



USDA Foreign Agricultural Service

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## Australia

### Sugar

### Semi Annual

### 2004

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**Report Highlights:**

Centrifugal sugar production is forecast to increase in 2004/05, driven by a projected increase in harvested area and improved cane yield and sugar content. The Australian sugar industry is currently experiencing an improved price outlook and a return to more normal weather conditions following a period of prolonged drought and low prices. Exports are forecast to increase in 2004/05 in-line with the increase in forecast production.

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

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**SECTION ONE: SITUATION AND OUTLOOK**

Centrifugal sugar production is forecast to increase significantly in 2004/05. An improved price outlook is expected to increase area harvested, while excellent growing conditions in key areas is expected to drive up both cane yield and Commercial Cane Sugar content. The industry is experiencing a return to more normal weather conditions following a prolonged drought period.

Sugar production for 2003/04 has been revised downwards slightly in-line with official estimates. This fall is also directly in-line with the estimated fall in cane production. Poorer growing conditions associated with the drought reduced production to historically low levels.

Exports of sugar are forecast to increase significantly in CY 2004/05 due to forecast higher production. Exports for 2003/04 have been revised downward slightly in-line with revised production.

The Australian Bureau of Agricultural and Resource Economics has forecast improved prices for sugar growers in 2004/05. This more favorable price outlook has lifted the Industry's prospects somewhat at a time of financial hardship. The Australian dollar has recently strengthened however, constraining larger improvements in pricing prospects for Australian growers.

Negotiations for the Australian-US Free Trade Agreement concluded early in CY 2004 with Australia's access to the U.S. Market for sugar remaining unchanged. The Australian sugar industry successfully used this outcome to leverage another A\$440 million in adjustment funding from the Federal Government. This funding package is comprehensive and includes immediate, as well as medium- and long-term assistance.

## SECTION TWO: STATISTICAL TABLES

PSD Table Sugar, Centrifugal							
	2003	Revised	2004	Estimate	2005	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		07/2002		07/2003		07/2004	MM/YYYY
Beginning Stocks	507	507	662	662	583	511	(1000 MT)
Beet Sugar Production	0	0	0	0	0	0	(1000 MT)
Cane Sugar Production	5461	5461	5023	4994	5300	5500	(1000 MT)
TOTAL Sugar Production	5461	5461	5023	4994	5300	5500	(1000 MT)
Raw Imports	6	6	3	3	3	3	(1000 MT)
Refined Imp.(Raw Val)	2	2	2	2	2	2	(1000 MT)
TOTAL Imports	8	8	5	5	5	5	(1000 MT)
TOTAL SUPPLY	5976	5976	5690	5661	5888	6016	(1000 MT)
Raw Exports	3975	3975	3767	3810	3940	4019	(1000 MT)
Refined Exp.(Raw Val)	139	139	140	140	140	140	(1000 MT)
TOTAL EXPORTS	4114	4114	3907	3950	4080	4159	(1000 MT)
Human Dom. Consumption	1200	1200	1200	1200	1200	1200	(1000 MT)
Other Disappearance	0	0	0	0	0	0	(1000 MT)
Total Disappearance	1200	1200	1200	1200	1200	1200	(1000 MT)
Ending Stocks	662	662	583	511	608	657	(1000 MT)
TOTAL DISTRIBUTION	5976	5976	5690	5661	5888	6016	(1000 MT)

PSD Table Sugar Cane for Centrifugal							
	2003	Revised	2004	Estimate	2005	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		07/2002		07/2003		07/2004	MM/YYYY
Area Planted	0	0	0	0	0	0	(1000 HA)
Area Harvested	423	423	415	415	0	420	(1000 HA)
Production	38062	36995	36280	36892	0	39065	(1000 MT)
TOTAL SUPPLY	38062	36995	36280	36892	0	39065	(1000 MT)
Utilization for Sugar	38002	36935	36220	36832	0	39005	(1000 MT)
Utilizatn for Alcohol	60	60	60	60	0	60	(1000 MT)
TOTAL UTILIZATION	38062	36995	36280	36892	0	39065	(1000 MT)

