Louis Dreyfus Commodities

Imperial Sugar Company

USDA Agricultural Outlook Forum

Sugar & Sweeteners Luncheon

Buffering the NAFTA Sugar market

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Agenda

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- The world market context

World sugar prices remain in a downtrend

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Source: Bloomberg

- For the last 3 months the #11 futures have been trapped in the range of August 2010 – a time of extreme shortage which now feels like a distant memory
- Uncertainty surrounding various government policies (EU / China restocking and Brazil fuel/currency policy) has been slowing the decline

However, a steady response on both production and consumption is leading to a surplus that is growing to an unmanageable size

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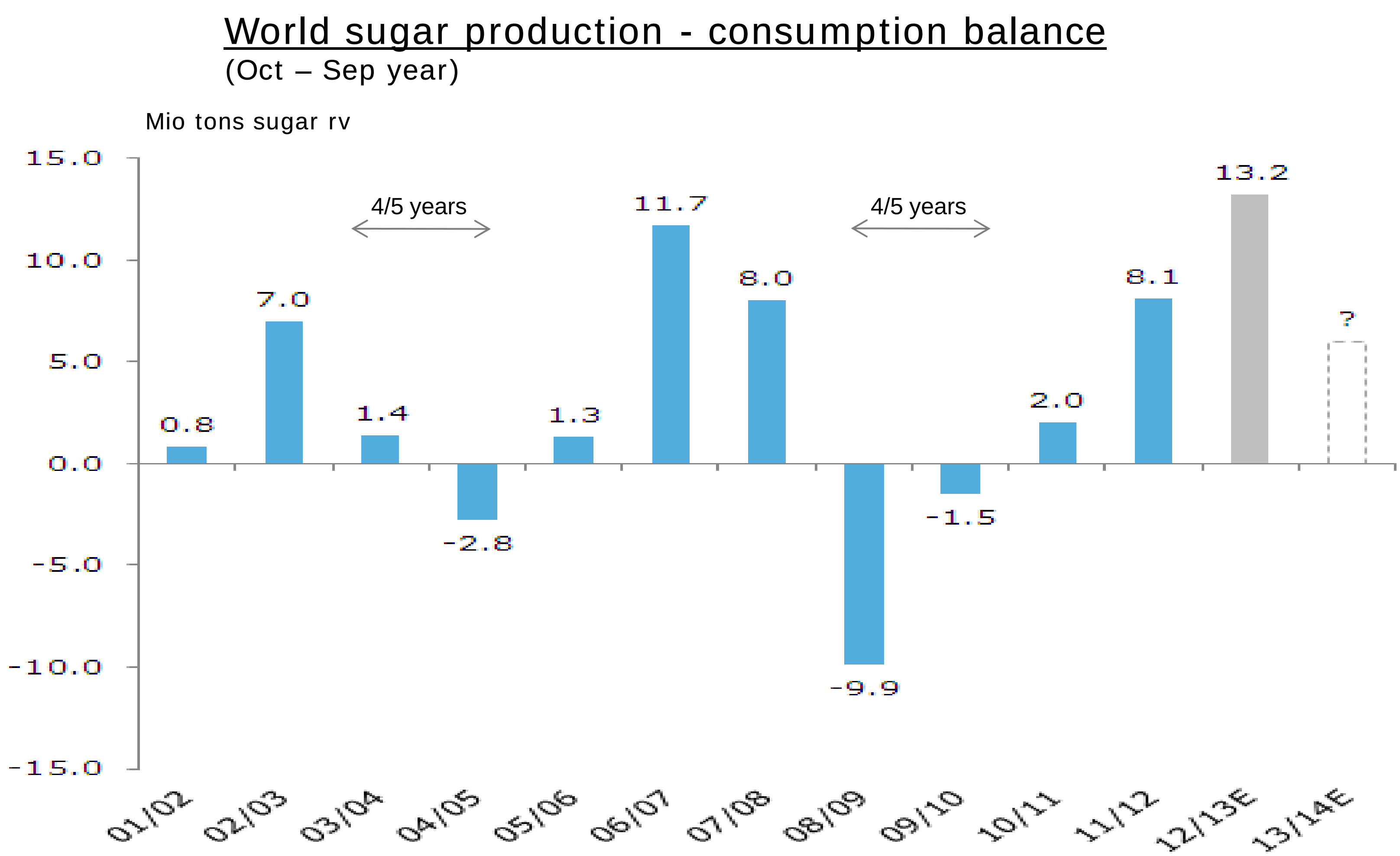

