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?

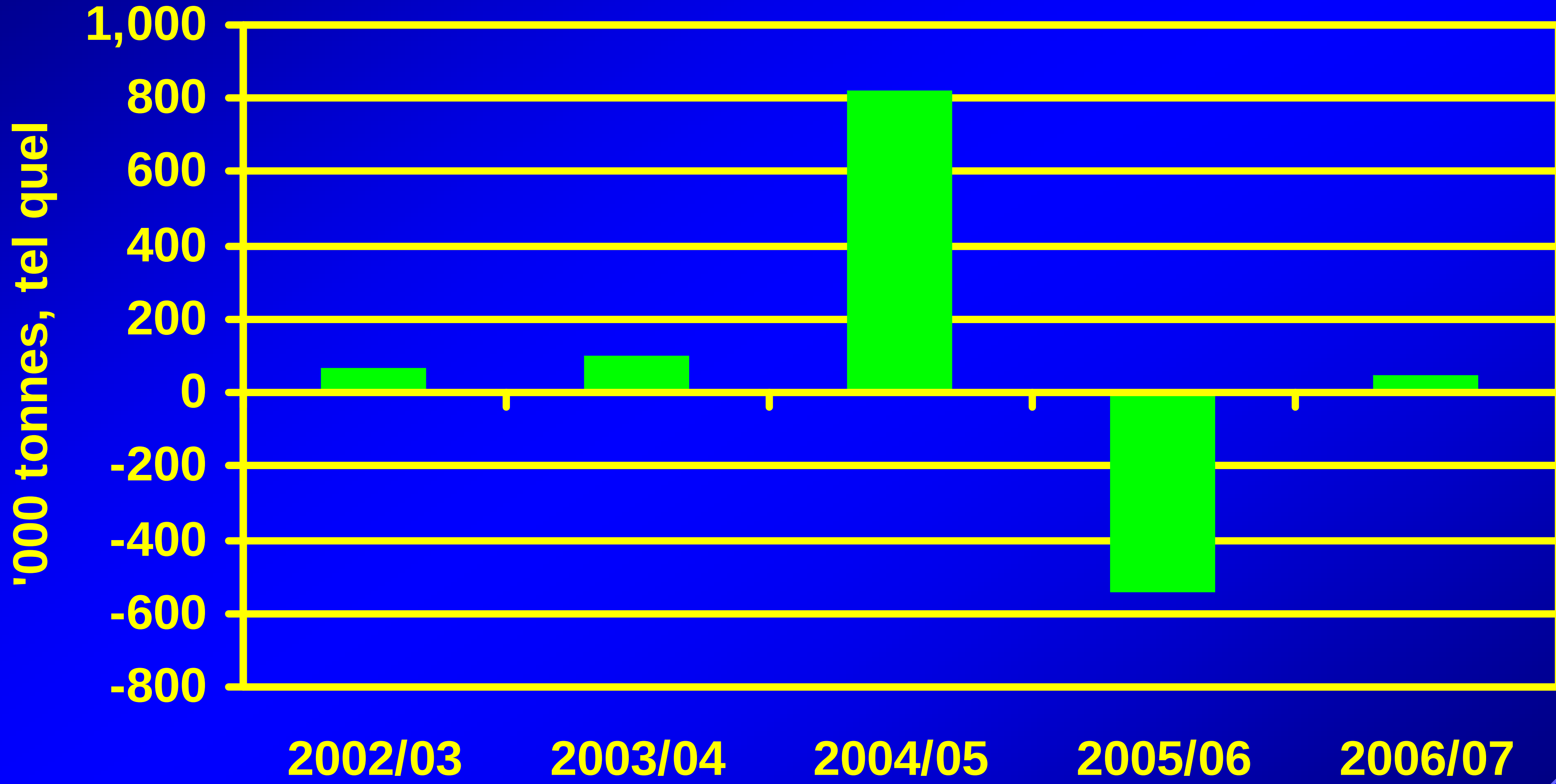
LMC

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?

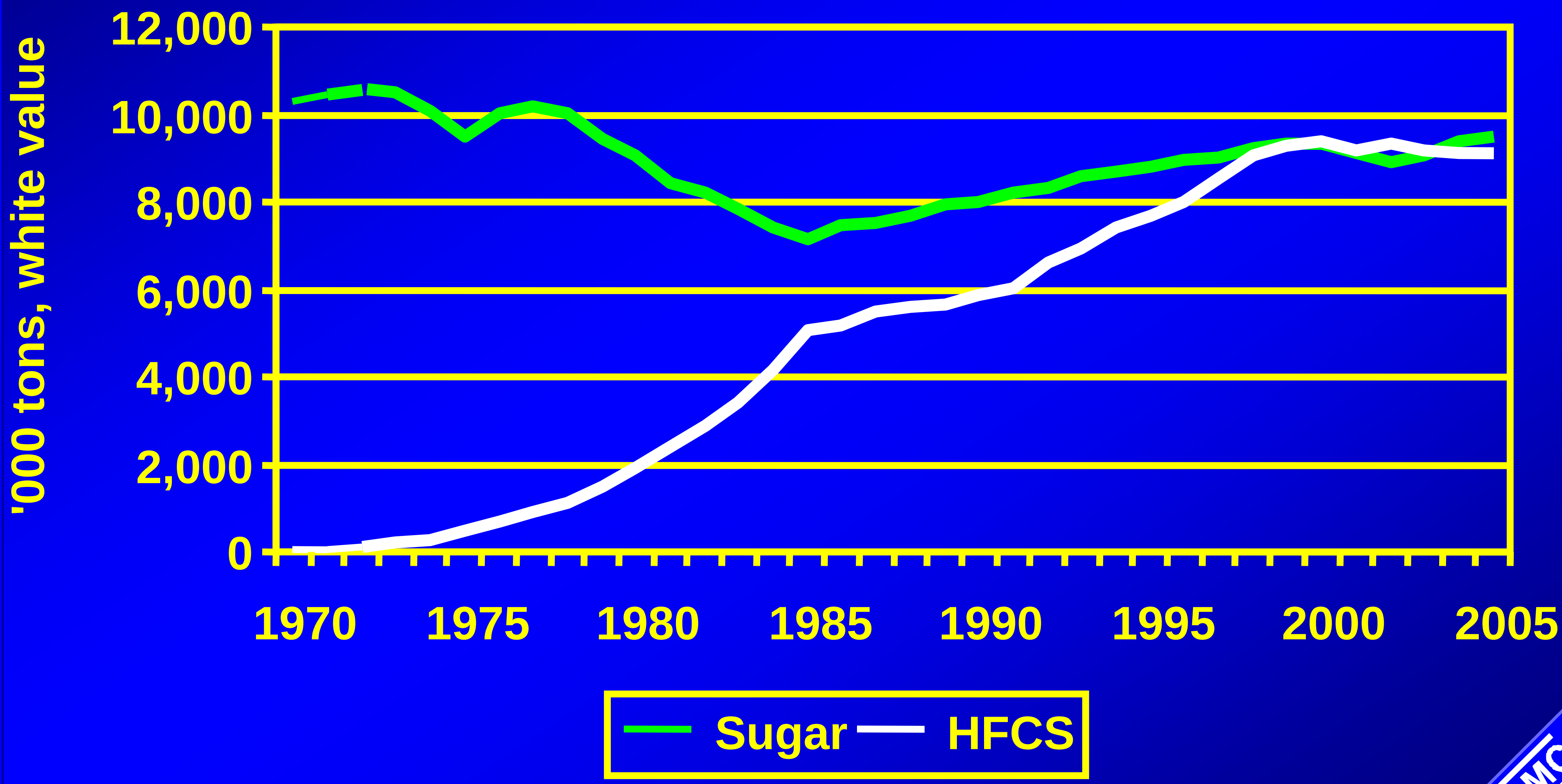
- Well suited for HFCS consumption
- "Market of tomorrow"…

….and always will be?

