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March 18, 2022

The Honorable Robert Bonnie
Under Secretary
Farm Production and Conservation
U.S. Department of Agriculture
Washington, D.C. 20250

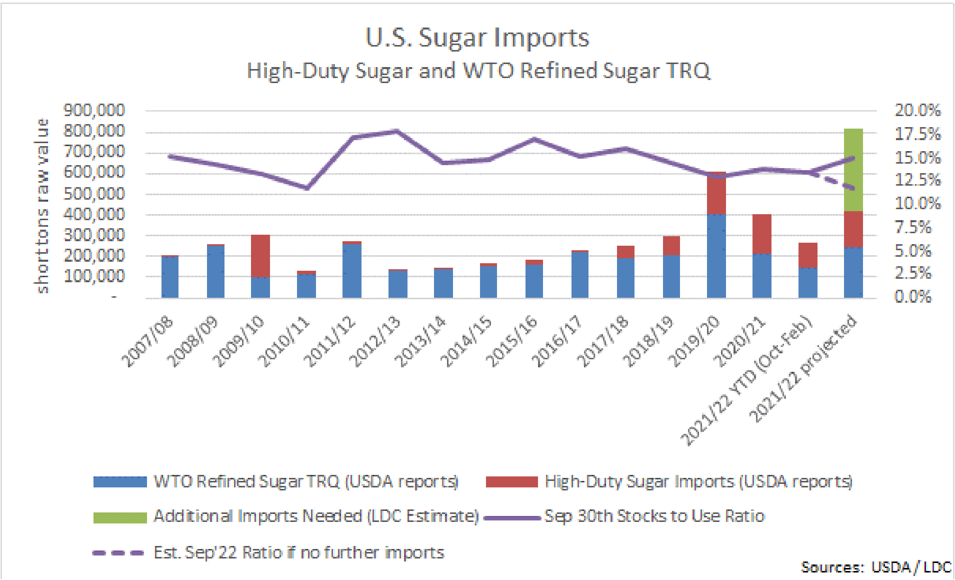
Dear Mr. Under Secretary:

Imperial Sugar Company ("ISC") is one of the cane sugar refiners in the United States that depends on imported raw sugar to sustain its operations. ISC employs approximately 500 direct and contract workers at our facilities in Port Wentworth, Georgia and Ludlow, Kentucky and at our supporting offices. We also support many additional jobs in the Georgia community related to logistics, warehousing, river services, as well as the expenditure of related disposable income. Our role as an import-based cane sugar refiner allows us a unique insight into the U.S. sugar market and the impact of USDA policy decisions on that market.

For the last 18 months, the U.S. sugar market has been challenged with an ongoing shortage of raw sugar. That shortage emerged during 2020, when USDA gave a higher priority than normal to refined sugar imports in response to a severe reduction in beet sugar production from the 2019 harvest. This policy stance left the country with an ending stock of raw sugar on September 30th, 2020 that represented slightly less than one month of raw sugar use. Despite a significant contraction in U.S. cane sugar refining activity since then, the raw sugar situation has not improved. While the USDA took actions to increase raw sugar supply during 2021, these actions involved amounts that were too small to resolve the shortage, and the structure of the U.S.-Mexico sugar suspension agreements has reset the national stocks-to-use ratio back to 13.5% - just seven weeks of supply. The U.S. import-based refining sector has been relying on imports of high-duty raw sugar to sustain its operations over the last few months. These high-duty raw sugar imports are set to grow significantly in the coming months if the USDA does not take immediate action to increase the availability of raw sugar supply. ***For the reasons explained below, the U.S. sugar market needs the USDA to increase raw sugar import quotas by an amount no less than 400,000 short tons raw value to normalize raw sugar supply.***

