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North American Free Trade Agreement & the Canadian Sugar Market

USDA Agricultural Outlook Forum
February 19, 2010



North American Sugar Industry



Canadian Sugar Operations



Prior to 1980, there were ten sugar processing plants operating across Canada. By 1980, there were six, and by 2000, the number of plants was down to four.

FOUR Refined Sugar Operations

Vancouver cane sugar refinery

Taber sugar beet factory

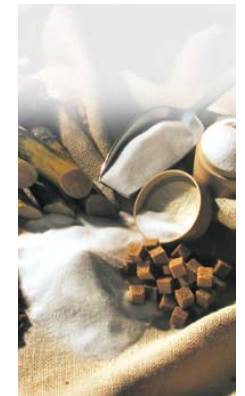
Toronto cane sugar refinery

Montreal cane sugar refinery

TWO Further Processing Operations

Redpath Custom Packing, Niagara Falls, ON

Lantic Blending, Scarborough, ON



Rogers Sugar

Rogers Sugar

Lantic

Redpath



Plant Closures since 1995



Winnipeg, Manitoba - January 1997

Rogers Sugar:

- US implementation of WTO reduced exports to the U.S. from 40,000 metric tonnes to 10,000 tonnes
- Lack of alternative export opportunities



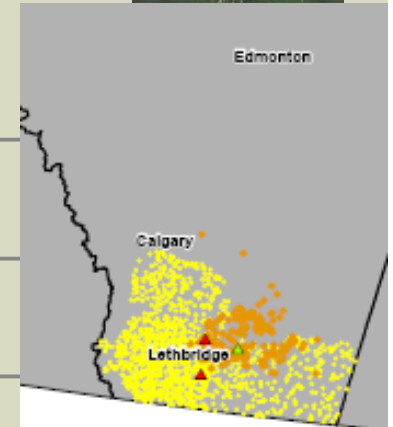
Saint John, New Brunswick - July 2000

Lantic Sugar:

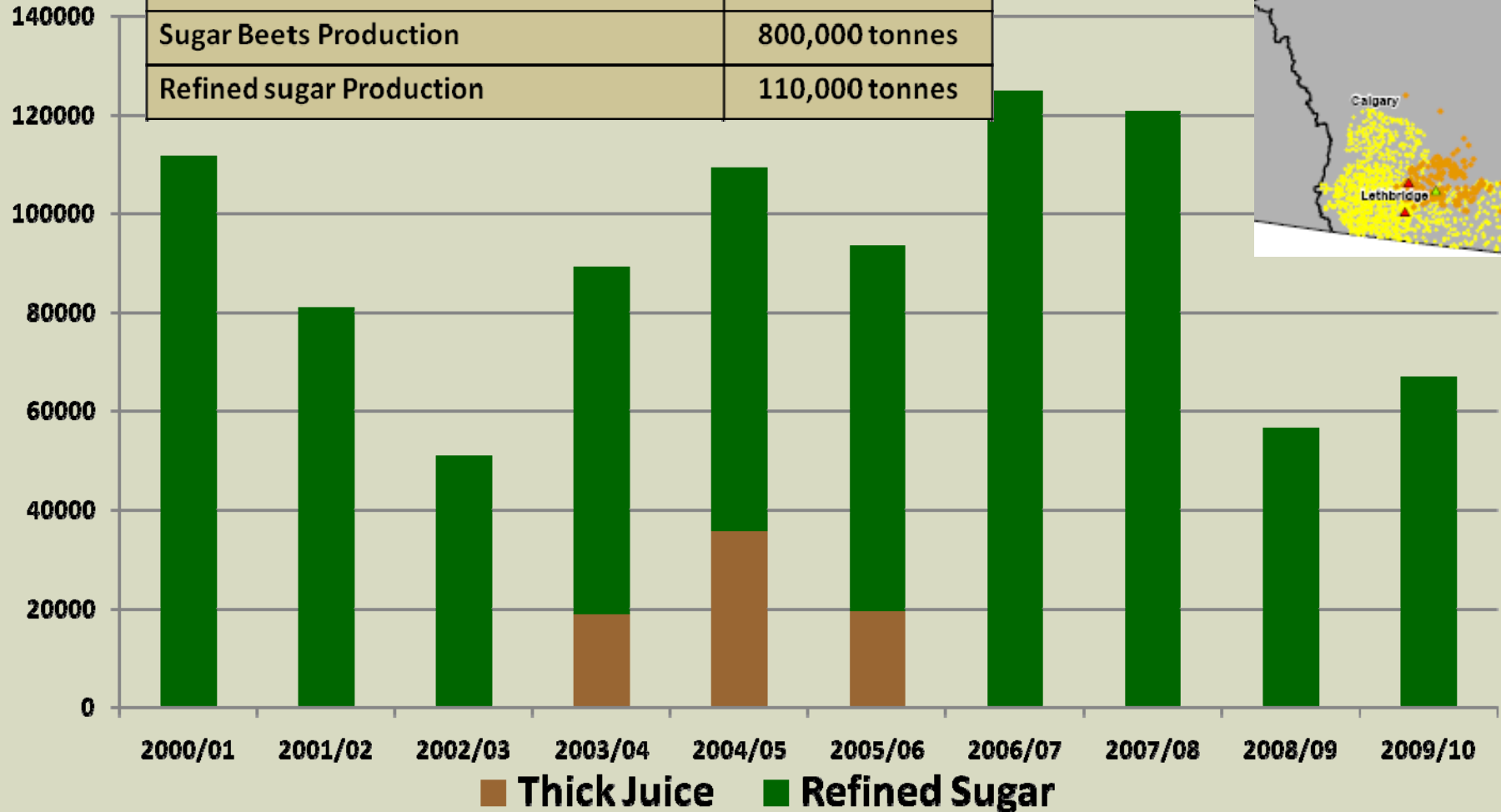
- Competitive pressures to reduce costs and consolidate operations in one plant (Montreal)
- Mature market and limited export opportunities
- Freight costs



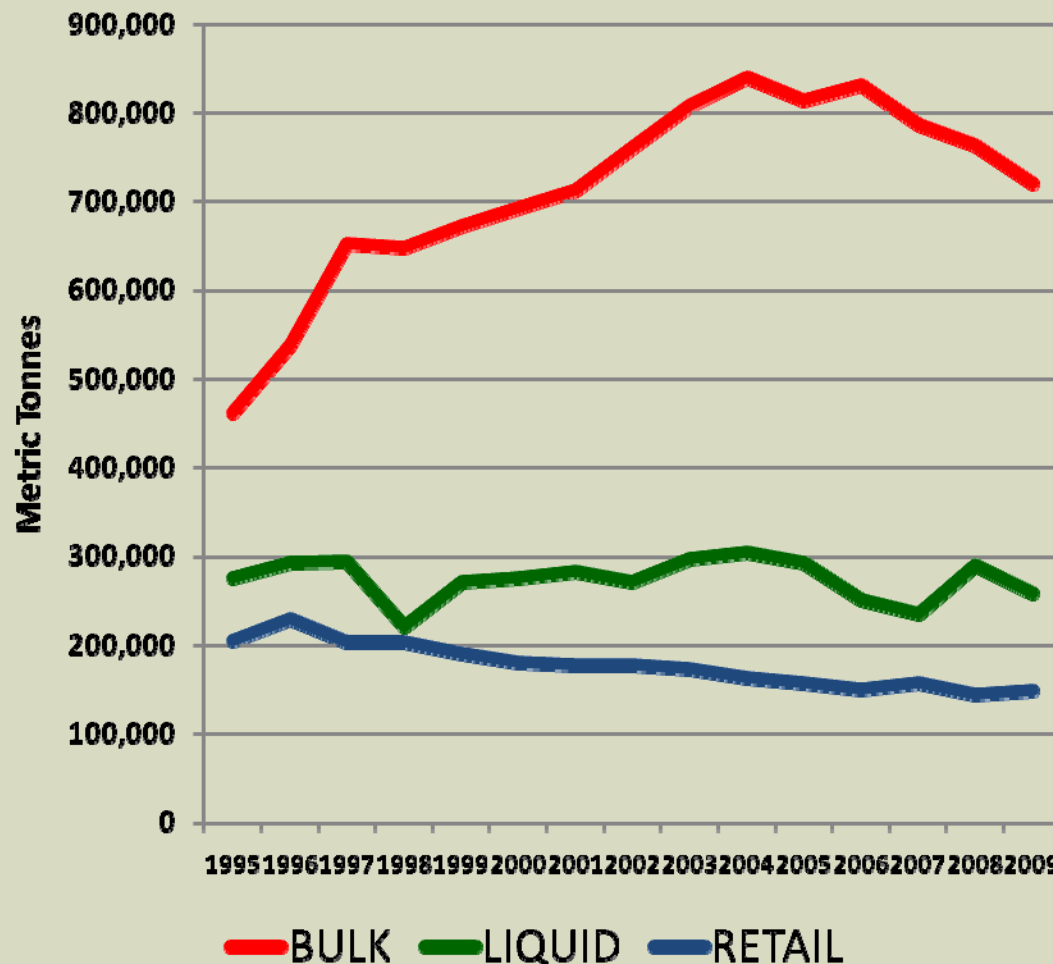
Canadian Beet Sugar Production



Alberta Beet Sugar Production	Annual capacity
Harvested Acres	35,000
Sugar Beets Production	800,000 tonnes
Refined sugar Production	110,000 tonnes