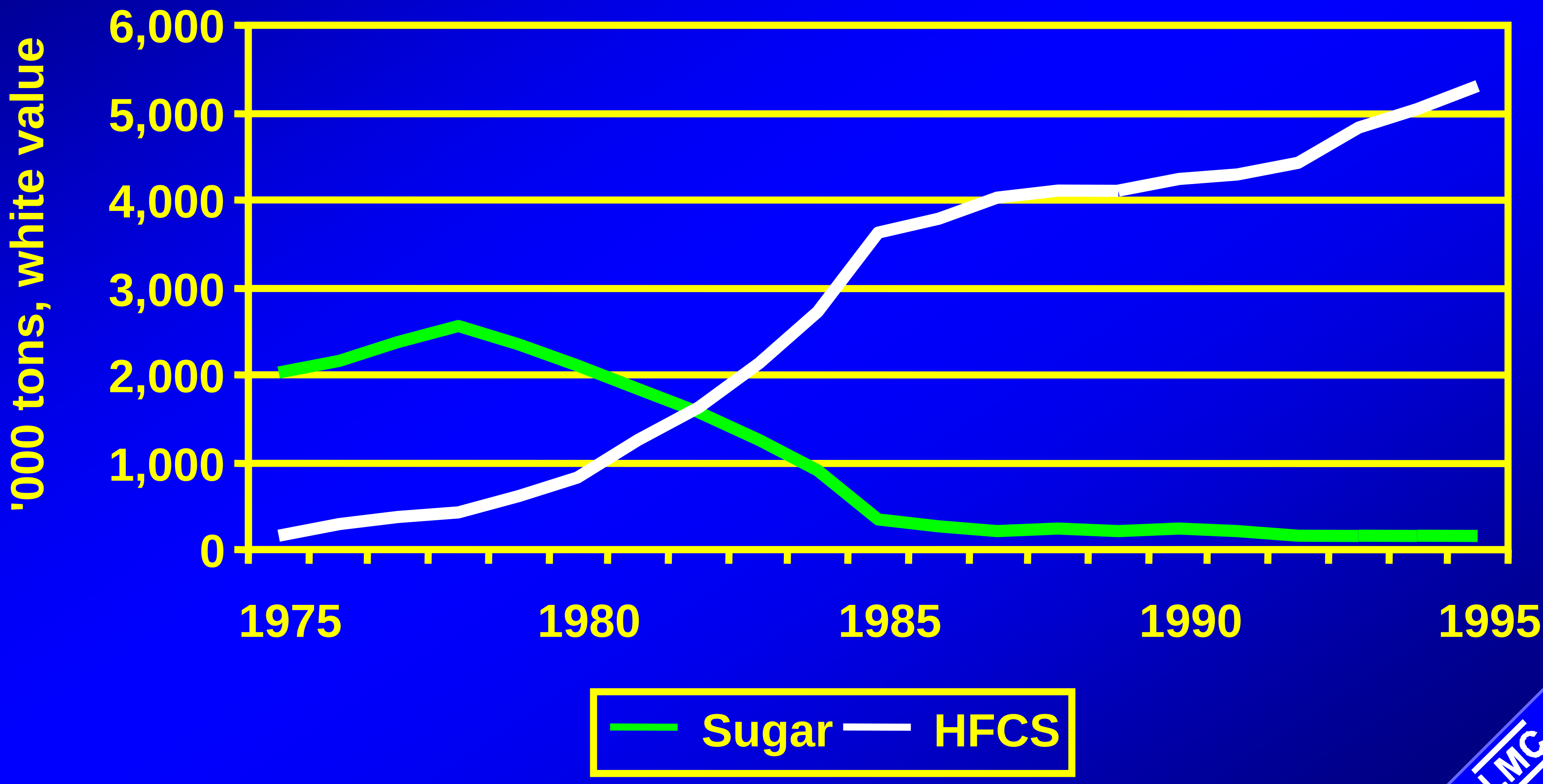
- What can we learn from the US experience?

