North American Free Trade Agreement & the Canadian Sugar Market

USDA Agricultural Outlook Forum

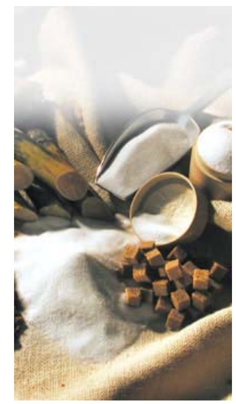
February 19, 2010

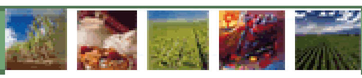
North American Sugar Industry

Canadian Sugar Operations

Prior to 1980, there were ten sugar processing plants operating across Canada. By 1980, there were six, and by 2000, the number of plants was down to four.

FOUR Refined Sugar Operations
Vancouver cane sugar refinery
Taber sugar beet factory
Toronto cane sugar refinery
Montreal cane sugar refinery
TWO Further Processing Operations
Redpath Custom Packing, Niagara Falls, ON
Lantic Blending, Scarborough, ON





Plant Closures since 1995

Winnipeg, Manitoba - January 1997

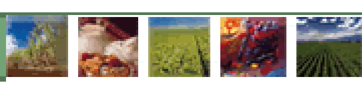
Rogers Sugar:

- US implementation of WTO reduced exports to the U.S. from 40,000 metric tonnes to 10,000 tonnes
- Lack of alternative export opportunities

Saint John, New Brunswick - July 2000

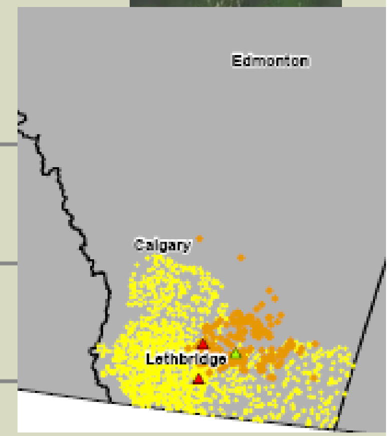
Lantic Sugar:

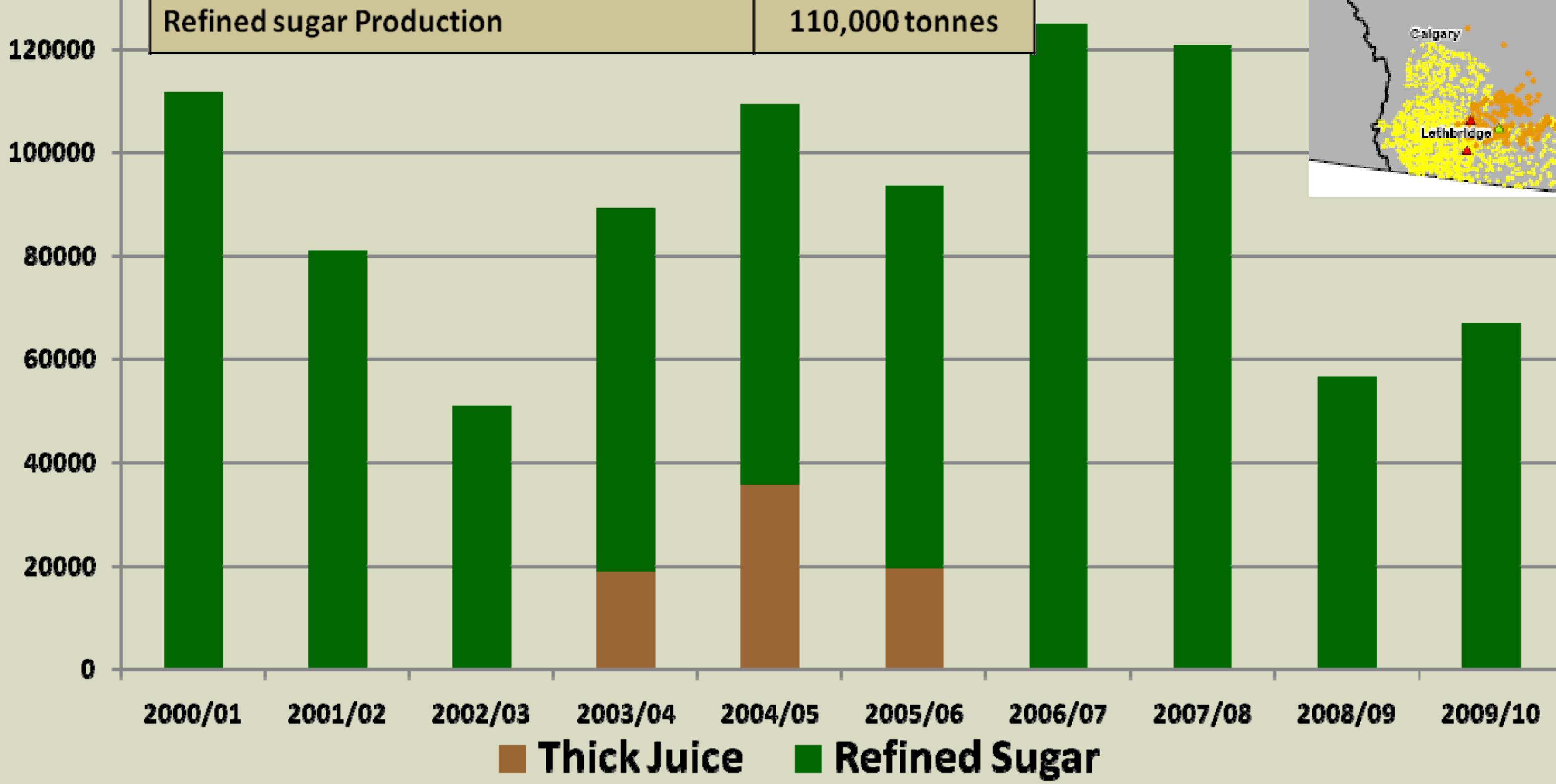
- Competitive pressures to reduce costs and consolidate operations in one plant (Montreal)
- Mature market and limited export opportunities
- Freight costs

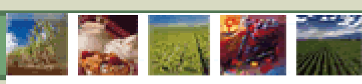


Canadian Beet Sugar Production

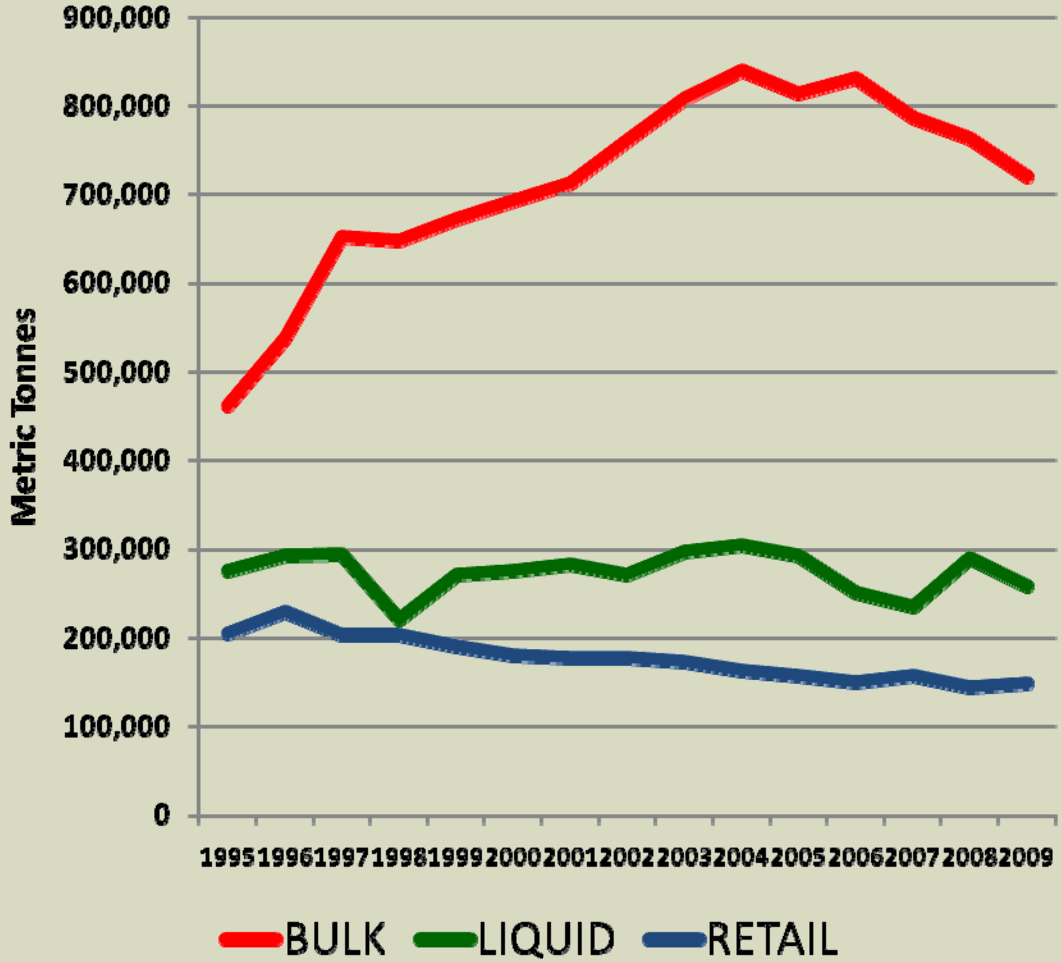
Alberta Beet Sugar Production	Annual capacity
Harvested Acres	35,000
Sugar Beets Production	800,000 tonnes
Refined sugar Production	110,000 tonnes







