

USDA Outlook Forum
Washington, D.C.
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“Challenges to Survive in the 21st Century”

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Overview

- Background on Western Sugar, U.S. sugar market
- Effect on the U.S. sugar producing industry from 23 years of essentially flat market prices: industry restructuring, contraction, consolidation
- Recent developments: increased dependence on foreign sugar, related dangers
- Going forward: avoiding further industry contraction?
- Recent price recovery in longer-term perspective
- Importance of sustaining price recovery

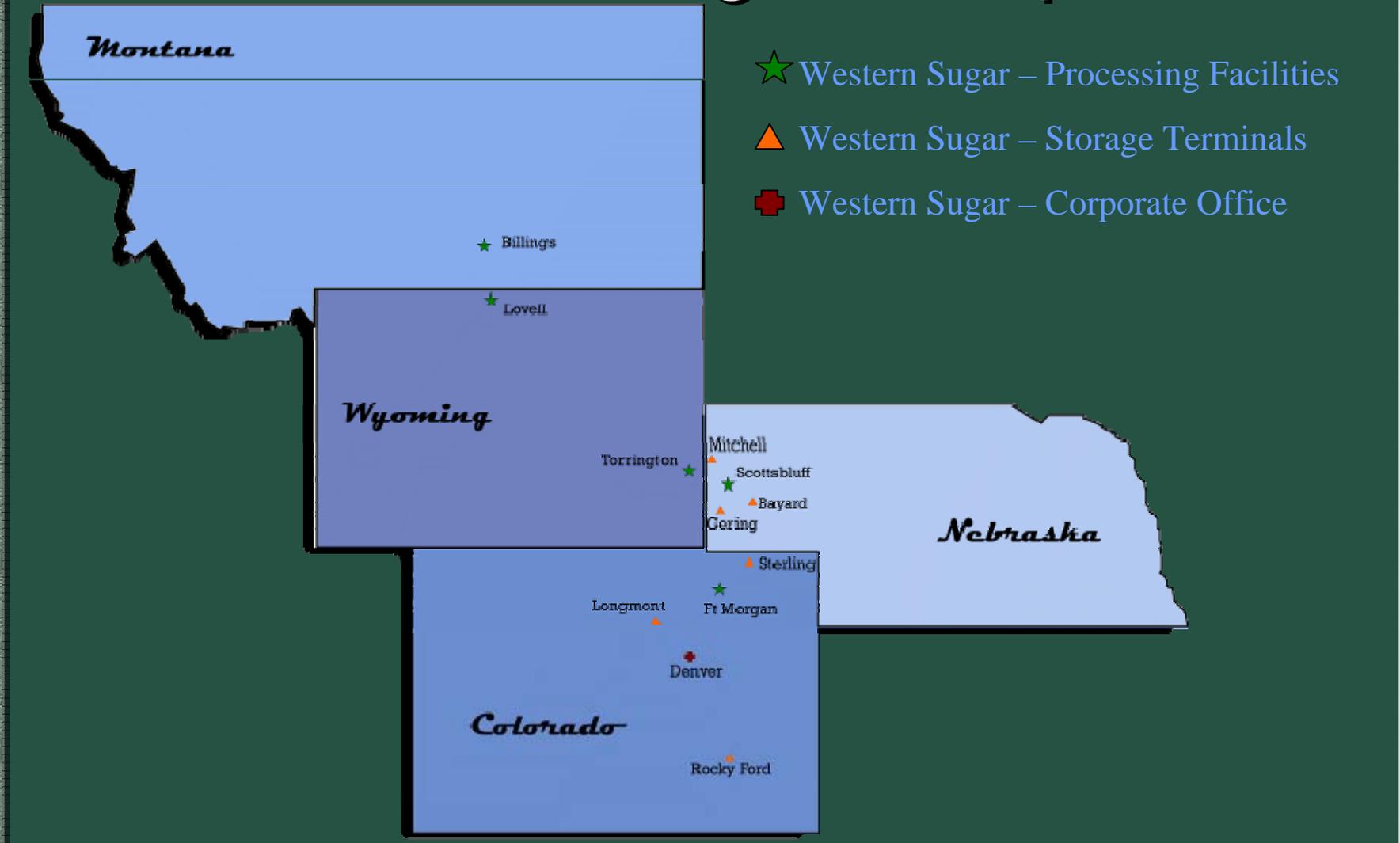


History

- 1901 - “The Great Western Sugar Company” was founded
 - First factory built in Loveland, Colorado
 - At the height of production - operated over 20 factories in 4 states
- 1985 - Tate & Lyle purchased the company
 - 6 factories operated in “Western Sugar”
- 2002 - “The Western Sugar Cooperative” was formed
 - 1000 Farmers joined together to purchase the assets from Tate & Lyle
- 2010 – The Western Sugar Cooperative supplies 10.5% of U.S. Beet Sugar
 - Consumer Packaged Products (30+ private labels & GW)
 - Industrial Packaged Products (Large food manufacturers)
 - Bulk Sugar



The Western Sugar Cooperative



Our Customers



Our Growers



US Sugar Beet Industry



Industry is Capacity Limited

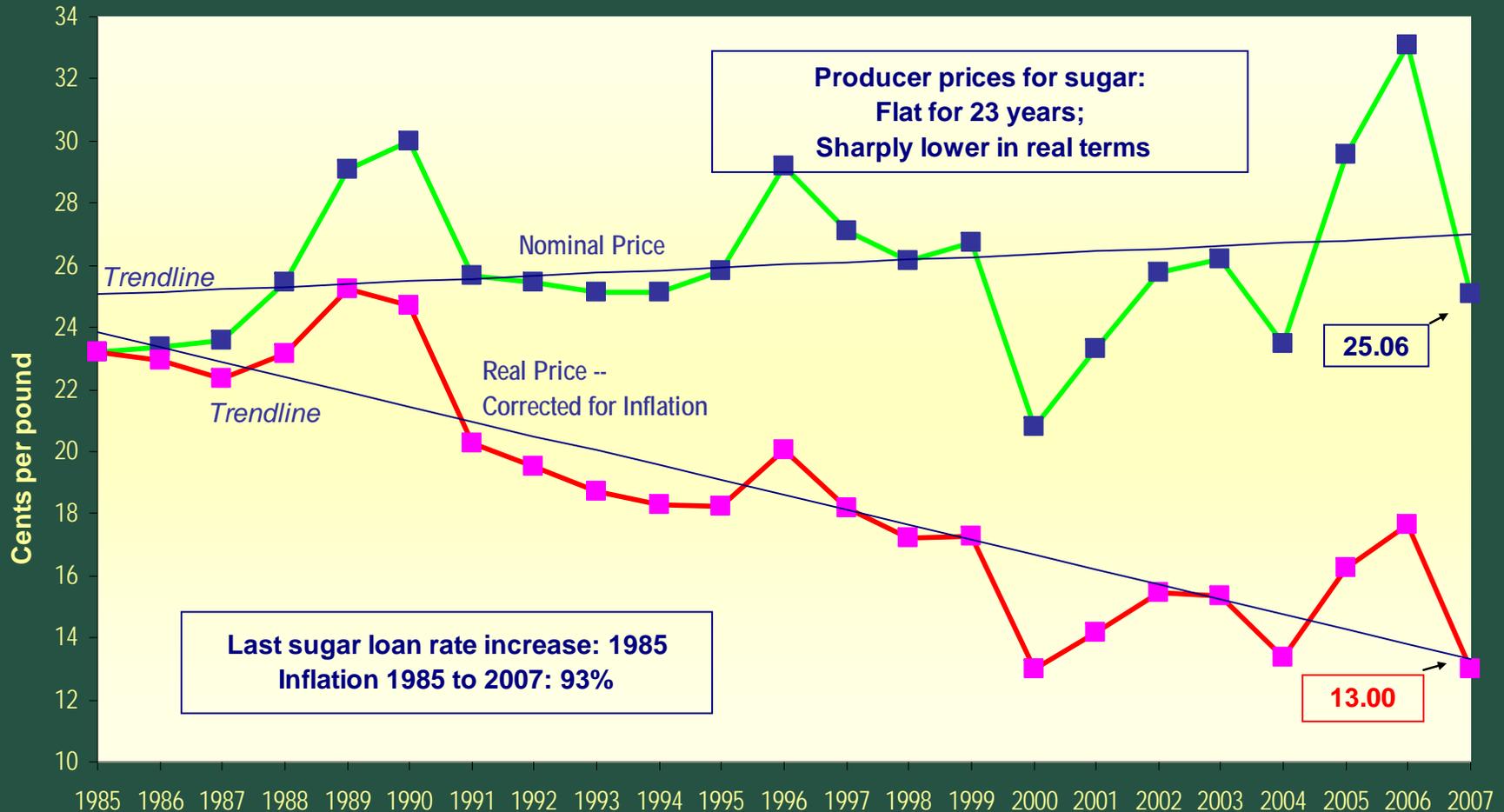
- 6 Beet Cooperatives make up this 1.1 million acre industry
- Each Cooperative's asset base is designed to operate at capacity every year
 - Each year it takes fewer acres of production to produce similar sugar yields
- 4.8 – 5.0 million tons of sugar is industry capacity
- When the industry has a bumper crop we have 3 choices
 - Sell to neighboring cooperative who may have a poor crop
 - Plow the excess crop into the soil before harvest
 - Harvest the crop and throw away what will not store in the spring
- All 3 of these solutions have been utilized the past 3 years in the industry



