

The North American Sugar Complex:

US and Mexico
Sugar
Market
Integration

**INTERNATIONAL
SWEETENER
COLLOQUIUM**

Miami, Florida

Tuesday February 23, 2010

Jenkins Sugar Group, Inc.

Premise:

- Following 2008-09, when Mexico exported 1.367 million tonnes – double the February '09 WASDE estimate – USDA has taken the stance that Mexico:
 - must be accommodated
 - will be the primary source of imports beyond the WTO minimum quota
 - will play lead role in meeting US deficit
- Many in the industry would like to “seal off” US and Mexico as a basic policy
- This should not be default policy – we are living through the Case Study.
 - Mexico will not fulfill this function in 2009-10 or 2010-11
 - By the time this is proven to be the case, it will be too late for the USDA to import from traditional suppliers in an orderly fashion

The Mexican conundrum:

- US depends on Mexico for supply
- USDA must manage situation to preclude oversupply and loan forfeiture
- Two potential courses of action:
 - Allow sufficient WTO imports to discourage Mexican exports
 - Keep market sufficiently tight (exclude WTO shippers) to draw in Mexican supply
- 2009-10 realities not compatible with USDA philosophy

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- 2009-10 realities not compatible with USDA philosophy

Mexico's seat at the US table:

USDA ERS Sugar and Sweeteners Outlook, Jan 2010:

“Sugar imports from Mexico for FY 2010 are projected at 760,000 STRV. Although Mexico is forecast as a small net importer next year, strong U.S. demand for raw sugar is projected to be a large draw for Mexican estandar sugar, especially if the U.S. raw sugar TRQ does not increase in the second half of FY 2010.”

US Supply and Demand:

2009-10 (1,000 strv)

USDA Feb. series

JSG estimate

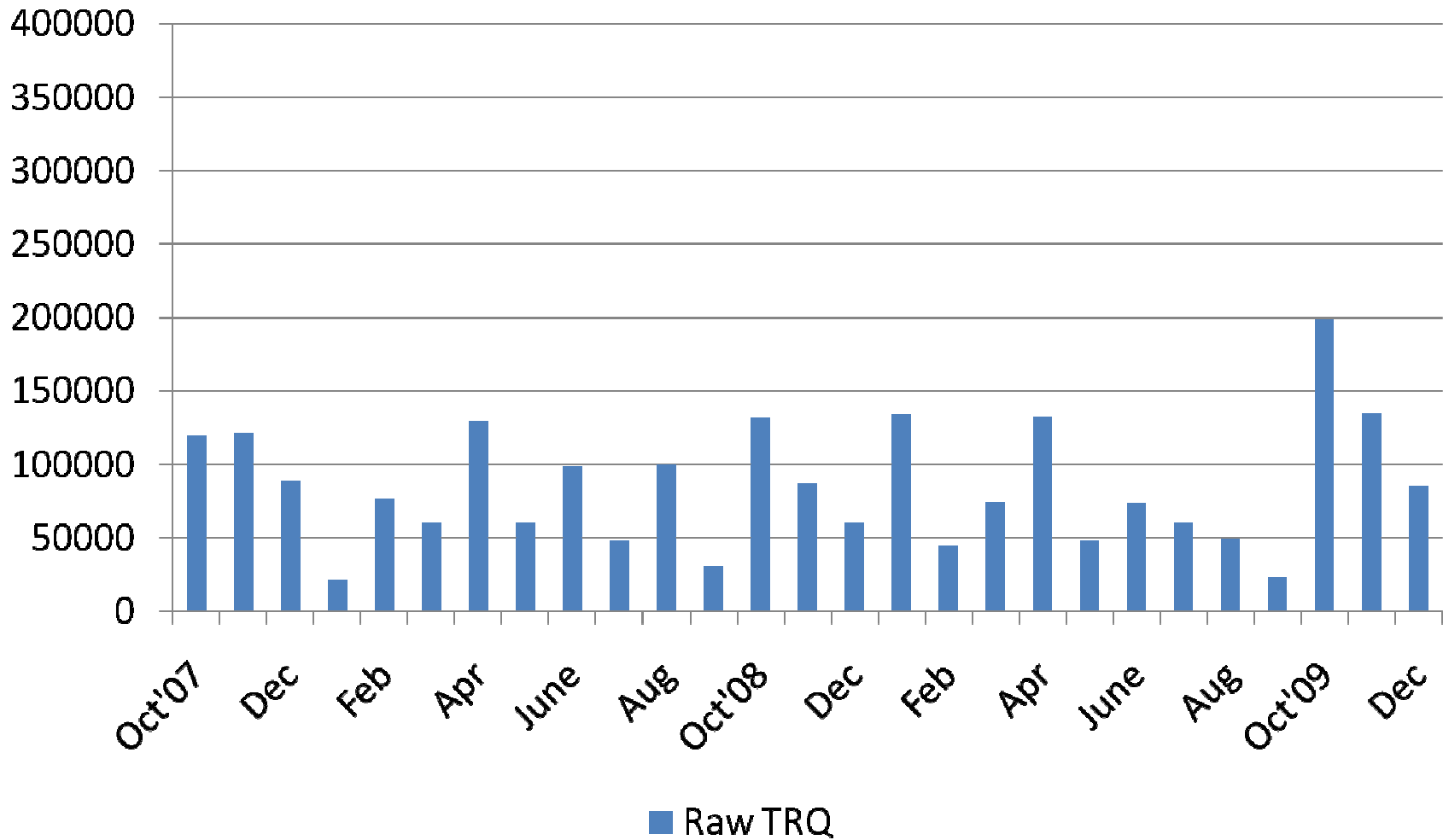
US Supply and Demand:

2010-11 proj. (1,000 strv)

2010-11 proj.

2010-11 proj.

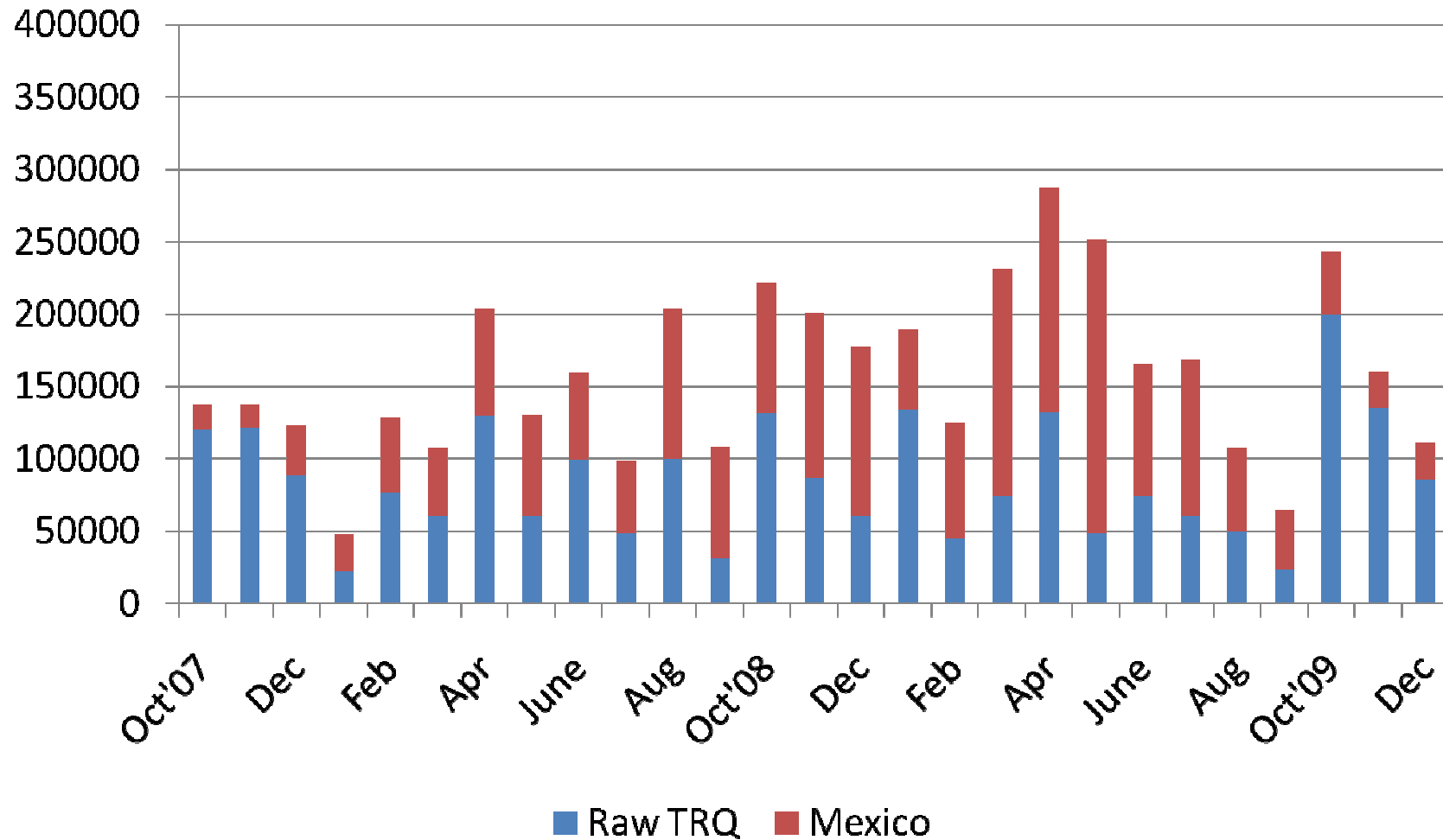
US imports by classification:



Source: [USDA](#)

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US imports by classification:



Source: USDA

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Mexican situation: Feb. WASDE

1,000 mtrv

2008-09

2009-10

• Carry-in	1975	• Carry-in	488
• Production	5260	• Production	5100
• Imports	166	• Imports	720
• Consumption	5540	• Consumption	5300
• Exports	1367	• Exports	490
• Carry-out	488	• Carry-out	518

Source: [USDA](#)

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Mexican situation: JSG est.

1,000 mtrv

2008-09

2009-10

• Carry-in	1975	• Carry-in	488
• Production	5260	• Production	4815
• Imports	166	• Imports	720
• Consumption	5540	• Consumption	5300
• Exports	1367	• Exports	490
• Carry-out	488	• Carry-out	233

Stocks drawn down by 1.42 million tonnes in two years
despite net imports of 230,000 tonnes in 2009-10

Mexican situation: JSG est.

1,000 mtrv

2008-09

2009-10

• Carry-in	1975	• Carry-in	488
• Production	5260	• Production	4815
• Imports	166	• Imports	720
• Consumption	5540	• Consumption	5300
• Exports	1367	• Exports	490
• Carry-out	488	• Carry-out	233

Stocks reduced by nearly 1.50 million tonnes
to accommodate currency-driven exports

Mexican situation: JSG est.

1,000 mtrv

2008-09

2009-10

• Carry-in	1975	• Carry-in	488
• Production	5260	• Production	4815
• Imports	166	• Imports	720
• Consumption	5540	• Consumption	5300
• Exports	1367	• Exports	490
• Carry-out	488	• Carry-out	233

To achieve carryout equivalent to two months' consumption, imports must be increased or exports reduced by 650,000 tonnes.

Mexican export potential:

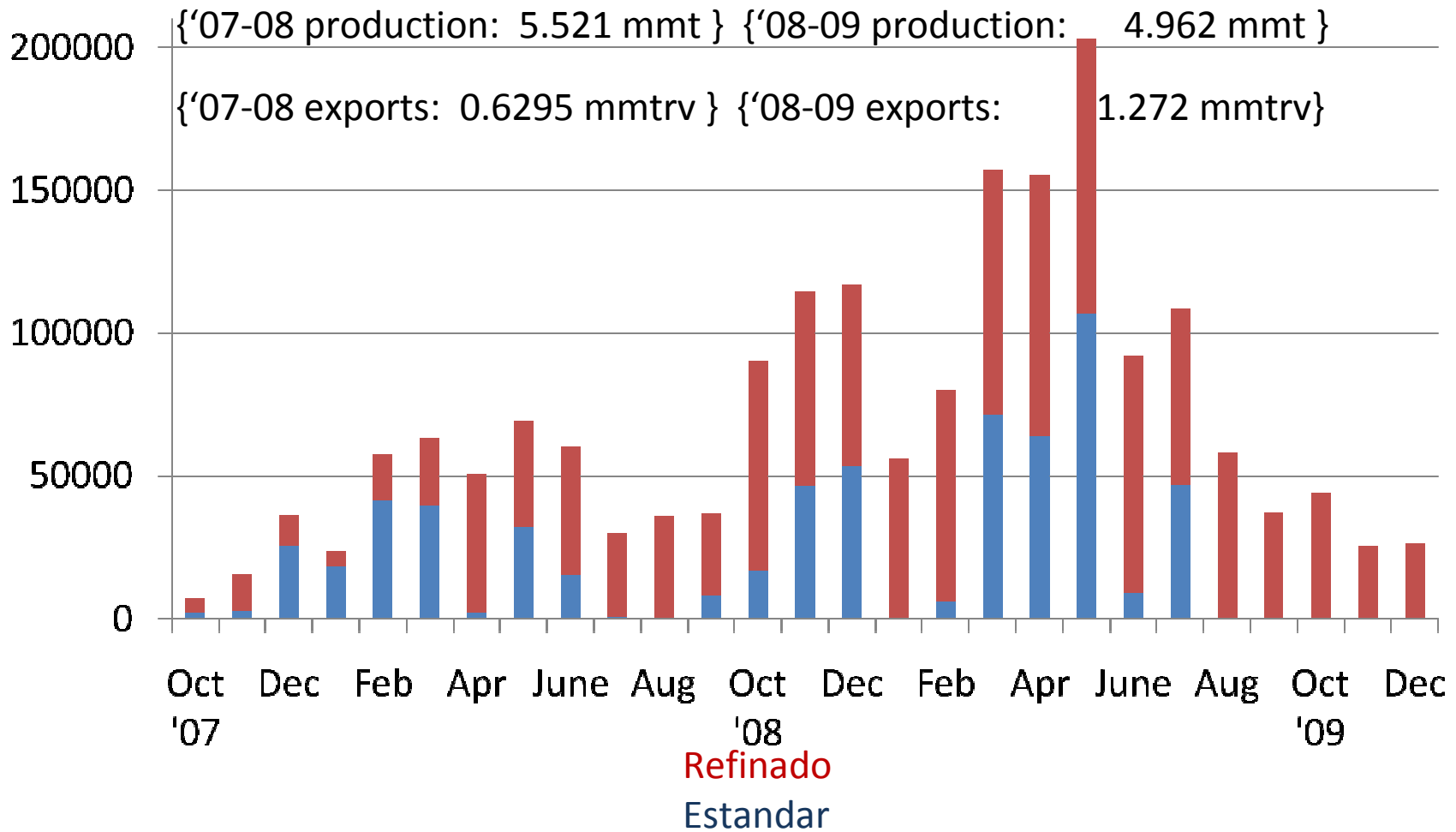
1,000 mtrv

- | <u>Year</u> | <u>Beginning Stocks</u> | <u>Production</u> | <u>Imports</u> | <u>Use</u> | <u>Exports</u> | <u>Ending Stocks</u> |
|----------------|-------------------------|-------------------|----------------|------------|----------------|----------------------|
| 2004-05 | 1237 | 6149 | 268 | 5561 | 128 | 1965 |
| 2005-06 | 1965 | 5604 | 240 | 5649 | 866 | 1294 |
| 2006-07 | 1294 | 5633 | 474 | 5523 | 160 | 1718 |
| 2007-08 | 1718 | 5852 | 226 | 5504 | 677 | 1975 |
| 2008-09 | 1975 | 5260 | 160 | 5540 | 1367 | 488 |
| 2009-10 | 488 | 4815 | 720 | 5300 | 490 | 233 |
| 2010-11 (proj) | 233 | 5000 | 1555 | 5300 | 0 | 1488 |

- To achieve average stock level from 2004-05-2008-09, Mexico will need to import 1.555 million tonnes net in 2010-11.