LMC

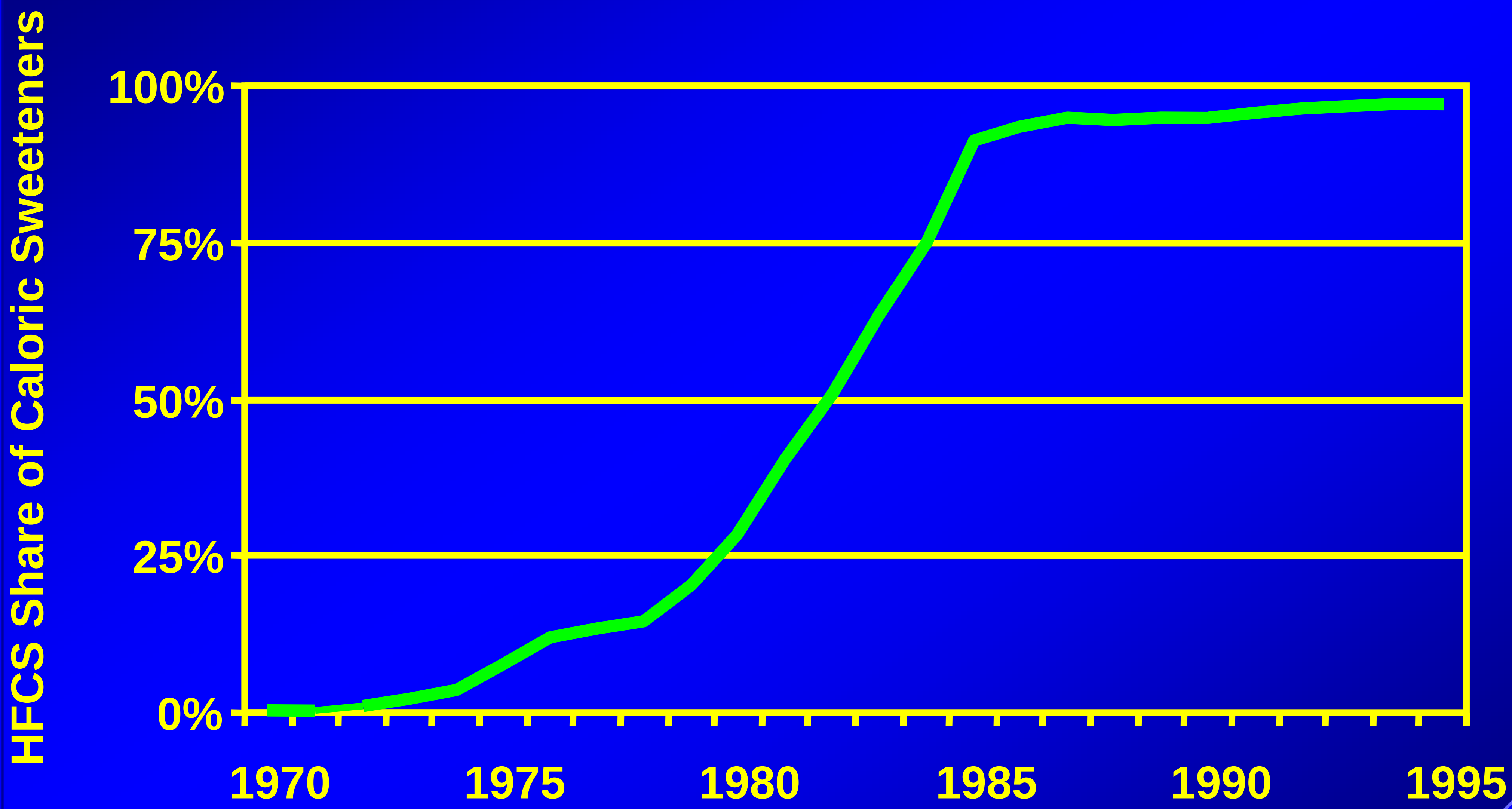
Caloric Sweetener Demand in the USA



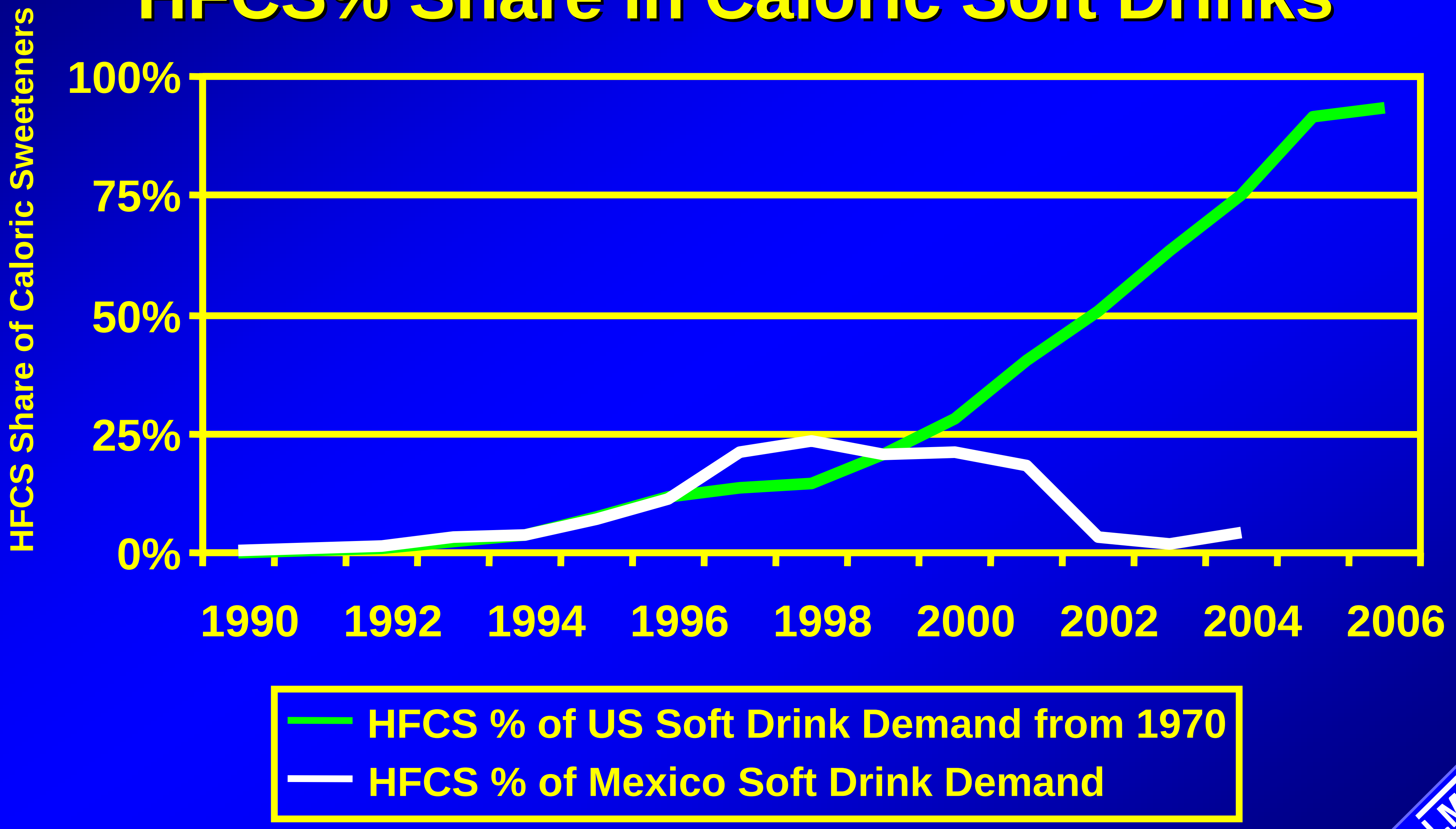
The US Beverage Sector:
Caloric Sweetener Demand



HFCS Penetration of The US Soft Drink Market



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



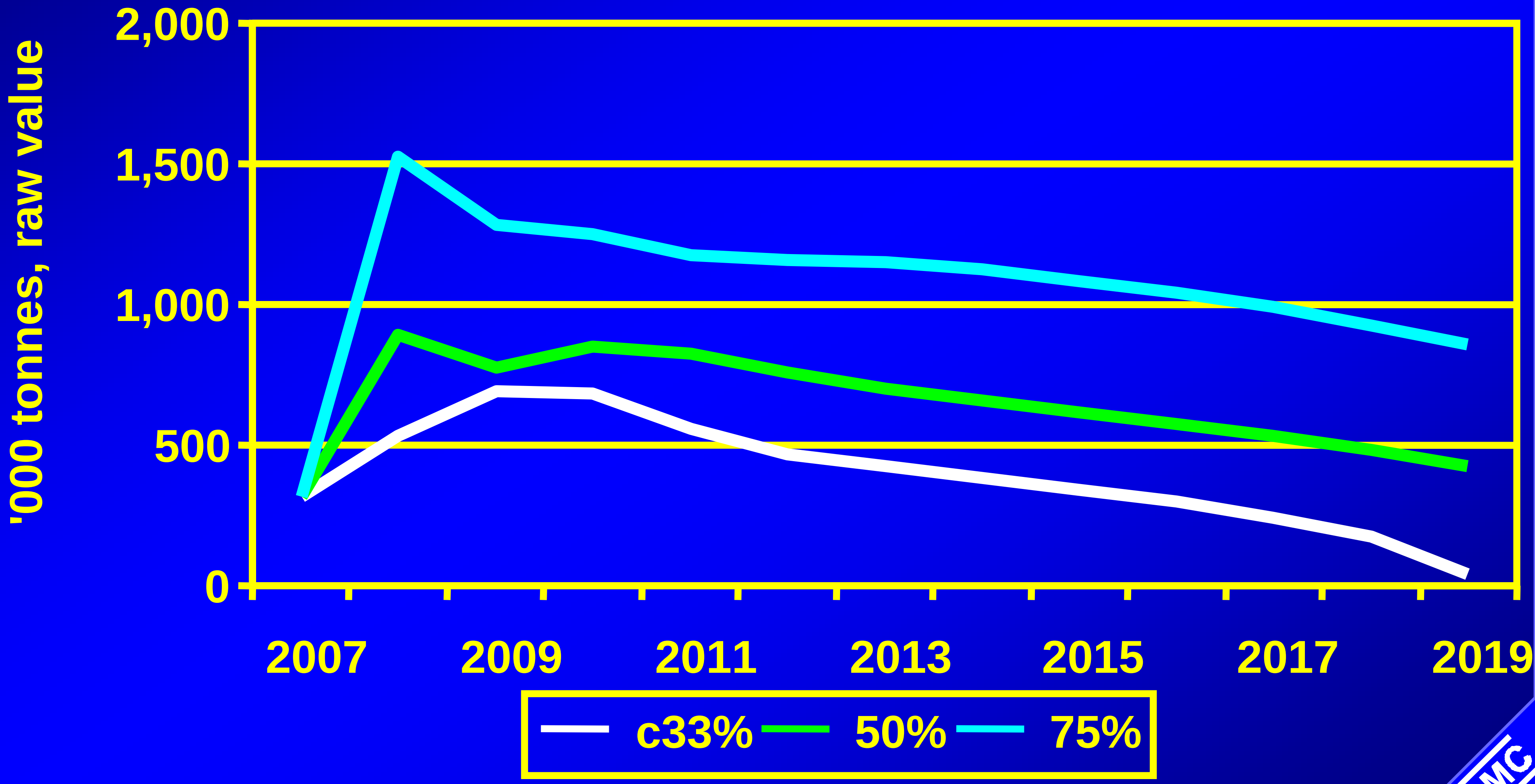
How Far Will it Go?

