Sugar

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- World sugar prices are forecast to decline in 2014–15, reflecting record high world stocks.
- World sugar exports are expected to decline in 2014–15, largely reflecting forecast lower production in Brazil, the world's largest exporter.
- Australian sugar production is forecast to recover in 2014–15, following lower than average yields in 2013–14 because of flooding in early 2013 and the spread of canopy syndrome disease in the Bundaberg and Isis regions.

World sugar prices to remain firm in 2014–15

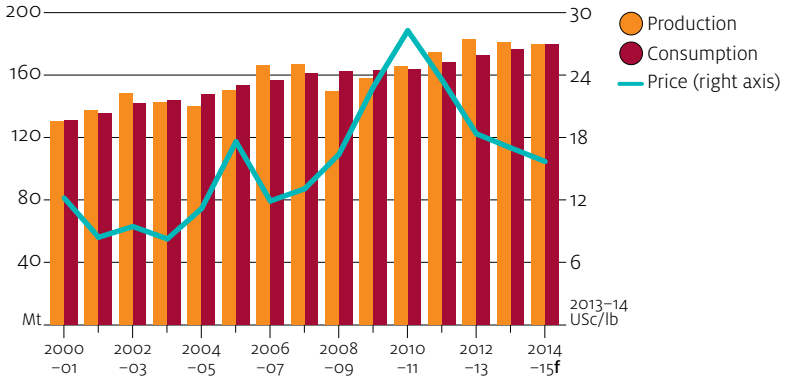
The world indicator price for raw sugar (Intercontinental Exchange, nearby futures, no. 11 contract) is forecast to average US16 cents a pound in 2014–15 (October to September), around 6 per cent lower than in 2013–14. This forecast reflects world stocks reaching a record high of almost 81 million tonnes in 2014–15, despite forecast higher world consumption and lower production. If realised, the forecast price will be the lowest in seven years but remain well above the average of US11 cents a pound (in 2013–14 dollars) for the 10 years to 2007–08.

In 2013–14 the world indicator price for raw sugar is estimated to be US17 cents a pound, compared with US18 cents a pound in 2012–13.

Indicator price, Intercontinental Exchange (daily, ended 10 June 2014)



World sugar indicators

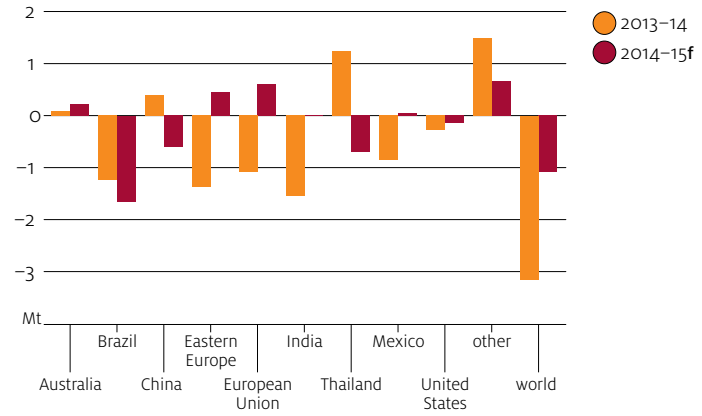


f ABARES forecast.

World sugar production to remain high

World sugar production is forecast at 180.2 million tonnes in 2014–15, around 1.1 million tonnes lower than in 2013–14. The forecast decline largely reflects an assumed fall in world sugar yields, particularly in Brazil, Thailand and China, following above average yields in 2013–14. Partially offsetting the effect of this decline, higher sugar beet and sugar cane production is forecast for Europe and Australia.