Canadian Sugar Shipments Decline Since 2004

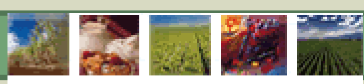


Reasons for Decline

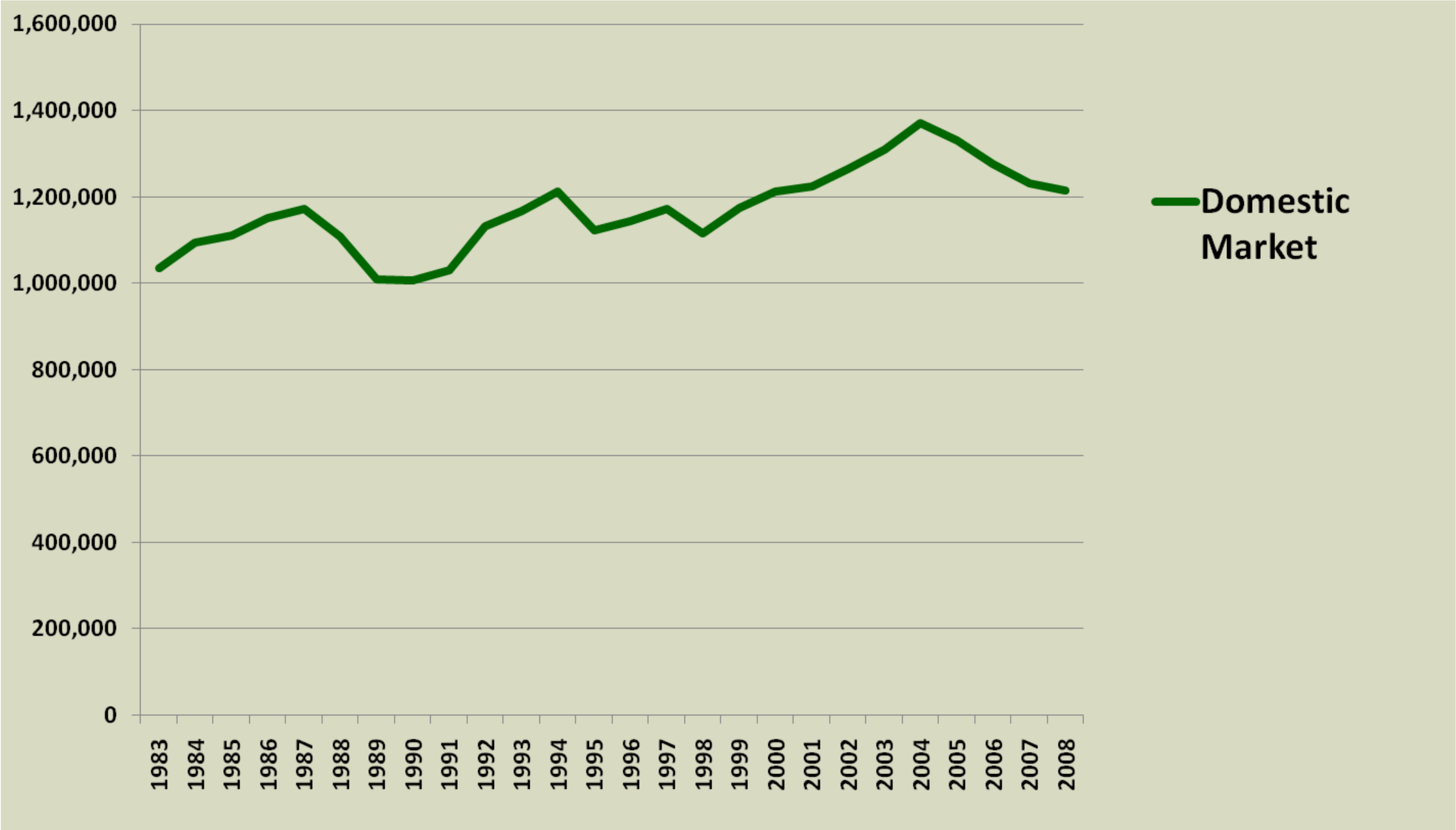
↓ *Reduced sugar-containing product manufacturing related to:*