- Until the world gives Brazil a consistent signal to favor ethanol production instead of sugar, further surpluses remain on the horizon

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- The world market context

- The ethanol “floor”

The ethanol "put option"

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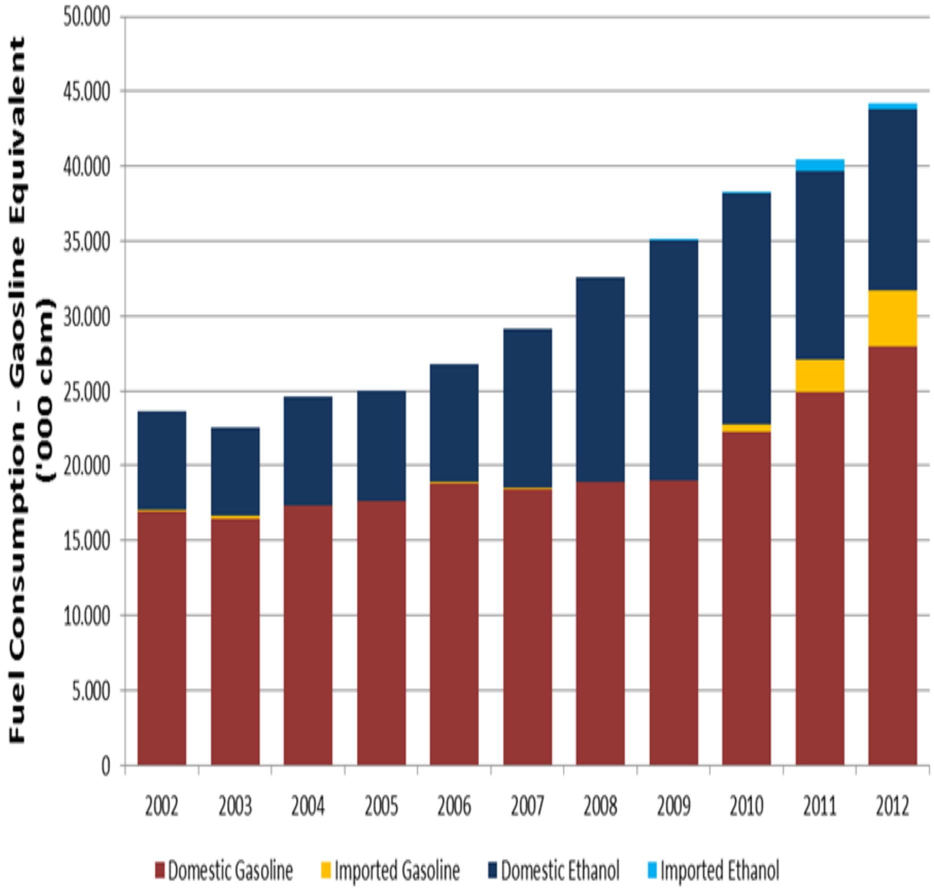

