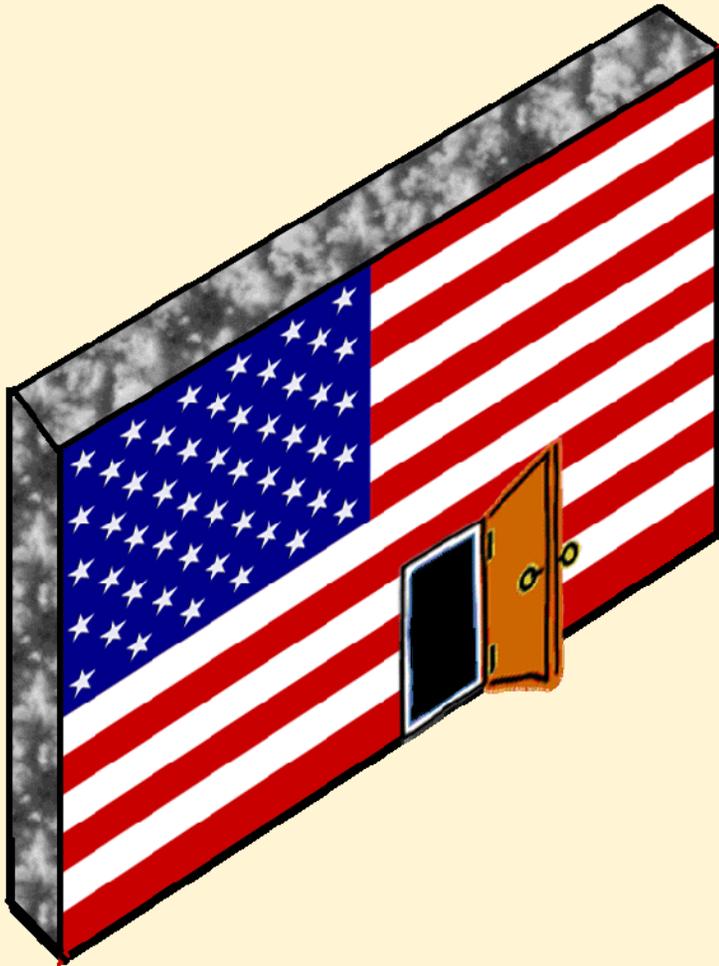


NAFTA - A Common Sweetener Market



December 17, 1992

North American Free Trade Agreement Signed



Source: George Bush Presidential Library and Museum

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November 1993

Congress Ratifies NAFTA by Narrow Majority, Congress, 234-200 Senate, 61-38

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The Larry King Show, CNN, November 9, 1993, www.nara.gov

NAFTA Policy Provisions

The following NAFTA policy provisions include the side agreements negotiated in November 1993. The primary source of these policies is the USDA (1992). NAFTA sugar trade reforms have a 15-year transition period:

- In the first six years, Mexico's sugar exports to the United States will be restricted to 7,528 metric tons (MT). However, if Mexico becomes a net exporter in any of these six years, it will be given access to the U.S. market for its net exportable surplus up to 25,000 MT.
- After the first six years, Mexico can export up to a maximum of 250,000 MT of its net exportable surplus to the United States. Mexico will not have unlimited access to the US market as in the original negotiation. Corn sweetener will be included on the consumption side in computing Mexico's production surplus.
- In the first six years, the United States will reduce its second-tier tariff on sugar imports from Mexico by 15%.
- By year seven, Mexico will align its tariff and tariff-quota rates with those of the United States. In the remaining years, U.S. and Mexican tariffs on bilateral trade will be phased out linearly.
- If increased imports from Mexico affect the U.S. price support program, imports from other countries will be reduced.
- The U.S. sugar re-export program will remain in place for exports to Mexico, but U.S. shipments will be subject to Mexico's most favored nation (MFN) tariff rate.
- Canada and Mexico will preserve their tariffs on bilateral trade in sugar.

Source: Journal of Agricultural and Resource Economics, December 1995



1998

Mexico's SECOFI Files Chapter 19 Anti-Dumping Case

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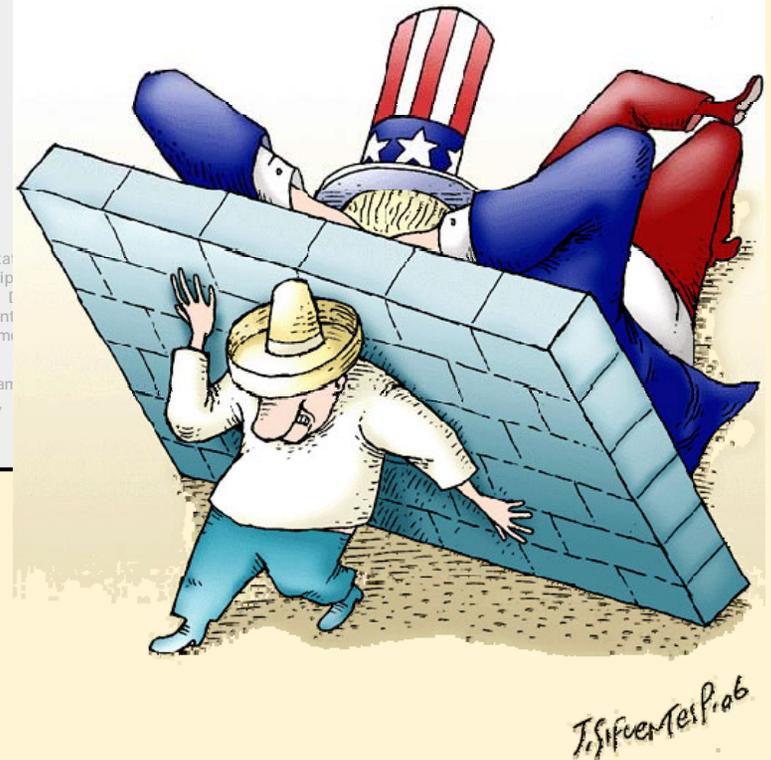
U.S./Mexico Sweetener Dispute

- January 2002 - The Mexican Congress unanimously imposes a tax on soft drinks utilizing sweeteners other than cane sugar.
- March 2002 - President Vicente Fox suspends the soft-drink tax, utilizing a controversial power allowing the president to change government tax levies without consulting Congress.
- July 2002 - The Mexican Supreme Court rules the president's action unconstitutional and reinstates the soft drink tax.

