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 intregrated 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

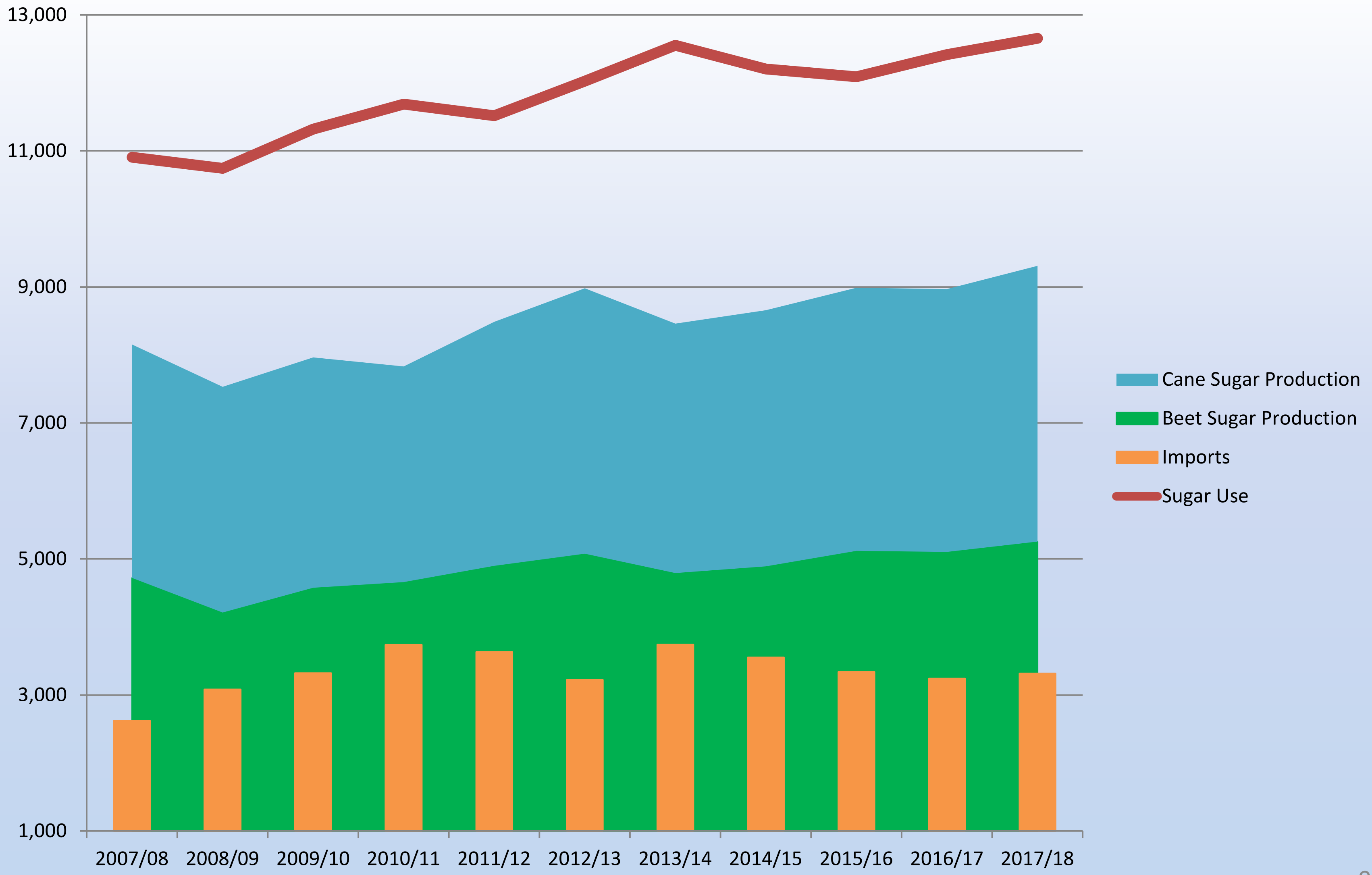
Impact of SA: Customers

- 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

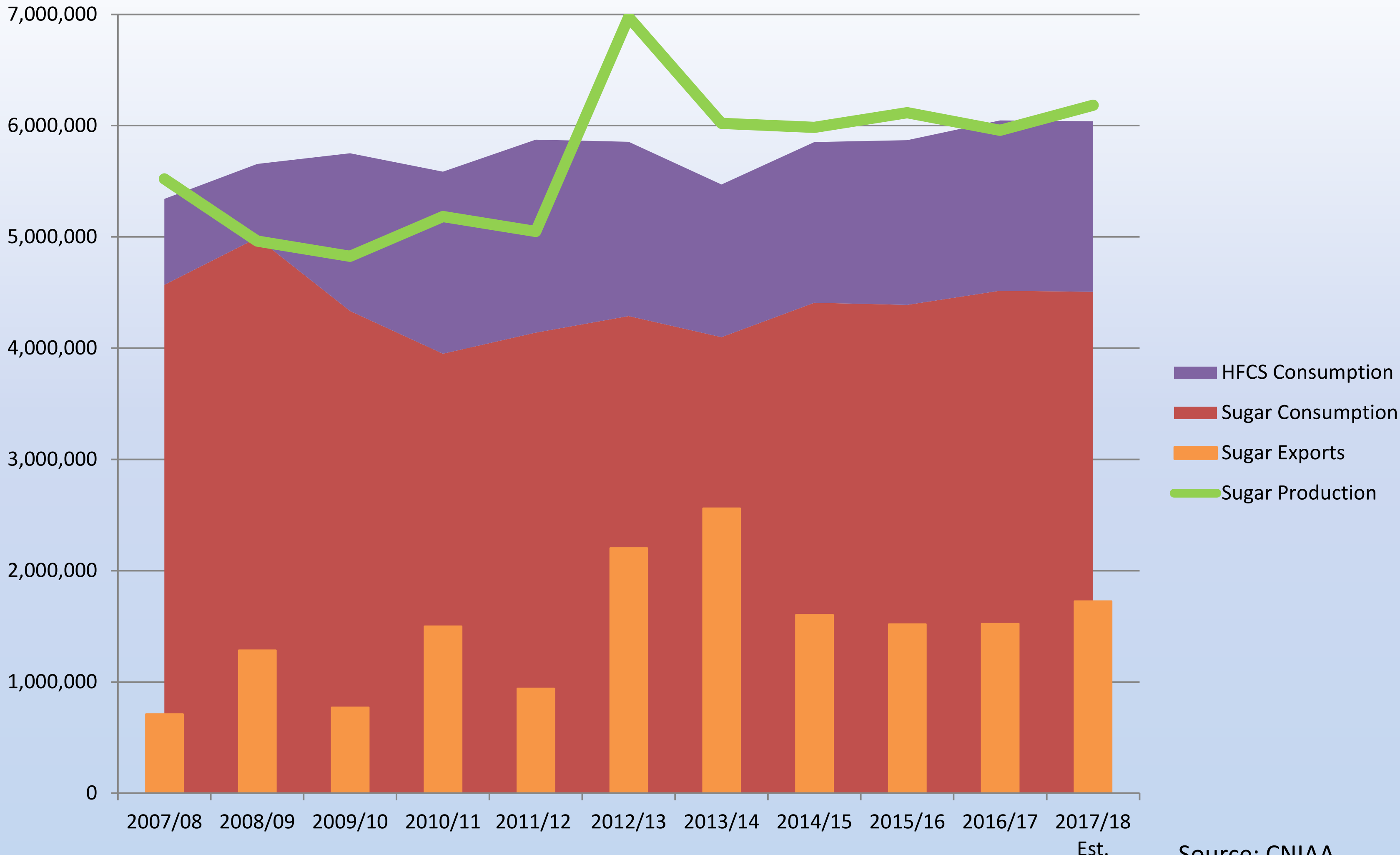
- In the 25 years since NAFTA was signed there have only been six years of free trade
- SA’s are eliminating a spectrum of small to medium sized sugar distributors in the US market
- Reduced US sugar users´ choice of sugar type
- Introduced a new floor price for US sugar market
- Added to political uncertainty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