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

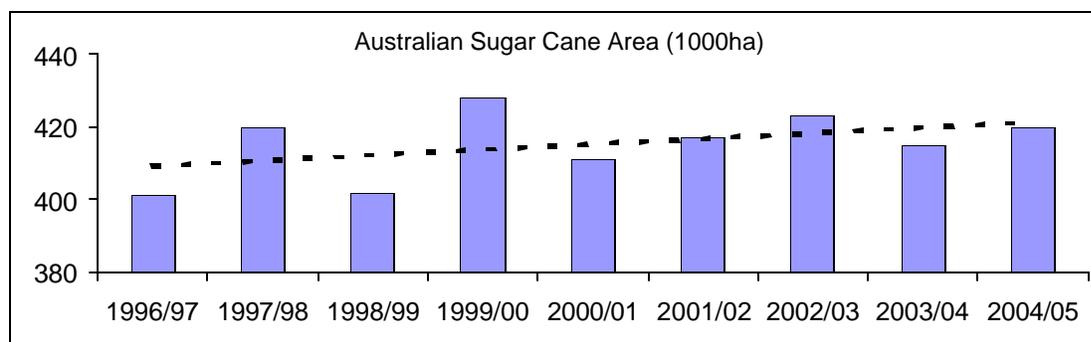
### Sugar Cane for Centrifugal

#### Sugar Cane Area (Cut for Crushing)

Sugarcane harvested area is forecast at 420,000 hectares in 2004/05, up 5,000 hectares from the figure for the previous year. Industry sources anticipate that a higher forecast pool return will encourage producers in certain areas to expand production. Furthermore, Post expects that harvested area will be boosted by a recovery from the disease outbreaks of 2002/03, which required large areas to be replanted.

Estimated harvested area for 2003/04 remains unchanged at 415,000 hectares. This area is considered to be an average level according to historic data from the Australian Bureau of Agricultural Resource Economics (ABARE).

Mill closures and disease outbreaks have placed downward pressure on cane area over the past three years. However, Post anticipates that with expected more normal weather conditions and the recently improved price outlook cane harvested area will increase slightly in 2004/05.



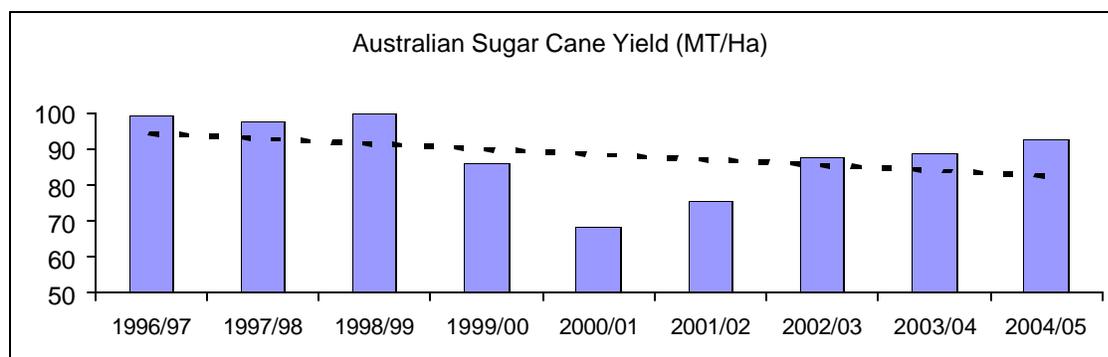
Source: ABARE

The above graph and other graphs in this report are based on ABARE data, which may differ from Post's figures.

#### Cane Yield

Cane yield for 2004/05 is expected to be around 93 MT/Ha, the highest yield since 1998/99 according to ABARE's historical data. A yield of this level would signify a return to levels experienced prior to the disease outbreaks and extreme weather events that plagued the industry in 2000/01 and 2001/02.

Cane yield for 2003/04 is estimated at around 89 MT/Ha, the third lowest level over the past decade according to ABARE's historical data. Drought conditions constrained cane yield to below average levels. However, the dry conditions helped in boosting Commercial Cane Sugar (CCS) content.