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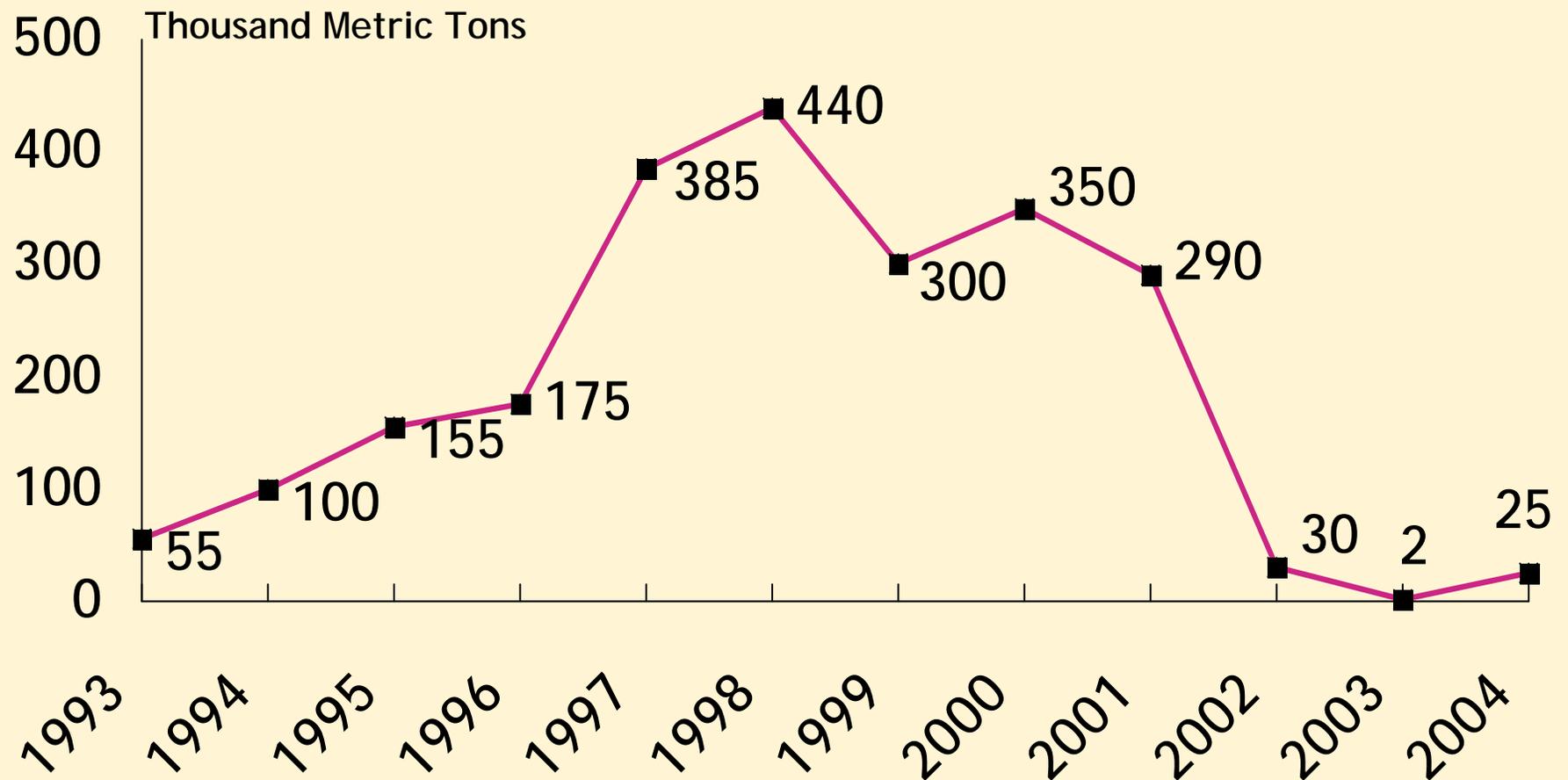
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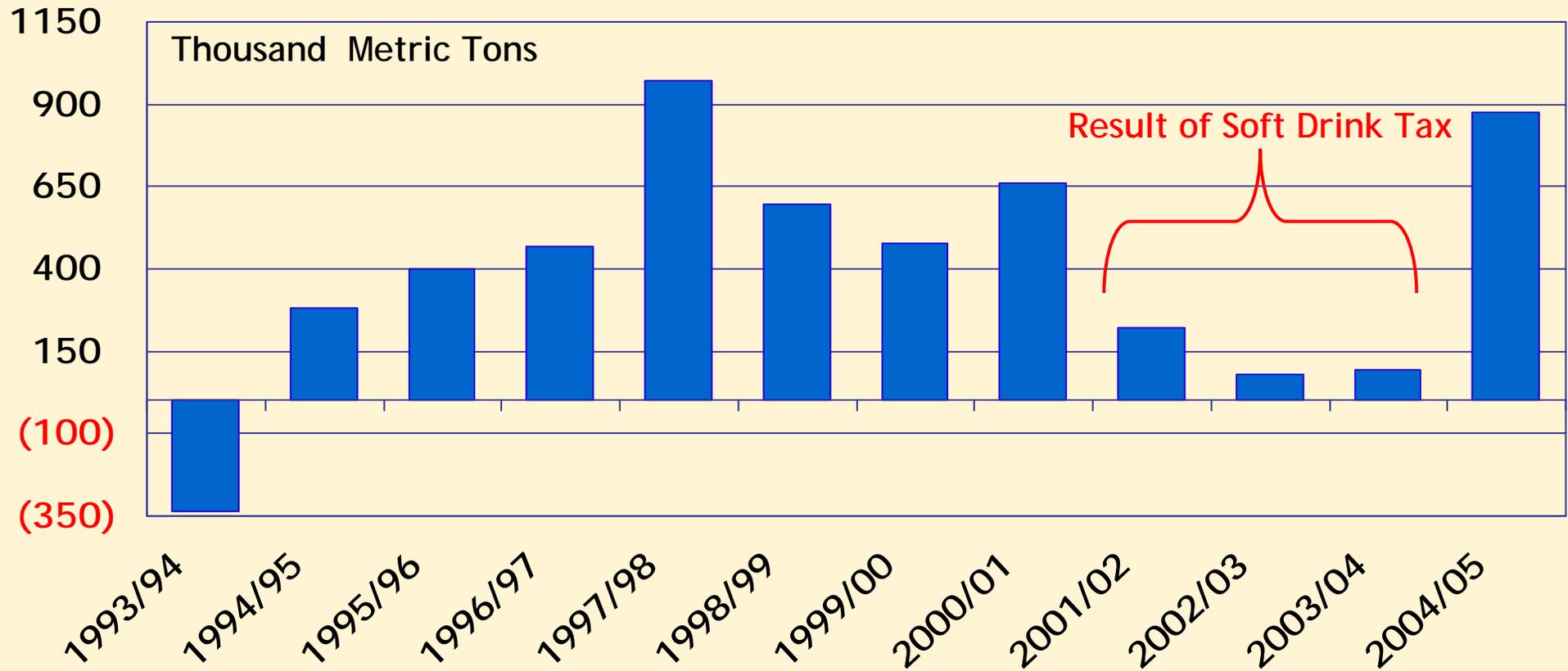


Source: Reforma, T. Sifuentes

Mexican HFCS Imports



Mexican Historical Sugar Surplus



August 2005

U.S. Pummeled by Hurricanes: Sugar Price Skyrockets



Courtesy NOAA



Courtesy USGS

McKeany • Flavell

U.S. Sugar Import Requirements, Mexican Sugar Exports, 2005/06

| U.S. Sugar Import Requirement (<i>Thousand STRV</i>) | U.S. Imports of Mexican Sugar (<i>Thousand STRV</i>) | % of Requirement Utilized |
|---|---|---------------------------|
| 3,443 | 763 | 22.16% |

July 2006

U.S. and Mexico Reach Accord on Quotas

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Mexican/U.S. Sugar Export Quota

- Mexico and U.S. agree on an import quota of 250,000 MT for the October 1, 2005 - September 30, 2006 period.
 - U.S. can ship 250,000 MT of HFCS
 - Mexico can ship 250,000 MT of sugar
- Mexico and U.S. agree on an import quota of 250,000 MT for the October 1, 2006 - September 30, 2007 period.
 - Also, Mexico can ship an additional 175,000 to 250,000 MT of sugar during the October 1 - December 31, 2007 period.

Current Supply and Demand for the United States and Mexico

U.S. Sugar Supply/Demand

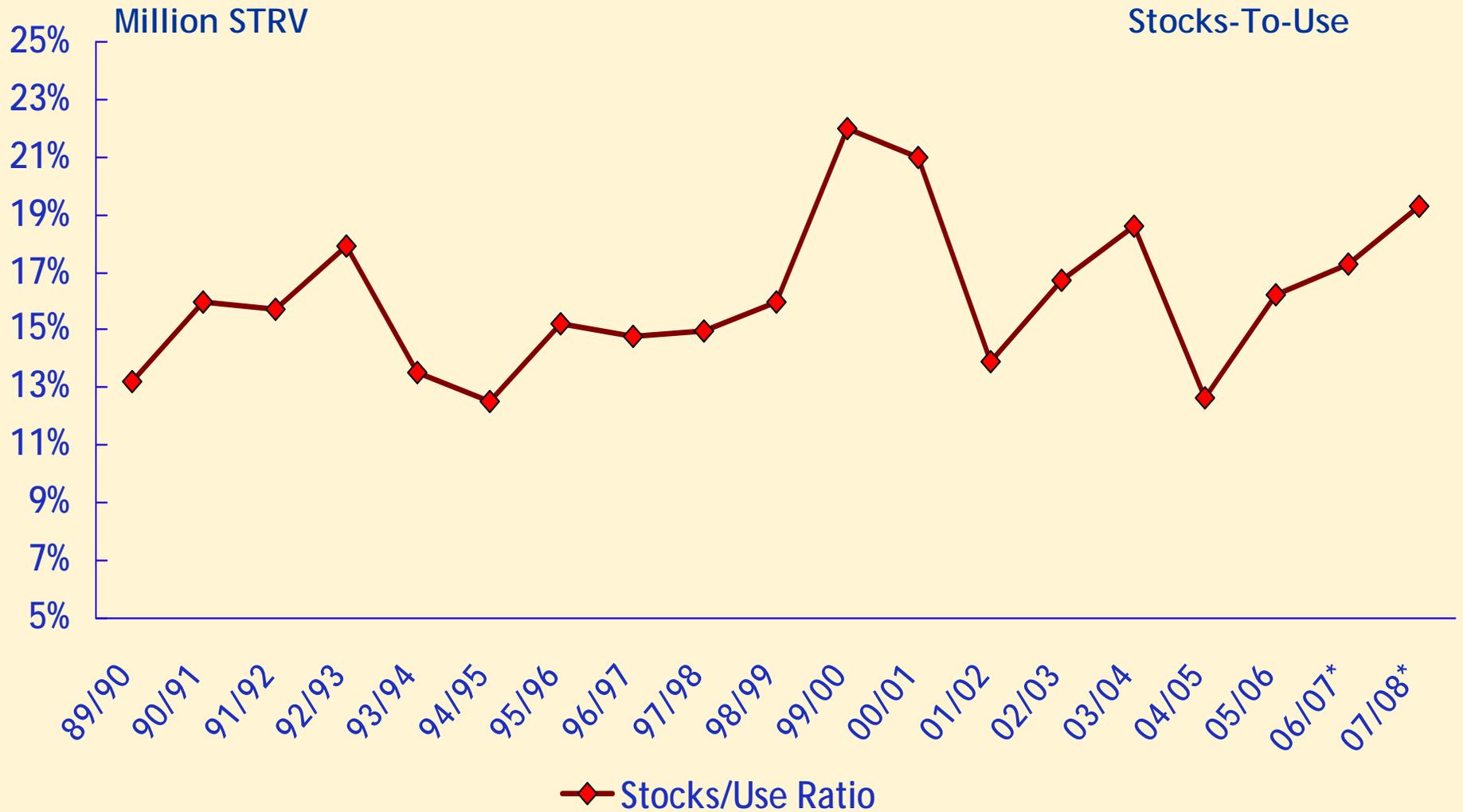
| | USDA Estimate | | USDA Projection |
|--------------------------------|---------------|---------------|-----------------|
| | 2005/06 | 2006/07 | 2007/08 |
| (1,000 short tons, raw value) | | | |
| Beginning Stocks | 1,332 | 1,698 | 1,799 |
| Total Production | 7,399 | 8,446 | 8,489 |
| Beet Sugar | 4,444 | 5,008 | 4,812 |
| Cane Sugar | 2,955 | 3,438 | 3,677 |
| Total Imports * | 3,443 | 2,080 | 2,241 |
| TRQ | 2,588 | 1,624 | 1,336 |
| Other Program (Re-exports) | 349 | 390 | 425 |
| Non-Program (High-tier, other) | 506 | 66 | 480 |
| Mexican imports | 420 | 60 | 475 |
| Total Supply ** | 12,174 | 12,224 | 12,529 |
| Total Exports | 203 | 422 | 250 |
| Deliveries, Domestic total | 10,341 | 10,135 | 10,250 |
| Other | 157 | 222 | 200 |
| Miscellaneous | -68 | -132 | 0 |
| Deliveries, Food use | 10,184 | 9,913 | 10,050 |
| Total Use | 10,476 | 10,425 | 10,500 |
| Ending Stocks | 1,698 | 1,799 | 2,029 |
| Stocks-to-use ratio | 16.2% | 17.3% | 19.3% |