Events Leading to Industry being Capacity Limited



U.S Wholesale Refined Sugar Prices, Nominal and Real, 1985-2007



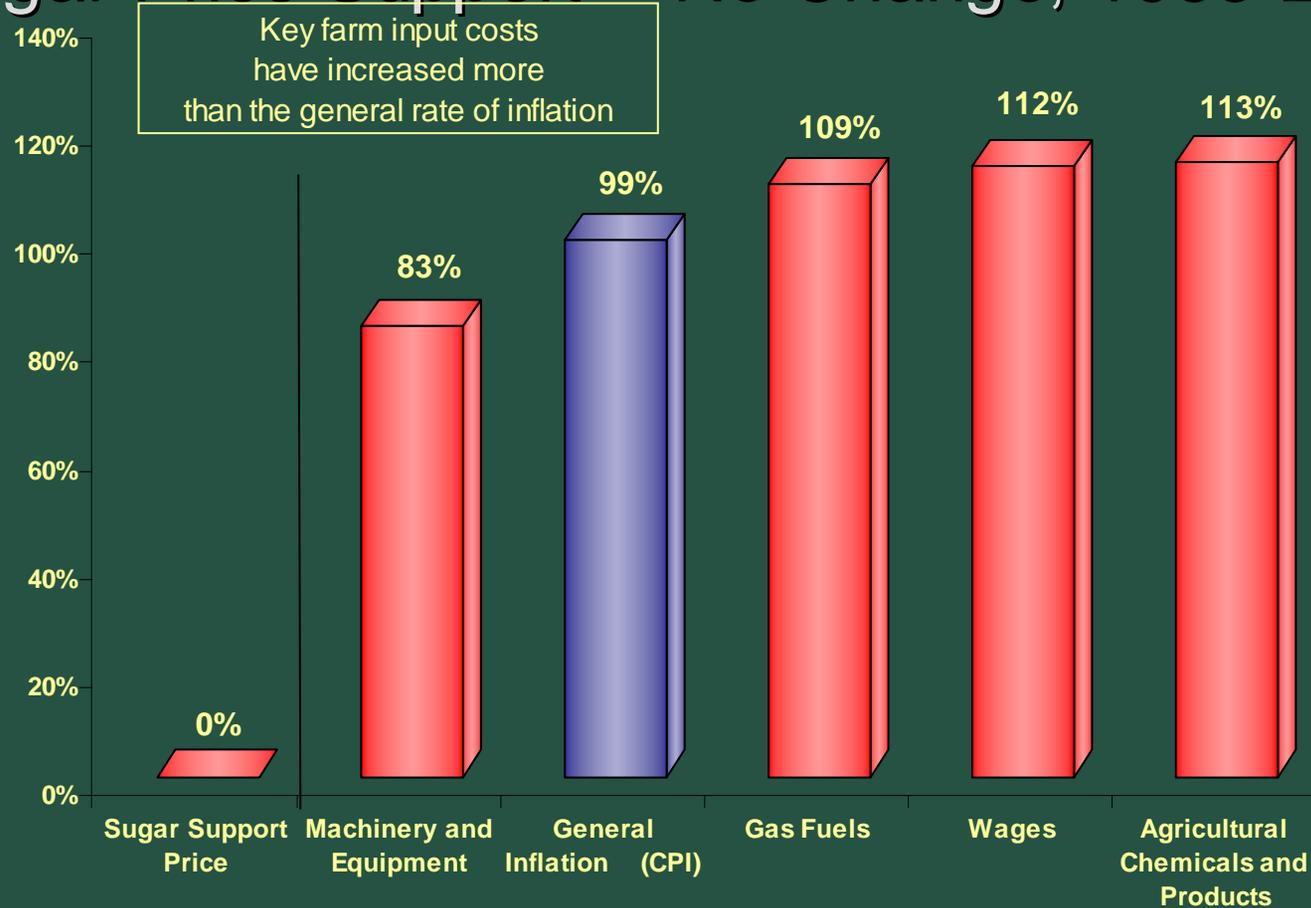
Data sources: BLS -- CPI-U. USDA - wholesale refined beet sugar, Midwest markets; Annual averages 1985-2007.

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Since 1985: Farm Input Costs -- Huge Increases

Sugar Price Support -- No Change, 1985-2009

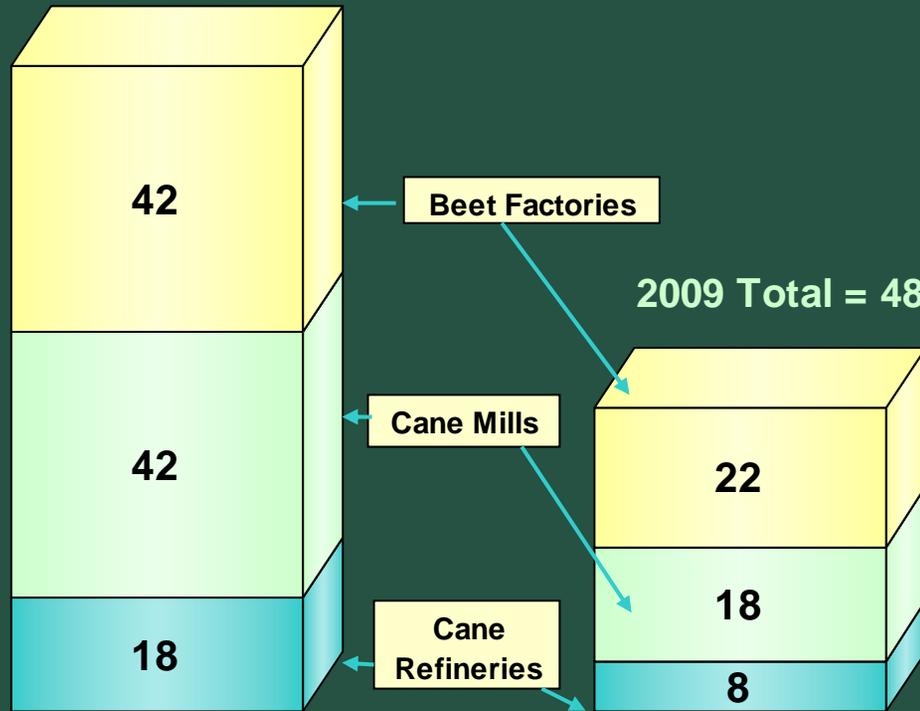


U.S. raw sugar loan rate: 18 cents/lb since 1985; 1.4% increase on October 1, 2009. Input cost data source: U.S. Bureau of Labor Statistics, Producer Price Index, 1985-2009. Employment Cost Index, 1985-2008.



Since Last Sugar Loan Rate Increase in 1985 More Than Half of U.S. Sugar-Producing Operations Have Shut Down

