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Sugar

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Executive Summary

The 1998-99 sugar cane harvest is estimated to be 40.2 MMT, a two percent drop on the record 41.1 MMT of sugar cane harvested during the 1997-98 season. This is the first time in seven years that Australia has not produced a record harvest. The reduction in the crop reflected a smaller harvested area. . The CCS level fell due to abnormally wet weather throughout the Mackay, Northern and Burdekin growing districts in Queensland which disrupted harvesting and caused late growth and suckering of the cane which substantially reduces sugar content. Sugar production decreased to 4.87 MMT due to the decrease in the area harvested and a large fall in the commercial cane sugar (CCS) content of the harvested cane.

Australian sugar production during 1999-2000 is forecast to recover slightly but will not reach the level achieved during the record 1997-98 season. Production will be limited by the damage caused by cyclone Rona and widespread flooding which will result in below average CCS in the northern and Herbert growing regions of Queensland.

The New South Wales (N.S.W.) cane harvest for the 1998-99 season resulted in a crop which exceeded 2.5 MMT's and was only marginally smaller than the record crop achieved during the 1997-98 season. While production levels were high and yields per hectare excellent, CCS figures were again low.

Australian sugar production is forecast to reach 6.1 MMT in the 2003-04 marketing year.

The Australian sugar industry has recently been in an expansionary phase, with land assigned to cane growing increasing significantly and new growers entering the industry. Low world sugar prices have slowed this expansion.

The Australian sugar refining industry is also undergoing a period of significant change. A number of joint ventures has led to refining capacity increasing rapidly. Sugar Australia (the joint venture between CSR and Mackay Refined Sugars) was formed in early 1998 and controls around 60 percent of the Australian refined sugar market, with Bundaberg, and Harwood Manildra holding the remaining market share.

Australian sugar exports increased during the 1997-98 marketing year (Jul-Jun). Korea displaced Canada as the largest customer, Japan moved to second, Malaysia to third, while Canada slipped to fourth. Exports to China fell sharply.

The rapid growth in sugar consumption in Asia has prompted the Australian industry to refocus it'smarketing efforts. Despite the economic problems experienced in Asian economies the region accounted for over 60 percent of exports during the 1997-98 season. This compares to just over 30 percent in the 1970's. North America and Canada accounted for nearly 19 percent of exports during the same period.

Centrifugal Sugar

PSD Table						
Country	Australia					
Commodity	Centrifugal Sugar				(1000 MT)	
	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin		07/1997		07/1998		07/1999
Beginning Stocks	228	131	237	253	241	395
Beet Sugar Production	0	0	0	0	0	0
Cane Sugar Production	5567	5567	5417	4874	0	5200
TOTAL Sugar Production	5567	5567	5417	4874	0	5200
Raw Imports	1	1	1	1	0	1
Refined Imp.(Raw Val)	1	1	1	1	0	1
TOTAL Imports	2	2	2	2	0	2
TOTAL SUPPLY	5797	5700	5656	5129	241	5597
Raw Exports	4390	4277	4240	3559	0	3716
Refined Exp.(Raw Val)	180	180	180	180	0	180
TOTAL EXPORTS	4570	4457	4420	3739	0	3896
Human Dom. Consumption	990	990	995	995	0	995
Feed Dom. Consumption	0	0	0	0	0	0
TOTAL Dom. Consumption	990	990	995	995	0	995
Ending Stocks	237	253	241	395	0	706
TOTAL DISTRIBUTION	5797	5700	5656	5129	0	5597

Trade

Import Trade Matrix			
Country	Australia		
Commodity	Centrifugal Sugar		
Time period	July-June	Units:	MT
Imports for:	1997		1998
U.S.	10	U.S.	16
Others		Others	
New Zealand	604	United Kingdom	1502
Germany	343	New Zealand	500
China	230	China	265
Mauritius	106	Germany	258
Netherlands	92	Netherlands	151
Philippines	81	Malaysia	93
Finland	43	Mauritius	60
Hong Kong	28	Finland	40
Thailand	18	Thailand	29
Japan	5	Hong Kong	10
Total for Others	1550		2908
Others not Listed	29		41
Grand Total	1589		2965