*Estimate

Source: USDA and McKeany-Flavell

McKeany-Flavell

U.S. Stocks-to-Use Ratio



*Estimate
Source: USDA

Mexico Sugar Supply/Demand

| <i>(1,000 Metric Tons)</i> | 2005/06 | 2006/07* | 2007/08* |
|----------------------------|---------|----------|----------|
| Beginning Stocks | 1,844 | 1,510 | 1,755 |
| Production | 5,282 | 5,300 | 5,600 |
| Imports | 90 | 400 | 150 |

| | | | |
|----------------------|-------|-------|-------|
| Domestic Consumption | 5,100 | 5,000 | 4,900 |
| Exports | 606 | 455 | 950 |
| U.S. | 306 | 130 | 600 |
| IMMEX | 300 | 325 | 350 |

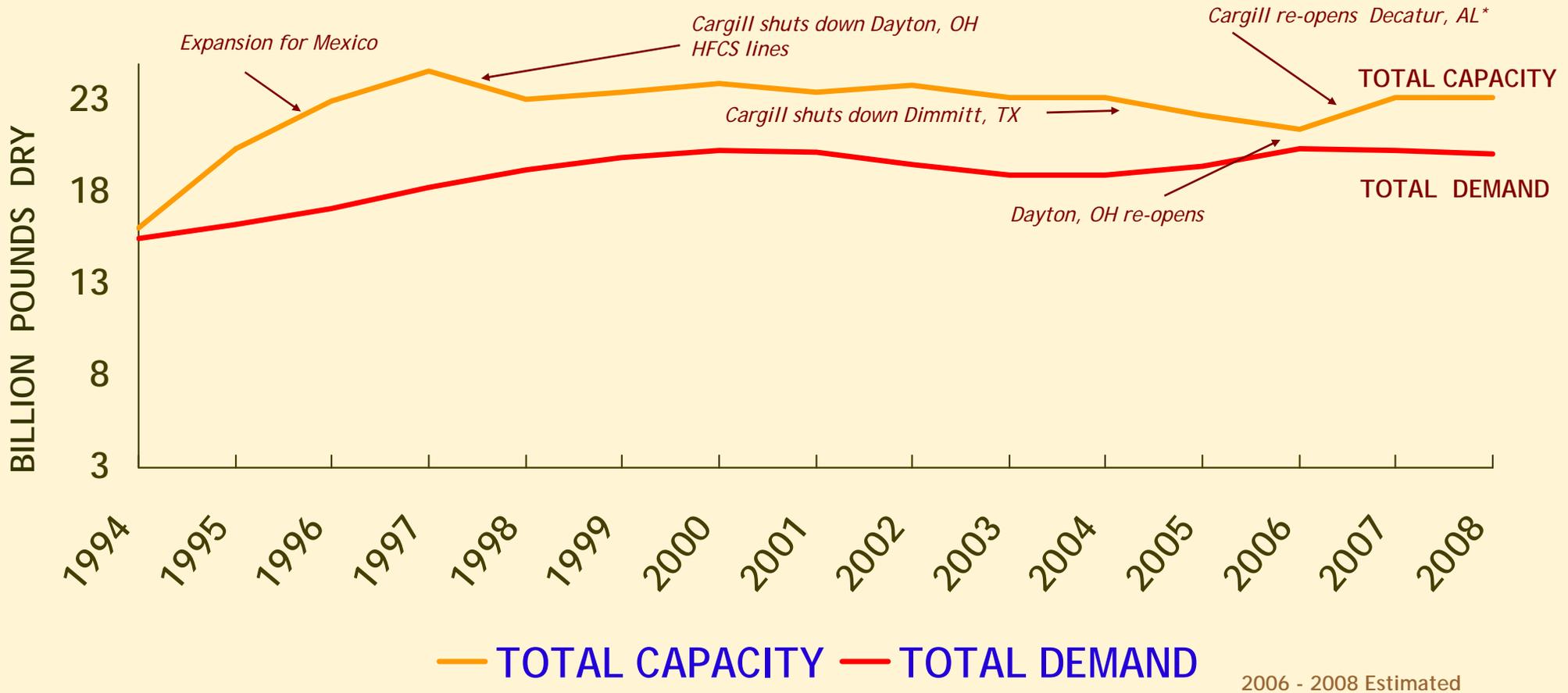
| | | | |
|---------------|-------|-------|-------|
| Ending Stocks | 1,510 | 1,755 | 1,655 |
|---------------|-------|-------|-------|

*Estimate

Source: CNIA and McKeany-Flavell

McKeany-Flavell

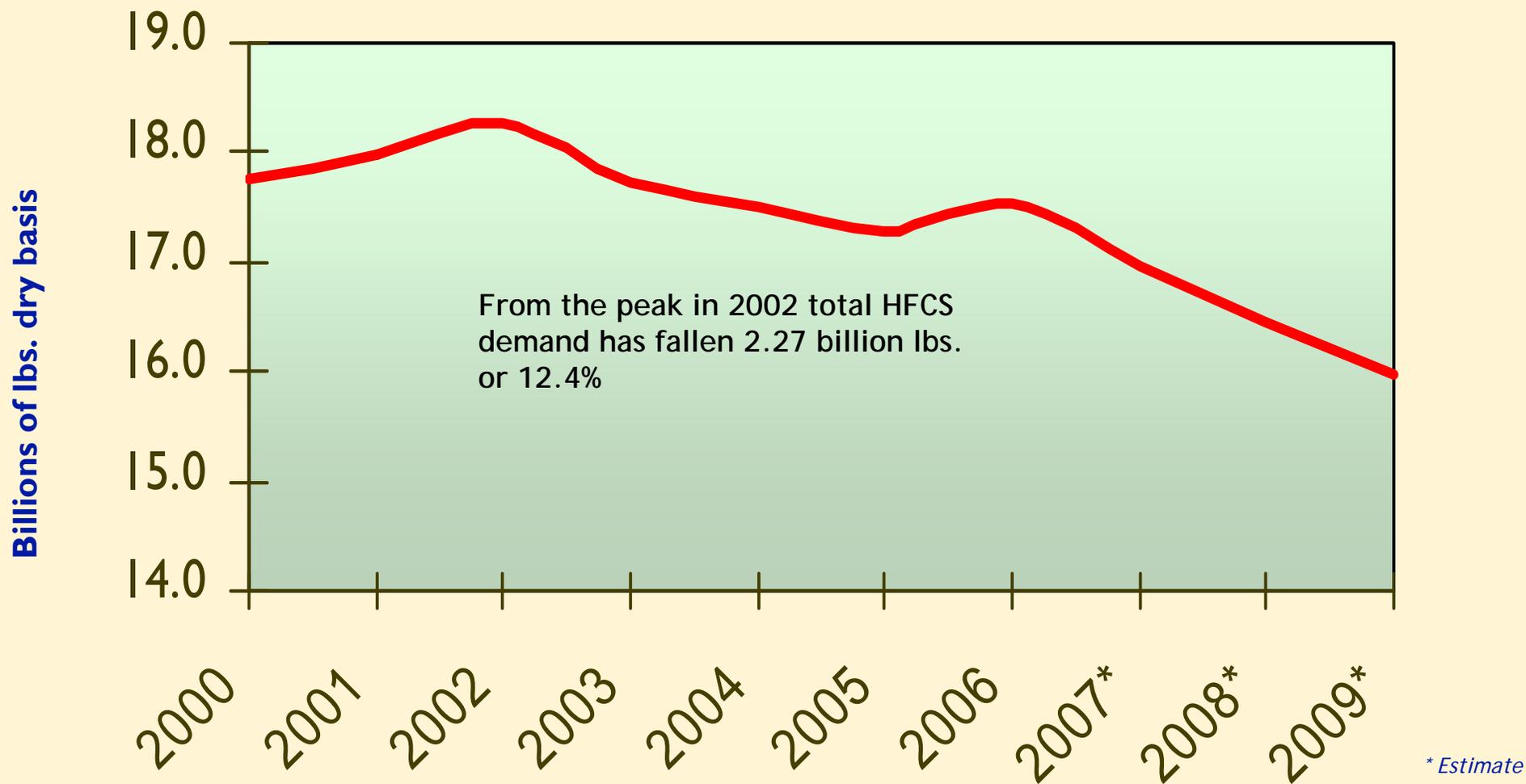
North America* - Theoretical HFCS Production Capacity vs. Demand