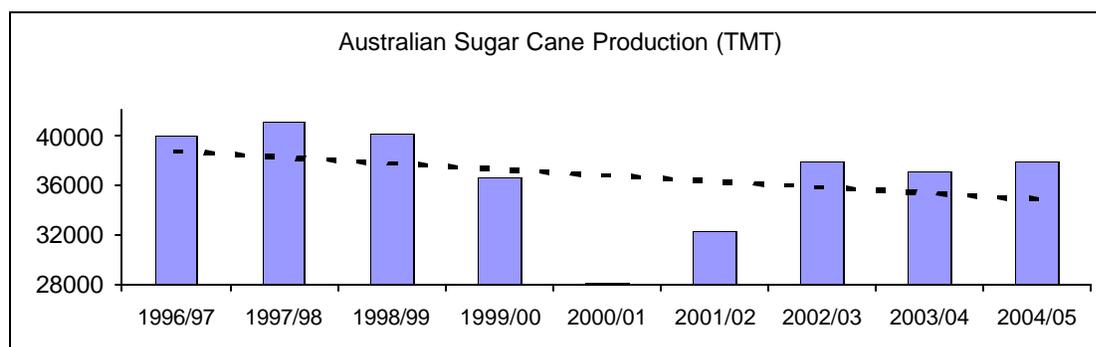


Source: ABARE

### Sugar Cane Production

Sugar cane production in 2004/05 is forecast at 39,065 TMT, up slightly from Post's previous report (GAIN report #AS4012). A return to more normal weather conditions following an extended drought has increased forecast cane yield, while an improved price outlook has increased forecast harvested area.

Sugar cane production for 2003/04 has been revised downwards slightly to 36,892 TMT, in-line with both ABARE and current industry figures. The severity of the drought slightly exceeded previous expectations forcing industry analysts to trim production figures for the 2003/04 season.



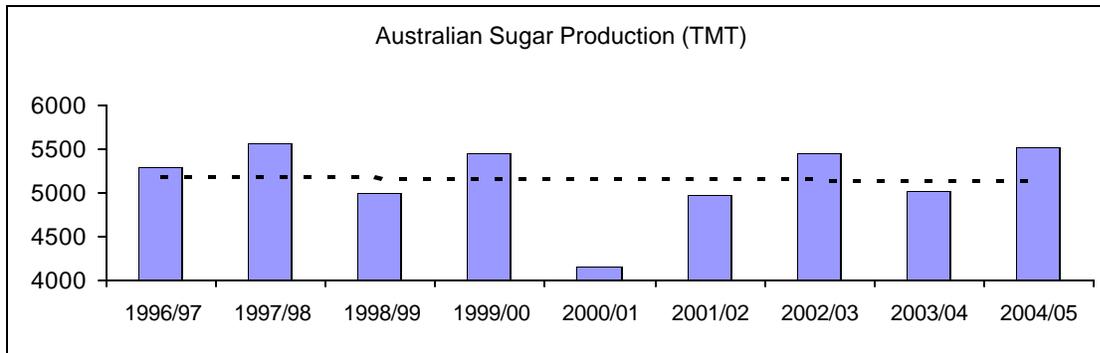
Source: ABARE

### **Centrifugal Sugar**

#### Production

Production of centrifugal sugar in 2004/05 is forecast at 5,500 TMT, about four percent higher than Post's previous forecast. Improved seasonal conditions have boosted expected cane yield. Furthermore, historically high Commercial Cane Sugar (CSS) content has contributed to the expected higher sugar production level. ABARE recently revised its cane production forecast for 2004/2005 upwards substantially to just above Post's previous forecast. Higher cane yields and high CCS content drove this increase.