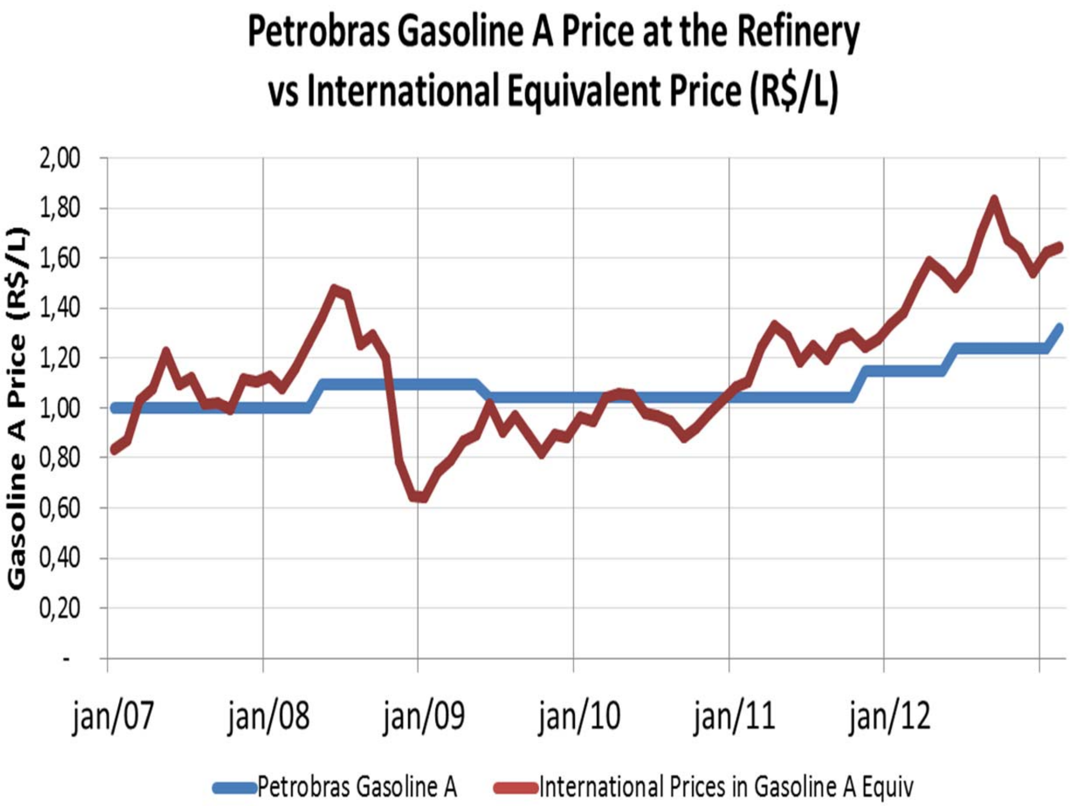

- At nearly 45myn cbm (72myn mts of sucrose), the Brazilian domestic fuel market is theoretically large enough to consume 84% of Brazilian cane production. US ethanol consumption is even larger.
- However, the Brazilian motorist has been consuming less ethanol due to high sugar prices and a cap on domestic gasoline prices. (Consumption is down 15% from the 2008-2010 average).

However, history tells us that sugar prices can stay below ethanol parities for a long time in order to encourage the switch

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Source: Bloomberg/LDC

- The last episode of surplus (2007 – 2008) saw world sugar prices remain at or below the ethanol parity for nearly two years, at certain points reaching a 25-35% discount to Brazilian domestic ethanol.
- Brazil has flexible capacity to divert 7myn mts of sugar to ethanol at the juice stage. Our view is that basis a BRL/USD exchange rate of 2.00, most of the switch will occur between 16 – 17cts/lb.

World market assessment in brief

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- World prices are off their highs but still high in historical terms.

- This had led towards both continued production growth as well as lost demand (HFCS > 4myn mts; Brazil ethanol > 7myn mts sugar equivalent). The market needs to spend some time at lower levels to recover that demand. It will be easier in ethanol than in HFCS.

- The ethanol “floor” is deep but in need of exploration – our view is that the “sweet spot” of ethanol / sugar price convergence is in the 16 – 17cts/lb price zone, despite the current “intercrop” prices nearing 20cts/lb sugar equivalent.

