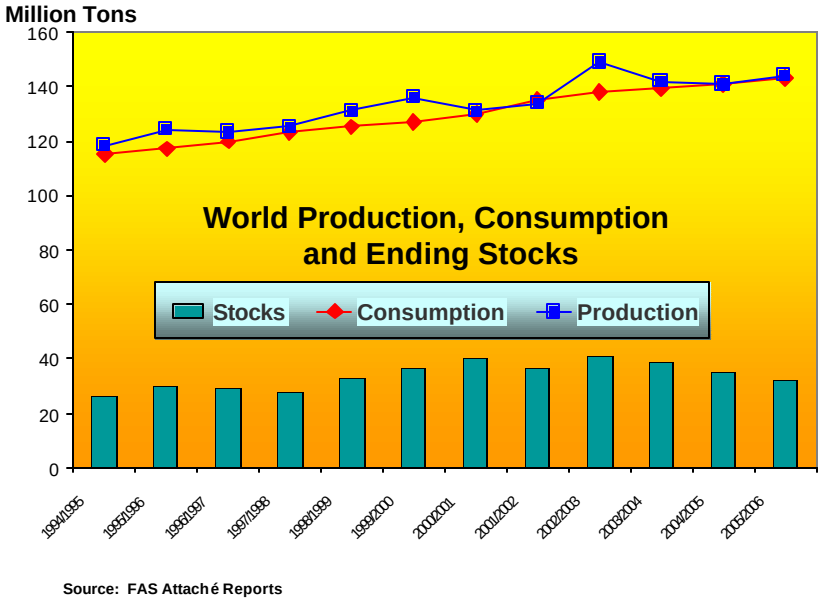
World Sugar Situation – December 2005

Summary

World sugar production for the 2005/06 marketing year is forecast at 144.2 million tons, raw value, up 3.3 million tons from the revised 2004/05 estimate. Consumption is forecast at 142.8 million tons, up 1.7 million tons from a year earlier. Exports are forecast at 47.7 million tons, up 1.4 tons; and ending stocks are forecast at 31.5 million tons, down 3.6 million tons.



Source: FAS Attaché Reports

Current (January 2006) world spot price for raw sugar is the highest since 1980. Some of this strength is due to speculation. But the fundamentals underlying this speculation are a combination of short supplies in the United States and Asian markets in conjunction with strong domestic demand for Brazilian ethanol, coupled with a strengthening Brazilian currency, which effectively makes sugar exports for the principal world supplier, less attractive, reducing supplies of sugar for export onto the world market.

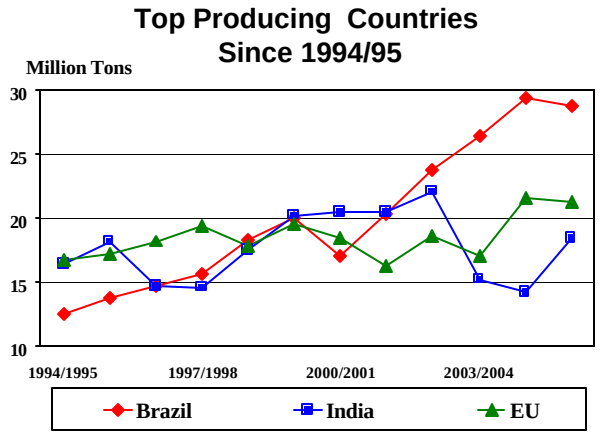
Forecast increases in 2005/06 world production and trade are mainly due to higher production in India, up 4.2 million tons; Brazil, up 500,000 million tons; and China, up 700,000 tons. The world export forecast for 2005/06 is revised upward by 3 percent despite reduced shipments from Thailand of 900,000 tons. Reduced Thai exports are more than offset by increased shipments from the EU of 1.7 million tons, Argentina 305,000 tons, and Brazil of 200,000 tons. Thai exports for 2005/06 are forecast at 2.7 million tons, which is only 60 percent of the prior four year average of 4.5 million tons.

Revisions of the 2004/05 PS&D May estimates place world beginning stocks at 38.8 million tons, down 200,000 tons; world production at 140.8 million tons, down 1.3 million tons; world exports at 46.3 million tons, up 300,000 tons; world consumption at 141.1 million tons, down 400,000 tons; and ending stocks at 35.1 million tons, down 600,000 tons.

Principal country specific changes in the 2005/06 PS&D forecast world production from the May estimate are: Brazil, down 800,000 tons; the EU up 800,000 tons; and the United States down 600,000 tons. Since the May forecast, EU exports are expected to increase by 1.8 million tons; Brazilian exports are revised downward by 550,000 tons; Thai exports are reduced by 200,000 tons; Pakistan's shipments are down 215,000 tons; and India's exports are up 180,000 tons.

Principal Producers

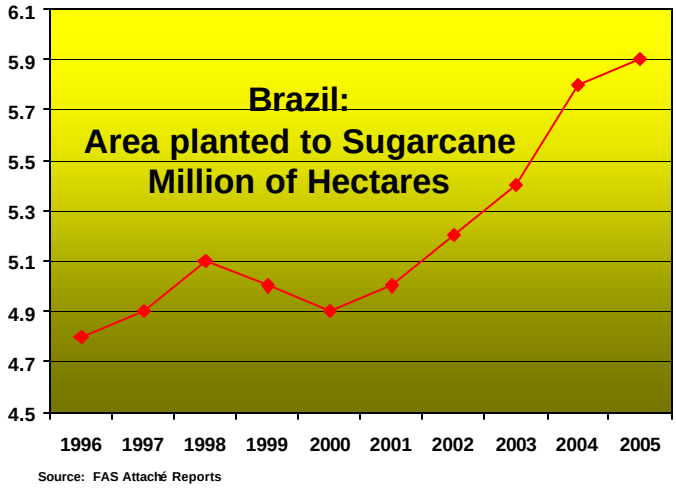
The top seven producing countries account for 60 percent of total world production. The top three producers, Brazil, India, and the EU account for over 40 percent of total world production. Two of the top four producers, India and China are not among the top exporting countries.