Canadian Sugar Shipments Decline Since 2004



Reasons for Decline

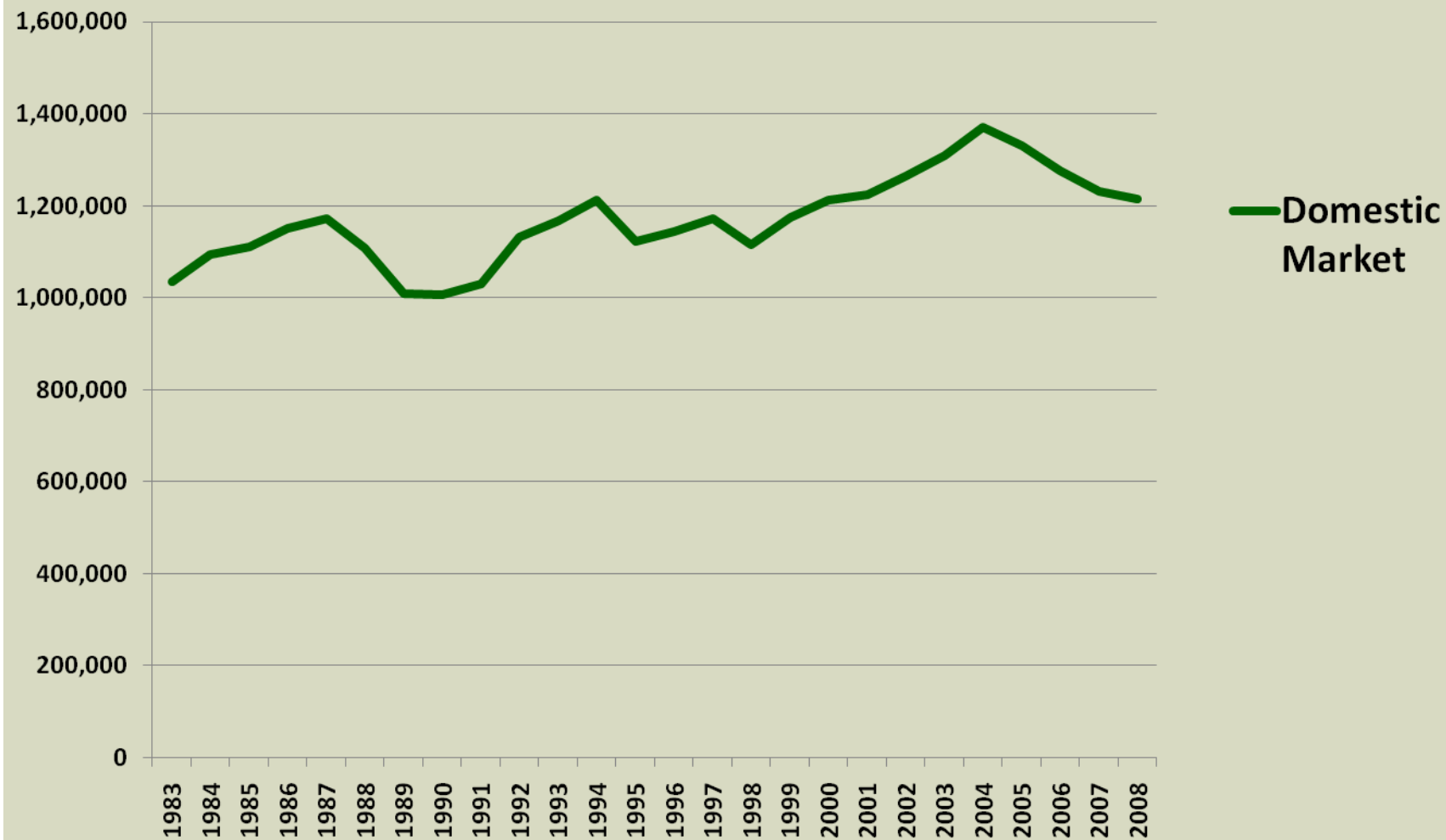
↓ *Reduced sugar-containing product manufacturing related to:*

\$ Strengthening of Canadian dollar, and

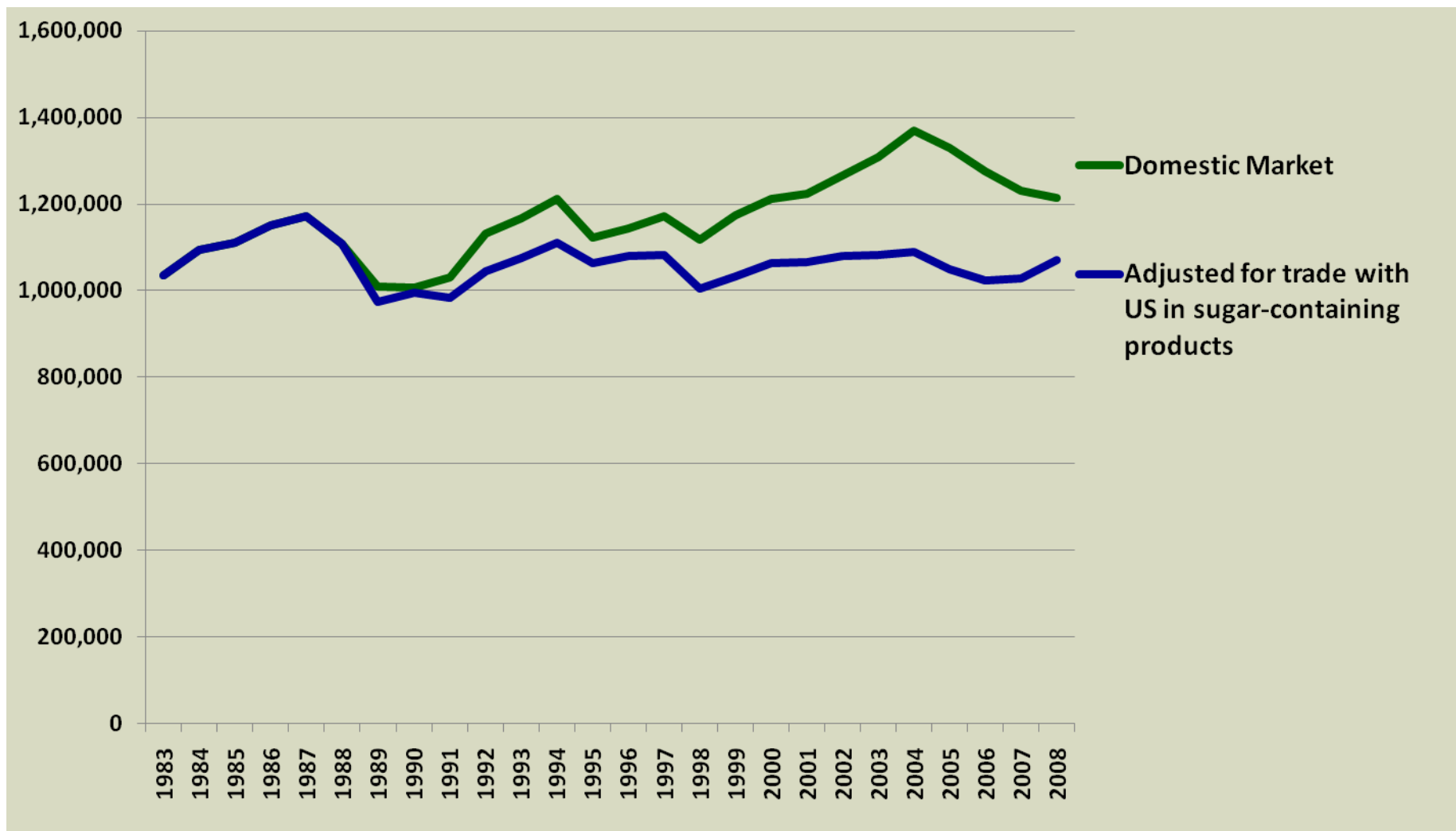
\$ High cost of other inputs, notably dairy ingredients