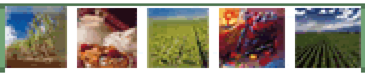
$ Strengthening of Canadian dollar, and

$ High cost of other inputs, notably dairy ingredients

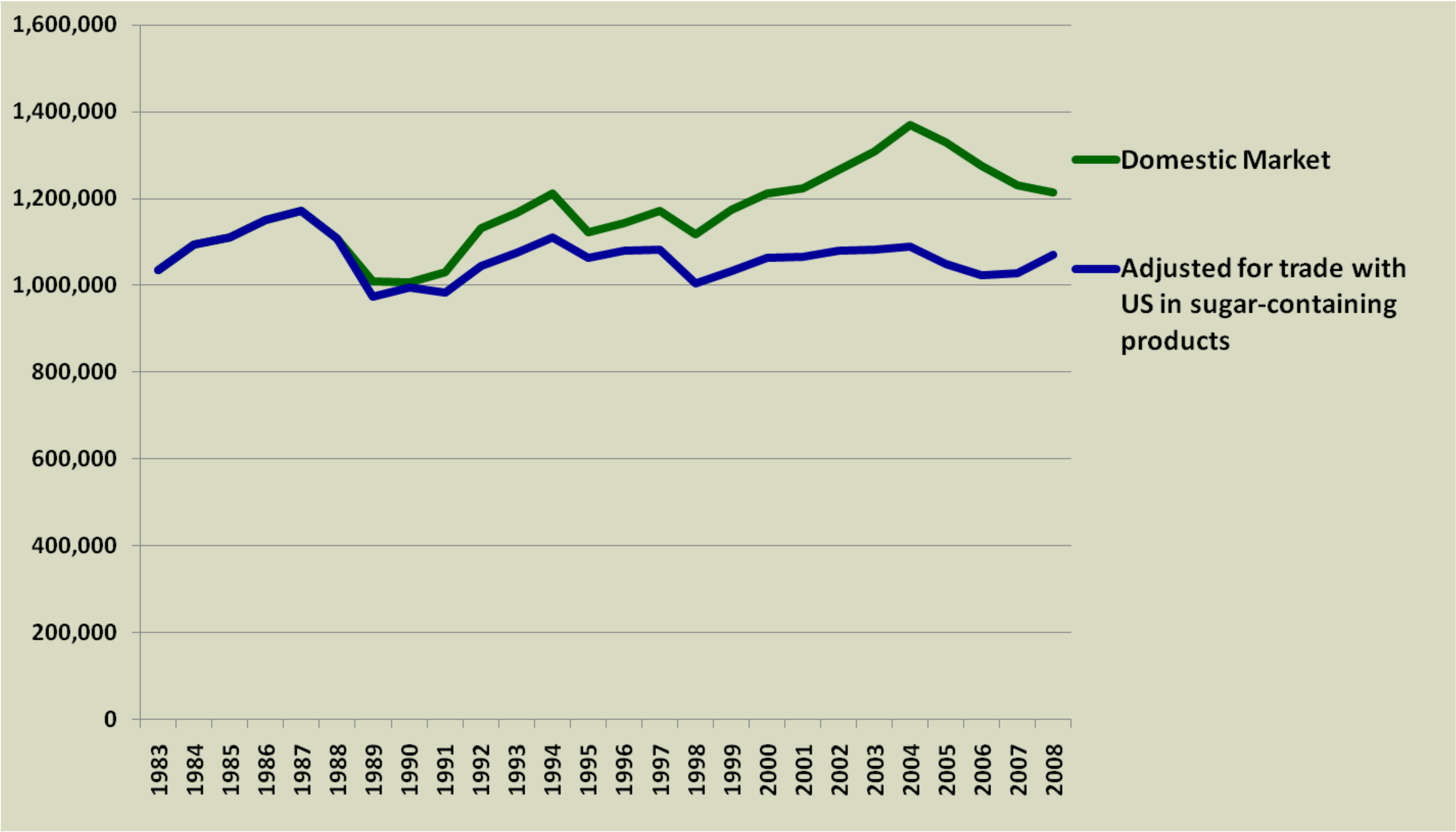


Canada Refined Sugar Market

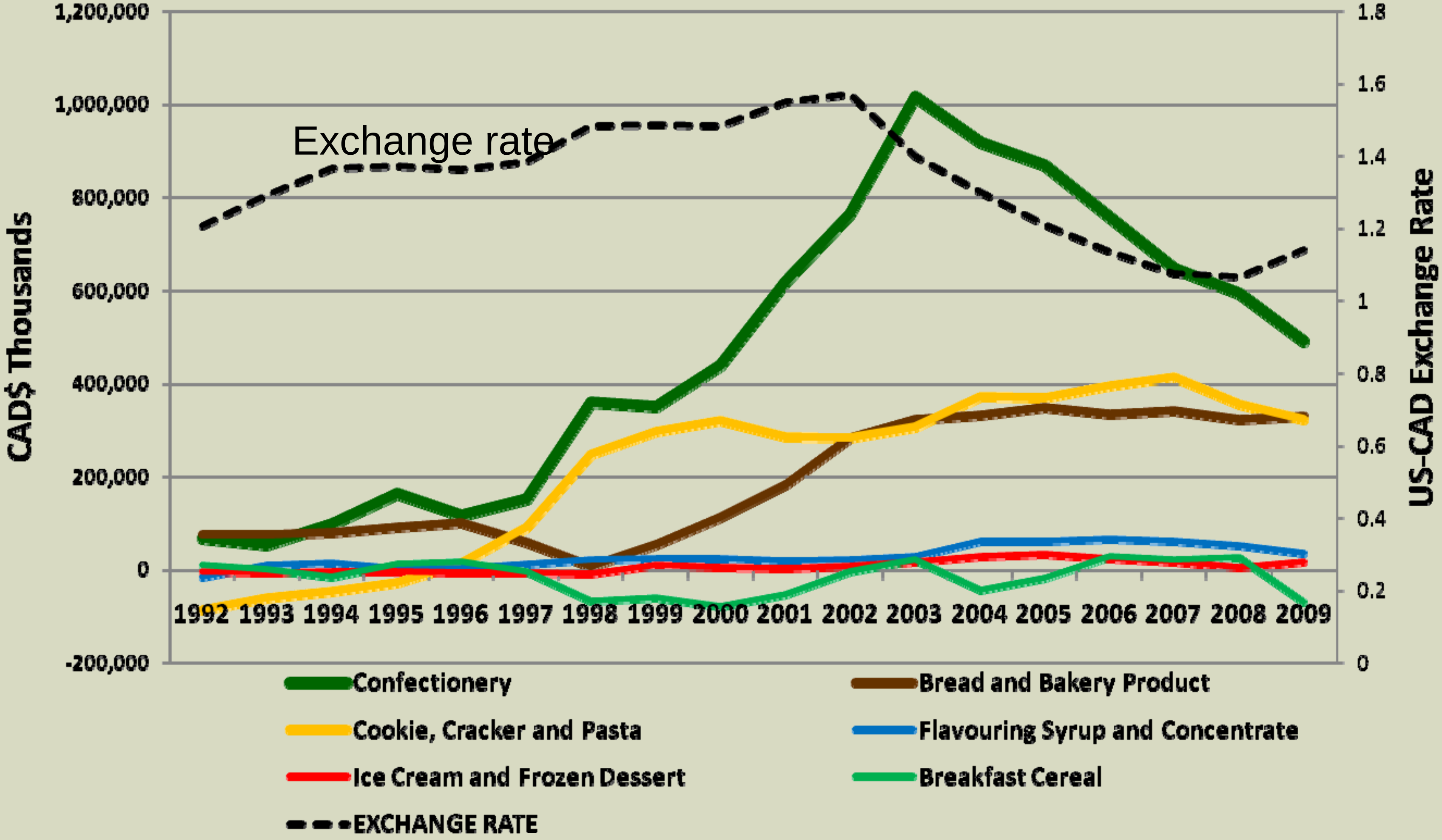




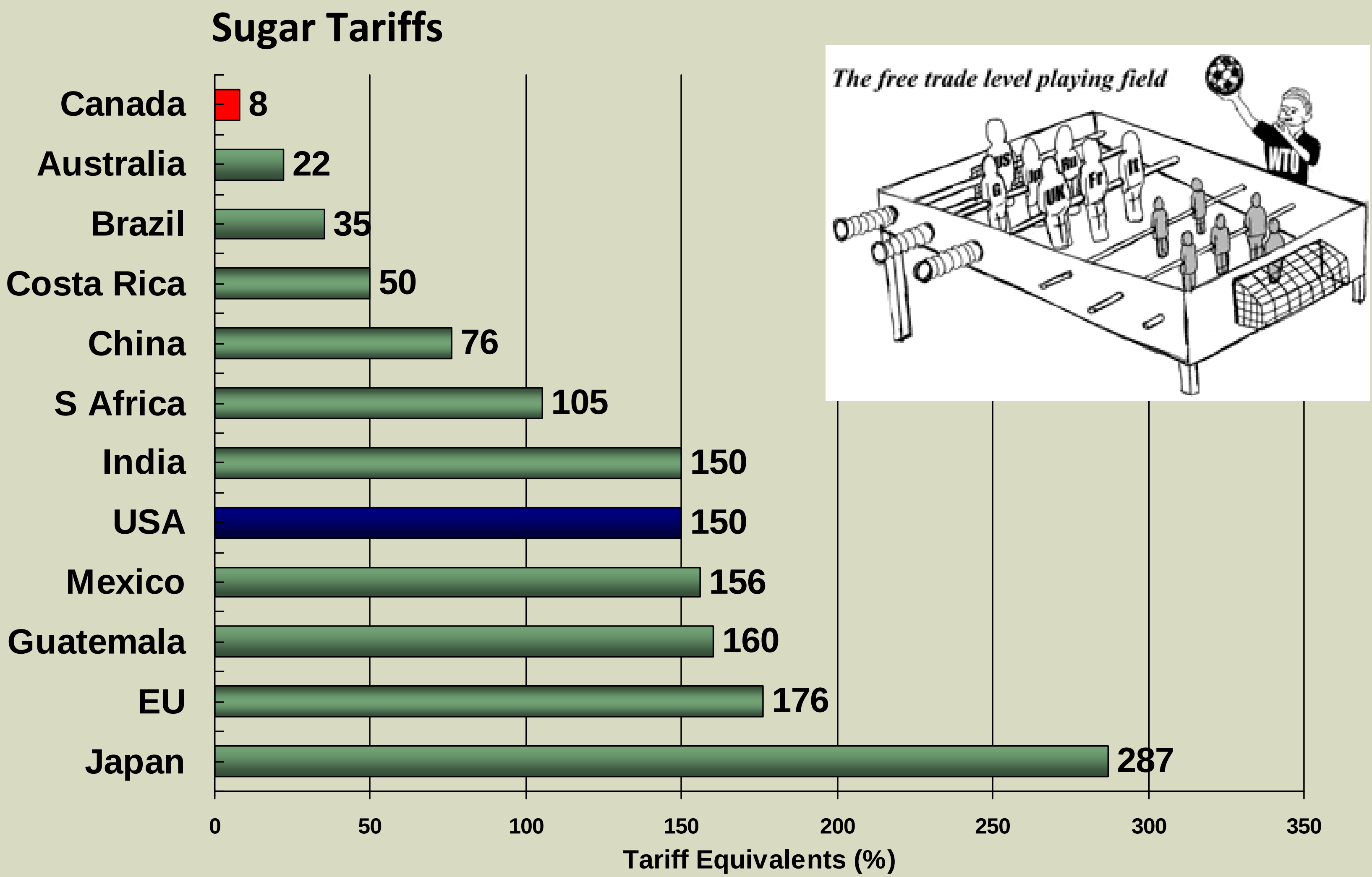
Refined Sugar Market - Adjusted



Canada – US Trade Balance
Selected Sugar Containing Products

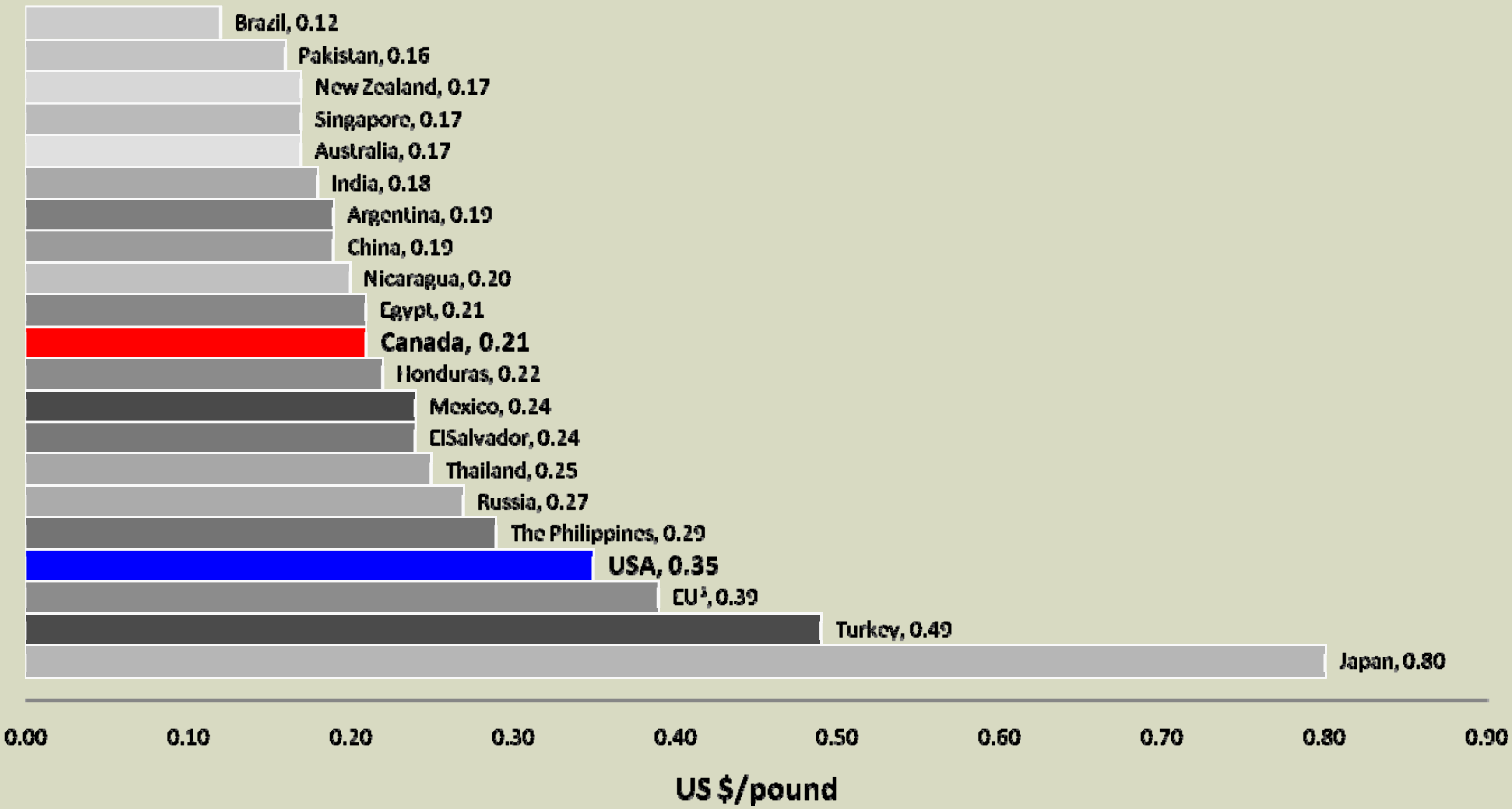


Canadian Sugar Policy in Global Context

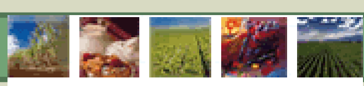


Canadian Sugar Policy in Global Context