Source: FAS Attaché Reports

Brazil

Brazil is by far the world's largest producer and exporter of sugar. The country accounts for 20 percent of the forecast 2005/06 world production and nearly 38 percent of total world exports.

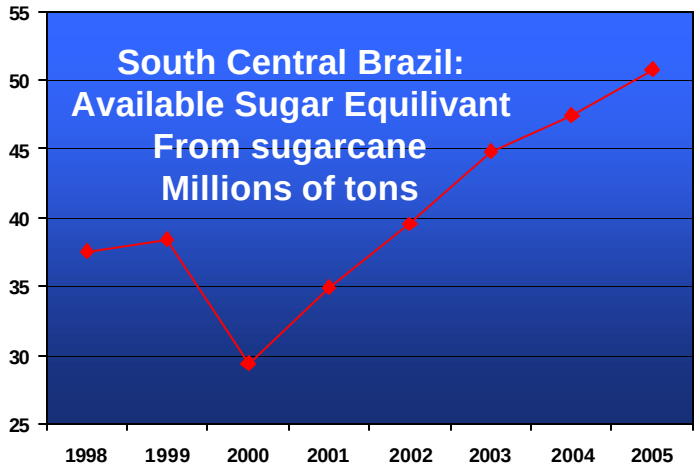


Source: FAS Attaché Reports

The area devoted to sugar cane production continues to expand by tens of thousands of hectares every year due to firm sugar and alcohol prices in both the domestic and international markets. Not only are new lands being cleared for production of sugar cane but domestic prices are attractive enough to support switching from competing commodities such as cattle, grains, oranges,

and coffee. The movement toward greater production area is so pronounced that it overwhelms normal downward effects induced by sometimes unfavorable weather on either yields or sugar content. Brazilian industry analysts forecast that between 40 and 50 new mills, each processing between 1 and 2 million tons of cane, will be fully on line by 2010. This increase will require 60 to 70 million tones of additional cane for processing.

Almost half of Brazil's sugarcane production is devoted to the production of alcohol. The increase in the domestic demand for fuel alcohol is due to the increase in flex–fuel autos. Total sales of these vehicles, which can run on any mixture of hydrous, anhydrous alcohol, or gasoline, rose to 380,000 units in 2004. Some analysts estimate that over 600,000 flex-fuel vehicles may be sold in 2005 accounting for 46 percent of new car sales. However, despite this seemingly healthy demand for ethanol the price advantage for this commodity is dependent upon the price of gasoline as well as the export demand and sugar stock levels.



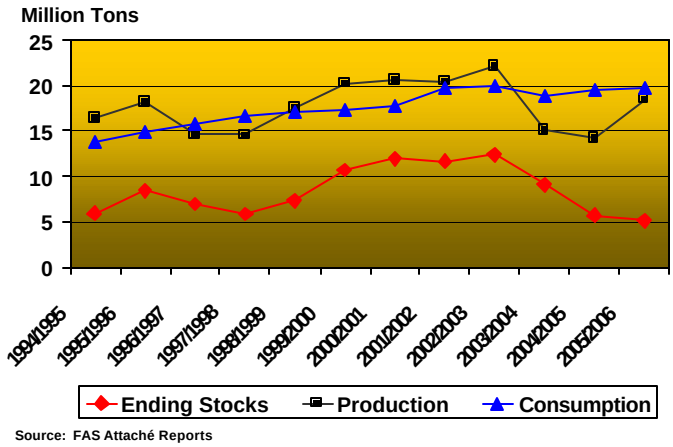
Source: Unica

India

India is not only one of the world's leading producers of sugar it is also the leading sugar consumer. To be self sufficient India must produce about 20 million tons of sugar each year. After two years of low production, India is set to recover in marketing year 2005/06. Total production is forecast at 18.4 million tons, which is about 1.4 million tons below forecast consumption. Low production during the previous two years helped to reduce stocks by half, from 12 to 6 million tons.

Although the current stock level is close to one quarter of annual consumption, many

India: Production, Consumption, and Ending Stocks



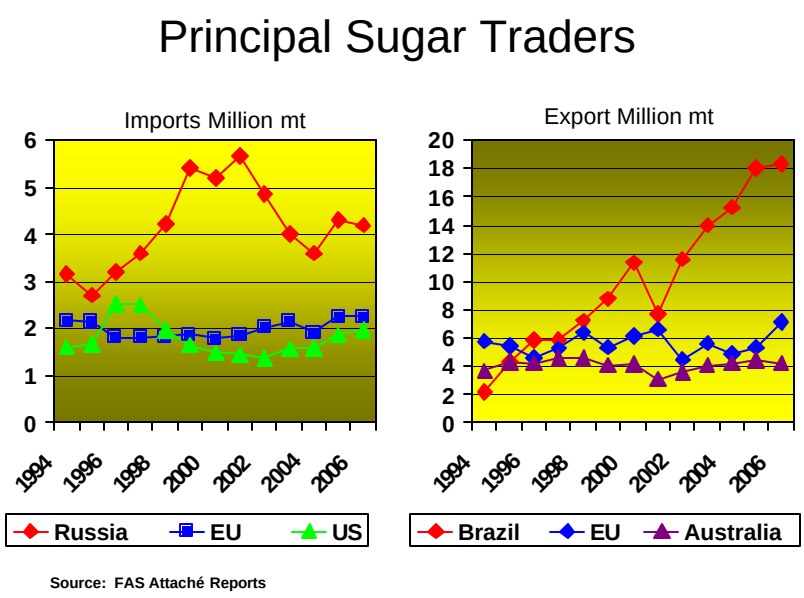
Source: FAS Attaché Reports

analysts feel that this current stock figure is close to a minimum requirement. Imports for the 2005 marketing year were 2 million tons and imports for the current marketing year are forecast at 1 million tons. Domestic prices are expected to remain firm. Last year the average wholesale price was 15.5 cents a pound. India will export a total of about 20,000 tons to the United States and the EU under their quota allotments and receive the consequent quota rent.

