



International Sugar Organization

QUARTERLY
MARKET
OUTLOOK

August 2008

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QUARTERLY MARKET OUTLOOK AUGUST 2008

Sugar

The first assessment of the world sugar balance in 2008/09 (October/September) shows world statistical deficit of 3.9 mln tonnes
World production to decrease for the first time since 2004/05
World consumption to grow by 3.8 mln tonnes
No shortages in physical supply are expected
The most constructive sugar fundamentals since 2005/06
Increased volatility of world market prices
Jigsaw world price pattern to continue?
Domestic prices falling in China, rising in India and in the US
Continued BRL appreciation

Special focus

Commodity prices remain high, despite recent downturn
Index fund presence in sugar futures remains strong

World Fuel Ethanol

Global production and consumption to rise by almost a third
US Renewable Fuels Standard boosted by discretionary blending
Robust sales of flex-fuel vehicles in Brazil boosts offtake of hydrous ethanol
whilst millers favour alcohol production
EU using more beet for ethanol
India's blending program frustrated by low ethanol supplies
Thailand's sales of E20 help raise consumption

Alternative Sweeteners

Little reprieve for US HFCS producers from high corn prices
New Sucralose supplier in Europe

Molasses

The prospects of lower supplies mean prices will remain firm

WTO Update

Doha talks fail

RTAs

Disagreements continue over EPAs

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Quarterly Market Outlook

August 2008

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EXECUTIVE BRIEF

28 August 2008

World Sugar Market

Since our previous *Quarterly Market Outlook* in May, world market prices have continued a rollercoaster ride. On the 5th June the raw sugar price (ISA daily price) was as low as 11.03 cents/lb. Five weeks later on 11th July, the ISA daily price was as high as 15.08 cents/lb, the second highest daily price in 2008. Then, world values suffered from a rapid and significant downward correction. During one day only (17th July) raw sugar futures lost more than 1 cent/lb. At the end of July, a new upward wave started. August demonstrated a jigsaw movement of prices oscillating in a wide range between 14.08 cents/lb and 15.14 cents/lb. White sugar prices followed a very similar pattern. During the period under review the ISO White Sugar Price Index has varied from USD333.10/tonne (15.11 cents/lb) to USD 413.80/tonne (18.77 cents/lb).

In this issue we make our first assessment of the upcoming 2008/09 crop cycle. In 2008/09, for the first time since 2004/05 **world production** is expected to decrease, to 161.649 mln tonnes, raw value, a massive 7.353 mln tonnes down from the last season. **World consumption** is put at 165.547 mln tonnes, raw value, up 2.35%, generally in line with the long-term average growth. The first forecast of the world sugar balance for the period from October 2008 to September 2009 puts world production 3.898 mln tonnes lower than world consumption. Thus, the distinctive global surplus phase has ended and the market is likely to move into a deficit phase.

Production shortfalls are expected to lead to decreases in export availability, on the one hand, and higher import demand, on the other. For the time being, we do not anticipate shortages in physical supply to the world market – global export availability and import demand look well balanced. Most of the production shortfalls in exporting countries are expected to be covered by sugar from stocks accumulated during the two previous surplus seasons. Nevertheless, the trade balance looks relatively tight. If there are currently unforeseen reductions in production and, hence, lower export availability or higher import demand, the forecasted statistical deficit may be accompanied by a supply tightness.

Similar to the previous season the market is expected to be shaped by developments in two sugar giants – Brazil and India. The level of shipments from India, which became a major supply power in the previous season, is of particular importance. At the moment we expect India to export about 2 mln tonnes despite a significant drop in domestic production. If, however, India reduces deliveries to the world market significantly below this level due to economic or political reasons, the forecasted fragile balance between global export availability and import demand will disappear. Similarly, in the case of Brazil, if the real demand for ethanol happens to be higher than our forecast, or if weather calamities reduce considerably cane production and sugar contents, the market may face a significantly more serious supply tightness than currently anticipated.

How can our understanding of the current supply/demand current situation (the return of world sugar fundamentals to a global deficit with a still high level of stocks accumulated during two previous surplus seasons) be interpreted in terms of future market values? Clearly, final numbers may differ from these early forecasts but the current fundamental outlook is the most constructive for market values since 2005/06. The question is whether non sugar-specific drivers (including the outlook for crude oil and other hard and soft commodities, exchange rate fluctuations, developments in ethanol production and use, the upsurge in renewable energy programmes and continuing criticisms over use of food crops for energy, the general outlook for different classes of investment assets, and last but not least funds activity in sugar futures markets) will mitigate or reinforce a positive fundamental picture.

