

Overview of Sugar Policies and Market Outlook



- **Introduction**
- Agricultural production to expand by 60% to meet food demand of the world population of 9 billion by 2050
- World sugar trade > USD 24 billion - of which developing countries account for > 80%
- About 20 % of sugarcane production is used for ethanol production in 2012.

Global sugar production and trade



- Production: 173 mil. tonnes raw equivalent;
- 88 % from sugar cane and 12 % from beet;
- India and Brazil together account for 37 % of sugar cane production, and the EU 10% beet;
- International trade: 50.3 MT valued at USD 32.9 billion;
- Largest importer was China (4.4 MT), EU, US (3.2 MT), Indonesia (3.2 MT) and Malaysia (1.5 MT);
- Largest exporter was Brazil (22.8 MT), Thailand (7.2 MT), India (3 MT) and Australia (2.9 MT) and Fiji reached 145 TT

World Sugar Price Vs. Intervention Prices



- World sugar price fluctuated in a band between about 5 and 15 US cents/lb from 1980 to 2000. The EU intervention price by contrast was fixed at almost 32 US cents/lb until 2000. Similarly, the US intervention price remained relatively stable at 20 – 22 US cents/lb during the same period.
- From 2001 to 2011, world price ranged between 7 and 26 US cents/lb, while the EU intervention price was fixed at 19 US cents/lb for raw, and the US intervention price at 19 US cents/lb for cane sugar and 24 US cents/lb for beet sugar.

Sugar sector policies



- Arguably the most important drivers of policy change were internal budgetary pressures;
- The WTO Disputes Panel ruling in October 2004 on the EU sugar export refunds and the cross subsidisation of exports stimulated:
 - faster reform of the EU sugar policy;
 - more rapid structural change in the global sugar market; and
 - Brazil has since become the world's most cost efficient producer of sugar.

The European Union



- Abolition of intervention prices - the introduction of reference prices and decoupled payments;
- Merging of A and B quotas and an overall reduction in the production quotas; and
- EU/ACP Sugar Protocol to be reformed to become WTO compatible;
- Everything but Arms (EBA) Initiative; and the
- Challenge for ACP countries - to implement appropriate restructuring and diversification policy options.

United States



- The US sugar market is regulated by the Sugar Program which uses:
 - price supports,
 - domestic market allotments, and
 - tariff rate quotas (TRQ) to influence the amount of sugar available on the domestic market.
- Agriculture and Food Act of 1981 (1981 Farm Act),
- A new measure introduced in 2008 to help avoid loan forfeitures was the Feedstock Flexibility Program (FFP).

United States – Cont.



- ***Domestic price support*** - the loan rate for raw cane sugar for 2012 -13 is 18.75 cents per pound.
- ***Flexible marketing allotments*** - Sugar sold for human consumption is subject to marketing allotments
- ***Feedstock flexibility program*** - operates to avoid sugar loan forfeitures to the CCC by requiring the diversion of sugar from food use to ethanol production. The Secretary of Agriculture announces the amount of sugar for the CCC to purchase and to be made available for sale to ethanol producers.

Sugar tariff-rate quotas



- The quantity of sugar that may be imported at the preferential in-quota tariff rate are set at the beginning of each fiscal year (October/September). There is no limit to the quantity that may be imported at the higher over-quota tariff rate;
- Under the Uruguay Round, the US agreed to import 1.139 million metric tons, raw value (MTRV);
- The raw cane sugar TRQ is currently allocated to 40 countries;
- In-quota tariff is 0.625 cents per pound and over-quota tariff is 15.36 cents per pound for raw sugar and 16.21 cents per pound for refined sugar.

United States Cont.



- **Re-Export Programs** - the US also operates two re-export programs
- **Dominican Republic-Central American Free Trade Agreement (DR-CAFTA)**
- Under (DR-CAFTA), the US establishes country-specific TRQs for the DR-CAFTA countries, starting at a total of 107 000 metric tons in 2006 (year 1) and growing to 151 140 metric tons in year 15, thereafter growing by 2 640 metric tons per year, into perpetuity. A 2000-metric-ton TRQ, with no growth, is established for Costa Rica for specialty sugar.