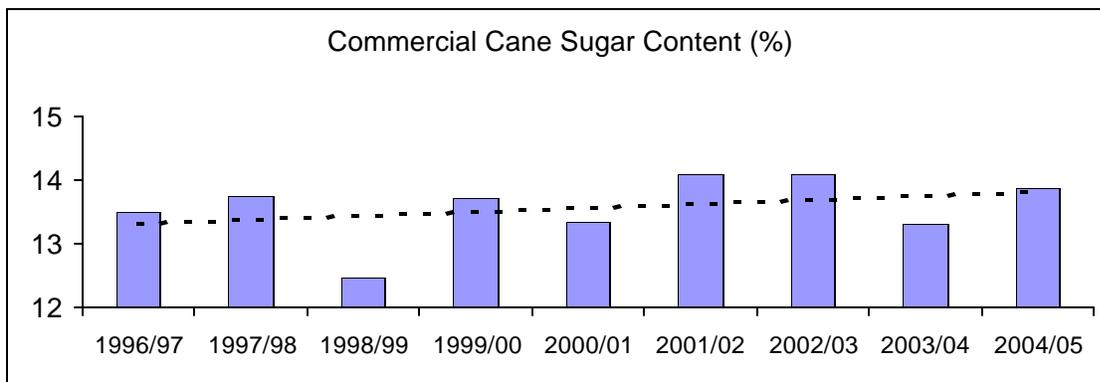
Post revised sugar production for 2003/04 downwards slightly to 4,994 TMT, in-line with current ABARE figures. This fall is in-line with the downward revision in cane production.



Source: ABARE

Commercial Cane Sugar Content

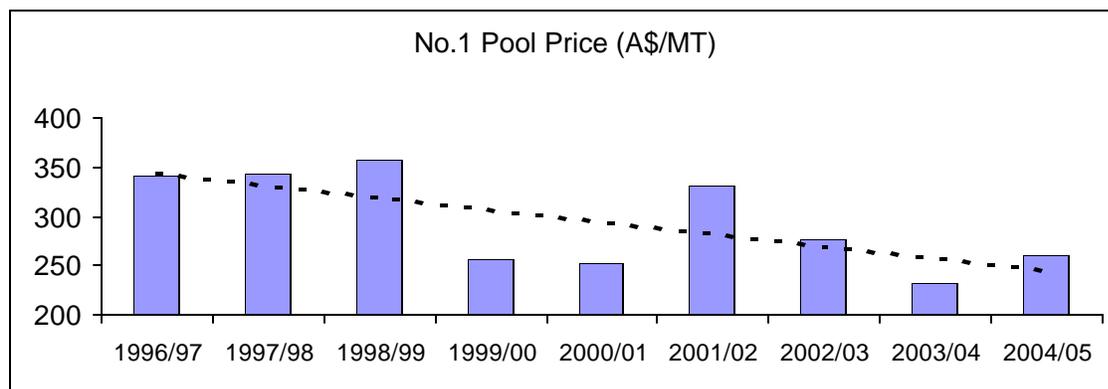
Commercial Cane Sugar (CCS) content for 2004/05 is expected to be 13.9 percent. This figure remains in-line with the long-term trend established using historical ABARE figures. This relatively high CCS has surprised some analysts as CCS is usually inversely related to cane yield. An above average level of sunny days has provided ideal growing conditions and constrained a drop in CCS commonly associated with improved cane yields.



Source: ABARE

## Prices

ABARE has forecast pool return to growers rising around five percent to A\$260.00/MT in 2004/05. This would represent the first price increase in three years. The long-term price trend according to ABARE's historical data has been down over the past decade, placing the industry under significant financial pressure.



Source: ABARE

## Exchange Rates

Australia's competitiveness in world agricultural markets and export returns to domestic producers are heavily impacted by the value of the Australian dollar. The Australian dollar has appreciated markedly against the currencies of major trading partners, particularly the United States, over the past two years – averaging US\$0.544 in 2002 and peaking at US\$0.80 in early 2004. Currently, the Australian dollar is valued at about US\$0.72. A general increase in the value of the Australian dollar has partially constrained increases in grower returns despite recent increases in world sugar prices.

