Sugar

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Prices to remain low and volatile in 2018–19

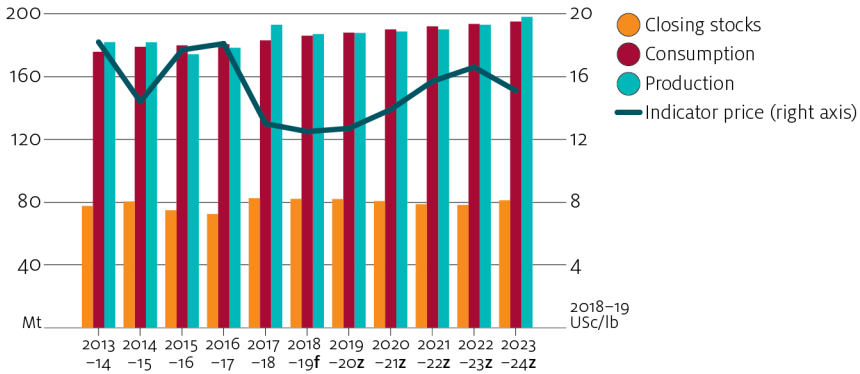
The world indicator price for raw sugar (Intercontinental Exchange, nearby futures, no. 11 contract) is forecast to fall to US12.5 cents per pound in 2018–19. Global production is expected to exceed consumption for the second year in a row, increasing stocks and placing downward pressure on prices.

Ongoing price volatility is expected in the short term due to the liquidity crisis unfolding in the Indian sugar industry. The crisis is the result of the mounting mill arrears payable to cane farmers. Arrears are the shortfall between the price millers can sell sugar for and the government-set minimum cane prices.

To help clear mill arrears, the Indian Government has raised domestic sugar and ethanol prices. These measures are expected to lower Indian exports below the government-mandated 5 million tonne quota.

Brazilian mills are expected to increase cane allocation to sugar production due to assumptions of lower oil prices and a depreciating Brazilian real. Assuming average seasonal conditions through to the upcoming harvest in Brazil, an increase in Brazilian sugar exports is expected to offset lower Indian exports.

World sugar indicators, 2013–14 to 2023–24



f ABARES forecast. **z** ABARES projection.
Note: October to September year. Volumes are in raw equivalent.

Price improvements expected over the medium term

In 2019–20 the world indicator price is expected to improve to US13 cents per pound. Assuming average seasonal conditions in major producing countries, global production is forecast to fall slightly below consumption due to a global fall in area planted to both sugar cane and sugar beet.

High global stocks are expected to dampen the expected recovery in world sugar prices. In India, record mill arrears are expected to turn some farmers away from cane growing towards alternative crops, such as rice and pulses. In Thailand, rising prices of cassava relative to sugar cane are expected to reduce cane area. In the European Union, low beet returns and increasing production costs due to chemical regulations are expected to reduce beet area. Brazilian production is

expected to increase based on projected oil price and currency assumptions. However, the rise will be insufficient to offset production declines elsewhere.

Over the medium term to 2023–24, fundamental changes in Brazilian energy policy are expected to provide Brazilian sugar mills with an incentive to increase ethanol production. Between 2020–21 and 2022–23 this is likely to result in a period of declining global sugar stocks, as global production falls below consumption. The Brazilian Government's commitment to carbon abatement has already created positive signals for biofuel investments that could limit sugar production and exports.

Higher sugar prices triggered by falling Brazilian exports are expected to accelerate supply responses in Asian countries, especially India and Thailand. By the end of the projection period, high global production will begin to put downward pressure on sugar prices.

Moderate growth in world sugar consumption

Global consumption growth per person is expected to average 1% per year over the outlook period, compared with 1.5% during the previous decade to 2017–18.

Demand growth in some advanced economies, such as Japan, will continue to be constrained by slowdowns in population growth. This will be accompanied by dietary changes based on greater health awareness and nutritional policies. Faster growth is expected in emerging and developing economies as incomes and populations grow, and as urbanisation drives expansions in processed food and beverage industries. Overall, the rate of growth in global sugar consumption per person will be tempered by increasing global health awareness and lessons learnt in developed countries.

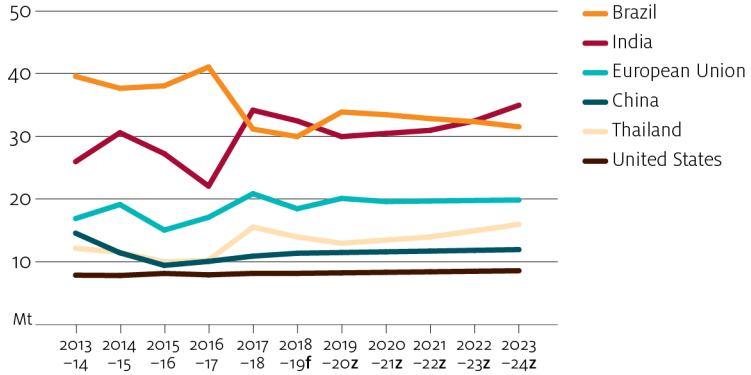
The introduction of sugar taxes globally is expected to further constrain demand growth and provide an incentive for food and beverage industries to reduce sugar content and diversify products. In the past 2 years, sugar taxes have been legislated in India, Ireland, the Philippines, Portugal, Saudi Arabia, South Africa, Sri Lanka, the United Arab Emirates and the United Kingdom. Sugar taxes will be implemented in Malaysia and Thailand in 2019.

