

The NAFTA Sugar Trade Situation from a Market Perspective

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Table 24a -- U.S. sugar: supply and use, by fiscal year

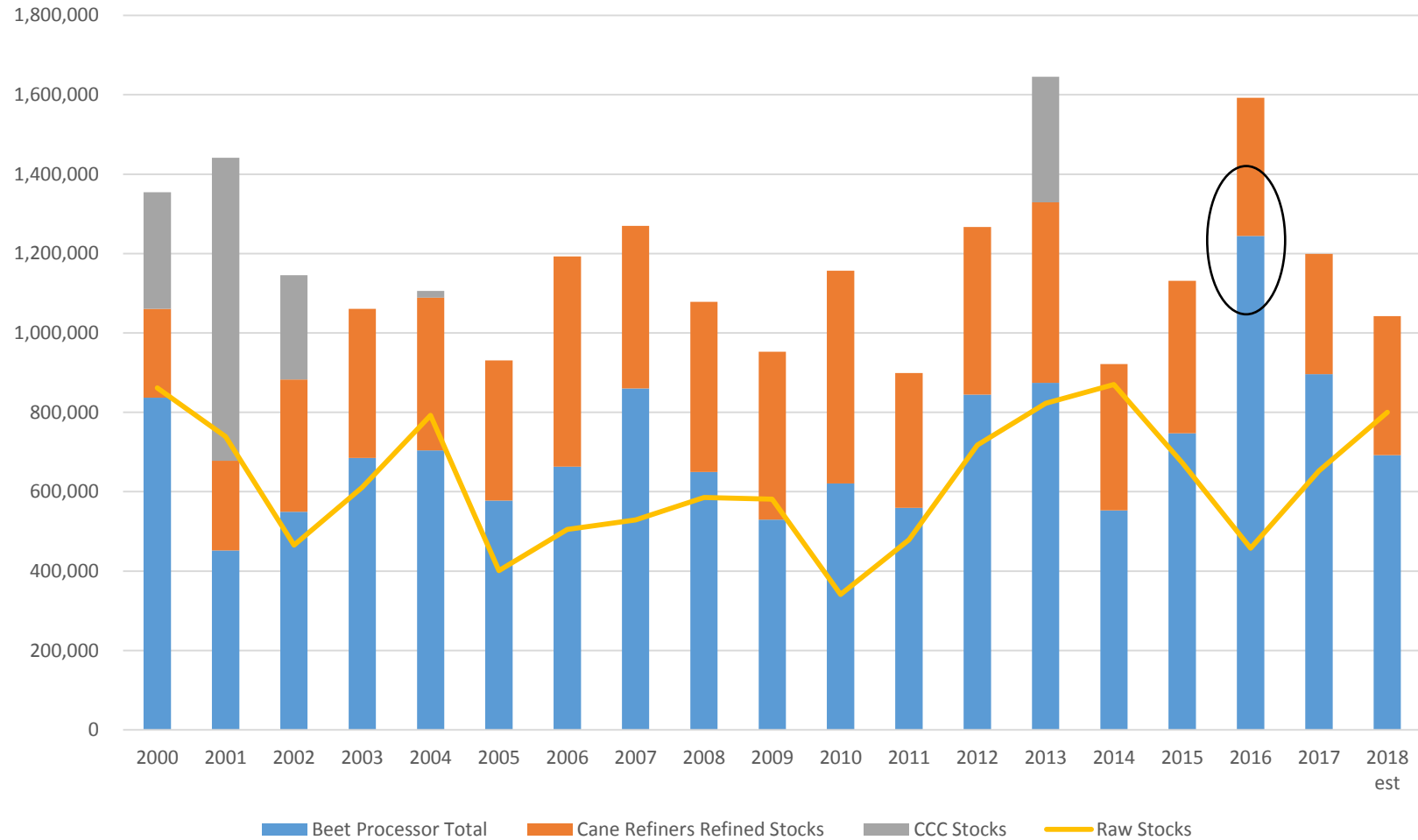
Items	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
	1,000 short tons, raw value										
Beginning stocks	1,799	1,664	1,534	1,498	1,378	1,979	2,158	1,810	1,815	2,054	1,876
Total production	8,152	7,531	7,963	7,831	8,488	8,981	8,462	8,656	8,989	8,969	9,230
Beet sugar	4,721	4,214	4,575	4,659	4,900	5,076	4,794	4,893	5,119	5,103	5,219
Cane sugar	3,431	3,317	3,387	3,172	3,588	3,905	3,667	3,763	3,870	3,866	4,011
Total imports	2,620	3,082	3,320	3,738	3,632	3,224	3,742	3,553	3,341	3,244	3,316
Tariff-rate quota imports	1,354	1,370	1,854	1,721	1,883	957	1,302	1,536	1,620	1,611	1,788
Other program imports	565	308	448	291	664	136	305	471	396	419	250
Non-program imports	701	1,404	1,017	1,726	1,085	2,131	2,135	1,546	1,325	1,213	1,278
Mexico	694	1,402	807	1,708	1,071	2,124	2,130	1,532	1,309	1,201	1,268