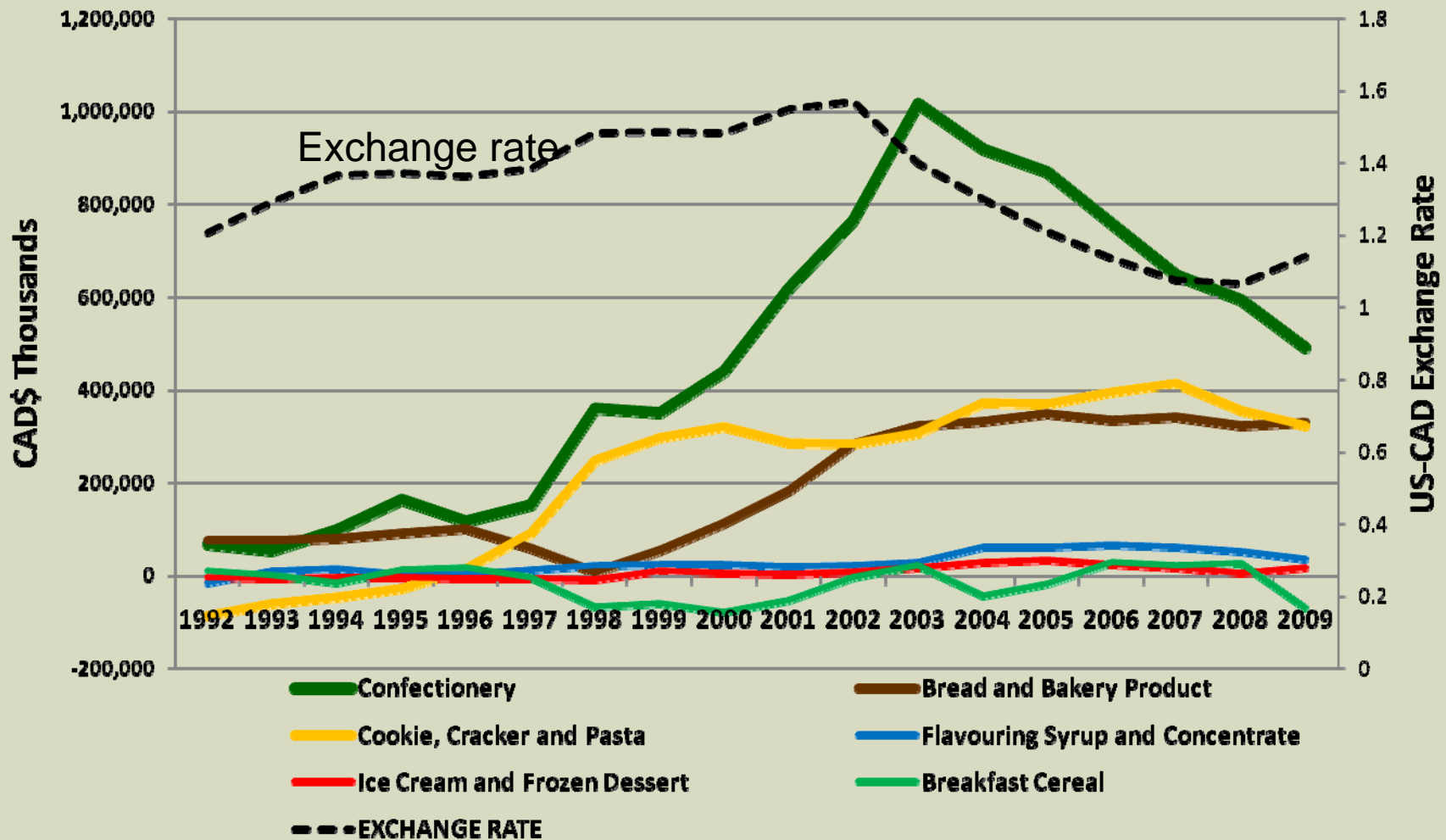
Canada Refined Sugar Market



Refined Sugar Market - Adjusted



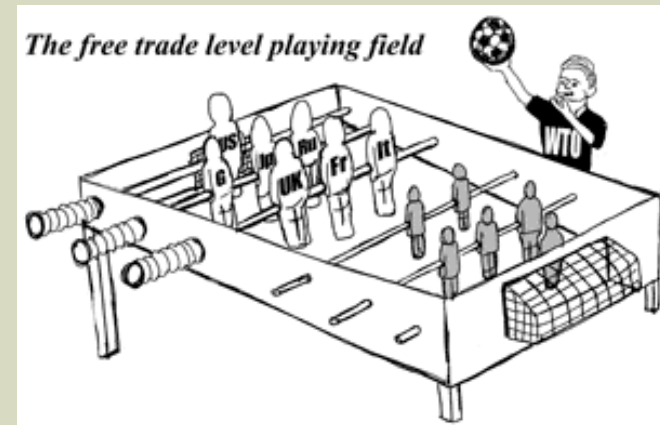
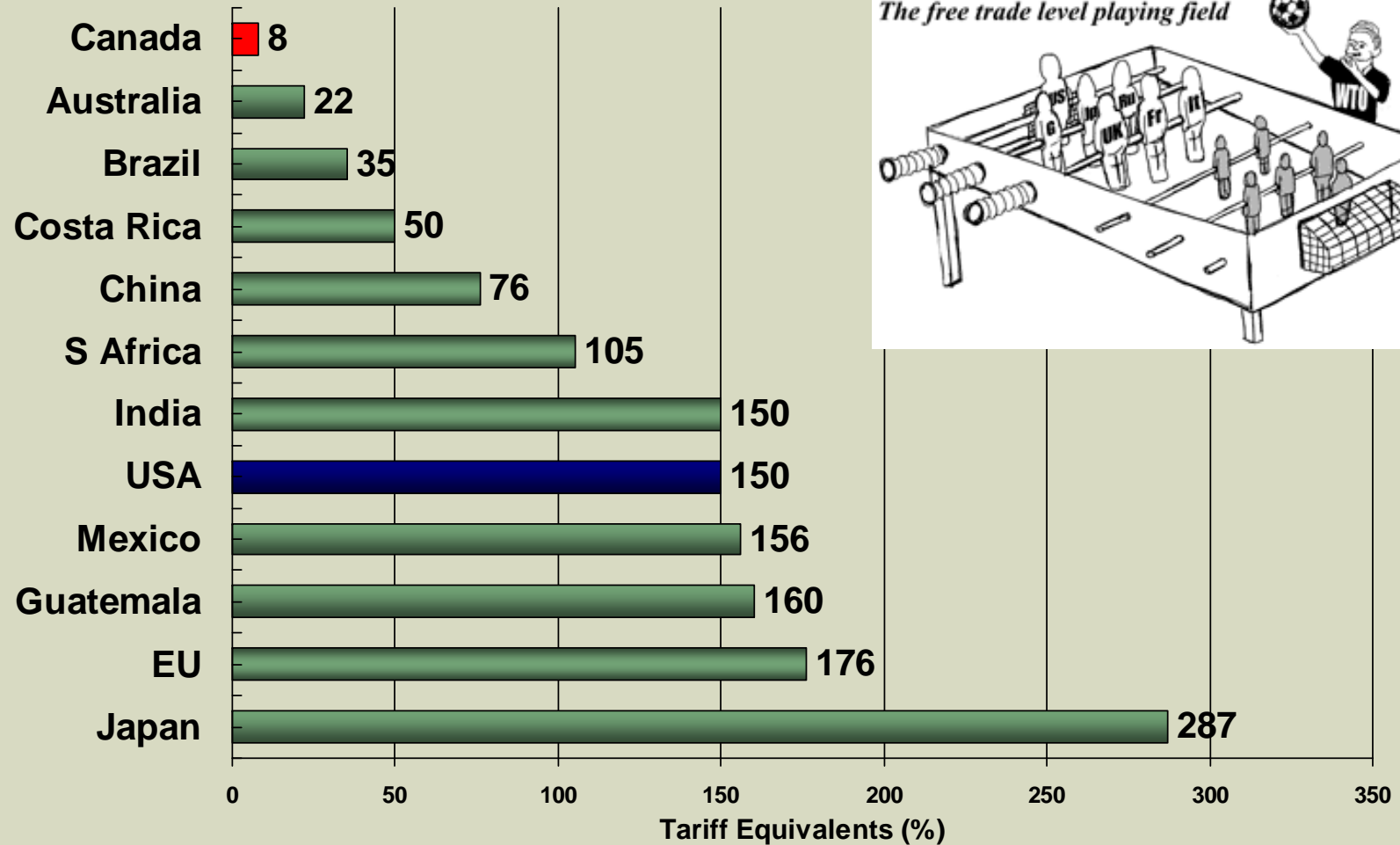
Canada – US Trade Balance Selected Sugar Containing Products



