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Australia

Sugar

Annual

2008

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Report Highlights:
Australian sugar production for 2008/09 is forecast to increase as significantly improved rainfall has increased yield potential of the crop

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

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SECTION ONE: SITUATION AND OUTLOOK

Summary

Australian sugar production for 2008/09 is forecast to increase modestly. Slightly higher cane area and a higher yield will likely drive the production increase. Post believes the 2008/09 cane harvest has signaled recovery from drought and to a lesser extent other production problems that have constrained sugar production in more recent times.

Despite long term downward pressure on the area planted to sugar cane, recovery from recent production problems such as drought, rust, sugar cane smut and somewhat improved yields have allowed a modest improvement in production. However, it is generally acknowledged that the area planted to sugar cane remains under constant pressure from urban encroachment, competition from other crops, mill closures and other restructuring issues.

Australian exports of sugar in 2008/09 are expected to rise in line with increased production. Australia's dependence upon export markets dictates that exports will likely continue to fluctuate in line with production for the foreseeable future. Deregulation of sugar exports in the state of Queensland, where about 95 percent of Australia's sugar is produced, is expected to see a more diversified approach toward the marketing of Australian sugar.

The competition for land to grow other crops will not likely dissipate for the foreseeable future. However, improved yields will likely prove a viable strategy to increase overall production. Plant breeding as well as other agronomic advances will likely command greater attention from industry participants in the future.

The Australian cane crop has received heavy rainfall and flooding in key production areas. At time of writing this report post believes that the heavy rainfall has been an overall benefit to cane production, as the production increase from improved rainfall will likely outweigh flood damage. However, post advises that should excessive rain persist into 2008/09, the production forecast will likely be revised downwards. Post has assumed average weather conditions in the lead up to, and during, the 2008/09 harvest.

SECTION TWO: STATISTICAL TABLES

PSD Table
Sugar, Centrifugal

	2007	Revised		2008	Estimate		2009	Forecast		UOM
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	
Market Year Begin		07/2006	07/2006		07/2007	07/2007		07/2008	07/2008	MM/YYYY
Beginning Stocks	291	291	291	162	162	162	111	111	262	(1000 MT)
Beet Sugar Production	0	0	0	0	0	0	0	0	0	(1000 MT)
Cane Sugar Production	4822	4822	4822	4700	4700	5031	0	0	5200	(1000 MT)
Total Sugar Production	4822	4822	4822	4700	4700	5031	0	0	5200	(1000 MT)
Raw Imports	4	4	4	4	4	4	0	0	4	(1000 MT)
Refined Imp.(Raw Val)	5	5	5	5	5	5	0	0	5	(1000 MT)
Total Imports	9	9	9	9	9	9	0	0	9	(1000 MT)
Total Supply	5122	5122	5122	4871	4871	5202	111	111	5471	(1000 MT)
Raw Exports	3700	3700	3700	3500	3500	3680	0	0	3780	(1000 MT)
Refined Exp.(Raw Val)	160	160	160	160	160	160	0	0	160	(1000 MT)
Total Exports	3860	3860	3860	3660	3660	3840	0	0	3940	(1000 MT)
Human Dom. Consumption	1100	1100	1100	1100	1100	1100	0	0	1100	(1000 MT)
Other Disappearance	0	0	0	0	0	0	0	0	0	(1000 MT)
Total Use	1100	1100	1100	1100	1100	1100	0	0	1100	(1000 MT)
Ending Stocks	162	162	162	111	111	262	0	0	431	(1000 MT)
Total Distribution	5122	5122	5122	4871	4871	5202	0	0	5471	(1000 MT)