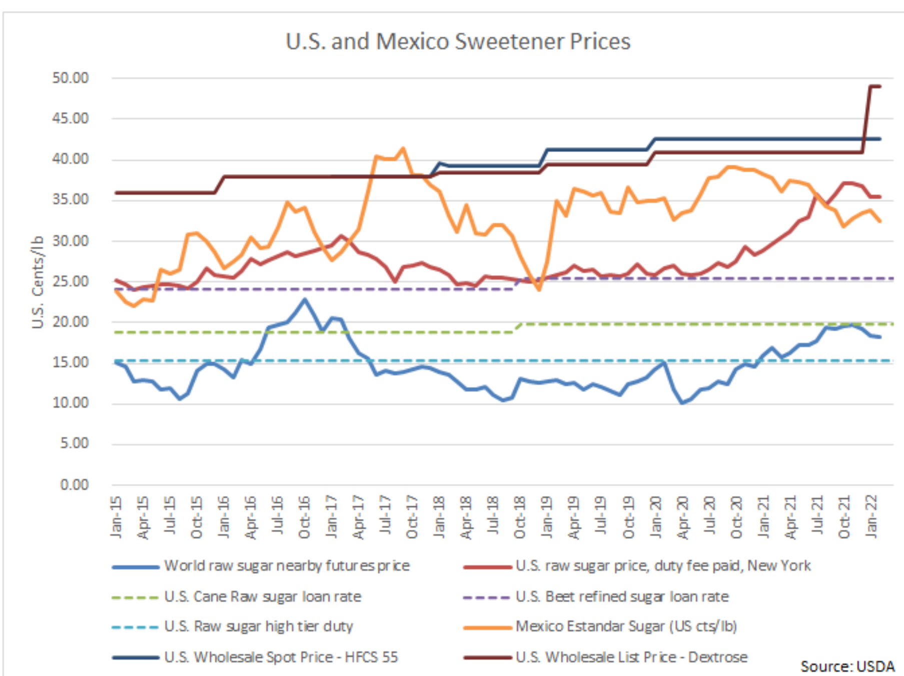
1. **The USDA's 13.5% stocks-to-use ratio target (i.e., seven weeks of supply) has proven to be too low in the current and recent market environment:**

   The growth of the U.S. sugar industry as well as the USDA's decisions to structurally increase the WTO Refined Sugar TRQ have caused a situation where the existing stocks-to-use target at 13.5% (i.e, seven weeks of supply) assures a significant increase in high-duty sugar imports. The below graph shows that with the exception of an unusually chaotic year in 2009/10, high-duty sugar imports were negligible until the year 2018/19 when USDA began targeting stocks-to-use ratios at the lower end of the 13.5-15.5% range. Through February 2022, high-duty imports have reached 126,272strv and are set to grow significantly during the next few months if USDA does not take immediate action. The current world environment has shown the need for an increase in buffer stock across a number of different commodities – not just sugar. The USDA should acknowledge this fact, along with recent events in the sugar market, and raise the stocks-to-use target to at least eight to nine weeks of supply (i.e., 15.4-17.3%), with the knowledge that the import restrictions imposed by the U.S.-Mexico sugar suspension agreements will prevent these additional stocks from endangering the fundamental structure of the U.S. sugar program.



2. **<u>The current situation, if left unaddressed by USDA, will endanger the existing structure of the U.S. – Mexico sweetener trade</u>:**

In prior letters to USDA, we have detailed our concerns related to the approach by USDA to allow the sugar market to resolve the current shortage with high-duty imports. These concerns include the offshoring of jobs in both the cane sugar refining sector as well as the sugar using sectors, as high duty imports are usually weighted toward refined sugar imports, and high duty based domestic sugar prices encourage an increase in the imports of sugar containing finished products. However, our greatest concern is the risk that this policy disrupts the delicate balance of sweetener trade between the United States and Mexico.



The above chart is extracted exclusively from USDA data and shows the situation from the perspective of a Mexico sugar cane grower or miller. U.S. raw sugar prices are 80-90% above the national average loan rate for cane raw sugar and 40-45% above the national average loan rate for beet refined sugar, yet the USDA and U.S. Department of Commerce are maintaining import restrictions on the supply of raw sugar to the U.S. cane sugar refining industry so severe that high-duty imports are reaching all-time records. Meanwhile, as the Mexico sugar cane growers/millers consistently point out, the surplus of sugar in Mexico would not exist but for the ongoing imports of U.S. corn and U.S. high fructose corn syrup that displace nearly 20% of the sweetener demand in Mexico. Mexico is left to export its excess raw/estandar sugar onto the lower priced world market, despite the fact that this same sugar is the cheapest available sweetener within the U.S.-Mexico market. If the USDA continues to force the import-based cane sugar refiners to rely on imports of high-tier duty raw sugar to sustain our operations, it will not be long before the Mexican sugar industry will raise more serious questions about the sustainability of the U.S.-Mexico sweetener trade.

3. **The March WASDE disguises serious supply risks that will cause an acceleration of high-duty sugar import demand if left unaddressed:**

At the heart of ISC's business model is preparedness to respond to unanticipated customer needs. We rigorously analyze USDA data releases to assess the potential for material variations from the projections in the monthly WASDE report. In this month's reports we see two significant risks: 1) beet sugar production will be lower than projected; and 2) demand for refined sugar will be higher than expected.