Canadian Sugar Policy in Global Context



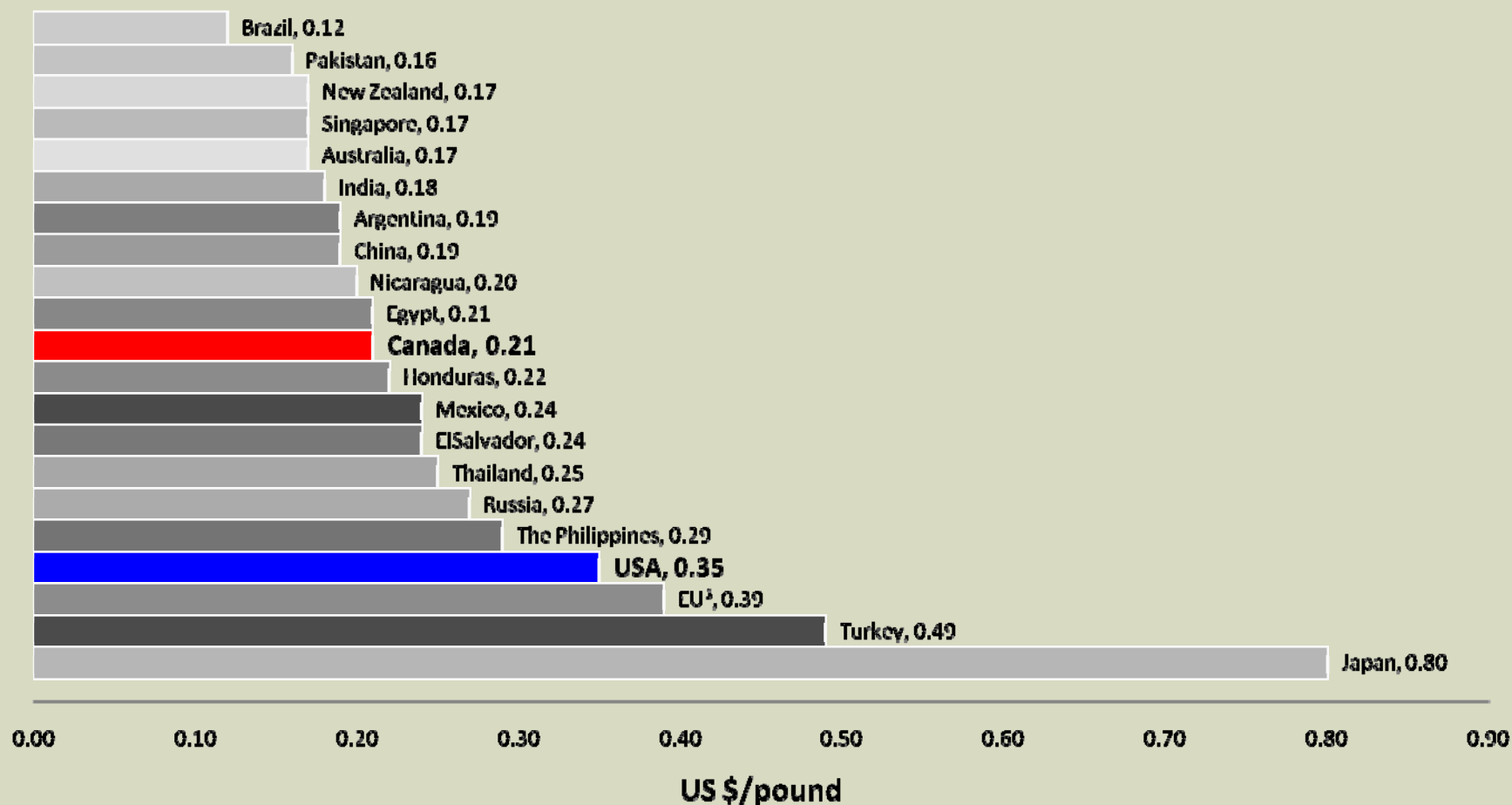
Sugar Tariffs



Canadian Sugar Policy in Global Context



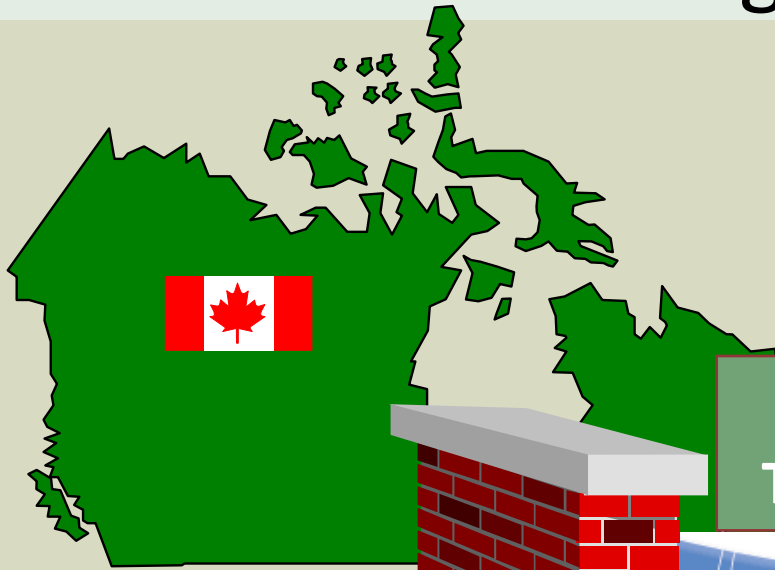
Wholesale sugar prices in selected countries - 2008



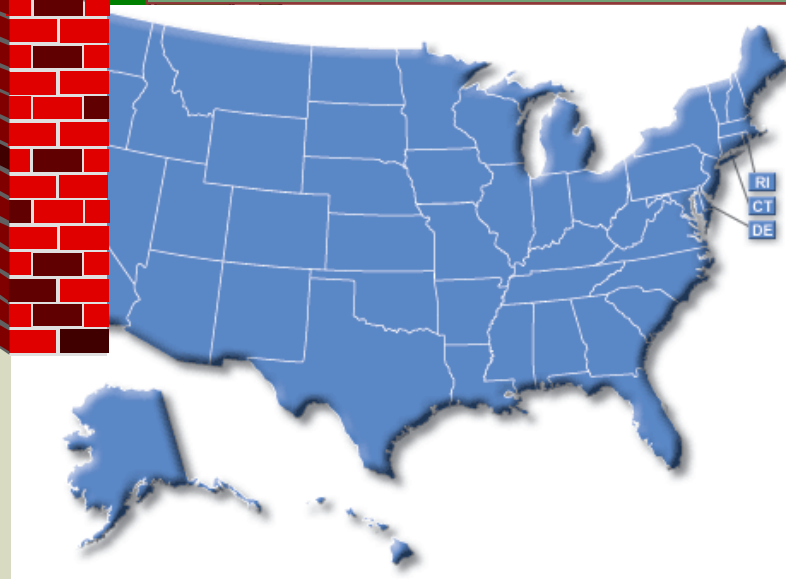
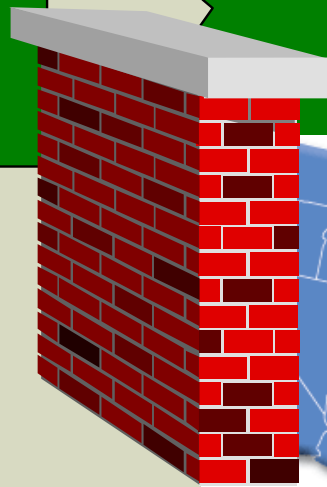
LMC International, June 2009