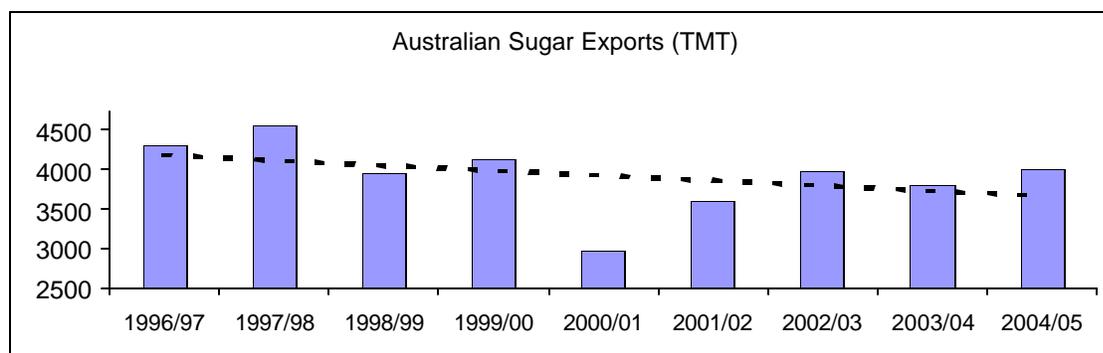
## Trade

### Exports

Sugar exports are forecast at 4,019 TMT in 2004/05, up around 200 TMT from the revised estimate for the previous year and in-line with ABARE export figures. This increase is also in-line with the increase in forecast production.

Up-to-date sugar export statistics are not available due confidentiality restrictions. Export figures quoted by Post are derived from production and consumption figures and industry estimates.

Post has revised export figures for 2003/04 downwards slightly to 3,810 TMT. This drop is in-line with export figures published by ABARE.



Source: ABARE

### Free Trade Agreements

Australia-US FTA: Raw cane sugar enters the United States under a tariff-rate quota (TRQ). Under the TRQ, Australia was allocated 87,402 MT of raw cane sugar in U.S. fiscal year 2004.

Australia completed free trade agreement (FTA) negotiations with the United States in February 2004. Under the negotiated FTA, Australian sugar access to the United States remains unchanged. The Australian sugar industry reacted angrily to the omission of sugar in the Australian-U.S. FTA. Industry reports claim that sugar was excluded from the agreement in order to secure an overall agreement. Sugar industry representatives were hopeful of increasing Australia's access arrangements to the United States under the FTA.

Australia-Thailand FTA: Australia completed FTA negotiations with Thailand in October 2003. Australia has historically imported small amounts of sugar from Thailand. Australia's applied tariff rate for sugar is zero.

### **Stocks**

Official data concerning sugar stocks is unavailable. The holding of sugar stocks is not subsidized in Australia and Post believes that stock levels reflect commercial conditions. Post has increased stocks for 2004/05 in-line with the forecast increase in production and indications from industry sources.

### **Policy**

The omission of sugar from the Australia-US FTA created much debate between the sugar industry and the Federal Government. Growers and millers successfully used this issue to get an increase of A\$440 million in adjustment funding. This comes on top of the existing A\$120 million of Federal Government funds and A\$30 million of State Government funds as part of the reform taken under the Memorandum of Understanding between State and Federal governments (See policy section of report #AS4012, April 14, 2004).

Under the A\$440 million Federal government Sugar Industry Reform Program (SIRP), growers receive immediate, as well as medium and long-term assistance. Immediate assistance is provided in the form of sustainability grants, income support and crisis counseling. The sustainability grant is funded at A\$73.05 million and is divided between mills and their growers. Income support is funded up to A\$21.0 million and is paid to growers and harvesters. Crisis counseling is paid to families in the sugar industry and totals A\$5.0 million in funding.

The program requires mills, growers and harvesters to individually undertake a decision to either stay in the industry or leave. To assist in this decision mills receive A\$1.2 million while growers and harvesters receive up to A\$14 million.

Medium and long-term measures are available under the program for growers who wish to stay in the industry. Grower restructuring grants are made available to growers at the individual farm level accounting for A\$39.0 million of total SIRP funding. Regional and community projects to facilitate restructuring on a long-term basis will account for A\$75.0 million in funding. Assistance is provided for intergenerational transfer with up to A\$23.0 million provided while re-establishment grants and retraining are funded to a total of A\$7.0 million.