The March WASDE projected an 297k strv increase from 2020/21 Beet Sugar Production (5.092 million strv) to a record 2021/22 production of 5.389 million strv, yet USDA data shows that during October 2021 through January 2022 the industry produced 122,931strv less than it produced during the 2020/21 season. In his monthly analysis of USDA reports, a leading industry analyst wrote this week: "An objective look at the data in the SMD suggests that the 5.389-million-ton estimate is greatly overstated – *perhaps by hundreds of thousands of tons.*". While it may be possible that the sugar beet processing industry processes a record amount of sugar beet in the next few months and reaches the current WASDE estimate, this is not the most likely, risk-weighted outcome. Based on our analysis of recent data points, we believe that the March WASDE estimate for Beet Sugar Production is at least 100,000strv overstated.

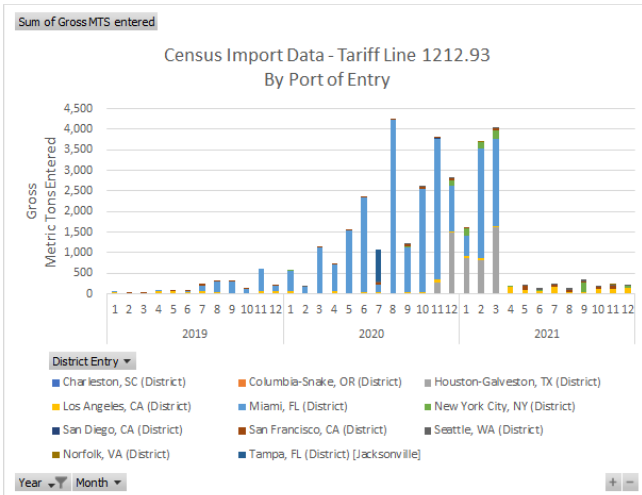
The March WASDE projected an 153k strv increase from 2020/21 Deliveries (12.252 million strv) to a 2021/22 Deliveries estimate of 12.405 million strv. However, the latest USDA Sweetener Market Data ("SMD") report shows that Deliveries during October 2021 through January 2022 already have exceeded those of the same period of 2020/21 by 251,359strv.

There are multiple reasons that we believe that Deliveries for 2021/22 will exceed the March WASDE estimate by at least 100,000strv.

i) Reported Deliveries for September 2021 and October 2021 clearly show the displacement of sugar deliveries from September to October due to both Hurricane Ida as well as the idling of our Port Wentworth refinery due to insufficient raw sugar supply in September. If not for these two events, sugar deliveries would have been at least 50,000 strv (if not more) higher than the deflated figure reported during September 2021. USDA data clearly supports this assumption.

ii) Recent conversations with sweetener users reinforce our belief that sugar deliveries will remain strong throughout the year. Sugar containing product demand has been strong this year as grocers attempt to restock their pipelines, while the price of corn-based Dextrose (historically a cheap sugar substitute) has surged to levels that are encouraging product substitution.

iii) At least one recent attempt at tariff engineering has ceased, as the practice of clearing imported refined cane sugar under the tariff code (1212.93) designated for "Sugar cane" appears to have stopped. We encourage the Department to continue monitoring such tariff engineering attempts and raise its concerns with U.S. Customs when applicable.



The U.S. sugar market needs immediate intervention by USDA to finally end this ongoing raw sugar shortage. The current administration continues to state that it wishes to see inflation moderate, yet raw sugar prices continue to trade at extraordinary premiums above the minimum levels mandated by U.S. sugar program legislation and that are required to prevent sugar program loan defaults. The U.S.-Mexico sugar suspension agreements ensure that action by USDA this year will not jeopardize the structure of the U.S. sugar program next year. However, if the USDA does not work with the U.S. Department of Commerce to increase supply from Mexico immediately, it may endanger the structure of the U.S.-Mexico sweetener trade in the future.

As stated above, the U.S. sugar market needs an additional 400,000 strv raw sugar this year to resolve this shortage. The U.S. import-based cane sugar refining industry and its customers need clarity on the situation as soon as possible, so that we may determine whether to source this sugar from Mexico under the suspension agreements or to arrange additional supplies of imported high-duty raw sugar.

Thank you for your consideration.

Respectfully yours,

Mike Gorrell
President and Chief Executive Officer
Imperial Sugar Company