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Australia

Sugar

Semi-Annual

2006

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Report Highlights:

Sugar production for 2006/07 is forecast at 4.95 MMT (IPS), down from last year's level and from Post's previous forecast. Reduced cane area, due to the effects of the smut outbreak and cyclone Larry, has effectively reduced the supply of cane while heavy rainfall has lowered CCS content.

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

Table of Contents

SECTION ONE: SITUATION AND OUTLOOK.....	3
Summary	3
SECTION TWO: STATISTICAL TABLES	4
SECTION THREE: NARRATIVE ON SUPPLY AND DEMAND, POLICY & MARKETING	6
Sugar Cane Area (Cut for Crushing)	6
Cane Yield.....	6
Centrifugal for sugar	7
Sugar production.....	7
Commercial Cane Sugar Content (CSS)	7
Exports.....	8
Sugar Smut Outbreak	8
Recent Reports from FAS/Canberra	8

SECTION ONE: SITUATION AND OUTLOOK**Summary**

The 2006/07 cane harvest is currently about 55 percent complete, at time of writing this report. The 2006/07 crop was adversely impacted by tropical cyclone Larry prior to harvest commencing (March 2006) and continued heavy rainfall during the harvest period has slowed the harvest process and caused Commercial Cane Sugar (CCS) content to fall.

The sugar industry was recently buoyed by improved prices and an apparent cessation of the long-term drought. However, short term problems such as cyclone Larry and the sugar smut outbreak (June 2006) have constrained production while long term problems such as urban encroachment, mill closure and forecast price decline continue to place downward pressure on cane area over the longer term.

Post forecasts lower production and exports in CY 2006/07, driven by reduced cane area and CCS content. Australian Bureau of Agriculture and Resource Economics (ABARE) have lowered its expectations further despite increasing its forecast cane area for 2006/07. ABARE's forecast of increased cane area and reduced raw sugar production appears to rely on historically low CCS content in the 2006/07 crop.

SECTION TWO: STATISTICAL TABLES

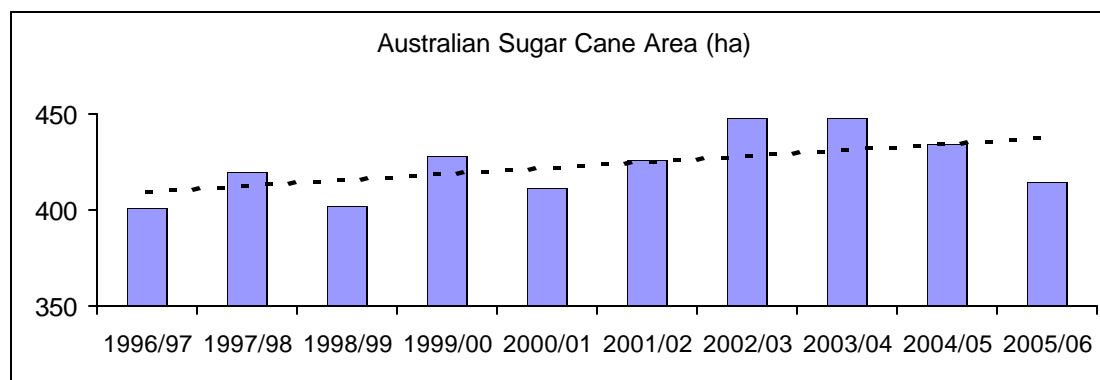
PSD Table										
Sugar, Centrifugal										
	2005	Revised		2006	Estimate		2007	Forecast		UOM
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	
Market Year Begin		07/2004	07/2004		07/2005	07/2005		07/2006	07/2006	MM/YYYY
Beginning Stocks	543	543	543	343	343	343	203	203	312	(1000 MT)
Beet Sugar Production	0	0	0	0	0	0	0	0	0	(1000 MT)
Cane Sugar Production	5388	5388	5388	5297	5297	5297	5185	5185	4950	(1000 MT)
Total Sugar Production	5388	5388	5388	5297	5297	5297	5185	5185	4950	(1000 MT)
Raw Imports	4	4	4	4	4	4	4	4	4	(1000 MT)
Refined Imp.(Raw Val)	5	5	5	5	5	5	5	5	5	(1000 MT)
Total Imports	9	9	9	9	9	9	9	9	9	(1000 MT)
Total Supply	5940	5940	5940	5649	5649	5649	5397	5397	5271	(1000 MT)
Raw Exports	4307	4307	4307	4156	4156	4047	3750	3750	3700	(1000 MT)
Refined Exp.(Raw Val)	140	140	140	140	140	140	140	140	140	(1000 MT)
Total Exports	4447	4447	4447	4296	4296	4187	3890	3890	3840	(1000 MT)
Human Dom. Consumption	1150	1150	1150	1150	1150	1150	1150	1150	1150	(1000 MT)
Other Disappearance	0	0	0	0	0	0	0	0	0	(1000 MT)
Total Disappear	1150	1150	1150	1150	1150	1150	1150	1150	1150	(1000 MT)
Ending Stocks	343	343	343	203	203	312	357	357	281	(1000 MT)
Total Distribution	5940	5940	5940	5649	5649	5649	5397	5397	5271	(1000 MT)