Export Trade Matrix			
Country	Australia		
Commodity	Centrifugal Sugar		
Time period	July-June	Units:	MT
Exports for:	1997		1998
U.S.	200000	U.S.	140000
Others		Others	
Canada	716993	Korea, Rep	798520
Korea, Rep	678575	Japan	707900
Japan	646262	Malaysia	694457
Malaysia	612671	Canada	684837
China	333300	Iran	208000
Egypt	165000	New Zealand	182427
Taiwan	157194	Egypt	173000
New Zealand	133133	Indonesia	168000
Singapore	100000	Saudi Arabia	160000
Indonesia	71000	Taiwan	156000
Total for Others	3614128		3933141
Others not Listed	252939		375336
Grand Total	4067067		4448477

Sugar Cane for Centrifugal

PSD Table						
Country	Australia					
Commodity	Sugar Cane for Centrifugal				(1000 HA)(1000 MT)	
	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin		07/1997		07/1998		07/1999
Area Planted	0	0	0	0	0	0
Area Harvested	402	420	412	414	0	415
Production	40953	41064	40491	40239	0	39893
TOTAL SUPPLY	40953	41064	40491	40239	0	39893
Utilization for Sugar	40893	41004	40431	40179	0	39833
Utilizatn for Alcohol	60	60	60	60	0	60
TOTAL UTILIZATION	40953	41064	40491	40239	0	39893

Production

General

Sugar cane is predominantly grown along 2100 kilometers of north eastern Australia, between Maclean in northern N.S.W. and Mossman in North Queensland. Most farms are within 50 kilometers of the coast. Approximately 95 percent of sugar cane is grown in Queensland and the remainder in northern N.S.W., and the Ord River irrigation area in the Kimberley region of Western Australia. The Ord River area has been the subject of much speculation and unfullfilled hopes for a number of years. ABARE forecasts that the Ord River will produce over 60,000 MT of raw sugar during 1999-2000. Expansion is expected to continue in the medium term with production forecast to reach 150,000 MT by 2003-04. This forecast is dependent on an expected increase in planting during stage 2 of the Ord irrigation project.

A joint venture between growers and CSR constructed a mill in the Ord River which has a capacity of up to 560,000 MT of cane a year. The industry is expected to target the domestic raw sugar market in Western Australia which consumes around 50,000 MT annually, with the remainder going to the near Asian markets of Indonesia and other South East Asian countries.

The 1998-99 sugar cane harvest is estimated to yield 40.2 MMT, a two percent drop on the record 41.1 MMT of sugar cane harvested during the 1997-98 season. This is the first time in seven years that Australia has not produced a record harvest. The reduction in the crop reflected a smaller area harvested and a large fall in the CCS content of the harvested cane. The CCS level fell due to abnormally wet weather throughout the Mackay, Northern and Burdekin growing districts of Queensland which disrupted harvesting and caused late growth and suckering of the cane which substantially reduces sugar content. Sugar production decreased to 4.87 MMT due to the decrease in the area harvested and lower yields.

Sugar production during 1999-2000 is forecast to recover slightly but will not reach the level achieved during the record 1997-98 season. Production will be limited by the damage caused by cyclone Rona and widespread flooding which will result in below average CCS in the northern and Herbert growing regions of Queensland.

The N.S.W. cane harvest for the 1998-1999 season resulted in a crop which exceeded 2.5 MMT's and was only marginally smaller than the record crop achieved during the 1997-98 season. While production levels were high and yields per hectare excellent, CCS figures were again low.

Sugar production is forecast to increase marginally in the medium-term reaching 6.1 MMT in the 2003-04 marketing year. Previously production was forecast to display a sharper increase, however, a significant fall in the world sugar price is expected limit the increase in the area planted to cane.

The sugar industry changed significantly in the late 1980's and early 1990's. Queensland has expanded the amount of land under cane by over 30 percent since 1989. ABARE estimates that the total area of cane harvested has increased from 317,000 hectares in 1988-89 to a forecast 414,000 hectares in 1998-99. ABARE is forecasting the 1999-2000 cane crush to be 39,893,000 MT, from 415,000 ha of cane.

The sugar refining industry has undergone significant change in recent years which has the potential to result in Australia becoming a significant exporter of white sugar in the future. The future of refined sugar exports will depend on the world white sugar premium.

Industry analysts currently estimate that Australia has the capacity to produce around 1.2 MMT of white sugar, a significant increase from the 850,000 MT capacity prior to 1989. Excess capacity of between 300,000 to 400,000 MT has resulted in sharp competition and heavy discounting on the domestic market.