Canadian Sugar in NAFTA Context



NAFTA + Agriculture Politics =
Trade Barriers and Managed Sugar Trade



Canada Exports Refined Sugar to US

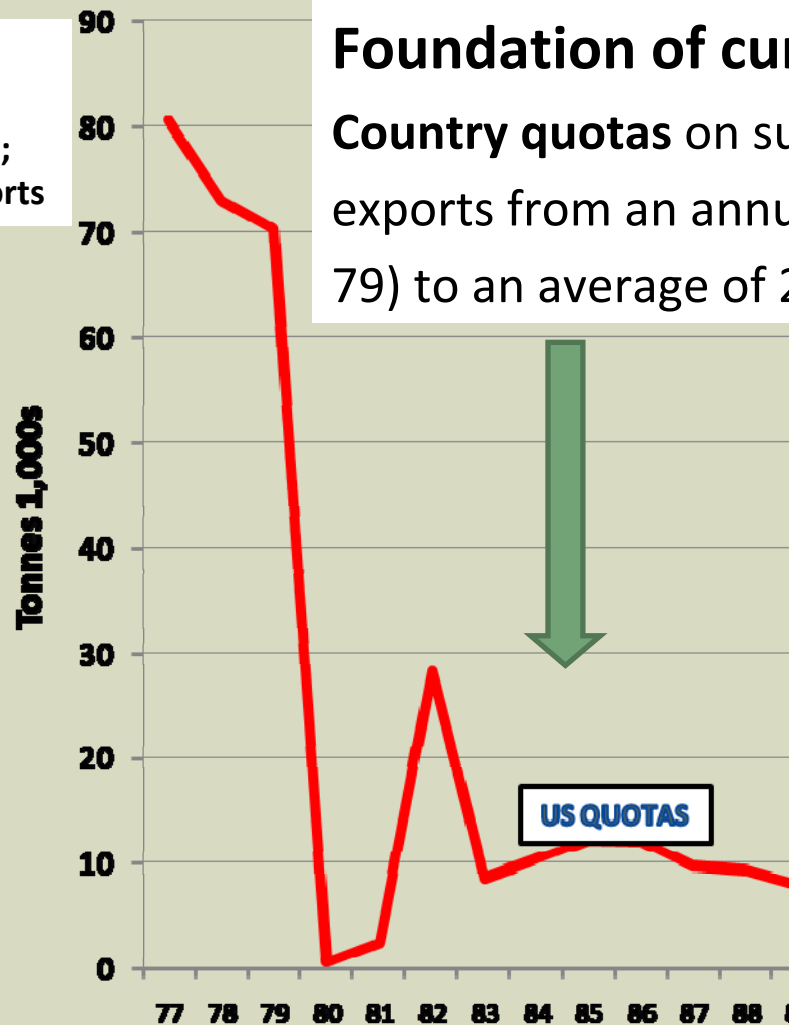


1977-79

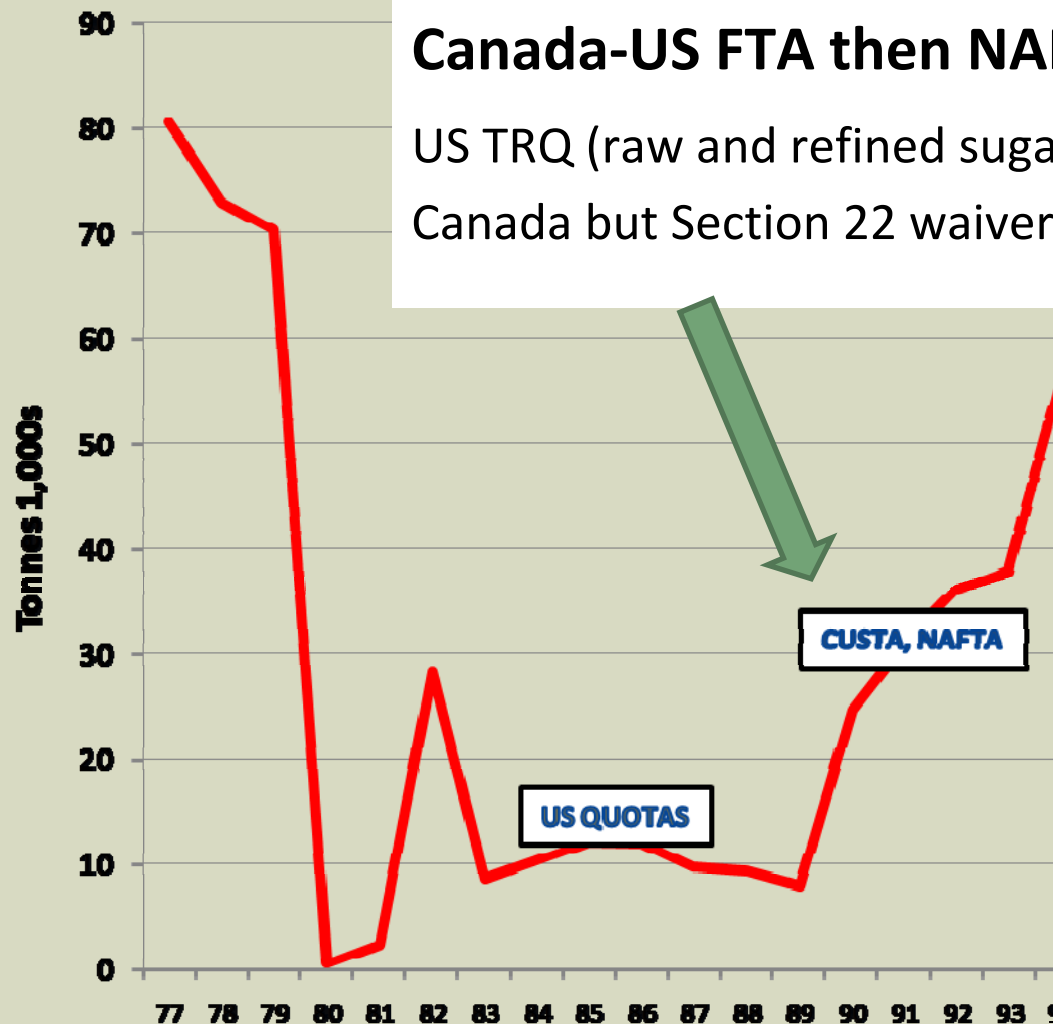
83% refined
sugar imports;
2% total imports

Foundation of current US sugar policy

Country quotas on sugar reduced Canadian refined sugar exports from an annual average of 100,000 tonnes (1977-79) to an average of 20,000 tonnes in the 1980s.



Canada Exports Refined Sugar to US



Canada-US FTA then NAFTA

US TRQ (raw and refined sugar) does not apply to Canada but Section 22 waiver threatened trade action

1992-94
83% refined
sugar imports;
3.6% total
imports



Canada Exports Refined Sugar to US

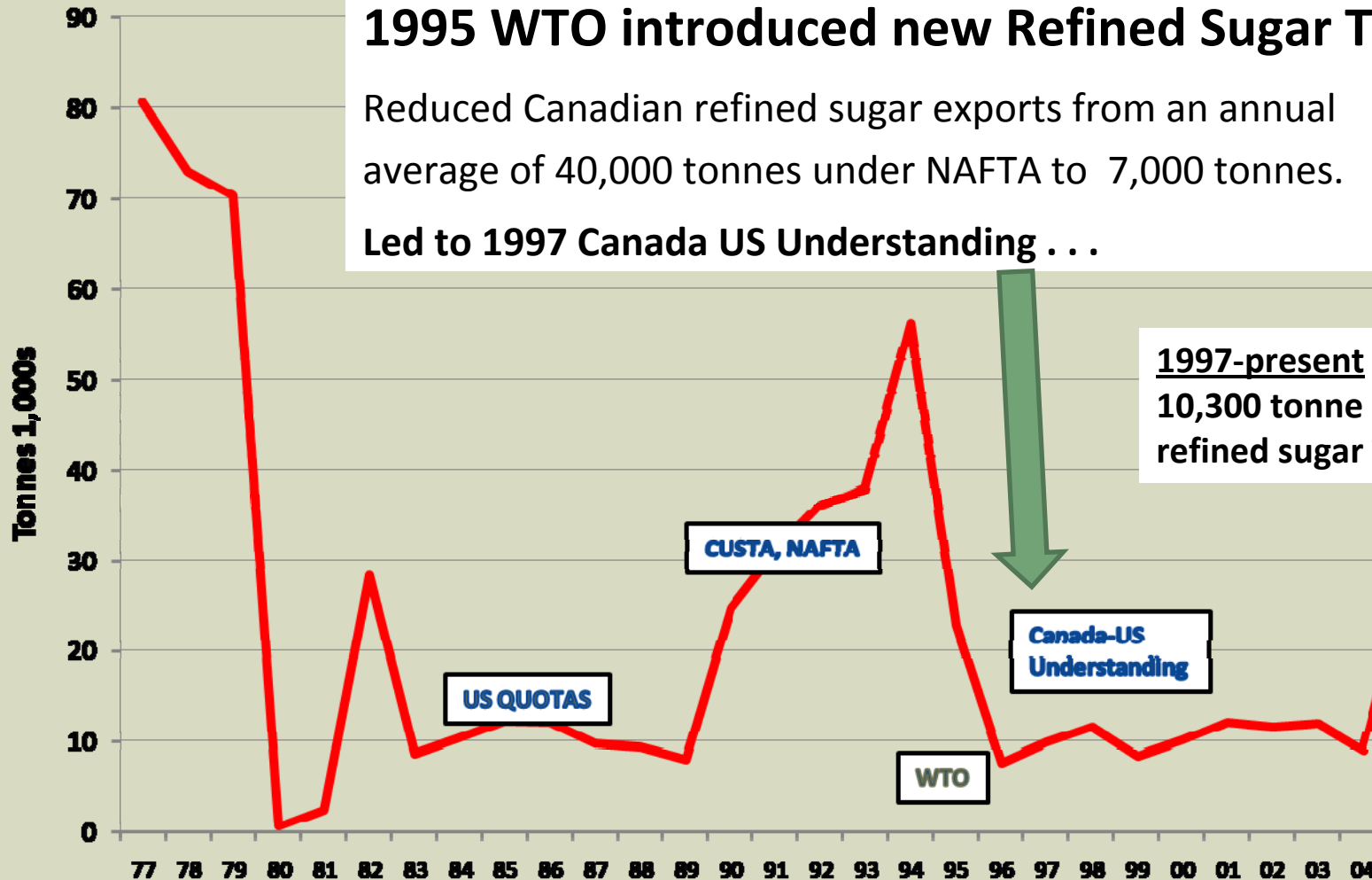


1995 WTO introduced new Refined Sugar TRQ

Reduced Canadian refined sugar exports from an annual average of 40,000 tonnes under NAFTA to 7,000 tonnes.