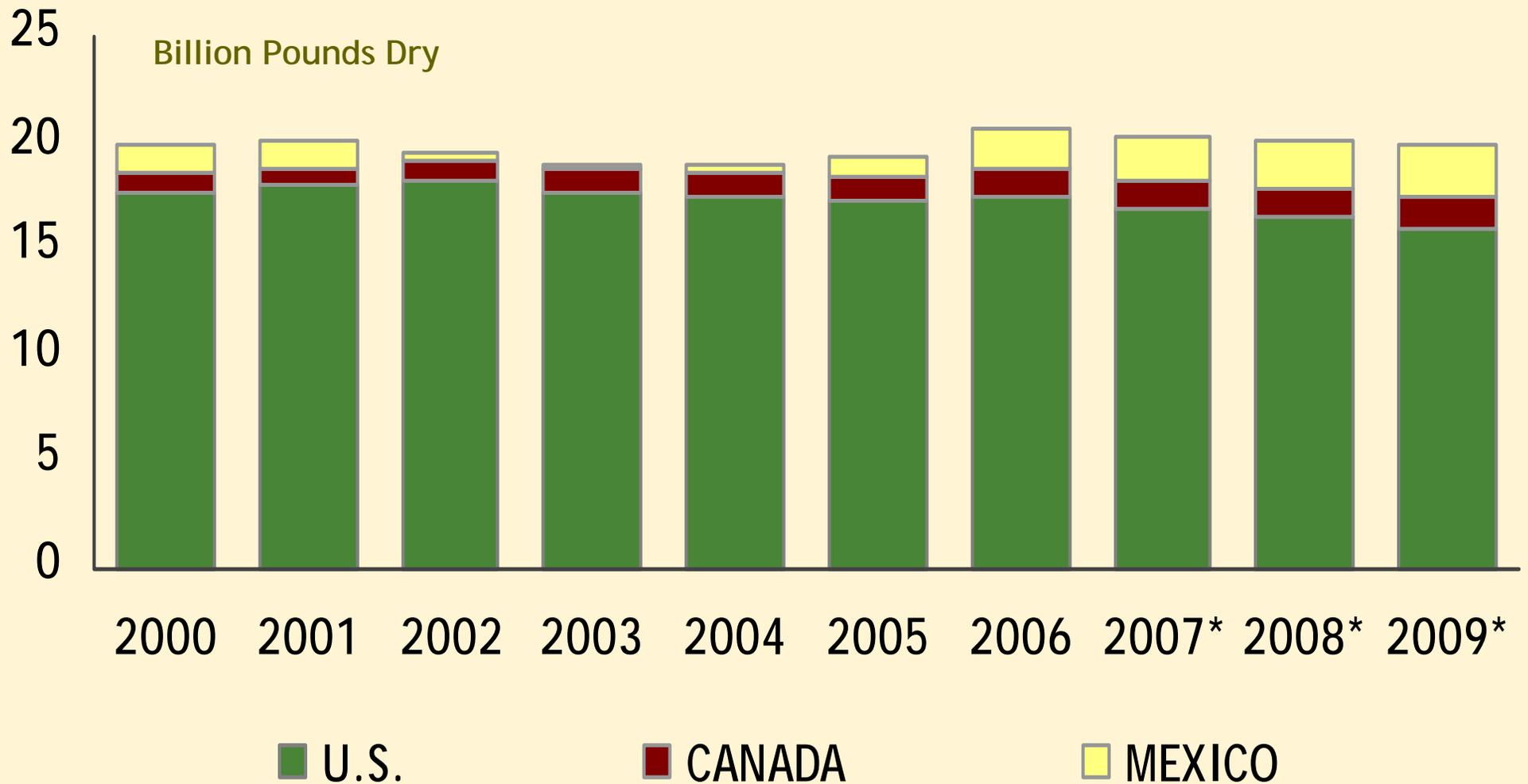
* Includes Canada & Mexico. Assumed capacity expansion: 1% annually through 2003 due to de-bottlenecking.