PSD Table										
Sugar Cane for Centrifugal										
	2005	Revised		2006	Estimate		2007	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		07/2004	07/2004		07/2005	07/2005		07/2006	07/2006	MM/YYYY
Area Planted	0	0	0	0	0	0	0	0	0	(1000 HA)
Area Harvested	441	441	434	415	415	415	403	403	410	(1000 HA)
Production	38600	38600	38600	39370	39370	39370	37900	37900	38000	(1000 MT)
Total Supply	38600	38600	38600	39370	39370	39370	37900	37900	38000	(1000 MT)
Utilization for Sugar	38600	38600	38600	39370	39370	39370	37900	37900	38000	(1000 MT)
Utilizatn for Alcohol	0	0	0	0	0	0	0	0	0	(1000 MT)
Total Utilization	38600	38600	38600	39370	39370	39370	37900	37900	38000	(1000 MT)

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

Sugar Cane Area (Cut for Crushing)

Area of sugar cane cut for crushing is forecast to fall in 2006/07 to 410,000 hectares. A combination of factors is likely to place downward pressure on planted area. An outbreak of sugar cane smut in June 2006, which is now contained, is likely to continue to see some areas of cane destroyed and replanted. Also, prices are forecast to decline in 2006/07, and this combined with higher prices for other commodities is likely to see the downward trend (which began in 2002/03) in planted area continue.

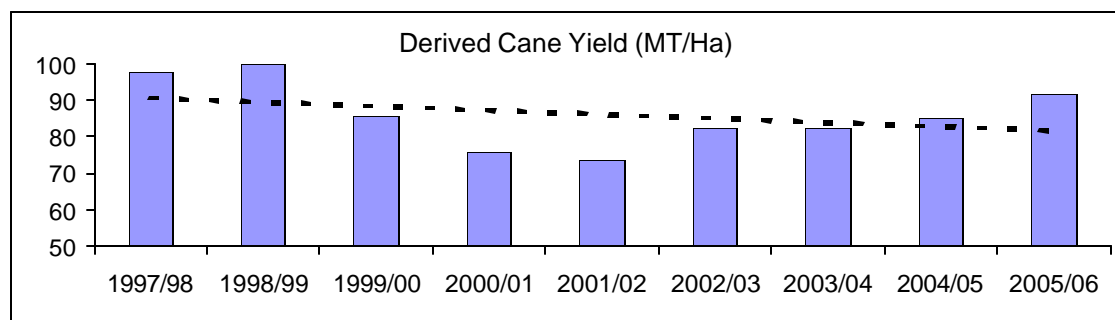


Source: ABARE data (July-June)

Cane area has been declining since the peak of 448,000 hectares was achieved in 2002/03. The Australian sugar industry has experienced fluctuation in cane area due to pest and disease outbreaks, extreme climatic events and market conditions. However, more recent times have seen concern that the industry is suffering long-term decline. Low prices, urban encroachment and competition from other industries are placing sustained downward pressure on cane area.