- #11 world sugar futures fundamental price range of 14 – 20 cts/lb for the foreseeable future (1 to 2 seasons if not longer).

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- The world market context

- The ethanol “floor”

- NAFTA: Too many variables to manage

Price volatility is being amplified in the USA – why is that ?

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Source: Bloomberg/LDC

- The US market has to contend with the fluctuating "world market base" as well as a program set up to allow raw sugar prices to fluctuate up to 16.5cts/lb above that base. A once stable market has now become one of the most volatile / unstable domestic markets in the world.

One of the worst jobs in the sugar world:

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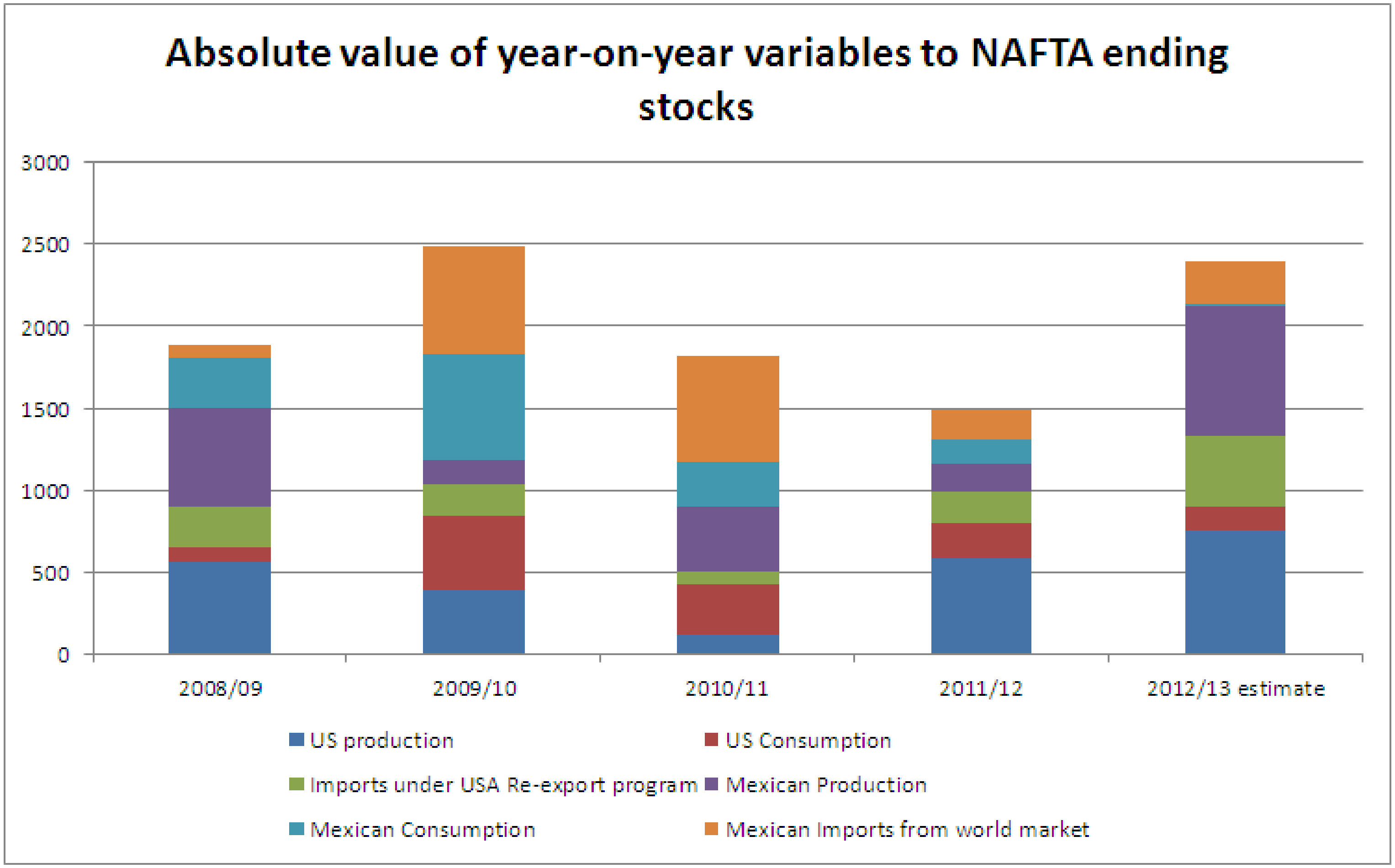
- Landing the US stocks-to-use ratio to within a 2% tolerance (235k short tons) is becoming an increasingly impossible task given the volatility of the components



