U.S. Sugar Policy
Bruised or Broken ?

March 1st, 2017

Imperial Sugar Company
A Louis Dreyfus Company brand

How did a Republican win the blue states ?

"It used to be, cars were made in Flint, and you couldn't drink the water in Mexico. Now, cars are made in Mexico and you can't drink the water in Flint. That's not good. That's not good. It's terrible."

Donald Trump
September 14th, 2016

It's not just a Republican thing. . .

"Bernie Sanders believes that the top priority of any trade deal should be to help American workers. Unfortunately, as Bernie has warned year after year, American trade policy over the last 30 years has done just the opposite."

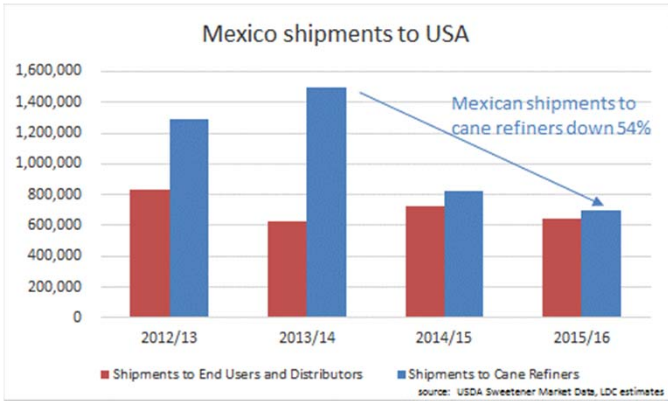
www.FeelTheBern.org
September 5th, 2015

What are "subsection C" suspension agreements ?

- The agreements explicitly allow dumped and/or subsidized product to continue being imported duty free into the United States under certain conditions

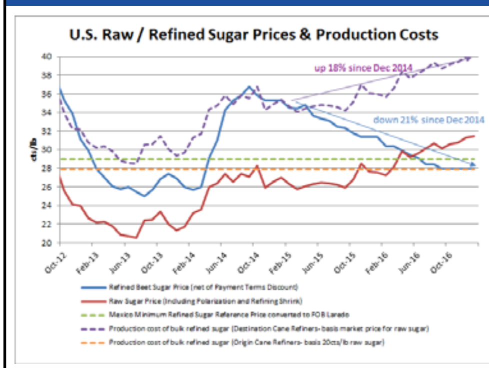
- The agreements must (required by law):
  - Eliminate completely the injurious effect of imports of that product
  - Prevent suppression or undercutting of price levels of domestic products by that imported product
  - Be effectively monitored by the United States
  - Be in the public interest

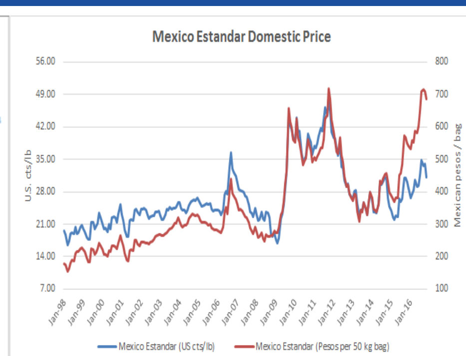
The behavior of the Mexican industry was predictable . . .



- The record of the first two years of the suspension agreements is in. Mexico cut its supply to the cane refiners in half while increasing its shipments to end users / distributors by 8%.
- As Imperial pointed out from the beginning, the structure of the suspension agreements was going to significantly reduce the supply to cane refiners instead of addressing the core problem of price suppression caused by Mexican refined sugar imports

While the impact on the US market was also predictable . . .





- The suspension agreements have failed to meet *any* of their legal requirements:
  - Injury
  - Price suppression
  - Monitoring
  - Public interest
- On the bright side, the USDA has to-date been able to run the sugar program at zero cost

The US sugar market: October 2015 – September 2017

- Did they know ?
- Should they have known ?
- Should they have done something about it after they found out ?
- Is the crisis over yet ?

