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Sugar Annual

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Report Highlights:

Australian sugar production is forecast by Post to remain at the official estimate of five million MT in 2016/17. Comparatively favorable seasonal conditions have allowed a gradual expansion in the sugarcane area, expected production and sugar yields. However, there is uncertainty over forecasts of production and exports because of a continuing dispute between cane growers and the milling industry, which is leading to contract delays. Further, in some regions the spread of yellow canopy syndrome may affect cane production. Sugar exports are expected to reach 3.9 million MT in 2016/17 as trade agreements with Japan and South Korea have increased overseas market access for the industry.

Executive Summary:

Australian sugar production is likely to remain at the official estimate of five million MT in 2016/17. This forecast remains dependent upon average seasonal conditions although currently the outlook is positive for the industry. There remains uncertainty over the impact on production of a continuing contract dispute between cane growers and the milling industry as well as the spread of yellow canopy syndrome in some regions. In 2016/17, sugar exports are expected to reach 3.9 million MT, up slightly from the official estimate for 2015/16. Exports are likely to benefit from higher yields and increased overseas market access for the industry. This report also examines the use of sugar to generate electricity and proposals to use sugar as a biofuel.

Seasonal Outlook

Sugarcane is grown in high-rainfall and irrigated areas along coastal plains and river valleys on 2,100 km of Australia's eastern coastline. These range from Mossman in far north Queensland to Grafton in NSW. There are four major regions which differ by climate: North, Burdekin, South and Central Queensland. In the Burdekin, much higher cane yields are usually possible due to more favorable climate and intensive irrigation. High rainfall in the North means cane is rain-fed whilst in Central and Southern Queensland there is supplementary irrigation.

The sugar industry is vulnerable to severe weather events such as cyclones, drought and flooding but more moderate seasonal conditions in recent years have led to an expansion in area, yields and production. The sugar cane crop normally benefits from a wet season from January to mid-year and the seasonal outlook for the industry remains positive. The Australian Bureau of Meteorology has forecast average rainfall and warm conditions for Queensland over the 3 months to June 2016 (see charts 1 and 2).

Commodities:

Sugar Cane for Centrifugal

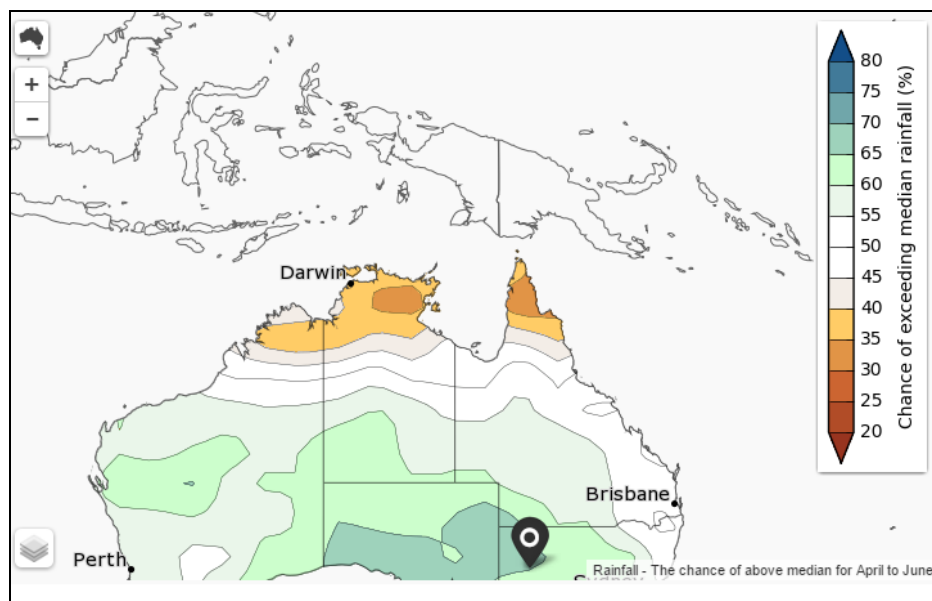
Sugar, Centrifugal

Production:

Australian sugar production is forecast by Post at five million MT in 2016/17. The same as the official estimate. While there has been an increase in both the area planted and a lift in sugar cane yields, uncertainty exists over forecasts of production and exports. This is firstly because of a continuing dispute between cane growers and the milling industry which is leading to contract delays. A second factor is the spread of yellow canopy syndrome in some regions. The impact of the sugar cane disease is likely to be minor, but this is still unclear.