- The only “no-cost” tool available to the USDA (calibration of TRQ imports) is being rendered ineffective by the sheer weight of extraneous factors

Magnified by the Mexican industry's lack of willingness to hold stocks

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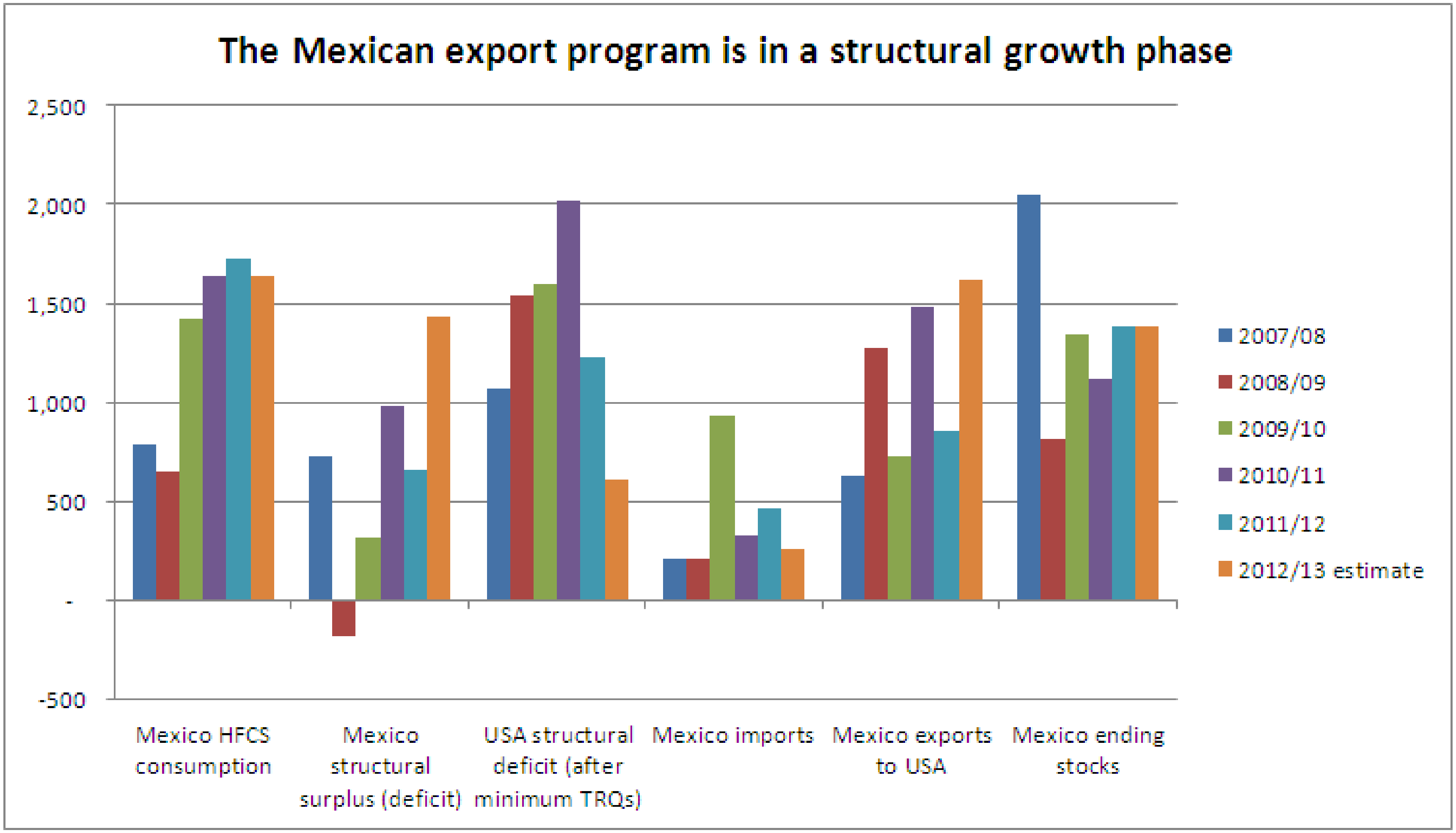

