United States
Department of
Agriculture

Foreign
Agricultural
Service

Sugar: World Production Supply and Distribution

May 2009

Overview

World sugar production for the 2009/10 marketing year is forecast at 159.9 million tons, raw value, up 11.2 million from the revised 2008/09 estimate. Consumption is forecast at 159 million tons, up 1.5 million from a year earlier. Exports are forecast at 51.3 million tons, up 3 million; and ending stocks are forecast at 31.2 million tons, down 800,000 tons.

Forecast changes in 2009/10 world production and trade are highlighted by higher production in Brazil, at 36.9 million tons, up 4.5 million. Brazil accounts for 23 percent of world production, but Asia accounts for 37 percent. Forecast production in Asia is up by 5.8 million tons to total 59.2 million. Production in India for 2009/10 is forecast at 20.8 million tons, up 4 million, China at 14.5 million tons, up one million, and Thailand at 7.5 million tons, down 300,000. Production in the EU-27 is forecast at 17 million tons slightly above last year's output. In 2009/10, the EU is forecast to be the world's largest net sugar importer at 3 million tons. Exports from Brazil for 2009/10 are forecast at 24.3 million tons, up 4 million from 2008/09. Brazilian exports during the last year were off from expected levels due to relatively low prices, in relation to production costs (a consequence of dollar devaluation), high freight rates, early year competition from India in Near East markets, high oil prices, and high domestic ethanol demand. Thailand is forecast to export 5.7 million tons, up 200,000 from the previous year, and India may import 2.5 million tons, up 700,000 from last year. Exports from Australia are forecast at 3.6 million tons, up 100,000.

Since November world refined sugar prices have remained strong. The London No. 5 price for refined sugar weakened about a penny during December but regained strength to average over 18 cents/lb during April. Correspondingly, the world raw NY No. 11 price for raw sugar weakened in December to about 12.3 cents/lb and strengthened to average almost 14.5 cents/lb in April.

Prices dropped at the end of 2008 as the market forecast a surplus production based on estimated production and exports from India. Other contributing factors were the unwinding of speculative position in hedge and index funds. However by January the situation changed. The market prices strengthen as the Indian crop failed to materialize. Brazilian sugar production slacked off in favor of ethanol and new supplies were limited to smaller production in the northeast. Within a year India moved from being a net exporter of 5.8 million ton; to a net importer of 1.8 million tons. Effectively world supplies moved from a surplus to a deficit within a short period of time but consumption remained strong, actually increasing from the previous year contributing to a draw down of stocks.

Highlights of the Major Producers

Brazil, India, Thailand, and China account for 50 percent of world production and 59 percent of world exports.

Brazil

Production

Dropping sugar and ethanol prices during 2007 and 2008 and the global financial crisis in September 2008 became a major obstacle to new investments in 2009 and 2010, although investments in the sugar-ethanol sector had been growing steadily during the last few years. (Financing from the National Bank for Economic and Social Development - BNDES, the major federal bank funding new projects, increased from R$ 3.56 billion in 2007 to R$ 6.5 billion in 2008.) Credit to fund both sugar export operations and investments in new mills has become scarce. The industry estimates that total credit to finance investments should drop from R$ 12 billion in 2008 to R$ 7 billion or less in 2009. Approximately 40 percent of the mills that were supposed to start running in 2009 (35 mills) have already postponed operations until 2010.

Sugarcane Production, Area and Yield

Forecasts 2009/10 (May-April) sugarcane for crushing is placed at 605 million tons (mt), up 7 percent relative to 2008/09 (566 mt), as a consequence of area expansion in the Center-South region (CS). Approximately 20-23 new mills are expected to start operations this season in addition to extra area added at existing mills.

The CS region is expected to harvest 540 mt of sugarcane, up 8 percent compared to the previous crop, although the potential for harvesting can reach 550-560 mt, depending on the efficiency of sugar-ethanol mills and weather conditions. Note that in the past season industrial capacity and weather related issues have limited the crushing of sugarcane for sugar and ethanol production. Indeed, approximately 30 mt of sugarcane have been left in the fields. The harvest started in mid-March in Parana and in April in Sao Paulo and other CS states. North-Northeastern (NNE) production for MY 2009/10 is forecast at 65 mt, similar to the 2008/09 crop.

We project total sugarcane area for 2009/10 at 8.7 million hectares (ha), an 8 percent increase vis-à-vis 2008/09 (8.05 million ha). Total area harvested for 2009/10 is forecast at 8.05 million ha, up 650,000 ha from 2008/09 (7.4 million ha). The table below shows area for sugarcane production, according to the Brazilian Institute of Geography and Statistics (IBGE) and the Agricultural Economics Institute (IEA) of the State of Sao Paulo Secretariat of Agriculture.

Area Planted to Sugarcane (1,000 ha).

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Brazil 1/	4,975.2	4,879.8	5,022.2	5,206.7	5,377.2	6,252.0	6,491.2	7,086.7	7,817.0	8,218.9
Sao Paulc	2,500.0	2,822.1	3,008.7	3,117.6	3,312.8	3,415.9	3,637.4	4,258.4	4,800.1	5,389.3

Sources: IBGE, IEA 1/ 2008 Area refers to harvested area.

The agricultural yield for 2009/10 is forecast at 77.64 tons per ha (t/ha), down 4 percent from previous (80.54 t/ha), due to lower use of inputs, below average crop management and lower renewal rate of sugarcane fields as a consequence of low sugar and ethanol prices during 2007 and 2008. The industrial yield is forecast at 141.36 kg TRS (total reducing sugars)/t, similar to last season (140.98 kg TRS/t). According to UNICA, the average industrial yield for the 2008/09 crop in the CS is 140.9 kg TRS/t, down 3.5 kg TRS/t relative to 2007/08. The following table shows historical yields measured in TRS per metric ton of sugarcane

Sugarcane Industrial Yields

	MY 00/01	MY 01/02	MY 02/03	MY 03/04	MY 04/05	MY 05/06	MY 06/07	MY 07/08	MY 08/09	MY 09/10
TRS/ton	142.08	142.66	146.44	146.40	143.46	142.47	145.81	143.64	140.98	141.36

Source: Datagro, UNICA, ATO/Sao Paulo for MY 2003/04, 2004/05, 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10 (forecast)

Total Brazilian sugarcane production for 2008/09 (May-April) has been adjusted to 566 mt, up 2 percent from previous estimate due to recent updated information from post contacts. The Center-South (CS) harvest extended through January-February 2009 (for a small percentage of the mills) contributing 501 mt of crushed sugarcane. The North-Northeastern (NNE) region’s harvest, which is virtually over, should contribute 65 mt.

Sugar and Ethanol

The 2009/10 sugarcane crop is expected to break the trend of increased percentage of sugarcane toward ethanol production, as opposed to sugar. Sugarcane for sugar, which dropped from 49.5 percent of the crop in 2006/07 to 40.4 percent in 2008/09, is expected to rebound to 42.5 percent in MY 2009/10. Thus, the TRS breakdown for sugar and ethanol production is forecast at 42.5 : 57.5 percent, respectively, compared to 40.4 : 59.6 percent for MY 2009/10.

