

By Roger Bradshaw<https://www.linkedin.com/in/rogbradshaw/>

The impact of Indian sugar policy developments has overshadowed much of the East Asia and Oceania region during the past month where policy in general—actions and reactions—has been an underlying theme overall. Despite the world market decline over the last 18 months, India has attempted to manage its market through a combination of subsidies for exports and continued robust prices for cane and raw sugar sales by Indian mills already underway for Q4 18/Q1 19. This creates a headache for both Australia and Thailand. To some extent the latter are protected by the ASEAN Free Trade Agreement favourable duty rate of 5%, however, markets outside the area such as China, Japan, Taiwan and South Korea will prove challenging in the coming months due to Indian competition. It looks likely that in the coming months both Thailand and Australia will challenge India over their subsidy programme at the WTO.

Thailand

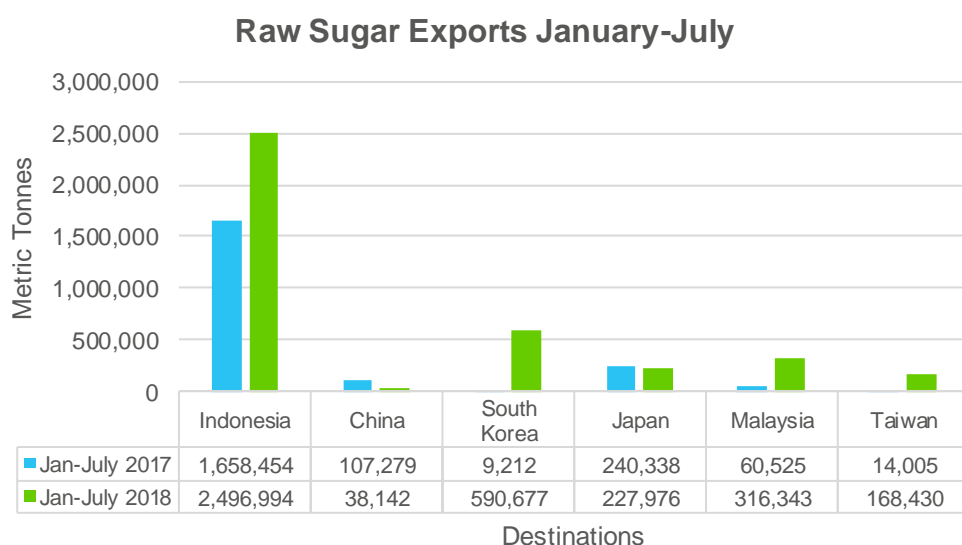
Currently, milling groups are forecasting a cane crop of around 122 million tonnes, which is 11% lower from the previous crop of 136 million tonnes. This is due mainly to farmers switching to fragrant rice in the North East, and tapioca in the Centre and East. Below average rainfall in the Central district could also affect yields leading to a crop forecast of 13 million tonnes raw value versus last year's crop of 14.7 million tonnes raw value. Although too early to call definitively, given ample bagasse and India potentially contributing to a regional raw sugar surplus in 2019, white sugar exports should be at least 50% of total exports next season.

Exports for the period December 2017 to August 2018 totalled 8.1 million tonnes of both raw and white sugar which also include sugar from the 2016/17 crop. [As discussed in the July edition of the Sugaronline East Asia & Oceania report](#), white sugar exports accounted for half of the export tonnage.

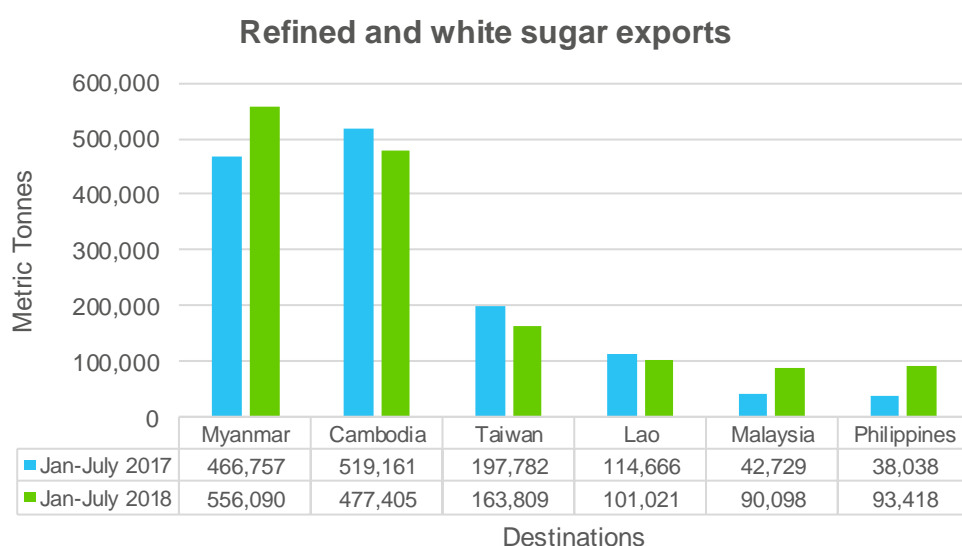
Despite the impressive export flows so far this season, in conversation with one of the main export companies recently, they estimate that stocks at port warehouses as of end September total some 3 million tonnes in addition to sugar held at the mills. This could precipitate a push to accelerate exports in the coming few months in advance of the crushing season that starts end-November. Quality will be an issue as Thai raw sugar is always subject to colour deterioration during the humid summer months. The push to clean down stocks will likely impact negatively on the Far East premium, which is already under pressure due to the prospect of India focussing on raw sugar exports in 2018/19. It is unlikely that the raw sugar already in port warehouses can be returned to mills for remelt to whites.

