



""

USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.08

Required Report - public distribution

Date: 10/20/2003**GAIN Report Number:** AS3039

Australia

Sugar

Semi-Annual

2003

Approved by:

Andrew C. Burst, Agricultural Counselor
U.S. Embassy

Prepared by:

Mike Darby, Agricultural Specialist

Report Highlights:

Widespread drought across much of the Australian continent adversely affected the outlook for Australia's sugar crop. Cane sugar production in marketing year 2003/04 (July-June) is forecast to decline around 5 percent. Sugar exports are forecast to decline in 2003/04. The Australian sugar industry remains in a state of financial hardship as prices have fallen to their lowest levels in nearly 20 years. There has been much public debate on sugar reform. However, little progress has actually been achieved to date in terms of industry reforms.

Includes PSD Changes: Yes
Includes Trade Matrix: No
Semi-Annual Report
Canberra [AS1]
[AS]

Table of Contents

SECTION I: SITUATION AND OUTLOOK..... 3
SECTION II: STATISTICAL TABLES 4
SECTION III: NARRATIVE ON SUPPLY, DEMAND, POLICY AND MARKETING..... 5
 Production..... 5
 Consumption 6
 Trade 6
 Stocks 6
 Policy..... 7
 Marketing 7

SECTION I: SITUATION AND OUTLOOK

Widespread drought across much of the Australian continent, including major sugar-producing areas in the State of Queensland, adversely affected the outlook for Australia's sugar crop. Cane sugar production in marketing year 2003/04 (July-June) is forecast to decline around five percent compared to the previous year. However, Commercial Cane Sugar (CCS) content is forecast at well above the five-year average and pushed forecast production a little higher than previously expected (see GAIN Report #AS3009, dated 4/11/03).

Sugar exports are forecast to decline in 2003/04, down eight percent on the historically high estimate for the previous year, due to the smaller crop. Malaysia, Japan and Korea remain Australia's top three export destinations, taking nearly two-thirds of Australia's sugar exports, with Canada the fourth largest export destination.

The Australian sugar industry remains in a state of financial hardship as prices have fallen to their lowest levels in nearly 20 years. Furthermore, pest and disease outbreaks reduced production in 2000/01 and 2001/02, while drought is expected to trim output in 2003/04.

Rainfall across much of Australia has returned to a more normal pattern. Major sugar producing areas in Queensland, however, have yet to experience a major break in the dry conditions.

There has been much public debate on sugar industry reform. The Federal and Queensland state governments have signed a memorandum of understanding, which outlines necessary industry reforms and compensation. However, little progress has actually been achieved to-date in terms of industry reform.

SECTION II: STATISTICAL TABLES

Australia Centrifugal Sugar							
	2002	Revised	2003	Estimate	2004	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		07/2001		07/2002		07/2003	MM/YYYY
Beginning Stocks	634	634	657	507	743	463	(1000 MT)
Beet Sugar Production	0	0	0	0	0	0	(1000 MT)
Cane Sugar Production	4662	4662	5350	5371	4900	5114	(1000 MT)
TOTAL Sugar Production	4662	4662	5350	5371	4900	5114	(1000 MT)
Raw Imports	3	3	3	3	3	3	(1000 MT)
Refined Imp.(Raw Val)	2	2	2	2	2	2	(1000 MT)
TOTAL Imports	5	5	5	5	5	5	(1000 MT)
TOTAL SUPPLY	5301	5301	6012	5883	5648	5582	(1000 MT)
Raw Exports	3499	3499	4081	4081	3830	3753	(1000 MT)
Refined Exp.(Raw Val)	95	95	138	139	95	140	(1000 MT)
TOTAL EXPORTS	3594	3594	4219	4220	3925	3893	(1000 MT)
Human Dom. Consumption	1050	1050	1050	1200	1050	1200	(1000 MT)
Other Disappearance	0	0	0	0	0	0	(1000 MT)
Total Disappearance	1050	1200	1050	1200	1050	1200	(1000 MT)
Ending Stocks	657	507	743	463	673	489	(1000 MT)
TOTAL DISTRIBUTION	5301	5301	6012	5883	5648	5582	(1000 MT)