Japan



- Japan's sugar policy is more distorting than EU or US. Raw sugar is imported by Japan at the world market price but imports are restricted to the Ministry of Agriculture, Forestry and Fishery, which then resells at a higher price to local refiners;
- Beet and cane producers receive high government guaranteed prices (Beet prices are 5 times those in the US and the cane price is 10 times that of Australia).

India



- A fourth significant sugar producing country outside the EU and US, is India;
- Current OECD sugar policies have little impact on sugar trade in India, because domestic prices are already high;
- Imports are controlled by relatively high tariffs plus a countervailing duty on imported raw sugar; and
- Through a system of levies and monthly releases, the government controls the supply on the domestic market.

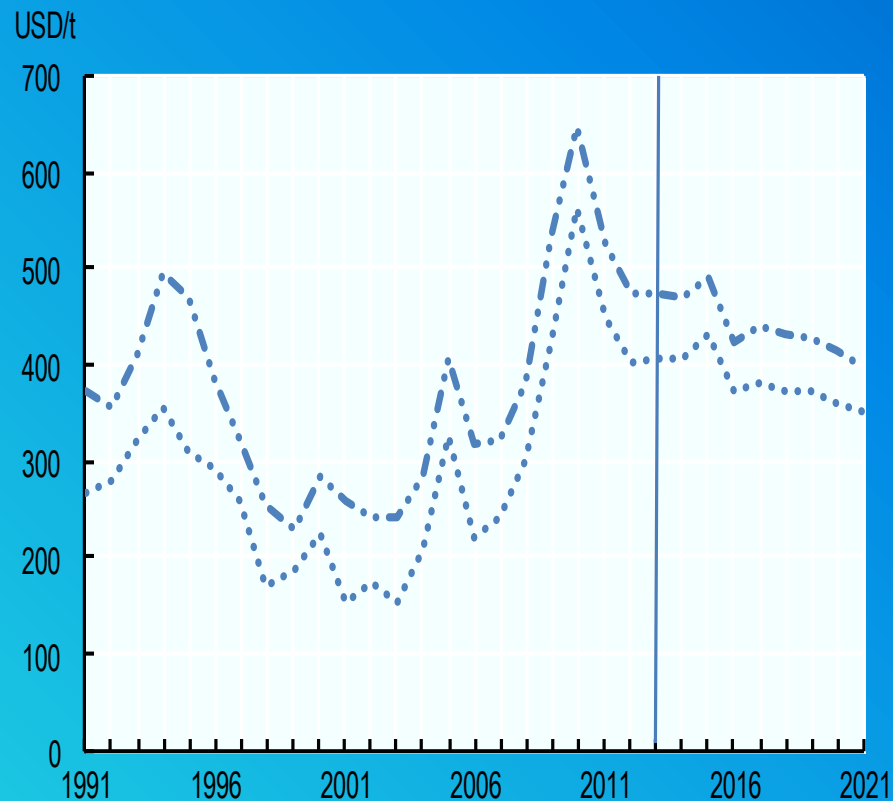
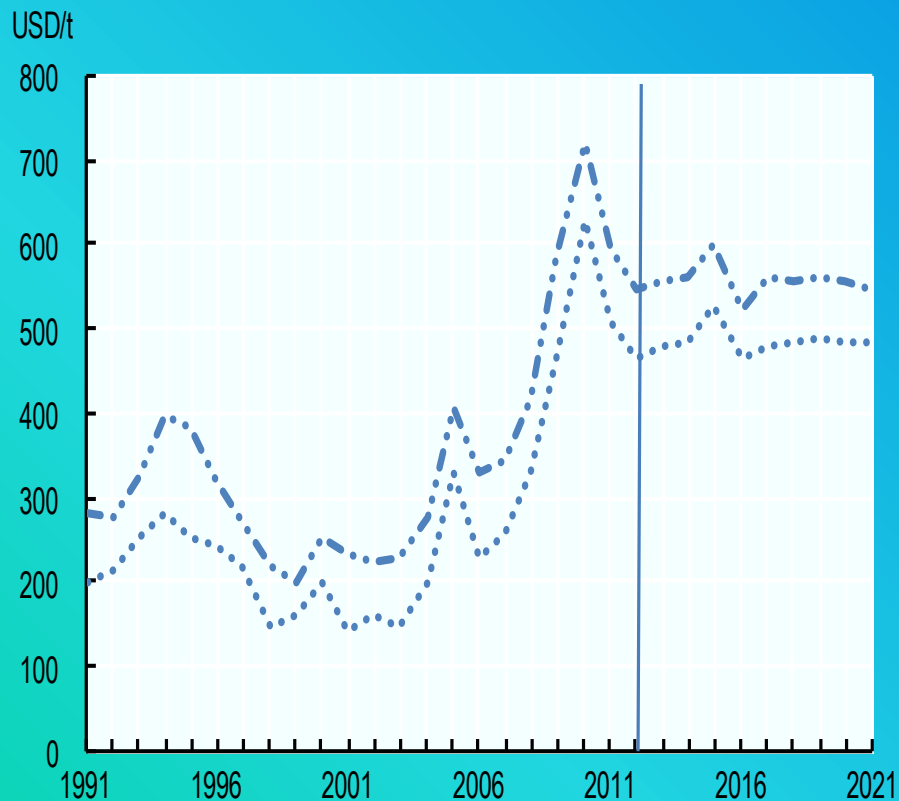