Forecast changes in world sugar production, by country

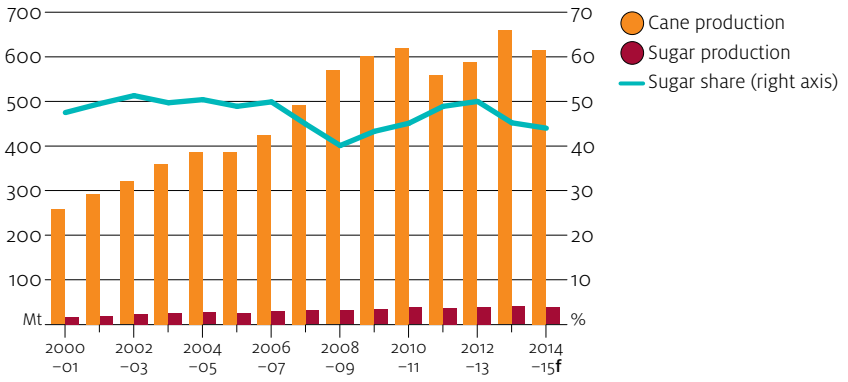


f ABARES forecast.

Sugar production in Brazil is forecast to decline by around 1.7 million tonnes in 2014–15 (October to September) to 38 million tonnes. The forecast fall largely reflects assumed lower sugar yields as a result of drought in Brazil's Centre South region at the start of the 2014–15 (April to March) season. The region produces around 90 per cent of Brazil's sugar cane.

In 2014–15, 615 million tonnes of cane in Brazil is forecast to be crushed for use in sugar and ethanol production. Futures prices suggest more favourable returns to ethanol production. This reflects the Brazilian Government's intention to raise the blend rate of anhydrous ethanol in gasoline by 2.5 percentage points to 27.5 per cent, starting from 1 July 2014. As a result, the proportion of sugar cane to be used to produce sugar is forecast to decline in 2014–15 by 1 percentage point to 44 per cent.

Sugar cane production and allocation, Brazil



f ABARES forecast.

In China, sugar production is forecast to decline by around 4 per cent in 2014–15 to 14 million tonnes. This largely reflects an estimated 3 per cent decline in cane area harvested, in response to lower Chinese domestic sugar prices and assumed lower sugar yields. Chinese farmers are expected to move from cane and sugar beet production to alternative crops (such as cassava, vegetables and rice) because of expected better returns.

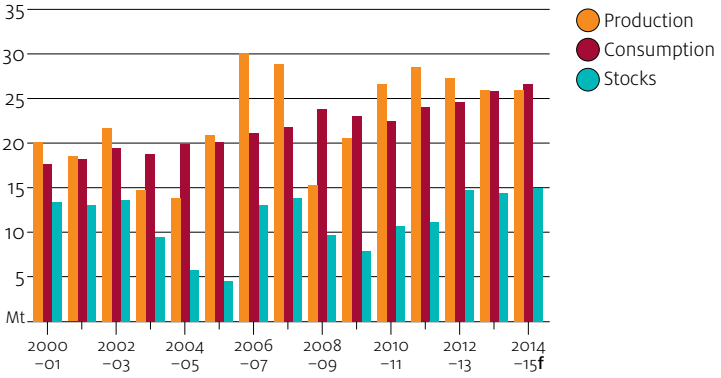
Sugar production in Thailand is forecast at 10.9 million tonnes in 2014–15, 6 per cent lower than the record 11.6 million tonnes in 2013–14. This reflects an assumed lower average yield and a 5 per cent fall in cane planting in response to forecast lower world sugar prices. Average yield could be even lower than assumed if El Niño conditions eventuate and lead to reduced rainfall in Thailand.

In India, sugar production is forecast to remain largely unchanged in 2014–15 at 26 million tonnes. The average sugar yield is assumed to increase by around 2 per cent, reflecting the effects of well above average rainfall during the 2013 monsoon. In contrast, the area of cane harvested is forecast to decline by around 2 per cent. Indian farmers are expected to move from sugar cane to more profitable alternatives, such as rice, vegetables, grain sorghum and mint. The Indian Government considers sugar production important for the nation's food security and pursues policies to regulate sugar supply and consumption (see box).

