

An Outside Look at NAFTA

U.S.D.A. Outlook Forum

Washington, D.C., February 22, 2013

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Milling & Baking News, Food Business News, Sweetener Report

Sosland Publishing Company

Kansas City, MO

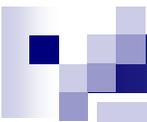
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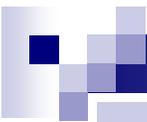
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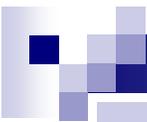
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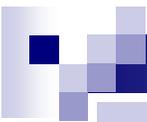
NAFTA – From the Outside

- 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



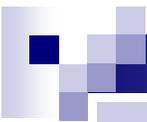
NAFTA – From the Outside

- 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

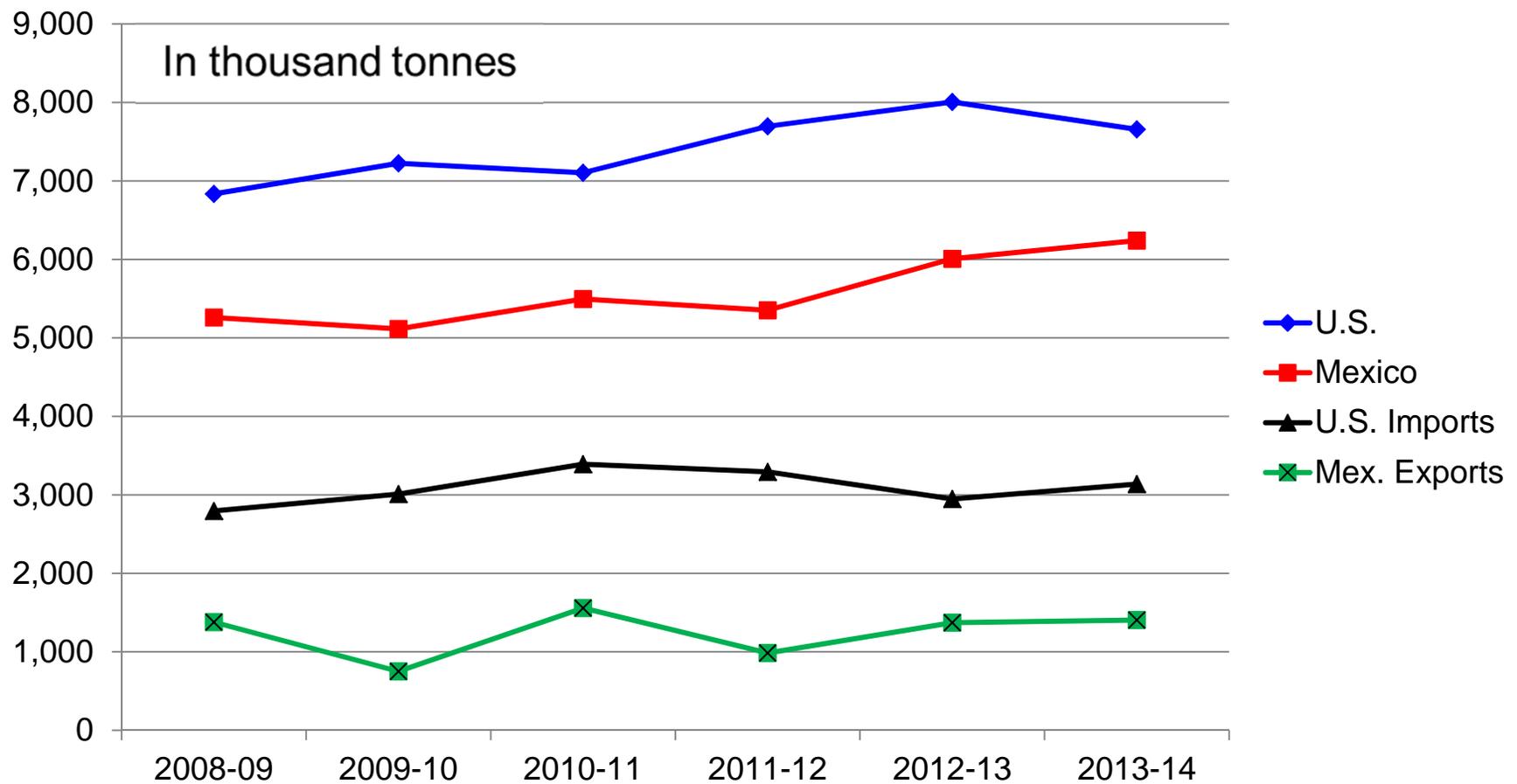
- But don't take that wrong – the entire sweetener market is evolving and somewhat *messy*, so why should the NAFTA part be any different?
- Also – remember – the U.S. is a sugar deficit producer and Mexico typically is a sugar surplus producer

