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Australia

Sugar Annual

2015

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Report Highlights:
Australian sugar production is projected to reach 4.8 million tonnes in 2015/16 assuming that average seasonal conditions prevail. The sugar industry has suffered from a series of adverse weather events such as cyclones, flooding and drought, but in recent years has recovered by expanding the harvest area, expected production and sugar yields. The wet season for 2015 has provided below average rainfall, but climate forecasts indicate a turnaround through to mid-year. Free trade agreements signed in 2014 have increased overseas market access for the industry.

Commodities:

Sugar Cane for Centrifugal

Sugar, Centrifugal

Overview

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 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 24 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.

Seasonal Outlook

Sugarcane is grown in high-rainfall and irrigated districts areas along coastal plains and river valleys on 2100 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, but a drier than average period has occurred from March. Some cane growers in north Queensland have received less than half their average rainfall this year. However, the Australian Bureau of Meteorology has forecast above average rainfall and warm conditions for Queensland over the three months to end-June 2015 before the harvesting season (see charts 1 and 2).

Water Storage and Irrigation

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 higher than average rainfall for the three months to June before harvesting begins.

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 (see Table 1). 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. Latest available data on irrigation of the Australian sugar crop is given for 2012-13 in Table 2.

Table 1: Selected water storages for the Australian sugar industry, 2013-2015 (Megaliters)

Dam	Region	Full Capacity	Actual Capacity (%)	
		(ML)	2014 April	2015 April
Fairbairn	Emerald	1,289	54	55
Beardmore	Emerald	80	100	94
Leslie	Darling Downs	106	39	27
Burdekin Falls	Burdekin	1,852	88	100

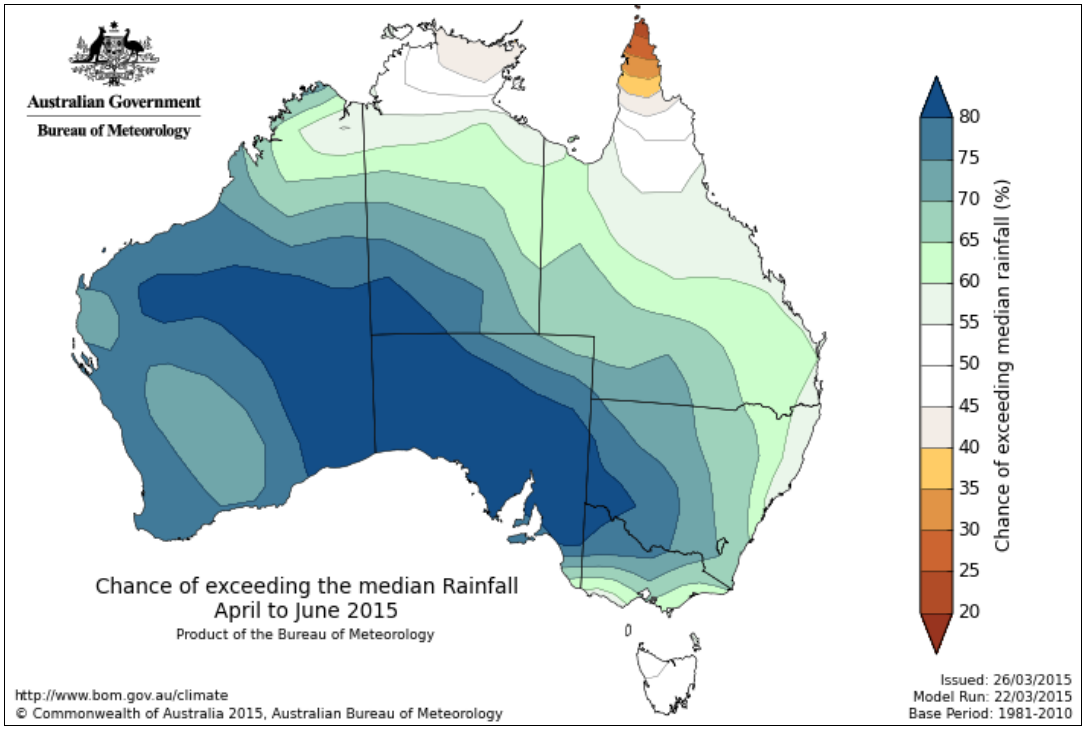
Note: The assessment of water in storage does not include water in private storage.
Source: Murray Darling Basin Authority and Post estimates.