- After its traumatic 2008 experience, Mexico is buffering its market by exporting its expected surplus to the USA then re-importing from the world market when necessary

- This is adding unnecessary volatility to the USA market, while the Mexican surplus now exceeds the USA structural deficit driving US sugar into a default situation

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- The world market context
- The ethanol “floor”
- NAFTA: Too many variables to manage
- Free trade ?

Domestic industries across the top 15 structural deficits benefit from protection against white sugar imports (except for the USA)

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	Structural Deficit (3 year average) (000 mts)	Protection against white sugar imports ?
Indonesia	-3,130	YES
USA	-2,539	NO
EU	-1,762	YES
Bangladesh	-1,732	YES
Japan	-1,567	YES
Malaysia	-1,539	YES
Nigeria	-1,401	YES
South Korea	-1,357	YES
Algeria	-1,332	YES
Russia	-1,311	YES
China	-1,168	YES
Canada	-1,149	YES
Saudi Arabia	-1,120	NO
Iran	-1,119	YES
Egypt	-1,048	YES

What is dumping ?

Dumping is, in general, a situation of international price discrimination, where the price of a product when sold in the importing country is less than the price of that product in the market of the exporting country

http://www.wto.org/english/tratop_e/adp_e/adp_info_e.htm

World market "export" versus "domestic" price parities

Exporting at or above domestic price parity	Exporting at discounts to domestic price parity
Brazil	Argentina
India	Australia
Pakistan	Colombia
	El Salvador
	EU
	Guatemala
	Honduras
	Mexico
	Nicaragua
	Philippines
	South Africa
	Thailand
	Ukraine

LDC internal assessment – some omissions

Mexico is clearing its surplus via aggressive export policies – this is to be expected in the world of sugar