Total Supply	12,571	12,277	12,817	13,067	13,498	14,185	14,362	14,019	14,145	14,267	14,422
Total exports	203	136	211	248	269	274	306	185	74	95	100
Quota-exempt for reexport	203	136	211	248	269	274	306	185	74	95	50
Miscellaneous	0	0	-45	19	-64	-23	0	0	-33	38	0
Deliveries for domestic use	10,704	10,607	11,152	11,422	11,313	11,776	12,246	12,019	12,051	12,258	12,480
Transfer to sugar-containing products for exports under reexport program	141	120	201	196	140	80	82	103	148	127	120
Transfer to polyhydric alcohol, feed, ethanol	61	46	35	33	33	185	346	28	22	29	35
Deliveries for domestic food and beverage use 1/	10,501	10,441	10,917	11,193	11,141	11,511	11,819	11,888	11,881	12,102	12,325
Total Use	10,907	10,743	11,319	11,689	11,519	12,027	12,552	12,204	12,091	12,391	12,580
Ending stocks	1,664	1,534	1,498	1,378	1,979	2,158	1,810	1,815	2,054	1,876	1,842
Privately owned						1,842					
CCC						316					
Stocks-to-use ratio	15.26	14.28	13.24	11.79	17.18	17.95	14.42	14.87	16.99	15.14	14.64

