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# GAIN Report

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## Australia

### Sugar

### Annual

### 2009

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**Report Highlights:**

Post forecasts production in 2009/10 to remain relatively stable. Despite long term downward pressure on the Australian sugar cane industry, post forecasts cane area cut for crushing to increase in 2009/10. Pool prices for sugar are expected to reach historically high levels in 2009/10 and this, combined with planting incentives, is expected to see area increase against a backdrop of long term decline.

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Includes PSD Changes: Yes  
Includes Trade Matrix: No  
Annual Report  
Canberra [AS1]  
[AS]

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**SECTION ONE: SITUATION AND OUTLOOK****Summary**

Australian sugar cane production continues to deal with the long term issues of falling production area, fluctuating prices and extreme weather events which have provided downward pressure on production over the past decade. Post believes that these factors will continue to constrain production for the foreseeable future.

Despite long term downward pressure on the Australian sugar cane industry, post forecasts cane area cut for crushing to increase in 2009/10. Pool prices for sugar expected to reach historically high (if not record) levels in 2009/10 and this, combined with planting incentives, is expected to see area increase against a backdrop of long term decline.

Post forecasts production in 2009/10 to remain relatively unchanged as recent flooding events and intermittent dry conditions are expected to be balanced by increased area and higher yields in areas receiving above average rainfall. Post advises that upside potential remains for Australian sugar production despite recent climatic events.

The Australian sugar industry continues to utilize alternative income opportunities such as ethanol manufacturing, cogeneration and new product development. The recently developed low Glycemic Index (GI) sugar has received much media attention as a healthier option to traditionally consumed sugar. Low GI sugar was recently made available to consumers for the first time in Australia and industry sources report excellent demand.

Post expects the Australian sugar industry to continue to find new sources of income over the foreseeable future as deregulation and fluctuating prices continue to provide pressure and risk for sugar producers.

## SECTION TWO: STATISTICAL TABLES

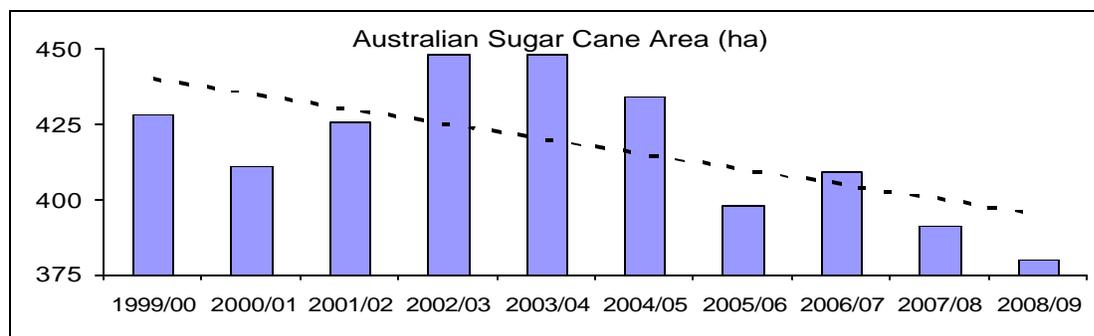
<b>PSD Table</b>										
<b>Sugar, Centrifugal</b>										
	2008	Revised		2009	Estimate		2010	Forecast		UOM
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	
Market Year Begin		07/2007	07/2007		07/2008	07/2008		07/2009	07/2009	MM/YYYY
Beginning Stocks	402	402	402	400	400	400			449	(1000 MT)
Beet Sugar Production	0	0		0	0	0			0	(1000 MT)
Cane Sugar Production	4,939	4,939	4,939	4,900	4,900	4,834			4,834	(1000 MT)
Total Sugar Production	4,939	4,939	4,939	4,900	4,900	4,834			4,834	(1000 MT)
Raw Imports	4	4	4	4	4	4			4	(1000 MT)
Refined Imp.(Raw Val)	5	5	5	5	5	5			5	(1000 MT)
Total Imports	9	9	9	9	9	9			9	(1000 MT)
Total Supply	5,350	5,350	5,350	5,309	5,309	5,243			5,292	(1000 MT)
Raw Exports	3,540	3,540	3,540	3,740	3,740	3,344			3,400	(1000 MT)
Refined Exp.(Raw Val)	160	160	160	160	160	200			200	(1000 MT)
Total Exports	3,700	3,700	3,700	3,900	3,900	3,544			3,600	(1000 MT)
Human Dom. Consumption	1,250	1,250	1,250	1,100	1,100	1,250			1,250	(1000 MT)
Other Disappearance	0	0	0	0	0	0			0	(1000 MT)
Total Use	1,250	1,250	1,250	1,100	1,100	1,250			1,250	(1000 MT)
Ending Stocks	400	400	400	309	309	449			442	(1000 MT)
Total Distribution	5,350	5,350	5,350	5,309	5,309	5,243			5,292	(1000 MT)