Table 2: Survey of water usage on Australian sugar farms, 2012-13 (latest available)

	Australia	NSW	Queensland
Area of sugar crop ('000 hectares)	372	19	353
Number of businesses	3,694	458	3,236
Water watered ('000 hectares)	170	..	170
Number of businesses	1,679	..	1,652
Water volume applied (ML)	716	..	716
Number of businesses	1,679	..	1,652
Application rate (ML/hectare)	4.2	..	4.2

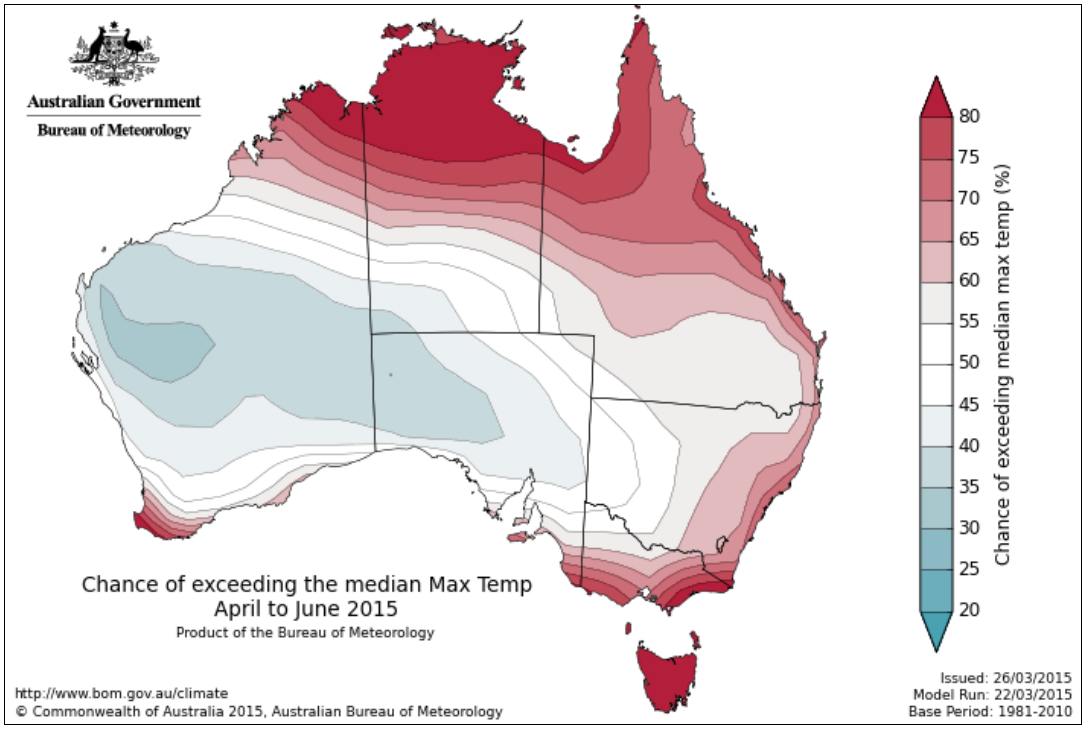
Source: Australian Bureau of Statistics (2015).

Chart 1: Chance of exceeding the median rainfall, April to June 2015



Source: Bureau of Meteorology

Chart 2: Chance of exceeding the median maximum temperature, April to June 2015



Source: Bureau of Meteorology

Production

Australian sugar production is expected to reach 4.8 million tonnes in 2015/16 due to an increase in the area planted and a lift in sugar cane yields. This estimate is slightly below official projections because of the continuation of seasonal uncertainties such as a below average wet season to the beginning of April 2015. 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 to 84 tonnes per hectare because of favorable seasonal conditions during the planting window and assuming average rains through to the harvesting season. Details of sugar cane and sugar production by region in 2013 are given in Table 3 below.