Expected lower sugar production in important sugar producing countries such as India should encourage higher Brazilian sugar production for 2009/10. Sugar production for 2009/10 is projected at 36.85 million tons, raw value, up 4.5 million tons compared to 2008/09 (32.35 million tons. The CS states should account for 31.9 million tons, raw value, up 16 percent from 2008/09 (27.5 million tons). The NNE should contribute 4.95 million tons of sugar, raw value, relatively stable compared to 2008/09 (4.85 million tons).

Total ethanol production for 2009/10 is projected at 28.45 billion liters (8.5 billion liters of anhydrous ethanol and 19.95 billion liters of hydrated ethanol), up 1.25 billion liters from MY 2008/09 (9.35 billion liters of anhydrous ethanol and 17.85 billion liters of hydrated ethanol), pushed by expected higher ethanol consumption. In spite of the world financial crisis, the domestic demand for ethanol for 2009/10 is expected to increase to 24.5 billion liters, up 2.45 billion liters from 2008/09, due to sales of flex vehicle cars and attractive ethanol prices vis-à-vis gasoline.

The table below shows the sales of flex fueled vehicles (FFV) and ethanol powered cars since 2003. Note that sales of FFV currently represent over 90 percent of total vehicle sales.

Domestic Sales of Alcohol Powered Vehicles (pure alcohol & flex fuel units)

2003	2004	2005	2006	2007	2008	2009 1/
84,558	379,329	897,308	1,425,177	2,032,361	2,356,942	575,883

Source: ANFAVEA 1/ January-March.

Fuel consumption in Brazil, as reported by the Petroleum, Natural Gas and Biofuels National Agency (ANP), is described in the table below. The figures take into account the product sales by distributors and do not include illegal sales, which are common for hydrated ethanol due to tax differentiation between both types of ethanol.

Brazilian Fuel Consumption Matrix (000 m3)

	2003	2004	2005	2006	2007	2008
Diesel	36,853	39,219	39,052	38,854	41,559	44,764
Gasoline C**	21,791	23,165	23,542	23,979	24,326	25,175
Hydrated Ethanol	3,245	4,355	4,654	6,010	9,367	13,290

Source: ANP ** including 20-25 % anhydrous ethanol.

The steady sales of flex-fuel vehicles do not guarantee a higher demand for ethanol since consumers' decisions are driven by the ratio between ethanol and gasoline prices. A 70 percent ratio between ethanol and gasoline prices is generally accepted as determining whether flex car owners will choose to fill up with ethanol (price ratio below 70 percent) or gasoline (price ratio above 70 percent).

Sugar Exports

Total Brazilian sugar exports for 2009/10 are forecast at 24.3 million tons (mt), raw value, up 4.05 mt compared to the previous year (20.25 mt). Expected lower sugar production in India should open an opportunity window to higher Brazilian sugar exports. As a consequence of lower expected supply from other producing countries such as India. Raw sugar should account for 18.225 mt, raw value, whereas the remainder represents exports of refined sugar.

Ethanol Exports

Brazilian ethanol exports for 2009/10 are forecast at 3.7 billion liters, a 1.35 billion liter reduction compared to 2008/09 (5.05 billion liters), mostly due to an expected decrease in direct exports to the U.S. Note that over 50 percent of total Brazilian exports for 2008/09 were shipped to the U.S. either directly (encouraged by high ethanol prices in the U.S.) or through the Caribbean Basin Initiative (CBI) countries

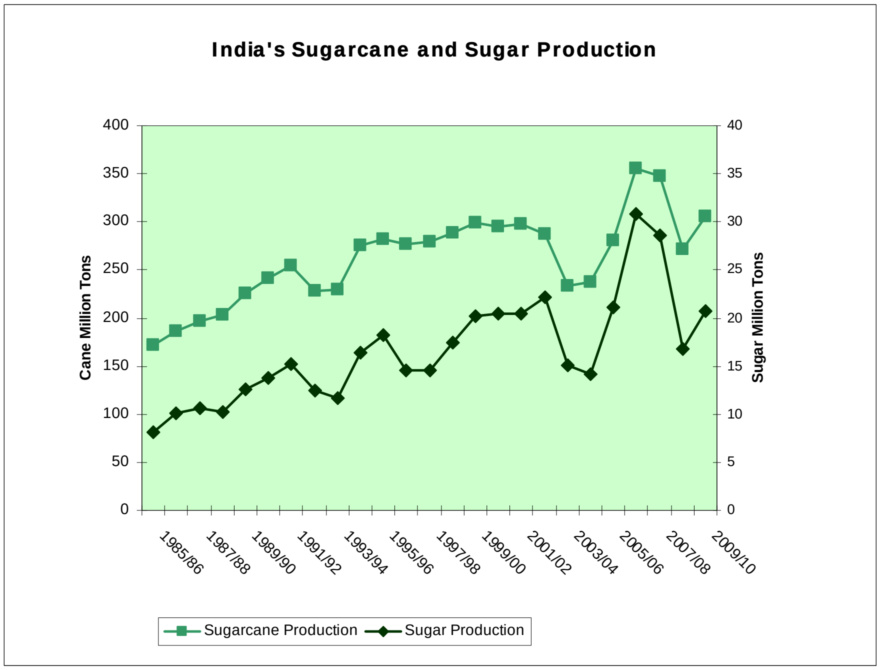
India

Production

After two consecutive years of decline in sugar production, and the consequent increase in sugar and sugarcane prices, Indian sugar production is set to recover in marketing year

2009/10. India's total centrifugal sugar production in 2009/10 is forecast at 20.8 million tons (including 404,000 tons of *khandsari* sugar; up 24 percent from the 2008/09 estimate on improved sugarcane supplies due to expected higher cane planting and yields. *Gur* production is forecast at 7.6 million tons, compared to 7.2 million last year.

Sugarcane and sugar production in India typically follows a 6 to 8 year cycle, wherein 3 to 4 years of higher production are followed by 2 to 3 years of lower production.



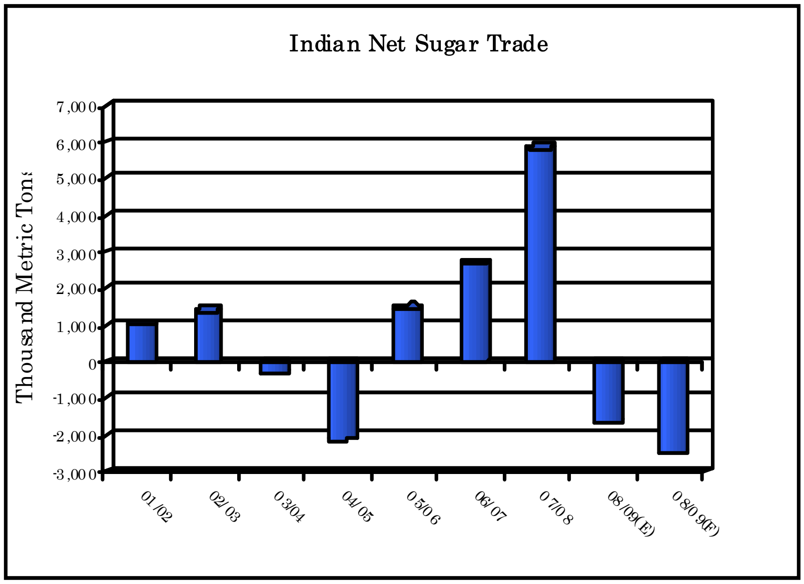
Strong sugar/gur prices during 2008/09, resulted in high cane prices vis-à-vis last year, and timely cane price payment by the mills encouraged farmers to plant more cane this season. Relatively strong sugarcane prices vis-à-vis competing food crops (rice, wheat, maize, pulses) also supported cane planting. Consequently, 2009/10 cane area is forecast to increase by 9 percent to 4.8 million hectares. Assuming normal weather, 2009/10 sugarcane production is forecast higher at 305 million tons (vs. 280 million in 2008/09).