Medium-term production outlook

Increasing global production driven by policy distortions

Global sugar production is projected to increase to around 198 million tonnes in 2023–24 in the absence of substantial policy reforms in major sugar-producing countries. Government support policies in China, the European Union, India, Thailand and the United States continue to result in expanded production at the expense of consumers and taxpayers, contribute to lower prices and an erosion of global trade opportunities.

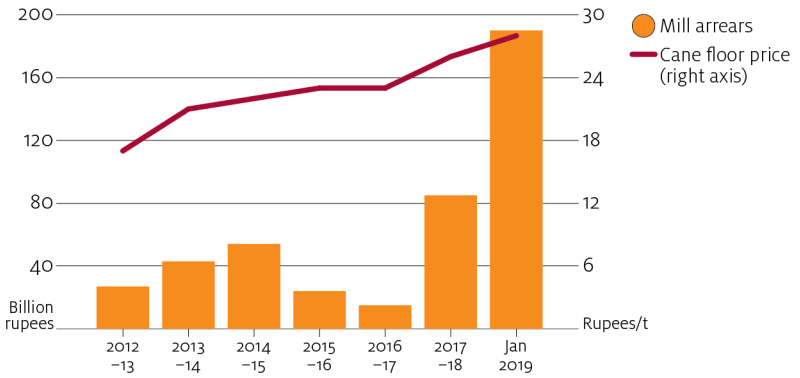
World sugar production, 2013–14 to 2023–24



f ABARES forecast. **z** ABARES projection.
Note: October to September year. Volumes are in raw equivalent.

India's prominence in the world sugar market will continue to grow. Over the past few years, the Indian Government has supported its sugar industry that produces at costs that are higher than other exporting countries. Support to farmers and millers has increased budgetary burdens. In January 2019 mill arrears had reached an estimated 190 billion Indian rupees ($3.7 billion). This has created a liquidity crisis that has precipitated further government price controls in India's domestic sugar and ethanol markets.

Indian cane support price and mill arrears, 2012–13 to January 2019



Sources: Department of Food & Public Distribution, Government of India; FO Licht

In the European Union, voluntary coupled support under the Common Agricultural Policy continues to provide an incentive for farmers in Eastern Europe to expand beet cultivation. This has led to contention with EU member states that are not eligible for these payments, such as France and Germany.

The Thai Government has initiated reforms to its domestic sugar industry by floating the domestic retail sugar price and abolishing the sugar quota system. However, the cane support price and profit-sharing arrangements between mills and farmers still remain in place.

In China, import tariffs on raw sugar continue to protect the domestic sugar industry. This trade barrier prevents Chinese consumers from accessing lower-cost imports and impedes price signals that would help Chinese farmers match supply with demand.

The United States protects its domestic sugar industry from competition through a combination of price support loans, marketing allotments, biofuel subsidies and tariff barriers. The artificially high price of sugar in the United States has been estimated by the American Enterprise Institute to cost the US economy of up to US$1 billion per year. It also means that US consumers pay nearly twice the world price for a pound of sugar.

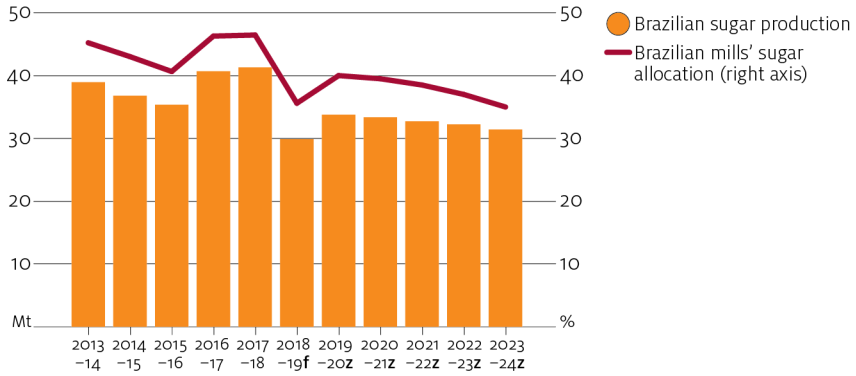
Brazilian decarbonisation policy to drive falling sugar production

In 2020 the Brazilian Government will enact the RenovaBio program to reduce carbon emissions from gasoline in the country's transport sector. Government-mandated emissions targets will be implemented through a market of carbon saving credits tradeable among fuel distributors and biofuel producers. The pricing of carbon is expected to raise demand for ethanol and provide an incentive for sugar mills to produce more ethanol.

