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## Australia

### Sugar Semi-annual

**2015**

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**Report Highlights:**

Australian sugar production is projected to reach five million tonnes in 2015/16 assuming that average seasonal conditions prevail. In recent years, the sugar industry has suffered from adverse weather events such as cyclones, flooding and drought but this year the harvest area, production and sugar yields are all expected to increase. However, average returns are expected to fall as a result of the expected lower world sugar price. Overseas market access for the industry has been increased by free trade agreements with Japan and South Korea.

**Commodities:**

Sugar Cane for Centrifugal

Sugar, Centrifugal

**Overview:**

The Australian sugar industry produces raw and refined sugar from sugarcane. 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. Overall, there are over 4,000 sugar growing farms with an average size of 100 hectares. In recent years, the industry has experienced several mill closures, a number of growers exiting the industry and a trend towards the amalgamation of farming and harvesting operations.

During the cane crushing season, around 1,300 mechanical cane harvesters cut 30-34 million tonnes of cane on over 370,000 hectares of farm land. Cane is transported to the mills by cane railway and road. There are over twenty 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 processing is processed into liquid animal feeds used in the cattle feedlot and stock feed industries.

In 2015/16, the Australian sugar cane crush is forecast to increase to 33 million tonnes with a three percent increase in the harvested area to 390,000 hectares. Australian sugar production is forecast to increase slightly in 2015/16 to five million tonnes, due to higher sugar cane production and higher yields due to improved seasonal conditions in major growing regions. The recent depreciation of the Australian dollar will offset some of the forecast ten percent fall in world prices in 2015/16. Sugar exports are expected to be 3.65 million tonnes, up slightly on the previous year.

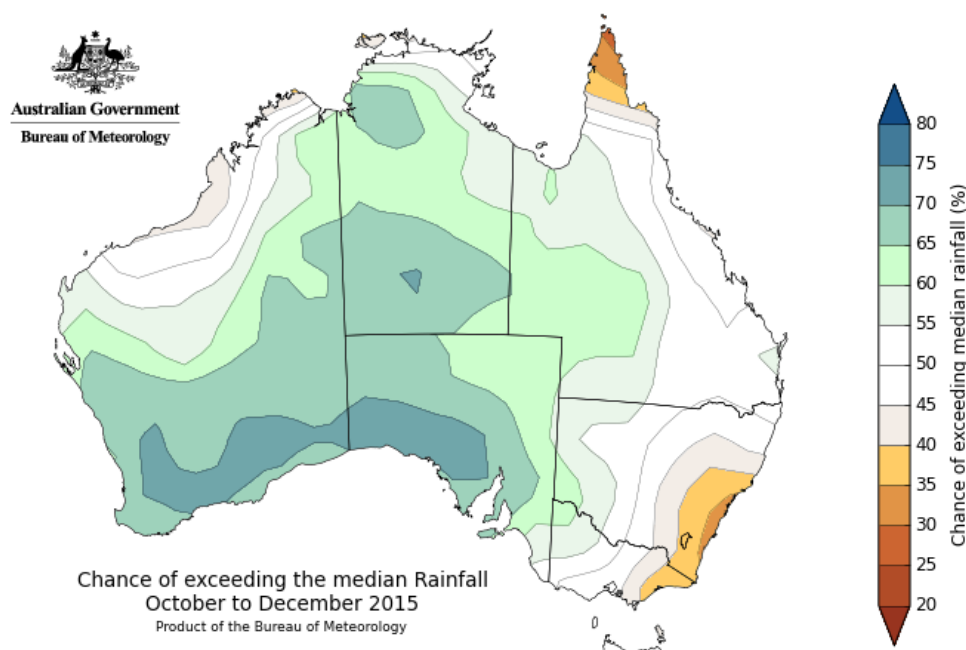
The Australian government does not provide financial or any trade policy support for the sugar industry such as subsidies, tariffs or duty protection. Returns to sugar growers reflect the world price for the commodity. The domestic market is open to sugar imports as import restrictions were removed in 1988 and tariff protection was eliminated in 1997. The industry is exposed to a range of environmental regulations aimed at reducing chemicals and nutrients entering the Great Barrier Reef.