Wholesale sugar prices in selected countries - 2008

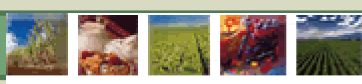


LMC International, June 2009



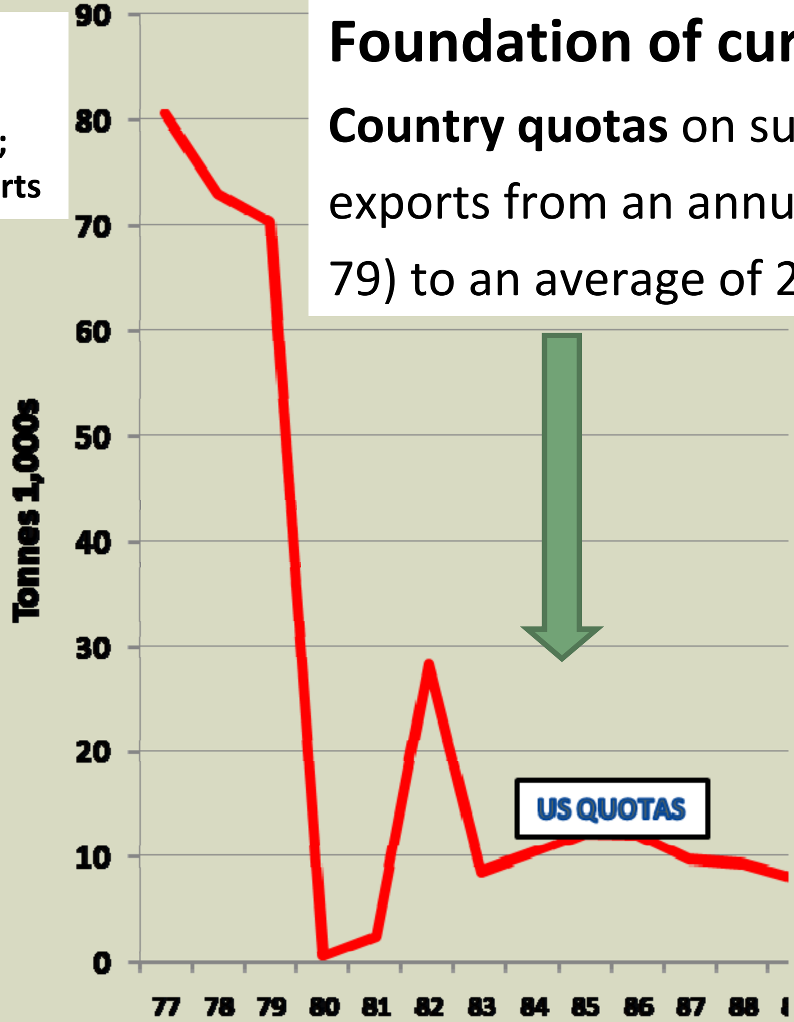
Canadian Sugar in NAFTA Context

NAFTA + Agriculture Politics =
Trade Barriers and Managed Sugar Trade



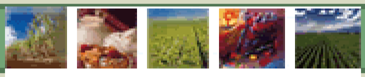
Canada Exports Refined Sugar to US

1977-79
83% refined sugar imports; 2% total imports



Foundation of current US sugar policy

Country quotas on sugar reduced Canadian refined sugar exports from an annual average of 100,000 tonnes (1977-79) to an average of 20,000 tonnes in the 1980s.