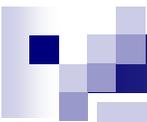
NAFTA – From the Outside

- 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

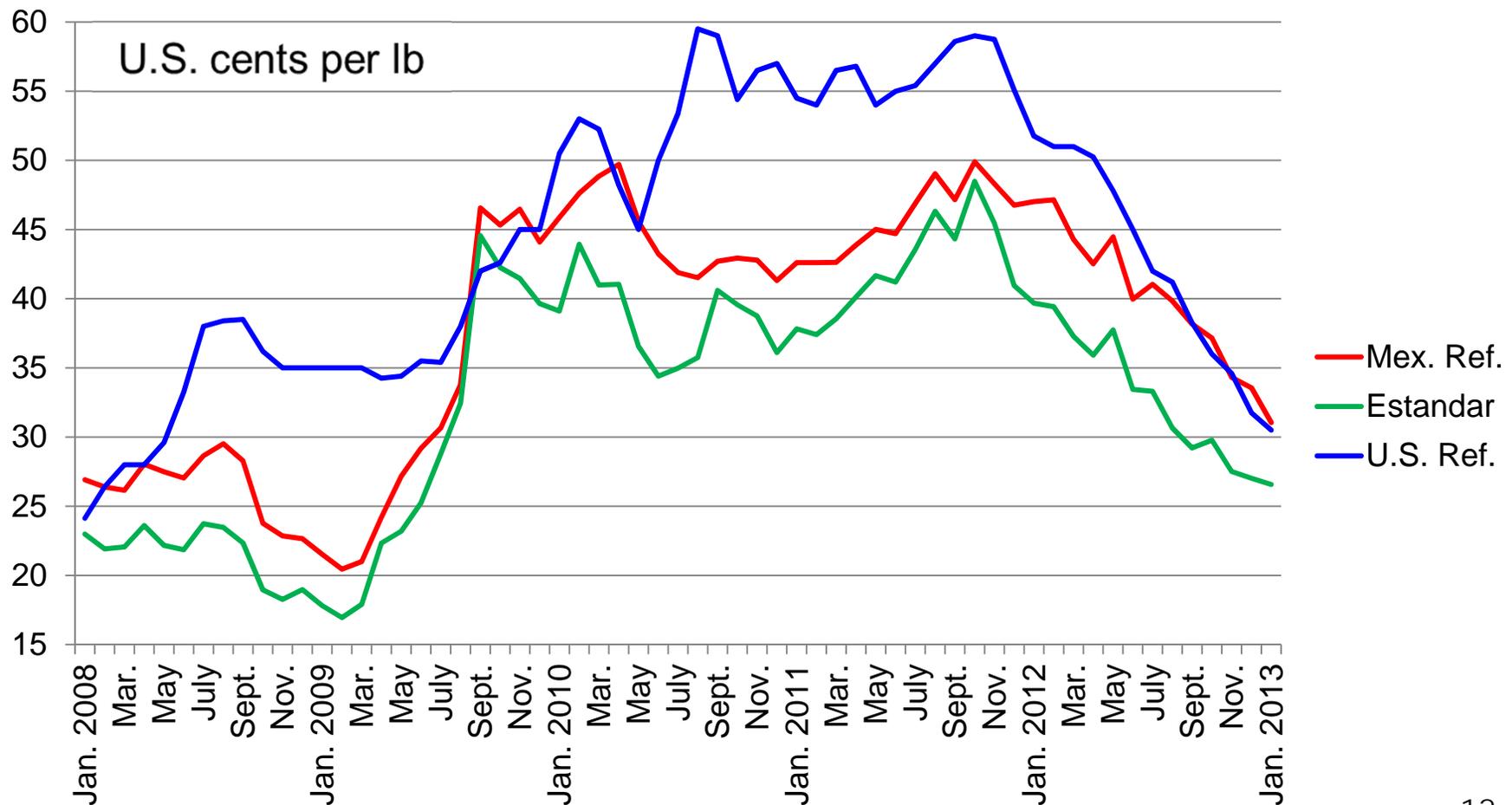
■ So everyone was happy, right?