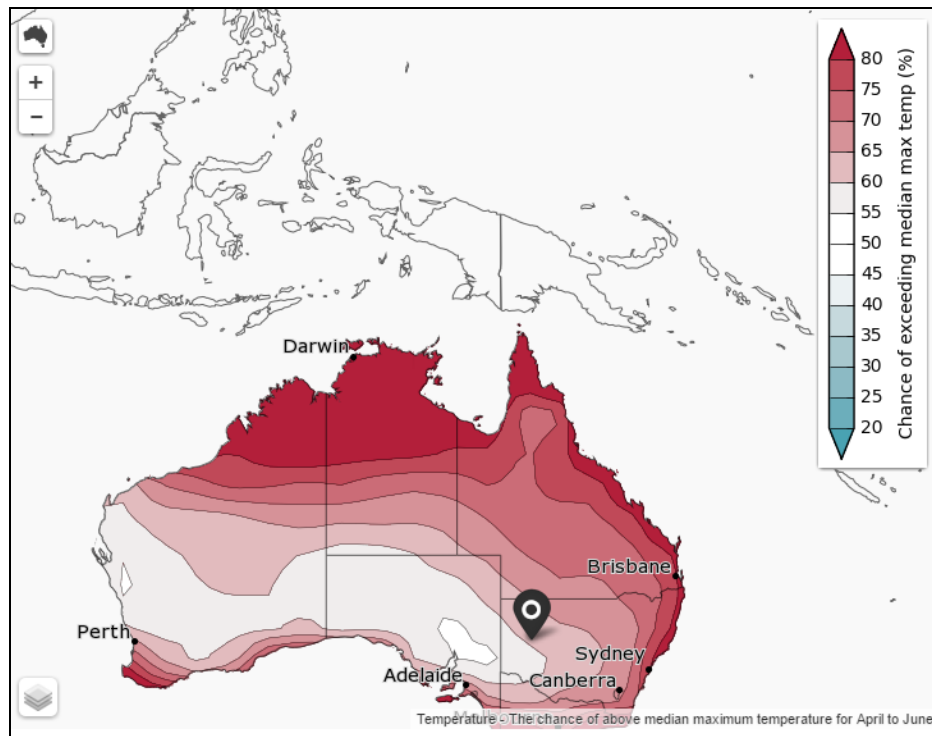
Overall, the area of sugarcane harvested in Australia is forecast at 400,000 hectares in 2016/17, slightly above the official forecast of 390,000 hectares. This revision is due mainly to favorable seasonal conditions and the more positive prospect for sugar prices in 2016/17, especially with the depreciation of the Australian dollar compared to 2015. The 10-year average for the area harvested is 380,000 hectares. Sugar yields are expected to increase slightly in 2016/17 because of favorable seasonal conditions.

*Chart 1: Three-month rainfall forecast for Australia, for April to June 2016
(chance of above median rainfall, %)*



Source: Australian Bureau of Meteorology (March, 2016).

*Chart 2: Three-month temperature forecast for Australia, April to June 2016
(chance of above median temperature, %)*