Mexico’s HFCS Demand

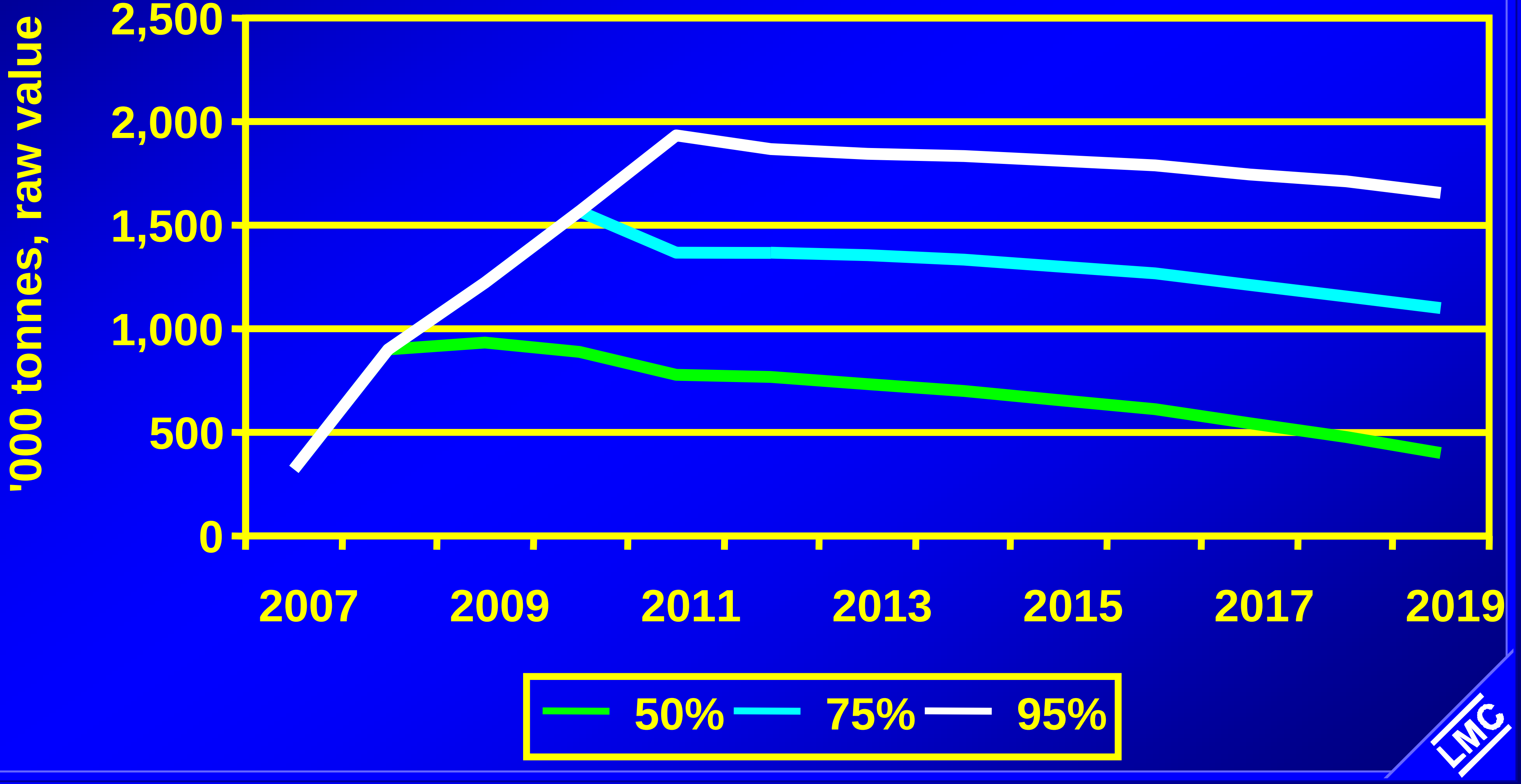
&

Sugar Exports

Projecting Mexico Export Availability: USDA



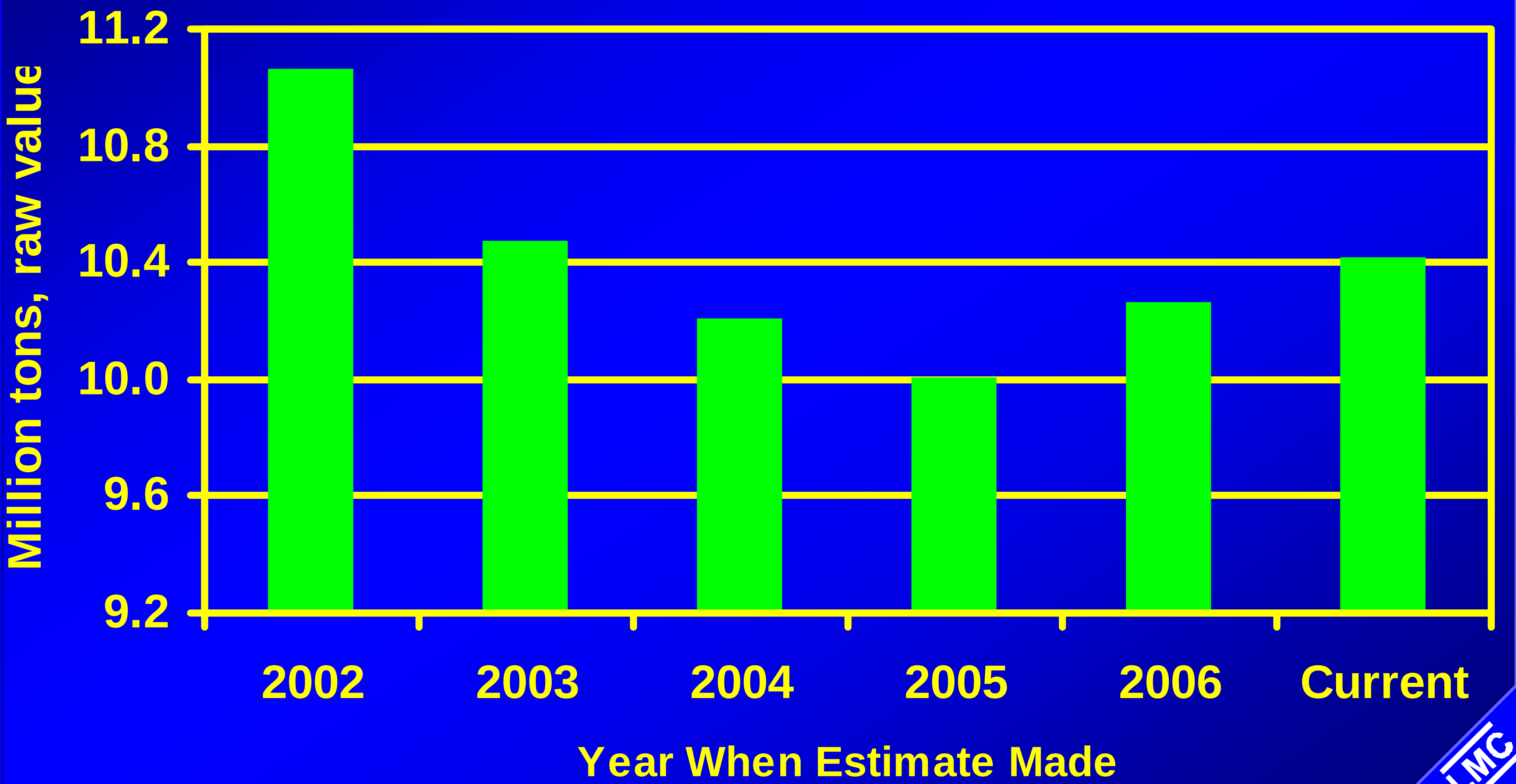
Mexico Export Availability – Alternative Scenarios