Raw sugar

White sugar

Raw sugar a

White sugar a



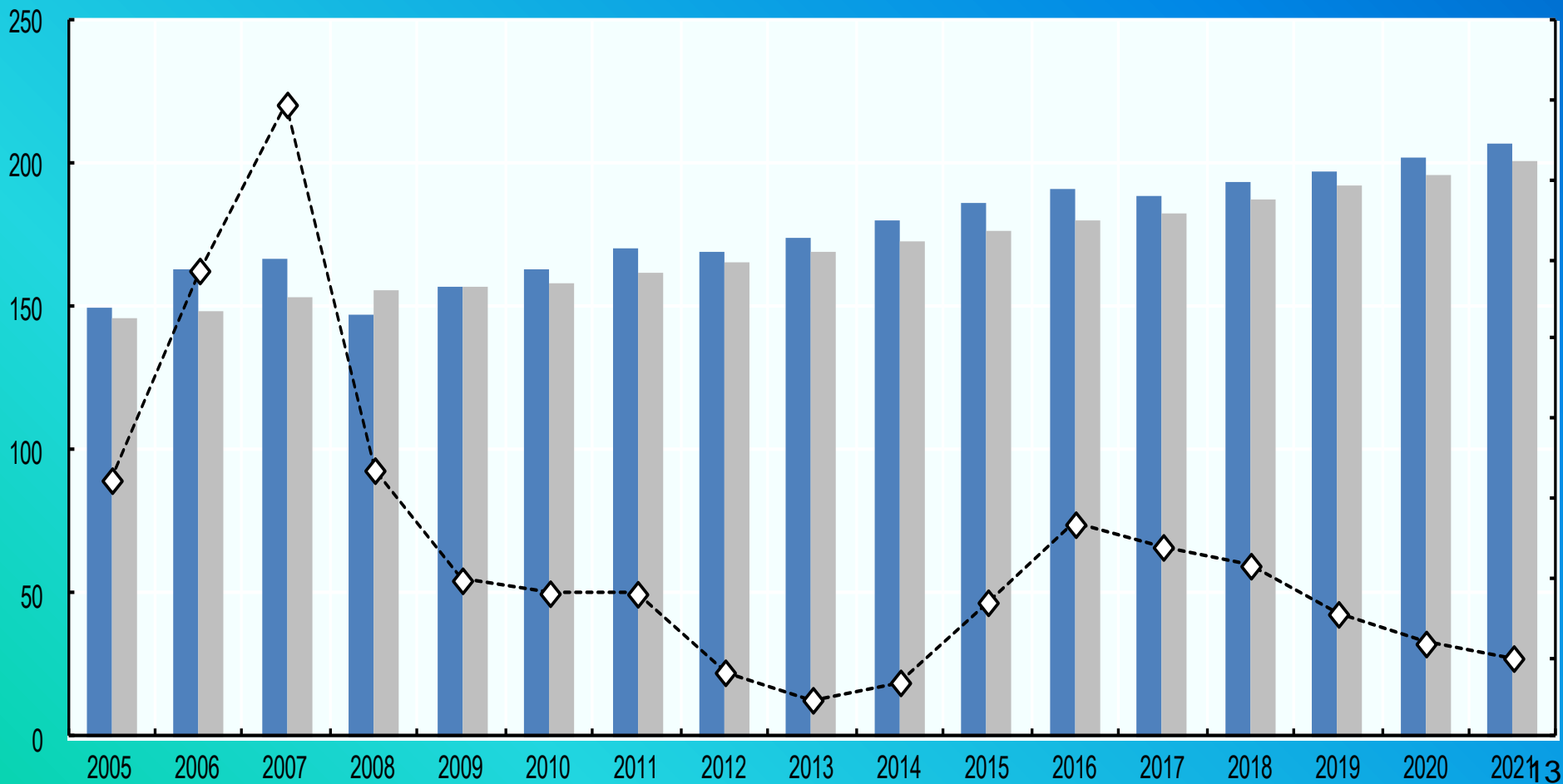


Production

Consumption

Stock to use (right scale)

Million tonnes r.s.e.



Trade

and

Markets

Division

Outlook



- Sugar production projected to nearly 207 million tonnes in 2021-22, some 44 mil. tonnes or 26% above the average level for 2009-11;
- Sugarcane production in Brazil = over 1 billion tonnes, and with an increasing share allocated to ethanol production is a key determinant of sugar production and world prices over the coming decade.

Outlook



- Global consumption is projected to grow at 2.2% a year to reach nearly 201 million tonnes in 2021;
- Lower stocks-to-use over the coming ten years, than in the previous decade, help to support higher world market prices;
- Sugar export trade remains concentrated in a relatively few countries, but Brazil, the leading exporter will lose market shares at the start of the Outlook in favour of lower cost producers, and may not recover its historical share of 50% of world trade with slower growth in production and as ethanol production for domestic use and export becomes more attractive to for Brazilian mills.