Indian sugar industry

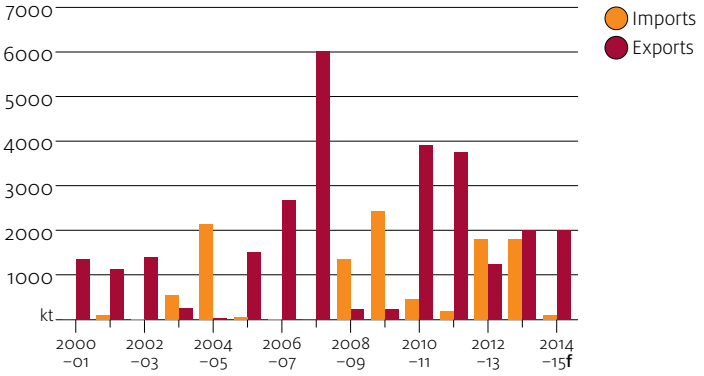
India is the world's second largest producer and largest consumer of sugar. India accounted for 14 per cent of world sugar production and consumption in the 10 years to 2012–13. Sugar production and consumption grew over this period by 7 per cent and around 3 per cent a year to reach 27.3 million tonnes and 24.6 million tonnes respectively in 2012–13. Rainfall during the annual monsoon is crucial for the success of each year's sugar crop. In India, the pattern of sugar cane and sugar production has been a few years of higher production followed by a few years of lower production. India often switches between being a net exporter and a net importer of sugar. Wheat and rice are the main crops that compete with sugar cane for land.

Sugar indicators, India



f ABARES forecast.

India sugar trade



f ABARES forecast.

In India, sugar cane production and processing employ more than 50 million cane farmers and 500 000 sugar mill workers. The sugar industry is the second largest processing industry in India and a driver of rural development, contributing around 1 per cent a year to India's gross domestic product.

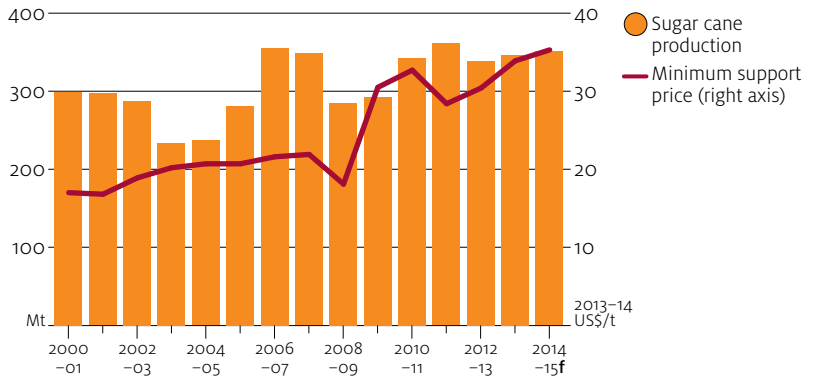
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Indian sugar industry continued

As a major producer and consumer of sugar, India's policies can have a significant influence on world sugar prices. The Indian Government pursues policies to ensure affordable sugar prices for domestic consumers while providing adequate returns to Indian cane producers and sugar mills. The government also maintains sugar buffer stocks, with a minimum holding equivalent to four months of consumption. These policies have resulted in a highly regulated domestic industry, with tight controls over sugar trade and rules on the distance between sugar mills, the specific region from which a particular mill can buy cane and the price it must pay.

The government supports sugar cane production in India by setting a minimum price (known as the fair and remunerative price) for sugar cane. In some states, this price is supplemented by additional direct payments from state governments. For the 2014–15 season, the government announced an increase in the minimum price to around US$35 a tonne, from around US$33 a tonne in 2013–14.

Minimum support price for sugar cane, India



f ABARES forecast.