Table 56 -- Mexico: sugar production and supply, and sugar and HFCS utilization

Fiscal Year (Oct/Sept)	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
	1,000 metric tons, tel quel/actual weight											
Beginning stocks	1,221	1,621	1,863	588	918	760	966	1,460	831	811	1,037	1,002
Production	5,314	5,521	4,962	4,825	5,184	5,048	6,975	6,021	5,985	6,117	5,957	6,100
Imports	447	213	150	813	289	476	217	131	128	83	93	135
Supply	6,983	7,355	6,975	6,226	6,391	6,285	8,157	7,613	6,944	7,011	7,087	7,237
Disappearance												
Total	5,211	4,853	5,087	4,599	4,161	4,390	4,671	4,271	4,691	4,767	4,851	4,886
Exports	151	639	1,300	709	1,469	929	1,973	2,511	1,442	1,207	1,234	1,362
Total use	5,362	5,492	6,387	5,308	5,631	5,319	6,644	6,782	6,134	5,974	6,085	6,248
Ending stocks	1,621	1,863	588	918	760	966	1,460	831	811	1,037	1,002	989

Heavy imports for direct consumption led to record beet refined stocks and very low raw sugar stocks – a problem emerged...

U.S. Ending Stocks by Type



US Beet Refined Sugar and No 16 Raw Sugar Prices



Both the U.S. and Mexico Have Managed Sugar Market Supply and Price in different manners

- US – Farm Bill provides for two primary interventions
 - Price Support Loans