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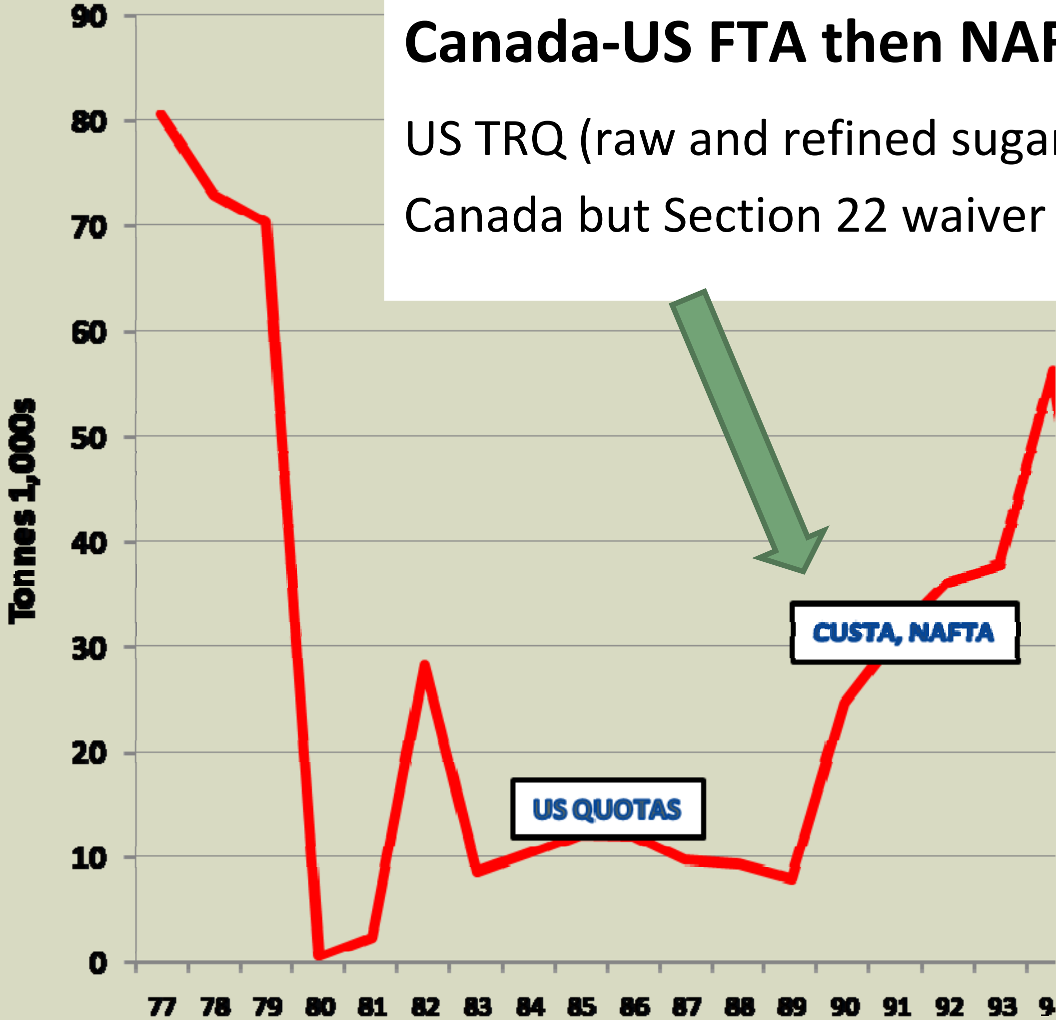


Canada-US FTA then NAFTA

US TRQ (raw and refined sugar) does not apply to Canada but Section 22 waiver threatened trade action

1992-94
83% refined sugar imports; 3.6% total imports

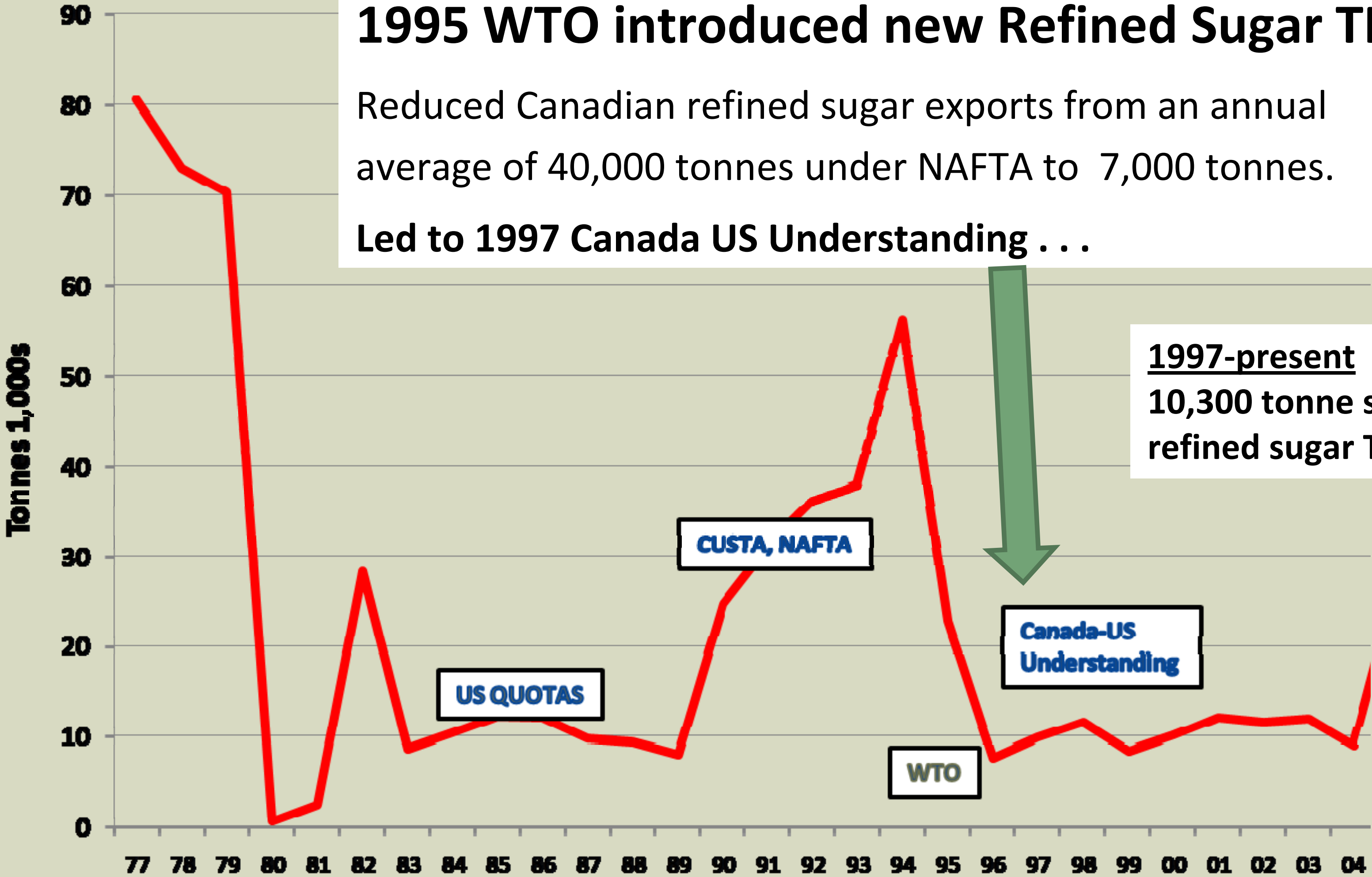
Canada Exports Refined Sugar to US

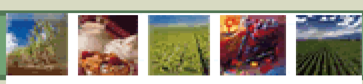
1995 WTO introduced new Refined Sugar TRQ

Reduced Canadian refined sugar exports from an annual average of 40,000 tonnes under NAFTA to 7,000 tonnes.

Led to 1997 Canada US Understanding . . .