## Seasonal Outlook

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, but a drier than average period occurred from March and some cane growers in north Queensland received less than half their average annual rainfall. However, since then conditions have improved and the Australian Bureau of Meteorology has forecast above average rainfall and warm conditions for Queensland over the three months to the end of 2015 when the harvesting season is in progress (see charts 1 and 2).

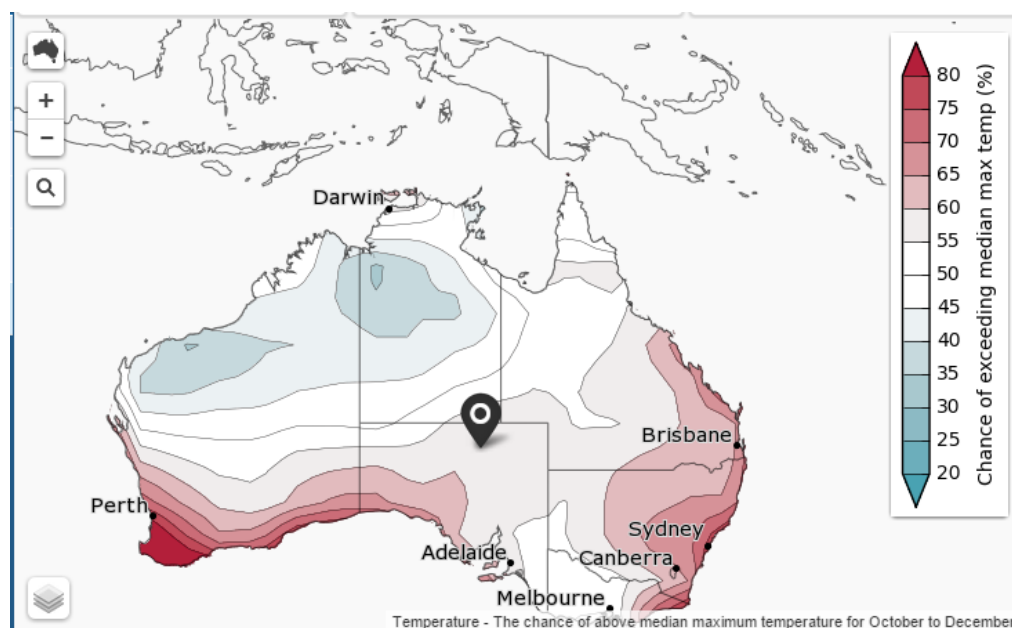
Cane sugar growers harvest both rain-fed and irrigated crops, although the cost and availability of water is a key variable. Currently, water storage levels in the Murray-Darling Basin are only 40 percent of capacity but the Bureau of Meteorology has forecast average rainfall for the three months to the end of the calendar year, which is expected to allow higher overall production and yields. Water availability for irrigation varies by cane growing district. The St George region for example relies on the local Beardmore Dam, which is almost full, while the Leslie and Coolmunda dams in southern Queensland are below 30 percent capacity. Irrigation is more prevalent in some regions such as the Atherton Tablelands and may account for half of production in the Mackay and Bundaberg regions. The cost of irrigated water is also an important factor and electricity prices for irrigators have reportedly doubled since 2011 and the take-up of irrigated water by cane growers has been restrained so far this year.

**Chart 1: Chance of exceeding the median rainfall, October to December 2015**



Source: Australian Bureau of Meteorology

**Chart 2: Chance of exceeding the median maximum temperature, October to December 2015**



Source: Australian Bureau of Meteorology

## Production

Australian sugar production is expected to reach five million tonnes in 2015/16 due to an increase in the area planted and a lift in sugar cane yields. The area of sugarcane harvested in Australia is forecast at 390,000 hectares in 2015/16 compared with the 10-year average of 380,000 hectares. Sugar yields are expected to increase slightly assuming average rains through to the harvesting season. Planted and harvested areas for sugarcane are typically comparatively stable as growers have significant sunken costs in the form of farm machinery, such as sugar cane harvesters, which cannot easily be used for other crops.

## Consumption

One fifth of raw sugar produced in Australia for domestic consumption 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. NSW production is sold mainly 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.