Led to 1997 Canada US Understanding . . .

1997-present
10,300 tonne share of refined sugar TRQ

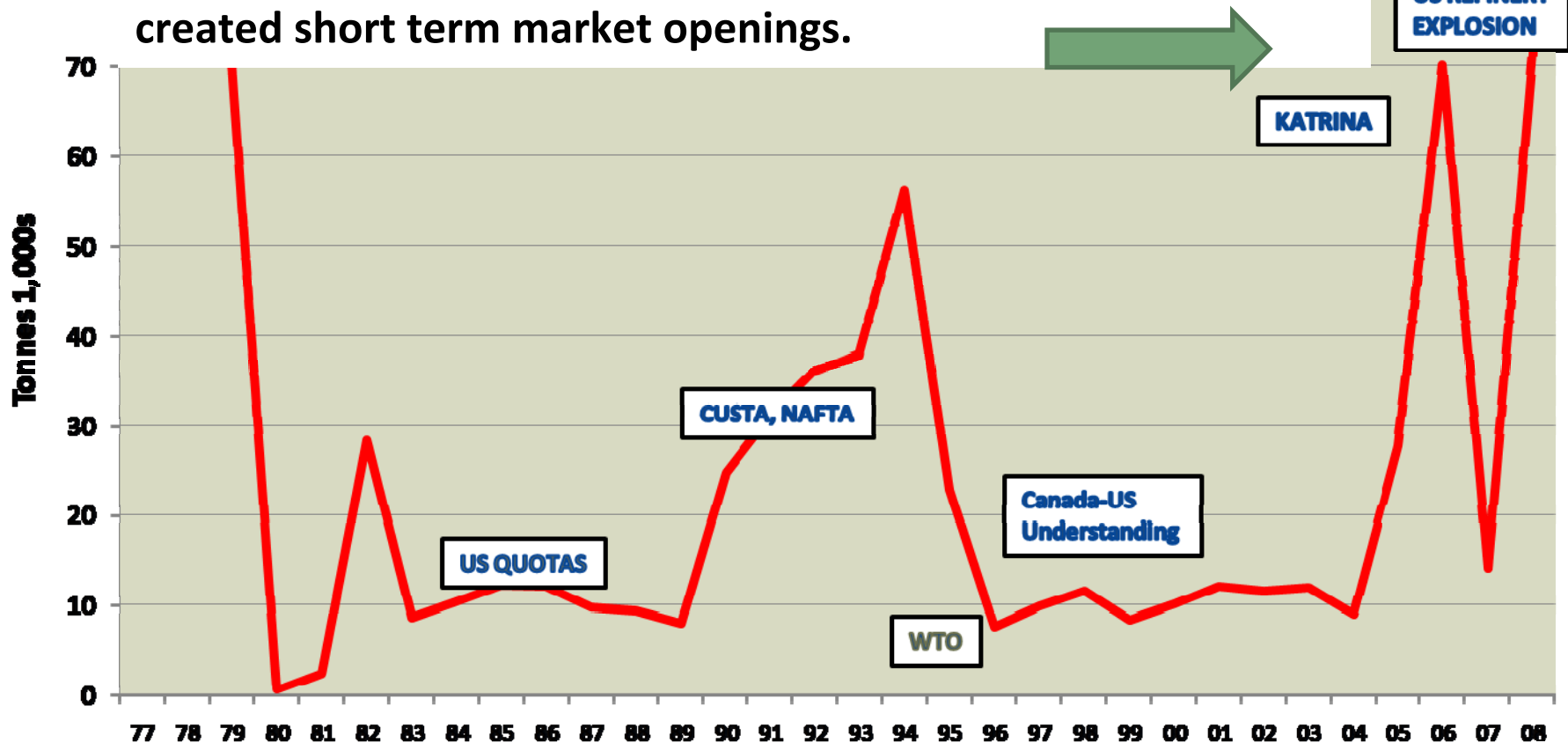


Canada Exports Refined Sugar to US

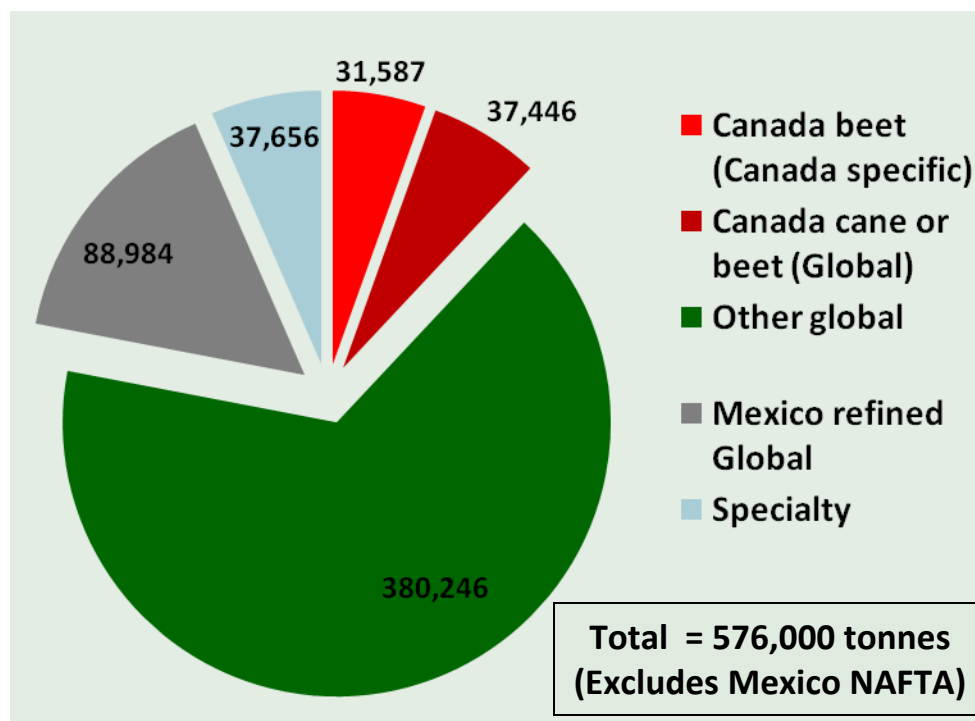


90 - 2005/06 and 2007/08 US Market Disruptions

80 - "Unprecedented disruptions" (USDA) to US refining capacity created short term market openings.



Canada Access to TRQ Increases 2005-06



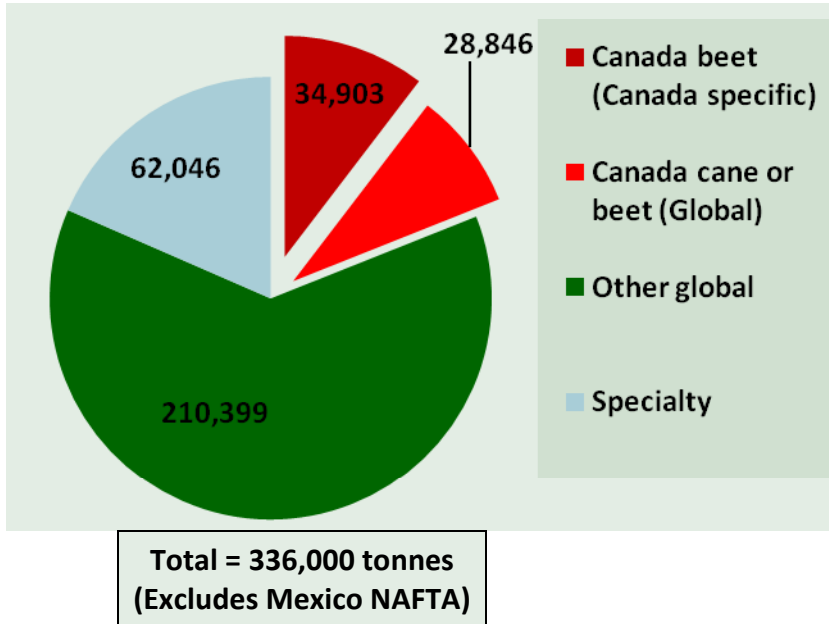
CUSTOMS ENTRY

- Tranches
- Container size restrictions

4 TRQ OPENINGS	Sep 8, 2005	Dec 2, 2005	Feb 2, 2006	Aug 3, 2006
Tranches	No	Yes - 4	No	No
Container size restriction	No	Yes	No	Yes
Canada share of global TRQ	3%	16%	6%	9%



