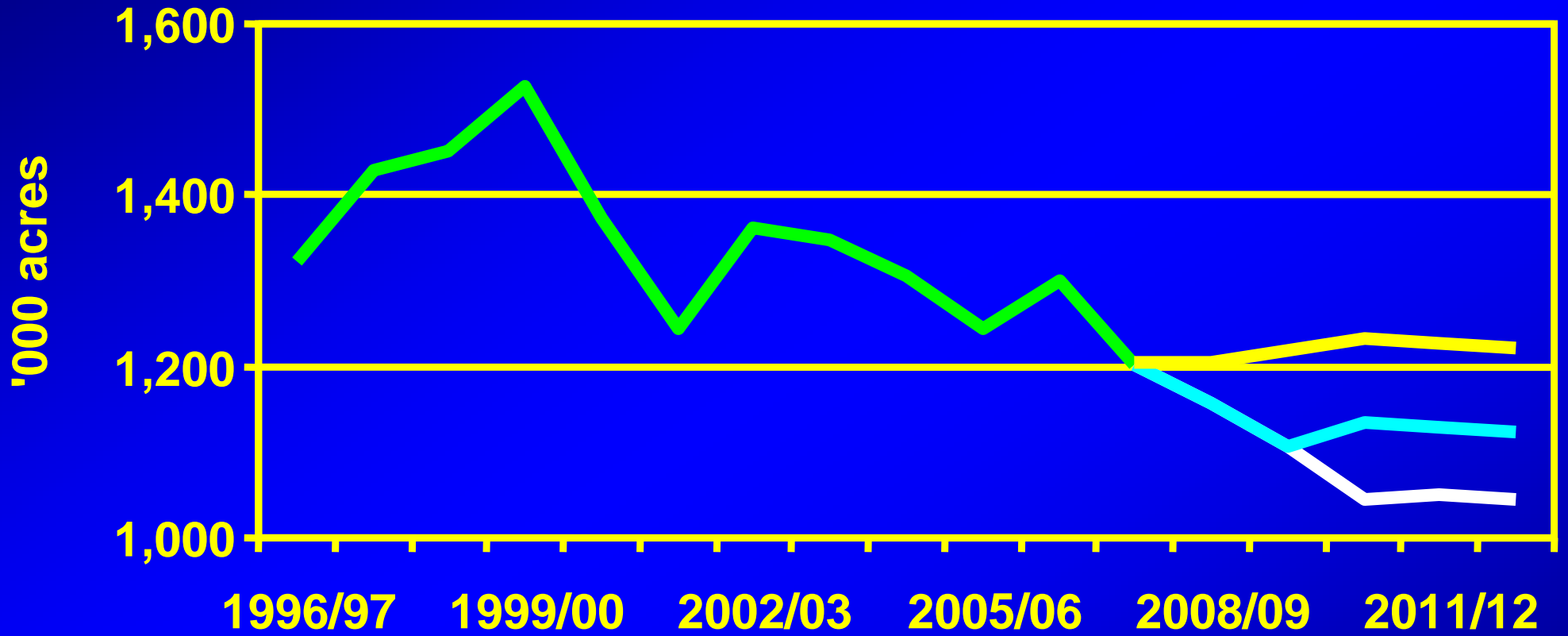


— 95% Penetration — 75% Penetration — 50% Penetration

Potential Requirements for Domestic Sugar Supplies - Beet

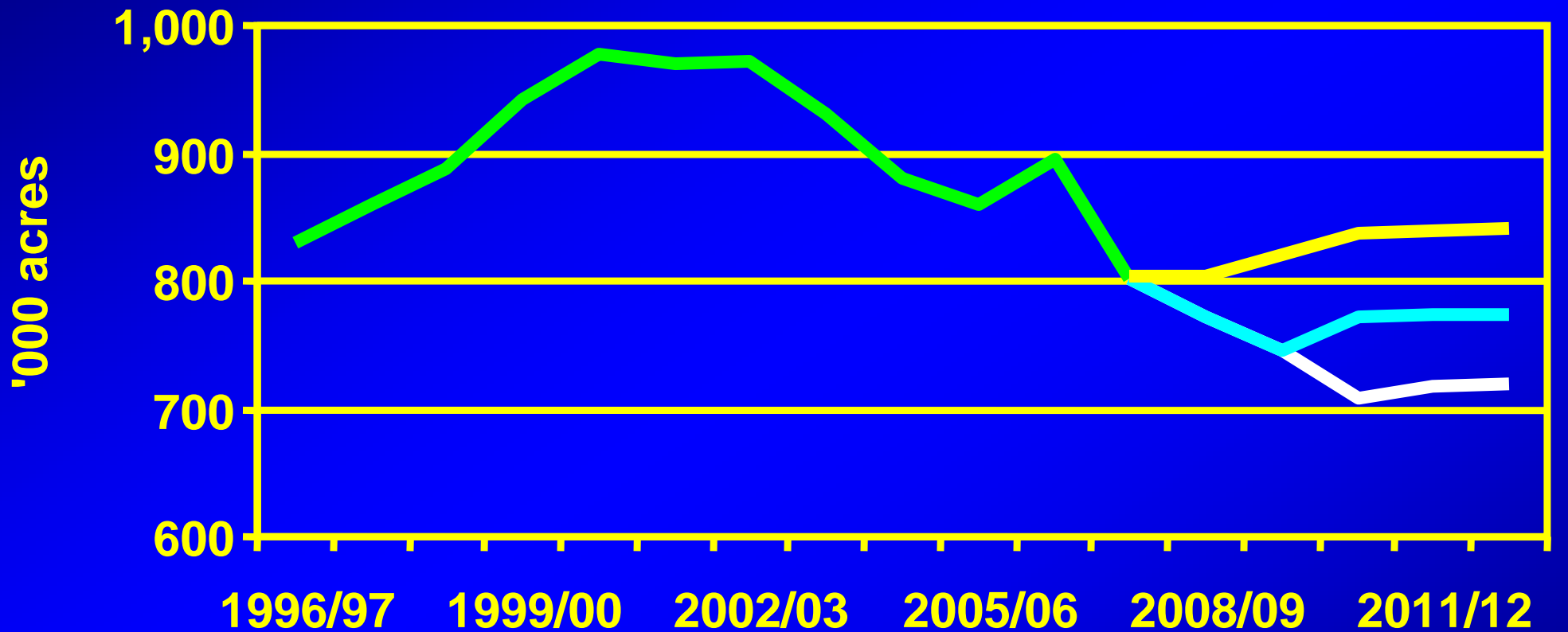


Implications for Beet Areas



— 95% Penetration — 75% Penetration — 50% Penetration

Implications for Cane Areas



— 95% Penetration — 75% Penetration — 50% Penetration

- Equitable? – Who Does the “Heavy Lifting”?
- Supply Management Both Sides of the Border?

If so...

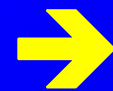
- What happens to “surplus” sugar displaced by HFCS? *Exports, Ethanol?*
- Alternatives....

“Squaring” The Policy Triangle

Open borders



Historical Prices



No Cost