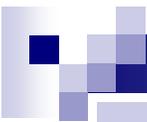
□ Well, not really

- 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

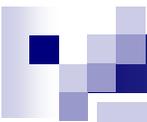
■ The sugar price picture 2008 – 2013





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

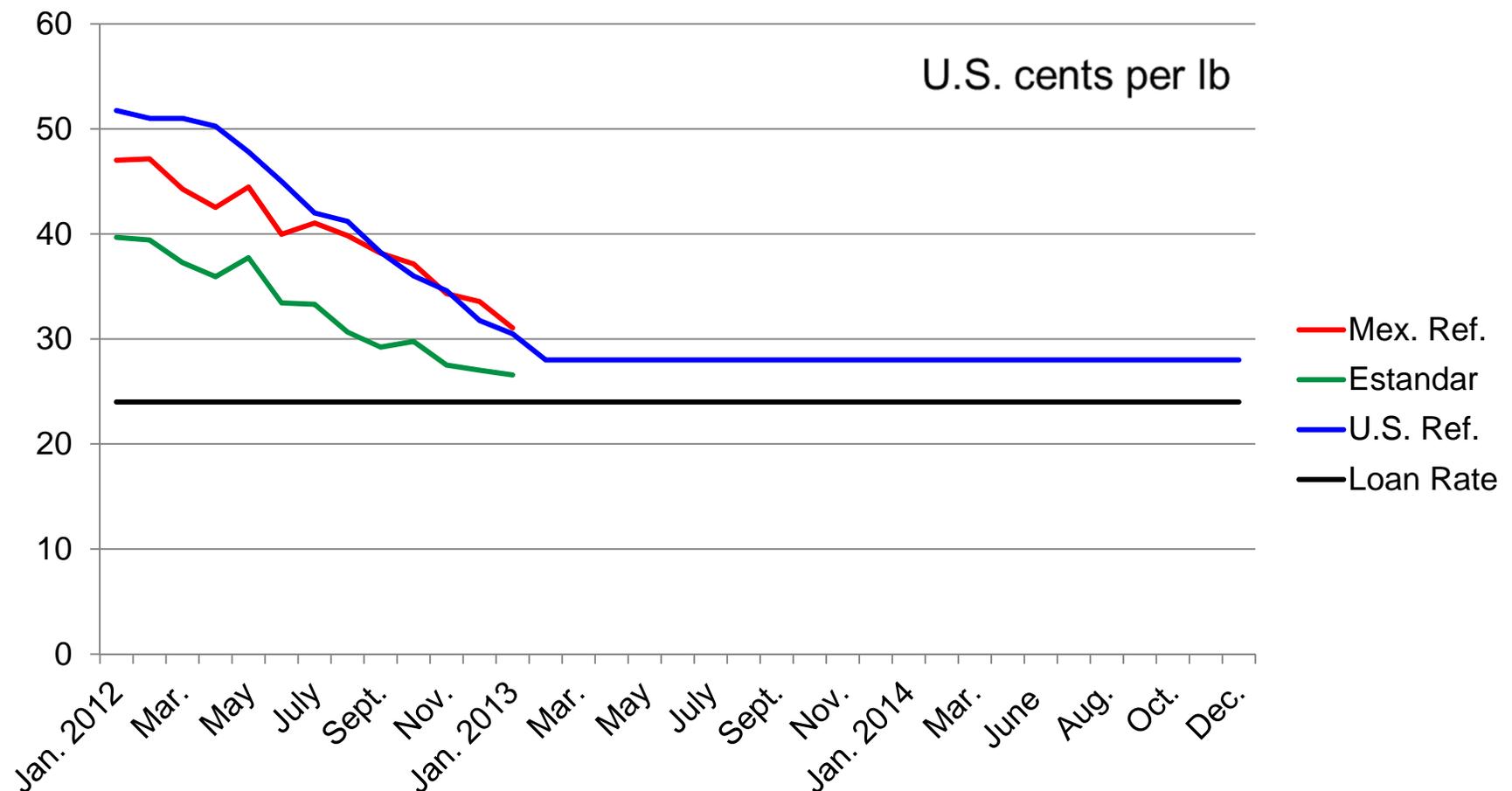


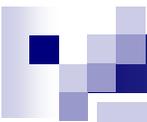
NAFTA – From the Outside

- **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

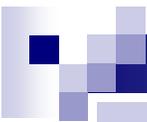
■ The sugar price picture 2012-2014





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

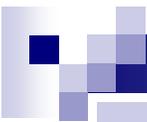
- It's easy to be on the outside and point fingers
 - At U.S.D.A., at Mexico, at corn refiners, etc.
- It's not so easy being on the inside and trying to manage a sugar program when a couple hundred thousand tons can throw the market into complete disarray and you may have bad data on which to make irreversible 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