Source: McKeaney-Flavell

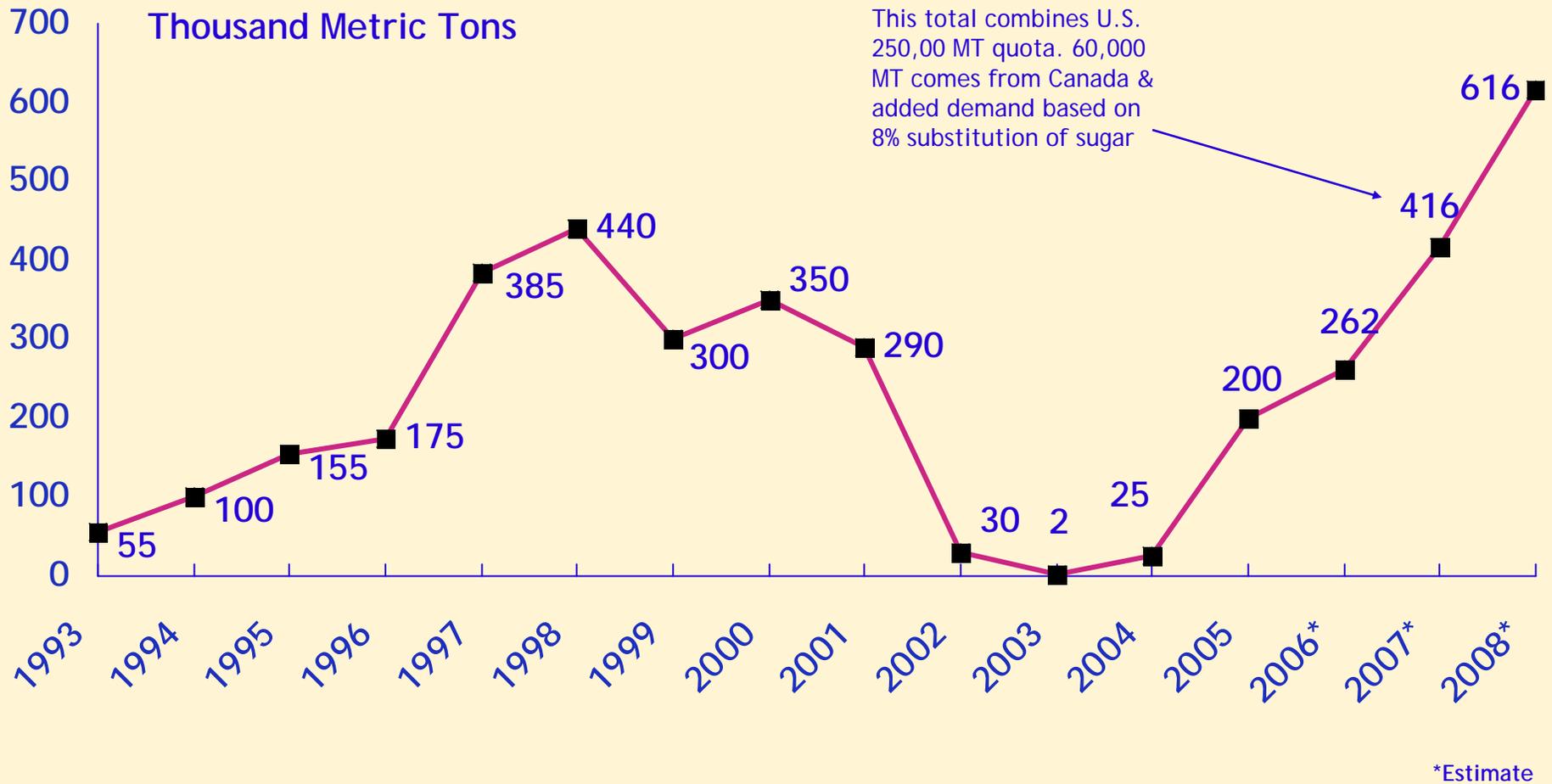
U.S. HFCS Demand



North American HFCS Demand

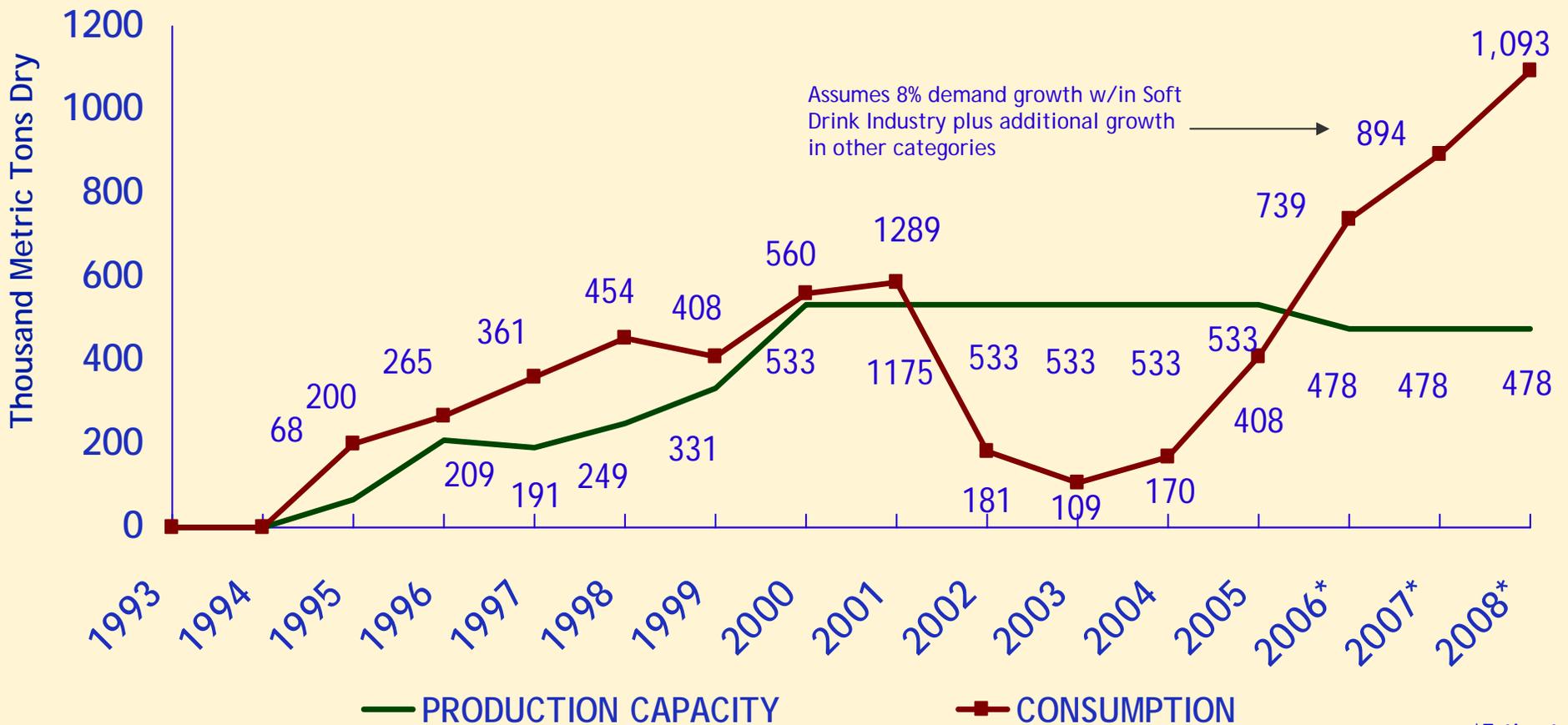


MEXICO - Estimated HFCS Imports



MEXICO

Estimated HFCS Production Capacity and Domestic Consumption

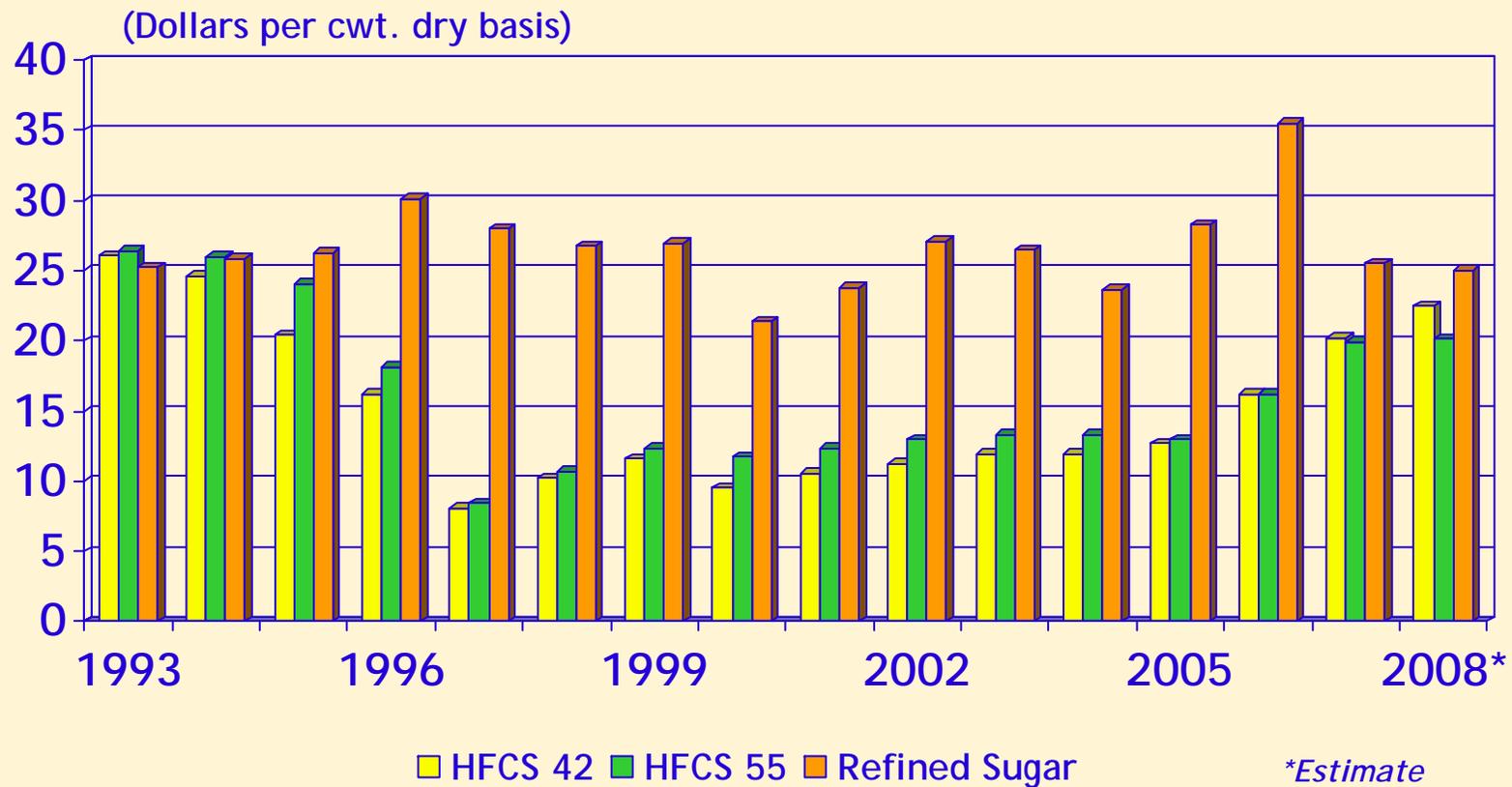


*Estimate

Calendar Year Estimates
 Calendar Year 2007 = Crop Year 2006/07

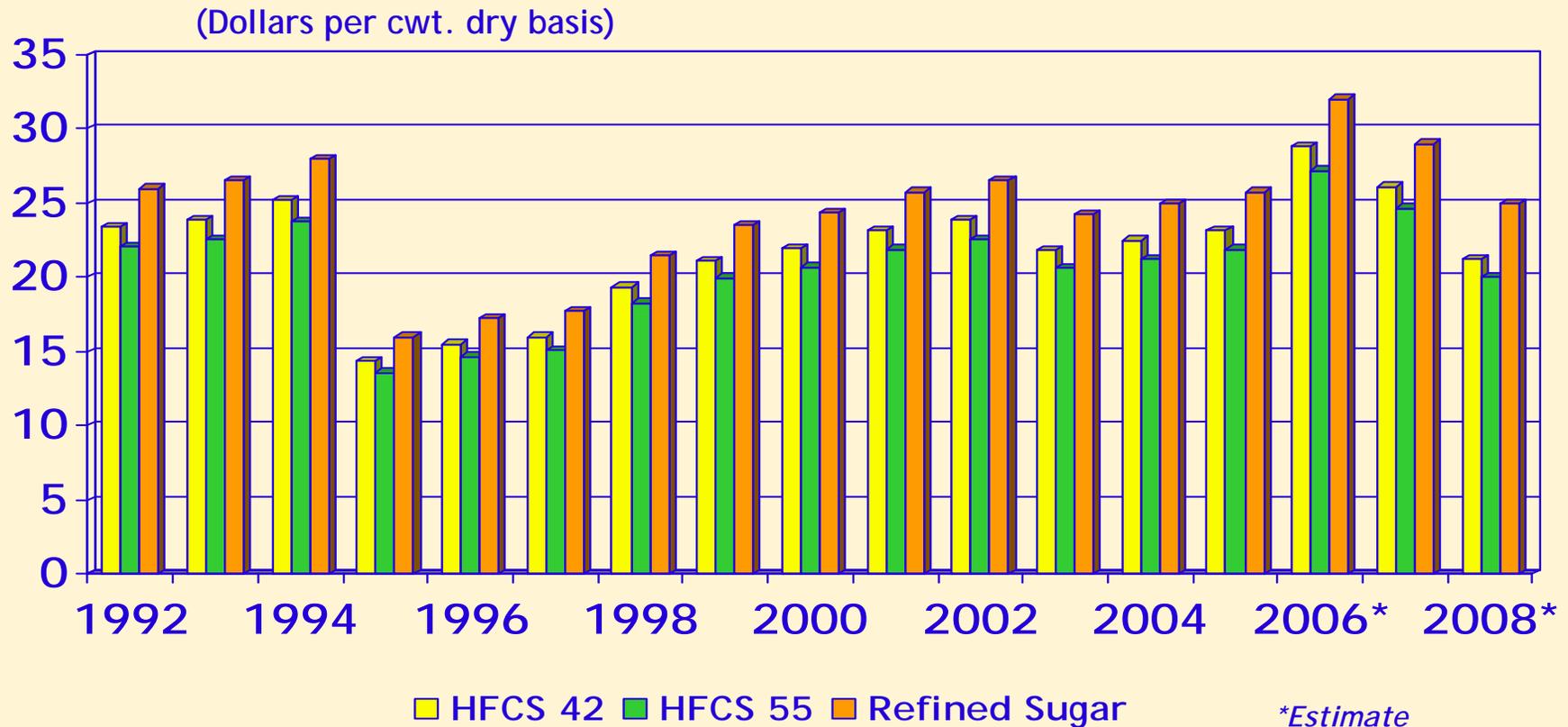
Price History of HFCS & Refined Sugar in United States