Centrifugal sugar production in 2008/09 is revised lower to 16.8 million tons on higher diversion of cane for production of alternative sweeteners (*khandsari and gur)* and a smaller than anticipated cane crop. Inadequate monsoon rains in July during the critical crop growth stage and the absence of winter rains (December/January) during the maturity stage in major cane producing states adversely affected crop yields resulting in the lower than anticipated cane production. Due to the cane pricing dispute with the state government, cane crushing by sugar mills was delayed by 25-30 days in one of the leading sugar producing state starting in late November. Therefore, farmers diverted a significant portion of their cane crop to alternative sweeteners in September/November. Further, stronger *gur* prices encouraged *gur* manufacturers to compete with mills for cane during the peak crushing season.

Consumption

The recent slowdown in economic growth and expected strong sugar prices due to forecast tight supplies should constrain any growth in consumption in 2009/10 to 23.0 million tons, unchanged from last year. Bulk consumers such as bakeries, makers of candy and local sweets, and soft-drink manufacturers account for about 60 percent of mill sugar demand. Most of the *khandsari* sugar is consumed by local sweets manufacturers. *Gur* is mostly consumed in rural areas for household consumption.

Trade



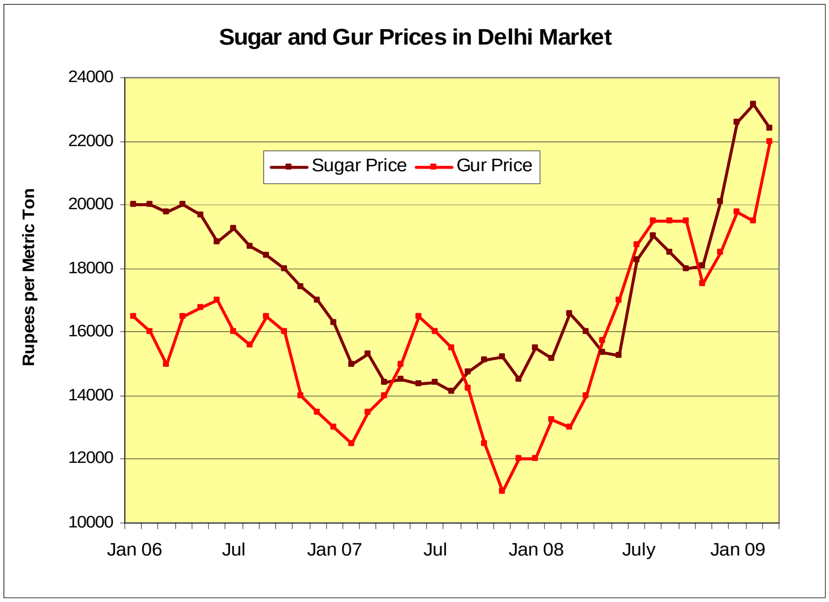
After a gap of 3 years, India has emerged as a net sugar importer in 2008/09. Due to the forecast tight domestic supplies, imports of sugar in 2009/10 are forecast to increase to a record 2.5 million tons as the government is expected to continue with the relaxed import policy. Most of the exports should be raw sugar for further processing to white sugar for sale in the domestic market. However, there may be some imports of white sugar in the first half of the season as the government may allow duty free sugar imports by the private trade. Forecast tight domestic supplies preclude any significant commercial exports of sugar in the near future, and 2009/10 exports will be limited to quota countries.

The 2008/09 import estimate is revised higher to 1.8 million tons; exports are lowered to 140,000 tons based on information from the industry sources. Trade sources estimate India's sugar imports during the first half of 2007/08 (Oct 2007- March 2008) at 655,000 million tons, all raw sugar from Brazil at prices ranging between $252-350 per ton CIF Indian port. An additional 450,000 tons have been contracted for delivery through May, 2009. Industry sources expect strong imports of raw sugar in August/September before the beginning of the next crushing season. After the record shipments in 2007/08, sugar exports tapered off from the beginning of 2008/09, mostly to neighboring countries (Sri Lanka 56,000 tons, Somalia 17,000 tons, and UAE 13,750 tons).

Prices and Stocks

With relatively tight domestic supplies, sugar prices have been on the rise since July 2008. Prices have flared up significantly since December 2008 after the shortage of sugarcane and sugar became more evident. *Gur* prices have kept pace with sugar prices and have now reached record levels.

Current sugar prices in major domestic wholesale markets range from $410 to $450 per ton, nearly 45 percent higher than last year's level. Prices are expected to gain in the coming months and remain firm during MY 2009/10. However, international prices and policy measures to be taken by the new government after the parliamentary elections in May 2009 could impact future domestic price movements.



The 2009/10 ending stocks are forecast at 4.8 million tons compared to 4.5 million for 2008/09 ending stocks, both well below the normal acceptable stock levels of the three-month consumption requirement.

Government Take Measures to Control Prices

Faced with rising sugar prices, the Government of India (GOI) decided to liquidate the 2006/07 buffer sugar stocks. On July 15, 2008, the government allowed the sale of the first tranche of 2.0 million tons of buffer stocks in the domestic market during May 1 through September 30, 2008. Twenty five percent of the second tranche of the 3.0 million tons of buffer stock was allowed for sale in the domestic market from August 1 to September 30, 2008. On October 13, 2008, the government ordered sugar mills to sell the remaining 75 percent in four tranches – 30 percent by end December 2008, 20 percent by the end of March 2009, 30 percent by the end of June 2009 and 20 percent by the end of September 2009.

On February 17, 2009, the government relaxed the norms for duty free imports of raw sugar under the advance license scheme. The changed norms allow local mills to import raw sugar, refine and sell white/refined sugar in the domestic market, and meet future export commitments from domestic sugar when sugarcane and sugar supplies improve in the next 1-2 years.

On March 12, 2009, the central government issued a notification empowering state governments to impose stock limits and turnover limits on sugar held by traders to prevent 'hoarding' of sugar. Although the state governments will determine the exact quantum of stocks, the central government advised that traders should sell sugar stocks within one month of acquisition from mills and the stock limit should be less than 200 tons at any given point of time. However, government agencies, government recognized dealers, and importers have been exempted from the stock limits. While the order is effective for four months from the date of issue, industry sources expect that the government may extend it further depending on the price of sugar and the supply situation.