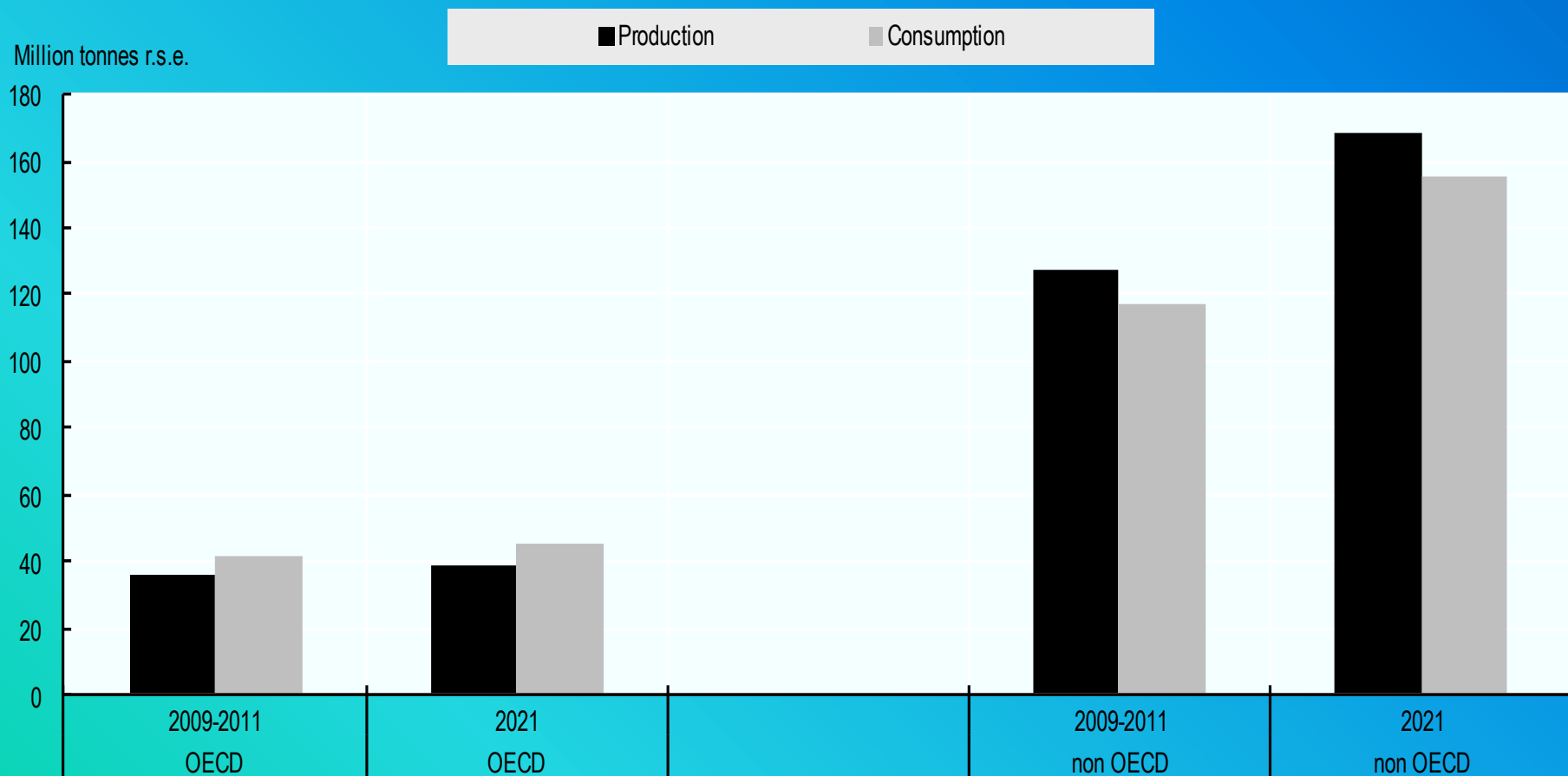
Outlook



- China and the EU become larger importers, whilst the Russian Federation reduces its import dependency substantially;
- The outlook for the alternative caloric sweetener, high fructose corn syrup (HFCS) is for global production and consumption to increase by around 8% each to nearly 14 mil. tonnes and over 13 mil. tonnes, respectively, to 2021;
- Apart from continued expansion of isoglucose production and use in China, Mexico is projected to increase consumption strongly by 2021 based mainly on imports from the US under NAFTA.



Developing countries have dominant shares of global production and consumption



Concluding Remarks



- Dependent on global economic growth;
- A slowdown would be negatively affected;
- Demand for sugar is largely dominated by industrial usage, comprising food manufacturing, preparations and beverages;
- These sectors are most affected by changes in income and economic activity.

Concluding Remarks



- In addition investment in the sugar sector and mills depends on access to credit which may become more difficult as banks deleverage to improve their balance sheets in a period of fiscal consolidation.
- Brazil remains the centre of attention given its large reserve production capacity, and the major alternative use of sugarcane for ethanol production. With production costs rising and estimated at around USD 18-19 c/lb (following the real appreciation in recent years), sugar prices need to remain remunerative relative to ethanol to encourage additional production.

Concluding Remarks



- Future developments for oil and energy prices remain a major uncertainty. Higher oil prices and possibly US ethanol mandates are expected to increase demand for ethanol and switch the current advantage enjoyed by sugar production in Brazil in favour of more ethanol output (which already uses over 50% of the sugarcane crop).
- In an environment of continuing low global sugar stocks any further unforeseen supply shortfall within the increasingly concentrated group of sugar exporter countries could see a prolongation of the current high price period in the Outlook.



Thank you