Table 3: Australian sugar cane and sugar production by region, 2013

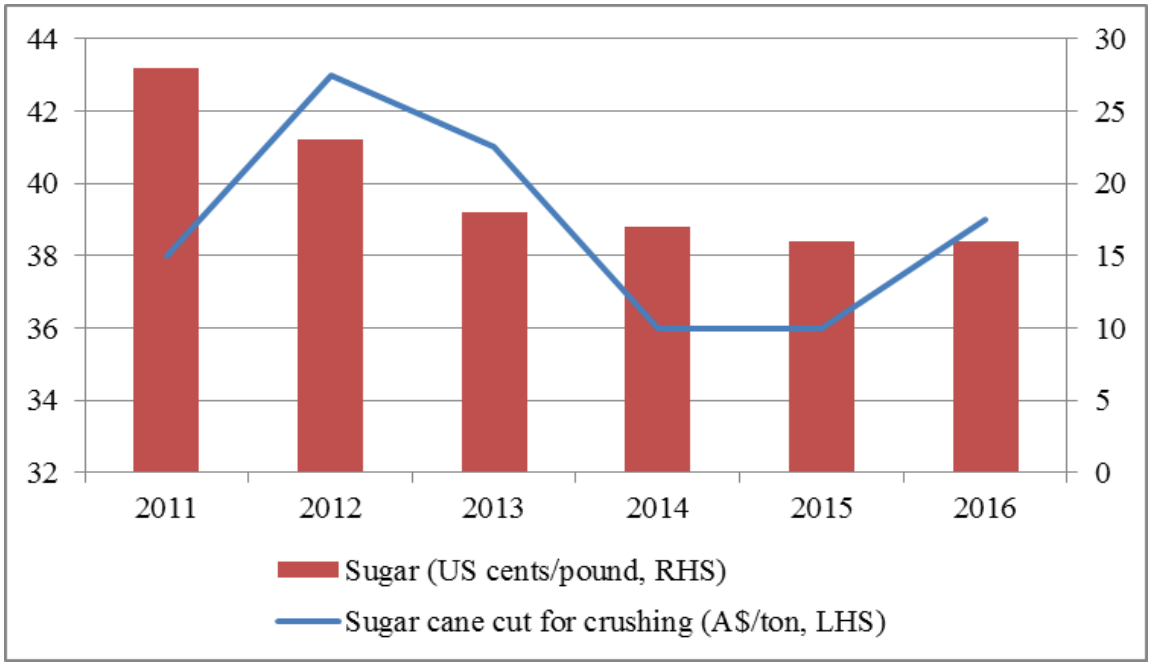
Region	Sugar cane ('000 tonnes)		Centrifugal Sugar ('000 tonnes)		Area of sugar cane crop ('000 ha)	
Mossman	509	587	64	74	7.1	7.6
Tableland	745	850	110	117	7.2	7.7
Mulgrave	1,149	1,343	139	176	11.9	14.7
Innisfall	1,276	1,445	239	180	18.2	17.3
Tully	177	2,336	228	306	23.9	26.1
Burdekin	7,479	7,293	1,085	1,091	71.2	71.4
Prosperine	1,611	1.632	228	242	20.3	21.0
MacKay	5,617	5,016	825	754	69.7	69.9
Plane Creek	1,221	1,215	176	184	16.2	16.6
Bundaberg	1,817	1,503	266	223	20.4	20.9
Isis	1,505	1,164	224	174	15.7	15.2
Maryborough	665	608	98	90	10.2	10.1
Rocky Point	232	232	35	34	3.5	3.6
Condong	302	321	36	38	4.3	4.2
Broadwater	377	558	45	67	4.3	6.1
Harwood	237	422	27	53	2.9	4.6
NSW Total	915	1,302	108	157	11.5	14.9
Queensland Total	29,225	29,098	4,097	4,207	345.9	356.2
Australia Total	30,140	30,400	4,205	4,364	357.4	371.1

Note: Regional statistics of production for 2014 are not yet available.

Source: Cane Growers Australia (2015) and Post estimates.

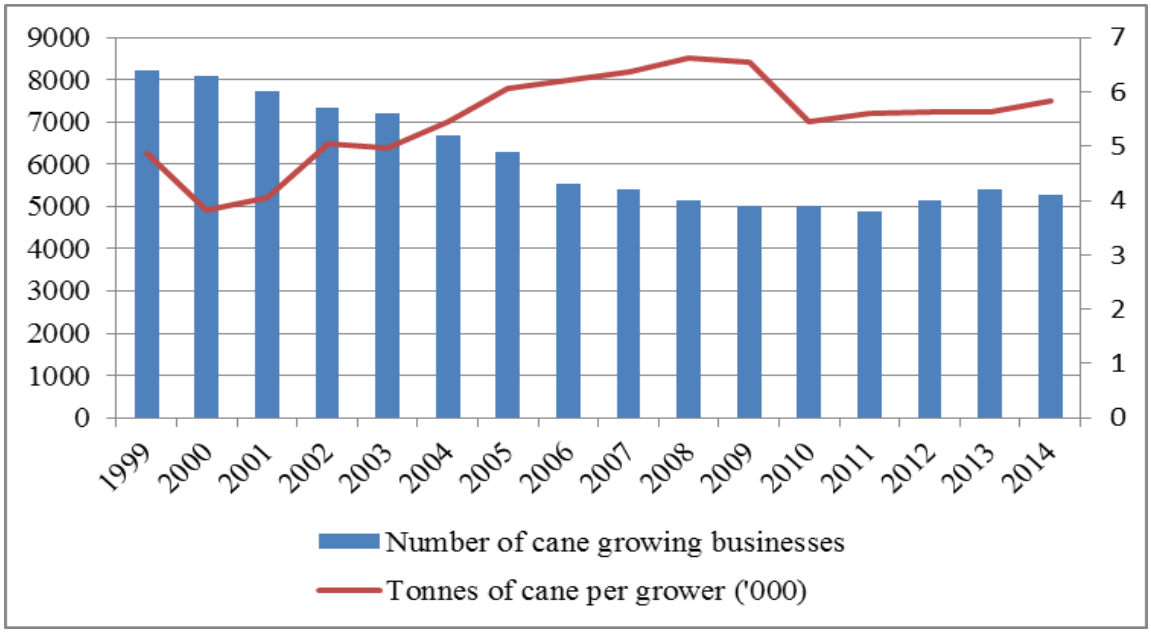
The forecast for Australian cane sugar and sugar production in 2015/16 assumes that seasonal factors are favorable. Australian growers are expected to increase production and exports as their exposure to the significant decline in the world sugar price has been mostly offset by the depreciation of the Australian dollar. Further, cane production is typically stable as growers have significant sunken costs in the form of farm machinery, such as sugar cane harvesters, which often cannot be used for other 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.