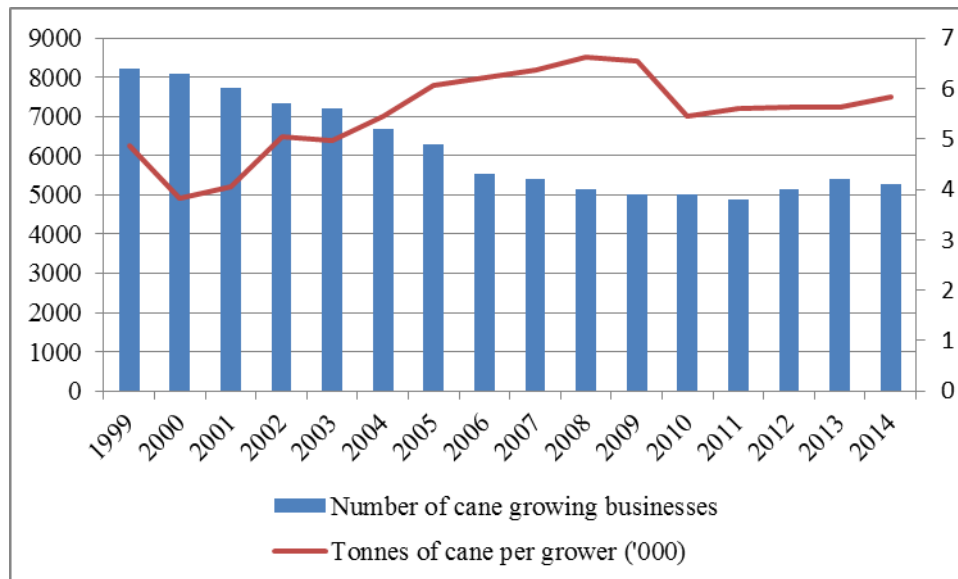
Source: Australian Bureau of Meteorology (March, 2016).

Industry Background

The Australian sugar industry produces raw and refined sugar from sugarcane. Over 70 percent of production is exported as bulk raw sugar and Australia is one of the four largest raw sugar exporters in the world. The sugar cane crushing season usually commences in July and ends in mid-December. Queensland accounts for 95 percent of Australia's raw sugar production with New South Wales producing the remainder. Sugar cane usually grows for 9-16 months before being harvested with the shorter season in north Queensland and the longest season in northern NSW. There are over 4,000 sugar growing farms with an average size of around 100 hectares.

During the cane crushing season, around 1,300 mechanical cane harvesters are used and cane is transported to the mills by cane railway and road. There are twenty four sugar mills producing raw sugar, which is either directly exported or refined in four refineries. Sugarcane is processed into a range of products and by-products, including raw sugar, molasses, mill-mud and ash, and bagasse (the fibrous material that remains after crushing sugar cane). Molasses produced as a by-product of sugar manufacture is processed into liquid animal feeds used in the cattle feedlot and stock feed industries. Around one million MT of molasses and ten million MT of bagasse are produced annually.

Chart 3: Increasing productivity in the Australian cane growing industry, 1999-2014



Source: Canegrowers Australia (2015).

The area harvested for sugar cane production is comparatively stable as growers have significant sunken costs in the form of farm machinery, such as cane harvesters. This type of machinery typically cannot be easily used for alternative crops, such as bananas, sorghum, watermelons, tomatoes, capsicums and sweet potatoes. The perennial nature of sugar cane production also contributes to stable sugar cane production and sugar exports. Recent surveys by ABARES found that large sugarcane farm businesses account for the majority of production.

Those farms with over 125 hectares planted to sugar cane accounted for an estimated 70 percent of total sugarcane production in recent years. A high proportion of large sugarcane farm businesses are found in northern Queensland regions such as Mackay, Burdekin and Far North Queensland. Smaller farms are often moving away from sugarcane production toward other agricultural industries or exiting the industry.

Renewable Energy from Sugar

The Queensland sugar industry makes extensive use of the fibrous stalk of the sugar cane plant (bagasse) to generate electricity for use in sugar cane milling and for export to the electricity grid. Some sugar mills are self-sufficient in energy as they burn the by-product bagasse to generate electricity and steam for factory operations. Around 400 GWh of electricity are generated, of which over half is exported to the electricity network.

Currently, only negligible volumes of sugar or waste from sugar are used to manufacture biofuels. However, in December 2015, the Queensland Parliament passed legislation requiring fuel sellers to meet targets for the sale of ethanol-blended petrol and biobased diesel. The Liquid Fuel Supply (Ethanol and Other Biofuels Mandate) Amendment Act 2015 is designed to increase the use of clean energy and grow the biofuels sector. A report on the potential for biofuels in Queensland is available [here](#). It notes that in

Queensland, potential feedstocks include sugarcane bagasse, sorghum, forestry residue and some types of green waste.

The Queensland legislation includes an initial three percent ethanol mandate for petrol and a half a percent biodiesel mandate, with both due to start on January 1, 2017. The mandate will require E10 to make up to 30 percent of regular petrol sales in Queensland in 2017. Regular unleaded petrol will still be available as an alternative to E10 fuels. A fuel seller's register will be established to allow the government to track sales of biofuels. It is still unclear what impact this policy development will have on the sugar industry.