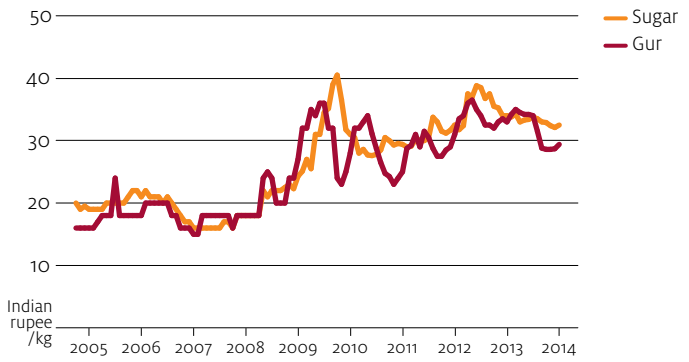
The Indian Government exerts influence on domestic sugar prices. For example, when Indian sugar production reached a record high in 2007–08, the government introduced subsidies for the transport of sugar to Indian ports to encourage sugar exports. When prices have rapidly increased, the government has responded by releasing supplies from sugar buffer stocks, removing duty payments on sugar imports and prohibiting excessive stockholding by private agents.

The applied tariff on sugar imports is 15 per cent but this rate can be adjusted (up to the bound rate of 150 per cent) in response to domestic production. Under the Open General Licence that came into effect in May 2012, sugar imports were allowed without restrictions, subject to registration with the Directorate General of Foreign Trade and payment of import duty. Since then, sugar imports have put downward pressure on domestic prices. This has made domestic sugar milling less profitable, with sugar millers unable to clear cane arrears to farmers estimated at around 90 million rupees (or around US$1.5 million).

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Indian sugar industry continued

Sugar and gur prices, Delhi market



The Indian Government decides how much sugar India exports in a particular year, taking into account domestic sugar prices. India has relatively large sugar stocks, resulting from production exceeding consumption from 2010–11 to 2013–14. As a consequence, the Indian Government has approved tax incentives to promote sugar exports in 2013–14 and 2014–15. An export subsidy of 3333 rupees (around US$54) a tonne was fixed for raw sugar exports in February and March 2014 and 2277 rupees (around US$38) a tonne in April and May 2014. The subsidy amount for the remaining four months of the 2013–14 season was fixed at 3300 rupees (around US$55) a tonne. In addition to reducing stocks, the government aims to infuse capital into the sugar industry, help struggling millers clear their debts to cane farmers and promote the country's total sugar export within two years to 4 million tonnes.

In the United States, sugar production is forecast at 7.7 million tonnes in 2014–15, largely unchanged from 2013–14. An estimated decline in sugar beet planting is expected to be largely offset by an assumed 2 per cent increase in average sugar yield.

Mexican sugar production is forecast at 6.1 million tonnes in 2014–15, largely unchanged from 2013–14. This forecast is based on an expected 2 per cent increase in cane area harvested offset by assumed lower yields, reflecting dry planting conditions.

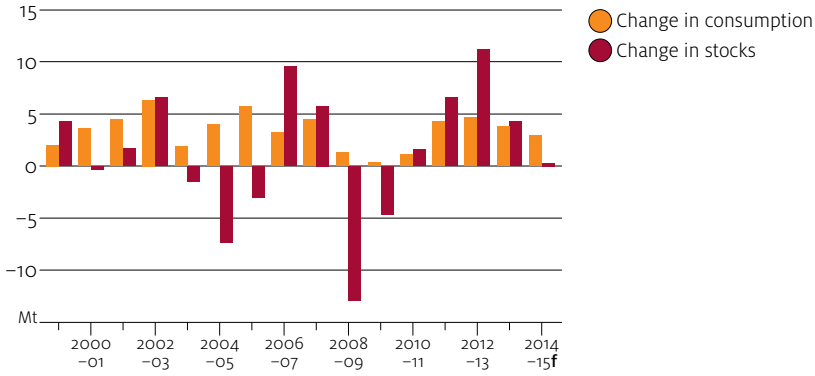
Sugar production in the European Union is forecast to increase by 3 per cent in 2014–15 to 17.1 million tonnes, largely reflecting an expected increase in sugar beet planting in Germany. Sugar beet area in other EU countries is expected to remain relatively unchanged in 2014–15 in order to avoid the building of sugar stocks before the EU quota system ends in 2017.