A summary of the first assessment of the world sugar balance in 2008/09 is provided in the table below.

World Sugar Balance
(mln tonnes, raw value)

	2008/09	2007/08	Change	
			in mln t	in %
Production	161.649	169.002	-7.353	-4.35
Consumption	165.547	161.752	+3.795	+2.35
Surplus/Deficit	-3.898	+7.250		
Import demand	46.702	45.506	+1.196	+2.63
Export availability	46.791	47.926	-1.135	-2.37
End Stocks	65.230	69.217	-3.987	-5.76
Stocks/Consumption ratio in%	39.40	42.79		

Currency Movements

In aggregate terms, ISA prices rose by 9.8% over the past six months. The strengthening of the BRL has lowered the world sugar price rise when expressed in Brazil's national currency to only 2.8%. The Thai Baht and the Australian Dollar have by contrast weakened against the USD over the period, which has pushed up sugar prices expressed in local currency further. Among the major sugar importers, the Japanese Yen (JPY) has weakened significantly against the USD – world prices expressed in JPY are now 19% higher than in March.

Domestic Prices

Domestic sugar prices rose sharply in India and in the US over the past 6 month period. In China, by contrast, domestic sugar prices have plummeted. Domestic prices fell slightly in Russia, while in Brazil prices started falling between March and June, with the onset of the Centre-South harvest, but recovered their losses over the past couple of months.

Special Focus

During July, the price of most agricultural commodities suffered a downturn while sugar prices increased. In terms of monthly averages, however, the prices of agricultural commodities are today still higher than at the beginning of 2008. This edition of the QMO offers an analysis on commodity prices and commodity indices, focusing on energy and agricultural commodities, including softs and grains. In the year to August 21st, the DJ and the GS Commodity Indices have accrued positive returns of 6% and 24% respectively. Of importance, hedge and index fund investment in sugar futures during August 2008 remains significantly greater than in any period of 2007.

Fuel Ethanol

In 2008 global fuel ethanol production and consumption is forecasted to rise by almost a third to a record high of 65.7 bln litres. In the US the Renewable Fuels Standard (RFS) mandates sharply higher inclusion in 2008 and discretionary blending is further boosting consumption. In Brazil robust sales of flex-fuel vehicles is driving offtake higher. New and increased inclusion mandates boosts EU consumption. India's fuel ethanol programme is falling behind target whilst in Thailand production capacity still remains in excess of domestic offtake. Brazil will be the key origin of internationally traded ethanol with the US and the EU are likely to remain key markets. Prices for ethanol have remained firm in the US over recent months whilst in Brazil ample supplies have also pressured prices lower.

Alternative Sweeteners

In the US by-product credits have failed to keep pace with the very pronounced rise in corn prices this year, resulting directly in a surge in net corn sweetener costs for HTCS producers.

In May, Dublin and Geneva-based Fusion Nutraceuticals, in partnership with Indian pharmaceutical company Alkem, announced it was targeting industrial ingredient use in Europe for their intellectual property validated *sucralose*. Manufacturers are getting more adventurous over *erythritol* use since it gained EU-wide approval this year. Although Arla Foods halted production of the sweetener *tagatose* in 2006, the sugar substitute has been taken up by Nutrilab, which has adapted the production process and sees a strong future.

Molasses

Fundamentally, molasses faces a tighter market over coming months with little to suggest that price will ease. Production is already anticipated to decline in the 2008/09 season in key exporting countries, particularly India, and domestic demand is also on the rise as ethanol demand strengthens. However, should grain prices weaken further from their recent highs, molasses incorporation rates in livestock feed may fall in the key importers - the US and the EU - as high molasses values would dampen enthusiasm about molasses as a feed ingredient.

WTO

Governments' latest attempt to salvage a deal in the Doha Round of trade talks broke down on Tuesday 29th July, as ministers acknowledged that they were unable to reach a compromise after 9 days of a high-level summit at the WTO headquarters. The multilateral negotiations on agriculture and non-agricultural market access (NAMA) now face an uncertain future.

Regional Trade Agreements

At the ACP Council of Ministers convened in June, officials from 79 African, Caribbean and Pacific (ACP) states laid out their stances on several controversial issues, including Economic Partnership Agreements with the European Union.

