

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Australia

Sugar Semi-annual

2014

Approved By:

Hugh Maginnis, Agricultural Counselor

Prepared By:

Roger Farrell, Agricultural Specialist

Report Highlights:

Australian sugar production is projected to grow to 4.6 million tonnes in 2014-15 with sugar cane acreage up slightly. World prices and grower returns are down but yields and exports are forecast to be higher. Indonesia and China are emerging as more important markets and the bilateral FTA with Korea will expand opportunities from 2015. Australian sugar exporters met their U.S. raw sugar quota for 2013-14 after previously filling only part of the 2012-13 allocation due to higher prices in Asia.

Commodities:

Sugar Cane for Centrifugal

Sugar, Centrifugal

Production:

The Australian sugar industry is expected to increase output to 4.6 million tonnes (raw value) in 2014-15 due to higher yields and harvested area. This forecast represents a five per cent increase on Post's previous estimate due to a less severe than expected impact on the harvest from flooding, cyclones and canopy syndrome disease. The area planted to sugar cane in 2014-15 is expected to reach 385,000 hectares, assuming normal seasonal conditions prevail. Cyclone Ita struck Queensland in mid-April 2014, but its impact was moderate while the continuing drought is likely to especially affect 2015-16 production. World sugar prices have continued to decline and returns to growers are forecast at A\$400 a tonne in 2014-15 when exports are likely to reach 3.5 million tonnes.

Ninety per cent of sugar cane is grown in Queensland, especially in high-rainfall and irrigated districts. The sugar cane crushing season usually commences in July and ends in mid-December. Season length can be affected by climatic conditions and crop rotation practices. Sugar cane usually grows for 9-16 months before being harvested, with faster growth and harvests in the northern regions of Queensland. Sugar cane must be transported to a mill within 16 hours of harvest to reduce juice evaporation.

The Australian sugar industry has over 4,000 cane farms, 24 sugar mills and six bulk storage ports. The average farm size of around 100 hectares has been gradually increasing due to the benefits of greater scale from mechanization and the growth of corporate farming. There are four growing regions in Queensland, with around 1,700 growers and an average farm size of 77 hectares. New South Wales (NSW) has 600 growers with an average farm size of 33 hectares and only supplies the domestic market. Many sugar mills generate their own electricity by burning the sugar cane by-product bagasse.

Consumption

Around 80 per cent of Australian sugar is exported and 20 per cent is consumed domestically. Domestic sugar consumption has been static over the last decade. At the retail level, sugar competes with a range of other natural and artificial sweeteners and its market share is determined by price competition as well as consumer preferences for either sugar or artificial sweeteners. The majority of sugar consumed in Australia is in the form of sucrose. There is no apparent production or imports of fructose in Australia.

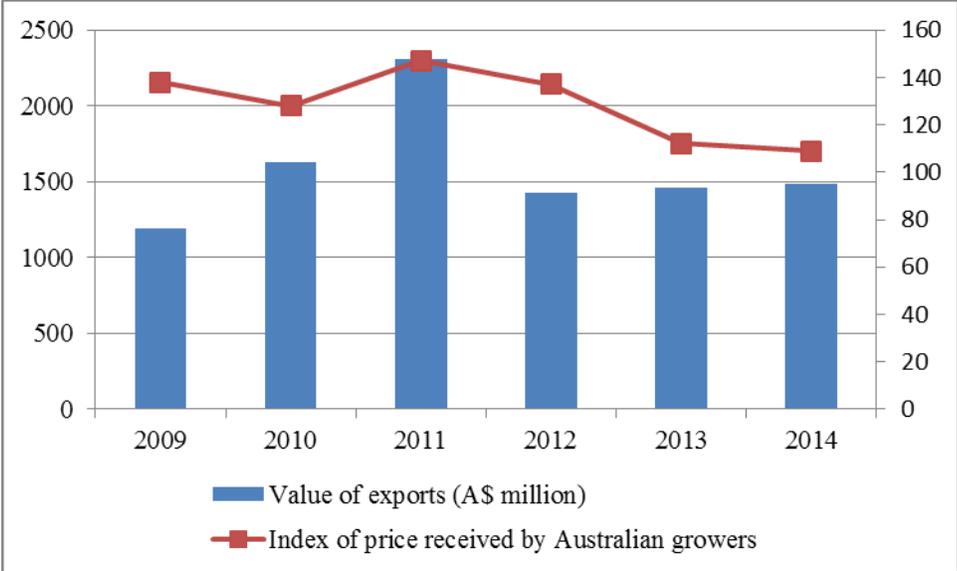
No Australian government agency currently collates and publishes apparent consumption data for sugar. In 2012, the Australian Sugar Refiners Group and Canegrowers Australia commissioned a survey which found that annual sugar consumption fell from 47.5 kg per capita in 1998 to 42 kg over the

previous year. However, this apparent decline in per capita sugar consumption was disputed by consumer health groups because a number of foods and beverages were not included in the survey.

