NAFTA Sweetener Markets: The Transition Towards Integration

USDA Annual Outlook Forum, 2007

John Cropley
LMC International, New Orleans, LA
Where Are We Now?

- Transition period drawing to a close
- Still long way from truly open borders
- Potential for fundamental, rapid shifts; sweetener demand patterns; pricing structure
- Smooth landing? – Rough Ride?
Where Are We Heading?

- Next Farm Bill...

- January 1\textsuperscript{st} 2008: 
  \textit{Will the picture be any clearer?}

- Policy Environment ×

- Fundamentals ✓
Mexico: Sugar Supply & Exportable Surpluses
Year-on-Year Changes in Mexico Sugar Output
Will We See Changes in Mexico’s Pattern of Sweetener Demand?

- Well suited for HFCS consumption
- “Market of tomorrow”…
  
  ....and always will be?

- What can we learn from the US experience?
Caloric Sweetener Demand in the USA

'000 tons, white value


Sugar
HFCS
The US Beverage Sector: Caloric Sweetener Demand

- Sugar
- HFCS

Graph showing the demand for caloric sweeteners from 1975 to 1995.
HFCS Penetration of The US Soft Drink Market

HFCS Share of Caloric Sweeteners

<table>
<thead>
<tr>
<th>Year</th>
<th>0%</th>
<th>25%</th>
<th>50%</th>
<th>75%</th>
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<td>1970</td>
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Comparing US & Mexico over Time – HFCS% Share in Caloric Soft Drinks

- HFCS % of US Soft Drink Demand from 1970
- HFCS % of Mexico Soft Drink Demand
How Far Will it Go?

Mexico’s HFCS Demand

&

Sugar Exports
Projecting Mexico Export Availability:

USDA


'000 tonnes, raw value

- 2,000
- 1,500
- 1,000
- 500
- 0

- 2007
- 2009
- 2011
- 2013
- 2015
- 2017
- 2019

c33% 50% 75%
Where Would All this Sugar Go?

(How large is the US market?)
Projecting US Demand for Sugar


Current  2 Yrs Ago  4 Yrs Ago
Projecting US Demand for Sugar

000 tons, raw value


Current  2 Yrs Ago  4 Yrs Ago

LMC
Projecting US Demand for Sugar

000 tons, raw value

Current  2 Yrs Ago  4 Yrs Ago

What Would this Sugar Do to the US Market?

Possible policy frameworks
JOHANNS ANNOUNCES FISCAL YEAR 2006 SUGAR PROGRAM PROVISIONS
WASHINGTON, Sept. 29, 2005;

....“As part of the Administration's commitment to fully implement NAFTA.....”
“…continue to maintain domestic prices near *historical levels*…”
USDA 2007 Farm Bill Proposals

“Revise the sugar program to operate at no net cost to taxpayers by balancing supply and demand for sugar through domestic marketing allotments & the TRQ”
USDA 2007 Farm Bill Proposals

“eliminating the provision…. to **suspend marketing allotments** when sugar imports are projected to exceed 1.532 million short tons”
"Domestic marketing allotments for sugarcane and sugar beets could be reduced, as needed, to balance sugar supply and demand"
Potential Requirements for Domestic Sugar Supplies - Beet

- 1996/97: 3,500 '000 tons, raw value
- 1999/00: 4,000 '000 tons, raw value
- 2002/03: 4,500 '000 tons, raw value
- 2005/06: 5,000 '000 tons, raw value
- 2008/09: 5,500 '000 tons, raw value
- 2011/12: 6,000 '000 tons, raw value

Penetration:
- 95% Penetration
- 75% Penetration
- 50% Penetration
Potential Requirements for Domestic Sugar Supplies - Beet

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Implications for Cane Areas

95% Penetration
75% Penetration
50% Penetration

'000 acres

1996/97 1999/00 2002/03 2005/06 2008/09 2011/12
Equitable? – Who Does the “Heavy Lifting”?

Supply Management Both Sides of the Border? *If so…*

What happens to “surplus” sugar displaced by HFCS? *Exports, Ethanol?*

Alternatives….
“Squaring” The Policy Triangle

Open borders

Historical Prices  No Cost