1985 Total = 102



1985

2009

Source: American Sugar Alliance, Jan. 2009



35 Sugar Mill and Refinery Closures, 1996 - 2009

BEET CLOSURES

Spreckels Sugar, Manteca
California, 1996

Holly Sugar, Hamilton City
California, 1996

Western Sugar, Mitchell
Nebraska, 1996

Great Lakes Sugar, Fremont
Ohio, 1996

Holly Sugar, Hereford
Texas, 1998

Holly Sugar, Tracy
California, 2000

Holly Sugar, Woodland
California, 2000

Western Sugar, Bayard
Nebraska, 2002

Pacific Northwest, Moses Lake
Washington, 2003

Western Sugar, Greeley
Colorado, 2003

Amalgamated Sugar, Nyssa
Oregon, 2005

Michigan Sugar, Carrollton
Michigan, 2005

Spreckels Sugar, Mendota
California, 2008

CANE CLOSURES

Ka'u Agribusiness
Hawaii, 1996

Waialua Sugar
Hawaii, 1996

McBryde Sugar
Hawaii, 1996

Breaux Bridge Sugar
Louisiana, 1998

Pioneer Mill Company
Hawaii, 1999

Talisman Sugar Company
Florida, 1999

Amfac Sugar, Kekaha
Hawaii, 2000

Amfac Sugar, Lihue
Hawaii, 2000

Hawaiian Commercial & Sugar, Paia
Hawaii, 2000

Evan Hall Sugar Cooperative
Louisiana, 2001

Caldwell Sugar Cooperative
Louisiana, 2001

Glenwood Sugar Cooperative
Louisiana, 2003

New Iberia Sugar Cooperative
Louisiana, 2005

Jeanerette Sugar Company
Louisiana, 2005

Cinclare Central Facility
Louisiana, 2005

Atlantic Sugar, Belle Glade
Florida, 2005

U.S. Sugar, Bryant
Florida, 2007

South Louisiana Sugar Cooperative
Louisiana, 2007

Gay & Robinson, Kaumakani
Hawaii, 2009

CANE REFINERY CLOSURES

Aiea, C & H
Hawaii, 1996

Everglades, Imperial
Florida, 1999

Sugarland, Imperial
Texas, 2003

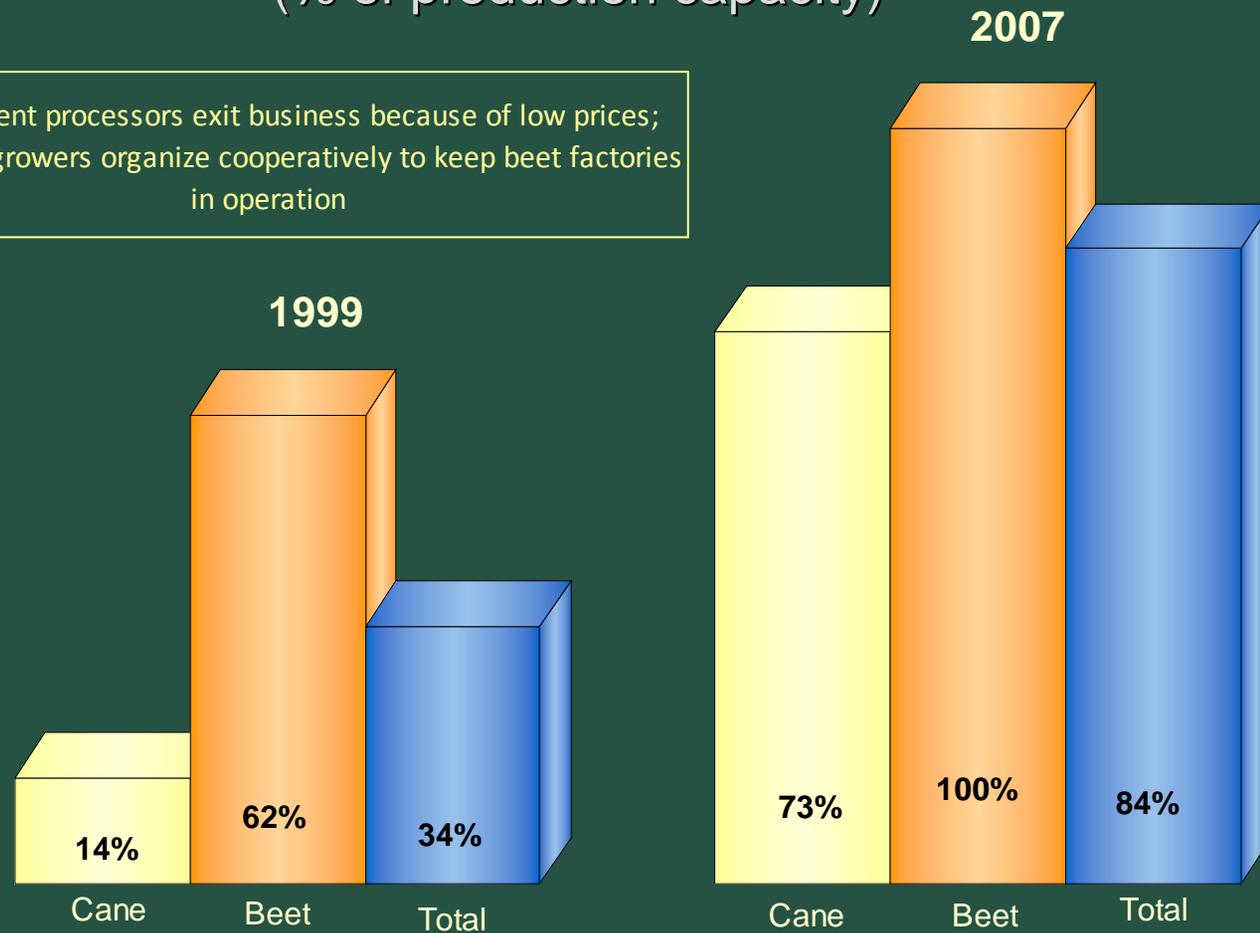
Brooklyn, Domino
New York, 2004

Note: In 2010, 22 beet factories, 18 raw cane mills, and 8 cane refineries remain in continuous operation, a 41% drop since 1996. U.S. Sugar, FL, has announced plans to close after 2015.
ASA 2010



U.S. Refined Sugar Sellers Grower-Owned Share More Than Doubles in Six Years (% of production capacity)

Independent processors exit business because of low prices;
desperate growers organize cooperatively to keep beet factories
in operation

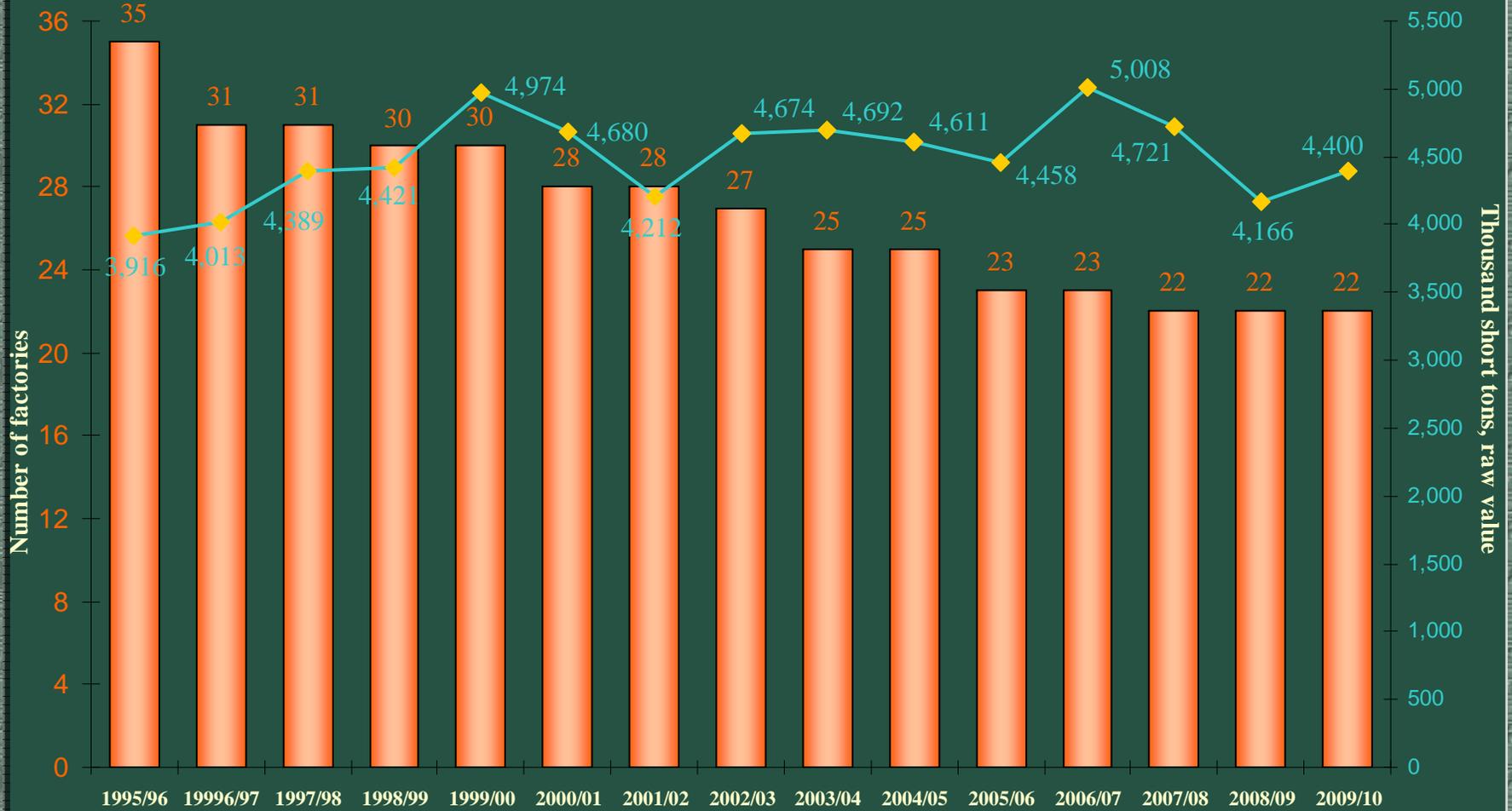


American Sugar Alliance, January 2007.