1997-present
10,300 tonne share of refined sugar TRQ

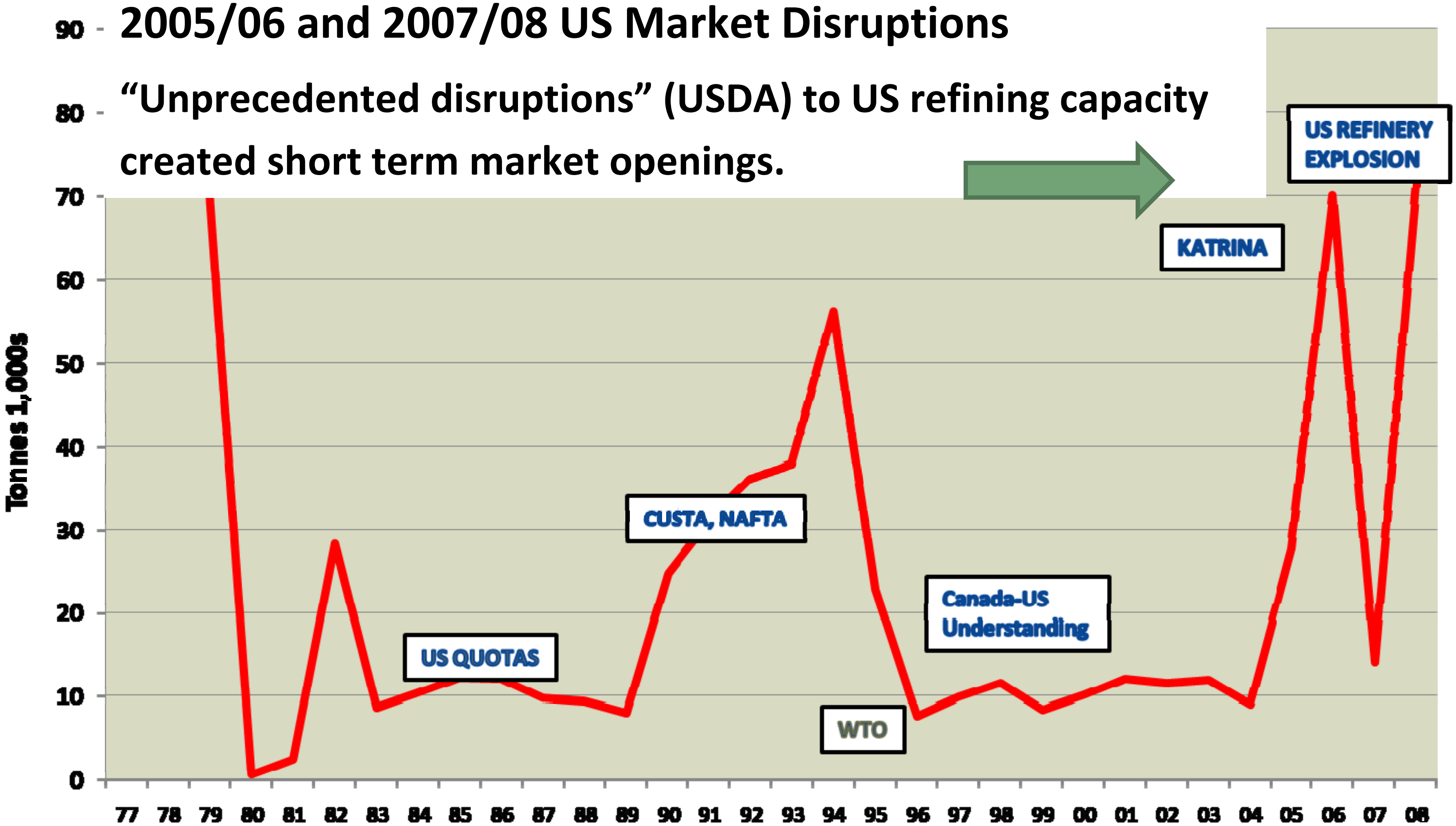


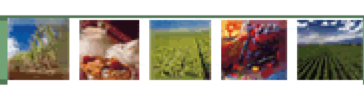


Canada Exports Refined Sugar to US

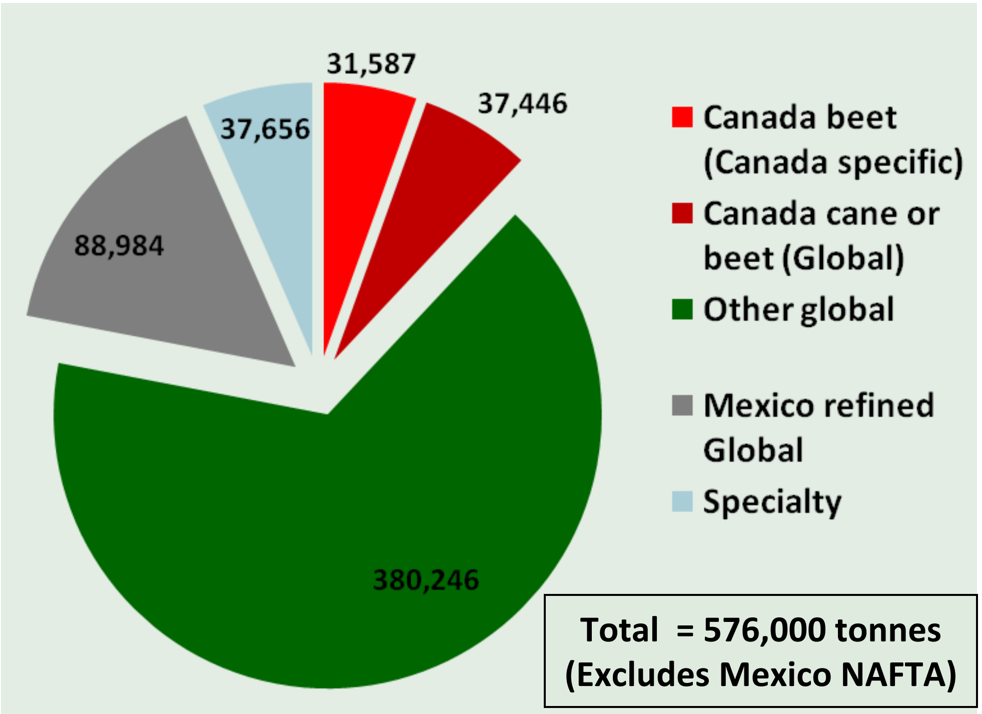
2005/06 and 2007/08 US Market Disruptions

"Unprecedented disruptions" (USDA) to US refining capacity created short term market openings.





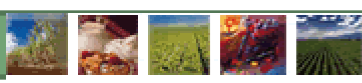
Canada Access to TRQ Increases 2005-06



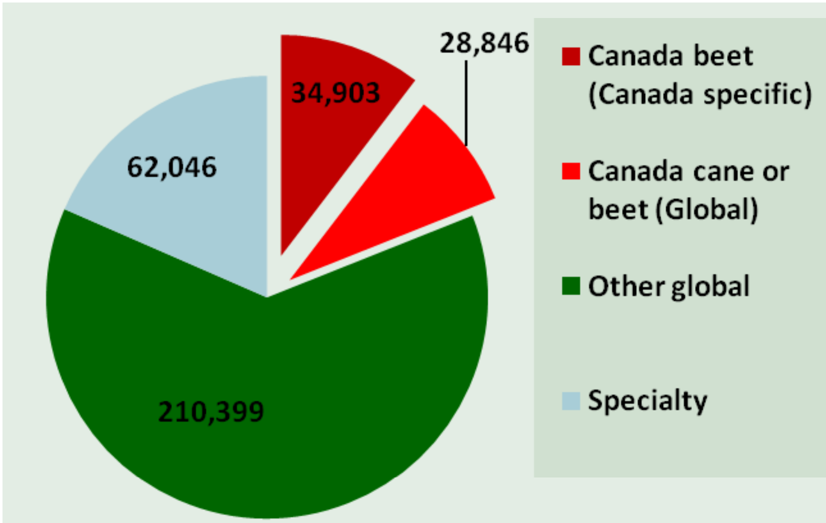
CUSTOMS ENTRY

- Tranches
- Container size restrictions

4 TRQ OPENINGS	Sep 8, 2005	Dec 2, 2005	Feb 2, 2006	Aug 3, 2006
Tranches	No	Yes - 4	No	No
Container size restriction	No	Yes	No	Yes
Canada share of global TRQ	3%	16%	6%	9%



Canada Access to TRQ Increases 2007-08



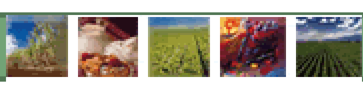
Total = 336,000 tonnes
(Excludes Mexico NAFTA)