Industry analysts indicate that profits have returned to the refining industry following the merger in early 1998 merger of the two largest sugar refiners CSR and Mackay Refined Sugars. The Australian Consumer and Competition Commission approved the merger with the understanding that the company would continue to sell refined sugar at competitive prices. The merger resulted in the 120,000 MT capacity New Farm refinery in Brisbane closing down. Some industry analysts believe that this move will vastly improve the profitability of the remaining refiners.

Sugar Australia (the joint venture between CSR and Mackay Refined Sugars) controls around 60 percent of the market, Manildra Harwood (a joint venture between the N.S.W. Sugar Milling Cooperative and the Manildra group of companies) hold 20-25 percent of the market and Bundaberg (which was purchased by the international sugar company Tate and Lyle in 1991) holds the remainder.

The increased production of refined sugar has led to increased competition on service, quality, reliability, and product differentiation.

The expansion in cane production has been accompanied by a significant increase in milling capacity in many regions. The average throughput by Queensland mills is currently around 1.2 MMT a year compared to 500,00 MT in 1970. Mills now crush around 500 MT per hour, up from around 220 MT in the early 1970's.

In Queensland many areas are now reviewing the balance between increased mill capacity and increased season length. In the expanding Burdekin region of Queensland mills claim it is not economic to make a capital investment to upgrade mill capacity. On the other hand growers are worried that if the season is extended the average sugar content in the cane will decrease.

Weather

The CCS level fell due to abnormally wet weather throughout the Mackay, Northern and Burdekin growing districts which disrupted the harvest and caused late growth and suckering of the cane which substantially reduced the sugar content.

Near record production in N.S.W. was constrained by low sugar content.

The potential for the 1999-2000 season has been reduced due to poor seasonal conditions which include cane damage and general flooding caused by cyclone Rona in the northern and Herbert growing regions of Queensland.

Crop Area

The harvested crop area for 1998-99 is estimated by ABARE to be around 414,000 ha, 6,000 ha lower than in 1997-98. Some cane was left unharvested in Queensland due to wet weather which reduced the sugar content to such an extent that it was uneconomic to harvest. The area harvested for the 1999-2000 season is forecast to increase to 415,000 MT. This is less than previously expected due to the some areas of cane being destroyed by cyclonic conditions.

The area of land sown to sugar cane was previously determined by a very regulated system. The Queensland Sugar Corporation would annually set the maximum amount of sugar that each mill could deliver and receive the No. 1 pool price. Any sugar over this level was sold exclusively on the "risk" market i.e. the export market.

Under the Sugar Industry Act 1991 an annual minimum area expansion of 2.5 percent was stipulated. This followed an increase in land assignments of five percent in 1989 and eight percent in 1990. Since 1994 the aggregate assignment increase has been determined on the basis of local demand, milling capacity, marketing potential and environmental considerations. In 1996 expansion reached 5.4 percent. Thus the assignment system is no longer a major hinderance to industry growth.

The abovementioned increases in assignment include 240 new growers. This is a four percent increase in grower numbers and the first significant entry since 1965. The increase in land assignments is not evenly spread due to the lack of suitable cane growing land in some areas. The Herbert-Burdekin region has been the area which has experienced the greatest expansion.

A recent industry study indicated that the harvested area of cane in Queensland could expand rapidly in the medium-term. Most of the expansion would occur in the Tully, Herbert, Burdekin and Proserpine areas. Production on the Atherton Tablelands is set to expand as tobacco growing is wound back and growers look to alternative enterprises.

The average land holding of sugar cane growers increased from 63 Ha in 1988 to 74 Ha in 1995.

Expansion has occurred in N.S.W. with the area harvested having increased by 31 percent in the six seasons to 1995. The current area planted to cane is around 18,500 ha.

Movements in world prices, exchange rates, and seasonal conditions are major determinants in the rate of industry expansion.

The returns from sugar cane production have in general been higher than alternative enterprises which include tobacco, cattle, vegetable and rice production.

Yields

Unfavorable seasonal conditions resulted in the sugar cane yield for the 1999 crop decreasing by one MT on the previous years level to 97 MT/ha.

Crop Quality

During the 1996-97 season the QSC and CSR Raw Sugar Marketing began working closely with industry groups to develop and implement a new raw sugar quality scheme. Local mills must develop sugar quality management programs designed to find the most cost effective way to consistently produce high quality raw sugar.

Cross Commodity Developments

The future of ethanol production will depend on the price of petrol. At present the price of petrol is too low to make ethanol production an economic proposition. Tax breaks or some other form of Government assistance could lead to further interest in ethanol production.