Marketing and Distribution

The Australian sugar industry was deregulated in 2006 with the abolition of the ‘single desk’ arrangement under which sugar was compulsorily acquired and sold by Queensland Sugar (QSL). Subsequently, most growers retained marketing links with QSL in order to reduce unit costs through pooling sugar production for export. In 2013, twenty-one of the 26 sugar mills in Queensland marketed their sugar through the grower-owned company. QSL has an established network of six bulk export terminals with a combined storage capacity of 2.5 million tonnes as well as an extensive distribution and marketing system.

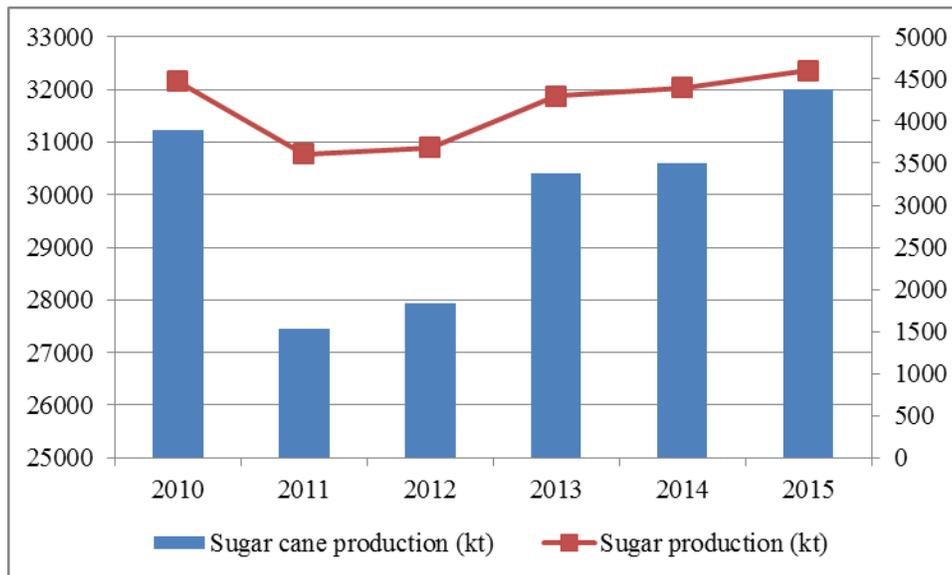
Chart 1: Australian sugar exports and index of price received by growers, 2009-14



*Note: Value of sugar exports is left axis; index of price received is right axis.
Financial years (from July to June).*

Source: ABARES (2014), Australian Commodities, September quarter, Canberra.

Chart 2: Australian sugar cane and raw sugar production, 2010-15



Note: Value of sugar cane production is left axis; value of sugar production is right axis. Financial years (from July to June).

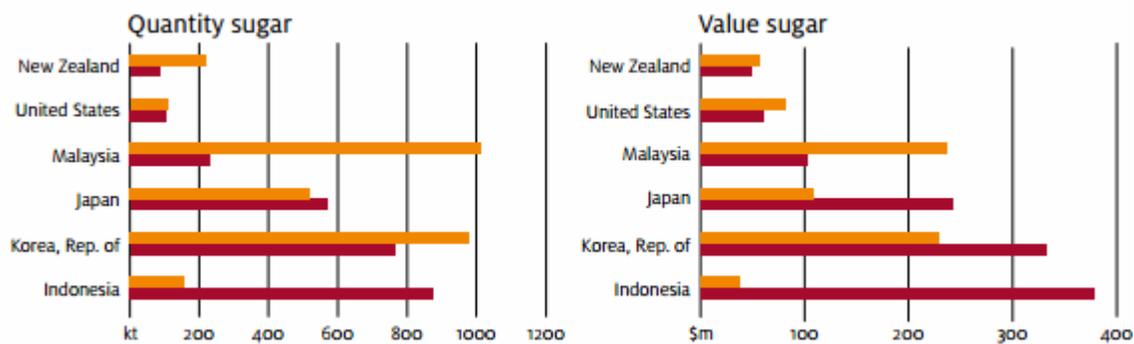
Source: ABARES (2014) and Post estimates.