The government has proposed duty free imports of raw sugar with no export obligation and duty free imports of white sugar by government agencies to cap the galloping domestic sugar prices. However, the official notification may be delayed as the government machinery is busy with the upcoming parliamentary elections. The new government to be formed in May/June may have to take a decision on duty free imports of sugar, both white and raw, if sugar prices further escalate.

Sugarcane Production and Pricing

The GOI establishes a minimum support price (MSP) for sugarcane on the basis of recommendations by the Commission for Agricultural Costs and Prices (CACP) and after consulting State Governments and associations of the sugar industry and cane growers. Several state governments further augment the MSP, typically by 20-25 percent, due to political compulsions rather than market pricing. Sugar mills are required to pay the "state advised price (SAP)" to sugarcane farmers irrespective of the market price of sugar. The continued increase in cane prices is largely unrelated to the end product (sugar) price. The high cane prices (accounting for about 65 percent of the cost of production) have driven the cost of Indian sugar very high ($380-400 per ton). Although the local industry has been advocating rationalization of cane pricing policy by linking it with domestic/world sugar prices, the political clout of the farmers lobby will likely sustain the current policy for the next few years.

Sugar Production and Marketing

The GOI has been following a policy of partial control and dual pricing for sugar. The local sugar mills are required to supply ten percent of their production to the government as 'levy sugar' at below-market prices, which the government distributes through the Public Distribution System (PDS) to its below-poverty line population at subsidized rates. Mills are allowed to sell the balance of their production as 'free sugar' at market prices. However, the sale of free-sale sugar and levy sugar is administered by the government through periodic quotas, designed to maintain price stability in the market. Since the government approved futures trading in sugar in May 2001, three national exchanges have been given permission to engage in sugar futures trading.

The government of India (GOI) levies a fee of Rs. 240 ($6.08) per ton of sugar produced by mills to raise a Sugarcane Development Fund (SDF), which is used to support research, extension, and technological improvement in the sugar sector. The SDF is also often used to support sugar buffer-stocks operations, provide a transport subsidy for sugar exports, and provide an interest subsidy on loans for the installation of power generation and ethanol production plants. In March 2008, the GOI enacted the Sugar Development Fund (Amendment) Bill, 2008 that enables the government to include the use of the funds for debt restructuring and soft loans to the sugar mills.

Ethanol Program
India's ethanol program is based on producing ethanol from sugar molasses, a by-product of the sugar industry and not directly from sugarcane or corn as in most countries.

In January 2003, the government launched a program mandating blending of 5 percent ethanol in gasoline in nine select states and four Union Territories. However, implementation of the program was limited due to inconsistent and inadequate availability of ethanol to oil companies. The program was discontinued in 2004 because of a shortage of molasses due to low sugarcane production. In August 2005, the program was restarted following increased availability of molasses resulting from higher cane production.

In September 2006, the GOI launched the second stage of the ethanol blending program (EBP) targeting five percent blending of petrol with ethanol, if commercially viable, across 20 states and four Union territories with effect from November 2006. However, petrol marketing companies faced difficulties in implementing the program due to higher prices demanded by local ethanol suppliers and issues of high taxes and levies in several states. Oil marketing companies floated tenders and have agreed to purchase ethanol from the sugar industry at prices at Rs. 21.5 per liter.

The slowdown in 2007/08 and 2008/09 of sugar production and consequent low molasses production has raised molasses prices to levels at which the sugar industry can not supply ethanol at the pre-negotiated prices (Rs. 21.5 per liter). The ethanol blending program has come to a halt since the first quarter of 2008/09 as most ethanol suppliers to oil marketing companies have preferred to pay the fine for default. Earlier, the government was forced to postpone the proposed third stage of the EBP from October 2008, wherein the mandatory ethanol blending ratio was to be raised from 5 percent to 10 percent. Industry sources believe that the EBP will restart only in 2010/11 when sugarcane and sugar supplies improve.

The government offers financial support in the form of subsidized loans of up to 40 percent of the project cost for setting up ethanol production facilities. However, there is no direct financial assistance or tax relief offered by the government for the production and marketing of ethanol and/or ethanol blended petrol.

Thailand
Sugarcane production in 2009/10 is forecast to increase reflecting average yield improvement. Sugarcane production in 2008/09 is revised downward, by 6 million tons to 67 million tons, due to lower-than-expected average yield, reflecting lower fertilizer use. Also, unusual dryness and cold before the harvest adversely affected the average yield. Anticipated recovery in 2009/10 sugarcane production is expected to result in higher 2009/10 sugar production, by 300,000 tons to total 7.5 million tons, and also molasses by-product. Sugar and molasses production in 2008/09 will likely be lower than the previous year. Anticipated lower molasses supplies caused molasses prices to

increase by 20 percent in the beginning of 2009. Meanwhile, sugar export is expected to increase in 2008/09 and again in 2009/10 but at a lesser rate.

In 2009/10, sugarcane will go primarily for sugar production as the utilization of sugarcane for ethanol will likely remain limited due to unattractive domestic ethanol prices. One new ethanol plant which uses sugarcane as feedstock came on line this year at less than full capacity. The plant has a production capacity of 200,000 liters/day (30 million liters/year) with daily milling capacity of 5,000 tons of sugarcane from contract farming of 9,600 hectares. Presently, there are 12 ethanol plants with production capacity of 1.7 million liters/day out of 47 registered ethanol plants (with production capacity of 12.3 million liters/day). These 12 plants currently produce 60-70 percent of total production capacity and are primarily molasses-based ethanol. As of January 2009, overall consumption of ethanol increased to 1.2 million liters/day, compared to an average of around 0.9 million liters/day in 2008.

Sugarcane support prices in 2008/09 were set at 830 baht/ton ($23/ton), up significantly from the previous year. Average sugarcane prices of 2007/08 were approximately 672 baht/ton ($20/ton). The Government will likely maintain the controlled domestic sugar prices at the high levels established on May 1, 2008. Domestic sugar prices remain unchanged at the controlled prices of 19 baht/kg ($0.24 /lb) for white sugar, and 20 baht/kg ($0.26/lb) for refined sugar, ex-factory wholesale (excluding 7 percent Value Added Tax) which have been set 5 baht/kg ($o.6 /lb) higher since May 2008. The retail prices (including 7 percent Value Added Tax) are at 21.85 baht/kg ($0.28 /lb) for white sugar, and 22.85 baht/kg ($0.29/lb) for refined sugar. Beverage industries are reportedly facing high production cost from an increase in government controlled domestic sugar prices which are 30-35 percent higher than the previous levels.

Sugar exports in 2009/10 are forecast to continue to increase but at a lesser rate in anticipation of an increase in domestic consumption following economic recovery in 2010. Also, the industry expects increased competition from other major exporting countries due to their sugarcane production increase. Thai sugar exports in 2008/09 are expected to increase significantly due to strong demand from regular buyers in Asia. Despite lower-than-expected 2008/09 sugar production, Thai sugar exportable supplies remain well above the normal average. Thai raw sugar exports increase significantly in 2008, particularly to Indonesia, as domestic sugar production and stocks are lower than expected. Meanwhile, refine sugar exports dropped significantly.