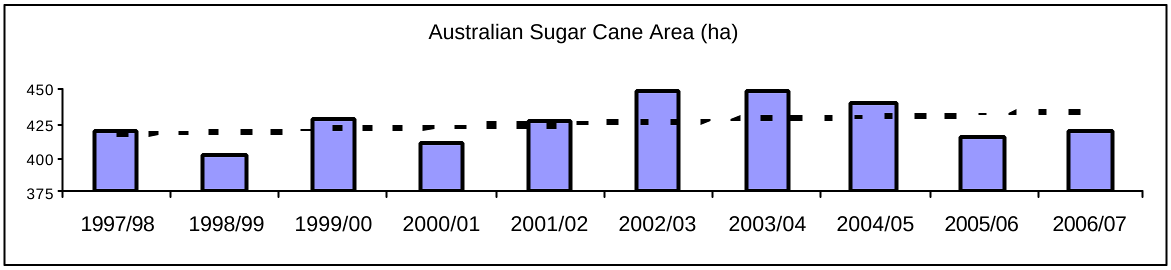
PSD Table
Sugar Cane for Centrifugal

	2007	Revised		2008	Estimate		2009	Forecast		UOM
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	
Market Year Begin		09/2006	09/2006		09/2007	09/2007		09/2008	09/2008	MM/YYYY
Area Planted	0	0	0	0	0	0	0	0	0	(1000 HA)
Area Harvested	420	420	400	425	425	388	0	0	395	(1000 HA)
Production	36000	36000	36000	33000	33000	36000	0	0	37000	(1000 MT)
Total Supply	36000	36000	36000	33000	33000	36000	0	0	37000	(1000 MT)
Utilization for Sugar	36000	36000	36000	33000	33000	36000	0	0	37000	(1000 MT)
Utilization for Alcohol	0	0	0	0	0	0	0	0	0	(1000 MT)
Total Utilization	36000	36000	36000	33000	33000	36000	0	0	37000	(1000 MT)

SECTION THREE: NARRATIVE ON SUPPLY AND DEMAND, POLICY & MARKETING

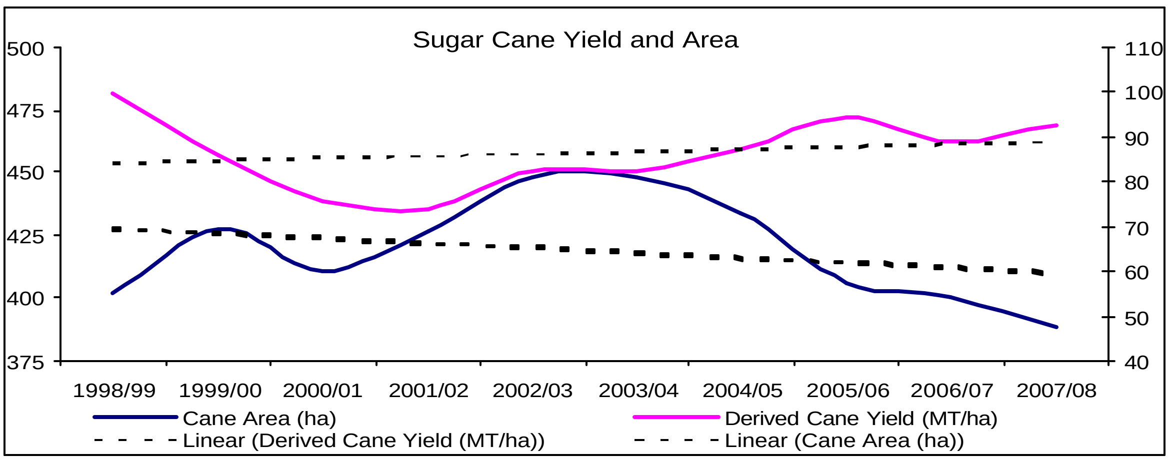
Sugar Cane Area (cut for crushing)

Sugar cane area is forecast to increase in 2008/09 by 7,000 hectares, reaching 395,000 hectares. Despite this forecast increase, this planted area remains well below the 10 year average. Since Post's last report, official estimates for sugar cane area have been revised downwards for the past three years (2006/07, 2007/08 and 2008/09) in line with the downward revision of official Australian government estimates.



Source: ABARE data (July/June)

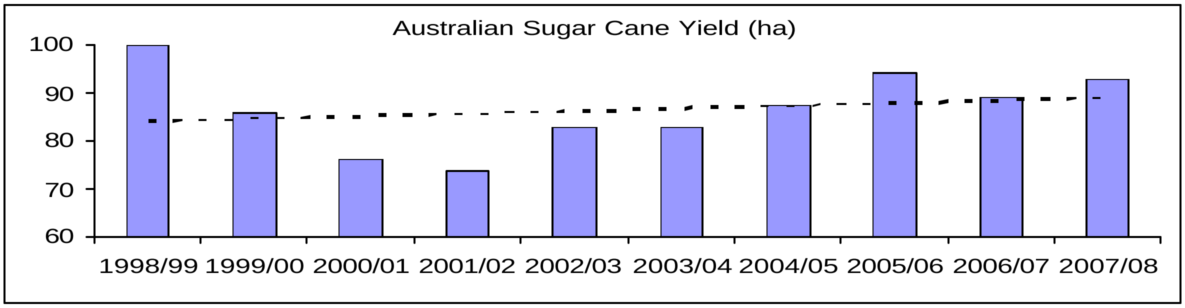
For the Australian sugar industry, there remain a number of factors that are combining to sustain downward pressure on area planted to sugar cane. Urban encroachment, disease outbreaks, mill closures and fluctuating sugar prices are placing long term constraints on area planted to sugar cane. More recently, large timber industry ventures are believed to have taken significant land area away from potential and existing sugar cane area.