(All prices are market averages on a FOB Bulk Basis dry)



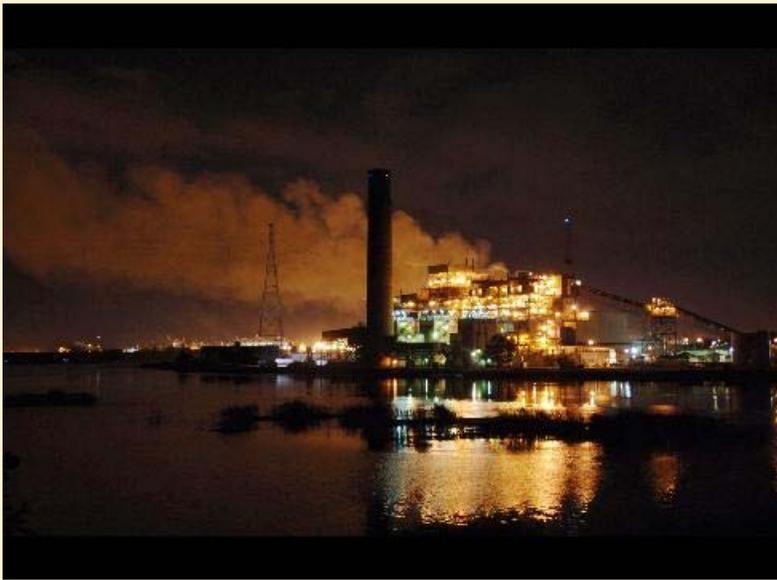
Price History of HFCS & Refined Sugar in Mexico

(All prices are market averages on a FOB Bulk Basis dry)



Breaking Developments in the Sweetener Outlook

Explosion at Imperial Sugar's Port Wentworth, Ga. Refinery



Source: Bloomberg/AP

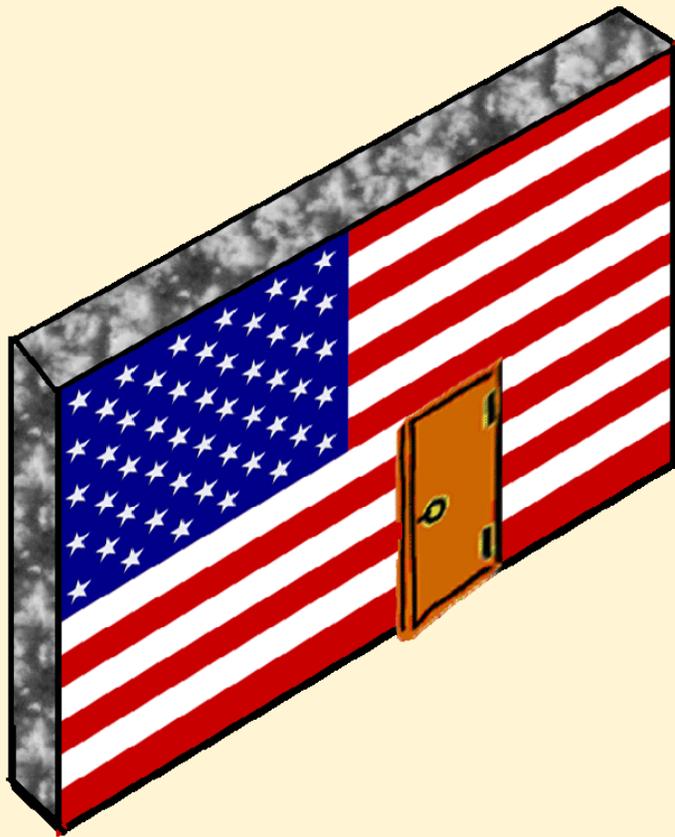
- The second-largest refinery in the country, with an annual refined production of 700 million tons. In terms of the remaining crop season, this converts into a shortfall of 10.1 million cwt.
- This represents approximately 10 percent of U.S. refining capacity. No announcements have been made, but the plant is not expected to resume operation in 2008.

2007/2008 Farm Bill Negotiations

- Loan rates remain, perhaps ½-cent higher
- Marketing allocations continued
- Ethanol Provision - surplus sugar to be converted to ethanol
- “No Cost” provision?



Industries Support Managed Trade Program





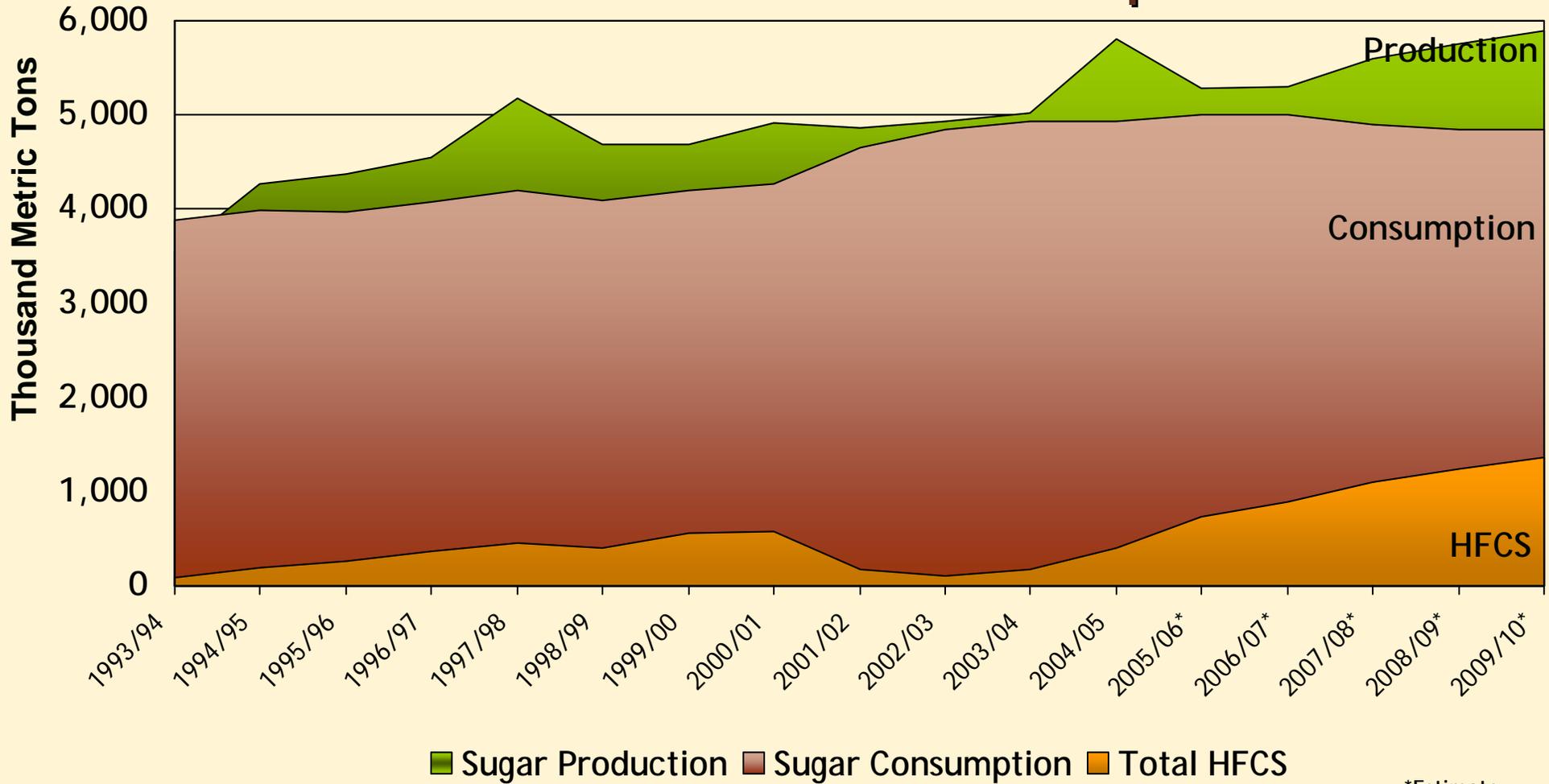
Joint U.S. and Mexican Sugar Industry Proposal

- Presented to both the U.S. and Mexican governments, the proposal for the “facilitation of the integration” of the sweetener markets would include exports to Mexico as part of the U.S. marketing allotment. Mexico would establish its own marketing allotment, taking into account sugar displaced by HFCS imports from the U.S.