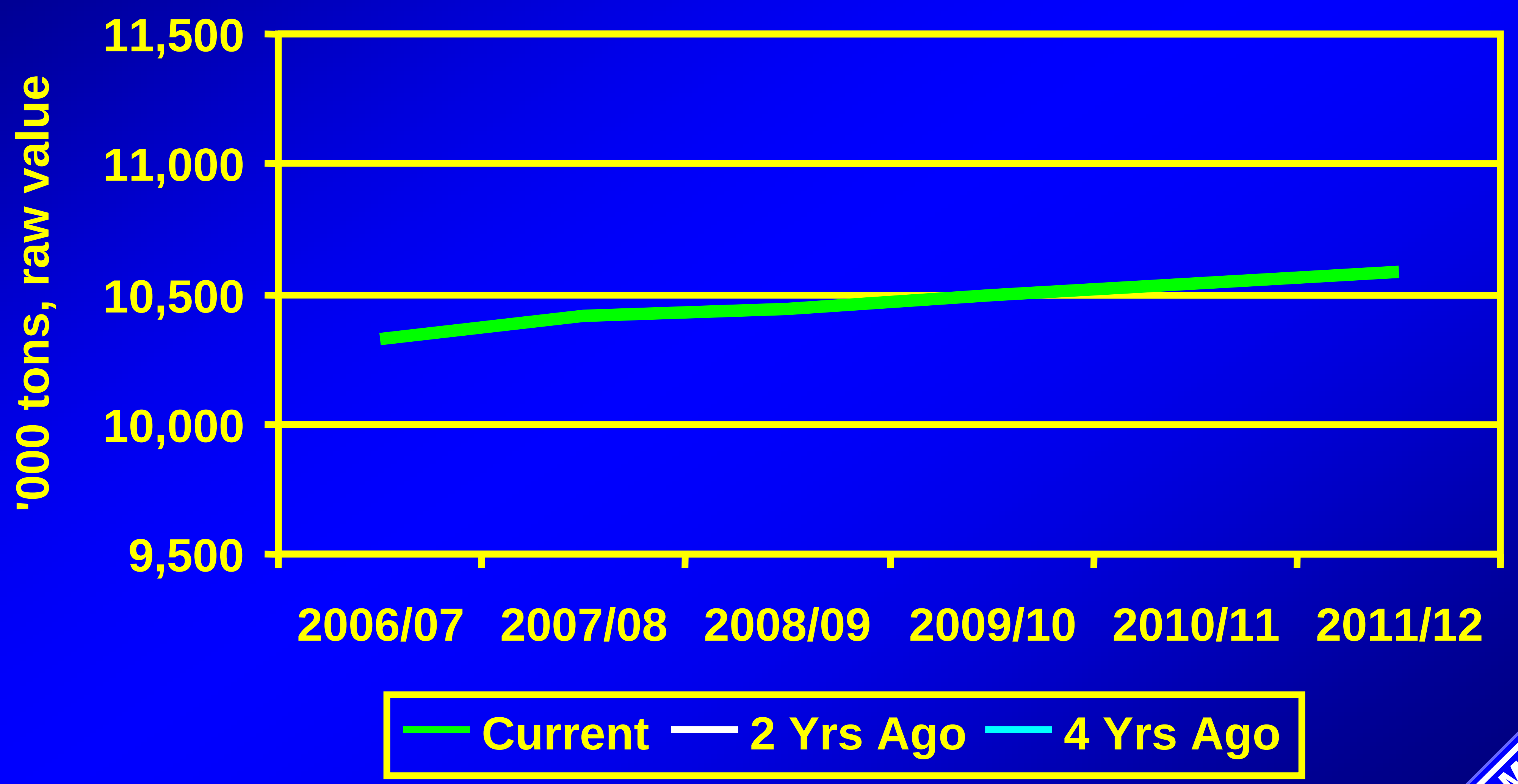
Where Would All this Sugar Go?

(How large ***is*** the US market?)