Consumption

Utilization Patterns

In the early 1980's the sugar industry became alarmed at the decline in domestic per capita sugar consumption, which was partly due to the prevailing belief that sugar was detrimental to good health. The industries response was to heavily promote the natural attributes of sugar and to stress that in moderation sugar was harmless and in fact provided energy. Recent campaigns include the themes "sugar...a natural part of life", "rain and shine", and “sugar...a natural part of health”. The latest campaign has the theme “Sugar:A natural part of a healthy life”. This campaign focuses on sugars’s role as a carbohydrate in healthy eating. The industry continues to defend sugar against claims by artificial sweetener and other food manufacturers and promotes sugar’s role as the premium, safe and natural sweetener and preservative. Activities have included extensive liaison with health professionals, market research, a proactive media program, assessment and response to all media coverage of nutrition issues and production and distribution of a wide range of nutrition information materials.

Nutritional information has also been targeted at key groups. These strategies have helped stabilize and may have helped to increase domestic sugar consumption.

The QSC has continued to promote the benefits of a fit and healthy lifestyle while raising community awareness of the Australian sugar industry, through the sponsorship of athletics at the national level. The "Sugar Games" form part of the national athletics circuit.

Per capita consumption was estimated by the Australian Bureau of statistics (ABS) to be 48.4 kg/year in the 1996-97 year, slightly higher than the level achieved during 1988-89 year. This compares with European countries at around 40kg/year and India and China at 12kg/head. The Australian industry is constantly monitoring domestic sugar consumption and attitudes to sugar, and subsequently adapts its marketing strategies and educational material.

The Queensland Sugar Corporation analyses that actual sugar consumption may be around five kilograms per head lower than the official estimate due to the fact that some refined sugar and sugar containing products are exported (and therefore should be removed from the local consumption figure).

Over 70 percent of domestic sugar consumption is in manufactured food. The key market sectors for domestic sugar consumption are as follows:

Non-alcoholic beverages	29
Retail sale	23
Confectionery	11
Bakery	8
Preserved foods	8
Alcoholic beverages	7
Dairy foods	5
Other	9

Since 1938-39 an increasing proportion of sugar has been consumed in manufactured goods, rising from 32 percent to 72 percent in 1992-93. At the same time, refined sugar consumption has fallen to around nine kilograms per capita per year.

Substitution

Refined sugar faces its strongest competition from fermentables such as glucose syrup, starch and some grains products which can be used in the production of beer. There is currently one dextrose and one High Fructose Syrup (HFS) manufacturing plant in Australia. The major starch source is wheat as Australian corn production is limited and often more expensive than wheat. Alternative sweeteners have had trouble increasing market share due to the aggressive marketing strategies employed by Australia's sugar producers.

The use of artificial sweeteners in Australia is strongly influenced by food regulations. The diet soft drink sector leads the demand for alternative sweeteners. Some intense sweeteners have not fared as well as aspartame, with a slump in Australian sales of cyclamates causing the closure of Australia's only cyclamate producing plant. The expiry of the Nutra Sweet patent at the end of 1992 has resulted in more products using either aspartame or sucralose. These products are expected to gradually replace more traditional sweeteners. Sales of saccharin are expected to increase in the next decade, although saccharin's share of the diet sweetener market will probably fall.

Prices

The 1989-90 season saw the end of the administered price arrangements for refined sugar. The domestic sugar price is now based on export parity (the import tariff was abolished on July 1,1997), and reflects changing world prices. Sole acquisition rights in Queensland means that the Queensland Sugar Corporation sells raw sugar to domestic refiners at prices based on the export parity price of raw sugar. Refiners were previously charged the import parity price which resulted in a higher cost to refiners. Similar sole acquisition powers exist in N.S.W., however, the growers Co-op owns the refinery and the mills, thus there is no incentive for one to profit at the expense of the other.

ABARE estimates that the average return for sugar sales for the 1998-99 season will be A$345/MT, A$2 higher than during the 1997-98 year. The average price for 1999-2000 is forecast to decrease to $282/MT due to a sharp decrease in the world sugar price due to an increase in world production, subdued world consumption, and a subsequent increase in world sugar stocks.

In the past the QSC annually set the maximum amount of sugar that each mill could deliver to the QSC. This sugar attracted the No.1 pool price. Sugar grown on assigned land over-and-above this amount received the lower No.2 pool price. The No.1 pool price was paid to the Queensland mill for sugar delivered to the Queensland Sugar Board, approximately one third of this was retained by the mill with the balance being paid to the cane grower.