Consolidation, Increased Efficiency: Beet sugar production steady while number of factories declines by 37%

1995/96 - 2009/10



Data sources: USDA, American Sugar Alliance, February 2010



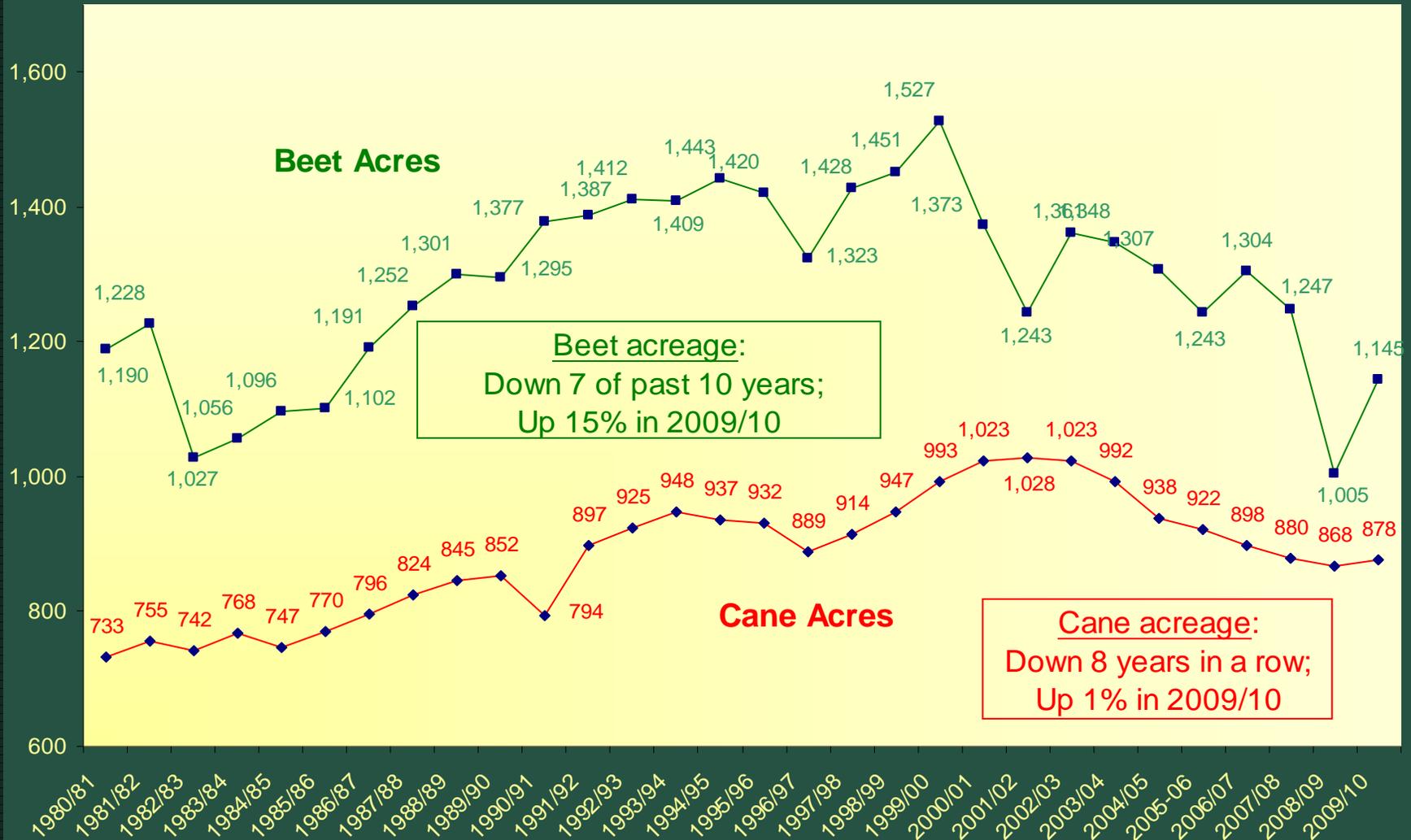
Recent Developments

- Declining beet acreage
- But rising yields – constant investment in best seed varieties, cultural practices, factory efficiency



U.S. Harvested Area of Sugarbeets and Sugarcane

-- Thousand acres --



Beet acreage:
Down 7 of past 10 years;
Up 15% in 2009/10

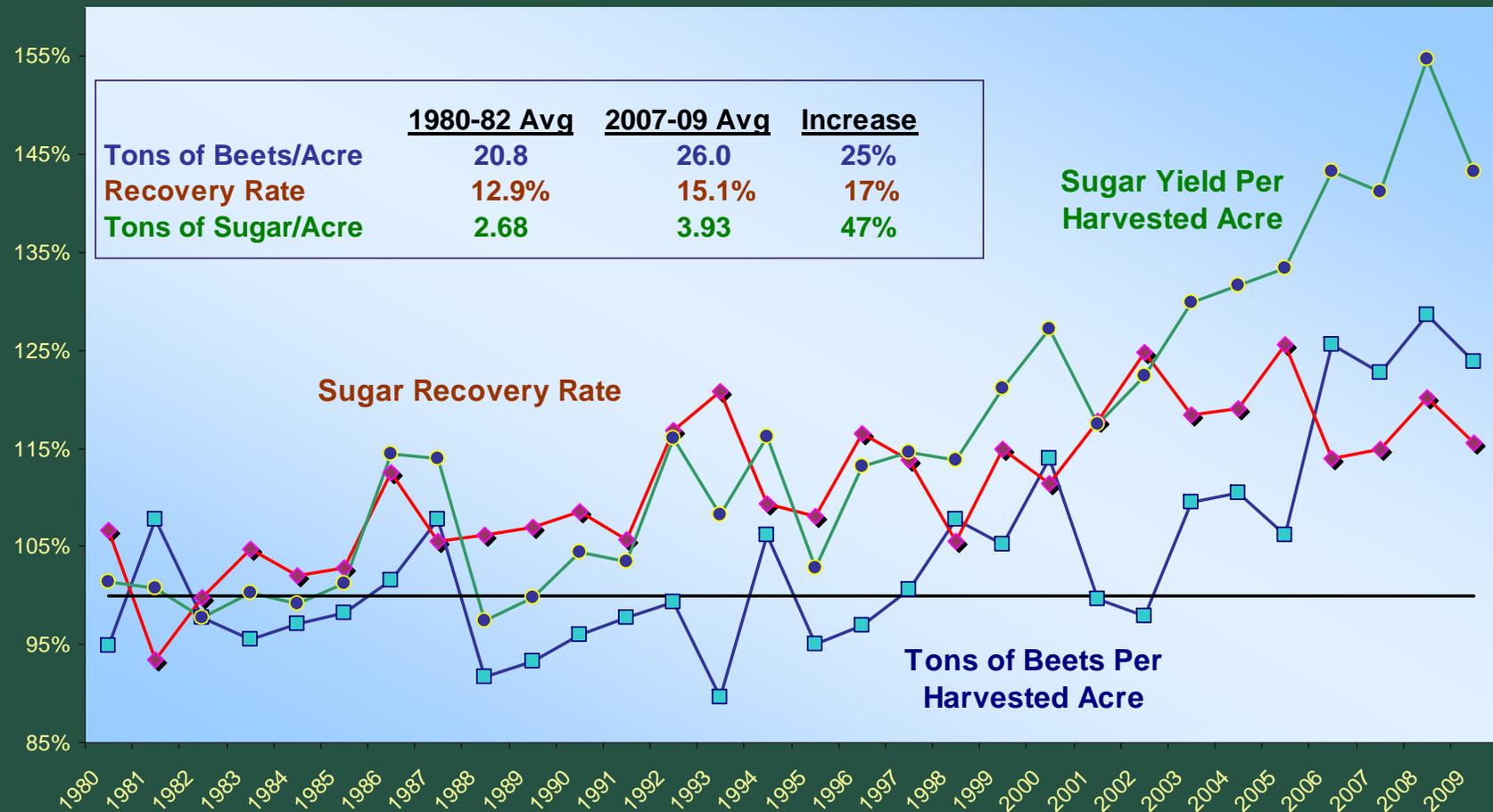
Cane acreage:
Down 8 years in a row;
Up 1% in 2009/10

Data source: ERS, USDA.



U.S. Beet Sugar Yield Improvements: Tons of Beets/Acre; Sugar Recovery; Tons of Sugar/Acre

-- 1980-82 Average = 100% --



Source: USDA, ERS. January 2010.