India enjoys one of the highest protective tariffs in the world. This enables the country to operate a dysfunctional system that provides high prices to cane producers and low prices to domestic consumers. Sugar cane prices last year exceeded $22 per metric tons and are among the highest in the world. To maintain some control over the domestic price the government permits imports of raw sugar under an "Advanced Licensing System". Sugar refiners may import raw sugar at zero duty against a future export commitment. Given the current shortage and high domestic price vis-à-vis the world market price it is uncertain when these commitments will be enforced.

The European Union

Due to very favorable weather conditions, which produced higher sugar beet production than expected and an above average sugar content in the beets, the EU-25 total production for marketing year 2005 increased 200,000 tons to 21.8 million tons. Forecast production for 2006 is 21.2 million tons. Enlargement, which added 10 eastern european countries in 2004, contributed about 3.654 million tons to the 2005 EU-15 total production of 17.957 million tons. Forecast EU-15 production for 2006 is 17,653 million tons and the new member states are placed at 3.575 million tons.



Source: FAS Attaché Reports

Enlargement has clearly contributed to higher ending stocks and over quota production As a result of this over production the EU accepted, as of November 2005, 1.2 million tons of sugar into intervention. This is the first intervention

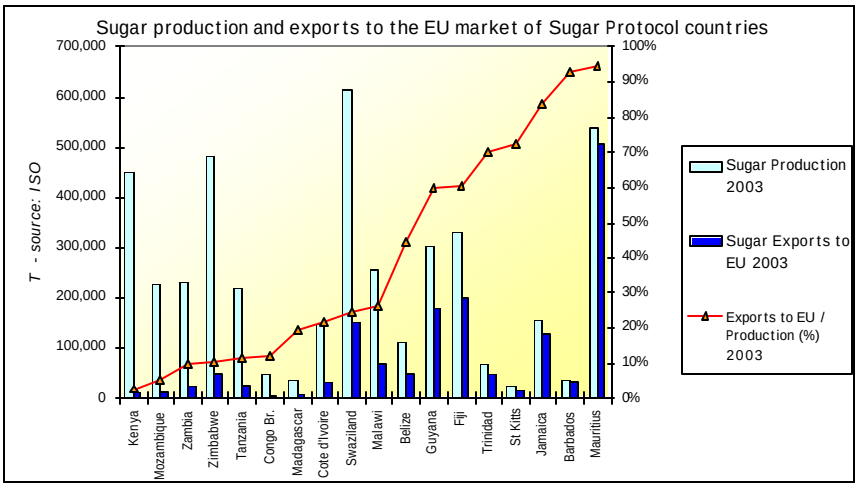
purchase in twenty years. The over quota 2005 sugar production must be exported by the end of the calendar year following the marketing year it was produced, i.e. 2006.

Exports for the 2005 marketing year are 5.4 million tons, up 500,000 tons from 2004, and forecast exports for 2006 are at a near record of 7.1 million tons, up 1.7 million tons from 2005

The EU is in the unusual position of being both a leading exporter and importer of sugar. The Customs Union manages this feat by extending its production and export subsidies to developing countries that were former British, French and Portuguese colonies. Currently there are 17 countries that enjoy benefits under the African, Caribbean and Pacific (ACP) program. Under this program the EU imports up to 1.6 million tons of raw sugar, which it refines and re-exports. The EU is the world's only major producer, exporter, and importer.

In February 2005, the European Commission published an Action Plan to provide assistance to the ACP Sugar Protocol countries that will be negatively impacted by the EU sugar reform. Currently, the ACP countries receive a guaranteed minimum price of over € 500/ton (US$ 595). Post reform, this price is likely to drop by over a third to € 335/ton (US$ 400). Developing countries in the ACP group currently benefit from an income transfer of around US$ 450 million/year from EU sugar import preferences. The Guyanese President, Bharrat Jagdeo, who is responsible for agriculture in the Caribbean Common Market (CARICOM), said that the value of this reduction would mean US$90 million less per year for the ACP sugar countries of the Caribbean: Guyana, Jamaica, Barbados, St Kitts & Nevis and Trinidad & Tobago.

In total, sixteen developing countries will benefit from the EU's financial aid through the EU's compensation package provided with in the sugar reform. The package will likely tailor assistance for diversification to the least efficient producers and investment aid to those ACPs who could be efficient producers in the long run. The Commission plans for the aid to be split among the ACP sugar producers based on whether sugar production will be viable post EU reform. For the highest cost sugar producers such as Barbados, Jamaica, St Kitts, and Trinidad reform may not be possible. In this event EU assistance will likely be tailored towards restructuring aid,



aimed at shifting resources away from sugar production. For other countries, such as Mauritius, Fiji, and Guyana, assistance could be a mix of investment aid in the sugar sector as well as other restructuring assistance. Some 41 percent of sugar production in these 18 countries is exported to the EU, providing 71 percent of the revenue to the sugar sector due to the high guaranteed EU prices they receive. The losses of export earnings for these countries due to the proposed price cuts could be as much as €275 million/year.

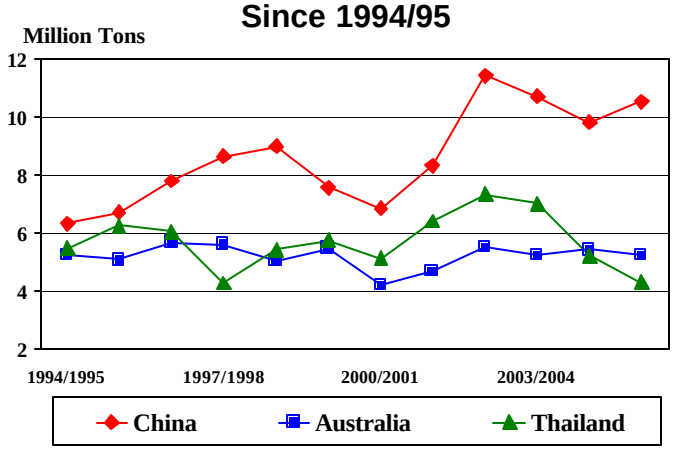
Secondary Producers and Exporters

With the exception of China, the second tier of producers, Thailand, and Australia are significant exporters. China is a significant importer.