CUSTOMS ENTRY

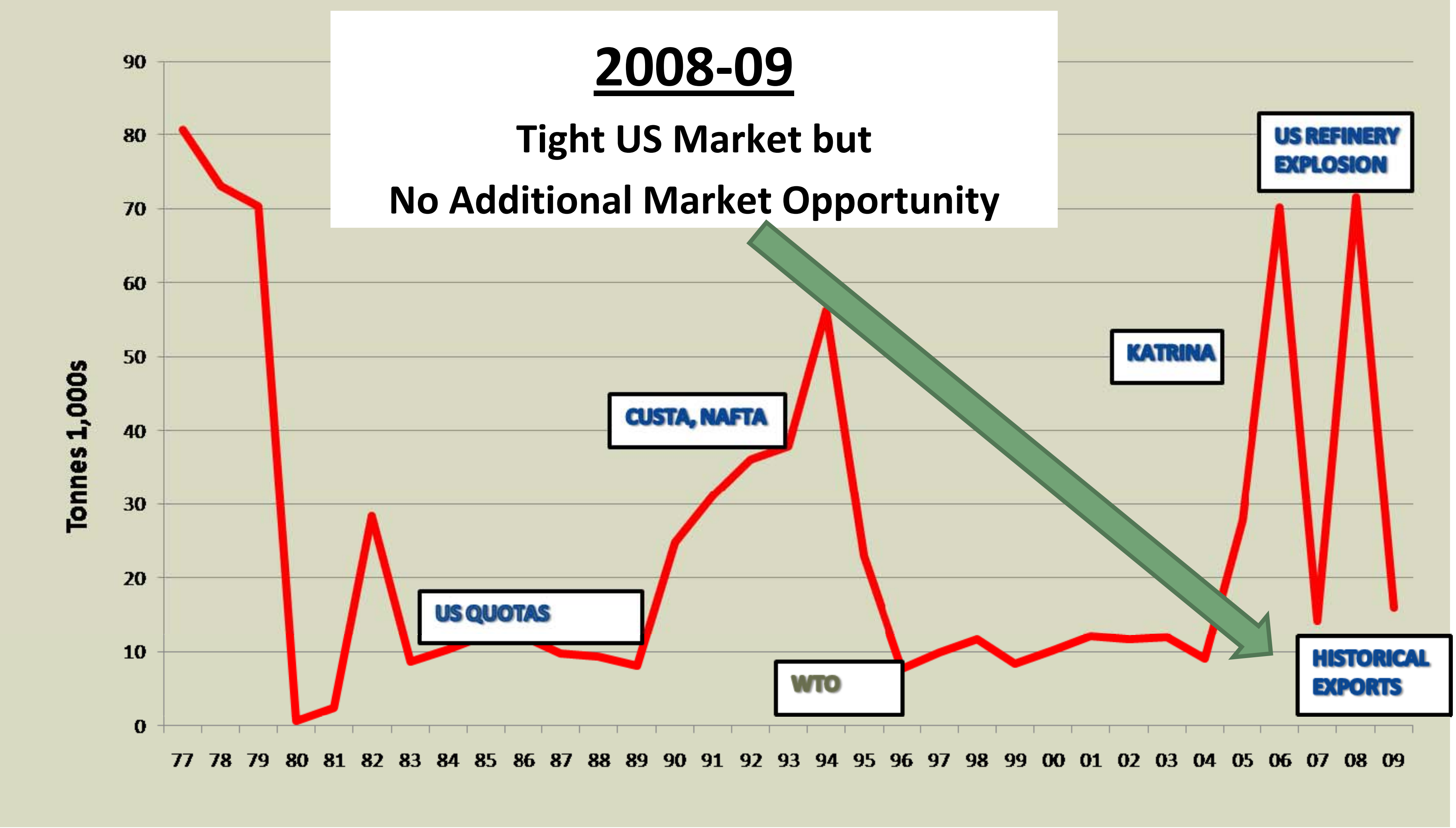
- Tranches
- Container size restrictions
- User quality white sugar

Sept 18, 2008
Customs rescinded conditions for higher quality white sugar and small container sizes.

3 TRQ OPENINGS	Oct 1, 2007	Aug 14, 2008	Oct 30, 2008
Metric Tonnes	7,090	163,877	68,278
Tranches	No	No	Yes - 5
Container size restriction	No	Yes/No	No
User-quality white sugar not to be further refined	No	Yes/No	No
Canada share of global TRQ	14%	9%	19%



Canada Exports Refined Sugar to US



2008 US Farm Bill – Quota Administration

Legal authority in US Tariff Schedule:

- Whenever the Secretary believes that domestic supplies of sugars may be inadequate to meet domestic demand at reasonable prices, the Secretary may modify any quantitative limitations ... but may not reduce the total amounts below the amounts provided for in subdivision (i) hereof. (i.e., not reduce below minimum WTO commitment)

2008 Farm Bill Responsibilities:

- To manage the allotment program to ensure:
  - prices are maintained above forfeiture levels <u>AND</u>
  - to provide “adequate supplies of raw and refined sugar in the domestic market”

Tools:

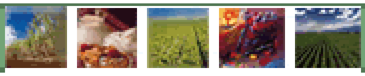
- Adjustments to allotments (upward or downward “in a fair and equitable manner” but cannot decrease below 85% domestic consumption)
- Reassignment of deficits to imports of “raw cane sugar”
- Adjustments to Tariff Rate Quotas for “**raw cane sugar and refined sugars**”

- **This is where it gets complicated ...**

US Farm Bill – Responsibilities of Secretary

- **Before Apr 1:**
  - **“Shall”** take action to increase the supply of sugar if there is an **emergency shortage** “caused by war, floods, hurricanes, or other natural disaster, **or other similar event ...”** (i.e. Secretary obliged to act and has discretion to define emergency)
  - Including (but not limited to) increases in the raw TRQ to accommodate allotment reassignments to imports
  - Increases in refined sugars after domestic marketings **and refining capacity have been maximized** and if “such further increase” will not result in forfeitures

- **On or after April 1:**
  - **“May”** take action to increase the supply of sugar
  - If there is still a shortage of sugar , the TRQ for raw cane sugar may be increased after marketings of domestic sugar have been maximized (if such further increase will not threaten forfeitures)
  - **Does not preclude increases to TRQ for refined sugars as per legal authority in Tariff schedule to ensure adequate domestic supplies at reasonable prices**



Ongoing US TRQ Issues

- **Uncertainty regarding timing and composition of TRQ openings**
- **WTO TRQ allocations to Mexico are redundant and limit opportunity for other suppliers**
- **Challenges of Customs administration**
  - First-come, first-served TRQ
  - TRQ for refined sugars includes lower quality white sugars that require further processing
  - Need to establish increases above WTO minimum based on international white sugar standard
  - Tranches and container size restrictions can help orderly marketing