Sugar imports will remain marginal in 2008/09 and 2009/10 due to sufficient supplies. The government’s import policy follows the WTO (World Trade Organization) commitments, which maintains a 65 percent tariff rate under a quota for 13,760 metric tons. Meanwhile, the out-of-quota tariff is 94 percent.

China

Total Chinese centrifugal sugar output is forecast to increase nine percent to 14.5 million tons in 2009/10. Due to the industry practice of maintaining a preset purchase price for sugar cane and beets each year, the market returns for these two crops have been relatively consistent compared with other competing crops. In 2009/10, acreage for sugar cane is forecast to remain unchanged from the previous year and sugar beet acreage is forecast to fall slightly. Production in 2008/09 is estimated at 13.5 million tons, down 15 percent from the previous year due to a substantial drop in yield caused by unusually low winter temperatures and excessive rainfall in summer. The consumption of natural sugar in 2009/10 is forecast to rise five percent, driven by growth in the beverage and food processing sectors. To boost sugar consumption, the government will continue to control production of artificial sugar and limit its sale on the domestic market.

Sugar Cane

Sugar cane harvested area for 09/10 is forecast at 1.62 million hectares (Ha), unchanged from 2008/09. Sugar cane area accounted for 87 percent of the total crop area in 2008/09. Guangxi remains the dominant sugar cane producing province, followed by Yunnan, Guangdong, and Hainan provinces. Guangxi's output is estimated to account for 60 percent of China's sugar cane production in 2008/09.

As a pillar industry in the province and a major contributor for provincial revenue, sugar cane remains a stable source of income for Guangxi's farmers. To encourage farmers to plant more, millers raised the purchase price for sugar cane between 2004 and 2007. Sugar prices declined due to a record production in 07/08, though mills did not lower the purchase price for cane accordingly. In 2008/09, the unchanged purchase price for cane squeezed the profit margin for sugar mills amid falling sugar prices and rising input prices.

At the beginning of each marketing year, provincial governments in the southern sugar cane production regions announce a pre-set (floor) purchase price for cane. The pre-set purchase price is guidance for millers when they purchase cane from the farmers. The table below shows the historical pre-set purchase price in Guangxi. If the sugar price increases during the marketing year, sugar mills usually pay their contracted cane farmers a bonus. In 2008/09, the average cane price in four major producing provinces was \$35.5/ton (RMB242/ton). In Guangxi province, the cane purchase price is estimated at \$39.7/ton (RMB 270/ton) in 2008/09, unchanged from the previous year.

Purchase Price of Sugar Cane in Major Producing Provinces				
RMB/ton (USD1.00 = RMB6.8)				
	Guangxi	Yunnan	Guangdong	Hainan
04/05	180	150	185	160
05/06	220	170	200	175
06/07	270	202	303	206
07/08	270	202	290	206
08/09	270	202	290	206

Provincial governments have not announced the pre-set purchase price for cane in 2009/10. The purchase price is forecast to remain roughly at the same level as the previous year, which will guarantee a reasonable profit for cane farmers. However, due to a falling profit margin, mills might reduce other forms of support for cane farmers, such as to stop offering discounted fertilizer for cane farmers or to reduce the price premium on cane varieties with higher sugar content. In the previous years, there has been price premium for cane varieties with higher sugar content.

Sugar Beet

Sugar beet area for 09/10 is forecast at 230,000 hectares, down slightly from 08/09. Rising prices for competitor crops, such as tomatoes and oilseeds, is making sugar beets less attractive to farmers. Increased prices for agricultural inputs reduced the profit margin for both beet farmers and mills in 08/09. The price for agricultural chemicals and fuels rose by 20 percent in 08/09, while the average sugar price in 08/09 is 11 percent lower than the previous year. During the previous marketing year, beet production has been far behind the millers' processing capacity. To encourage beet planting, sugar mills raised the beet purchase price for 08/09 at planting season. To keep sugar beets competitive with other crops, the millers in Northern provinces repeatedly raised the beet price in recent years. However, in 09/10, the purchase price for beets is forecast to be unchanged due to the narrowed profit margin for sugar mills.

Purchase Price of Sugar Beet in Major Producing Provinces			
RMB/ton (USD1.00 = RMB6.8)			
	Xinjiang	Heilongjiang	Inner Mongolia
05/06	240	280-320	260-300
06/07	260	310-340	300-350
07/08	230-260	320-360	310-330
08/09	300-330	320-370	320-340
Source: Guangxi Sugar Market			

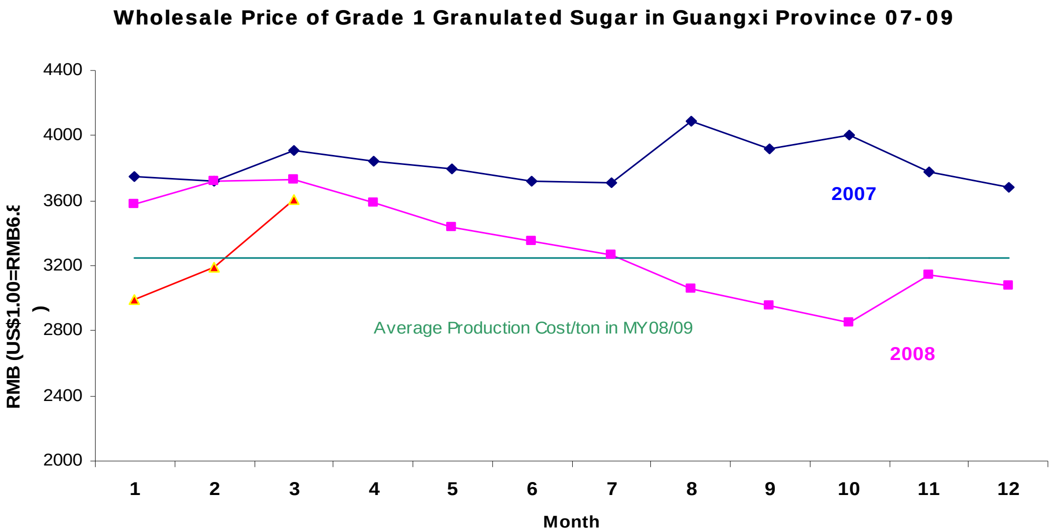
In Xinjiang province, the largest beet sugar producer in China, the beet price in 2008/09 averaged about $46.3/ton (RMB315/ton). This is 28 percent higher than the previous year. In 2008/09, the province's sugar output is estimated at three percent of total national sugar output. The average beet yield in 2008/09 was 34 tons/hectare, five percent lower than the previous year. Industry sources attribute the reduced yield to the drought that occurred in May in Xinjiang, where about 40 percent of the beet area had to be replanted. In the minor production province of Heilongjiang, farmers reported that plant diseases were more severe than the previous year due to bad rotation practices and decline in seed quality.