Sugar consumption in Australia appears to have been declined over the last decade. 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 has been disputed by consumer health groups because a number of foods and beverages were not included in the survey. However, the Australian Government's [Australian Health Survey](#) (2012) found that total sugar consumption appears to be

decreasing. The survey found that sugars (natural and added) were consumed in fruit (providing 16 percent of sugars), soft drinks and flavored mineral waters (9.7 percent), dairy milk (8.1 percent), fruit and vegetable juices and drinks (7.5 percent), sugar, honey and syrups (6.5 percent) and cakes and desserts (5.8 percent). Sugar products and dishes were consumed by half of the population at some time by respondents during the survey period.

### **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. Many sugar mills in Queensland have continued to export their sugar through the grower-owned company, while in NSW white and raw sugar is largely sold onto the domestic market.

Significant changes to the traditional milling, marketing and pooling arrangements for Australian sugar may occur in the future. Global agribusiness company Wilmar acquired Sucrogen in 2010 (previously CSR) and announced in 2014 that it would sever marketing links with QSL when current contracts expire in 2017. Wilmar intends to establish its own marketing arm for the two million tonnes of sugar it mills, from around 3,000 cane farmers in the State. Wilmar owns and operates eight sugar mills in Queensland which crush about 15 million tonnes of cane, producing around two million tonnes of raw sugar for export annually, representing three quarters of Australian sugar refining and up to 60 percent of Australia's total raw sugar exports.

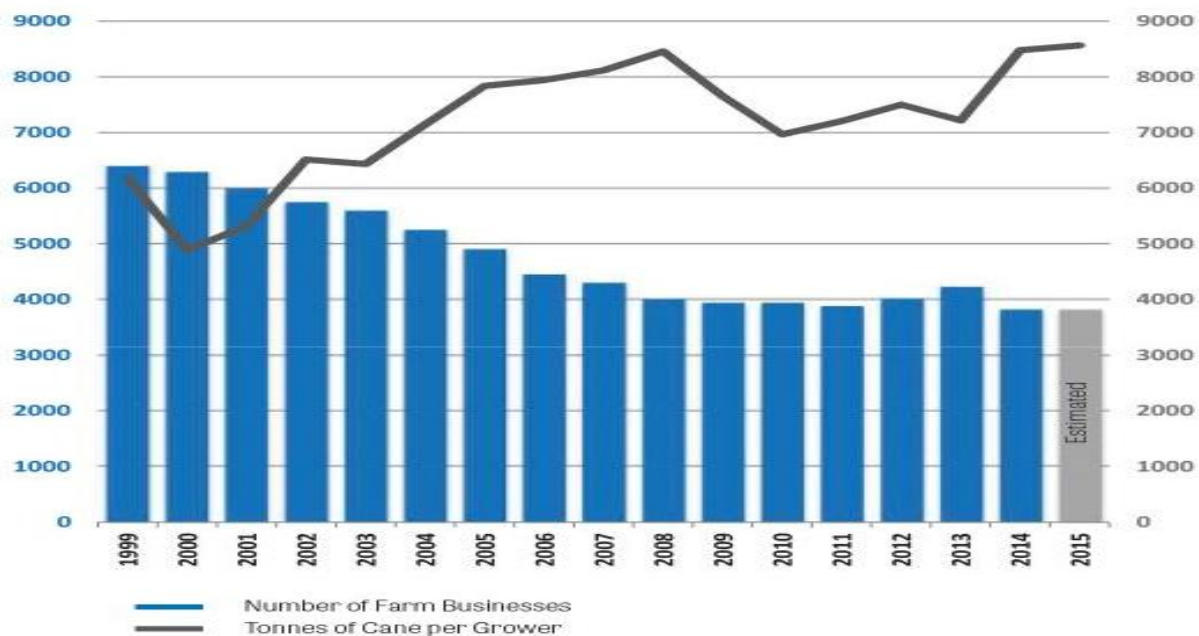
**Table 1: Australian sugar cane and sugar production by region, 2013 and 2014**