Provisions of Joint Proposal

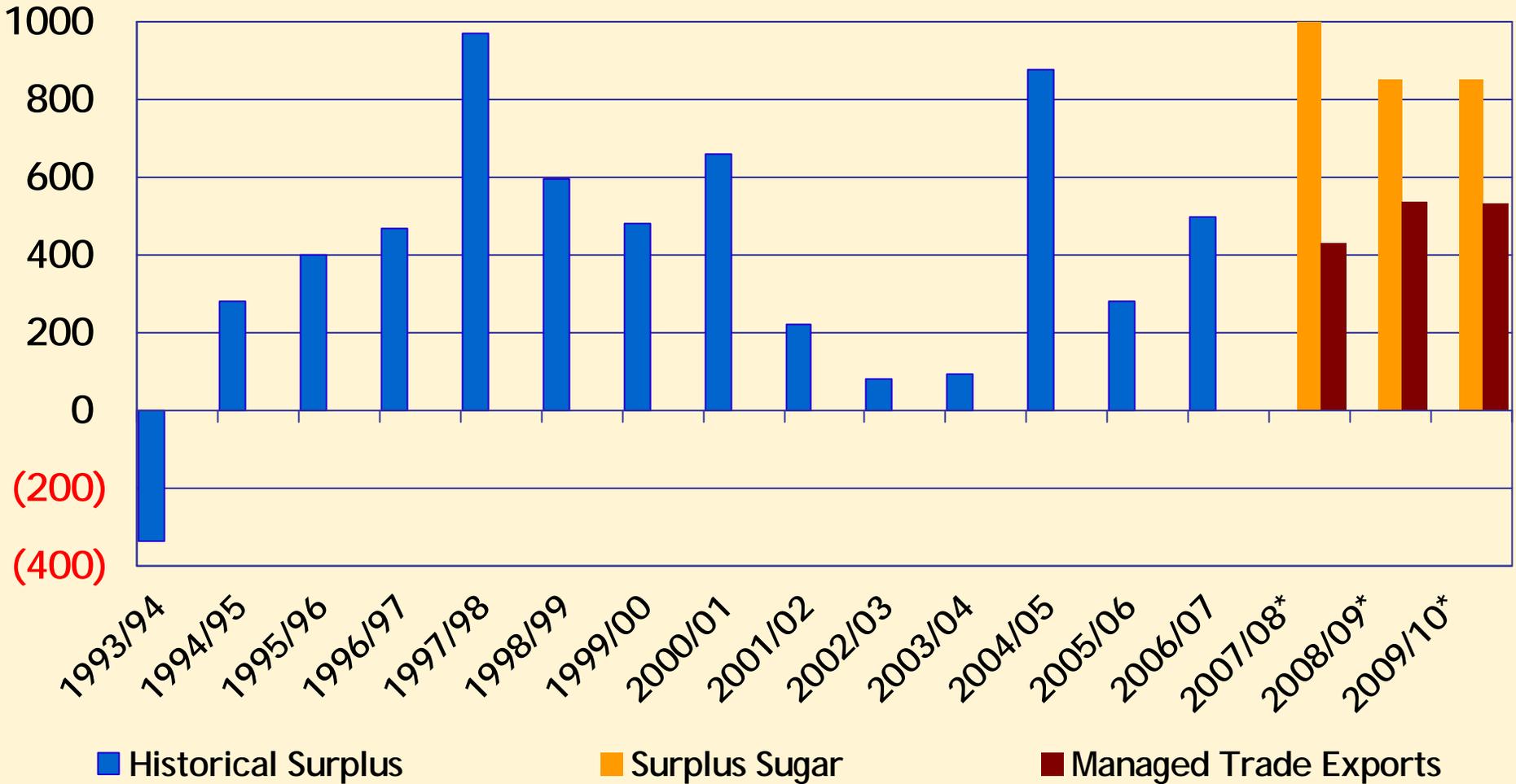
- Mexico receives 300,000 MT of access to the U.S. sugar market, or 70 percent of the sugar displaced by HFCS imports in the first 2 years, and then 60 percent in each subsequent year.
- The U.S. would not export sugar to the Mexican sugar market.
- The Re-export and IMMEX programs would only be applicable for sales to third-party countries.
- Neither country could export sugar to the other while importing sugar from third-party countries for its own consumption.
- No restriction on U.S. corn sweetener exports to Mexico

Managed Trade Scenario Mexican Sweetener Consumption



How Much Mexican Sugar is Available?

Thousand Metric Tons



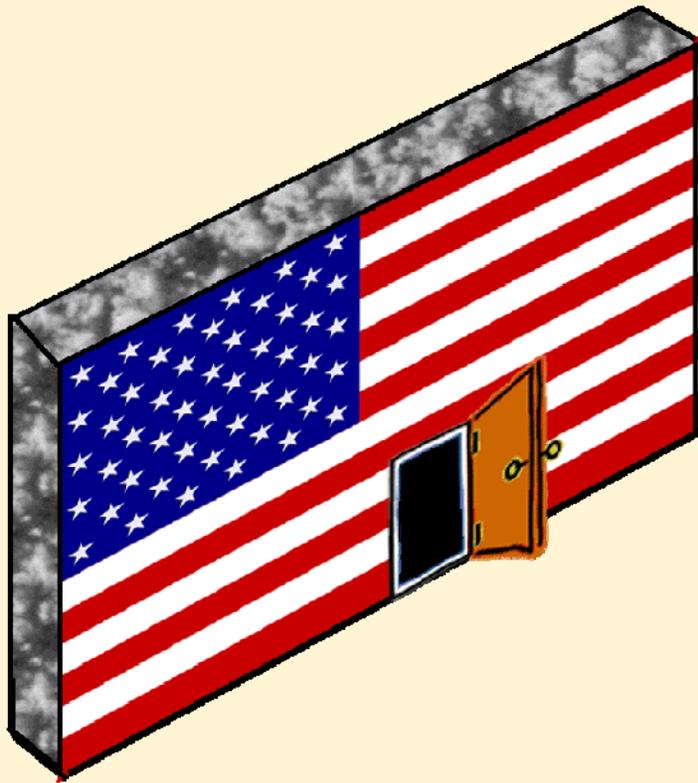
Benefits of Managed Trade Program

- Price stability at profitable levels while still maintaining international competitiveness of food and beverage manufacturers in U.S. and Mexico
- Long-term permanence of a common sugar policy
- U.S. and Mexico share common import duty under the WTO that affects third parties
- Common regional quality standards
- Assured employment

Obstacles to Managed Trade Programs for Sugar

- Renegotiating sugar provisions of NAFTA would lead to increased efforts by other sectors for additional change.
- The sugar industry pulled this proposal after a February 8 statement was released by Agricultural Secretary Ed Schafer and U.S. Trade Representative Susan C. Schwab regarding the Bush administration's position.
- The corn industry was still against the proposal despite unlimited access of HFCS, fearing future efforts to limit HFCS or other negotiations to limit U.S. agricultural exports to Mexico.
- Other international trade partners.
- Resolution of IMMEX - U.S. Re-export dilemma.