USA:
Supply & Demand



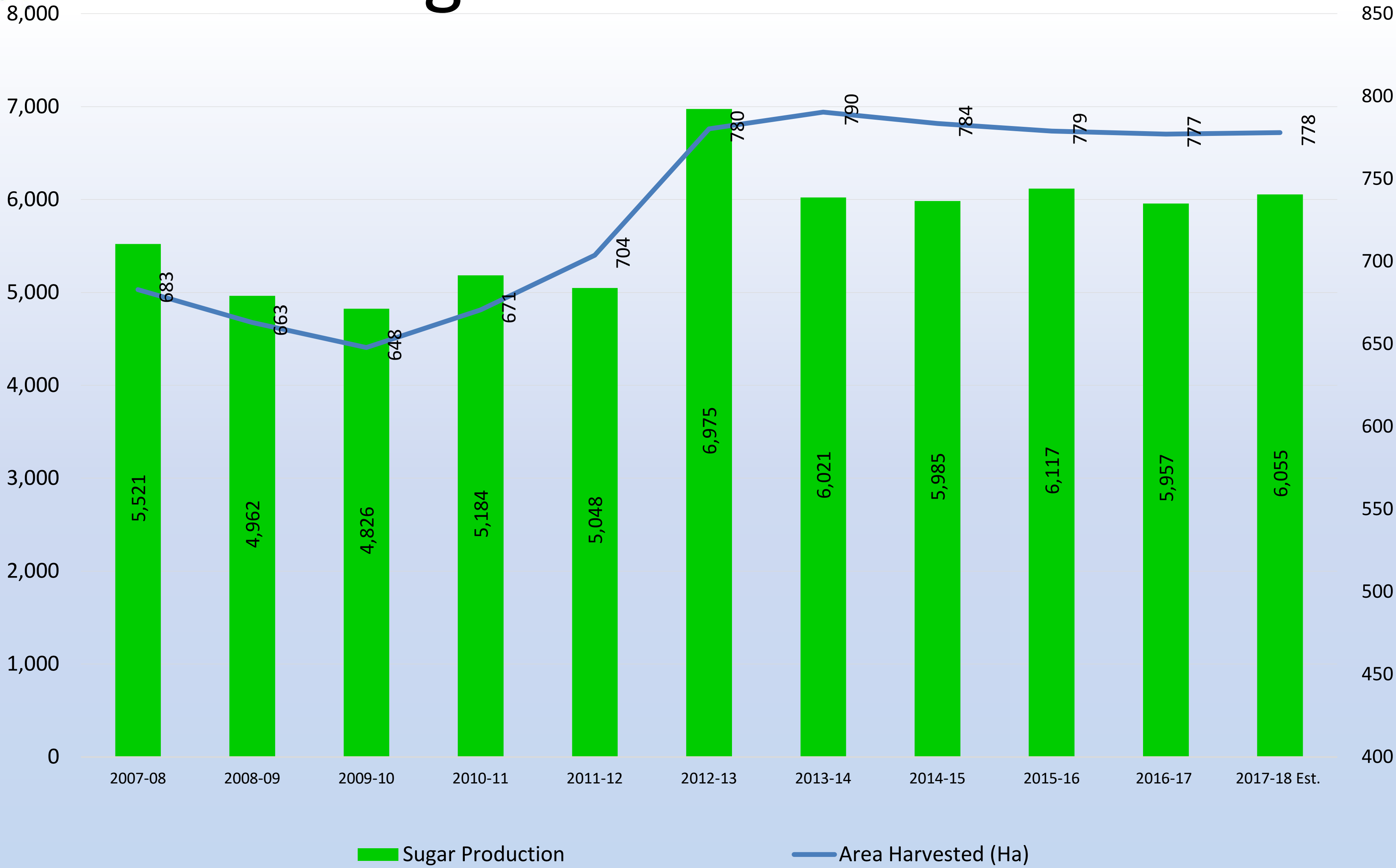
Source: USDA

Mexico: Supply & Demand



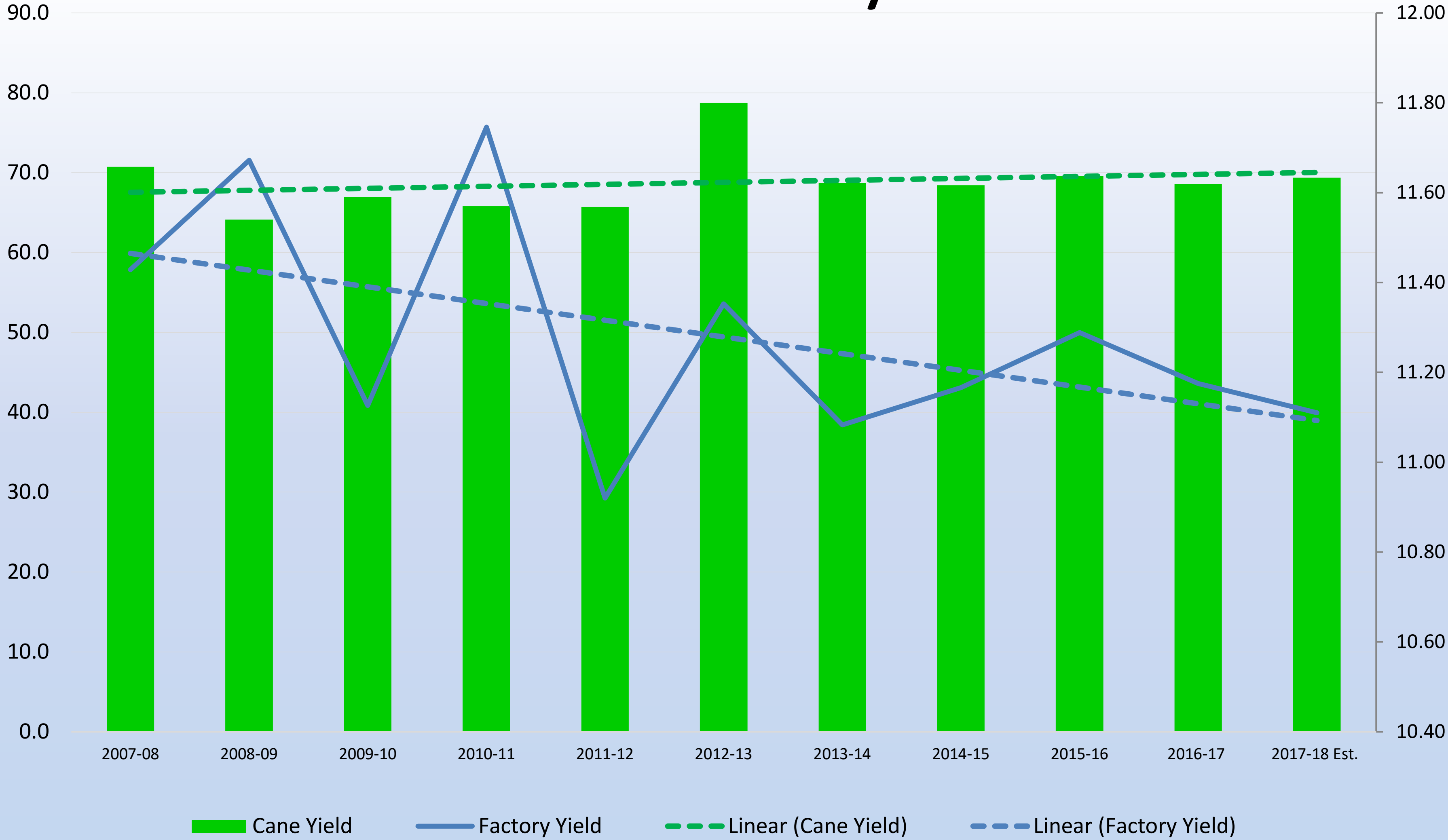
Source: CNIAA

Mexico:
Sugar Production & Cane Area



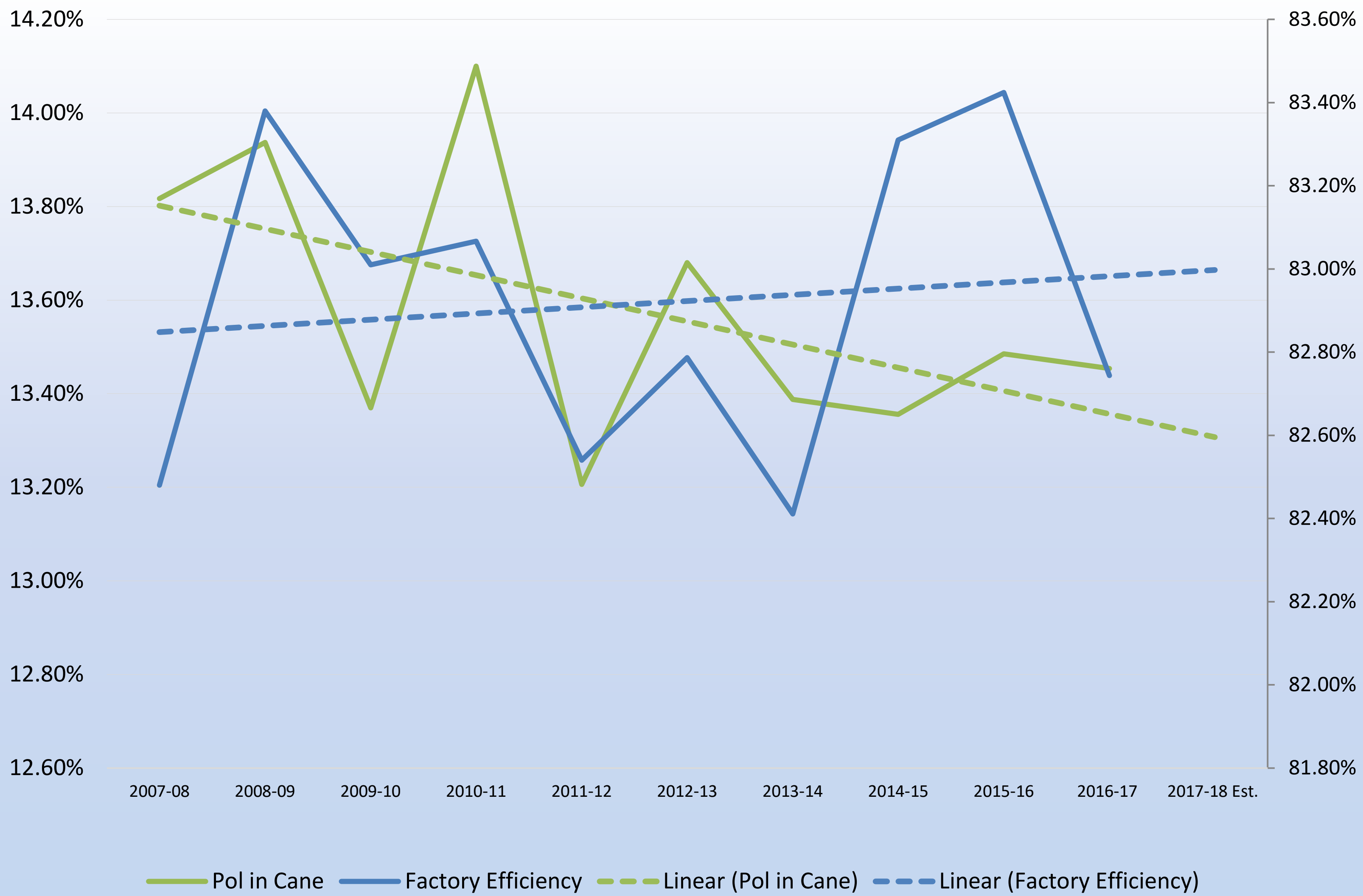
Source: CNIAA

Mexico:
Field & Factory Yield



Source: CNIAA

Pol in Cane & Factory Efficiency



Source: CNIAA