Region	Sugar cane (‘000 tonnes)		Centrifugal Sugar (‘000 tonnes)		Area of sugar cane crop (ha)	
	2013	2014	2013	2014	2013	2014
Mossman	587	1,141	74	145	7,580	13,069
Tableland	850	330	117	38	7,865	3,682
Mulgrave	1,343	1,244	176	161	14,675	15,576
Innisfall	1,445	1,483	180	196	17,279	22,119
Tully	2,336	2,437	306	324	26,122	27,746
Burdekin	7,293	8,061	1,091	1,215	71,402	71,163
Prosperine	1,632	1,701	242	256	21,038	21,814
MacKay	5,016	5,489	754	783	69,867	68,967
Plane Creek	1,215	1,366	184	196	16,556	16,922
Bundaberg	1,503	1,565	223	230	20,927	20,013
Isis	1,164	1,164	174	171	15,239	15,319
Maryborough	608	474	90	64	10,070	8,304
Rocky Point	232	209	34	29	3,568	2,850
Condong	321	537	38	55	4,188	4,541
Broadwater	558	585	67	73	6,082	6,059
Harwood	422	422	53	51	4,590	3,860
NSW Total	1,302	1544	157	179	14,860	14,460
Queensland Total	29,224	30,817	4,207	4,368	356,206	363,343
Australia Total	30,526	32,361	4,364	4,547	371,066	377,803

Note: Regional statistics of production for 2015 are not yet available.

Source: Cane Growers Australia (2015).

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



Source: Canegrowers Australia (2015).

In mid-2015, the Australian Senate released a report on current and future arrangements for the marketing of sugar ([link](#)). The inquiry considered the competitive market for sugar milling and found that ninety percent of sugar cane farmers were tied to their local mill due to the high cost of transporting cane to an alternative mill. The final Senate report therefore called for a marketing code to be agreed by the sugar industry while sugar millers said that marketing arrangements in the industry should not be regulated.

## Trade

Australia is the third largest sugar exporter in the world and normally exports sugar to East Asia, China, Indonesia, Japan, Korea, Malaysia, Taiwan, the United States and New Zealand. Australia has the capacity to store over two million tonnes of sugar in a network of bulk port terminals, which allows it to supply customers throughout the year. In 2015/16, sugar exports are expected to reach 3.65 million tonnes, up slightly on the previous year. Details of Australian sugar exports by country to June 2014 are given in the table below. Indonesia is the largest market for sugar exports by volume, followed by South Korea and Japan. Recent data on exports by country is unavailable due to confidentiality provisions but is released after 6 months.

Japan is Australia's third largest export market for sugar. In 2014, Australia and Japan agreed to an [Economic Partnership Agreement \(EPA\)](#) which eliminated the 21.5 yen/kilogram tariff on high polarity raw sugar and reduced a levy on this form of sugar. As a result, Australian exports of high polarity raw sugar cargo to Japan commenced in 2015 and are expected to expand further in the future. Australian producers are now able to sell the same standard of raw sugar to Japan as they export to other markets.

Under the [Australia-Korea Free Trade Agreement \(KAFTA\)](#), signed in April 2014, Korea agreed to eliminate the existing three percent tariff on raw sugar. This change put Australian producers on an equal footing with exporters in Thailand. Korea's existing 35 percent tariff on refined sugar will be phased out over 18 years to 2031. A tariff of three percent on molasses is to be eliminated over five years.

**Table 2: Australian sugar exports by country, 2010-2014 ('000 MT)**

	2011	2012	2013	2014
<b>South Korea</b>	790	878	983	671
<b>Indonesia</b>	577	502	655	1,063
<b>Japan</b>	343	344	431	552
<b>Malaysia</b>	341	190	331	226
<b>New Zealand</b>	157	171	227	78
<b>USA</b>	106	157	88	63
<b>Taiwan</b>	108	68	68	120
<b>Other countries</b>	55	38	2	115
<b>Total raw sugar</b>	2,477	2,348	2,785	2,888
<b>Refined/white sugar</b>	258	224	219	220
<b>Total</b>	2,735	2,572	3,004	3,108

Note: Financial years from July to June.

Source: Australian Bureau of Statistics and Post estimates.



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 as the size of this market increases.

### **Australia and the United States' Sugar Quota**

Imports of sugar into the United States are governed by tariff-rate quotas (TRQs), which allow a certain quantity of sugar to enter the country under a low tariff. TRQs apply to imports of raw cane sugar, refined sugar, sugar syrups, specialty sugars and sugar-containing products. Import restrictions are intended to meet U.S. commitments under the North American Free Trade Agreement (NAFTA) and the Uruguay Round Agreement on Agriculture.