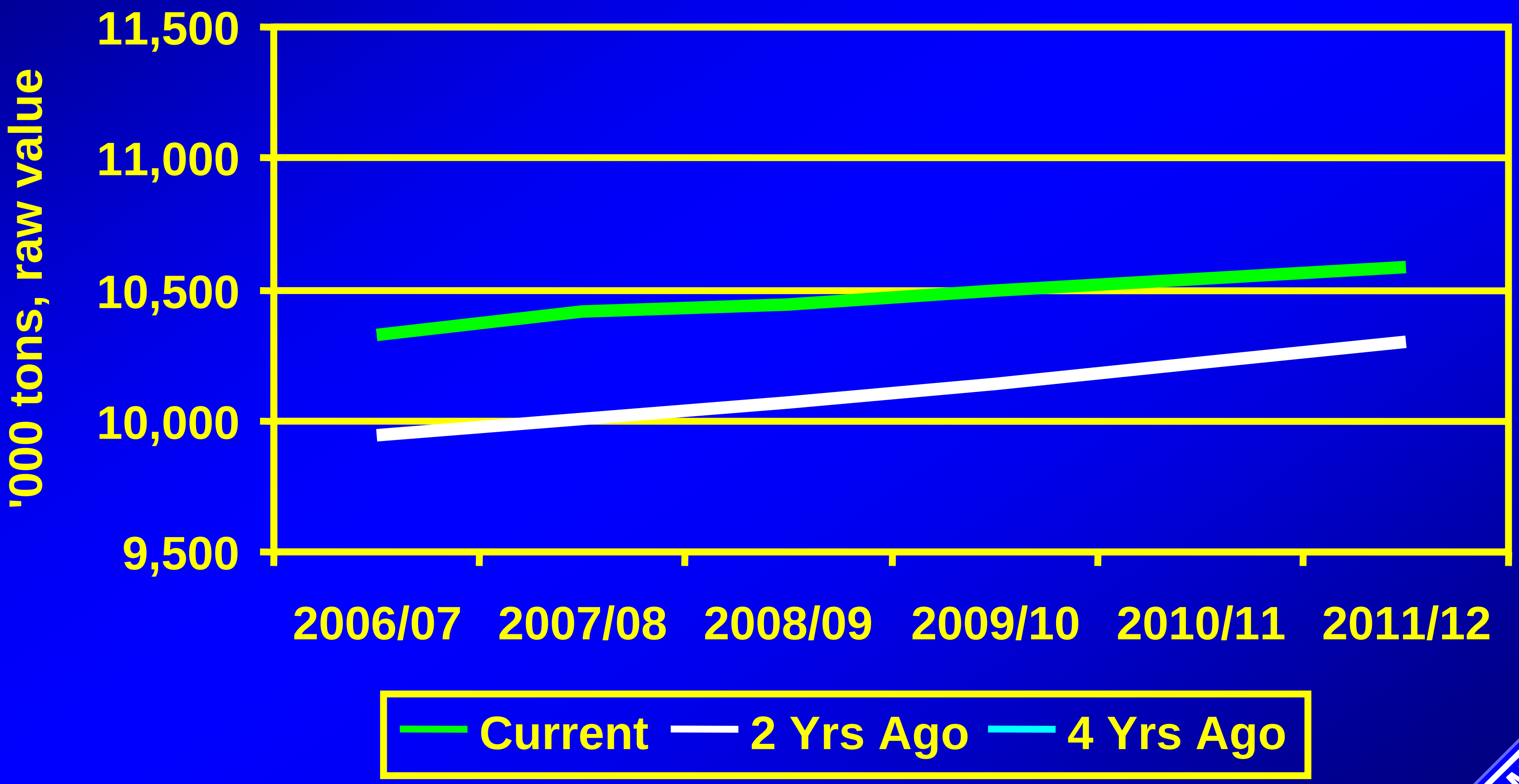
Current Year (2006/07) Domestic Deliveries



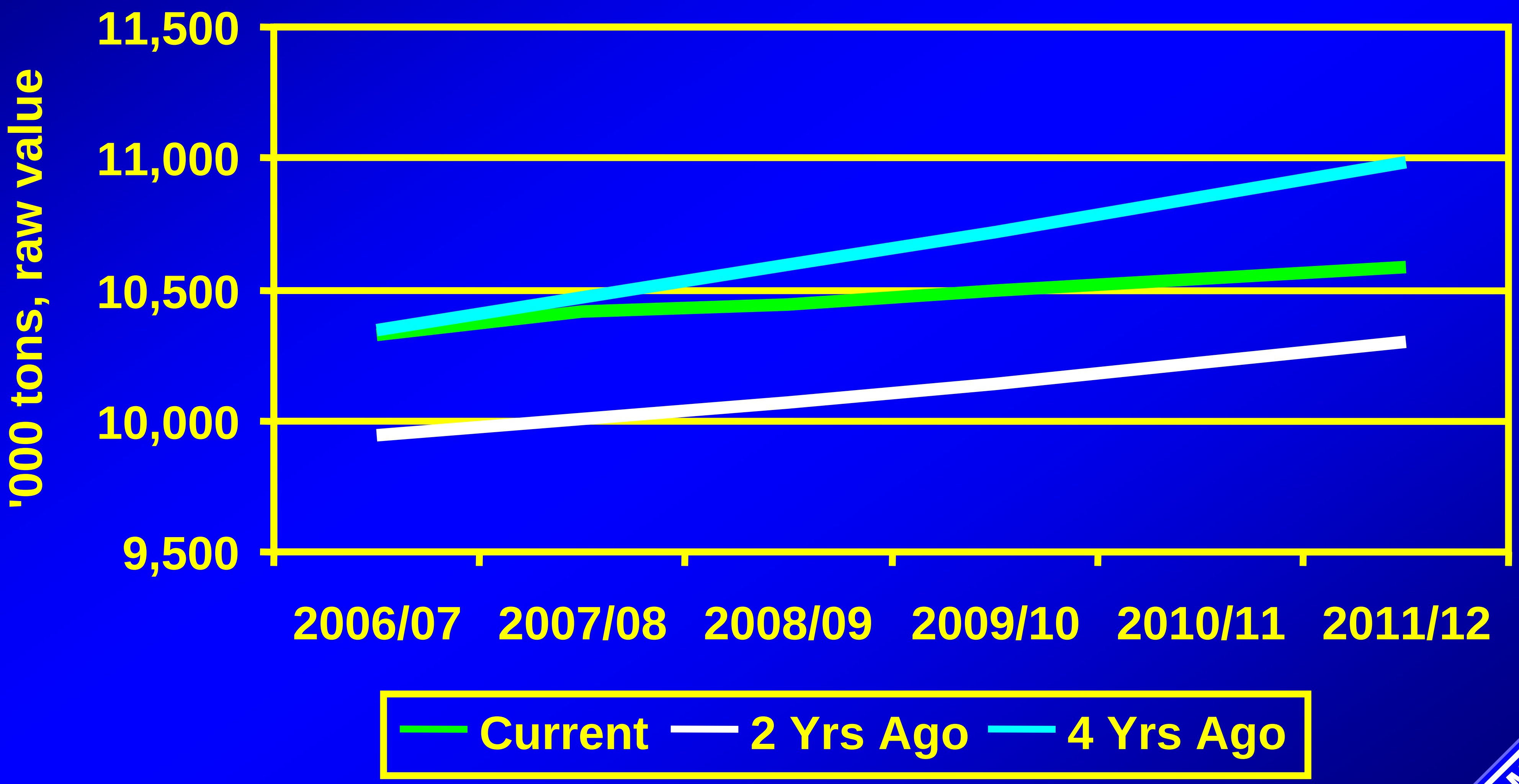
Projecting US Demand for Sugar



Projecting US Demand for Sugar



Projecting US Demand for Sugar



What Would this Sugar Do to the US Market?

Possible policy frameworks

- **JOHANNS 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"