Australia Sugar Cane for Centrifugal							
	2002	Revised	2003	Estimate	2004	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		07/2001		07/2002		07/2003	MM/YYYY
Area Planted	0	0	0	0	0	0	(1000 HA)
Area Harvested	417	417	423	423	415	415	(1000 HA)
Production	32496	32496	38062	38062	36280	36600	(1000 MT)
TOTAL SUPPLY	32496	32496	38062	38062	36280	36600	(1000 MT)
Utilization for Sugar	32436	32436	38002	38002	36220	36540	(1000 MT)
Utilizatr n for Alcohol	60	60	60	60	60	60	(1000 MT)
TOTAL UTILIZATION	32496	32496	38062	38062	36280	36600	(1000 MT)

SECTION III: NARRATIVE ON SUPPLY, DEMAND, POLICY AND MARKETING**Production**

Centrifugal Sugar: Cane sugar production for 2003/04 is forecast at 5.1 million metric tons (MMT), up slightly from the previous forecast (see GAIN Report #AS3009) and in line with the most recent figures from the Australian Bureau of Agricultural and Resource Economics (ABARE). A crop of this size would represent a five percent decline from estimated production in the previous year.

Widespread drought across much of the Australian continent from late 2001 into the first half of 2003 affected some cane-growing regions by reducing the cane crush. Industry sources report that a shortage in irrigation water supplies in some growing areas will likely constrain output in 2003/04. Post anticipates CCS content for 2003/04 at 13.7, well above the five-year average of 12.6 percent derived from ABARE's historical figures. While some regions in far north Queensland received excellent precipitation, the Mackay area (traditionally one of the largest producing areas) suffered from particularly severe drought. These dry conditions still persist in some key sugar producing areas.

Cane sugar production for 2002/03 is estimated at 5.37 MMT, up slightly on Post's previous forecast and in line with the most current ABARE figures. This is well short of a record crop, but represents a return to more normal production levels following the pest and disease outbreaks in 2000/01 and 2001/02.

Post estimates cane sugar production in 2001/02 at 4.66 MMT, unchanged from the previous estimate. This figure is in line with industry figures, but below ABARE's estimate of 4.99 MMT. According to Post's analysis, ABARE assumes a CCS level of 15.5 percent in 2001/02, an all time record. While industry and government sources agree that CCS was well above average in 2001/02, such a record raises doubts about the level of raw sugar production. Post estimates CCS content at 14.3 percent in 2001/02, largely derived from industry figures.

ABARE's long-term projections have Australia's sugar production increasing gradually to 5.85 MMT in 2007/08. ABARE expects this increase to be contingent upon the Australian industry continuing to enact various reforms, freedom from extreme weather conditions and continued improvements in cane yield.

About 95 percent of Australia's sugar output is typically produced along the east coast of the state of Queensland. The bulk of the remainder is produced in New South Wales, with a small quantity produced in Western Australia's Ord River region.

According to ABARE, Australia's largest sugar crop (since 1980/81) was produced in 1997/98 (5.6 MMT) and the smallest in 1991/92 (3.0 MMT).

Sugar Cane for Centrifugal: The 2003/04 cane harvest is forecast at 36.6 MMT, down four percent from the previous year. Widespread drought is responsible for the forecast decline in the cane harvest.

Post estimates the 2002/03 cane harvest at 38.1 MMT, unchanged from the previous estimate. The cane harvest figure for 2001/02 remains at 32.496 MMT, in line with industry figures and also unchanged from Post's previous report.