<b>PSD Table</b>										
<b>Sugar Cane for Centrifugal</b>										
	2008	Revised		2009	Estimate		2010	Forecast		UOM
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	
Market Year Begin		09/2007	09/2007		09/2008	09/2008		09/2009	09/2009	MM/YYYY
Area Planted	0	0	0	0	0	0			0	(1000 HA)
Area Harvested	397	397	391	390	390	380			384	(1000 HA)
Production	35,011	35,011	33,973	34,000	34,000	31,732			33,000	(1000 MT)
Total Supply	35,011	35,011	33,973	34,000	34,000	31,732			33,000	(1000 MT)
Utilization for Sugar	35,011	35,011	33,973	34,000	34,000	31,732			33,000	(1000 MT)
Utilization for Alcohol	0	0	0	0	0	0			0	(1000 MT)
Total Utilization	35,011	35,011	33,973	34,000	34,000	31,732			33,000	(1000 MT)

## SECTION THREE: NARRATIVE ON SUPPLY AND DEMAND, POLICY & MARKETING

### Sugar Cane Area (cut for crushing)

Total area of sugar cane cut for crushing in 2009/10 is forecast at 384,000 hectares, up on the revised estimate of 380,000 hectares for the previous year and in-line with ABARE's recent forecast. Despite this increase, this forecast remains well below the ten year average of 417,000 hectares and the record planted area of 448,000 hectares in 2002/03 and 2003/04. The forecast increase for 2009/10, if achieved, would represent the first increase in planted area since 2006/07.



Source: ABARE data (July-June)

Post has revised the planted area for 2008/09 downwards to 380,000 hectares in line with the recently published ABARE figures. Post has also revised the 2007/08 area figure downwards to 391,000 hectares in line with official Australian Bureau of Statistics (ABS Data).

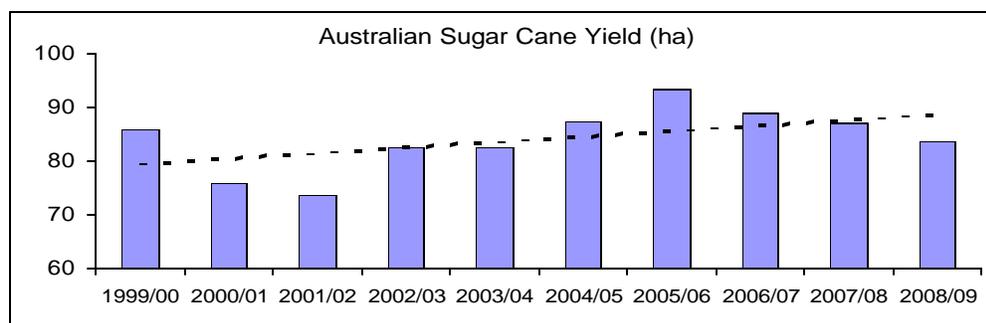
Post advises that Australian sugar cane area is facing sustained long term downward pressure as a result of competition for land. Recent times have seen land area switch from sugar cane to other crops such as timber, tree nuts and cotton. Housing development has also encroached on cane area adjacent to urban centers.

Industry sources suggest that the recent financial turmoil may assist in halting the decline in sugar cane area, at least for the foreseeable future. Housing developments and retirement investment scheme activities such as timber plantations will likely not continue to displace cane plantings for the foreseeable future.

Industry sources suggest that some mills have implemented incentive schemes for increasing plantings of sugar cane and that this will effectively increase area and production. One such scheme in particular is purported to have increase cane area by 1,000 hectares alone.