Canada Access to TRQ Increases 2007-08



CUSTOMS ENTRY

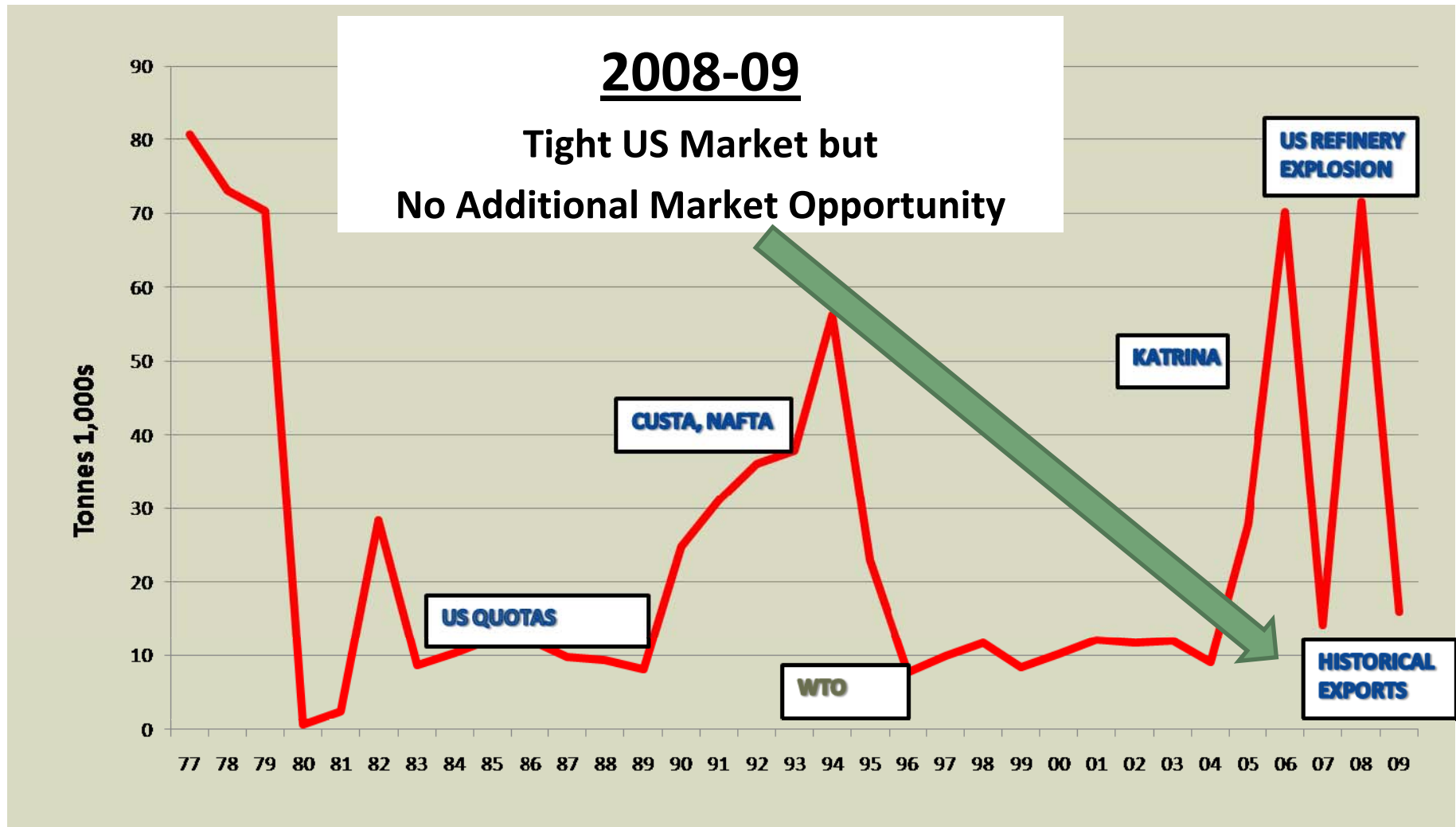
- Tranches
- Container size restrictions
- User quality white sugar

Sept 18, 2008
Customs rescinded conditions for higher quality white sugar and small container sizes.

3 TRQ OPENINGS	Oct 1, 2007	Aug 14, 2008	Oct 30, 2008
Metric Tonnes	7,090	163,877	68,278
Tranches	No	No	Yes - 5
Container size restriction	No	Yes/No	No
User-quality white sugar not to be further refined	No	Yes/No	No
Canada share of global TRQ	14%	9%	19%



Canada Exports Refined Sugar to US



2008 US Farm Bill – Quota Administration



Legal authority in US Tariff Schedule:

- Whenever the Secretary believes that domestic supplies of sugars may be inadequate to meet domestic demand at reasonable prices, the Secretary may modify any quantitative limitations ... but may not reduce the total amounts below the amounts provided for in subdivision (i) hereof. (i.e., not reduce below minimum WTO commitment)

2008 Farm Bill Responsibilities:

- To manage the allotment program to ensure:
 - prices are maintained above forfeiture levels AND
 - to provide “adequate supplies of raw and refined sugar in the domestic market”

Tools:

- Adjustments to allotments (upward or downward “in a fair and equitable manner” but cannot decrease below 85% domestic consumption)
- Reassignment of deficits to imports of “raw cane sugar”
- Adjustments to Tariff Rate Quotas for “**raw cane sugar and refined sugars**”
- **This is where it gets complicated ...**



US Farm Bill – Responsibilities of Secretary



- **Before Apr 1:**
 - “**Shall**” take action to increase the supply of sugar if there is an **emergency shortage** “caused by war, floods, hurricanes, or other natural disaster, **or other similar event ...**” (i.e. Secretary obliged to act and has discretion to define emergency)
 - Including (but not limited to) increases in the raw TRQ to accommodate allotment reassignments to imports
 - Increases in refined sugars after domestic marketings **and refining capacity have been maximized** and if “such further increase” will not result in forfeitures
- **On or after April 1:**
 - “**May**” take action to increase the supply of sugar
 - If there is still a shortage of sugar , the TRQ for raw cane sugar may be increased after marketings of domestic sugar have been maximized (if such further increase will not threaten forfeitures)
 - **Does not preclude increases to TRQ for refined sugars as per legal authority in Tariff schedule to ensure adequate domestic supplies at reasonable prices**



Ongoing US TRQ Issues



- **Uncertainty regarding timing and composition of TRQ openings**
- **WTO TRQ allocations to Mexico are redundant and limit opportunity for other suppliers**
- **Challenges of Customs administration**
 - First-come, first-served TRQ
 - TRQ for refined sugars includes lower quality white sugars that require further processing
 - Need to establish increases above WTO minimum based on international white sugar standard
 - Tranches and container size restrictions can help orderly marketing



Projected Ending Stocks to Use FY2010



USDA Monthly Stocks to Use Ratio Crop Year (Oct 1 - Sep 30)

		Month	00/01	01/02	02/03	03/04	04/05	05/06	06/07	07/08	08/09	09/10
Current Crop Year Estimates	October		15.3	14.1	15.5	20.8	21.8	10.5	16.5	18.2	6.0	7.9
	November		18.0	12.7	12.7	19.8	19.2	6.4	17.6	17.8	8.3	9.6
	December		20.0	12.5	12.1	20.6	16.5	13.4	18.7	19.4	8.8	9.6
	January		18.8	11.6	13.5	20.3	15.6	12.7	17.0	19.0	9.9	10.8
	February		19.4	12.7	14.6	19.7	15.3	16.0	16.0	19.3	9.8	10.0
	March		19.2	13.9	13.7	19.8	14.5	14.4	16.0	18.8	9.0	
	April		18.7	16.9	13.7	20.1	13.8	14.4	16.6	18.6	11.9	
	May		18.6	16.0	16.4	22.1	13.1	13.8	16.3	16.4	11.0	
	June		19.3	16.1	16.0	21.9	13.1	13.2	16.1	15.9	11.0	
	July		18.6	16.0	16.4	21.6	14.4	13.6	15.3	13.7	10.0	
	August		18.7	17.2	16.4	21.4	14.1	15.1	15.4	15.0	11.2	
September		19.8	16.7	17.5	21.5	14.9	15.5	16.9	14.3	11.8		
Final Revised	April of Next Crop Year		21.0	13.9	16.7	18.6	12.6	16.2	17.3	15.2	13.5 est	