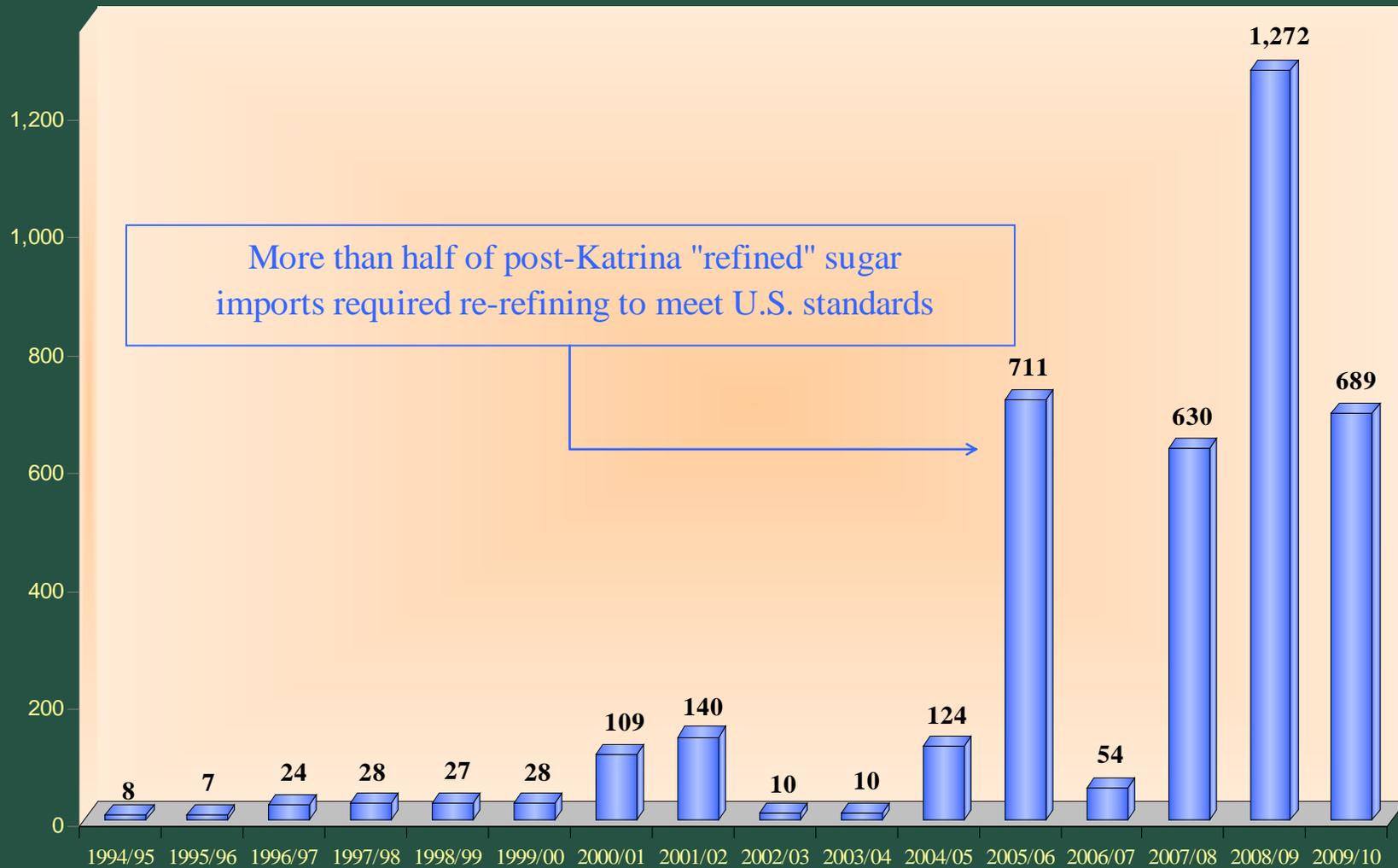
Recent Developments

- Fewer refined sugar sellers = potential problems when one region experiencing production, transportation problems: The post-Katrina experience, 2005-06:
 - Sugar available, but transportation not
 - Fallback supplies from Mexico prove to be low in quality



U.S. Sugar Imports from Mexico, 1994/95-2009/10

- Thousand metric tons, raw value -



Source: USDA, WASDE; 2008/09 and 2009/10 forecasts.

Unlimited access under NAFTA began January 1, 2008.



Recent Developments

- Fewer refined sugar sellers = potential problems when one region experiencing production, transportation problems: The post-Katrina experience, 2005-06:
 - Sugar available, but transportation not
 - Fallback supplies from Mexico prove to be low in quality
- Welcome change in Sweetener User view of sugar industry and policy prior to 2008 Farm Bill: Recognize need for a strong, dynamic domestic producing industry – appreciate the value of just-in-time delivery, high-quality, high-safety, exact specifications



Going Forward

- What will it take to sustain U.S. sugar producing capacity, avoid further closures?
- Sustain recent price recovery:
Opportunity to pay down debt, reassure financial community, invest more in cost-reducing technology

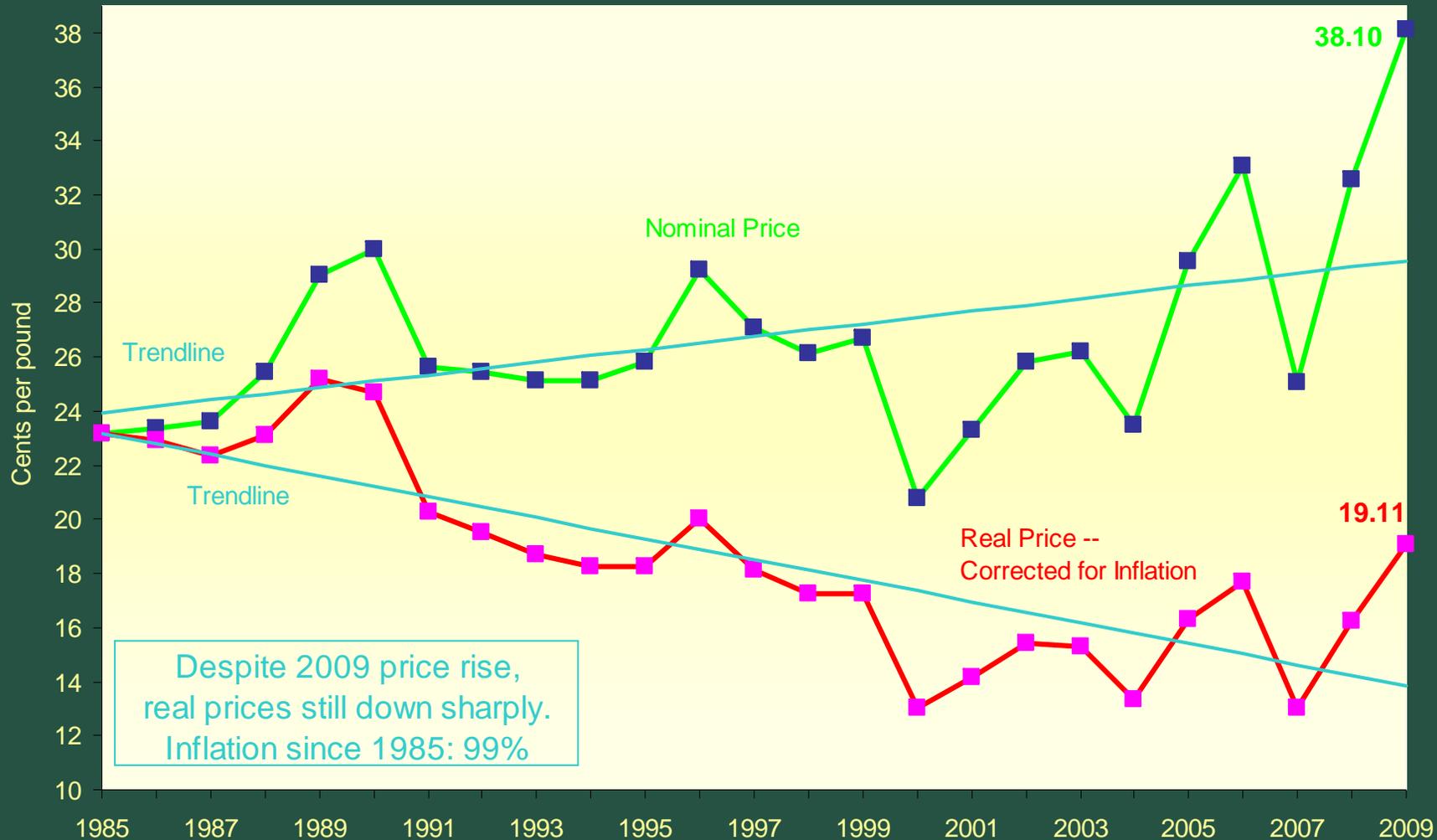


Price Recovery in Perspective

- Real prices still down



U.S Wholesale Refined Sugar Prices, Nominal and Real, 1985-2009



Despite 2009 price rise,
real prices still down sharply.
Inflation since 1985: 99%

Data sources: BLS -- CPI-U. USDA - wholesale refined beet sugar, Midwest markets; annual averages 1985-2009.