Mexican exports to US

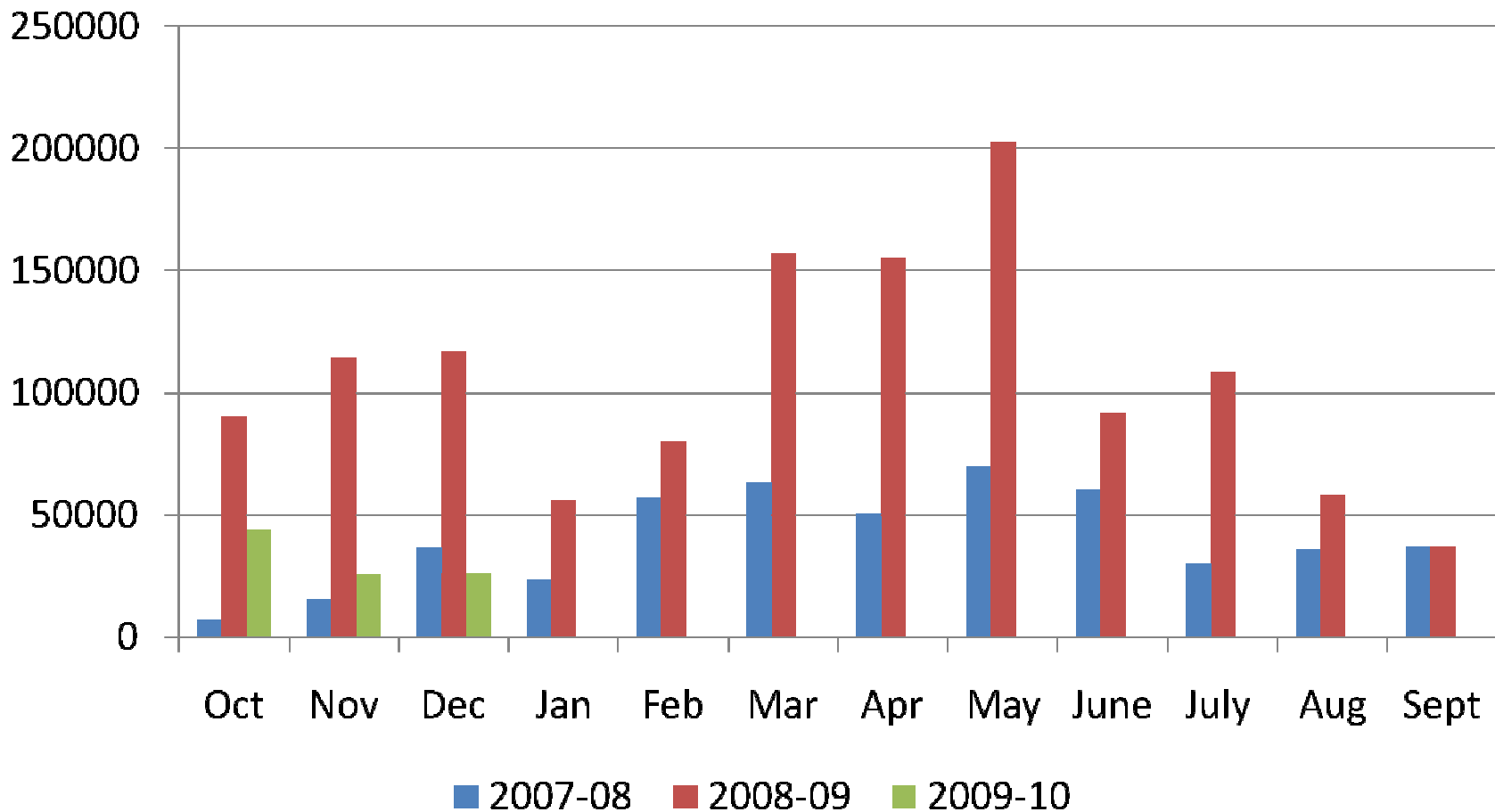
October 2007-present - mtrv



Source: US Census

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Mexican exports to US:



Source: [USDA](#)

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Conclusions:

A tale of two markets

- Current situation in US, Mexico and the broader world sugar market precludes Mexico from being the primary/default exporter to the US beyond WTO TRQ for the immediate future
- USDA's keeping stocks abnormally tight to accommodate Mexican exports leaves US refiners and end-users at risk
- 2009-10 is an extraordinary year for world market - not an aberration for the NAFTA

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