Door's open to free trade

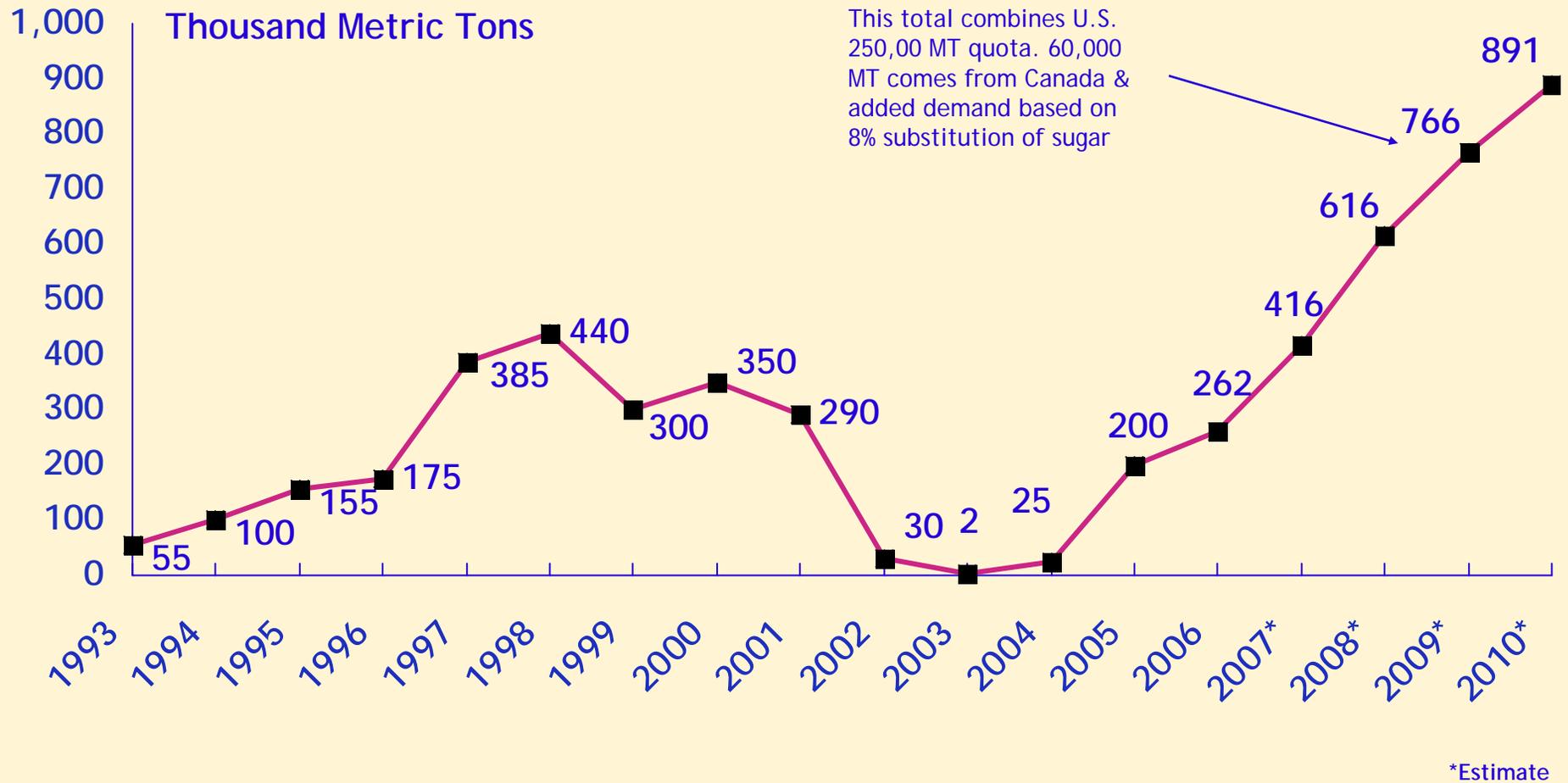




A dramatic sky with dark, stormy clouds and a bright light source breaking through, creating a rainbow-like glow. The text is overlaid on the upper portion of the image.

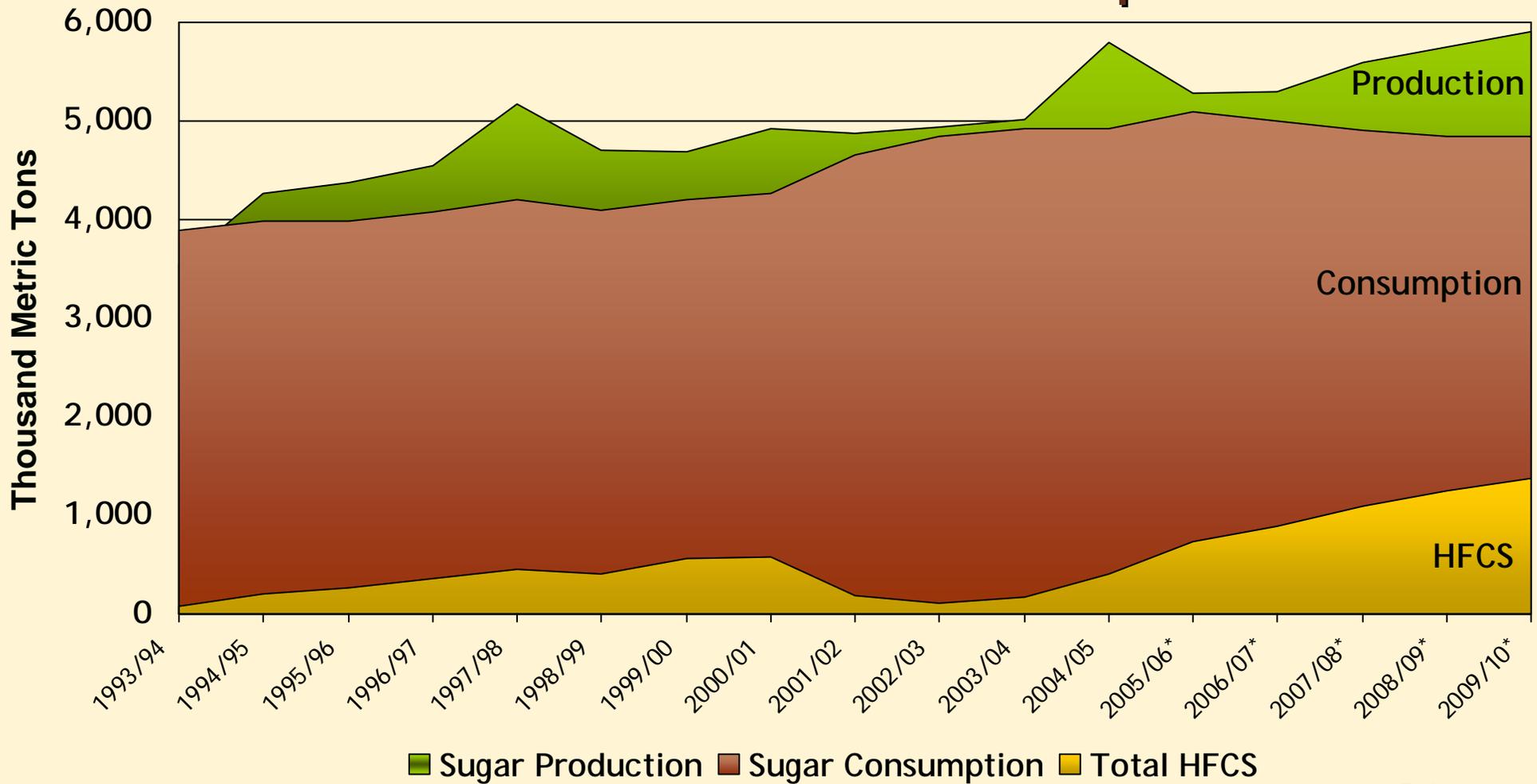
**A break in the
predicted storm**

MEXICO - Estimated HFCS Imports



Free Market Scenario

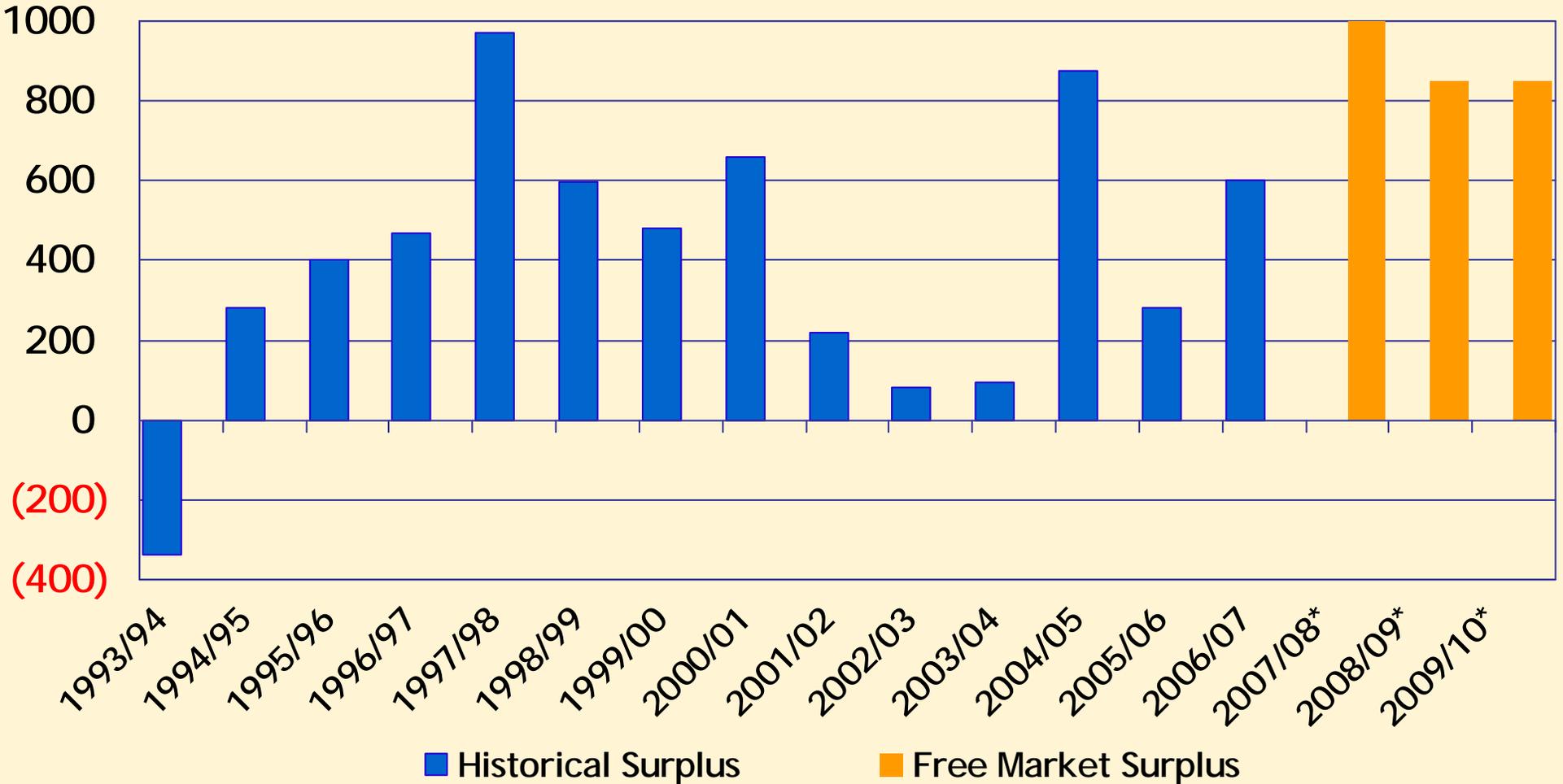
Mexican Sweetener Consumption



*Estimate

How Much Mexican Sugar Is Available?

Thousand Metric Tons



2008 - A Common Market