LMC

USDA 2007 Farm Bill Proposals

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

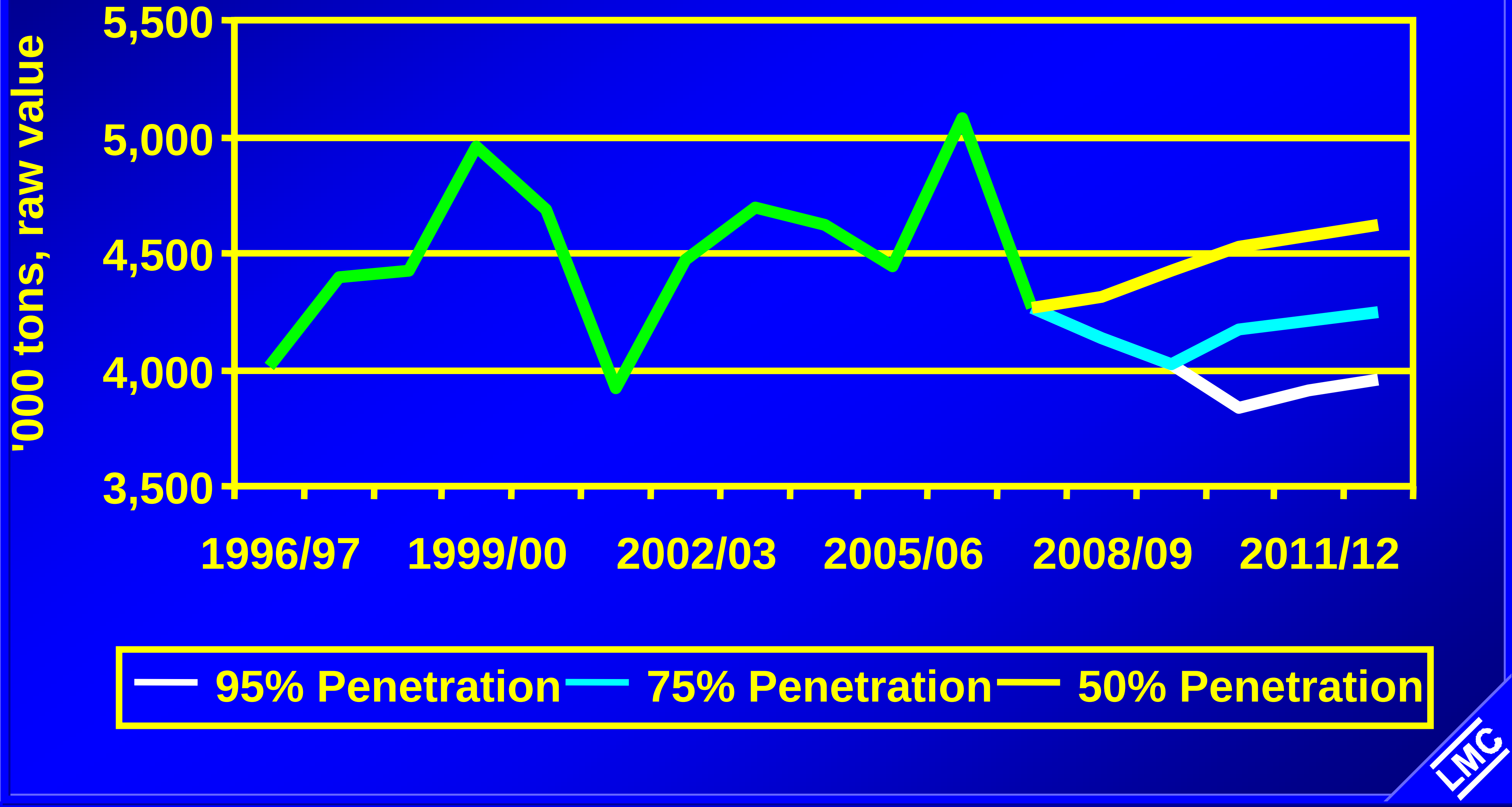
LMC

USDA 2007 Farm Bill Proposals

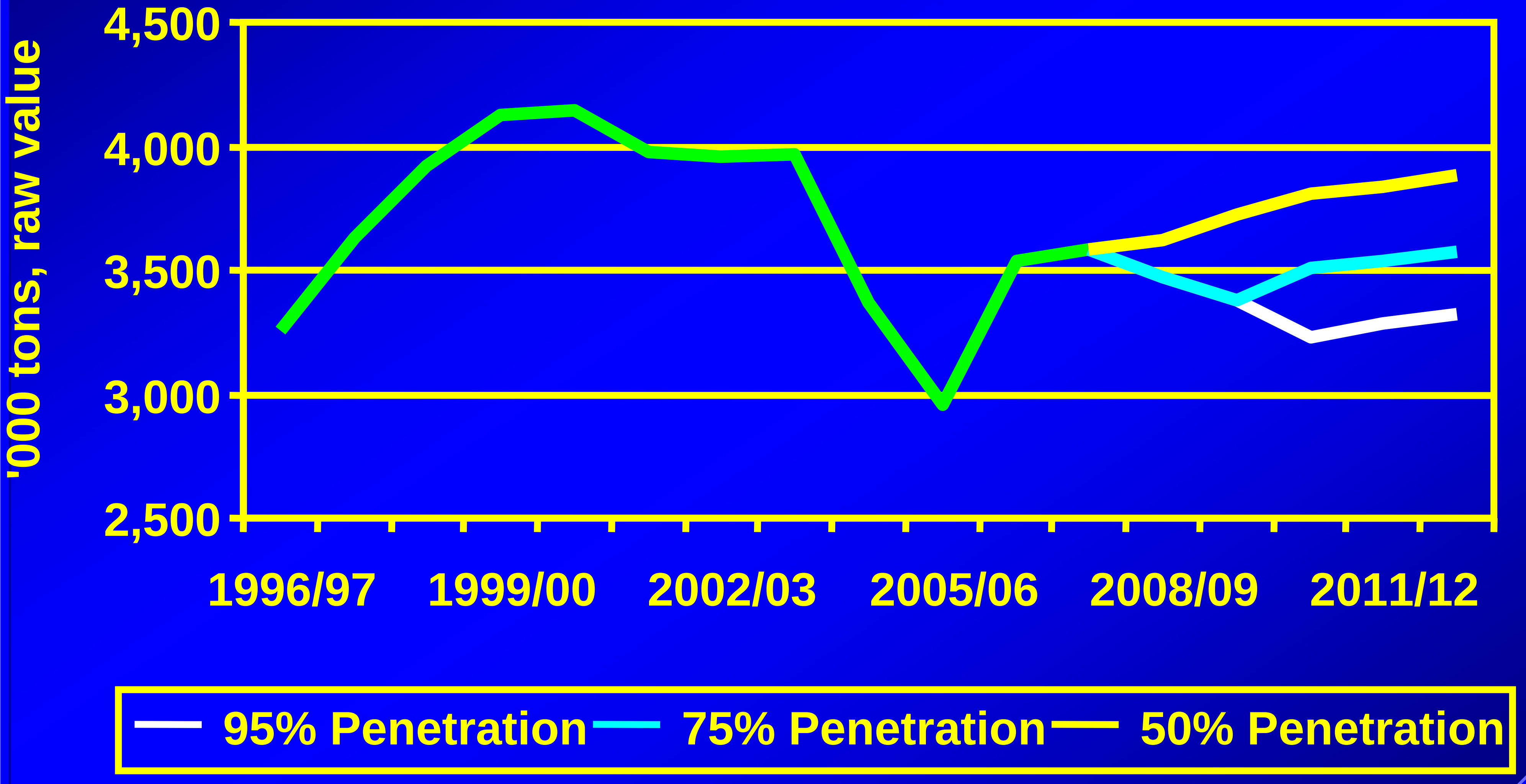
"***Domestic marketing allotments*** for sugarcane and sugar beets could be ***reduced***, as needed, to balance sugar supply and demand"