AUSTRALIAN SUGAR PRODUCTION STATISTICS (thousand metric tons)						
Category	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
Cane Crushed	40,128	36,699	31,228	32,260	38,062	36,600
Cane Price \$A/MT	26	24	22	30	26	22
Sugar Prod.	4,998	5,448	4,162	4,987	5,371	5,114
Total Exports	3,961	4,131	2,966	3,594	4,219	3,893
Export Value Million \$A	1,289	1,092	1,111	1,392	1,419	1,005

Note: July-June years.

Source: ABARE

Consumption

Post has revised consumption upwards across the time series to 1,200 TMT. Official statistics are not available for sugar stocks. Post derives stocks and consumption numbers from production and export figures.

Post assumes that any sugar not exported is consumed or manufactured domestically. Consumption figures quoted by Post represent "domestic" disappearance. Post expects that some sugar supplied to domestic manufacturing industries is exported as food products; however, Post has not included this component in sugar exports (as per reporting instructions).

Trade

Total sugar exports are forecast to fall around eight percent in 2003/04 to 3.89 MMT, in line with the forecast eight percent fall in production. This forecast puts 2003/04 exports at the 4th largest export level according to ABARE's historical figures.

Estimated total exports for 2002/03 remain unchanged at 4.22 MMT, the second largest export level on record and 15 percent higher than the previous year. This export level reflects a return to more normal production levels following the pest and disease outbreaks of 2000/01 and 2001/02, which limited supplies.

Post primarily relies on ABARE data for exports. Confidentiality arrangements restrict provision of up-to-date export data by the Australian Bureau of Statistics (ABS). Post estimates exports for 2001/02 at 3.59 MMT, in line with historic ABARE figures and the most recent ABS figures. Korea, Japan and Malaysia are Australia's three largest export markets receiving 21, 20 and 19 percent of Australia's sugar exports, respectively.

Stocks

Official figures on sugar stocks are unavailable in Australia and figures provided by Post are derived from production and export numbers. Industry sources indicate that while Australia has large storage capacity, the costs associated with storing sugar discourage accumulation of a large inventory. The Government of Australia does not provide specific assistance for the storage of sugar.

Policy

The Australian sugar industry remains under severe financial pressure due to a combination of low prices, pest and disease outbreaks, adverse weather conditions and prescriptive government regulation. The Australian Federal Government and Queensland State Government have signed a Memorandum of Understanding (MOU), essentially requiring the state government to remove all regulatory impediments to sugar production and processing. In exchange, the Federal Government has agreed to provide adjustment funding, (see Report #AS3009). Since Post's last report, little has been achieved in terms of dismantling legislation.

In August 2003, the Research and Development sector within the Australian Sugar industry was partially reformed. The Bureau of Sugar Experimentation Station (BSES), previously a statutory authority that conducted research within the sugar industry on behalf of growers and millers, became a privately owned company. The BSES will continue to conduct research and development services using voluntary contributions from growers and millers. It is envisaged that breeding rights will also provide funding in the future according to industry sources.

Raw cane sugar enters the United States under a tariff-rate quota (TRQ), which permits countries to ship specified quantities to the United States at a relatively low tariff rate, but subjects all other imports to a higher tariff. Under the TRQ, Australia is allocated 87,402 MT of raw cane sugar in fiscal year 2004. Australia's allocation is based on the share of exports to the United States between 1975 and 1981.

Australia and the United States are in the process of negotiating a free trade agreement (FTA). Part of Australia's objectives for the negotiations is gaining increased access to the United States for raw cane sugar.

The tariff rate applied to sugar imported into Australia is currently set at zero. Australia imports small quantities of sugar, mostly specialty sugar according to sources.

Marketing

Under Queensland state government legislation, the "Sugar Industry Act" provides the Queensland Sugar Corporation (QSC) with exclusive export rights to market raw sugar produced in Queensland.

Over 90 percent of Australia's sugar is produced in Queensland, effectively providing a "single desk" export monopoly for Australian sugar. Despite much public discussion on the deregulation of the Australian sugar industry, the "single desk" is not due for review before 2006.