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The Honorable Jason Hafemeister
Acting Deputy Under Secretary
Farm and Foreign Agricultural Services
U.S. Department of Agriculture
1400 Independence Avenue, S.W.
Washington, DC 20250

Dear Mr. Deputy Under Secretary:

Thank you for agreeing to meet with us next Tuesday to discuss solutions to the ongoing shortage of raw sugar in the U.S. sugar market. This letter follows up on our letter of February 9th in which we asked for your action to provide additional raw sugar supplies. We hope this letter will offer greater clarity and perspective of the ongoing market imbalance and possible solutions. In our meeting next week, we can discuss any questions or points of concern.

In our last letter, we highlighted the market situation for raw and refined sugar and requested the Department to take one or more actions to help resolve the ongoing shortage of raw sugar in the United States. More specifically, we requested that the Department use its authority under the Farm Bill to:

1) increase raw sugar supply by reallocating unused tariff-rate quotas (TRQs) to countries with readily available supplies of sugar;

2) increase the raw sugar TRQ in an amount sufficient to ensure normal supplies of raw cane sugar, based on historical averages, and to immediately provide sufficient throughput for all U.S. cane refiners; and

3) modify licenses in the Refined Sugar Re-Export Program to temporarily permit greater net import balances for participating refiners.

We understand that the changes incorporated in the March WASDE (increase of domestic sugar consumption and decrease in production of beet sugar) served to increase the Export Limit for Mexican sugar by 190,000 short tons raw value, and that recent discussions between the U.S. Department of Commerce and the Government of Mexico may lead to a larger percentage of Mexican sugar reaching the cane refiners. We appreciate the U.S. government's actions in both respects. However, we remain concerned that there will still remain a shortage of raw sugar in the U.S. sugar market and would like to suggest another approach that the USDA may use in order to resolve this shortage.

Reacting to a surplus of sugar caused by excessive sugar imports from Mexico, the USDA purchased a significant amount of raw and refined sugar from July through September 2013 and transferred this sugar to the cane sugar refiners in exchange for Refined Sugar Re-Export Program Credits. This program was initiated as a lower cost solution than receiving sugar under loan defaults by the U.S. sugarcane and beet processors and selling that sugar for non-human and/or biofuel use under the Feedstock Flexibility Program (FFP). The Re-export Credit exchange program worked. During these three months, the USDA was able to remove 516,981 metric tons of sugar that would have been imported by cane sugar refiners under the Refined Sugar Re-export Program as an offset against exports of sugar and sugar containing products and/or usage of sugar in polyhydric alcohol. This occurred at an estimated total cost of 86.7 million U.S. Dollars, or 7.61 U.S. cents per pound of sugar removed from the U.S. market. On the other hand, during August through November 2013, the Commodity Credit Corporation (CCC) liquidated 398,838 metric tons of raw and refined sugar into the FFP at an estimated total cost of 176 million U.S. Dollars, or 20.03 U.S. cents per pound of sugar removed from the U.S. market. By sacrificing future throughput (i.e., raw sugar availability to the cane sugar refiners was reduced by 516,981 metric tons via the exchange program), the cane sugar refiners were able to help the USDA save US taxpayers 141myn U.S. Dollars by avoiding additional sugarcane and beet processor loan defaults and subsequent CCC liquidations into the FFP.

In short, we would like to propose an alternative to the USDA whereby it receives its money back.

Under the re-export credit exchange executed by the USDA, Imperial Sugar received 30,844 metric tons of Louisiana raw sugar and returned to the USDA 81,064 metric tons of re-export credits. We estimate that the USDA paid approximately 13,823,055 U.S. Dollars to purchase these 30,844 metric tons from the U.S. sugarcane processors. We would like to take back the 81,604 metric tons of re-export credits and pay the USDA 13,823,055 U.S. Dollars in exchange.

This proposal is timely for many reasons:

1) **<u>There is no substantial risk of beet sugar defaults during 2016/17</u>:**
As indicated in the March WASDE, beet sugar production is clearly declining from previous estimates and based on recent market indications beet sugar pricing is rising toward 30.00cts/lb where the risk of beet sugar defaults is negligible. We estimate that given the increase in beet sugar deliveries and decrease in beet sugar production, the ending stock of beet refined sugar at September 30th, 2017 will be 1 million tons if not lower, as compared to 1,245,331 tons on September 30th, 2016. There is no economic reason for a beet refined sugar default this year.

2) **<u>Raw Sugar Supply in the United States remains at dangerously low levels</u>**
Meanwhile, raw sugar supply remains inadequate. If the ending stock of all sugar in the United States is 1,677,000 tons as indicated in the latest WASDE report, after deducting approximately 1 million tons of refined beet sugar stocks and approximately 350,000 tons of refined cane sugar stocks, there will only be approximately 327,000 tons of raw sugar stock remaining in the United States. Total raw sugar use in the United States was 532,862 tons during last October, traditionally the seasonal peak of cane sugar refining activity due to the seasonal peak in consumption in both the industrial and household sectors. A stock of less than three weeks' use of raw sugar in the United States (in the cane sugar refining and sugarcane processing sectors combined) is simply too dangerous as the market enters the period when the cane sugar refiners are most needed by the market.

3) **The experience in 2016 confirms the risks in the current situation:**
Last years' experience at the cane sugar refiner level, where the ending stocks of raw sugar (at cane sugar refiners and cane processors combined) were 458,199 tons on September 30th, 2016, proved that even that level of raw sugar ending stocks was too low. We know of at least four examples of situations during October/November 2016 where a cane sugar refiner helped divert supply to a competitor cane sugar refiner in order to help avoid an imminent shutdown. We were involved in two of those situations, diverting vessels from Savannah to our competitor in New York in order to help that refiner ensure a continuous supply of refined sugar to its customers during the critical holiday season. The raw sugar market was in crisis at such a low level of raw sugar stock, as the market has proven over the years to need a minimum of 650'000 to 750'000 tons of raw sugar (i.e., 10.5% to 12.5% of annual raw sugar use) to ensure a properly functioning market. We cannot see a situation this year where ending raw sugar stocks will return to this level unless the USDA takes action to ensure an adequate supply.

4) **The USDA has many good uses for the money**:
The recent budget submitted by the Office and Management of Budget proposes significant spending cuts under USDA programs. We are certain that if the USDA received 13.8 million U.S. Dollars from Imperial Sugar (and up to 72.9 million U.S. Dollars from the other cane refiners) in exchange for the previously swapped re-export licenses, that the USDA would be able to find an excellent use for the money under various Farm Programs. The primary mandate on the USDA is to operate the U.S. sugar program at zero cost. Allowing the cane refiners to return some of the expenditures incurred during 2013 will move the USDA closer to this long term goal while providing a blueprint for future operations in case loan defaults are incurred at a later date.

We hope that the Department considers this proposal immediately in order for Imperial Sugar to start organizing supply from the world market to ensure continuous operations this summer. While the recent Department of Commerce extension of a critical deadline in the AD/CVD case has encouraged additional Mexican raw sugar supply to arrive during April, we remain gravely concerned about the raw sugar situation in the United States from June onwards. The current market situation has laid the groundwork for a major supply disruption which may cause extended refinery shutdowns and related job losses if the USDA does not act soon.

Thank you for your consideration. We look forward to discussing the matter with you further next week.

Respectfully,

Michael A. Gorrell
President and Chief Executive Officer
Imperial Sugar Company