### Cane yield

The forecast for production in 2009/10 assumes an average cane yield of 84.2 MT per hectare. This figure takes into consideration some recent flooding events which are expected to significantly affect yields in the Herbert region. At this point in time, post sees increased rainfall and associated flooding as having a neutral affect on cane yield overall. Areas damaged by flooding are expected to be offset by areas not flooded but receiving good rainfall.



Source: ABARE data (July-June)

## Sugar Production

Total sugar production for 2009/10 is forecast to remain unchanged at 4.83MMT (IPS), despite a forecast increase in area harvested and a forecast increase in total cane crushed. This figure would roughly equal raw sugar production of about 4.66 MMT in typical raw form using a conversion factor of 1.037.

Reduced commercial cane sugar (CCS) yield is expected to see production remain unchanged despite a larger cane crush. Post has assumed a CCS level of 14.5 percent, down sharply on the near record CCS content of 15.23 percent for year previous. Despite the expected decline in CCS content, it is expected to remain above the ten year average of 14.23 percent.

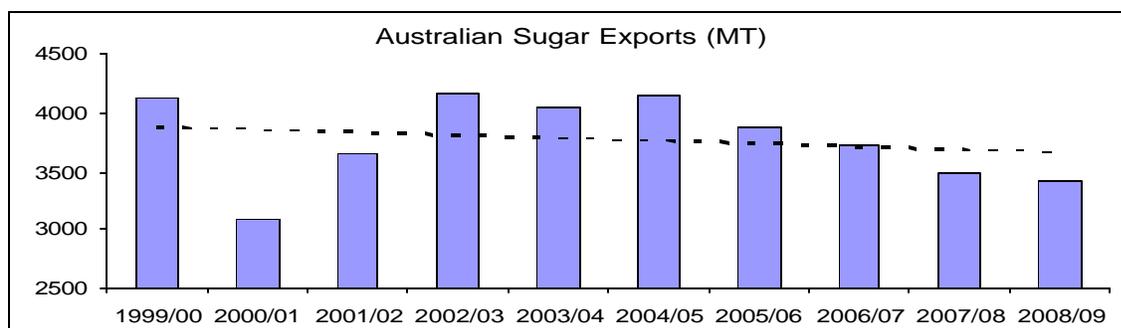
Sugar production for 2009/10 is likely to be determined by the effect of the flooding experienced recently in the Herbert-Burdekin region, Australia's largest cane producing region. Post has assumed that flood damage in some areas will be balance by higher production from good rainfall received in others.

Industry sources report that current sugar prices are historically above average and should encourage the production and export of raw sugar. According to these sources, some producers in far north Queensland are currently in the process of planting sugar cane on land which previously grew bananas. Post revised production downwards slightly to 4.83 MMT for 2008/09 in line with recently released ABARE data.

## Exports

Exports of sugar are forecast to increase slightly in 2009/10 to 3.6 MMT. A devalued Australian dollar is expected to facilitate exports, partially at the expense of ending stocks, despite production remaining unchanged.

Post has revised estimated exports for 2008/09 downwards significantly to 3.54 MMT. Lower production and a higher Australian dollar kept exports below levels previously estimated.



Source: ABARE data

According to a recent Queensland Sugar report, Australian sugar exports are anticipating increased competition from Thai sugar exports. Thailand is expect to market inventories of sugar accumulated from previous crops and Australian exporters anticipate increased competition in export markets such as India and Pakistan. According to Queensland Sugar, most of Australia’s sugar exports go to Asian markets for further processing.