The U.S. Department of Agriculture (USDA) establishes the annual quota volumes for each fiscal year beginning October 1 and the U.S. Trade Representative allocates the TRQs among countries. Sugar and related products paying a higher, over-quota tariff may enter the country in unlimited quantities. The in-quota quantity for the tariff quota on sugar for FY 2015 is 1.1 million metric tons raw value. Australia received an allocation of 87,402 metric tonnes raw value under for the 2015/16 year and supplies additional sugar to the US market when other countries are unable to fill their quota.

### **Production of Biofuels and Bioenergy from Sugar**

Currently the third largest Australian biofuels producer at Sarina, Queensland uses molasses from sugar and has a capacity of 60 million liters of ethanol. The use of lower cost residue feedstock from sugar refining can lower overall costs compared to commercially sold feedstocks. Actual production of ethanol manufactured from sugar is below capacity. In mid-2015, the Queensland government announced it intended to introduce a two percent biofuels mandate in that State to develop biofuels and bio manufacturing sectors. The State government is currently evaluating the impact of the mandate.

Australia's bioenergy industry generates energy from biomass resources including bagasse from sugarcane. Bioenergy for electricity and heat generation is produced predominantly from by-products of sugar production and waste streams. However, there are few detailed official statistics on the use of biomass for heat and power generation in Australia.



## Production, Supply and Demand Data Statistics:

<b>Sugar Cane for Centrifugal</b>	<b>2013/2014</b>		<b>2014/2015</b>		<b>2015/2016</b>	
<b>Market Begin Year</b>	<b>Jul 2013</b>		<b>Jul 2014</b>		<b>Jul 2015</b>	
<b>Australia</b>	<b>USDA Official</b>	<b>New post</b>	<b>USDA Official</b>	<b>New post</b>	<b>USDA Official</b>	<b>New post</b>
<b>Area Planted</b>	0	0	0	0	0	0
<b>Area Harvested</b>	381	381	381	381	390	390
<b>Production</b>	32,100	32,100	32,000	32,000	32,500	33,000
<b>Total Supply</b>	32,100	32,100	32,000	32,000	32,500	33,000
<b>Utilization for Sugar</b>	32,100	32,100	32,000	32,000	32,500	33,000
<b>Utilizatn for Alcohol</b>	0	0	0	0	0	0
<b>Total Utilization</b>	32,100	32,100	32,000	32,000	32,500	33,000

1000 HA, 1000 MT

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

<b>Sugar, Centrifugal</b>	<b>2013/2014</b>		<b>2014/2015</b>		<b>2015/2016</b>	
<b>Market Begin Year</b>	<b>Jul 2013</b>		<b>Jul 2014</b>		<b>Jul 2015</b>	
<b>Australia</b>	<b>USDA Official</b>	<b>New post</b>	<b>USDA Official</b>	<b>New post</b>	<b>USDA Official</b>	<b>New post</b>
<b>Beginning Stocks</b>	83	83	111	111	140	140
<b>Beet Sugar Production</b>	0	0	0	0	0	0
<b>Cane Sugar Production</b>	4,380	4,380	4,700	4,700	4,800	5,000
<b>Total Sugar Production</b>	4,380	4,380	4,700	4,700	4,800	5,000
<b>Raw Imports</b>	30	30	30	30	30	30
<b>Refined Imp.(Raw Val)</b>	60	60	60	60	60	60
<b>Total Imports</b>	90	90	90	90	90	90
<b>Total Supply</b>	4,553	4,553	4,901	4,901	5,030	5,230
<b>Raw Exports</b>	3,052	3,052	3,361	3,361	3,450	3,450
<b>Refined Exp.(Raw Val)</b>	190	190	200	200	200	200
<b>Total Exports</b>	3,242	3,242	3,561	3,561	3,650	3,650
<b>Human Dom. Consumption</b>	1,200	1,200	1,200	1,200	1,200	1,200
<b>Other Disappearance</b>	0	0	0	0	0	0
<b>Total Use</b>	1,200	1,200	1,200	1,200	1,200	1,200

<b>Ending Stocks</b>	111	111	140	140	180	380
<b>Total Distribution</b>	4,553	4,553	4,901	4,901	5,030	5,230
1000 MT						

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