Significant changes to the traditional milling, marketing and pooling arrangements for Australian sugar may occur in the future. Singaporean agribusiness company Wilmar acquired Sucrogen in 2010 (previously CSR) and announced in April 2014 that it would sever marketing links with QSL, when current contracts expire in 2017. Wilmar intends to establish its own marketing arm for the two million tonnes of sugar it mills, sourced from around 3,000 cane farmers in the State. Other sugar millers, including the Thai-owned MSF and Chinese-controlled Tully Sugar, will also withdraw their share of sugar from the grower-owned QSL pool at the end of the 2016 season. A Senate inquiry has been established to examine the issue of control of marketing and distribution of sugar in Australia. The terms of reference for the Rural and Regional Affairs and Transport Committee include growers' claim to sugar ownership, supply chain issues including equitable access to infrastructure, the impacts of foreign ownership and whether there is a need for stronger competition laws for the industry.

Trade

Australia ranks as the third largest raw sugar exporter in the world with over 80 per cent of production exported and the rest used for the domestic market. Sugar exports are projected at 3.3 million tonnes in 2014-15, up around 5 per cent on the previous two years. Indonesia imported 530,000 tonnes of raw sugar from Australia in 2013-14, making it a leading market, with Korea, Japan, Taiwan and Malaysia also important markets. The value of Australian sugar exports is forecast at A\$1.4 billion in 2014-15.

Chart 3: Major Australian sugar markets in 2013-14



Source: ABARES (2014), *Commodity Outlook for the September quarter*, Canberra.

There is some uncertainty in forecasting as sugar export data includes both raw and refined sugar without a breakdown by type. In addition, it is released with a six month delay due to its commercial sensitivity. Australia's duty free quota into the United States market of 85,000 tonnes was filled for the first time in 2014/15 following a short-fall the previous year.

Australian sugar exports are expected to increase in 2014-15 under the Australia-Korea Free Trade Agreement, which was signed in April 2014 and is expected to be implemented in 2015. In the FTA, Korea agreed to eliminate the existing three per cent tariff on raw sugar to put Australian producers on an equal footing with exporters in Thailand. Korea's existing 35 per cent tariff on refined sugar will be phased out over 18 years and an existing 3 per cent tariff on molasses is to be cut over five years. The Australia-Korea FTA was supported by Australian sugar producers.

Production, Supply and Distribution Data Statistics

Sugar Cane for Centrifugal Australia	2012/2013		2013/2014		2014/2015	
	Market Year Begin: Jul 2012		Market Year Begin: Jul 2013		Market Year Begin: Jul 2014	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	0	0	0	0	0
Area Harvested	380	370	388	375	390	385
Production	30,400	30,400	30,600	30,500	32,000	32,000
Total Supply	30,400	30,400	30,600	30,500	32,000	32,000
Utilization for Sugar	30,400	30,400	30,600	30,500	32,000	32,000
Utilizatn for Alcohol	0	0	0	0	0	0
Total Utilization	30,400	30,400	30,600	30,500	32,000	32,000
1000 HA, 1000 MT						

Sugar, Centrifugal Australia	2012/2013		2013/2014		2014/2015	
	Market Year Begin: Jul 2012		Market Year Begin: Jul 2013		Market Year Begin: Jul 2014	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	64	64	83	83	65	65
Beet Sugar Production	0	0	0	0	0	0
Cane Sugar Production	4,250	4,250	4,300	4,400	4,400	4,600
Total Sugar Production	4,250	4,250	4,300	4,400	4,400	4,600
Raw Imports	28	28	30	30	30	30
Refined Imp.(Raw Val)	59	59	60	60	60	60
Total Imports	87	87	90	90	90	90
Total Supply	4,401	4,401	4,473	4,573	4,555	4,755
Raw Exports	2,900	2,900	3,000	3,100	3,100	3,300
Refined Exp.(Raw Val)	200	200	190	190	200	200
Total Exports	3,100	3,100	3,190	3,290	3,300	3,500
Human Dom. Consumption	1,218	1,218	1,218	1,218	1,200	1,200
Other Disappearance	0	0	0	0	0	0
Total Use	1,218	1,218	1,218	1,218	1,200	1,200
Ending Stocks	83	83	65	65	55	55
Total Distribution	4,401	4,401	4,473	4,573	4,555	4,755
1000 MT						