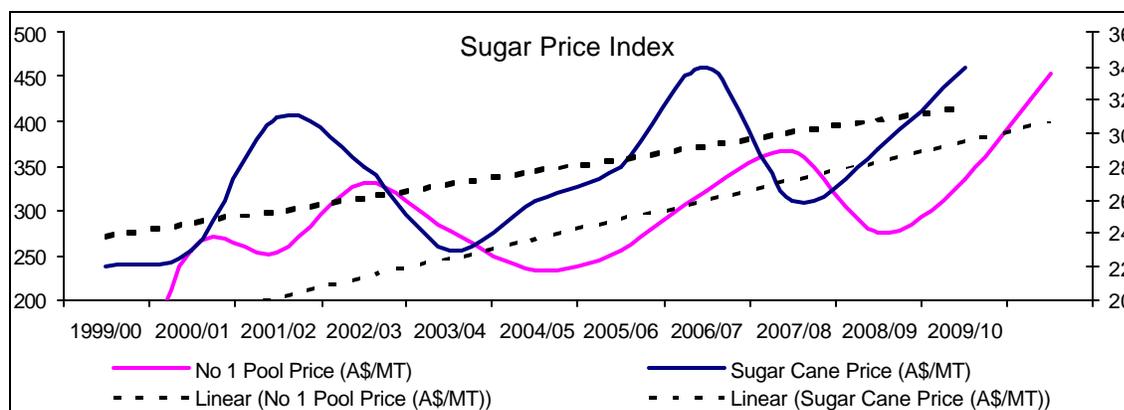
**Price**

Sugar prices are currently being forecast in a wide range. Queensland Sugar (QSL) recently quoted pool prices for the 2009/10 crop ranging between AU\$390 and AU\$500, up on the AU\$330 to AU\$340 per MT quoted for the 08/09 crop. ABARE believes the 2009/10 pool price will be between AU\$446 and AU\$466 per MT (IPS).

Australian Seasonal Pool Price (AU\$/MT - ABARE)								
2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
331.60	276.70	231.90	255.80	322.20	368.00	275.00	331.00	454.00

Although Queensland has effectively deregulated its sugar industry, QSL continues to market around 95 percent of raw sugar exports. Only three mills have chosen to market their own raw sugar. QSL offers a range of pooling options including a seasonal pool and an aggressive pool. QSL also offers supplier managed pricing options and long term pricing options.

According to ABARE’s historical data, a pool price in the range of AU\$446 and AU\$466 would be historically very high (if not a record). This price, no doubt has been greatly assisted by the devaluation of the Australia dollar.



Source: ABARE Data

## Market development

Australian sugar consumers have for the first time been offered the choice of low glycemic index (GI) sugar in supermarkets. The recently developed product, which is made using essentially the same production method (with some small changes), slows the digestion of sugar and effectively offers consumers a low GI alternative to regular sugar. Production of low GI sugar is being manufactured at the Mossman mill, Australia's most northern sugar mill.

## RECENT REPORTS FROM FAS/CANBERRA

The reports listed below can all be downloaded from the FAS website at:

<http://www.fas.usda.gov/scripts/AttacheRep/default.asp>.

Report Number	Title of Report	Date
AS9015	Grain and Feed Annual 2009	03/20/09
AS9014	Stone Fruit Annual 2009	03/13/09
AS9012	Agricultural Economy and Policy Report	03/12/09
AS9010	Livestock Semi-Annual	03/06/09
AS9009	Government Announces A\$32m Research into Soil Carbon & Emissions	03/06/09
AS9008	Wine Annual 2009	03/05/09
AS9007	New Import Conditions for Chicken Meat Finalized	03/05/09
AS9006	Cotton Quarterly Update – March	02/20/09
AS9005	Agricultural situation 2009	02/11/09
AS9004	Govt. announces A\$9 million boost to wood export industries	01/29/09
AS9003	February Grain Lockup	01/29/09
AS9002	New Support for Wheat Exporters to Develop Markets Announced	01/27/09
AS9001	Australian Government Announces Food Production Grants Programs	01/23/09
AS8061	Recent Weather & Crop Impact	12/29/08
AS8060	Dried Distillers Grain	12/29/08
AS8059	Wine	12/08/08
AS8058	December Grain & Feed Update	12/03/08
AS8057	Cotton Quarterly Update	11/26/08
AS8056	Western Australia lifts ban on GM Cotton	11/25/08
AS8055	Fresh Deciduous Fruit Annual	11/21/08
AS8053	Citrus Annual	11/14/08
AS8052	November Grain Lockup	11/03/08
AS8051	Final IRA for Chicken Meat released by Biosecurity Australia	10/31/08
AS8049	Dairy Annual 2008	10/20/08
AS8048	Grain and Feed October Update 2008	09/26/08
AS8047	Sugar Semi-Annual	09/26/08
AS8046	Exporter Guide	09/15/08
AS8044	FAIRS Export Certificate Report	09/04/08
AS8043	2008 September Voluntary Grain Report	08/28/08
AS8041	Cotton Quarterly Lock-up	08/27/08
AS8040	Competitiveness of Grocery Pricing in Australia Investigated	08/20/08
AS8039	2008 Livestock Annual	08/22/08
AS8038	FAIRS Country Report	07/31/08