China

China is one of the few countries that produce both cane and beet sugar. Beet sugar accounts for about 7 percent of total production, averaging close to 700,000 tons compared to over 10 million tons of cane sugar production.

Secondary Producing Countries Since 1994/95

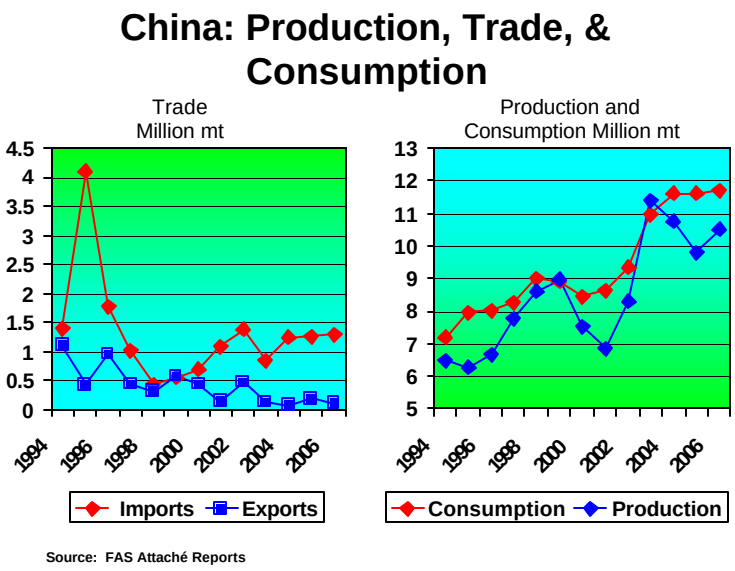


Source: FAS Attaché Reports

Overall sugar output for 2005/06 is forecast at 10.5 million tons (raw value), which is 7 percent higher than the estimate for the 2004/05 marketing year. Despite the decline in area, beet sugar output in 2004/05 is estimated to be slightly higher than the previous year, due to higher beet yields. Sugarcane planted area is forecast to rise by 5 percent in 2005/06. Estimated sugar imports for 2004/05 are 1.25 million tons up slightly from the previous year. Imports for 2005/06 are forecast at 1.3 million tons

The government's control on the sale of artificial sweeteners will be critical for maintaining sugar consumption in 2005/06. Because of higher sugar prices, it has been difficult for the government to control the sale of saccharine, the competitor of natural sugar. Industry sources estimate that 4,600 tons of saccharine were sold domestically in 2004, well above the Chinese government's set limit of 3,500 tons annually. The sale of saccharine in 2004 was equivalent to 2.3 million tons of natural sugar, or nearly 20 percent of national natural sugar consumption.

China is the world's largest producer of saccharine. Between 70 to 80 percent of the production is exported accounting for two thirds of the world export market.



Source: FAS Attaché Reports

Exports are valued at $23 million. Production reached an all time high in 1999 at 40,000 tons. At that time saccharine accounted for 40 percent of China's sweetener market. In 1999 the central government started closing down production and domestic sugar production began to increase, rising to 8.5 million tons to over 12 million tons. At the same time exports fell by 400,000 tons and imports rose by 1 million tons.

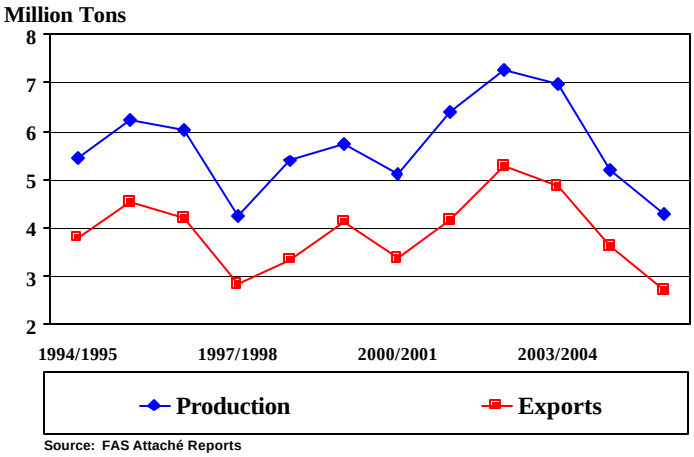
The graphs illustrates that sugar consumption has steadily increased and outstrips production. It also shows that China is a net sugar importer. However, China may never be a truly major importer for several reasons. First, China imports about 450,000 tons of sugar from Cuba, under a longstanding agreement signed in the late 1950's. Although Cuban sugar production is in serious decline it may be fairly reasonable to assume, that for the foreseeable future, it will have sufficient supplies to fulfill the agreement. Second, at present China has not filled the Tariff Rate Quota (TRQ) negotiated in the WTO accession agreement. Under the TRQ China will allow 1.95 million tons enter at a duty of 15 percent. The out of quota rate is 50 percent, a duty sufficient to protect a price increase in the domestic industry large enough to promote more production. Thirdly, as previously noted, the government already has difficulty controlling the use of artificial sweeteners. Fourthly, production of starch based sweeteners is less expensive to produce and more price competitive with sugar. In 2005 starch based sweeteners, used primarily in the food processing and beverage industries accounted for about 1.8 million tons of equilivant sugar.