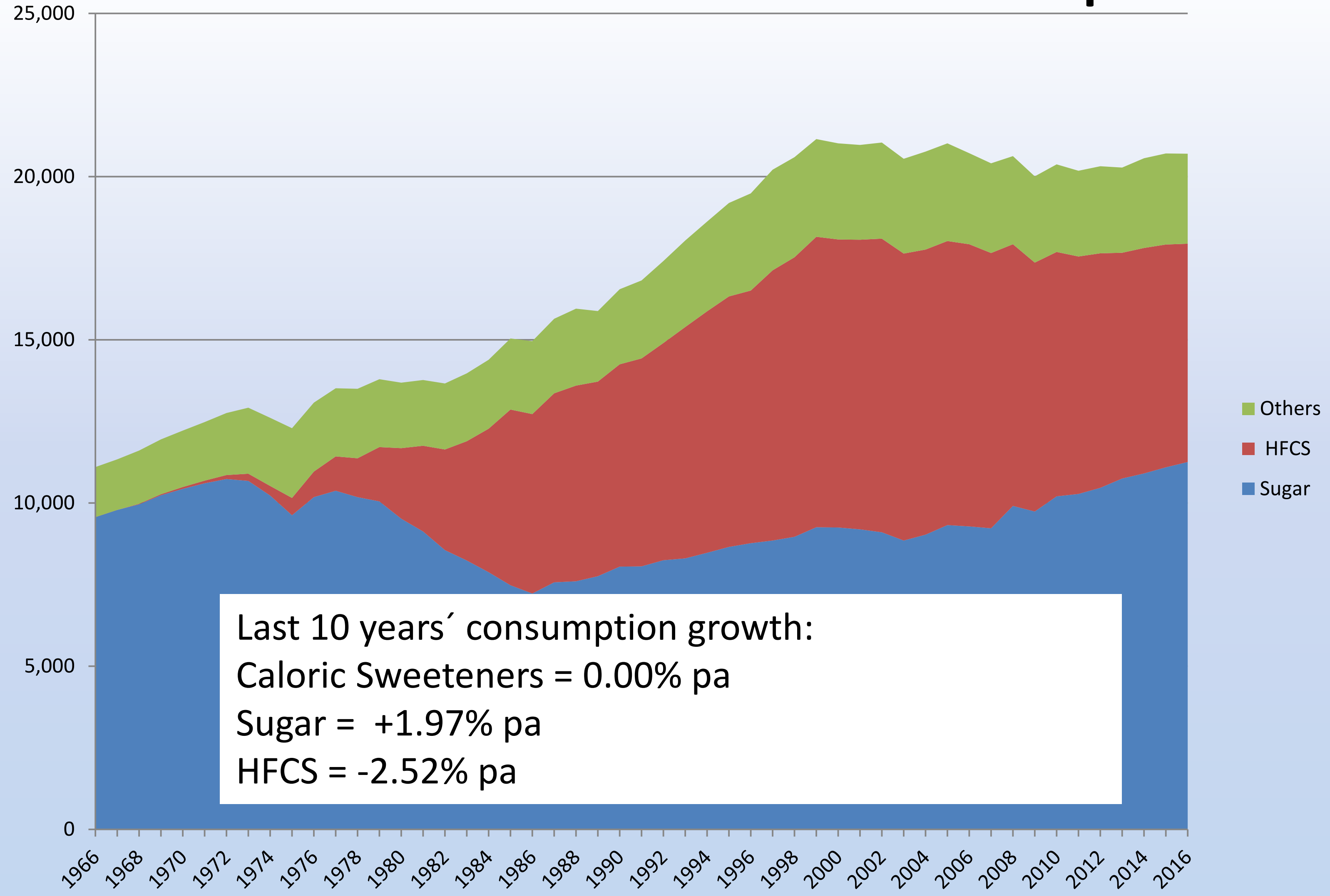
Conditions for growth

- 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

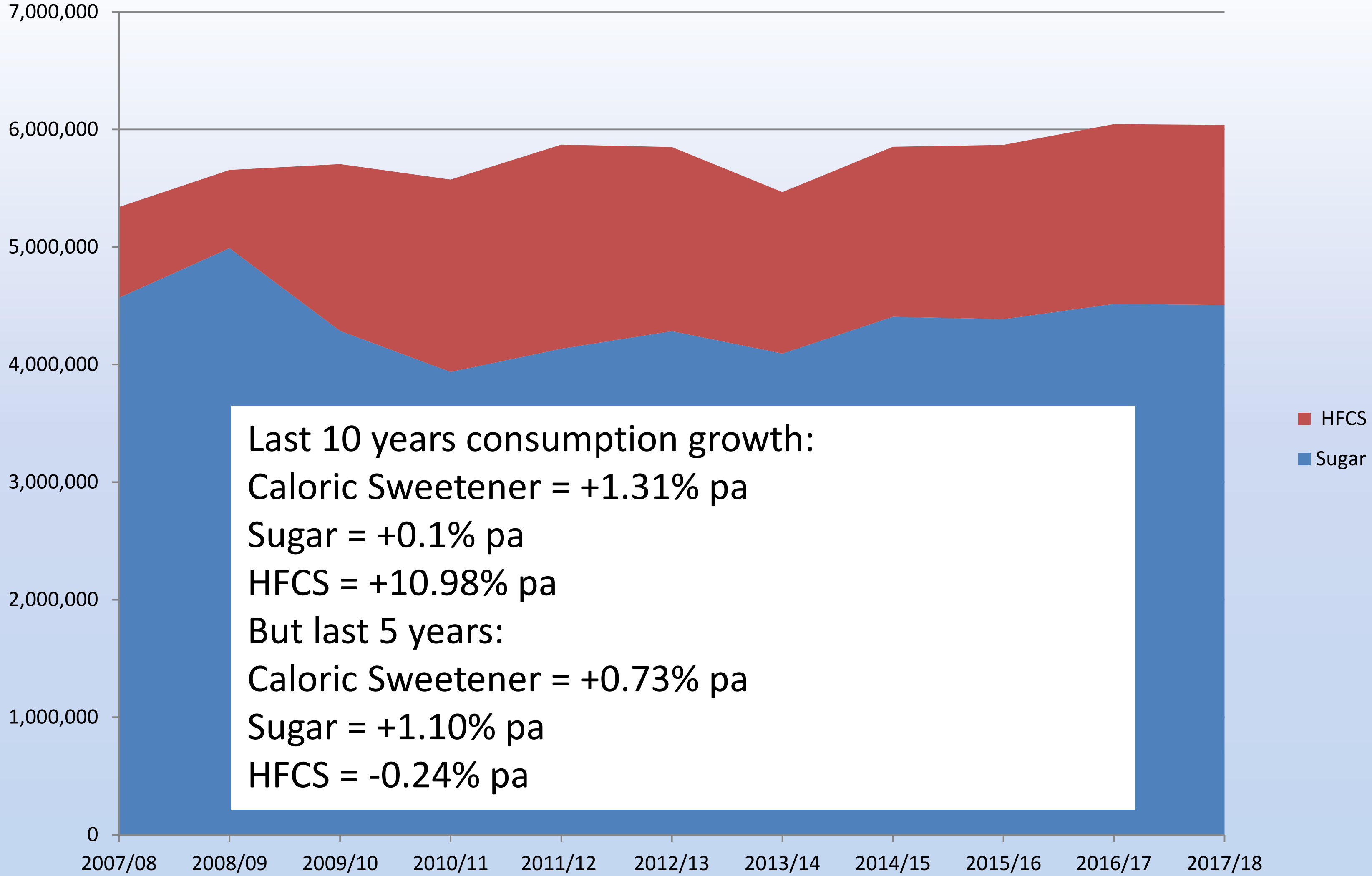
- PRONAC law introduced in 2014 was supposed to stimulate cane production by 10 mm T, diverting surplus cane to energy. Actual result is flat:
  - AD/CVD uncertainty held back investment
  - Energy prices have not supported ethanol and co-gen.
- Berries and Avocados are capturing hectares in Jalisco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

