

USDA Agricultural Outlook Forum 2007

Transitioning into the Common Sweetener Market with Mexico

Paul Farmer

President, CSC Sugar LLC

Presented: Friday March 2, 2007

Why are the players not more prepared?

- Threats of Anti-Dumping suits have kept over quota shipments small until 2006.
- US buyers have difficulty handling 50 KG poly bags.
- Inconsistent supply has dampened interest.
- Delays in Mexican allocation of the Quotas internally have made marketing of their sugar very difficult, year after year.

Differences in Production and Distribution

USA

- Beet sugar processors have built large capacity of refined bulk storage.
- Cane refineries are located on the coasts, and are able to receive raw sugar all year.

Mexico

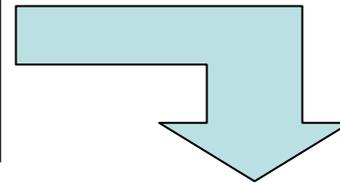
- Cane mills and refineries are all inland.
- Production is mostly limited to during the cane crushing season.
- Storage is in 50 kg poly bags.

Scenario:

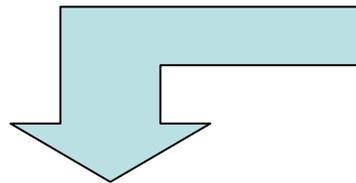
Mexico production at 5.8 million MT, consumption at 5.2 million MT.

US S&D balanced to heavy, marketing allotments restrict sales slightly.

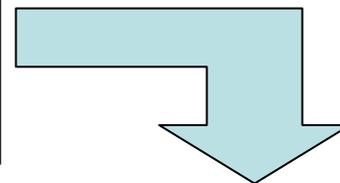
Mexican producers sell excess stocks into the US, as US prices are substantially higher than World market prices.



USDA reduces marketing allotments by 600,000 MT. US Producers sell blocked stocks into Mexico.



Mexican market flooded with sugar, best option is still US market. Mexican producers sell additional 600,000 into the USA.



This cycle could repeat continuously until the NAFTA price reaches World market prices.

Lather, Rinse, Repeat



Candy Cost Comparison

Cost differentials for producing candy outside of NAFTA region vs. inside.

	Non NAFTA	Mexico / NAFTA	USA
Refined Sugar Price	17.87	22.00	28.00
Labor Differential	(10.38)	(10.38)	0.00
Additional Freight	10.25	7.00	0.00
Tax @ 3%	0.54	-	0.00
Total	18.28	18.62	28.00
all in cents per lb. and based on sugar content.			
all numbers are estimates.			

Summary

- Suppliers on both sides are un-prepared.
- As long as Farm and Trade policy do not mesh, there will be a problem.
- NAFTA re-negotiations cannot be considered finished.
- NAFTA should not be used as a vehicle to force the export of manufacturing jobs from the NAFTA region.

Food for Fuel

US OIL consumption for motor fuels in Barrels per day	13,000,000
10% ethanol target	1,300,000
Gals in Barrel	42
Gals of ethanol per year target	19,929,000,000
Corn Ethanol availability (2012 estimate) in gals	12,000,000,000
Deficit in gals	7,929,000,000
Amount of sugar to make up deficit, in metric tons	50,351,991

- 2006/2007 world production of sugar is estimated at 152.7 million MT
- It takes 14 lbs of sugar to make a gallon of alcohol.