White sugar exports through July were at record levels, unsurprising given the size of the crop, a stable white premium, and ample bagasse availability. The destinations for white sugar covered a wide geographical spread from West Africa to the Pacific islands. However, core demand came from the SE Asian region, particularly Cambodia, Lao and Myanmar primarily as conduits to China, unless these countries have developed a very sweet tooth.

Attempts to divert sugar to ethanol in Thailand have not proven very successful. Ethanol prices have tracked lower over the year to THB23.40/litre in July from THB25.60 in August 2017. Along with a bumper sugar crop comes an abundant supply of molasses which is more cost competitive than sugar as a feedstock.



Source: Office of Cane & Sugar Board



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In October, the Office of Cane and Sugar Board (OCSB), is expected to set the provisional cane price for the 2018/19 crop. Indications are that an agreement has been reached to set this at THB680 per tonne versus THB880 for 2017/18, a drop of 25%. However, the price will be adjusted through two support measures. The government will provide a support package totalling THB15.6 billion. Of the total, THB6.5 billion will come directly from the government for the purchase of inputs. This amount is based on a 130 million tonne cane crop, which would translate into THB50 per tonne. Another THB9.1 billion will be paid directly by the sugar mills (THB70 per tonne) through the Cane and Sugar Fund (CSF). As a result, the sugarcane price in 2018/19 will rise to THB800 per tonne against THB680 purely based on the world market price. Meanwhile, it is expected that the CSF will close 2018 with a deficit of THB7.797 billion compared with liquid funds of THB9.701 billion recorded at the end of August. The Thai Government has already issued a defence of the subsidies, which fall below the 10% threshold for support measures under WTO, stating that the industry is worth THB300 billion.

In part, the original steep reduction is necessary in order for the CFS to balance the books. Whilst the provisional price for 2017/18, which is in effect a minimum price, was set at THB880, the net value of domestic and export sugar and molasses revenues equates to THB780/tonne, leaving a shortfall of THB13.5 billion or US\$412 million. The shortfall is in large part due to the removal of the quota system, which in turn has meant that the revenue from taxes on domestic sales has dropped. Estimates are that the fund only has some US\$280 million. It is therefore anticipated that the CSF will have to borrow from local banks supported by government guarantees, which may in turn create some WTO scrutiny. It is ironic given that the industry is endeavouring to be more market oriented in comparison with developments in South Asia, where the prices paid to farmers in India for cane will increase yet again despite the weakening trend over the last 18 months in the world market. The lower cane price for next season should result in a reduction in cane area, leading to the possibility of mills reverting back to the practice of buying 'hot cane' from growers, i.e. paying a significant premium to the official prices to ensure that their mills run as efficiently as possible.

Philippines

The 2018/19 crop was forecast by the Sugar Regulatory Agency (SRA) at 2.225 million metric tonnes raw value versus 2.1 million for 2017/18. Not many people in the industry are as positive about the forecast, particularly after a number of severe typhoons hit the cane belt so far in 2018. Most attention remains centred on domestic consumption. This remains strong at around 2.25 million tonnes, which will make imports inevitable again after allowing for the US Quota TRQ of 142,000 tonnes.

The government has issued a number of decrees in the last few weeks. Firstly, it is meant to [authorise the import of up to 150,000 tonnes of refined sugar directly by food and beverage manufacturers](#). This in and of itself is complicated as the sector is highly fragmented, with literally thousands of manufacturers. In reaction, [the Confederation of Producers, which consists of planters, has offered to reduce the price at which they sell sugar in provincial markets](#). It is a widespread practice in the Philippines for farmers to be paid for their cane with sugar where the standard payment tends to be one 50kg bag per tonne of cane delivered. In practice, farmers rely on the mill to market the sugar but this appears to be another effort to dissuade the government from importing sugar. The impact of this will be a softening of prices all around as mills will now have to compete to a greater degree to sell sugar in competition with the Confederation. It remains to be seen how the precedent of allowing food manufacturers to import will impact the industry. Could it mean that the Philippines opens up to larger-scale imports in future years at the expense of the domestic industry?