Thailand

In anticipation of a continued drop in sugarcane production resulting from unfavorable weather conditions, sugar production is forecast to decline to 4.33 million tons in marketing year 2006, down for the third consecutive year. Marketing year 2005 sugar production is also estimated to shrink to 5.2 million tons. The allocation of sugar production remains unchanged in 2005. This includes Quota A in the amount of 2.0 million tons of plantation white sugar for

domestic consumption (compared to 1.92 million tons in the previous year); Quota B in the amount of 800,000 tons of raw sugar to cover long term export contracts; and Quota C (the balance) for export to the international market. The Government requires that mills give priority to the production of plantation white sugar for the local market, and raw sugar for Quota B, over that of sugar for exports under Quota C (both white and raw sugars). The increase in Quota A this year reflects the shift from export-oriented food manufacturers who were allowed to buy relatively cheaper sugar from Quota C in the previous year, as current export prices are close to domestic prices

Thailand Production and Exports Since 1994/95



Source: FAS Attaché Reports

Sugar consumption for 2005 and 2006 is forecast to continue the upward trend, following the country's economic expansion. Direct household consumption still dominates the market, accounting for about 68 percent of total domestic consumption. The balance goes for industrial consumption. Beverage industry demand for sugar remains strong, accounting for about half of total industrial uses, as the use of high fructose syrup (HFS) is reportedly limited by high operating costs. The HFS production in Thailand is mainly derived from cassava starch. Cassava prices are also under upward pressure due to drought-damaged cassava crops.

Domestic prices of sugar remain unchanged at 11.77 baht/kg (roughly U.S. 13.9 cents/lb) for wholesale, and 13.25 baht/kg (roughly U.S. 15.7 cents/lb) for retail. However, the wholesale price of molasses is currently around 3,200 baht/ton (roughly U.S. $83/MT), up significantly from around 1,800 baht/ton (roughly U.S.$45/MT), in response to the contraction in the sugarcane crop.

In anticipation of the smaller sugarcane crop resulting from the dry weather conditions, sugar exports are forecast to decline to 3.6 million tons in 2005, and to 2.7 million tons in 2006. The tight supply situation will likely increase upward pressures on export prices. The share of raw sugar exports declined to around 44 percent of total sugar exports, as compared to more than 50 percent in the past. Raw sugar exports to the U.S. under the tariff-rate-quota (TRQ) are still attractive, as export prices will remain well above the world market prices.

Asian countries, in particular Indonesia, Malaysia, Japan, and Taiwan, will likely continue to be major markets for Thai sugar in 2006 due to the freight cost advantage over Brazilian sugar. The advantage is estimated around U.S. 1-2 cents/pound (roughly U.S.$25-$40/ton).

Thailand Sugar Exports to Principal Markets
In 1000 of metric tons

	Indonesia	Japan	Malaysia	Taiwan	Bangladesh	Korea	China	Cambodia	Other
1998	736	605	103	-	-	165	68	62	551
1999	849	556	122	19	41	221	8	152	1,300
2000	1,298	779	267	48	121	358	59	29	1,130
2001	759	702	336	40	35	231	433	167	544
2002	1,006	387	355	126	32	178	176	230	1,539
2003	1,172	539	427	263	184	288	177	114	1,900
2004	1,268	754	548	398	280	246	227	177	701

Source: Global Trade Atlas

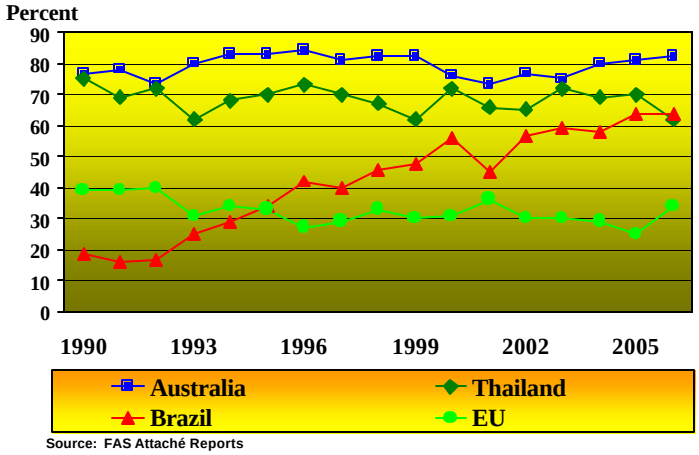
Indonesia's imports of raw sugar and refined sugar from Thailand are expected to remain strong. Exportable supplies from other sources, such as India, are lower due to drought. India is also facing a sugar supply deficit, leading to greater imports from major suppliers, especially Brazil. Like India, China's sugar import demand is strong due to a tight domestic supply situation. Meanwhile, exports of Thai sugar to Russia are estimated to continue the downward trend, as Brazil will likely become the major supplier.

In 2004, despite the continued increase in Thai sugar exports to traditional markets in Asia, total sugar exports declined significantly, following a sharp contraction of raw sugar exports to Russia. Meanwhile, Taiwan was the emerging market for Thai raw sugar in response to the tariff reduction following the WTO agreement.

Australia

Centrifugal sugar production for 2004/05 is estimated at 5.4 million tons, up 210,000 tons from the previous forecast. Sugar production in 2005/06 is forecast 5.2 million tons, which is down 188,000 tons from 2004/05. This revision is based on a reduction in acreage

Percent Exported of Total Production by all Significant Producer/Exporter Countries



