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ISO STUDY - MECAS(09)17

Market Evaluation Consumption and Statistics Committee

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Market Potential of Sugarcane & Beet Bio-products

Industrial biotechnology is of immediate interest to the world sugar industry as it potentially offers new revenue streams for “bio-products” using sugarcane and beet as a renewable feedstock. Legislation and initiatives concerning renewables in the US, Europe and Asia - as well as higher oil prices - are speeding up the worldwide demand for renewable bioproducts. As a result there are a growing number of “green” and high value chemicals, renewable polymers for bioplastics production, amongst others - collectively termed bio-products - that offer potential to the world sugar industry. The aim in this study is to investigate the market potential for sugarcane and beet bio products arising from industrial biotechnology advances. The key bioplastics opportunity for sugar is identified as bio-polyethylene, where significant investments are already taking place in Brazil to make the chemical from sugarcane ethanol. Whilst 8 other chemicals are identified as offering potential for sugar crops as a renewable feedstock, the one with the best potential in the near term is BDO (1,4 butanediol). Other key biotech opportunities highlighted for the sugar industry include: cellulosic ethanol from sugarcane bagasse; butanol, and biodiesel from bagasse. These latter biotech opportunities are likely to result in broader and more significant new markets for the sugar industry than bioplastics or other intermediate biochemicals.

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Domestic Sugar Prices

With the continuing globalisation of the world sugar economy the importance of domestic market sugar prices is growing. In contrast to well-monitored world market prices, information on domestic prices is patchy and sometimes difficult to obtain. In 2003 in a study "Domestic Prices for Sugar: International Comparison" (MECAS (03)20) the ISO provided a seven-year series of annual averages for domestic prices (at retail level) in more than 100 countries. The current paper provides an update on the 2003 survey for the period from 2002 to 2008 but also a wider scope including information on domestic prices at wholesale level. Apart from being a reference paper on domestic prices at both retail and wholesale levels, the study also identifies links between world and domestic prices focusing on the correlation between them. During the period under review, as can be expected, the world average domestic price at both the retail and the wholesale level remained significantly higher than world market prices. The domestic markets of importing countries with typically high cost of production and import duties, are characterized by prices about 30% higher than those in exporting countries. Generally, domestic prices in beet growing countries are higher than those in cane sugar producing countries. Of particular importance, there is a high degree of dispersion of individual countries data for both retail and wholesale prices. Our analysis of domestic price dynamics also shows how domestic prices can be influenced by the size of the domestic crop, the level of self-sufficiency and the stock situation. Changes in sugar policy (introduction or removal of import duties, changes in the level of state-controlled prices, purchases of sugar for stocks and releases of sugar from stocks government reserves, etc.) are also impacting domestic prices. Unexpectedly up to a point, the weighted world average domestic prices series shows a high correlation with world market prices. However, national sugar balances are of paramount importance in determining the dynamics of domestic prices. At the same time, it can be argued that changes in world market prices are highly dependent on the global supply/ demand situation which in its turn represents a net result of developments in individual countries.

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The International Physical Trade of Sugar - a Survey

This paper reviews the major changes and trends in the world trade flows of raw and white sugar over the past decade, the role and impact of existing and new drivers of the physical trade as well as changes in the composition of the trade by main category of sugar exporter and sugar importer. The past decade has seen a tremendous transformation in the composition of the world sugar trade. In the fast growing raw sugar market, the emergence of Brazil as a dominant origin has given rise to large quantities of sugar exports to the Middle East and Northern Africa, and to Eastern Europe, which now constitute the world's two largest sugar trade routes. In the white sugar market, the abrupt fall in the volume of sugar exports from the European Union, following the reform of the EU Sugar Regime, has given way to a dynamic new set of regional trade flows involving Brazil, the Middle East, Africa and the Far East, with the latter three regions participating as both main origins and destinations. These developments are linked, to a large extent, to the appearance of several new large destination refinery countries in the Middle East and North Africa as well as in Asia, further boosting import demand for high quality raw sugar (VHP) from the Western Hemisphere. Several countries with new destination refineries, like Algeria, Bangladesh, Morocco, Nigeria and the United Arab Emirates have been steadily climbing up the rankings of raw sugar importers. As a result, destination refineries have increased their share in the imports of raw sugar from 48% in 2000 to over 60% today. Moreover, traditional white sugar importers with no home-grown production have been increasing their share in white sugar imports. Their share in total world trade increased from 50% to 59% between 2000-2002 and 2006-2008, a trend that is set to accelerate with the further increase in the white sugar intra-trade in Asia and Africa. In addition to a comprehensive overview on the main trade flows for raws and whites, the paper presents an analysis of trade drivers such as freight rates and regional premiums and discounts for raw/white sugar. The increasing reliance on long haul routes for the sourcing of raw sugar in bulk has highlighted the impact that ocean freight rate volatility can have on world sugar trade flows. For instance, Brazil's exports to Asia fell sharply last year as a result of significantly higher freight coupled with an increase in India's export competitiveness. In addition, key industry players like producers at origin and refiners at destination have taken on a larger role in the trade, at the expense of traditional trading houses. Indeed, while in September 2008 19% of the sugar exports leaving Brazil's port of Santos were negotiated directly between a sugar producer and a sugar refiner at destination, this rose further to 25% in September this year.

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