The chronic lack of quality seed has been a bottleneck for the sector's development. The government views the beet as a minor agricultural crop and, therefore, seed research and development receives very little government support and funding. The current average Chinese beet yield is about half American or European yields, which indicates a great potential for seed improvement in China in years to come.

Production
Assuming an average yield for both cane and beets, overall sugar output for 2009/10 is forecast to reach 14.5 million tons, nine percent higher than 2008/09. Cane sugar output for 2009/10 is forecast at 13.4 million tons, seven percent higher than 2008/09. Beet sugar output is forecast at 1.1 million tons in 2008/09, 10 percent higher than 08/09. The top five producing provinces are: Guangxi, Yunnan, Guangdong, Hainan, and Xinjiang. Their output is estimated to account for 95 percent of national total sugar output in 2008/09. Production in 2008/09 is estimated at 13.5 million tons (raw value), 15 percent lower than the previous year due to a drop in both cane yield and sugar content level. According to industry contacts, most of the mills will finish crushing by the end of April 2009 due to a smaller crop, while in the previous years the crushing season extended until mid-May.

At the beginning of the 2008/09 crushing season, the sugar price fell below the production cost due to a high stock level and sluggish demand. As a result, the industry lobbied the central government to purchase sugar to hold as state reserves during the processing season. In December 2008, the National Development & Reform Commission and People's Bank of China jointly announced the plan to extend loans for the industry to purchase 2.8 million tons of refined sugar from the market to store as a temporary industrial reserve. The loan lasted six months and helped alleviate the sector's need to pay cane farmers and maintain smooth production operations.

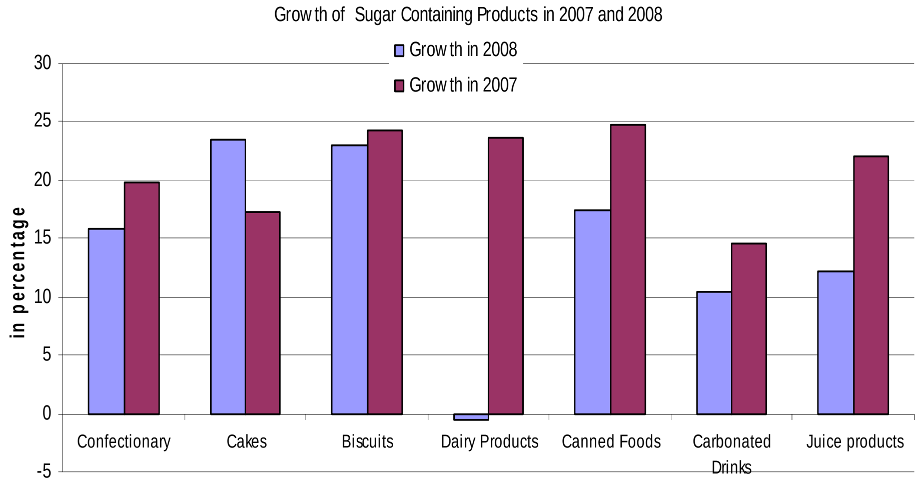
In addition to the industrial reserve program, the Ministries of Commerce and Finance and the National Development & Reform Commission jointly published a plan in January 2009 to purchase 800,000 tons of white sugar for the national sugar reserve. The purchase price is fixed at $485/ton (RMB 3,300/ton), in reference to wholesale sugar price in Guangxi, and there is no closing date for the purchase program. This price is $29.40/ton (RMB 200/ton) lower than the previous year. The government designated about 20 sugar reserve warehouses in consuming regions to store the sugar. The final settlement prices at different warehouses vary in accordance with their transportation cost from Guangxi province. The estimated actual amount purchased is less than 800,000 tons because the announcement of the program substantially has boosted the market price since January and the current market price is higher than the government purchase price.



Source: Guangxi Sugar Exchange Center

Consumption

Sugar consumption in 09/10 is forecast at 15.4 million tons (raw value), five percent higher than 08/09. Total per capita natural sugar consumption in 08/09 is estimated at about 11 Kg. The food processing, beverage, and pharmaceutical industries are the largest consumers of sugar, while household table sugar consumption is declining and accounts for a relatively small portion of the total. Official data shows that rural per capita table-sugar consumption reached 1.07 Kg in 2007, down slightly from 1.09 Kg in 2006. Though the government stopped releasing data on urban per capita sugar consumption in 2001, Post estimates that it also dropped slightly in recent years. Growth in sugar consumption is mostly attributed to the rapidly growing processed food and beverage sectors and catering services. However, the sector's development in 08/09 is estimated to be slower than the previous year due to the overall economic slowdown and some food safety scandals. For instance, due to melamine contamination, dairy products production in 2008 dropped by 0.5 percent from the previous year, though its growth averaged more than 20 percent a year prior to 2008. The dairy processing sector is an important user of sugar.

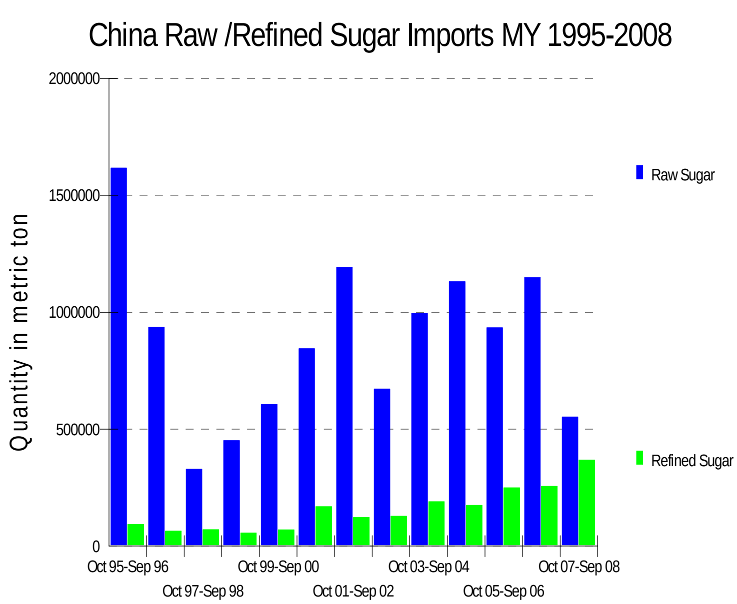


Starch sweeteners are often used in beverage, confectionary, and bakery production as a substitute for sugar. In the beginning 08/09, because of a bumper crop, the average corn price dropped by five percent and the starch sweeteners became competitive versus cane and beet sugar. During the marketing year, sugar use in the food processing and beverage sector is periodically substituted by starch sweeteners when a favorable price appears for corn.

Trade

Imports for 09/10 are forecast at 900,000 tons, 250,000 tons higher than the estimate for 08/09, as consumption continues to outpace domestic production. Imports usually start to arrive in China after the crushing season ends and the domestic price starts to increase. The tariff rate quota (TRQ) for 2008 is 1.95 million tons, with an in-quota-tariff of 15 percent. The 2008 out-of-quota tariff rate is 50 percent. The amounts of the quota and the tariff rate have been unchanged since 2005 and will remain the same in the coming years in line with China's World Trade Organization (WTO) obligations.