The path forward: NAFTA sugar policy

"To carry out his strategy, the President is appointing the toughest and smartest to his trade team, ensuring that Americans have the best negotiators possible. For too long, trade deals have been negotiated by, and for, members of the Washington establishment. President Trump will ensure that on his watch, trade policies will be implemented by and for the people, and will put America first."

https://www.whitehouse.gov/trade-deals-working-all-americans

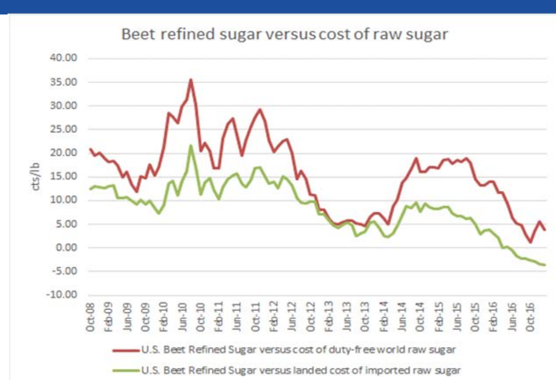
Since November 2014, Imperial Sugar has been asking the U.S. government for just one thing - - *to run the sugar program in a manner that is consistent with the letter and the spirit of the Farm Bill and our trade enforcement laws*.

A Case study in managed trade: US/Mexico sugar

<u>After 9 years since full NAFTA implementation, the track record is in</u>:

- Mexico ran out of sugar twice, driving US refined sugar prices to 60cts/lb both times
- Mexico flooded the market during 2012/13 and 2013/14 with dumped and subsidized sugar, forcing U.S. sugar prices to loan rates
- U.S. government spent 261myn usd on a 2013 bailout, selling sugar as low as 2cts/lb just 9 months before the beet producers raised prices to 40 cts/lb on a later shortage
- The resulting “fix” has resulted in the worst raw versus white sugar imbalance seen in the history of the U.S. sugar program

An inconvenient truth: The Farm Bill and the NAFTA sugar agreement are completely incompatible



- The beet sugar premium versus duty-free world raw sugar imports is the clearest measure of the U.S. sugar premium. Numerous failed attempts to manage Mexico-US trade has caused a 687usd/ton range (34.34cts/lb) on this premium since Mexico gained full access.

- 687 usd/ton * 12 million tons = 8.2 billion USD/year range of possibilities within the USDA’s (supposed) discretion in supply management. <u>***TOO MUCH DISCRETION = TOO POLITICAL***</u>

- The U.S. sugar market will remain the most volatile / most dysfunctional / most political sugar market in the world until Mexico’s access is <u>***restructured permanently***</u>.

The NAFTA sweetener market now rests at a defining moment which will influence the sweetener industry for years if not decades

Option #1

Option #2

Conclusion: ***be prepared for the situation to evolve in either direction***

U.S. Producers / Users have more common interests than not

American Sugar Alliance	Common Interests	Coalition for Sugar Reform

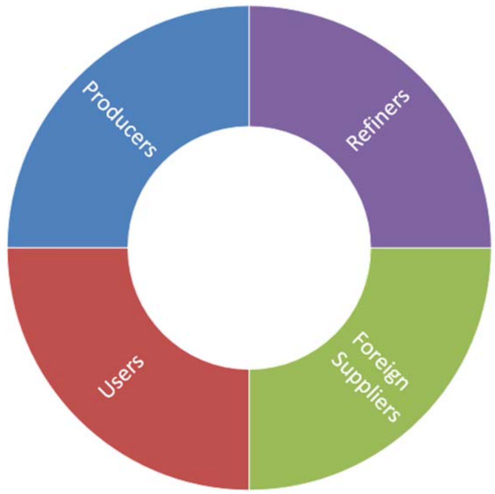
1. Supply chain predictability
2. Sustainable supply
3. Cost efficient logistics
4. WTO compatibility / a lasting sugar policy framework
5. Competitive marketplace
6. Eliminate politically driven price volatility
7. Reduced friction / energy spent in Washington DC
8. Consumer education on sugar as part of healthy / balanced diet
9. Acceptance of GMO sugar

High prices

Low prices

10. Farm bill: Adequate supply at reasonable prices

2018 Farm Bill - - time for collaboration toward a better future



Thank you