Consumption

Around 70 per cent of Australian sugar is exported and the rest is refined locally and processed into white sugar, liquid sugar products and other speciality products such as golden syrup, treacle, coffee sugar, cubed sugar and rum. New South Wales production is mainly sold on the domestic market. 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.

Official statistics on domestic per capita consumption of sugar have been unavailable since the Australian Bureau of Statistics discontinued its survey in 1999. The Australian Sugar Refiners Group and Canegrowers Australia commissioned an analysis in 2012 which found that annual sugar consumption fell from 47.5 kg per capita in 1998 to 42 kg per capita over the previous year. The 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.

A 2015 survey by the University of Sydney found that there has been little change in the eating habits of Australians and in their consumption of sugar in recent years. On the other hand, the Australian Government's [Health Survey](#) suggests that total sugar consumption is decreasing in Australia. Post has assumed that sugar consumption in Australia has been stable in recent years.

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. Most of the sugar mills in Queensland marketed their sugar through the grower-owned company while others independently market their sugar. In NSW, white and raw sugar is largely sold directly onto the domestic market.

Currently Queensland Sugar Limited, an industry-owned company, markets 85 percent of Australia's raw sugar. QSL is owned by its members, who are growers, growers' organisations, and sugar milling companies. However, significant changes to the traditional milling, marketing and pooling arrangements for Australian sugar are expected to occur after the 2016/17 season.

A leading sugar processor Wilmar has announced in April 2014 that it would sever marketing links with QSL, when current contracts expire in 2017.

Wilmar acquired Sucrogen in 2010 (previously CSR) and intends to establish its own marketing arm for the two million MT of sugar it mills, from around 3,000 cane farmers in the State. Currently, Wilmar owns and operates eight sugar mills in Queensland which crush about 15 million MT of cane, producing around two million MT of raw sugar for export annually, representing 75 percent of Australian sugar refining and up to 60 percent of Australia's total raw sugar exports.

In 2015 there was an Australian Senate inquiry into the marketing of sugarcane and sugar in relation to the possible impact of marketing changes from 2018 (see [link](#)). The inquiry was also concerned with the competitive market for sugar milling. It found that around ninety percent of sugar cane farmers are tied to their local mill due to the high cost of transporting cane to an alternative mill for processing. The final Senate report called for a marketing code to be agreed by the sugar industry, while the sugar milling industry responded that marketing arrangements in the industry should not be re-regulated.

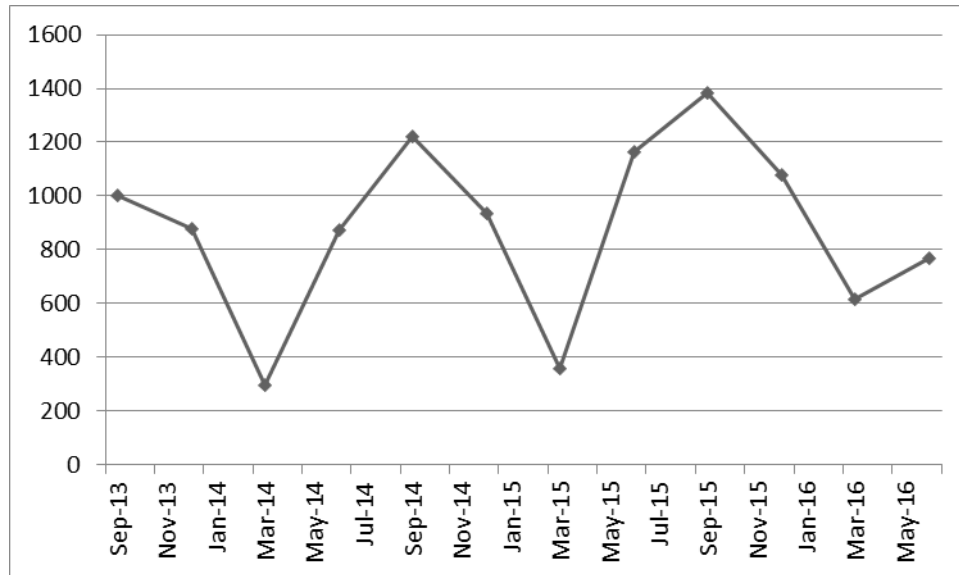
In late 2015, the Queensland Parliament passed the *Sugar Industry (Real Choice in Marketing) Amendment Act*. The Act provides a framework to resolve disagreements using the Commercial Arbitration Act 2013, if growers and mills cannot reach agreement in the negotiation of cane supply agreements. However in early 2016, there was still significant disagreement between cane growers and millers over production and marketing contracts which could affect production.