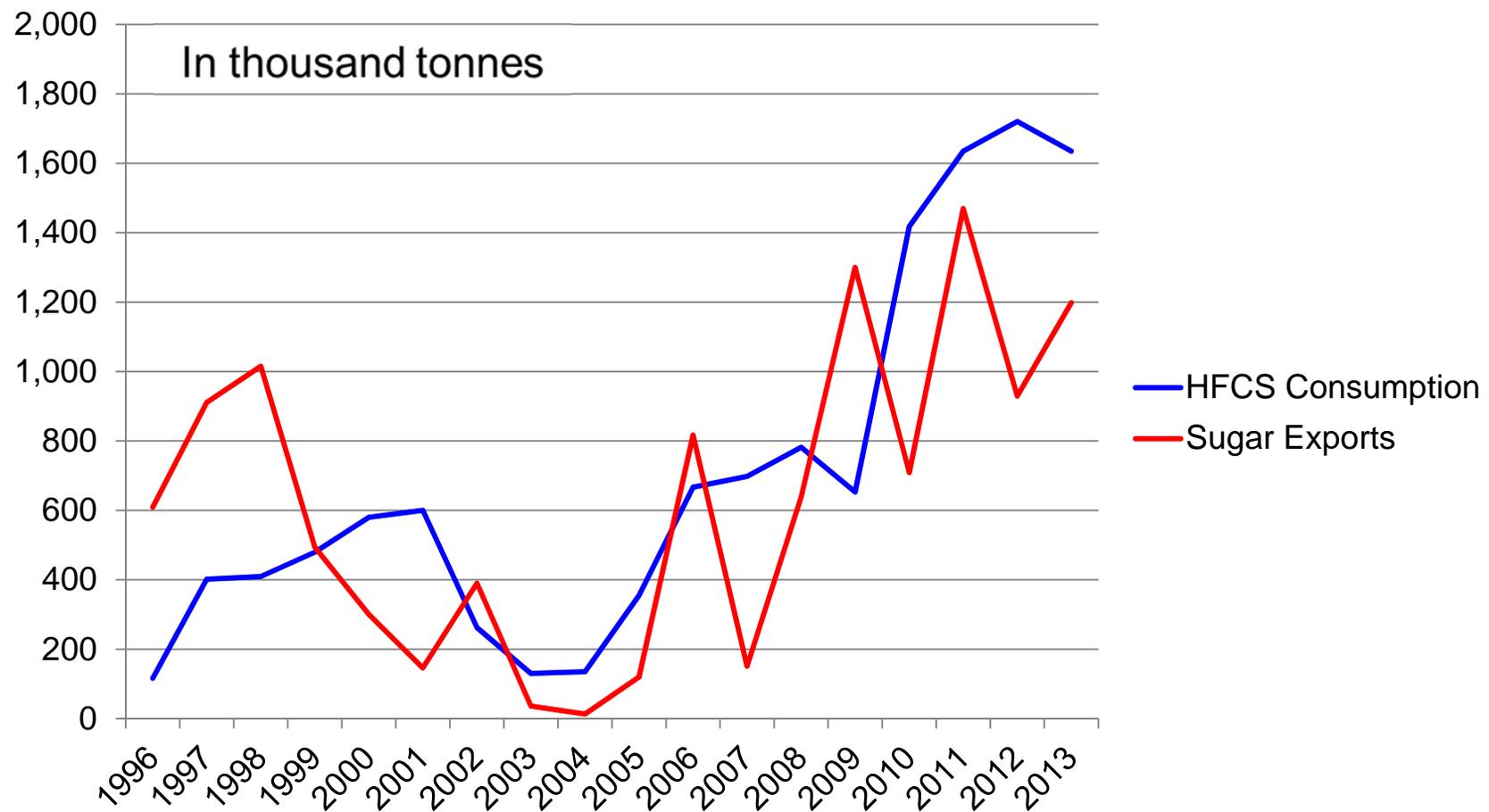
- So maybe a better question is: **How much sugar does the United States need?**

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

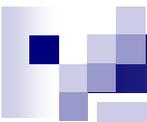
■ Mexican HFCS Consumption vs Sugar Exports



NAFTA – From the Outside

■ **Way more than NAFTA**

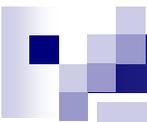
- There's more pressure than ever to reduce sugar consumption in the United States
 - Sugar Reform Act introduced in both Houses of Congress on Valentine's Day
 - CSPI has petitioned F.D.A. to set "safe limits" for sweeteners in beverages, hinting at 10 grams as a "reasonable" limit
 - Several cities, 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

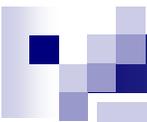
- NAFTA worked for five years; should it be judged or discarded on one year of seemingly not working?
- It has accomplished a fair amount of what sugar users want in increasing sugar supply in the U.S.
- It still allows for protection of U.S. sugar producers, which we also do for grain and oilseed producers
- 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

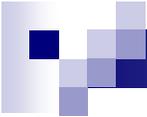


NAFTA – From the Outside

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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