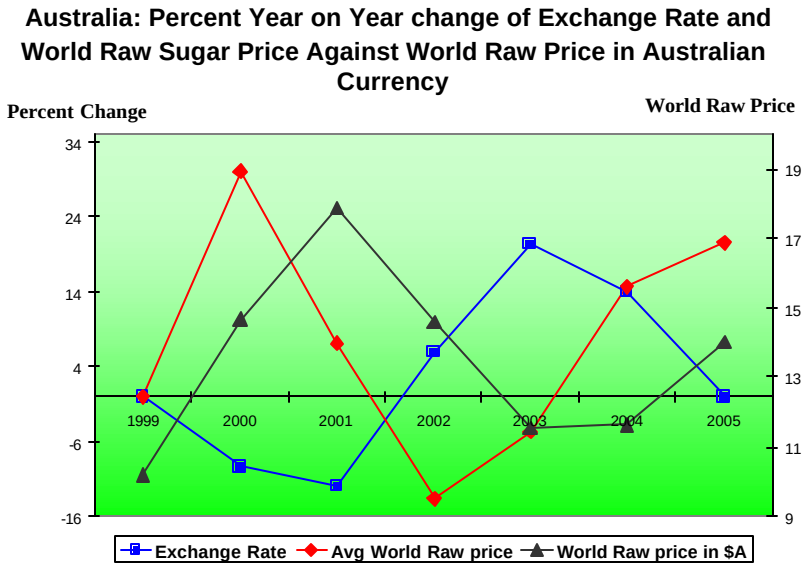
Source: FAS Attaché Reports

Commercial Cane Sugar' content is forecast at 13.82 percent, which is generally in line with the long-term trend.
Low sugar prices continue to place downward pressure on the area devoted to sugarcane. The area planted to sugarcane area is forecast to fall to 410,000 hectares in 2005/06, 10,000 hectares below the estimate for the previous year. The 428,000 hectares of sugarcane area reached in 1999/2000 is likely to remain a record for the foreseeable future. The industry is likely facing the beginning of a longer-term decline in area.

A succession of poor production conditions, including disease outbreaks (2000/01), drought (2003/04 and 2004/05) and inconsistent returns, have placed considerable financial pressure on producers. Sugarcane producers are expected to continue to exit the industry or move to other agricultural enterprises.

Australia exports more than 4 million tons, the largest percentage of domestic production of all major world exporters and producers. In addition, it is one of the few countries whose domestic sugar prices are directly derived from world prices. Consequently, there is little support in the event of weak world price and an appreciating currency.

The average value of the Australian dollar has risen sharply over the past five years, from a low of less than US$0.50 in 2001 to a high of nearly US$0.80 in early 2005. Since international trade in sugar is mostly denominated in U.S. dollars, the exchange rate coupled with volatile world prices have created a roller coaster effect for returns to Australian producers.



Note the volatility of the world sugar price in U.S. currency (red line) and the almost equally volatile U.S/Australian exchange rate (blue line). Indicative revenues to Australian producers are represented by the world raw price in Australian currency (black line. This line rises dramatically from 10 cents to almost 18 cents

a pound as a result of the double benefits of declining exchange rate and rising world price. As the exchange rate drops (devalues) against the U.S. dollar Australian exports become more competitive and return more value in domestic currency. This effect is exacerbated by the rise in the world price. However in 2001, the situation reverses and returns to Australian producers fall as the Australian currency appreciates against the U.S. dollar and the world price falls. Currently, the world raw sugar price is the highest since 1998 and the exchange rate is A$1.35 to $US1.00.

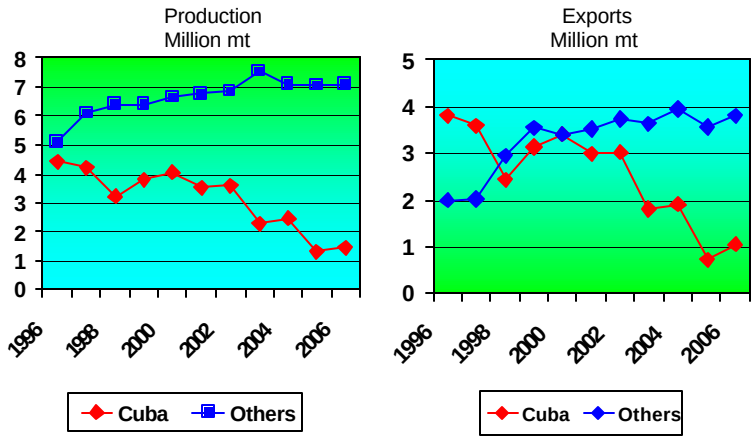
Prior to 2001 domestic sugar was sold at "export parity." This means that domestic consumers were paying a freight rate component which increases the price of sugar. There is a contractual split of the proceeds between the millers and farmers. However, since September 2001 Queensland Sugar Limited, which markets all Queensland sugar or about 95 percent of all Australian sugar on both the domestic and world markets on behalf of the industry, has operated a producer pricing mechanism known as the "Call Pool." The call pool provides an opportunity for both millers and farmers to take their own futures and currency risk with their sugar equilivant.

Other Important Exporters

The third group of significant producers and exporters consists of South Africa, Guatemala, Columbia, and Cuba. Together these countries produce between 8 and 9 million tons of sugar and export between 4 and 6 million tons.

Cuba

Tertiary Producers and Exporters, Including Cuba



Source: FAS Attaché Reports

At one time Cuba was the world's most important sugar producer and exporter. Ten years ago Cuba accounted for over 40 percent of the total production of these four countries and two thirds of their exports. Today it accounts for less that one fifth of the production and exports. Production has fallen due to a series of hurricanes and droughts, which have devastated its crop area. In addition, a lack of

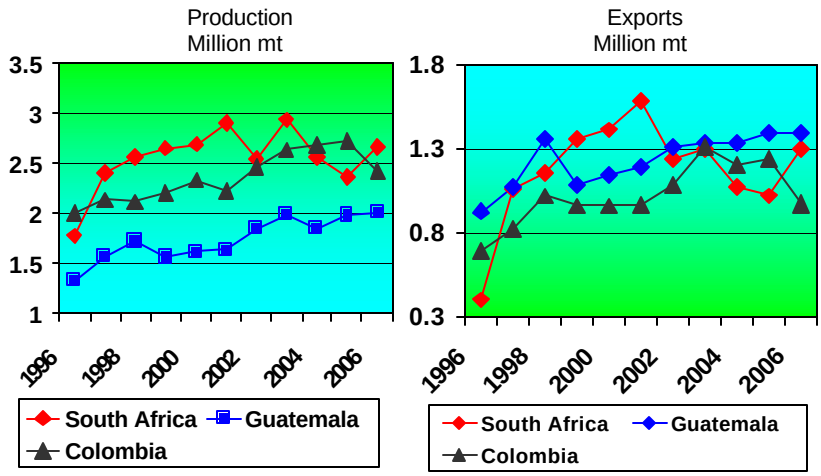
investment in infrastructure has forced the closing of many mills. Since 2002 the government has tried to restructure the industry closing 71 of the 156 mills and reallocating 60 percent of the planted area to other uses. This effort has failed to improve the industry and some observers believe that only 40 to 50 mills will be operational next year.