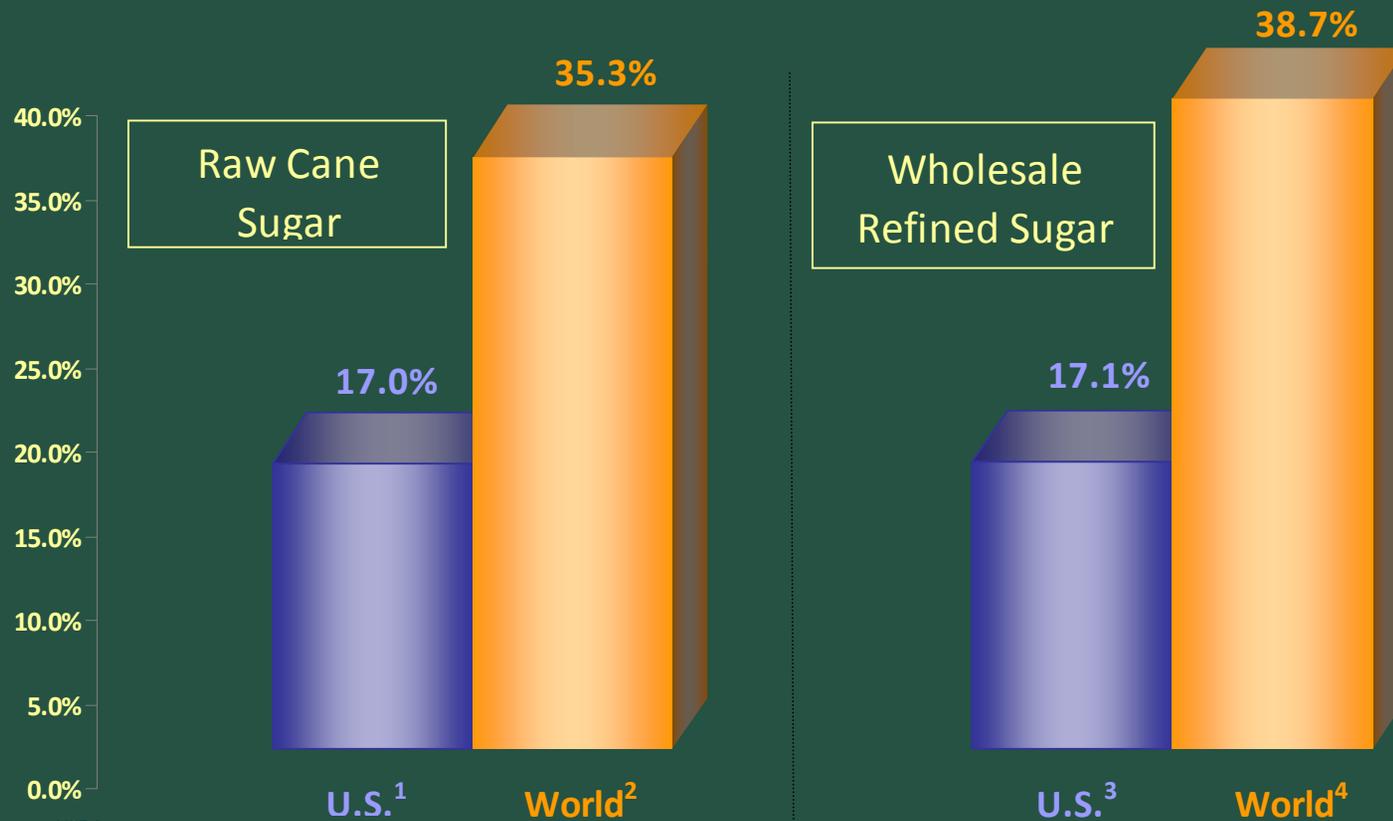
Price Recovery in Perspective

- Real prices still down
- World prices have risen twice as much as domestic



U.S. Sugar Price Rise in 2009: Less than Half of World Price Rise

-2009 Average Compared with 2008 Average-



Sources: USDA.

¹ICE, #14 or #16 contract, duty free New York.

²ICE, #11 contract, f.o.b. Caribbean ports.

³Midwest Markets.

⁴LIFFE, #5 contract, f.o.b. Europe.

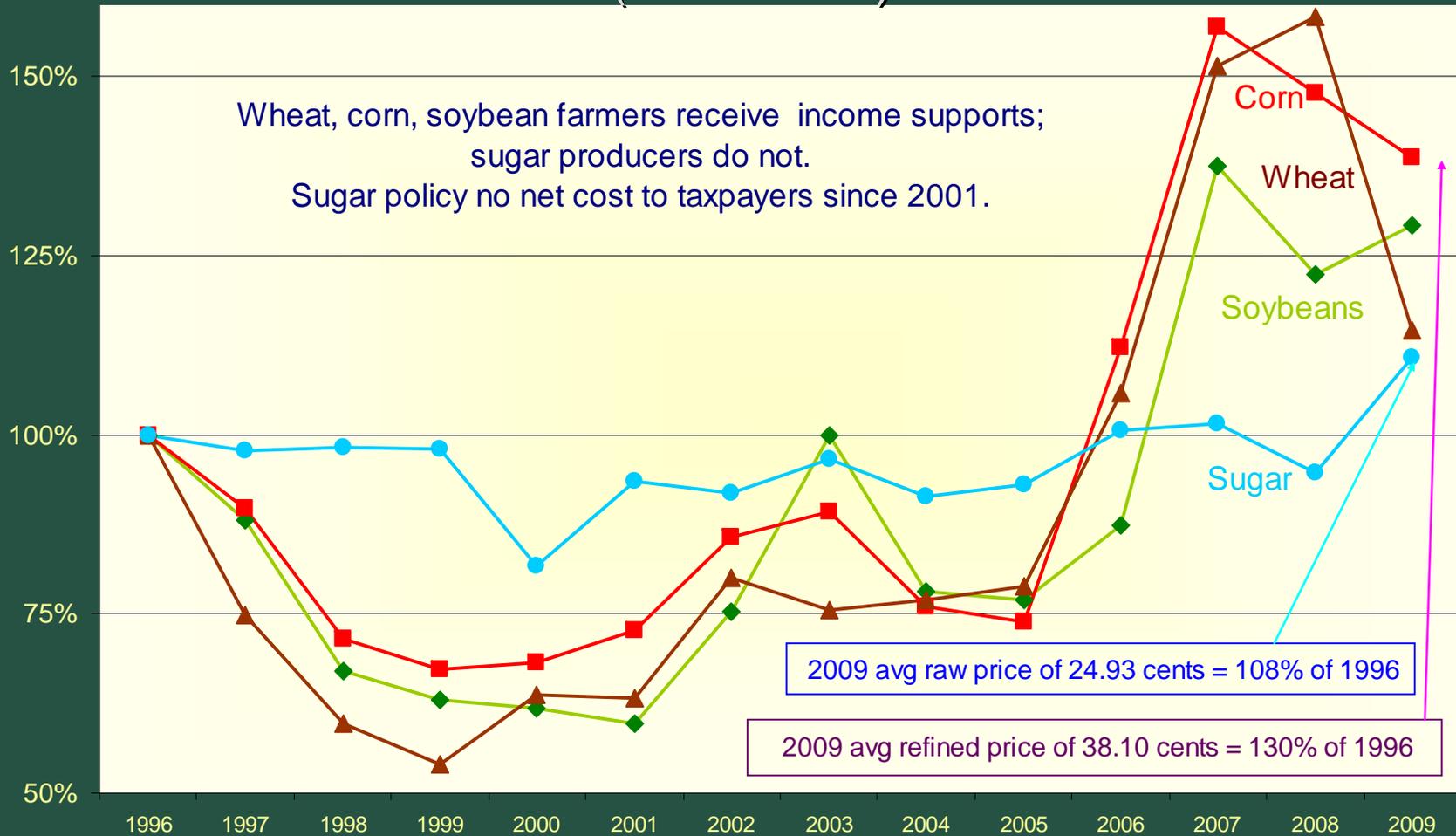


Price Recovery in Perspective

- Real prices still down
- World prices have risen twice as much as domestic
- Other commodity prices have risen more



Changes in U.S. Commodity Prices Since 1996: Other Crops Up Sharply Since 2005; Sugar Flat (1996=100)



Sources: ERS, USDA; Annual averages prices received by farm, No. 2 yellow corn, all wheat, soybeans, raw cane sugar (#14 futures contract).