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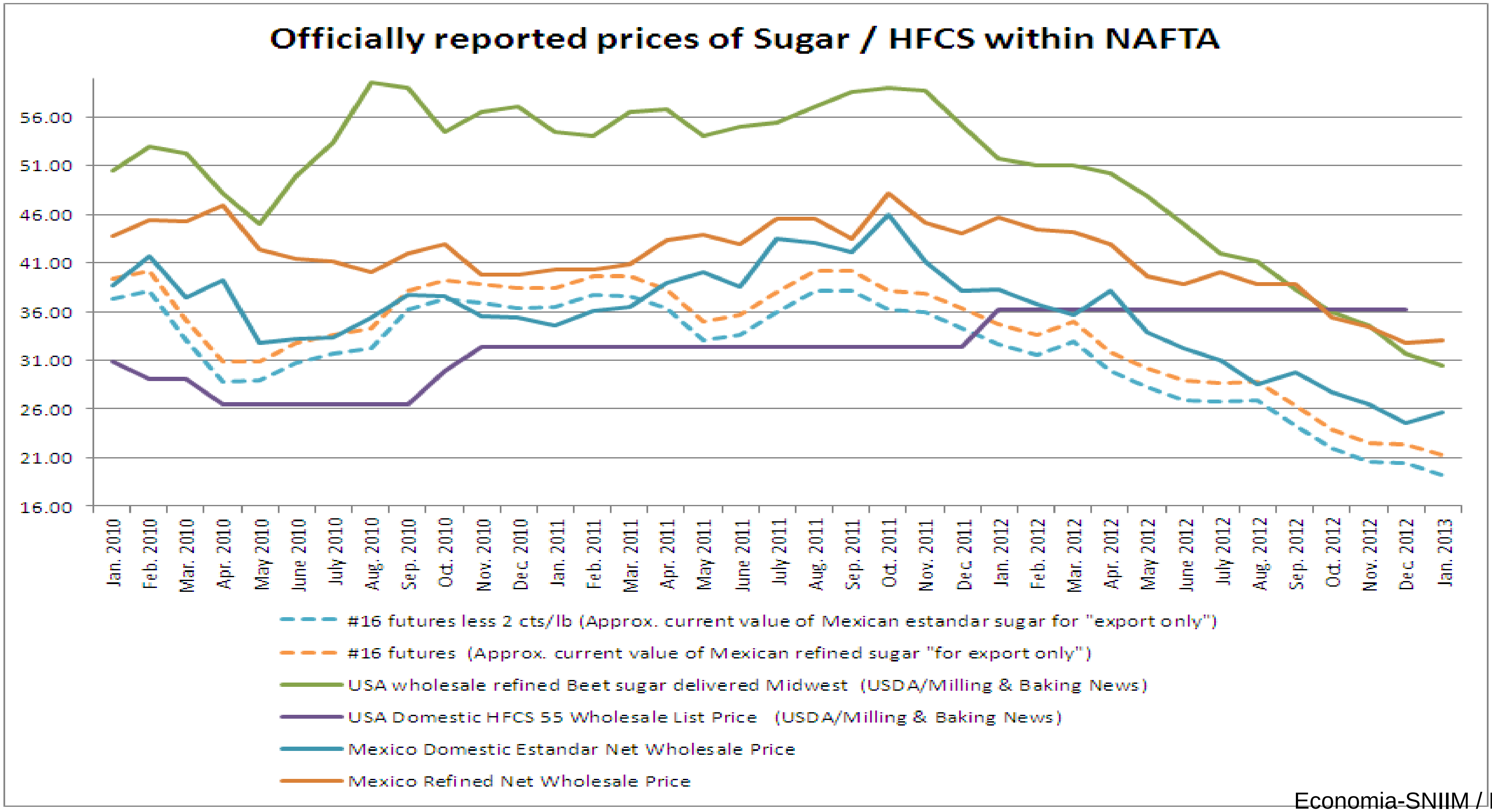

Economia-SNIIM / LDC

- The Mexican mills are acting rationally - - export the sugar to benefit from lower cane prices on the exported volume while maintaining higher domestic prices to pacify the cane farmers.

- However, the end result is that relatively high Mexican refined sugar prices are not pushing the issue on HFCS replacement. The end result is that the US Sugar program will carry the burden.

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- Free trade ?
- “No cost” solutions to an unsustainable policy mix

Potential Solutions – how to better manage NAFTA sugar volatility

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1. Widen our expectations of stock variance / baseline levels within the USA. We need more commercial participation in buffering the system to temper the volatility.

2. Engagement with the Mexican sugar industry. Export/domestic price convergence in Mexico must be the rule not the exception. This will facilitate commercial stock buffering within Mexico as well as replacement of HFCS in times of surplus.

3. A raw sugar re-export program would be a useful commercial tool to manage production volatility and displace stocks to forward periods of need - - at no cost to the US government. We should better analyze this opportunity while assessing the closure of the “Maquiladora loophole” in the existing refined sugar re-export program.

4. An integrated industry means that most of the USA sugar cane/beet producers have an economic interest in the domestic refined sugar price. There is a very clear case (and world market precedent) for application of differential raw / white import tariffs in the USA - - particularly if Mexico continues with its differential export/domestic pricing policy. . .

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Thank you