 - Cane Raw Sugar price support loans are made at a national average price of 18.75 cents / lb FOB mill warehouse. This is equivalent to approximately 21.50 to 22.50 cents / lb delivered to refiners on a No 16 equivalent basis.
 - Beet Refined Sugar price support loans are made at 128.5% of the raw sugar price and is at 24.09 cents per pound on a national average basis.
 - Supply Control
 - Domestic Supply Control - Marketing Allotments giving 85% of Domestic use to Domestic growers of cane and beet sugar
 - Beet 54.35%
 - Cane 45.65%
 - Shortfalls of domestic production to allocation to be allocated to raw sugar imports for cane refiners
 - Import Control
 - TRQ - Raw / Refined / Specialty
 - NAFTA
 - FTA's
 - Re-Export Program
- Mexico – Government and Industry have managed supply to reach essentially a zero stock as the new crop begins
 - Surplus sugars are exported
 - Local market prices gravitate to higher levels internally as the surplus is exported
- Both Markets protected by equivalent High Tier Tariffs for sugar not allowed entry under various Free Trade Agreements

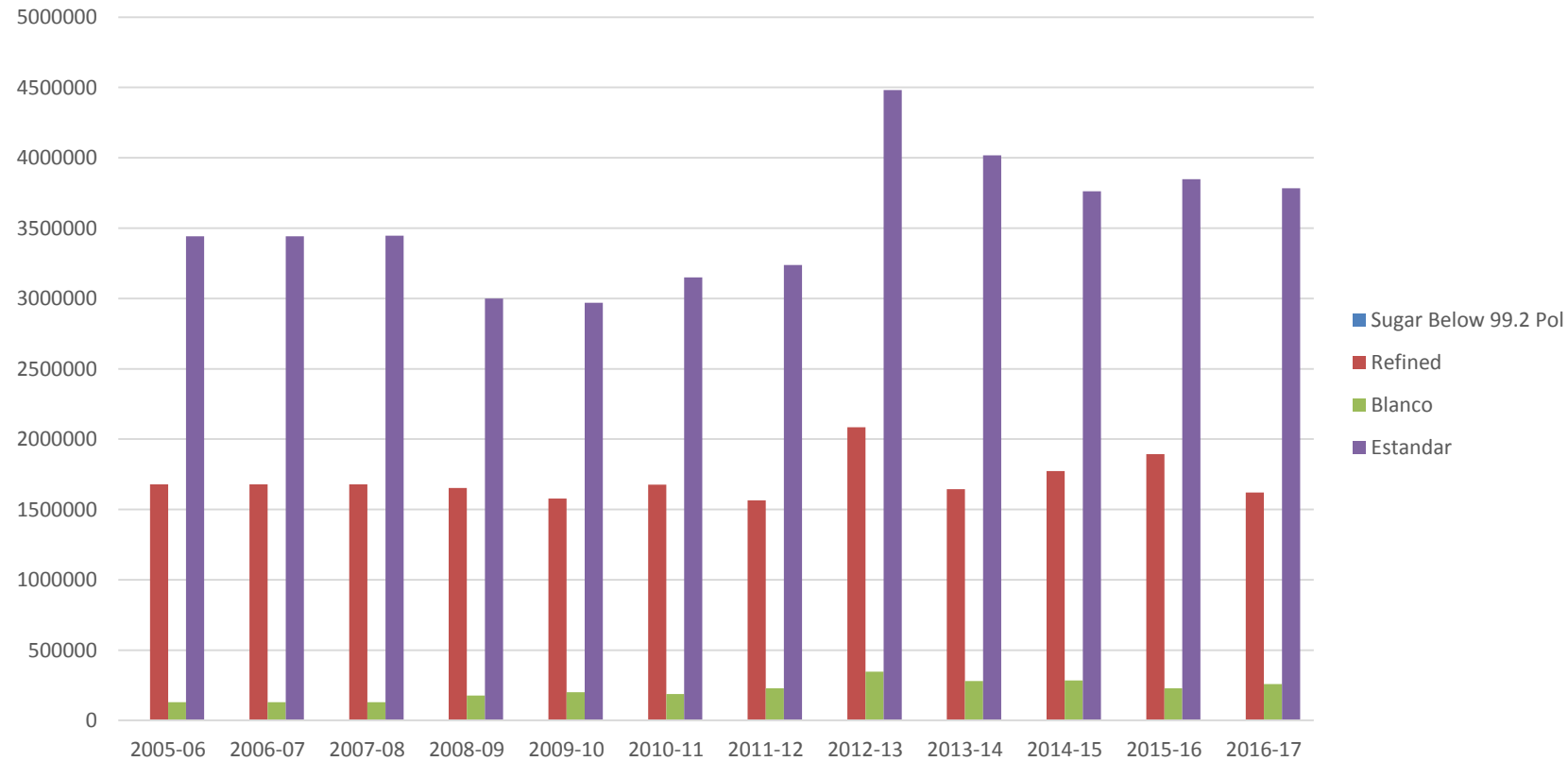
ADD and CVD Suspension Agreements with Mexico Provide Features that also Stabilize Prices and Quantities Traded