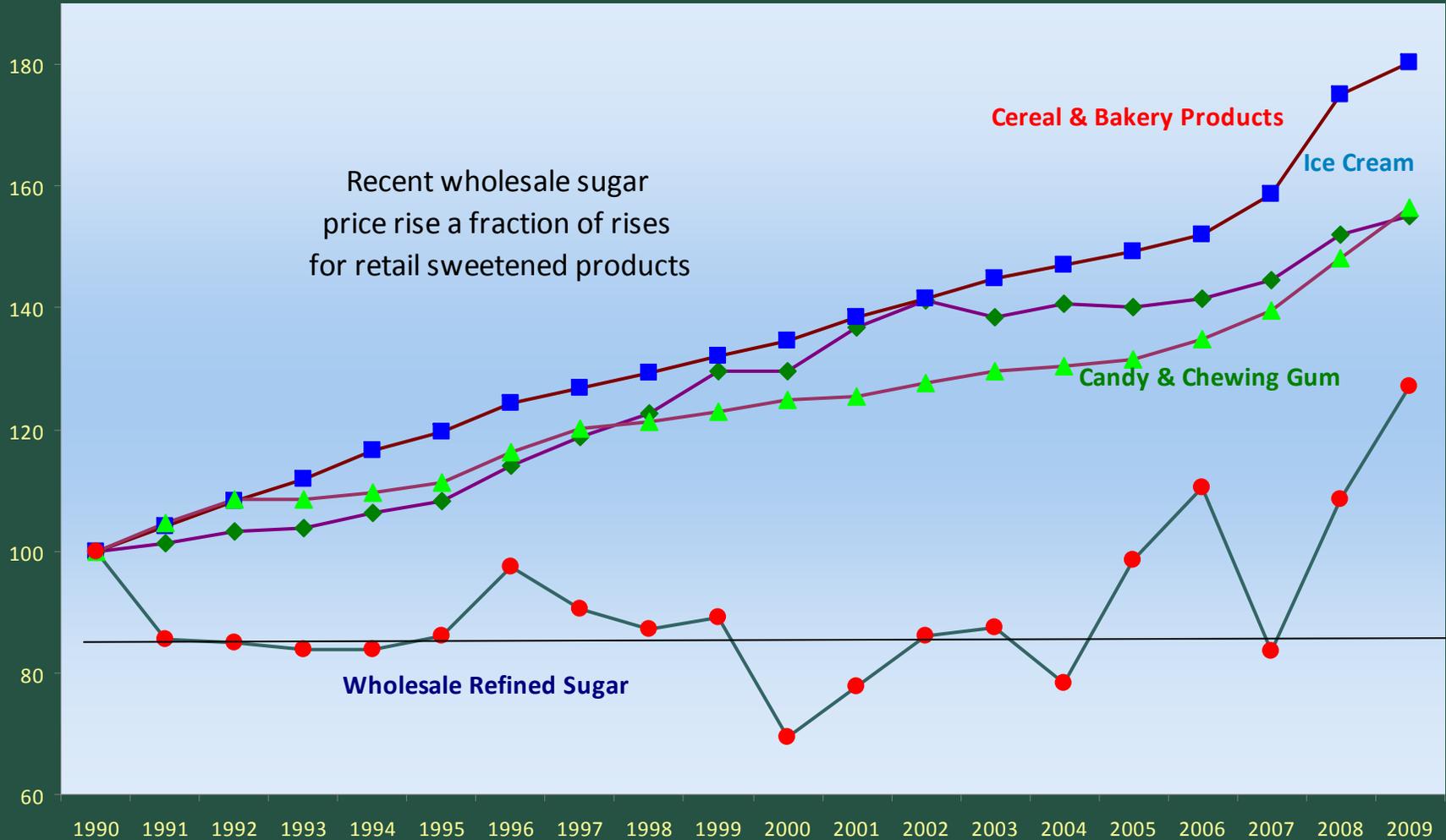


Price Recovery in Perspective

- Real prices still down
- World prices have risen twice as much as domestic
- Other commodity prices have risen more
- Sweetened product prices have risen more



Price Changes Since 1990: Wholesale Sugar and Retail Sweetened Products

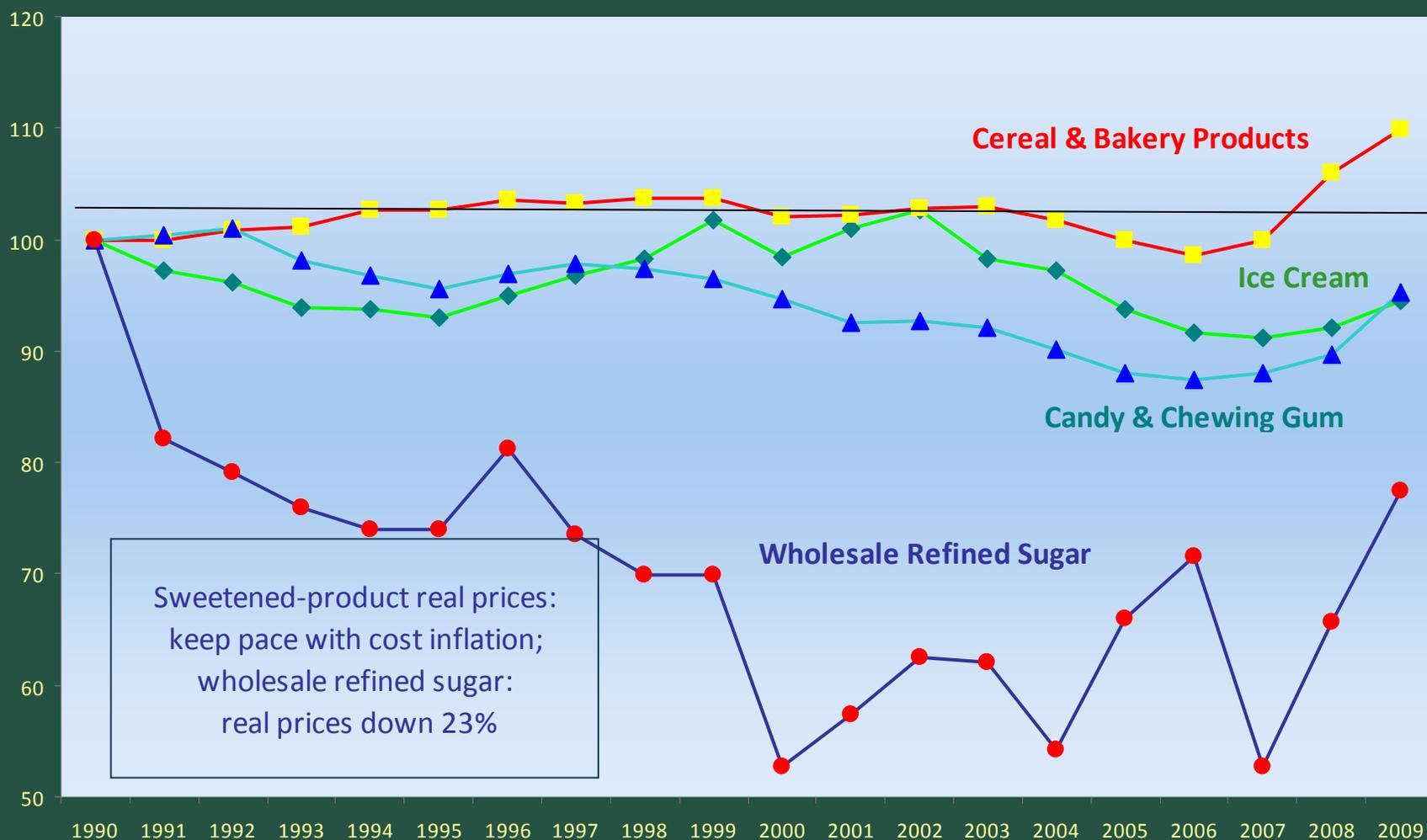


Sources: Wholesale Sugar - USDA. Retail Products - Bureau of Labor Statistics. Annual averages.



Real Price Changes (Corrected for Inflation) Since 1990: Wholesale Sugar and Retail Sweetened Products

1990=100 percent



Sweetened-product real prices:
keep pace with cost inflation;
wholesale refined sugar:
real prices down 23%

Sources: Wholesale Sugar - USDA. Retail Products - Bureau of Labor Statistics. Annual Averages.