Chart 3: Sugar cane and sugar prices, 2011-2015



Note: Financial years from July to June.
Source: ABARES and Post estimates.

Chart 4: Increasing productivity in the Australian can growing industry, 1999-2014



Source: Canegrowers Australia (2015).

Consumption

Over 70 per cent of Australian sugar is exported and the rest is consumed domestically. Domestic sugar consumption has been static over the last decade. 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. Raw sugar produced in Australia for domestic consumption is refined locally and processed into white sugar, liquid sugar products and other specialty products such as golden syrup, treacle, coffee sugar, cubed sugar and rum. Sugar production in NSW is sold on the domestic market.

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.

The Australian Governments Australian Health Survey indicates that total sugar consumption is decreasing in Australia. The survey found that in 2012, the major source of total sugars (natural and added) in Australian diets were: 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.

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.

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 April 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 75 percent of Australian sugar refining and up to 60 percent of Australia's total raw sugar exports.

Currently, there is an Australian Senate inquiry into the marketing of sugarcane and sugar which is concerned with the impact of possible changes from 2018 (see link). The inquiry is also

concerned with the competitive market for sugar milling as 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.

Trade

In 2015/16, sugar exports are expected to reach 3.65 million tonnes, up slightly from 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. More recent data on exports by country are unavailable due to confidentiality provisions but are released publicly after a lag of 6 months.

Table 4: Australian sugar exports by country, 2010-2014 ('000 metric tons)

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

Note: Financial years from July to June.
Source: Australian Bureau of Statistics and Post estimates.

In April 2014, Australia and Japan agreed to an Economic Partnership Agreement (EPA) which eliminated the 21.5 yen/kilogram tariff on high polarity raw sugar. Exports of high polarity raw sugar cargo to Japan commenced in 2015.

Under the Australia-Korea Free Trade Agreement (KAFTA), signed in April 2014, Korea agreed to eliminate the existing three per cent tariff on raw sugar. This change put Australian producers on an equal footing with exporters in Thailand. Korea's existing 35 per cent tariff on refined sugar will be phased out over 18 years to 2031. A tariff of 3 per cent on molasses is to be eliminated over five years.

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.

Production, Supply and Demand Data Statistics:

Sugar Cane for Centrifugal	2013/2014		2014/2015		2015/2016	
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	0
Area Harvested	375	381	385	381	0	390
Production	30,500	32,100	32,000	32,000	0	32,500
Total Supply	30,500	32,100	32,000	32,000	0	32,500
Utilization for Sugar	30,500	32,100	32,000	32,000	0	32,500
Utilizatn for Alcohol	0	0	0	0	0	0
Total Utilization	30,500	32,100	32,000	32,000	0	32,500
1000 HA, 1000 MT						

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

Sugar, Centrifugal	2013/2014		2014/2015		2015/2016	
Market Begin Year	Jul 2013		Jul 2014		Jul 2016	
Australia	USDA Official	New post	USDA Official	New post	USDA Official	New post
Beginning Stocks	83	83	65	111	0	140
Beet Sugar Production	0	0	0	0	0	0
Cane Sugar Production	4,400	4,380	4,600	4,700	0	4,800
Total Sugar Production	4,400	4,380	4,600	4,700	0	4,800
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	4,573	4,553	4,755	4,901	0	5,030
Raw Exports	3,100	3,052	3,300	3,361	0	3,450
Refined Exp.(Raw Val)	190	190	200	200	0	200
Total Exports	3,290	3,242	3,500	3,561	0	3,650
Human Dom. Consumption	1,218	1,200	1,200	1,200	0	1,200
Other Disappearance	0	0	0	0	0	0
Total Use	1,218	1,200	1,200	1,200	0	1,200
Ending Stocks	65	111	55	140	0	180
Total Distribution	4,573	4,553	4,755	4,901	0	5,030
1000 MT						

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