- Price Support – Minimum prices at which sugar can be sold for entry into the U.S. market
 - Other (Raw Sugar) 23.00 cents / lb FOB Mill in Bulk equivalent to 25.50 and higher on a No. 16 equivalent
 - Refined Sugar 28.00 cents / lb FOB Mill = about \$33.00 delivered Chicago
- Supply Control
 - Imports from Mexico are based on a Needs Formula:
 - $(\text{Total Use} * 1.135) - \text{Beginning Stocks} - \text{Production} - \text{TRQ Imports} - \text{Other Program Imports} - (\text{Footnote 5 for "other high tier"} + \text{"other"})$
 - Essentially makes Mexico the residual supplier to the U.S. provided they have sugars to supply without importing themselves.
 - U.S. market balanced to 13.5% on the needs formula – USDA retains flexibility to run stocks to higher levels as may be determined
 - Imports are subject to shipment constraints to ensure orderly marketing and avoid excess flows in any short period

The Suspension Agreements also specify a mix of imports to make sure the market gets the types of sugar it needs.

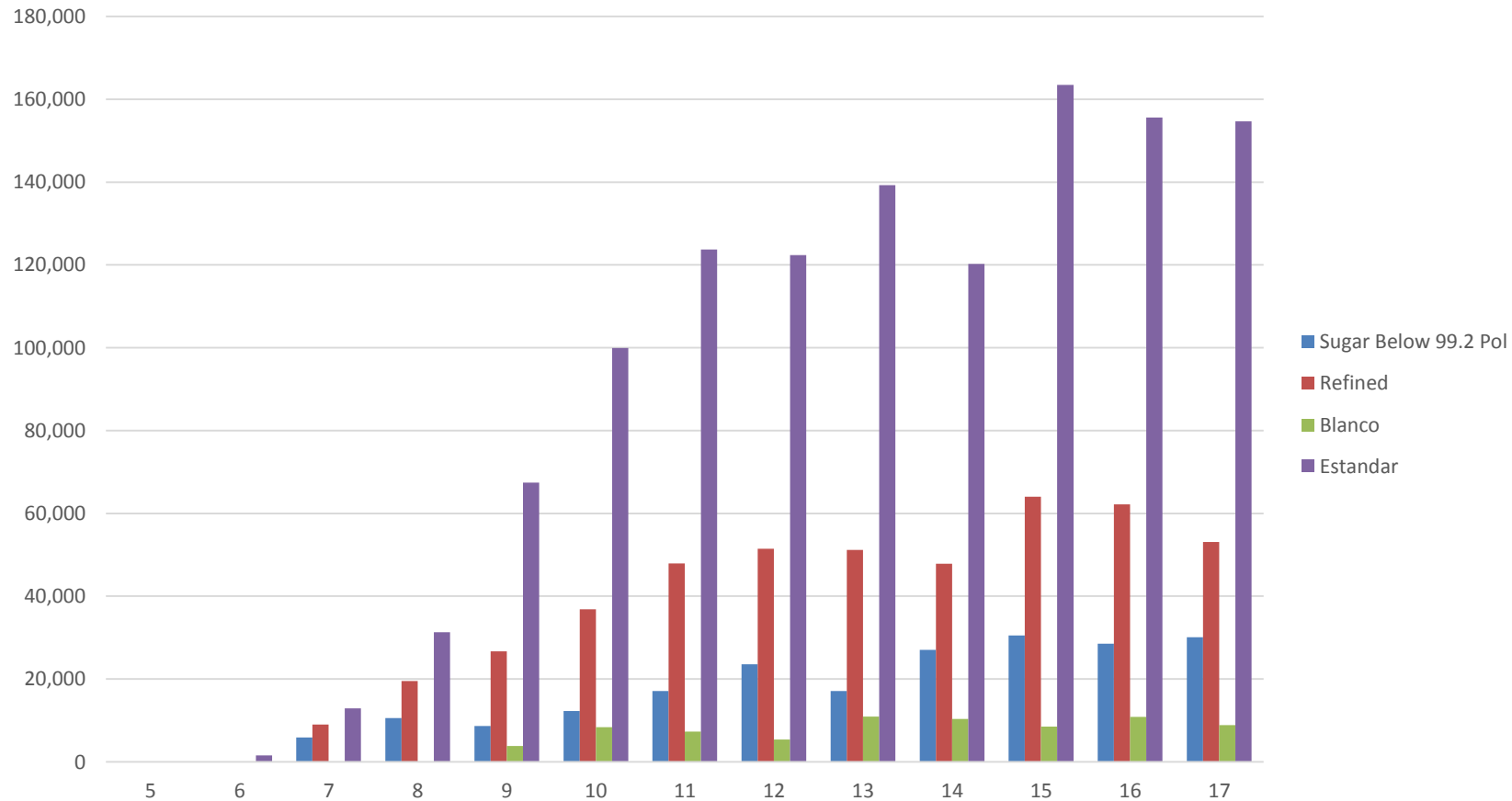
- Getting the mix right – how is the supply structured
 - “Other sugar” (raw sugar for refineries) is less than 99.2 degrees polarization on a dry basis. Down from just being less than 99.5 degrees in the previous suspension agreements. Other Sugar is now 70% of the Mexican sugar allocation, up from 47% in the previous agreement.
 - “Other sugar” must be shipped in bulk in the holds of an ocean going vessel in no other packaging.
 - Refined sugar is now defined as sugar greater than 99.2 degrees polarization on a dry basis.
 - Refined sugar is now 30% of the Mexican allocation, down from 53% previously. Any sugar in a package other than a bulk hold of an ocean going vessel, or transported overland is defined as Refined Sugar.