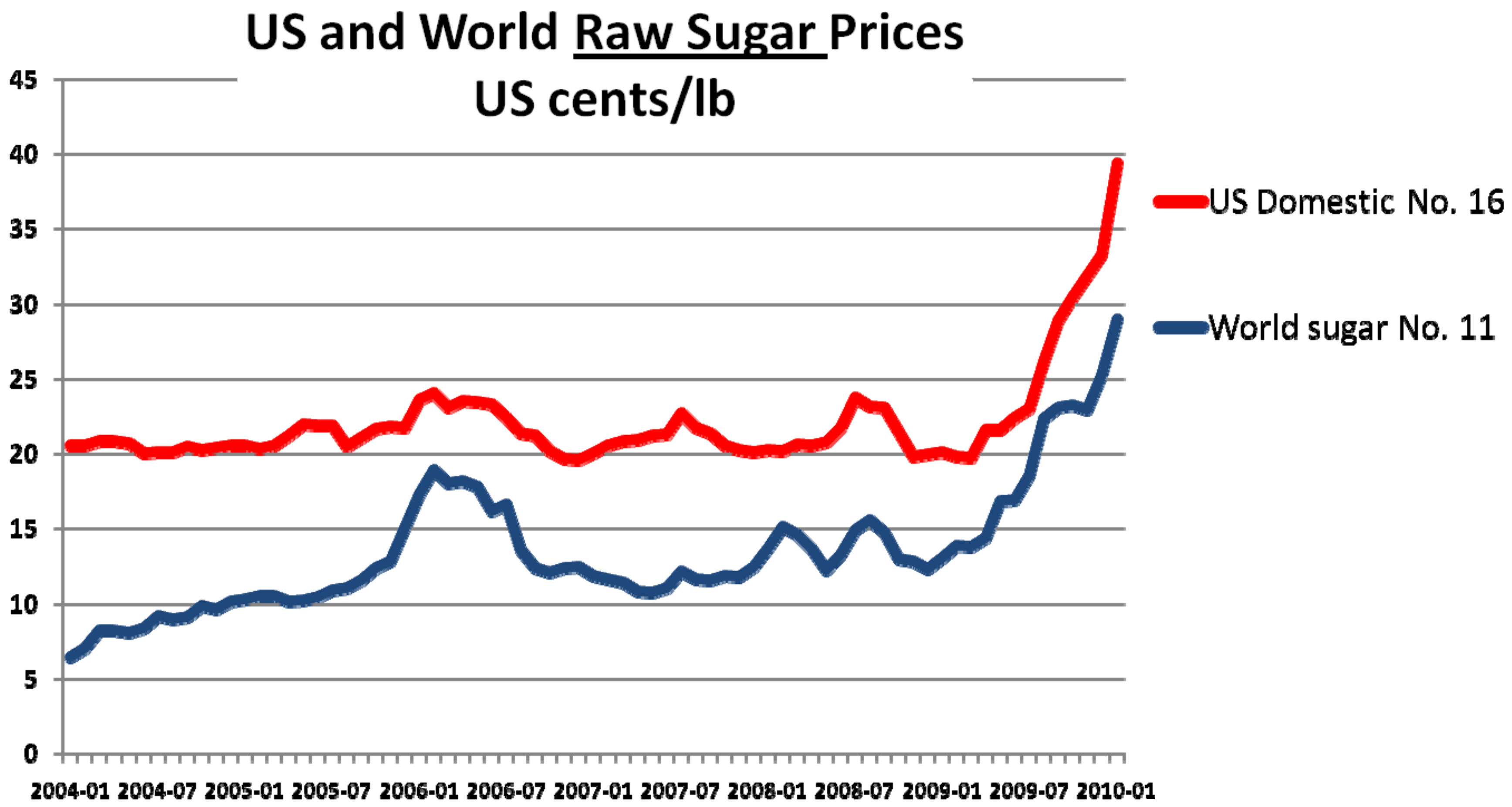
Projected Ending Stocks to Use FY2010

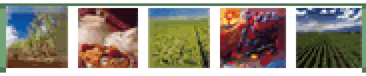
USDA Monthly Stocks to Use Ratio
Crop Year (Oct 1 - Sep 30)

	Month	00/01	01/02	02/03	03/04	04/05	05/06	06/07	07/08	08/09	09/10
Current Crop Year Estimates	October	15.3	14.1	15.5	20.8	21.8	10.5	16.5	18.2	6.0	7.9
	November	18.0	12.7	12.7	19.8	19.2	6.4	17.6	17.8	8.3	9.6
	December	20.0	12.5	12.1	20.6	16.5	13.4	18.7	19.4	8.8	9.6
	January	18.8	11.6	13.5	20.3	15.6	12.7	17.0	19.0	9.9	10.8
	February	19.4	12.7	14.6	19.7	15.3	16.0	16.0	19.3	9.8	**10.0**
	March	19.2	13.9	13.7	19.8	14.5	14.4	16.0	18.8	9.0	
	April	18.7	16.9	13.7	20.1	13.8	14.4	16.6	18.6	11.9	
	May	18.6	16.0	16.4	22.1	13.1	13.8	16.3	16.4	11.0	
	June	19.3	16.1	16.0	21.9	13.1	13.2	16.1	15.9	11.0	
	July	18.6	16.0	16.4	21.6	14.4	13.6	15.3	13.7	10.0	
	August	18.7	17.2	16.4	21.4	14.1	15.1	15.4	15.0	11.2	
	September	19.8	16.7	17.5	21.5	14.9	15.5	16.9	14.3	11.8	
Final Revised	April of Next Crop Year	21.0	13.9	16.7	18.6	12.6	16.2	17.3	15.2	13.5 est	

Source: USDA WASDE Reports

Market Prices Signal Demand





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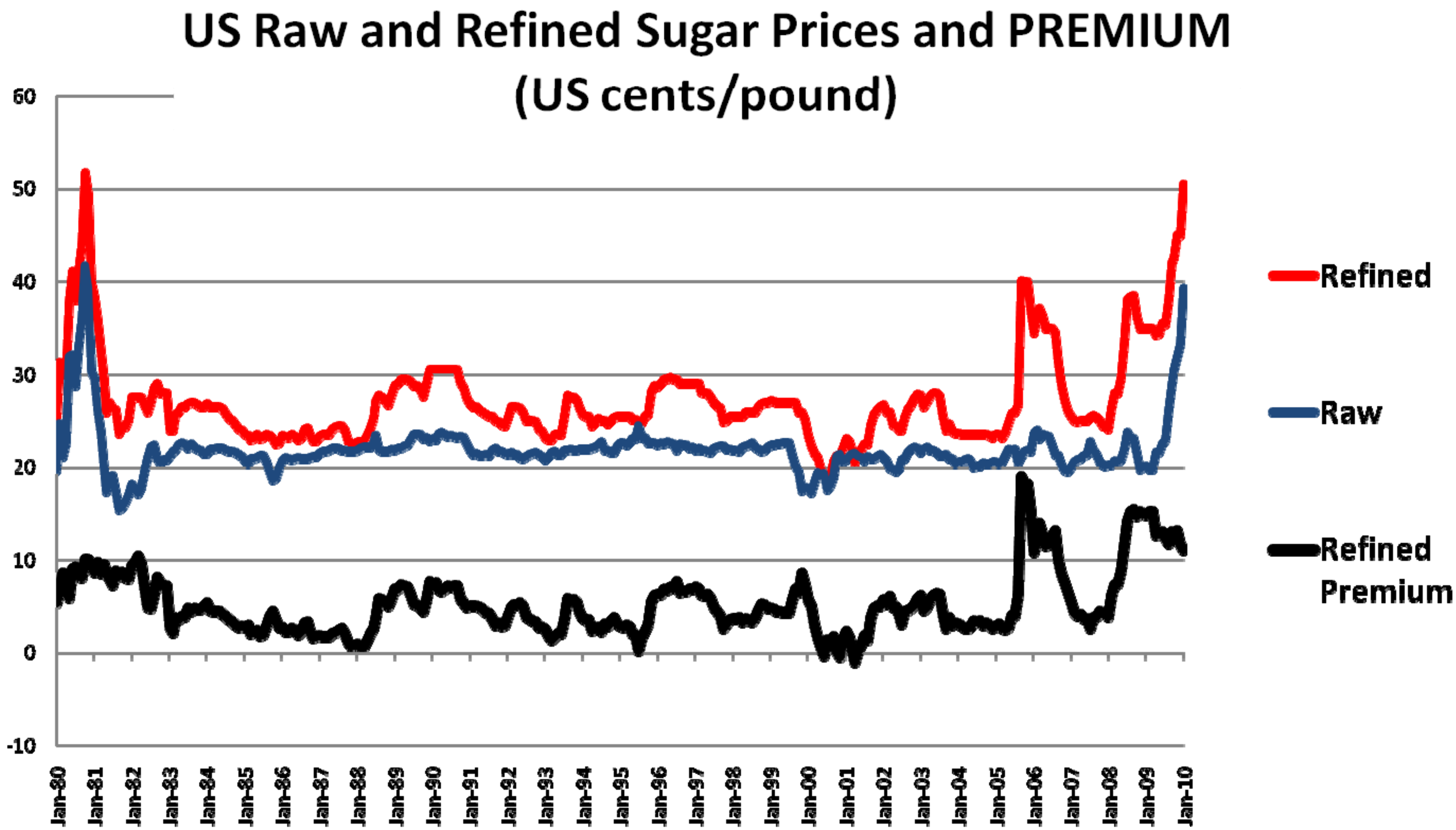
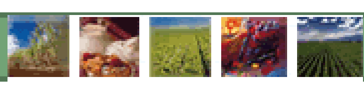




Mexico Cannot Fill US Import Demand

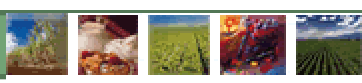
Mexico Sugar Supply and Use and High Fructose Corn Syrup Imports 1/

1,000 metric tons, raw value

	Supply			Use		
Fiscal Year	Beginning stocks	Production	Imports	Domestic 2/	**Exports**	Stocks
2008/09 est.						
Jan	1,975	5,260	160	5,540	**1,367**	488
Feb	1,975	5,260	160	5,540	**1,367**	488
2009/10 proj.						
Jan	488	5,300	720	5,300	**690**	518
Feb	488	5,100	720	5,300	**490**	518

1/ U.S. HFCS exports to Mexico (metric tons, dry-weight basis): Oct-Nov 2008 = 53,366; Oct-Nov 2009 = 136,491; Oct-Sep 2008/09 = 297,231.

2/Includes domestic consumption and Mexico's products export program (IMMEX).



Canada Exports Refined Sugar to US?