Brazil's decarbonisation policies coincide with forecasts of an economic recovery that is expected to expand the country's fleet of flexible fuel vehicles. Economy-wide reforms, including in the domestic gasoline market, are also expected to encourage investment in additional biofuel production capacity.

Over the medium term, Brazilian sugar production and exports are expected to fall due to an expected appreciation of the Brazilian real and emphasis on ethanol production. Falling sugar exports from Brazil are expected to be increasingly offset by rising exports from India and Thailand.

Brazilian sugar production, 2013–14 to 2023–24a



a March to April. **f** ABARES forecast. **z** ABARES projection.
Note: April to March year. Volumes are in raw equivalent.

Stable Australian production, but growing export value

Australian cane production is expected to remain stable at around 34 million tonnes over the medium term. Low world sugar prices, competing land use from horticulture and high land values close to existing sugar mills are expected to limit expansion of the area planted to sugarcane. The gradual emergence of corporatisation is expected to slowly drive cost-saving scale efficiencies in sugarcane farming.

Australian sugar production is expected to average 4.8 million tonnes over the medium term. Australia's processing efficiency, proximity to East-Asian markets, direct marketing to overseas refineries and free trade agreements will continue to maintain the competitiveness of the Australian sugar industry despite abundant global production capacity and low world prices

Opportunities and challenges

Potential investments in Brazilian sugar industry

The RenovaBio program has the capacity to revitalise investments in the Brazilian sugar industry through replanted cane fields, adoption of improved cane varieties and increased vertical integration. Productivity improvements and cost savings in the Brazilian sugar industry could enable Brazilian sugar mills to maintain sugar production and serve growing ethanol demand simultaneously, placing pressure on world prices and Australia's competitiveness.

Trans-Pacific Partnership to benefit Australian exports

The Comprehensive and Progressive Agreement for Trans-Pacific Partnership will improve market access for Australian sugar into Canada, Japan, Mexico and Vietnam. The elimination of Japan's tariff and reduction in the levy on high-polarity sugar are expected to improve the competitiveness of Australia's exporters, with benefits throughout the industry.

Marketing structure of the Australian sugar industry

Ongoing regulation of Australian sugar marketing risks reducing the incentives for Australian sugar mills to invest in renewing infrastructure. This poses a risk to future processing efficiency which, in the medium term, risks reducing returns to canegrowers and accelerating the exit of less efficient farms from the industry.

Greater linkages to energy markets

Both the Indian and Thai governments have made significant investments to expand the ethanol production capacity of sugar mills. In the medium term, greater flexibility to direct sugarcane volumes to sugar or ethanol production in these major sugar-exporting countries could moderate the cyclical volatility of world sugar prices. Global sugar prices could become increasingly coupled to international energy prices and government biofuel policies in India and Thailand.

Outlook for sugar **a**

	unit	2016–17	2017–18 **s**	2018–19 **f**	2019–20 **f**	2020–21 **z**	2021–22 **z**	2022–23 **z**	2023–24 **z**
World **b**									
Production	Mt	178	193	187	188	189	190	193	198
Brazil	Mt	41.1	31.2	30.0	33.9	33.5	32.9	32.4	31.6
Consumption	Mt	181	183	186	188	190	192	194	195
Exports	Mt	68.8	63.0	60.0	62.0	62.3	62.7	63.7	65.3
Closing stocks	Mt	72.5	82.5	82.1	82.0	80.7	78.7	78.3	81.3
Stocks-to-use ratio	%	40.2	45.1	44.1	43.6	42.5	41.0	40.4	41.7
Price **c**									
nominal	USc/lb	17.3	12.7	12.5	13.0	14.5	16.8	18.1	16.8
real **d**	USc/lb	18.1	13.0	12.5	12.7	13.9	15.7	16.6	15.1
Australia **e**									
Production	kt	4,772	4,500	4,700	4,830	4,830	4,830	4,830	4,830
Export volume	kt	3,970	3,333	3,600	3,870	3,870	3,870	3,870	3,870
Export value									
nominal	A$m	2,424	1,536	1,546	1,767	2,015	2,384	2,627	2,219
real **g**	A$m	2,523	1,569	1,546	1,728	1,923	2,219	2,386	1,966
Return to cane growers									
nominal	A$/t	44.4	36.2	31.2	33.2	37.9	44.8	49.4	41.7
real **g**	A$/t	46.2	36.9	31.2	32.5	36.2	41.7	44.9	37.0

a Volumes in raw equivalent. **b** October–September years. **c** Nearby futures price, Intercontinental Exchange, New York, no. 11 contract. **d** In 2018–19 US dollars. **e** July–June years. **f** ABARES forecast. **g** In 2018–19 Australian dollars. **s** ABARES estimate. **z** ABARES projection.
Sources: ABARES; Australian Bureau of Statistics; International Sugar Organization