The industry continues to improve agronomic practices with the inclusion of break crops such as soybean which is not commonly grown in Australia. Despite reports indicating that the recent inclusion of break crops would likely lower the area planted to sugar cane, Post believes that break crops tend to take place of fallow land.

Cane Yield

Sugar cane yield in 2008/09 is expected to be just over 93 MT/ha, which is above average. Despite reports of flooding, and the negative impact this could potentially have on yield, post believes the overall effect of above average rainfall will likely increase yield. Expected commercial cane sugar (CCS) levels for 2008/09 are unknown at this stage.



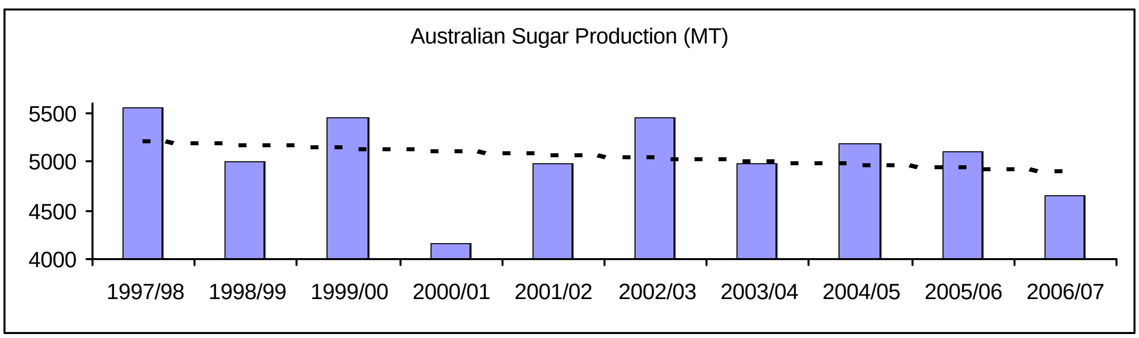
Source: ABARE data (July/June)

Centrifugal Sugar

Sugar Production

Australian sugar production for 2008/09 is forecast at 5.20 million metric tones (MMT) using international polarization scale (IPS), up significantly on the cyclone-affected production level achieved for the previous year. This figure would roughly equal raw sugar production of about 5.0 MMT in typical raw form using a conversion factor of 1.037.

Post believes that despite flood damage in some key sugar cane producing regions, the overall affect of above average rainfall will likely see production increase. Post advises however that a continuation of above average rainfall and associated flooding in the lead-up to, or during, the cane harvest, would likely see production for 2008/09 fall below the current forecast.

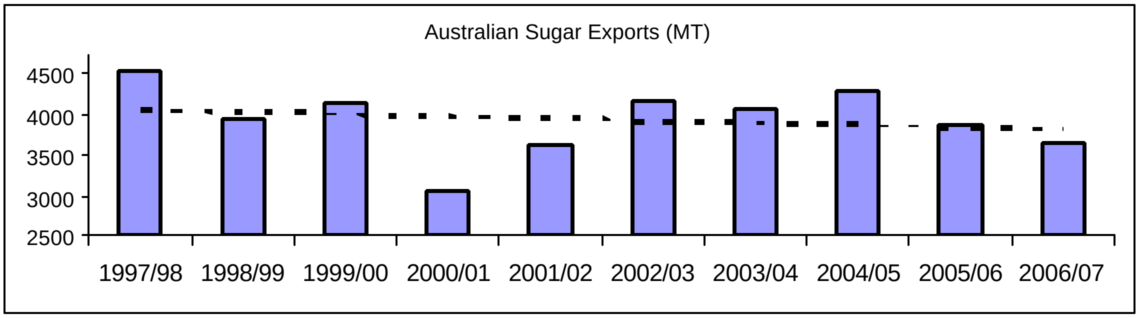


Source: ABARE data (July/June)

Exports

Australian sugar exports for 2008/09 are forecast at 3.9 MMT, up slightly from the 3.8 MMT estimated for the previous year. Australia exports roughly 75% of its sugar production and therefore exports fluctuate in line with production. According to ABARE's historic data, exports of this level would be considered about average.