Cane Yield

Cane yield in 2006/07 is assumed to be between 92 MT and 93 MT per hectare. Heavy rainfall during harvest is expected to see some increase in cane yield and some decline in Commercial Cane Sugar (CCS) content. This yield is considered to be slightly above average and reflects recent weather conditions. Post does not believe the impact of cyclone Larry to have a significant overall effect on the national yield, despite the extreme effects it had on the areas where it occurred. ABARE recently reported that only around 10 percent of cane area has been affected.



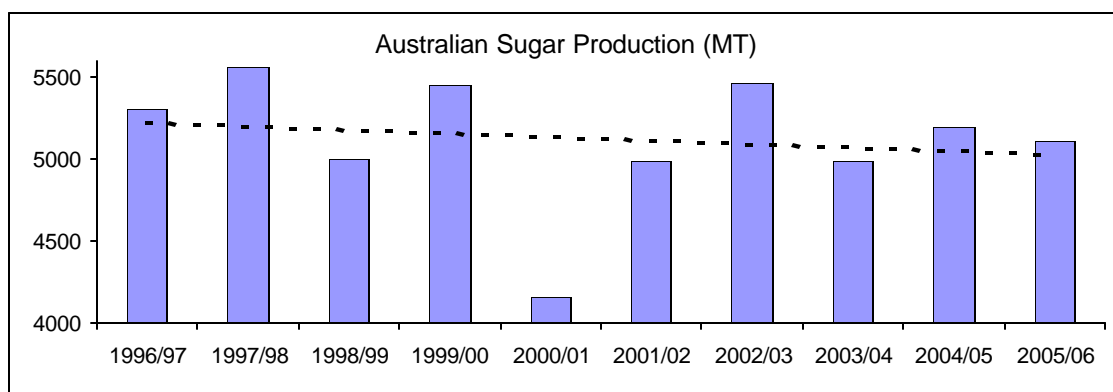
Source: ABARE data (July-June)

Centrifugal for sugar

Sugar production

Sugar production for 2006/07 is forecast at 4.95 MMT (IPS), down from last year’s level and from Post’s previous forecast. Reduced cane area, due to the effects of the smut outbreak and cyclone Larry, has effectively reduced the supply of cane while heavy rainfall has lowered CCS content.

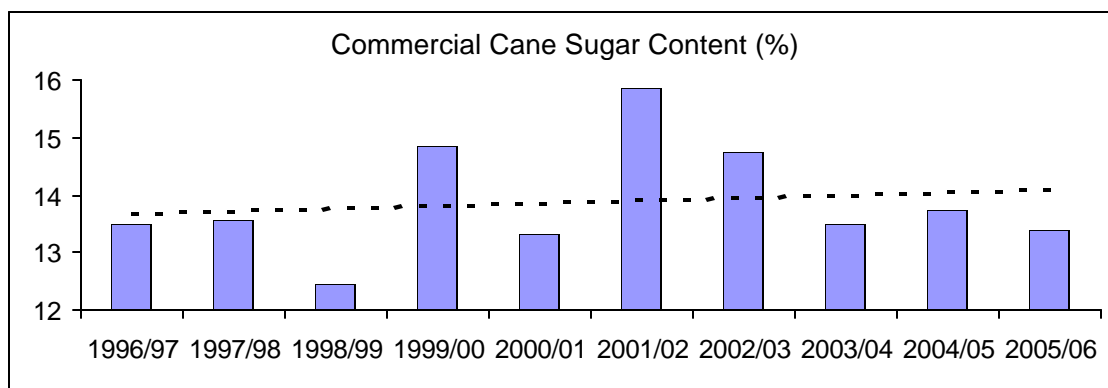
Post uses a conversion factor of 1.037 to convert actual raw sugar to IPS, in line with local industry standards. Post’s forecast of 4.95 MMT IPS is roughly equivalent to 4.77 MMT of actual raw sugar. This is slightly higher than ABARE’s forecast of 4.65 MMT (actual raw sugar), which assumes an historically low CCS content.