Secondly, the government announced a price cap on imported sugar. This would establish a maximum price of US\$920/tonne, or about US\$100 below domestic prices. This action is seen as a result of concerns over the rate of inflation which in September officially hit 6.7%. The main cause is attributed to rising food and non-alcoholic beverage costs. Much of this is in turn due to the tax reforms enacted in 2017, which imposed a tax of PHP6 on both sugar and non-sugar sweeteners, with the notable exception of HFCS which attracts tax at PHP12 per litre in beverages.

It is significant that the sugar import decision came direct from the President, who appears to have overruled the SRA. It would seem from this recent flurry of activity that the government may have to make hard choices with regard to the industry in the face of inflationary pressure. With the migration of workers from the countryside to the city for better paid work than cutting cane, it would appear that the industry faces challenges at both ends of the spectrum.

Indonesia

In Indonesia, reports have emerged of refined sugar leaking into the retail sector. The Indonesian government is taking the matter very seriously, as the demarcation of sugar supply serves to support the high-cost domestic industry. Refineries operate on the basis that the sugar produced is reserved exclusively for the food and beverage sector whilst locally produced sugar is solely for retail consumers,

in order to provide stability to growers and producers in the domestic industry. Up until now, the system has worked well, so it will be interesting to see how the Indonesian government remedies the issue, in order to ensure that it does not become more widespread in the future

Fiji

This is a year where, despite EU reform, Fiji is currently shipping 35,000 tonnes to the EU of which 20,000 tonnes is Fairtrade sugar. The industry is on a sounder footing, although costs of production remain high. [Further sales have also been reported to China.](#)

[Meanwhile, additional land is being allocated to cane in Bua.](#) The development is based on a joint venture structure between the indigenous landowners and the Fiji Sugar Corporation (FSC). Under this joint venture programme, FSC will take full responsibility to develop and cultivate the land but there is a revenue sharing agreement with the landowners who will receive 70% of the profit whilst FSC retains 30%. A total of 352 acres of flat land has been made available to FSC. Of this, 180 acres of land preparation has already commenced. Cane yields are forecast at 80 tonnes/ha.

The Fijian industry has been plagued by lease rights issues which have hindered the development and competitiveness of the industry. This new and innovative approach should improve both cane supply and reduce costs along the value chain in the future. The ambition of FSC is to grow the area under cane by 5,000 hectares in the next five years using this joint venture template.

Australia

The industry continues at pace through the crush, which is running around 3.6% higher than the previous season, but India and the danger posed to market stability are what keep the sector awake at night. The final cane crush is expected to be slightly down, but this will be compensated for in higher sucrose yields. Estimates put the crop at 4.6 million tonnes *tel quel* versus 4.45 million in 2017/18 but with low sugar prices for its exports in large part thanks to India.

In the meantime, [the ability of Mackay to disengage Mossman seems to be in doubt](#) given the appeals from local government to Canberra to save the mill, but it's not a likely outcome that Canberra will ride to the rescue. Bundaberg once tried to save their mill on the Sunshine Coast by appealing to allow trucks to deliver cane to the mill rather than simply rely on the cane railway. That shire council was unsympathetic, pointing out that such a move could damage revenue from tourists coming for a peaceful holiday. Maybe Mossman Council will need to change tack.

Other markets in Asia have remained quiet in the past month. One interesting development was the decision by [Mitsui Sugar Ltd. to acquire SIS88 from ED&F Man for approximately US\\$100 million.](#) This was a business which the Singapore Government disposed of 30 years ago as a 150,000-tonne refinery for less than US\$10 million. Since then, of course, the refinery closed, and the operation transformed itself into supplying bulk industrial sugar, sugar in retail packs and blends for markets such as Japan. It is an example for all who say that there is no value in sugar brands because sugar is "just a commodity." A recent study in France showed that packaging alone contributed 37% to the value chain from farm to supermarket shelf. What focus on the customer can achieve is not to be sneezed at.

Roger Bradshaw is an independent consultant within softcommodityconsulting.com.

Roger worked for 14 years in sugar trading principally focused on East Asia and the Pacific before joining Rabobank, where he was involved in project financing of sugar operations and later as Senior banker for sugar and sweeteners.

After leaving Rabobank, his roles have also included work as a senior advisor to Kenana Sugar, Mitr Phol Sugar and Bunge. He is fluent in French and Japanese.