WORLD SUGAR BALANCE

WORLD BALANCE

- **World sugar economy faces a season of statistical deficit**
- **World production to decline by 7.4 mln tonnes**
- **World consumption to grow by 3.8 mln tonnes**
- **Ending stocks to decrease**
- **No shortages in physical supply ...**
- **...but tight trade balance**

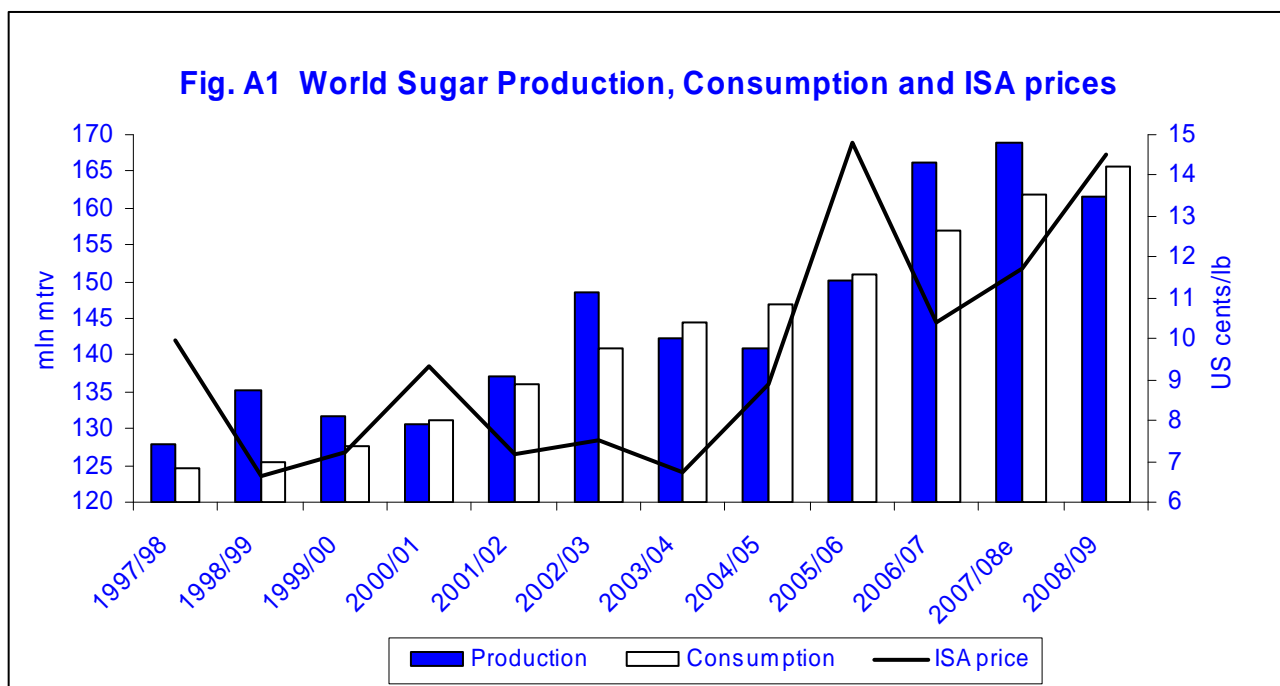
After two years of large statistical surplus, the world sugar economy is facing a season with a significant gap between world consumption and production. The first forecast of the world sugar balance for the period from October 2008 to September 2009 puts world production 3.898 mln tonnes lower than world consumption. Thus, the distinctive surplus phase, characterized by a significant excess of global production over consumption as well as export availability considerably higher than import demand, has ended and the market is likely to move into a deficit phase (see fig. A1).

A significant production shortfall in India and a continuing contraction of production in the EU are two major supply features of 2008/09. The combined effect is a massive

7.4 mln tonne reduction in world sugar output in 2008/09. Global sugar consumption, on the other hand, will continue to rise.

Production shortfalls are expected to be mirrored by decreases in export availability, on the one hand, and higher import demand, on the other. For the time being, we do not anticipate shortages in physical supply to the world market – the global export availability and import demand look well balanced. Most of the production shortfalls in exporting countries are expected to be covered by sugar from stocks accumulated during two previous surplus seasons. Nevertheless, the trade balance looks relatively tight and, if there are currently unforeseen reductions in production and, hence, lower export availability or higher import demand, the statistical deficit may be accompanied by a physical supply tightness.