Production for the current year is placed at 1.5 million tons and exports at 1 million tons. The country had hoped to export 700,000 tons in 2005 of which at least 400,000 are committed to China. In order to meet its other export commitments Cuba may have to import 300,000 tons of sugar.

South Africa, Colombia and Guatemala

Production and export of sugar in these three countries is fairly consistent from year to year. For the 2005 marketing year they expect to produce a combined total of 6.9 million tons and export 3.6 million tons. The forecast for the 2006 marketing year is for production to reach 7.2 million tons and exports to total 3.8 million tons.

Tertiary Producers and Exporters



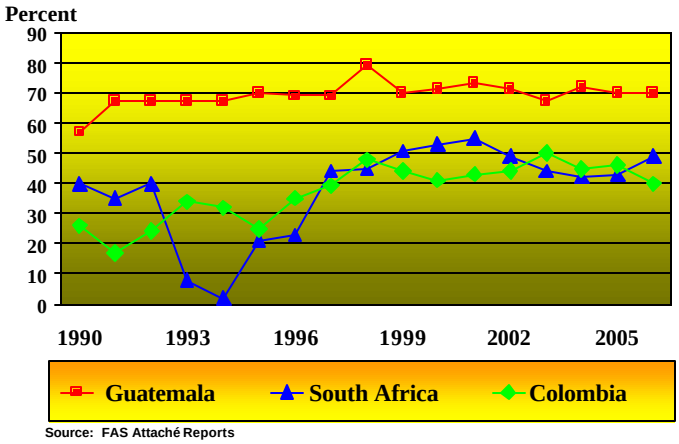
Source: FAS Attaché Reports

South Africa

South Africa's sugar production for 2005/06 season is estimated at 2.7 million tons from 21.5 million tons of cane. This is better than in 2004/05 and is close to a "normal" outcome. It will allow local sales of about 1.6 million tons and exports of about 1.3 million tons. Imports could, however, increase as the import tariff was recently cut from U.S. $86.6/mt to U.S. $36.7/mt. As depicted in the preceding graphs South Africa's production for the last few years has been significantly reduced by about 11 percent from the nearly 3 million tons produced in 2000 and 2002. Timely rains are vitally important because only 22 percent of South Africa's production areas are irrigated. Drought conditions which began in the 2003/04 are expected to continue through 2005/06.

Exports are important to South Africa but not as critical as with other countries, thus the domestic prices and greater percentage sold on the domestic market help sustain the industry when international prices are low.

Percent Exported of Total Production by Minor Producer/Exporter Countries



Source: FAS Attaché Reports

Colombia

Colombia's sugar production increased slightly to 2.72 million tons in the 2005 marketing year. The increase is mainly due to efficiency gains, since the sugarcane area remains at its previous level. Sugar production is expected to fall 300,000 tons during 2005/06 marketing year due to increased production of ethanol starting in September 2005. Requirements to use ethanol in gasoline sold in the major cities will take effect at that time. Exports will also fall as less sugar will be produced. In addition, domestic prices are significantly higher than international prices and domestic sales will continue to have a priority. Exports are forecast to decrease to 970,000 tons in 2005/06 marketing year, from an estimated of 1.24 million tons during the 2004/05 year.

Sugar consumption is increasing as a result of the economic recovery and rising exports of domestically produced sugar containing products. Consumption is expected to grow to 1.53 million tons in 2004/2005 year, and will continue growing at a slow rate in the following marketing year.

The Andean Community-Mercosur free trade agreement was implemented starting in February 2005. Sugar and sugar containing products were "encapsulated" in the agreement, which means that sugar is excluded from duty reductions until there is mutual agreement at a later date to include sugar in the agreement. Colombia will continue granting to Mercosur countries the duty preferences agreed to under previous bilateral agreements.

The Colombian Government continues to support sugar producers through the price stabilization fund, which disposes of surplus sugar on the world market through producer financed export payments. Imports are subject to high duties under the Andean Community price band system.

Guatemala

Guatemala's sugar production has increased steadily over the last ten years. Production has doubled over that period. Production for 2004/05 is estimated at 1.982 million tons and is forecast at 2 million tons for 2005/06. Exports account for over 70 percent of production and are forecast at 1.4 million tons for 2005/06. Guatemala mainly exports raw sugar. Guatemala has about 170,000 hectares of sugarcane under cultivation which is about half of the area available for planting. About 40 percent of the sugarcane is irrigated.

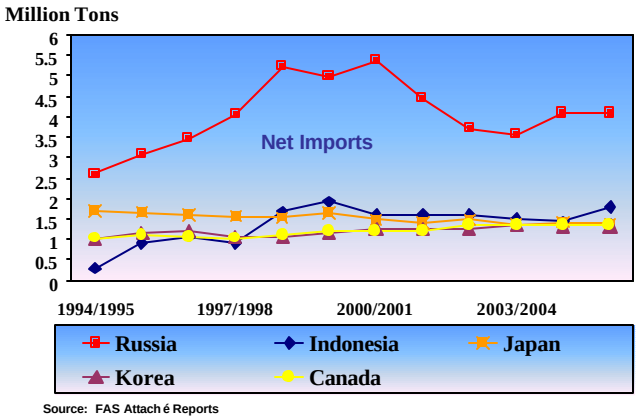
Of the 14 mills grinding sugar cane only one produces ethanol and 6 produce electricity, accounting for approximately 20 percent of Guatemala's electricity. Almost all of Guatemala's sugar is sold through a single wholesaler.

