Outlook for Mexican Sugar Industry
Summary

1. Beta San Miguel
2. Impact of Suspension Agreements
3. North American Supply & Demand
4. Production Trends
5. Outlook
Beta San Miguel

- Largest sugar producer in Mexico
- Established in 1989
- Eleven sugar mills
- 1.33mm MT for 22% share
- Refined, white, estandar and raw sugar
Suspension Agreements: Main terms of v3.0

• Refined Sugar > 99.2 dry pol
• Other Sugar < 99.2 dry pol = raw sugar
• Other Sugar = minimum 70% of shipments
• Other Sugar can only be shipped in bulk in an ocean going vessel
• Other Sugar minimum price 23 c/lb FOB Mill
• Refined Sugar minimum price 28 c/lb FOB Mill
• Mexico gets first refusal on additional imports
Impact of SA: Mexican legal framework

• Mexican Government has integrated the Suspension Agreements into the legal framework of the industry to ensure compliance.

• Complicated system of quotas and licenses
Impact of SA: Sugar Quality

• Prior to the Suspension Agreements hardly any sugar was made below 99.5
• Now 70% of exports need to be raw sugar of a quality that cannot be marketed in Mexico
• This complicates production planning for changes in the quota and potential out of crop quota increases
• Unprecedented cooperation is required between milling groups to consolidate raw sugar at exporting mills
• Treats Mexican raws differently from TRQ
Impact of SA: Customers

• Mexican refined sugar had an unlimited number of potential buyers in the US – quality on a par with US refined

• Estandar sugar had fewer potential buyers – customers making higher color products

• TRQ raw sugar has a small group of potential customers

• SA raw sugar shipped in bulk ocean going vessels has only four potential customers
Overall Impact of AD/CVD case

• In the 25 years since NAFTA was signed there have only been six years of free trade
• SA’s are eliminating a spectrum of small to medium sized sugar distributors in the US market
• Reduced US sugar users’ choice of sugar type
• Introduced a new floor price for US sugar market
• Added to political uncertainty for producers and users in both countries
Mexico: Supply & Demand

Source: CNIAA
Mexico: Sugar Production & Cane Area

<table>
<thead>
<tr>
<th>Year</th>
<th>Sugar Production (Tons)</th>
<th>Area Harvested (Ha)</th>
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<tr>
<td>2007-08</td>
<td>5,521</td>
<td>683</td>
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<tr>
<td>2008-09</td>
<td>4,962</td>
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<td>2009-10</td>
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<td>2010-11</td>
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<td>2011-12</td>
<td>5,048</td>
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<td>2012-13</td>
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<td>2013-14</td>
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<td>2014-15</td>
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<td>2017-18</td>
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</tbody>
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Source: CNIAA
Mexico: Field & Factory Yield

Source: CNIAA
Pol in Cane & Factory Efficiency

Source: CNIAA
Conditions for growth

- No more hectares needed, 7 million tons achieved with same area in 12/13.
- Canegrowers must be encouraged to renew cane – big increase in financing required.
- Major irrigation investments to counteract apparent dry weather trend
- De-bottlenecking mills
- Political and trade stability
- Will take time
Alternative crops, ethanol and co-gen

- PRONAC law introduced in 2014 was supposed to stimulate cane production by 10 mm T, diverting surplus cane to energy. Actual result is flat:
  - AD/CVD uncertainty held back investment
  - Energy prices have not supported ethanol and co-gen.
- Berries and Avocados are capturing hectares in Jalisco and Michoacan but potential for cane area growth exists in NE and SE
USA:
Caloric Sweetener Consumption

Last 10 years' consumption growth:
Caloric Sweeteners = 0.00% pa
Sugar = +1.97% pa
HFCS = -2.52% pa

Source: USDA
Mexico:
Caloric Sweetener Consumption

Last 10 years consumption growth:
Caloric Sweetener = +1.31% pa
Sugar = +0.1% pa
HFCS = +10.98% pa
But last 5 years:
Caloric Sweetener = +0.73% pa
Sugar = +1.10% pa
HFCS = -0.24% pa

Source: CNIAA
Outlook

• US market will demand between 1 to 2 mm strv annually of additional imports over the next 10 years even assuming further domestic production growth.

• Mexican market will also demand 0.5 million MT more sugar assuming HFCS stays at 25%

• Mexico can supply a large share of this US growth but there will be a leadtime. TRQ may grow first.

• Both industries need stability – not continuous reviews, renegotiation and threats of termination.
Sugar in NAFTA

• Current NAFTA sweetener provisions coupled with Suspension Agreements benefit USA more than Mexico
• For US, SA’s provide higher floor price than Farm Bill
• Mexican sugar access to US is tightly managed
• US HFCS enjoys unfettered access to Mexican market
• Without NAFTA:
  – US raw sugar prices would go down as TRQ is enlarged
  – Corn wet millers would have to find new homes for previously exported HFCS
  – Mexican sweetener market would be balanced
• Nonetheless we support the status quo.