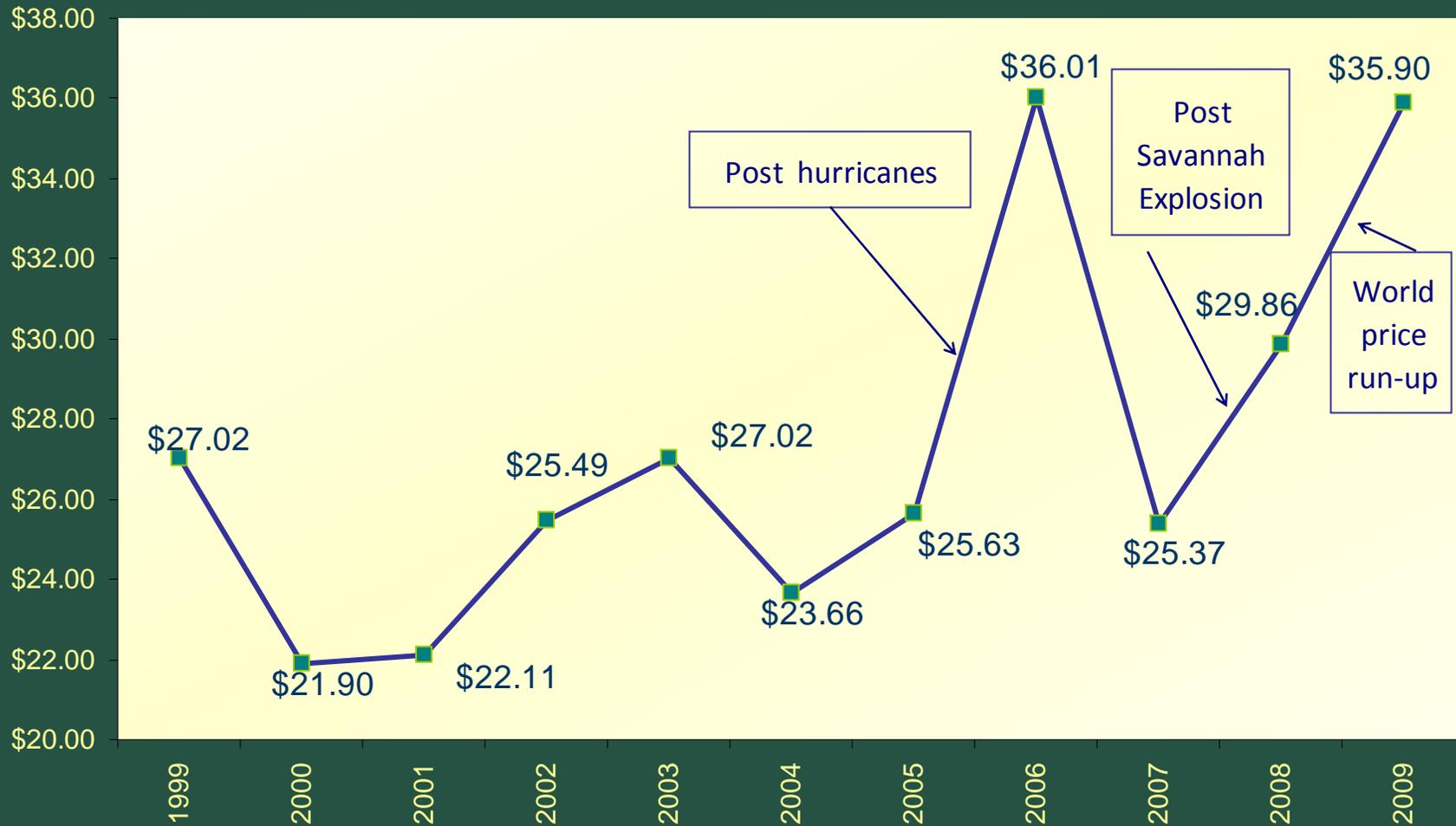
Price Recovery in Perspective

- Real prices still down
- World prices have risen twice as much as domestic
- Other commodity prices have risen more
- Sweetened product prices have risen more
- Vast majority of sugar actually sold at prices well below the spot market prices quoted by Milling & Baking News and USDA



U.S. Wholesale Refined Sugar Prices: Milling & Baking News Spot Pricing

-- Dollars per hundredweight --

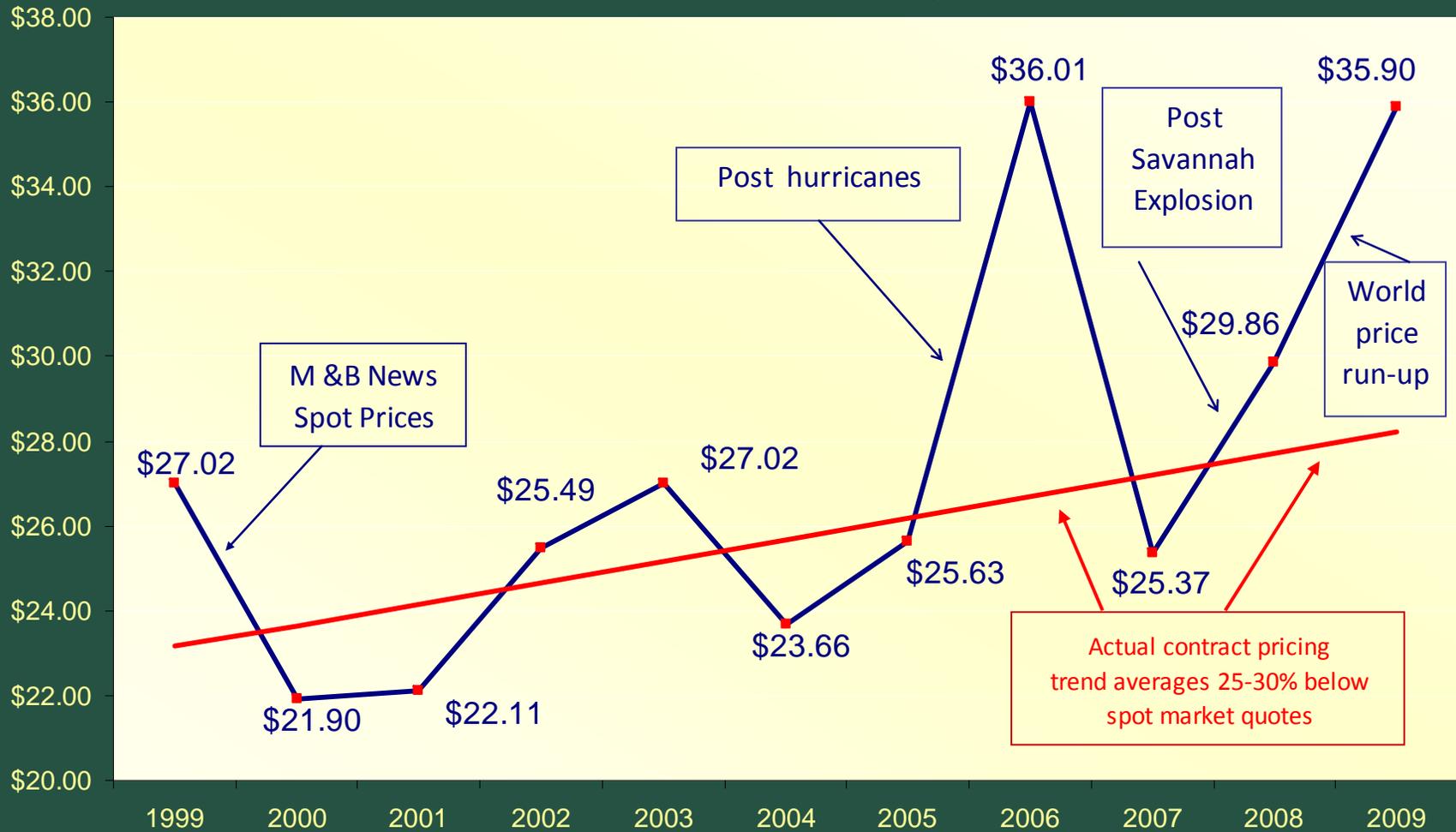


Data sources: Milling & Baking News, wholesale refined beet sugar, Midwest markets.



U.S. Wholesale Refined Sugar Prices: Milling & Baking News Spot Pricing vs Actual Contract Pricing

-- Dollars per hundredweight --



Data sources: Milling & Baking News, wholesale refined beet sugar, Midwest markets;



Conclusion

- We pride ourselves in providing high-quality, safe sugar, at more than 40 specifications, and when our customers want it – we are the food manufacturers' sugar warehouses
- We cannot easily be replaced:
 - Mexican sugar of uncertain quality
 - World sugar of uncertain reliability
- We are pleased our customers recognize this



Conclusion

- If recent price recovery can be sustained:
 - Producers might be able to improve returns over past years, re-invest, continue to improve efficiency, and stay in the business;
 - Users can depend on high quality American sugar;
 - Taxpayers/consumers continue to benefit from no-cost program, economic activity and tax revenues from a \$10-billion, 146,000-job domestic sugar producing industry