The differential between the No.1 pool price and No.2 pool price was reduced from 12 percent during the 1992-93 season, to six percent in the 1996-97 season, and four percent in the 1998 season and was totally eliminated for the start of the 1998-99 season.

Prices for No.1 Pool Sugar
for Queensland

1990	363.40
1991	344.02
1992	303.37
1993	308.53
1994	352.45
1995	388.00
1996	377.00
1997	344.00
1998	343.00
1999(s)	345.00
2000(f)	282.00

(s) Estimates; (f) Forecast
SOURCE: The Australian Sugar Board. N.B. The prices from 1995 on are average prices.
Exchange Rate: A$1.59/US$1.00, 3/31/99

Retail Price of Sugar
(A$/kg)

1992	A$1.10
1993	A$0.94
1994	A$1.14
1995	A$1.24
1996	A$1.26
1997	A$1.28
1998	A$1.38
1999	A$1.34

Trade

General

The lifting of the sugar import embargo in June 1989 led to the first imports of sugar to Australia, in commercial quantities, since 1915. Imports for the 1990 year totaled approximately 6,382 MT and climbed to 13,716 MT in 1992. Imports fell sharply between 1993 and 1995 and between 1995 and 1999 have remained around 2-3,000 MT. Increased competition for market share of domestic refined sugar sales, and the recent removal of the sugar tariff which means that refiners access sugar at export parity price, has ensured that imports have remained at negligible levels. Over 50 percent of imports are refined sugar, with the balance being raw cane and beet sugar. Industry contacts suggest that the majority of these imports are Australian sugar shipped raw, processed and then re-exported to Australia. Imports during 1997-98 were dominated by New Zealand, Singapore, Germany, and China.

Total Australian sugar exports are now only available well in arrears due to confidentiality restrictions being enforced by the Australian Bureau of Statistics (ABS). This restriction was applied for by an organization involved in the sugar industry. Post does however have access to Queensland export statistics provided by the Queensland Sugar Corporation (QSC). While these are not complete they account for the vast majority of Australian sugar exports. The PS&D for the 1999 year differs slightly from the trade matrix as the trade matrix includes information from the QSC while the PS&D includes ABARE estimates. During the 1998 year (financial year July 97-Jun 98) Korea displaced Canada as the largest customer, Japan moved to second, Malaysia to third, while Canada slipped to fourth. Exports to China fell sharply during the 1999 year.

The rapid growth in sugar consumption in Asia has prompted the Australian industry to move its focus to that region. Despite the economic problems experienced in Asian economies the region accounted for over 60 percent of exports during the 1997-98 season. This compares to just over 30 percent in the 1970's. North America and Canada accounted for nearly 19 percent of exports during the same period. In addition to seeking new Asian markets the Australian industry has made sales recently for the first time to Slovenia, Kazakhstan, Latvia, Croatia, Mexico and the Philippines.

Policy

General

The Australian sugar industry has been undergoing a period of major transformation for a number of years. Regulation is being replaced by a more market orientated system.

The GOA and the Queensland Government undertook a review of the industry’s marketing structure and the sugar import tariff in 1996. This review was conducted within the context of the National Competition Policy which aims to make Australian industries more competitive. The Sugar Industry Review Working Party’s recommendations included: removing the tariff on imports of sugar into Australia; eliminating the pool price differential; pricing domestic sugar at export parity; and retaining acquisition and single desk selling of raw sugar on the export and domestic markets. These recommendations have now been put in place with the pool price differential ending at the start of the 1998-99 season.

The removal of the tariff has received criticism from some sectors of the Australian sugar industry, especially the N.S.W. industry that relies almost totally on the domestic market. The GOA has responded by setting up a five member taskforce to review options to assist the adjustment process for the N.S.W. industry. The package will aim to assist the development of a sound export based industry in N.S.W.

Tariff Changes

The sugar import embargo was replaced in 1990 by a specific A$115/MT tariff on raw and refined sugar. In 1991 the tariff was lowered to A$76/MT and it was further reduced to A$55/MT by July 1992. This change was met with stiff opposition from the Australian sugar industry and some Australian politicians.

The GOA undertook a review of the industry's marketing structure, including the sugar import tariff in 1996. The Sugar Industry Review Working Party's recommendations included removing the tariff on imports of sugar into Australia. The sugar import tariff was removed on July 1,1997.