Trade

In 2016/17, sugar exports are expected to reach 3.9 million MT, up slightly from the official estimate for 2015/16 as a result of higher yields and increased overseas market access for the industry. The Korea-Australia free trade agreement (KAFTA) removed the 3 percent tariff on raw sugar imported into the Korean market. This change put Australian producers on an equal footing with exporters in Thailand. In addition, Korea's existing 35 percent tariff on refined sugar will be phased out over 18 years to 2031 and a tariff of 3 per cent on molasses is being eliminated over five years.

Under the Japan-Australia Economic Partnership Agreement (JAPEPA), a 21.5 yen/kilogram tariff on high polarity raw sugar was eliminated. Exports of high polarity raw sugar cargo to Japan commenced in 2015 and the Australian sugar industry has estimated that JAPEPA has resulted in a significant fall in tariff and other costs of around A\$25 per MT. Under the China-Australia free trade agreement (CHAFTA) there are no changes to tariffs or market access for Australian sugar exports to the Chinese market. Nevertheless, exports to China are expected to continue to grow in the future due to increased market demand.

Chart 1: Australian sugar exports 2013-15 ('000 metric tons)



Source: Australian Bureau of Statistics and Post estimates.

Under the Trans-Pacific Partnership agreement signed in 2015, Australia achieved 65,000 MT of new quota access for sugar, in addition to the existing quota of 87,000 MT. A further change was that Australia will be allocated 23 percent of any future increase in annual quota allocation that may be required. The TPP agreement will enter into force when 70 percent of all contracting parties pass domestic legislation on the agreement.

Australian sugar exports are given in the table below. Indonesia, South Korea and Japan are the largest markets for Australia by volume. However, recent data on exports by country are unavailable due to confidentiality provisions.

Production, Supply and Demand Data Statistics:

Sugar Cane for Centrifugal	2014/2015		2015/2016		2016/2017	
Market Begin Year	Jul 2014		Jul 2015		Jul 2016	
Australia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	0	0	0	0	400
Area Harvested	381	381	390	390	0	34000
Production	32000	32000	33000	33000	0	34000
Total Supply	32000	32000	33000	33000	0	34000
Utilization for Sugar	32000	32000	33000	33000	0	34000
Utilizatn for Alcohol	0	0	0	0	0	0
Total Utilization	32000	32000	33000	33000	0	34000

(1000 HA) ,(1000 MT)

Note: 'New Post' data reflect author's assessments and are not official data.

Sugar, Centrifugal	2014/2015		2015/2016		2016/2017	
Market Begin Year	Jul 2014		Jul 2015		Jul 2016	
Australia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	111	111	140	140	0	380
Beet Sugar Production	0	0	0	0	0	0
Cane Sugar Production	4700	4700	5000	5000	0	5000
Total Sugar Production	4700	4700	5000	5000	0	5000
Raw Imports	30	30	30	30	0	30
Refined Imp.(Raw Val)	60	60	60	60	0	60
Total Imports	90	90	90	90	0	90
Total Supply	4901	4901	5230	5230	0	5470
Raw Exports	3361	3361	3450	3450	0	3700
Refined Exp.(Raw Val)	200	200	200	200	0	200
Total Exports	3561	3561	3650	3650	0	3900
Human Dom. Consumption	1200	1200	1200	1200	0	1200

Other Disappearance	0	0	0	0	0	0
Total Use	1200	1200	1200	1200	0	1200
Ending Stocks	140	140	380	380	0	370
Total Distribution	4901	4901	5230	5230	0	5470
(1000 MT)						

Note: ‘New Post’ data reflect author’s assessments and are not official data.