Source: ABARE data (July-June)

Commercial Cane Sugar Content (CSS)

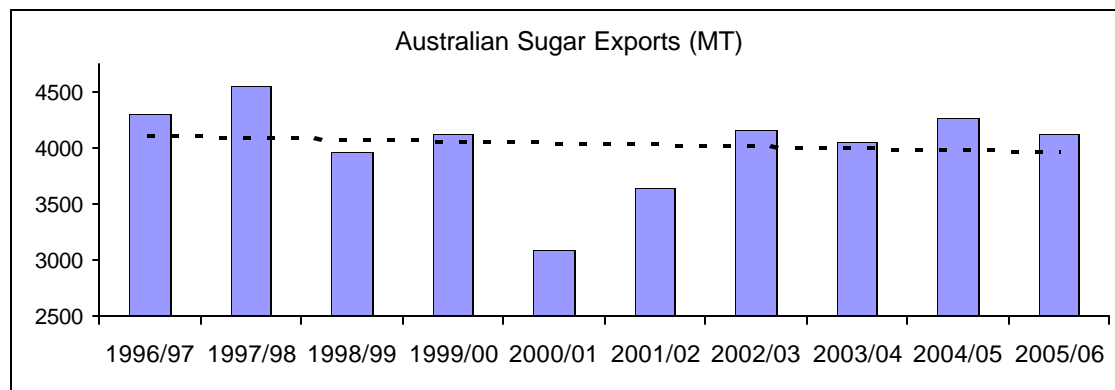
Post forecast in 2006/07 for 4.95 MMT of sugar (4.77 MMT actual raw) and 38 MMT of cane assumes a CCS content of 12.6 percent (actual raw), well below the assumed CCS content for the previous year. ABARE forecasts assume a CCS content of 12.3 percent (actual raw), the lowest in over a decade. Post records have the lowest previous CCS content at 12.46 in 1998/99.



Source: ABARE Data (July-June)

Exports

Sugar exports for 2006/07 are forecast at 3.84 MMT (IPS), down slightly from the previous year level. Lower forecast production is likely to reduce the supply of sugar for export in 2006/07. ABARE forecasts also have exports falling in 2006/07.



Source: ABARE Data (July-June)

Sugar Smut Outbreak

In June Post reported an outbreak of sugar smut in Bundaberg and Childers areas in the State of Queensland (AS 6037). Industry sources report this outbreak to be successfully contained. The process used for eradicating smut requires containment, chemical fallow and replanting to smut resistant varieties. Although smut resistant varieties exist, industry has been constrained by the availability of smut resistant seed material.

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
6042	Australian FTA with Gulf States	06/30/06
6045	Citrus Update	07/17/06
6046	Ag DownUnder Vol. 11	07/21/06
6047	Grain Quarterly Update	08/01/06
6048	Food & Agriculture Import Regulations & Standards	08/03/06
6051	Australia Launches Strategy to Gain Access to Southern Indian Food Market	08/10/06
6052	Ag DownUnder Vol. 12	08/25/06
6053	Cotton Quarterly Update	08/31/06
6054	Drought Update	09/05/06
6056	Ag DownUnder Vol. 13	09/08/06
6057	Livestock Annual	09/13/06
6058	Ag DownUnder Vol. 14	09/26/06
6059	Export Certificate Report	09/27/06
6060	Exporter Guide	09/29/2006