Mexican Sugar Production by Crop Year by Type

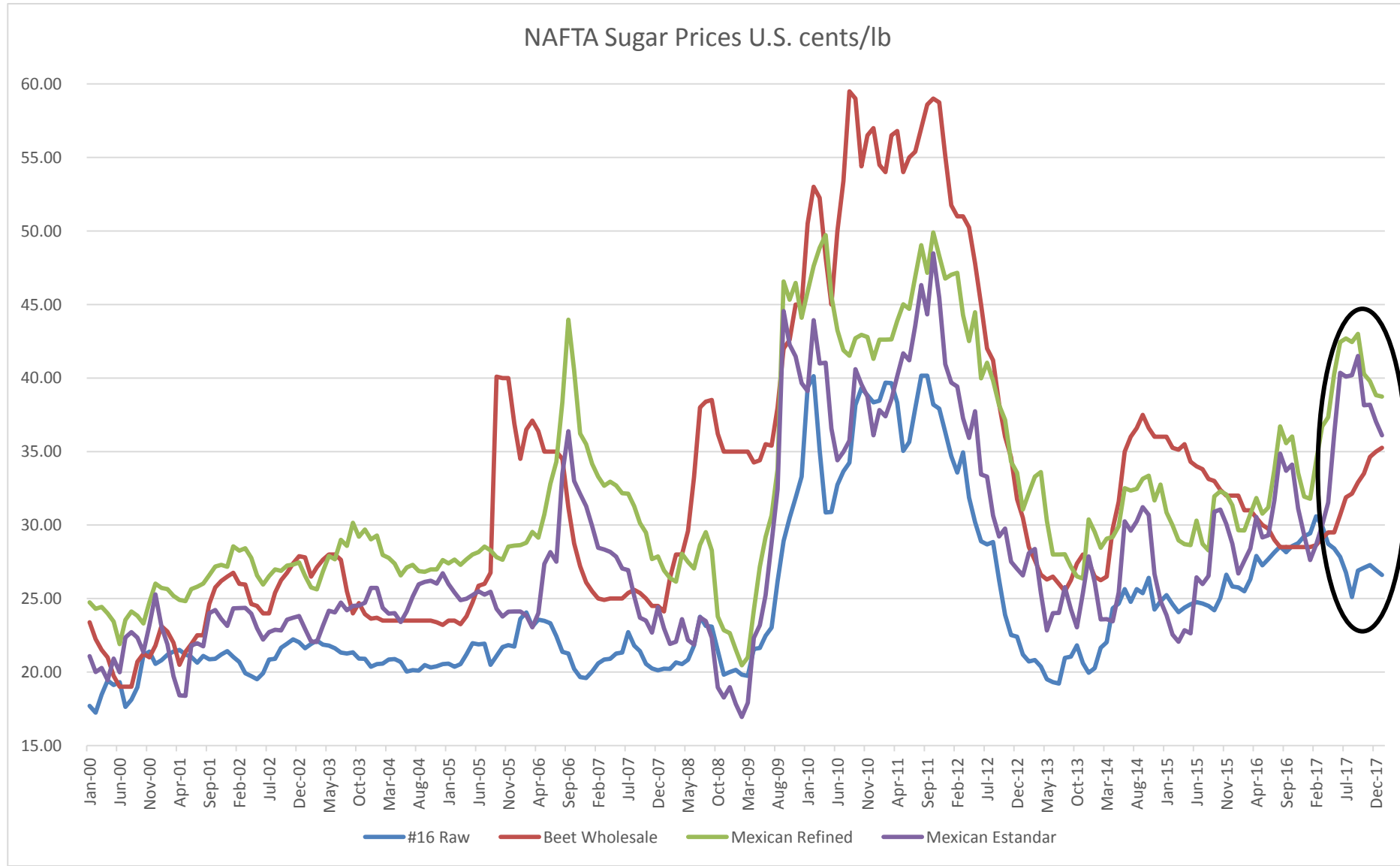


Sugar of Less than 99.2 polarization is being produced at a rate sufficient to meet the current allocation

Mexico 2017/18 Crop– Weekly Sugar Produced by Type of Sugar



Prices – The market responded to the change in quantity and to the mix.
A more normal price structure has emerged.



After all the work to get the agreements in a better place, what happens if NAFTA is Terminated?

