Outlook for the Cane Refining Industry

USDA Agricultural Outlook Forum
February 2015
Facts of Life

• US sugar market has been distorted since the 1930s when farm support programs started.
• Our govt picks winners and losers, and cane refiners are on the short side.
• High sugar support prices vs corn set the stage for a 25 year siege against cane refiners.
• CCC loan rates are set at prices that do not allow cane refiners to cover costs.
## Simple Math

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Refined Beet Loan Rate</strong></td>
<td>$ 24.09</td>
</tr>
<tr>
<td><strong>Raw Cane Loan Rate</strong></td>
<td>$ 18.75</td>
</tr>
<tr>
<td>Delivery to refiner</td>
<td>$ 3.00</td>
</tr>
<tr>
<td>#16 Equivalent</td>
<td>$ 21.75</td>
</tr>
<tr>
<td>Refining loss &amp; Pol</td>
<td>$ 1.52 @ 7%</td>
</tr>
<tr>
<td>Refining cost (est)</td>
<td>$ 6.00</td>
</tr>
<tr>
<td>Total Raw Cost (excluding refining)</td>
<td>$ 29.27</td>
</tr>
<tr>
<td><strong>Beet / Cane Differential</strong></td>
<td>$(5.18)</td>
</tr>
</tbody>
</table>
Circle of Life
Of a Cane Refiner 1978-1999

- 1999: 4.07 cents per lb.
- 1998: 2.52 cents per lb.
- 1997: 3.59 cents per lb.
- 1996: 5.23 cents per lb.
- 1995: 1.26 cents per lb.
- 1994: 1.57 cents per lb.
- 1993: 2.02 cents per lb.
- 1992: 2.64 cents per lb.
- 1991: 2.57 cents per lb.
- 1990: 5.08 cents per lb.
- 1989: 4.65 cents per lb.
- 1988: 1.77 cents per lb.
- 1987: 0.24 cents per lb.
- 1986: 0.96 cents per lb.
- 1985: 1.42 cents per lb.
- 1984: 2.40 cents per lb.
- 1983: 2.52 cents per lb.
- 1982: 6.31 cents per lb.
- 1981: 7.15 cents per lb.
- 1980: 6.07 cents per lb.
- 1979: 3.03 cents per lb.
- 1978: 3.75 cents per lb.

HFCS Introduced to Market: 1978
Coke & Pepsi go to 50% HFCS: 1979
C&H sold to Private Equity, US Sugar refinery opens: 1998
Savannah sold to Imperial: 1997
C&H sold to A&B: 1993
Domino Philadelphia Closes: 1981
Domino Philadelphia Closes: 1982
Domino Philadelphia Closes: 1983
Domino Korean Closes: 1984
Domino Boston Closes: 1988
Domino Boston Closes: 1989
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Market forces do work

- The 25 year siege against cane refiners left the industry with few players.
- Natural events (poor crops and hurricanes) offered the remaining refiners profitable margins from 2005 to 2012.
- Higher margins brought new capacity to the market (Imperial, LSR, CSC)
- Margins collapsed with new refinery capacity available.
Circle of Life
Of a Cane Refiner 2000-2014

- 2000
  - Bumper crops in US and Mexico, Imperial and LSR in Full Production- 2013
  - Savannah rebuilt, sold to LDC- 2012
  - LSR opens- 2011
  - Colonial shut down, CSC enters refining business- 2010
  - 2009
  - Savannah Explosion- 2008
  - 2007
  - 2006
  - C&H sold to ASR, Hurricane Katrina, Domino NOLA sidelined for 4 months...
  - 2004
  - Domino Brooklyn shut down- 2003
  - Sugarland closed- 2002
  - 2001
  - 2000

ASC files dumping suit against Mexico- 2014
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Cane Refining Margin (Cents per Lb.)
Refining Margin is calculated as: Beet refined price Midwest, less (ICE #16 x 1.07)

Hurricane Katrina

Imperial and LSR in full production.

Imperial and LSR ramping up.

Colonial Closing

Imperial and LSR in full production.

Imperial and LSR ramping up.

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Outlook

- Continued exodus away from HFCS.
- Non GMO wave may be a tsunami.
- Global warming and its effects on weather patterns will likely add to the volatility.
- Circle of life for cane refiners will continue.
Why would anyone want to own a cane refinery?

- Cane growers believing that the grass is always greener.
- In down cycles, they can be cheap to buy.
- Changing market dynamics (demand shifts) offer opportunities.
- It looks easier than it is.
- Last free market sector in USA. Who do you respect more, GM or Ford?
Thank You