As stipulated in China's WTO accession agreement, 30 percent of the TRQ (585,000 tons) is reserved for non-state trading enterprises and the remaining 70 percent is assigned to state trading enterprises. Each year, China imports about 450,000 tons of raw sugar (state trade) from Cuba under a longstanding bilateral agreement signed in 1950's.



Regarding the 30 percent of the TRQ (585,000) for non-state trading enterprises, trade sources report that the amounts of allocation they receive in most cases are not commercially viable for a Panamax vessel shipment. The traders have to pool their quota and sometimes the quotas are traded at a price of around $20/ton.

Contact
Robert Knapp
USDA/FAS/OGA/ISAD
robert.knapp@fas.usda.gov
202-720-4620

World Centrifugal Sugar Production, Supply and Distribution - (Oct/Sept Marketing Year)

1,000 Metric Tons, Raw Value

Country Mktg Year	Beginning Stocks	Total Sugar Production	Total Imports	Total Supply	Total Exports	Total Use	Ending Stocks
SUG - North America							
Canada							
2007/08	105	126	1,386	1,617	77	1,465	75
2008/09	75	87	1,459	1,621	38	1,500	83
2009/10	83	100	1,450	1,633	42	1,454	137
Mexico							
2007/08	1,718	5,852	226	7,796	677	5,504	1,615
2008/09	1,615	5,550	400	7,565	865	5,780	920
2009/10	920	5,500	535	6,955	150	5,650	1,155
United States							
2007/08	1,632	7,396	2,377	11,405	184	9,715	1,506
2008/09	1,506	6,900	2,478	10,884	118	9,685	1,081
2009/10	1,081	7,326	1,639	10,046	181	9,603	262
Total SUG - North America							
2007/08	3,455	13,374	3,989	20,818	938	16,684	3,196
2008/09	3,196	12,537	4,337	20,070	1,021	16,965	2,084
2009/10	2,084	12,926	3,624	18,634	373	16,707	1,554
SUG - Caribbean							
Cuba							
2007/08	240	1,422	255	1,917	950	710	257
2008/09	257	1,250	240	1,747	900	710	137
2009/10	137	1,300	280	1,717	900	710	107
Dominican Republic							
2007/08	47	500	40	587	217	335	35
2008/09	35	520	40	595	217	338	40
2009/10	40	525	20	585	217	338	30
Other SUG - Caribbean							
2007/08	117	238	454	809	211	469	129
2008/09	129	235	446	810	212	465	133
2009/10	133	215	458	806	205	466	135
Total SUG - Caribbean							
2007/08	404	2,160	749	3,313	1,378	1,514	421
2008/09	421	2,005	726	3,152	1,329	1,513	310
2009/10	310	2,040	758	3,108	1,322	1,514	272
SUG - Central America							
Guatemala							
2007/08	410	2,274	0	2,684	1,333	742	609
2008/09	609	2,247	0	2,856	1,490	744	622
2009/10	622	2,250	0	2,872	1,515	745	612
Other SUG - Central America							
2007/08	334	2,087	2	2,423	851	1,164	408
2008/09	408	2,004	4	2,416	843	1,147	426
2009/10	426	2,096	12	2,534	860	1,173	501
Total SUG - Central America							
2007/08	744	4,361	2	5,107	2,184	1,906	1,017
2008/09	1,017	4,251	4	5,272	2,333	1,891	1,048
2009/10	1,048	4,346	12	5,406	2,375	1,918	1,113
SUG - South America							
Brazil							
2007/08	-485	32,100	0	31,615	19,750	11,400	465
2008/09	465	32,350	0	32,815	20,250	11,900	665
2009/10	665	36,850	0	37,515	24,300	12,250	965

World Centrifugal Sugar Production, Supply and Distribution - (Oct/Sept Marketing Year) (Continued)

1,000 Metric Tons, Raw Value

Country Mktg Year	Beginning Stocks	Total Sugar Production	Total Imports	Total Supply	Total Exports	Total Use	Ending Stocks
Colombia							
2007/08	98	2,245	103	2,446	661	1,615	170
2008/09	170	2,050	120	2,340	630	1,585	125
2009/10	125	2,200	110	2,435	660	1,605	170
Argentina							
2007/08	53	2,190	10	2,253	343	1,805	105
2008/09	105	2,420	26	2,551	620	1,750	181
2009/10	181	2,250	4	2,435	600	1,720	115
Other SUG - South America							
2007/08	1,167	3,082	1,220	5,469	452	3,748	1,269
2008/09	1,269	3,196	1,182	5,647	449	4,103	1,095
2009/10	1,095	3,105	1,479	5,679	392	4,265	1,022
Total SUG - South America							
2007/08	833	39,617	1,333	41,783	21,206	18,568	2,009
2008/09	2,009	40,016	1,328	43,353	21,949	19,338	2,066
2009/10	2,066	44,405	1,593	48,064	25,952	19,840	2,272
SUG - Western Europe							
EU-27							
2007/08	4,005	17,740	3,650	25,395	1,386	19,240	4,769
2008/09	4,769	16,900	3,994	25,663	1,695	20,300	3,668
2009/10	3,668	17,000	4,500	25,168	1,505	20,300	3,363
Other SUG - Western Europe							
2007/08	304	270	483	1,057	80	703	274
2008/09	274	275	348	897	50	678	169
2009/10	169	270	361	800	50	648	102
Total SUG - Western Europe							
2007/08	4,309	18,010	4,133	26,452	1,466	19,943	5,043
2008/09	5,043	17,175	4,342	26,560	1,745	20,978	3,837
2009/10	3,837	17,270	4,861	25,968	1,555	20,948	3,465
SUG - Eastern Europe							
Russia							
2007/08	440	3,200	3,100	6,740	200	5,990	550
2008/09	550	3,480	2,800	6,830	200	5,880	750
2009/10	750	3,350	2,400	6,500	200	5,850	450
Ukraine							
2007/08	785	2,020	76	2,881	1	2,300	580
2008/09	580	1,710	100	2,390	40	2,100	250
2009/10	250	1,400	390	2,040	10	1,950	80
Other SUG - Eastern Europe							
2007/08	491	1,386	1,170	3,047	995	1,635	417
2008/09	417	1,288	1,367	3,072	1,127	1,650	295
2009/10	295	1,395	1,343	3,033	1,043	1,661	329
Total SUG - Eastern Europe							
2007/08	1,716	6,606	4,346	12,668	1,196	9,925	1,547
2008/09	1,547	6,478	4,267	12,292	1,367	9,630	1,295
2009/10	1,295	6,145	4,133	11,573	1,253	9,461	859
SUG - Africa							
South Africa							
2007/08	446	2,360	165	2,971	1,154	1,590	227
2008/09	227	2,350	175	2,752	1,000	1,590	162
2009/10	162	2,300	200	2,662	900	1,590	172
Other SUG - Africa							
2007/08	2,721	5,924	6,791	15,436	2,544	10,271	2,621