Sugar production in Europe, excluding the European Union, is forecast to increase by around 5 per cent in 2014–15 to 8 million tonnes. While sugar production in the Russian Federation is forecast to be largely unchanged at 4.6 million tonnes in 2014–15, production in Ukraine is forecast to increase by 30 per cent to 1.8 million tonnes. The forecast increase in Ukraine reflects a combination of a 6 per cent rise in sugar beet plantings and an assumed 24 per cent rise in average yield.

World sugar consumption higher in 2014–15

World sugar consumption is forecast to rise by around 2 per cent in 2014–15 to almost 180 million tonnes, reflecting expected growth in world population and incomes, particularly in China, India and Brazil. Despite forecast lower world sugar prices in 2014–15, alternative sweeteners are expected to constrain growth in sugar consumption.

Changes in world sugar consumption and stocks



f ABARES forecast.

World sugar trade lower in 2014–15

World sugar exports are forecast at 56.2 million tonnes in 2014–15, around 2 per cent lower than in 2013–14. The forecast decline largely reflects lower production in Brazil, which is expected to reduce sugar supplies available for export.

Based on forecast lower sugar production, Brazilian sugar exports are expected to decline by 7 per cent in 2014–15 to 25.6 million tonnes.

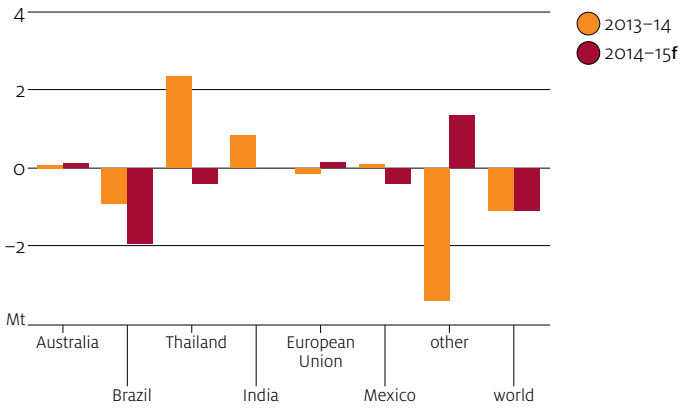
Thailand's sugar exports are forecast at 8.6 million tonnes in 2014–15, 400 000 tonnes lower than the record exports of 2013–14. Despite a forecast 7 per cent decline in sugar production, relatively large carry-over stocks, following record production in 2013–14, are expected to support Thai exports.

Sugar imports by the United States are forecast to decline by 7 per cent in 2014–15 to 2.8 million tonnes. Despite its relatively large domestic sugar stocks, the United States is expected to import the minimum tariff-free sugar import quota specified under its World Trade Organization obligations (1.1 million tonnes) and a further 1.7 million tonnes under other free trade agreements, particularly the North American Free Trade Agreement.

Mexico's sugar exports are forecast to be around 1.9 million tonnes in 2014–15, compared with 2.3 million tonnes in 2013–14. The forecast decline is driven by the expected reduction in imports by the United States.

Sugar imports by the Russian Federation are forecast to remain largely unchanged at 1.1 million tonnes in 2014–15.

Forecast changes in world sugar exports, by country

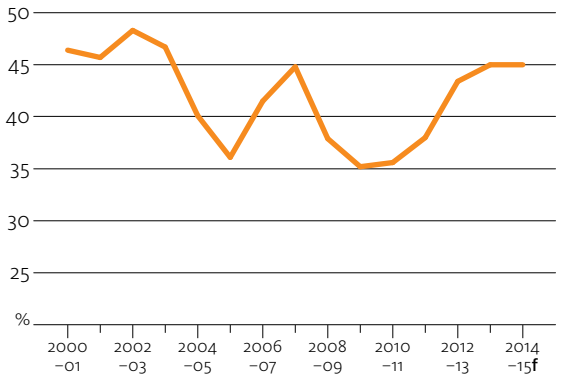


f ABARES forecast.