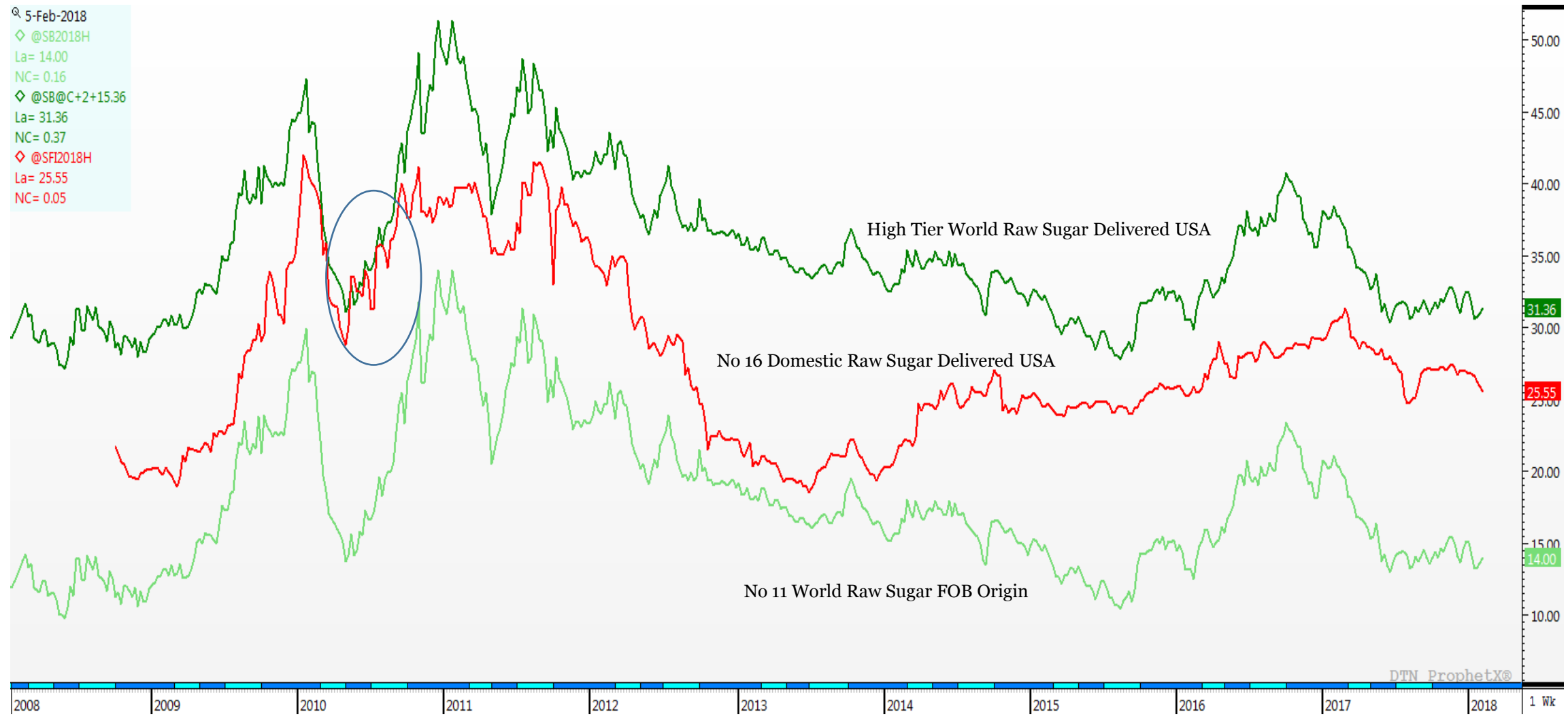
- Eventually we would revert to WTO quotas, but there would be a transition period.
 - There would have to be a 6 month warning given to Congress
 - Questions of authority to make all the changes necessary.
 - There could be litigation
 - The laws and regulations that implemented the NAFTA provisions would have to be repealed or modified.
 - Duty treatment is embodied in the HTS U.S.

- FTA's with CAFTA-DR, Colombia, Panama, Peru amount to about 220 thousand short tons annually.
- Refined Sugar and Specialty quota's allow entry of about 200 thousand tons annually.
- Re-export program
 - About 155 thousand tons of product exports
 - About 50-75 thousand tons of sugar exports
 - Mexico essentially stopped the flow of re-export sugar from the US in 2015 which caused the loss of about 200 thousand tons of business to US refiners
- NAFTA Exports