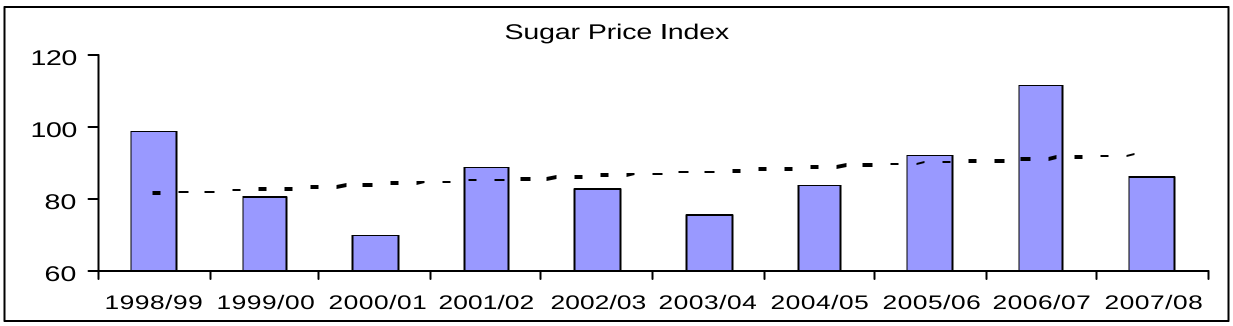
Perhaps the largest threat to Australian sugar exports at time of writing this report would likely be a decline in production associated with continued excessive rainfall and subsequent flooding in key production areas.



Source: ABARE data (July/June)

Prices

The Australian Bureau of Agricultural and Resource Economics (ABARE) has forecast sugar prices to continue falling from US$0.13 per pound in 2007/08 US$0.12 per pound in 2008/09. Industry sources suggest that growers can expect prices in the range of AU$300-350 per MT for the 2008/09 harvest.



Source: ABARE data (July/June)

Policy

Sugar Levy

The domestic sugar levy has been abolished more than 12 months ahead of schedule due to improved world sugar prices. The levy was introduced in 2003, when prices were low, to fund an exit and restructuring package for growers and was abolished on December 1, 2006.

The levy was originally introduced in order to address structural and financial difficulties in the Australian sugar industry following historically low prices. The Government of Australia announced a Sugar Industry Reform Program (SIRP) in September 2002. Under the SIRP, a total of A$444 million of assistance was allocated to the sugar industry over a multiple-year period and was raised from the levy and by the Federal government as well as the Queensland state government.

Sugar Cane smut

Sugar cane smut, a fungus, was discovered in Childers area in June 2006. This smut is primarily spread by wind born spores and infected sugar cane cuttings, and can live for three months under wet conditions and about a year under dry conditions. It can stunt the growth of sugar cane and cause damage to the crops.

The Queensland government established that sugar cane smut cannot be contained. A state wide surveillance program has been undertaken and further detections have been made near Mackay and Ingham this past season.

Ethanol

Ethanol production has received widespread attention from both media and government in Australia in recent times, driven by high fuel prices and environmental concerns.

Ethanol production within the Australian sugar industry is currently using only the poorest grade of molasses, which is not suitable for crystal sugar production. While this process does not displace sugar production, it is does not represent a large share of current ethanol production.

Ethanol production using grain byproducts is expected to provide most of the growth in ethanol production.

Recent Reports from FAS/Canberra

The reports listed below can all be downloaded from the FAS website at: http://www.fas.usda.gov/scriptsw/AttacheRep/default.asp.

Report Number	Title of Report	Date
AS8015	Grain & Feed Annual	03/28/08
AS8012	Livestock Semi-Annual	03/20/08
AS8011	Commencement of IRA for U.S. Apples Announced	03/19/08
AS8010	Wheat Industry Export Group Discussion Paper Released	03/18/08
AS8009	Call for Comments on Quarantine & Biosecurity Review	03/17/08
AS8008	Commencement of IRA for Stone Fruit Announced	03/14/08
AS8006	Draft Wheat Export Marketing Bill Released	03/06/08
AS8005	Wine Annual	02/26/08
AS8004	Government Announces Review of Australia's Quarantine & Biosecurity Processes	02/21/08
AS8002	Productivity Commission Invites Further Submissions to Pork Safeguards Inquiry	01/23/08
AS8001	Impact of Grain Prices on GOA Policy	01/11/08
AS7076	Productivity Commission Release Accelerated Report into Pigmeat Safeguards	12/21/07
AS7075	Bulk Wheat Export Applications	12/13/07
AS7074	Potato Report	12/11/07
AS7072	Ag Down Under Vol. 14	12/06/07
AS7071	GM Moratoria to be Lifted in Two States	11/29/07
AS7070	Cotton Quarterly Update	11/29/07
AS7069	Ag Down Under Vol. 13	11/26/07
AS7068	Fresh Deciduous Fruit Report	11/21/07
AS7067	Retail Sector Report	11/08/07
AS7066	Citrus Annual	11/07/07
AS7065	Ag Down Under Vol. 12	11/02/07
AS7063	Dairy & Products Annual	10/24/07