LMC

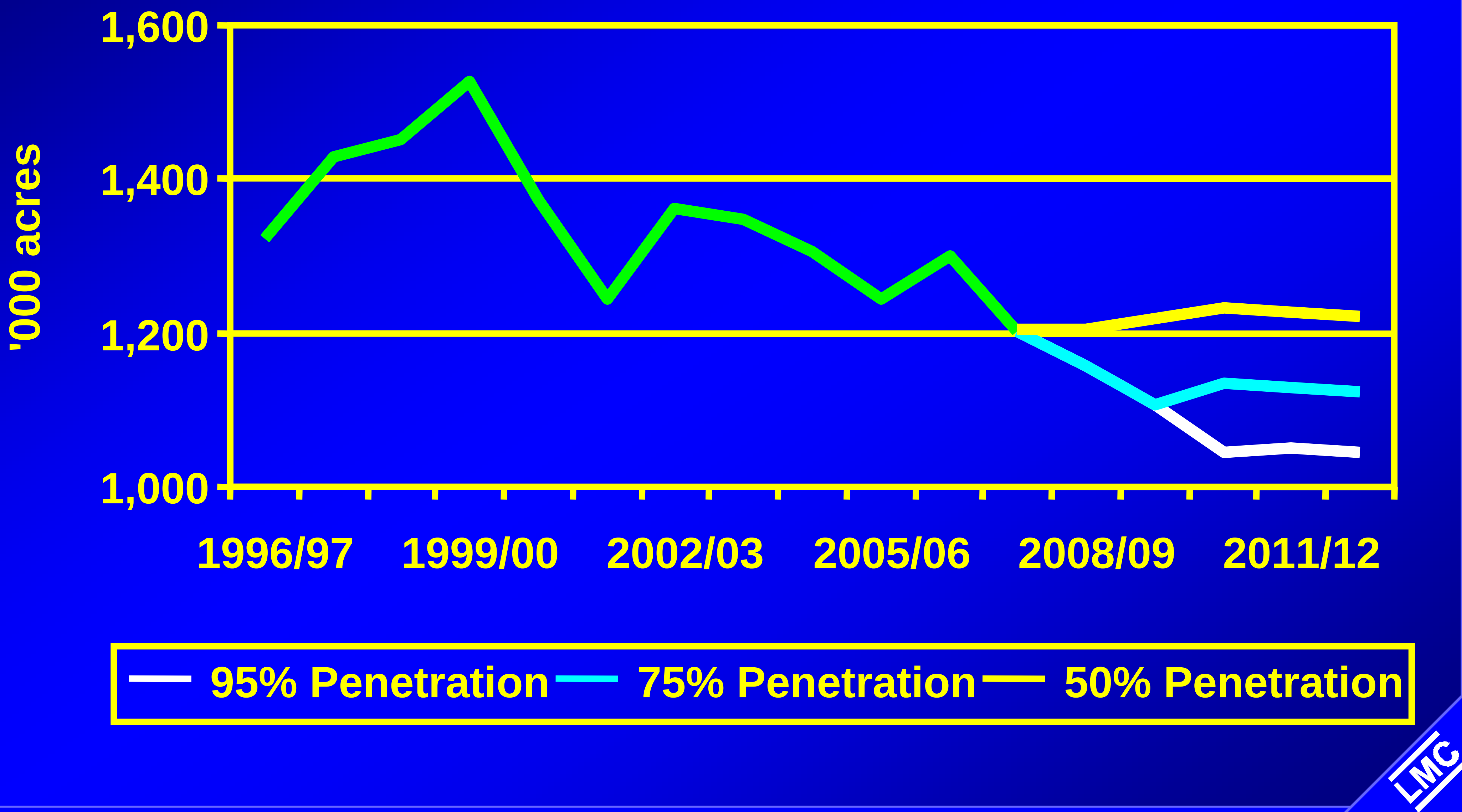
Potential Requirements for Domestic Sugar Supplies - Beet



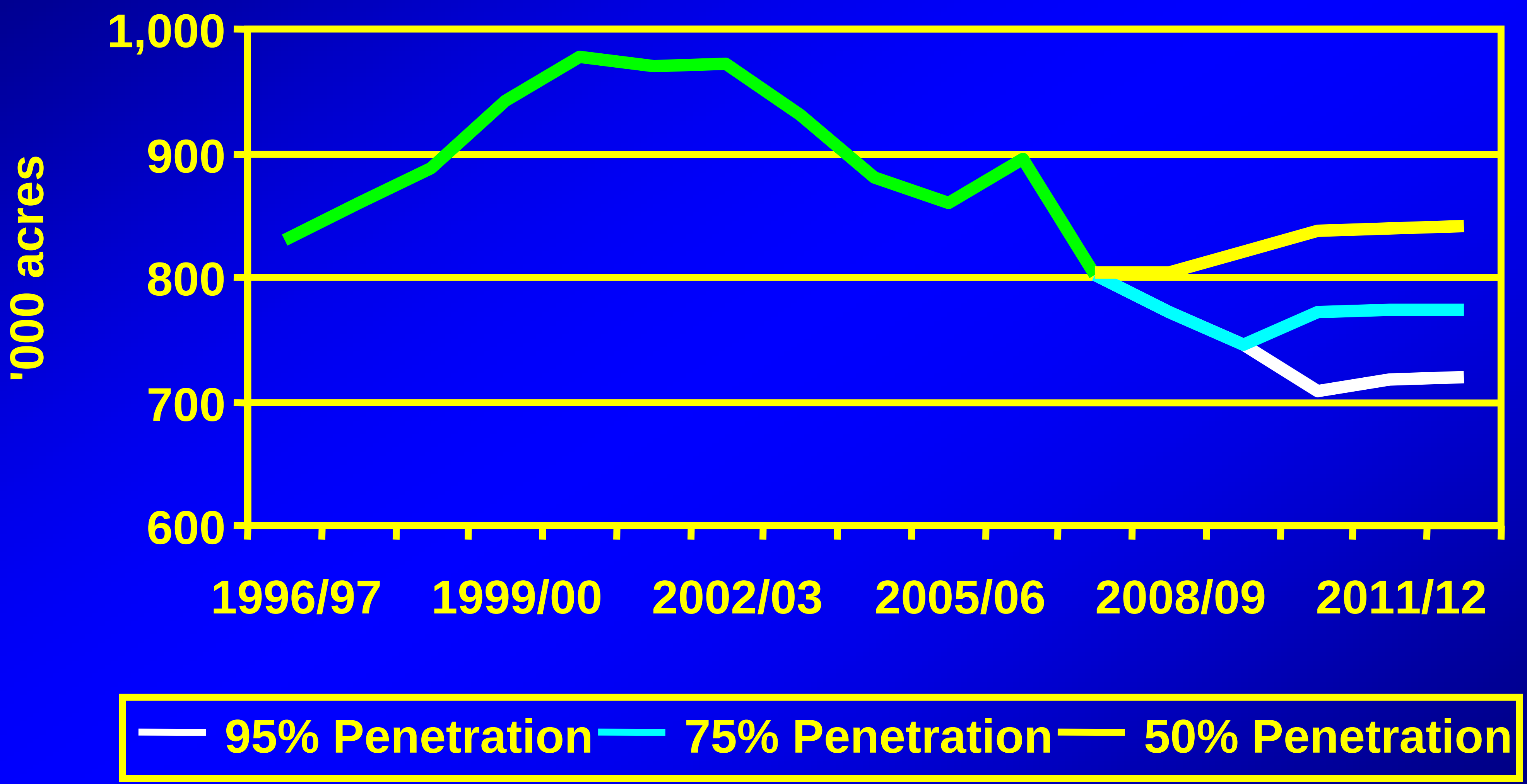
Potential Requirements for Domestic Sugar Supplies - Beet



Implications for Beet Areas



Implications for Cane Areas



LMC

- 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