World Centrifugal Sugar Production, Supply and Distribution - (Oct/Sept Marketing Year) (Continued)

1,000 Metric Tons, Raw Value

Country Mktg Year	Beginning Stocks	Total Sugar Production	Total Imports	Total Supply	Total Exports	Total Use	Ending Stocks
2008/09	2,621	6,076	7,202	15,899	2,753	10,522	2,624
2009/10	2,624	6,142	7,654	16,420	2,907	10,952	2,561
Total SUG - Africa							
2007/08	3,167	8,284	6,956	18,407	3,698	11,861	2,848
2008/09	2,848	8,426	7,377	18,651	3,753	12,112	2,786
2009/10	2,786	8,442	7,854	19,082	3,807	12,542	2,733
SUG - MiddleEast							
Turkey							
2007/08	710	1,700	5	2,415	5	2,000	410
2008/09	410	2,100	5	2,515	40	2,000	475
2009/10	475	2,100	5	2,580	40	2,000	540
Egypt							
2007/08	246	1,511	1,390	3,147	50	2,690	407
2008/09	407	1,612	1,410	3,429	100	2,720	609
2009/10	609	1,600	1,410	3,619	100	2,720	799
Other SUG - MiddleEast							
2007/08	2,510	1,306	8,915	12,731	3,665	6,680	2,386
2008/09	2,386	705	8,609	11,700	3,526	6,559	1,615
2009/10	1,615	1,415	9,035	12,065	3,498	6,551	2,016
Total SUG - MiddleEast							
2007/08	3,466	4,517	10,310	18,293	3,720	11,370	3,203
2008/09	3,203	4,417	10,024	17,644	3,666	11,279	2,699
2009/10	2,699	5,115	10,450	18,264	3,638	11,271	3,355
SUG - Asia - Oceania							
Japan							
2007/08	372	950	1,337	2,659	2	2,287	370
2008/09	370	925	1,502	2,797	2	2,400	395
2009/10	395	920	1,500	2,815	0	2,400	415
India							
2007/08	9,850	28,630	0	38,480	5,830	23,550	9,100
2008/09	9,100	16,780	1,800	27,680	140	23,000	4,540
2009/10	4,540	20,750	2,500	27,790	20	23,000	4,770
China							
2007/08	1,401	15,898	972	18,271	56	14,250	3,965
2008/09	3,965	13,500	650	18,115	43	14,677	3,395
2009/10	3,395	14,500	900	18,795	40	15,410	3,345
Thailand							
2007/08	1,745	7,820	0	9,565	4,914	2,000	2,651
2008/09	2,651	7,200	0	9,851	5,500	2,000	2,351
2009/10	2,351	7,500	0	9,851	5,700	2,100	2,051
Australia							
2007/08	402	4,939	9	5,350	3,700	1,250	400
2008/09	400	4,834	9	5,243	3,544	1,250	449
2009/10	449	4,834	9	5,292	3,600	1,250	442
Pakistan							
2007/08	1,060	4,163	110	5,333	70	4,100	1,163
2008/09	1,163	3,562	700	5,425	75	4,300	1,050
2009/10	1,050	3,670	530	5,250	0	4,350	900
Indonesia							
2007/08	1,120	2,300	2,000	5,420	0	4,400	1,020
2008/09	1,020	2,500	2,000	5,520	0	4,400	1,120
2009/10	1,120	2,600	1,950	5,670	0	4,400	1,270
Philippines							
2007/08	262	2,455	0	2,717	240	1,930	547

World Centrifugal Sugar Production, Supply and Distribution - (Oct/Sept Marketing Year) (Continued)

1,000 Metric Tons, Raw Value

Country Mktg Year	Beginning Stocks	Total Sugar Production	Total Imports	Total Supply	Total Exports	Total Use	Ending Stocks
2008/09	547	2,050	0	2,597	300	2,050	247
2009/10	247	2,250	0	2,497	140	2,100	257
Other SUG - Asia - Oceania							
2007/08	2,610	2,396	8,720	13,726	1,518	9,647	2,561
2008/09	2,561	2,076	8,889	13,526	1,481	9,746	2,299
2009/10	2,299	2,211	8,937	13,447	1,485	9,825	2,137
Total SUG - Asia - Oceania							
2007/08	18,822	69,551	13,148	101,521	16,330	63,414	21,777
2008/09	21,777	53,427	15,550	90,754	11,085	63,823	15,846
2009/10	15,846	59,235	16,326	91,407	10,985	64,835	15,587
World							
World							
2007/08	36,916	166,480	44,966	248,362	52,116	155,185	41,061
2008/09	41,061	148,732	47,955	237,748	48,248	157,529	31,971
2009/10	31,971	159,924	49,611	241,506	51,260	159,036	31,210
Unrecorded							
2007/08				7,150			
2008/09				293			
2009/10				1,649			

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Footnotes

1/ The U.S. PS&D estimates conform to those released in the World Agricultural Supply and Demand Estimates (WASDE) 'miscellaneous' category allocated to domestic consumption. The U.S. PS&D includes Puerto Rico.

2/ The European Union (EU) includes French Overseas Departments of Reunion, Guadeloupe, and Martinique. EU trade data does not include intra-EU trade. Beginning 2004/05 the PS&D reflects the EU enlargement by accession of the following ten countries. Latvia, Lithuania, Estonia, Poland, Hungary, Czech Republic, Slovakia, Slovenia, Malta, and Cyprus. As a result of this enlargement, from 15 countries to 25 countries, the ending stock figure for 2003/04 will not carry over to the beginning stock figure for 2004/05. Data prior to 2004/05 reflects the countries comprising the EU at that time. The PSD for the EU-25 ends with marketing year 2005/06. The series picks up with the EU-27 beginning marketing year 2006/07. The EU-27 contains two new countries Bulgaria and Romania.

3/ Includes traditional Eastern European countries, Hungary, Czech Republic, Slovakia, Balkans, Baltic's, Armenia, and Georgia. Beginning 2004/05 the following countries are removed from this list upon their accession to the EU: Latvia, Lithuania, Estonia, Poland, Hungary, Slovakia, and Slovenia. Note that data for Poland is zeroed out for 2004/05 because it is included in the European Union.

4/ Includes all of continental Africa except Egypt.

5/ Includes Bahrain, Kuwait, Oman, Qatar, and the United Arab Emirates.

6/ Indian data includes production of khandsari sugar, a native type, semi-white centrifugal sugar. Estimated output of Khandsari sugar in thousand of metric tons (raw value equivalent) is as follows: 2001/02 - 714; 2002/03 - 590; 2003/04 - 620; 2004/05 - 683; 2005/06 - 683; 2006/07 - 500; 2007/08 - 425; 2008/09 - 435; 2009/10 -404

7/ Includes Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan.

8/ The 'Unrecorded' category is a balancing mechanism to equalize world exports and imports. It is assumed there is a certain quantity of trade that will not be recorded, with the result that imports and exports will differ by a certain amount.

To view country crop years click on the following URL:
http://www.fas.usda.gov/htp/sugar/tmarketingyears.pdf