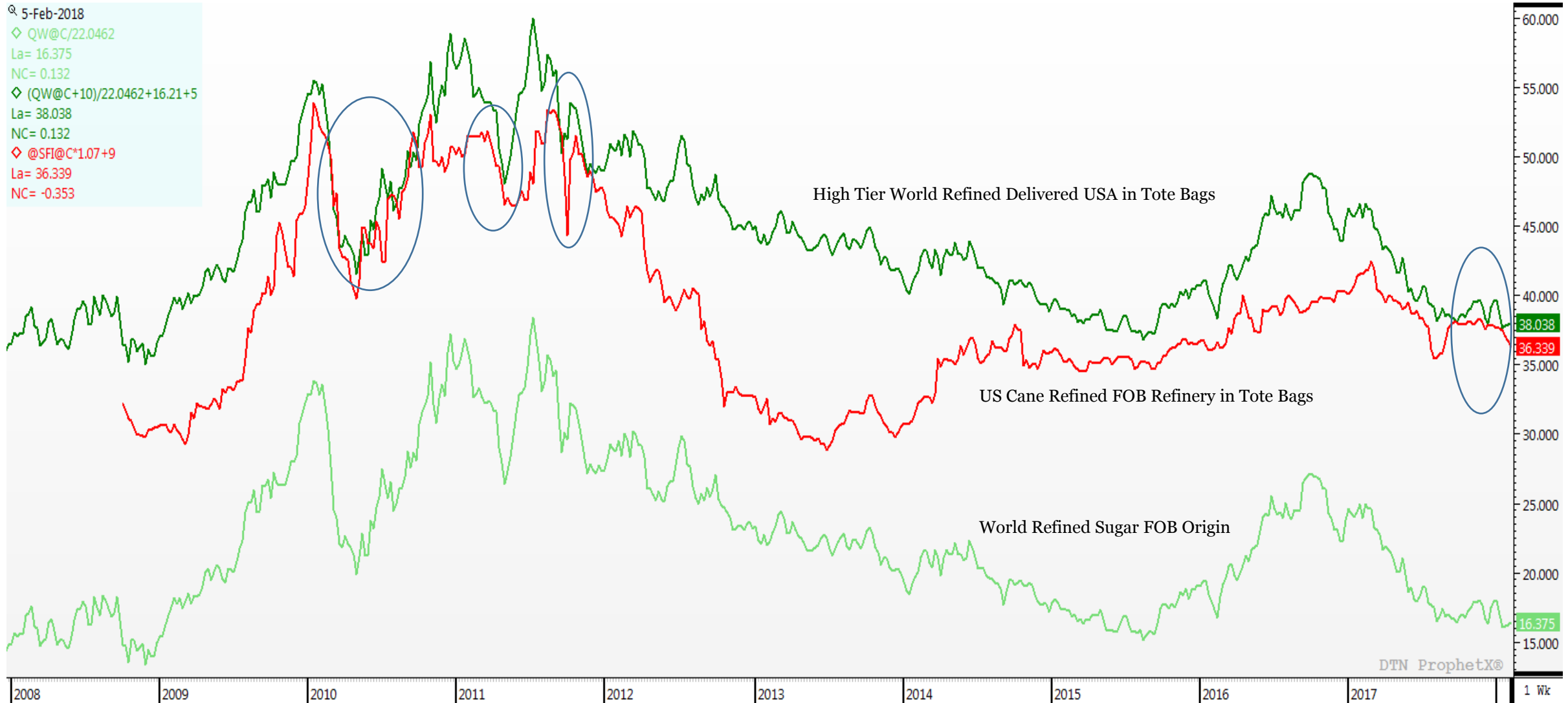
U.S. High Tier Tariff Imports have been relatively insignificant in most years

High Tier Tariff Sugar Imports into the U.S.	
Crop Year Ending	Metric Tons
2008	6,781
2009	2,298
2010	207,381
2011	18,390
2012	13,217
2013	6,647
2014	5,026
2015	13,261
2016	16,445
2017	11,830
2018	

U.S. Raw Sugar Prices not currently interacting at High Tier Tariff Import Levels



U.S. Refined Sugar Prices are close to Interacting with High Tier Tariff Import Levels



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