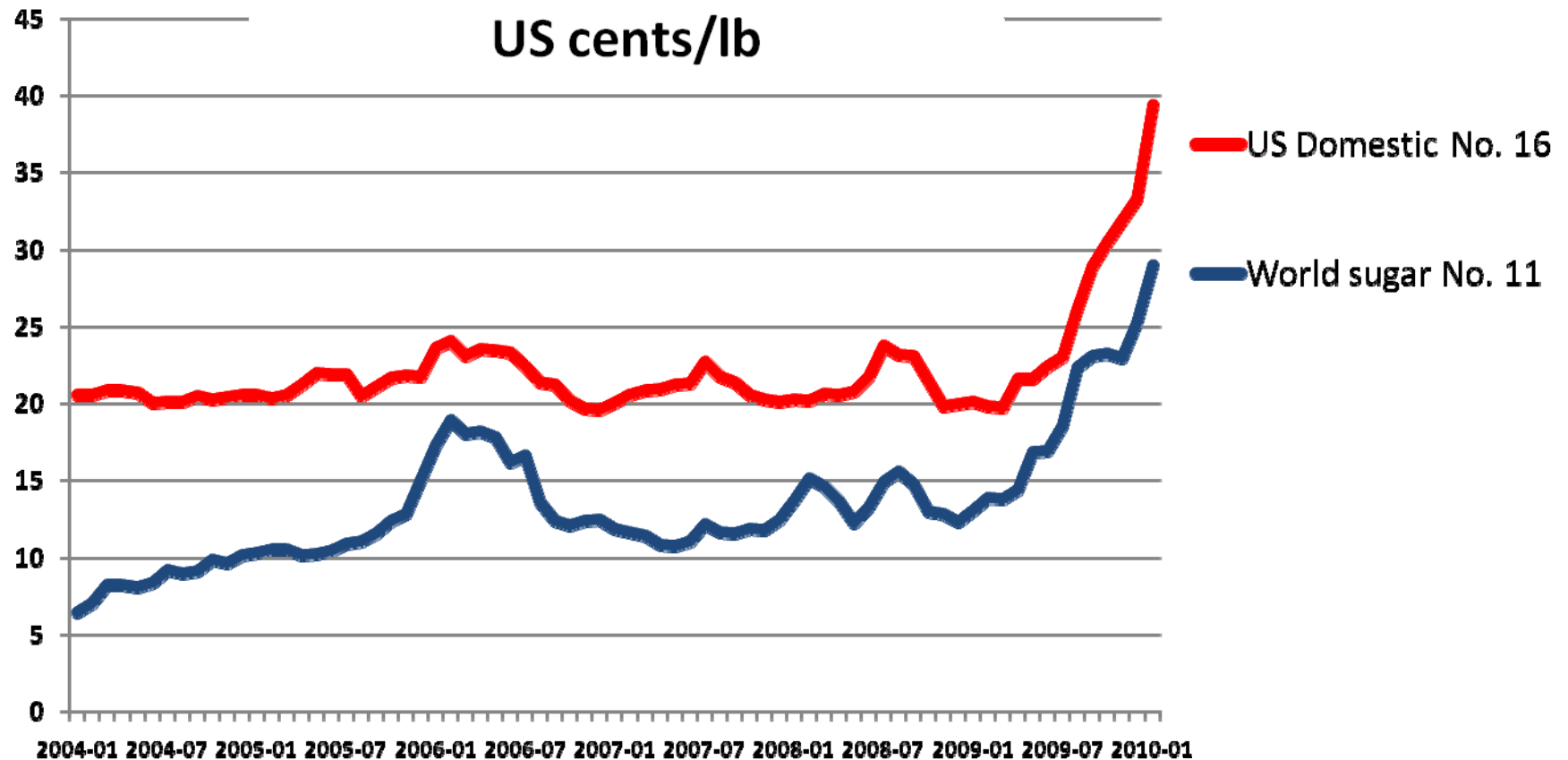
Source: USDA WASDE Reports



Market Prices Signal Demand



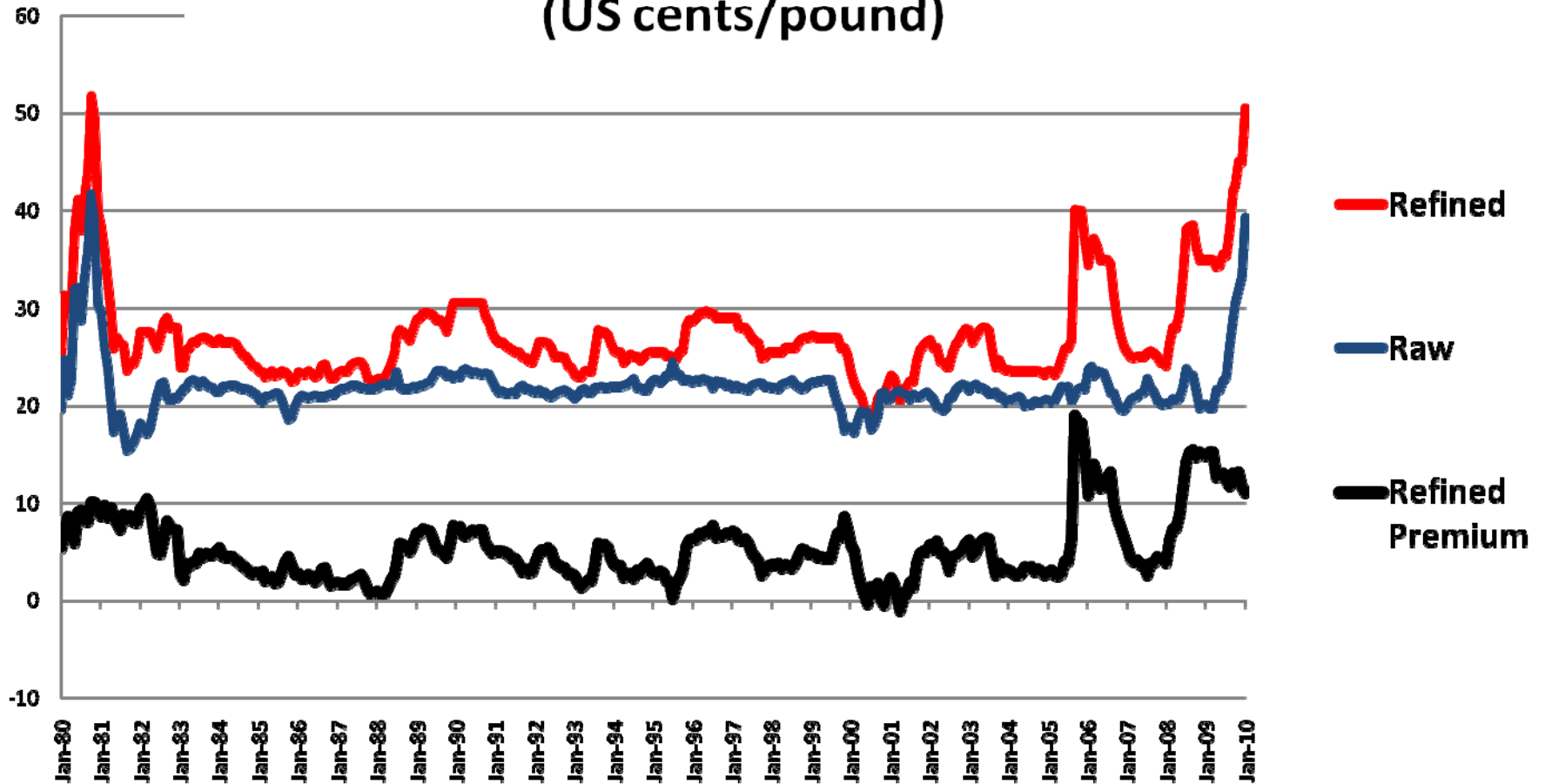
US and World Raw Sugar Prices
US cents/lb



Market Prices Signal Demand



US Raw and Refined Sugar Prices and PREMIUM (US cents/pound)



Mexico Cannot Fill US Import Demand



Mexico Sugar Supply and Use and High Fructose Corn Syrup Imports 1/

1,000 metric tons, raw value

Fiscal Year	Supply		Use			
	Beginning stocks	Production	Imports	Domestic 2/	Exports	Stocks
2008/09 est.						
Jan	1,975	5,260	160	5,540	1,367	488
Feb	1,975	5,260	160	5,540	1,367	488
2009/10 proj.						
Jan	488	5,300	720	5,300	690	518
Feb	488	5,100	720	5,300	490	518

1/ U.S. HFCS exports to Mexico (metric tons, dry-weight basis): Oct-Nov 2008 = 53,366; Oct-Nov 2009 = 136,491; Oct-Sep 2008/09 = 297,231.

2/Includes domestic consumption and Mexico's products export program (IMMEX).



Canada Exports Refined Sugar to US?