Record world sugar stocks in 2014–15

World closing stocks of sugar are forecast to increase slightly in 2014–15 to a record 80.5 million tonnes. The world stocks-to-use ratio is forecast to remain relatively unchanged at 45 per cent.

World stocks-to-use ratio for sugar



f ABARES forecast.

Modest growth in Australian sugar production in 2014–15

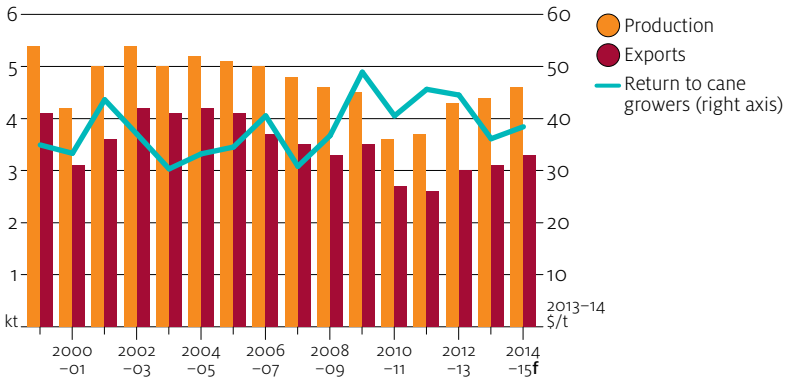
In Australia, sugar production is forecast at 4.6 million tonnes in 2014–15, compared with around 4.4 million tonnes in 2013–14. This forecast rise reflects an expected recovery in average yield and a forecast 1.6 per cent increase in the area harvested. In 2013–14 sugar yields were lower as a result of flooding in early 2013 and the spread of canopy syndrome disease in the Bundaberg and Isis regions.

Queensland Sugar Limited (the marketer of more than 90 per cent of Australia's raw sugar exports) forecasts its gross harvest pool return in 2014–15 to be $431 a tonne International Polarity Scale (IPS), 12.5 per cent higher than in 2013–14 but lower than the record of $518 a tonne IPS in 2011–12.

The average mill-gate return to Australian cane growers is forecast at $38 a tonne in 2014–15, around 7 per cent higher than in 2013–14. This forecast is based on an expected increase of the harvest pool return and an assumed higher average sugar cane yield in 2014–15.

Australian sugar exports are forecast to increase by around 6 per cent in 2014–15 to 3.3 million tonnes, driven by forecast higher production. Despite the forecast decline in world sugar prices, the value of Australian sugar exports is forecast to rise to $1.4 billion in 2014–15, largely reflecting the expected increase in export volume.

Australian sugar production, exports and returns to cane growers



f ABARES forecast.

Outlook for sugar

	unit	2012–13	2013–14 f	2014–15 f	*% change*
World a					
Production	Mt	184.2	181.0	179.9	*–0.6*
– Brazil	Mt	40.9	39.7	38.0	*–4.3*
Consumption	Mt	172.9	176.7	179.6	*1.6*
Exports	Mt	58.4	57.3	56.2	*–1.9*
Closing stocks	Mt	75.8	80.1	80.5	*0.5*
Stocks-to-use ratio	%	44	45	45	*–1.3*
Price	USc/lb	18.0	17.0	16.0	*–5.9*
Australia b					
Area	’000 ha	371	375	381	*1.6*
Production **c**	kt	4 300	4 380	4 600	*5.0*
Exports	kt	3 004	3 107	3 278	*5.5*
– value	A$m	1 437	1 360	1 425	*4.8*

a October–September years. **b** July–June years. **c** Raw tonnes actual. **f** ABARES forecast.
Sources: ABARES; Australian Bureau of Statistics; International Sugar Organization