The Guatemalan Sugar Board, which includes representatives from the sugarcane producers' sugar mills, and the Ministry of Economy establishes production goals, sets sugarcane prices, and allocates the filling of the U.S. sugar quota to the different mills.

Importing Countries

The USDA's Foreign Agricultural Service database for Sugar Production Supply and Distribution (PS&D) balances data on a country-by-country basis. However it does not balance on total world exports and imports. The difference between import and exports is defined as unrecorded imports. This difference accounts for anywhere between 7 to 15 percent of recorded imports. The most important reason for this difference is that the USDA database does not provide a uniform time reference for trade. The World PS&D presents an aggregation based upon each country's individual marketing year. Since sugar is produced all over the world through out the year there are numerous overlapping marketing years and therefore overlapping shipment periods. Other reasons for this difference may be accounted for by re-exports, smuggling, and different coefficients to adjust shipments back to a raw sugar equilivant basis. Exports are a better indicator of trade volume because, as previously demonstrated, they are accounted for by a relatively small number of countries and therefore are more accurately monitored.

Top Five Net Importing Countries Since 1994/95



Source: FAS Attaché Reports

Re-exports are another reason that the world trade data do not balance. Almost all countries import sugar but a much smaller number are net importers. Two of the largest importers, the EU and the United Arab Emirates, are not net importers. Essentially, these countries refine the raw sugar for re-export. The top 10 net importing countries account for 50 percent of total net imports. The top five account for about 30 percent. Russia alone accounts for about 12 percent of world net imports.

Russia

The previous Soviet Union and now the Russian Federation has traditionally been a large sugar importer. From 1960 until the early 1990's Russia imported half of Cuba's sugar output. Since the mid 1990's Russia has shifted suppliers purchasing more from Brazil and moving away from the inefficient bartering of domestic oil for Cuban sugar. Last year, for the first time in a decade, Russian raw sugar imports accounted for less of half of Russia's total supply. In some years raw sugar accounted for as much as 70 percent of the total supply. The change is due to increased production and to imports of refined sugar and other processed sugars. Russia operates a fairly restrictive variable levy/quota system to protect domestic producers. As a result, authorities estimate that the gray market may represent as much as 20 percent of total imports. Producers claim that illegal sugar and sugar containing products are entering from third countries because the country of origin is changed in order to gain a preference.

Russia Production and Imports Since 1994/95

Source: FAS Attaché Reports

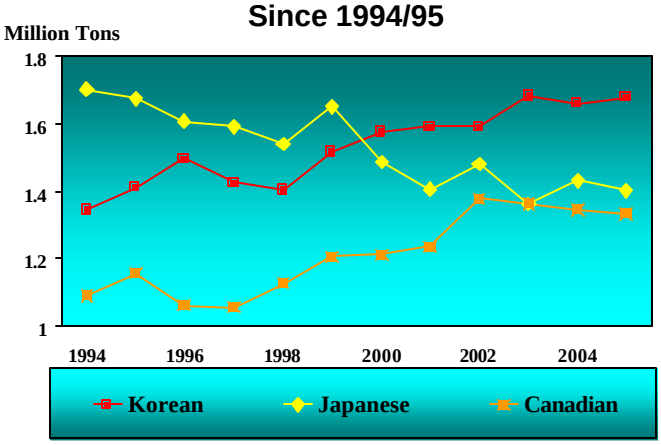
Korea, Japan and Canada

Together these three countries produce slightly over one million tons of sugar. Because Korea does not produce any sugar, rising imports reflect the increase in consumption of sugar and sugar containing products. In marketing year 2005, total sugar consumption in Korea is forecast at 1.33 million tons, a slight increase from the 1.30 million tons of sugar consumed in marketing year 2004. Early hot summer weather in marketing year 2003/04 was identified by the Korean soft

drinks industry as the underlying reason for a 3 percent increase in soft drink consumption from the previous year leading to increased sugar consumption.

However, the growing demand for non-carbonated soft drinks is tending to dampen the effect on sugar consumption because consumers are focusing on products with healthy images, which usually have lower sugar content. In 2004, consumption of functional health drinks, including vitamin drinks, increased more than 10 percent which bolstered demand for High Fructose Corn Syrup (HFCS). Strong demand for functional health drinks is expected to continue.

Korean, Japanese and Canadian Sugar Imports Since 1994/95



Source: FAS Attaché Reports

The Japanese Government abolished the 10-yen per kilogram tariff on raw sugar in April 2000. To protect the sugar producers, the government, through the Agriculture and Livestock Industries Promotion Corporation (ALIC), subsidizes domestic production through a generous price support system. Each year, ALIC sets a guaranteed price for domestic beet and cane producers. ALIC then sets a price at which it will buy raw sugar from refiners that will allow the refiners to pay the guaranteed price for beets and cane. The government purchases sugar at the set price, then resells the sugar to the refiners at a lower price, which is roughly equivalent to the import price.

Domestic production is not large, running between 800,000 to 900,000 tons a year.

Sugar imports are declining due to reduced demand. Sugar demand declined almost 10 percent between 1991 and 1999 (2.61 million tons and 2.3 in 1991 and 1999, respectively), partly due to consumers' preference for "non-sugar" or "less sugar" products as well as the increasing availability of sugar substitutes such as sorbitol. Imports of sorbitol preparations increased significantly during the same period (13,651 tons and 128,387 tons in 1991 and 1999, respectively), which mirror the decrease in sugar demand for the same period. Since 2000, sugar demand has remained steady at 2.3 million tons.