USA: Caloric Sweetener Consumption



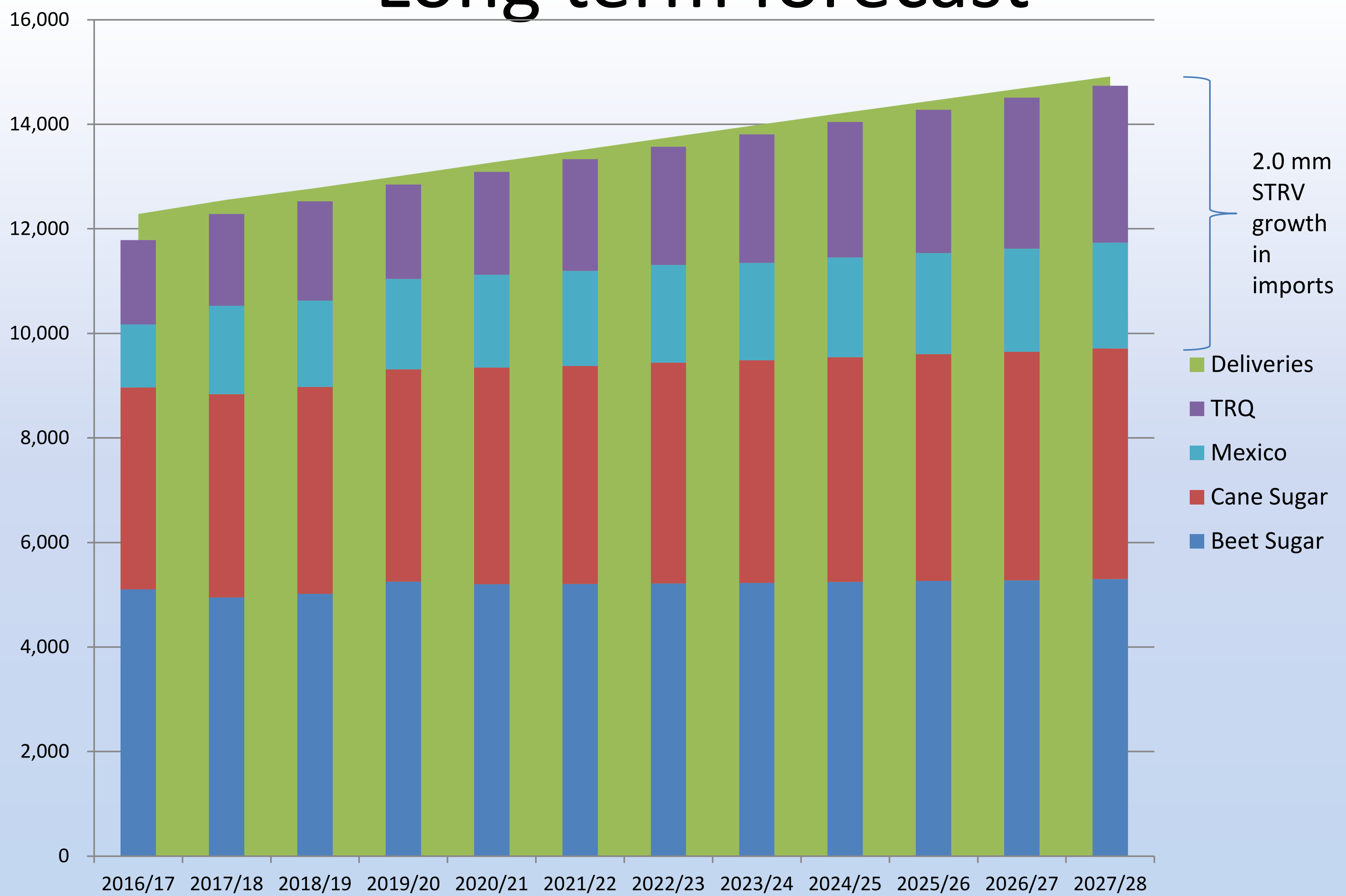
Source: USDA

Mexico:
Caloric Sweetener Consumption



Source: CNIAA

USA: Long term forecast



Source: USDA

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.