Emerging Issues in the U.S. Sugar Industry

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Vice President

2012 Farm Bill: Issues and Challenges
November 7, 2011
Sugar issues: 2011-2015

- **The big issues**
  - Farm bill renewal of the sugar program
  - USDA sugar program management

- **Background issues**
  - Biotech sugar beet outcome
  - World sugar and ethanol market prospects
  - Trade liberalization efforts
  - EU sugar reform
  - Competition among sugar, corn sweeteners and high intensity sweeteners
Biotech sugar beet case

- USDA released 749 page Draft Environmental Impact Statement in mid-October
- Three alternatives:
  - No action
  - Partial deregulation
  - Full deregulation – USDA’s preferred option
- Food industry generally supports deregulation
- Lawsuits create continued uncertainty
- A biotech beet ban would cause lower beet sugar production & more market disruption
Tight world sugar market persists

World and US Sugar Prices

- Refined beet, fob Midwest
- #16 US raw cane, futures
- #11 World raw cane, futures
World sugar & ethanol market outlook

- Sugar outlook is for more of the same
  - No. 11 futures 23 cents or more through 2014
  - OECD price projections 18-24 cents over the decade
  - Brazil sugarcane crop down 12% this year and only small recovery expected in 2012/13
  - Sugar market underpinned by Brazil’s cost of production and energy prices

- World ethanol market also tight
  - World production fell in 2011 due to Brazil
  - F.O.Licht forecasts limited production growth in 2012

- World sugar price will be similar to US loan rate
Trade Liberalization Efforts

- Doha Round in long-term hibernation
  - But potential for some increase in US sugar quota access
- Latest FTAs
  - Colombia the only one with much sugar access – 50,000 mt
  - Implementation mid-2012? Prorated?
- Trans Pacific Partnership
  - Broad outline of agreement at APEC meeting Nov 12-13?
  - Australia the only significant sugar exporter
  - Many hurdles to overcome
  - Not likely to have much impact on US sugar market
European Union Sugar Policy

- EU sugar program similar but worse than ours
  - Production quotas
  - Import quotas and high tariffs
  - Export quotas
  - A refined sugar support price of €404/mt (26 cents/lb) i.e., higher than the US beet sugar loan rate

- So their tight sugar supply in 2010/11 had the same causes as ours

- The EU Commission is proposing further reform
  - Elimination of production quotas after 2012/15
  - Commission study projects 20% decline in prices
Competition among sweeteners

US caloric sweetener consumption

- Refined sugar
- Refined sugar plus net SCP
- Corn sweeteners
- High intensity sweeteners

Graph showing the consumption of different types of sweeteners over time from 1970 to 2012.
Competition among sweeteners

Mexican caloric sweetener consumption

- Sugar
- HFCS
Sugar and the Farm Bill

The super-committee process
- Sugar producers: sneak sugar program extension in
- Sugar consumers: keep sugar out so it can be freely debated
- Sugar not a budget item except in energy title
- Process failure unlikely to affect sugar

2012 farm bill process
- Much to deal with beyond commodity title
- Several sugar reform bills introduced
- Sugar policy the most government intrusive and unbalanced and needs to be debated
World and US Refined Sugar Price Differential

- Refined beet, fob Midwest
- World refined sugar
- Differential

Graph showing price differential over time in cents per pound from 2004 to 2011.
Farm bill sugar tax = $4 billion/year

- US refined sugar prices are more than 20 cents higher than the equivalent world price
- And 30-35 cents above the support level

<table>
<thead>
<tr>
<th>Period</th>
<th>Annual Consumption (million tons)</th>
<th>Price Difference (cents/lb)</th>
<th>Consumer Cost (billion)</th>
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<tbody>
<tr>
<td>2009/10</td>
<td>10.2</td>
<td>20.8</td>
<td>$4.24</td>
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<td>2010/11</td>
<td>10.4</td>
<td>20.2</td>
<td>$4.19</td>
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## US Sugar Balance (1,000 strv)

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<thead>
<tr>
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<tbody>
<tr>
<td><strong>Beginning stocks</strong></td>
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<td>Beet</td>
<td>4,214</td>
<td>4,575</td>
<td>4,700</td>
<td>4,575</td>
<td>4,675</td>
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<td>Cane</td>
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<td>3,388</td>
<td>3,149</td>
<td>3,275</td>
<td>3,149</td>
<td>3,360</td>
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<td>Total</td>
<td>7,532</td>
<td>7,963</td>
<td>7,849</td>
<td>7,850</td>
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<td><strong>Production</strong></td>
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<td><strong>Imports</strong></td>
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<td>Quota entries</td>
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<td>1,854</td>
<td>1,630</td>
<td>1,675</td>
<td>1,693</td>
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<td>Other program</td>
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<td>450</td>
<td>280</td>
<td>325</td>
<td>281</td>
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<td>Other Mexico</td>
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<td>1,700</td>
<td>1,180</td>
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<td>Total</td>
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<td>3,318</td>
<td>3,610</td>
<td>3,180</td>
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<td><strong>Total availability</strong></td>
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<td>Deliveries</td>
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<td>11,106</td>
<td>11,325</td>
<td>11,440</td>
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<td>Exports</td>
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<td>Total use</td>
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<td>1,534</td>
<td>1,498</td>
<td>1,387</td>
<td>727</td>
<td>1,418</td>
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<td>Stock/use ratio</td>
<td>14.3</td>
<td>13.2</td>
<td>12.0</td>
<td>6.2</td>
<td>12.2</td>
<td>7.7</td>
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2012 Farm Bill Conference

Structural sugar deficit > 3 million tons

Deliveries for food use
Production

Structural deficit (right axis)
Supplies inadequate through the year

WASDE Estimates of Stock/Use Ratio for Sugar

USDATarget 13.5 - 15.5%

- 2008/09
- 2009/10
- 2010/11
- 2011/12
Negative job impact

- Commerce Department data 1996-2009
  - 12 sugar using industries lost 112,000 jobs (-16%)
  - 13 non-sugar using industries gained 29,000 jobs (+3%)
  - Sugar manufacturing lost 4,000 jobs (-23%), and is down to 13,000.

- Net imports of sugar-containing products
  - 700-900,000 tons of sugar annually
  - Particularly confectionery
  - Foreign producers have taken advantage of access to lower priced sugar
USDA outsourced management

- Mexican producers and government now manage our imports
  - Mexican imports providing the marginal supplies that prevent a breakdown in the US supply chain
- High sugar prices here will cause a train wreck
  - Mexican sugar production will expand
  - Mexican use of HFCS will grow
  - US will rely more on Mexican sugar at expense of US cane sugar refiners
  - Lost use of refining capacity in October-March cannot be recovered
Conclusions

• Time to restore balance: “adequate supplies at reasonable prices”

• Time for less government intrusion. Sugar is the only program that:
  ➢ Controls imports
  ➢ Limits what producers can sell
  ➢ Provides price floor but no ceiling

• Time to significantly change the program
  ➢ Get rid of restrictions on TRQ management and marketings
  ➢ Balance interests of consumers and producers

• Time for USDA to take back control of imports
And finally …

- Effective this month, we are changing our name to Agralytica.
- Same people, with the same values, and the same high consulting standards.

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