Similar to the previous season the market is expected to be shaped by developments in two sugar giants – Brazil and India. The level of shipments from India, which became a major supply power in the previous season, is of particular importance. At the moment, we expect India to export about 2 mln tonnes despite a significant drop in domestic production. If, however, India reduces deliveries to the world market significantly below this level due to economic or political reasons,



the projected fragile balance between global export availability and import demand will disappear. Similarly, in the case of Brazil, if the real demand for ethanol happens to be higher than our forecast, or if weather calamities reduce considerably cane production and sugar contents, the market may face a significantly more serious supply tightness than currently anticipated.

Stocks accumulated during two previous surplus seasons may, however, limit the bullish potential of the anticipated deficit fundamentals for sugar prices. According to our estimates, in the previous two seasons cumulatively global stocks increased by nearly 13.8 mln tonnes. Moreover, the 2007/08 balance still shows a significant 2.4 mln tonne excess of export availability over import demand. In other words, if the unsold sugar has to be added to stocks (exporting countries are not likely to find homes for all their surplus sugar and will be forced to accumulate stocks) the increase in global stocks might be as high as 16.2 mln tonnes. Although by the end of the 2008/09 crop cycle next September world stocks are forecasted to decrease by 4.0 mln tonnes, surplus stocks are expected to be disposed of only partially during the first deficit season.

SUPPLY

At this early stage of the crop season, market commentators are faced with uncertainties as to how weather, macroeconomic, political and currency factors will affect supply and demand prospects. On the supply side, the beet harvest has just started in the Northern hemisphere and even there it is still difficult to assess the progress of the new

season's production campaign. The outlook for producers in the equatorial area and, in particular, in the Southern hemisphere may be subject to change.

PRODUCTION

- **World production to decrease by 7.4 mln tonnes in 2008/09**
- **Brazil's output to grow by 1.6 mln tonnes to a new record**
- **India's production drops by 4.6 mln tonnes**
- **Further cuts in sugar output in the EU**
- **The end of production expansion in China?**

In 2008/09, for the first time since 2004/05 world sugar production is expected to decrease, to 161.649 mln tonnes, raw value, a massive 7.353 mln tonnes down from the last season.

A significant production shortfall in India and a continuing contraction of production in the EU are the two major supply features of 2008/09 (see table A1). At this early stage of the crop cycle we forecast India's production at 23.915 mln tonnes, raw value, down 4.585 mln tonnes from the previous year. A significant 2.903 mln tonne reduction is anticipated for the EU after a further tuning in the rules for quota renunciation. Domestic production is also expected to reduce significantly in a number of key producers including Pakistan (-1.0 mln tonnes), Thailand (-402 thousand tonnes), USA (-300 thousand tonnes), Philippines (-205 thousand tonnes), Mexico (-200 thousand tonnes), Australia (-180 thousand tonnes) and Russia (-140 thousand tonnes). Most of the production shortfalls are attributed to

Table A1 Main production falls and rises in 2008/09

Falls	Changes from 2007/08 in mln tonnes, raw value	Rises	Changes from 2007/08 in mln tonnes, raw value
India	4.585	Brazil	1.625
EU	2.903	Cuba	0.300
Pakistan	1.000	Sudan	0.160
Thailand	0.402	Peru	0.130
USA	0.300	Indonesia	0.125

WORLD PRODUCTION IN 2008/09 – 161.649 mln tonnes, raw value

WORLD PRODUCTION IN 2007/08 – 169.002 mln tonnes, raw value

Table A2 World Cane and Beet Sugar Production (mln mtrv)

	1960s	1970s	1980s	1990s	2005/06	2006/07	2007/08	2008/09
	<i>a v e r a g e</i>							
World production	61.6	81.9	101.8	118.4	150.2	166.1	169.0	161.6
From beet	26.8	32.6	37.9	37.4	36.1	36.9	35.0	31.9
From cane	34.8	49.3	63.9	81.0	114.1	129.2	134.0	129.7
<i>Cane sugar as % of world total</i>	<i>56.5</i>	<i>60.2</i>	<i>62.8</i>	<i>68.4</i>	<i>76.0</i>	<i>77.8</i>	<i>79.3</i>	<i>79.8</i>

a fierce competition for land with more remunerative alternative crops.

There is just one case where production is expected to grow by more than 1 mln tonnes. In the case of Brazil we suggest that even with a generous allowance for cane use for ethanol in order to achieve a further significant growth in ethanol output, there may be enough cane to increase sugar production by nearly 1.625 mln tonnes as against 2007/08 (October/September). There are several smaller but still significant increases in production anticipated for a number of producers including Cuba (+300 thousand tonnes), Sudan (+160 thousand tonnes), Peru (+130 thousand tonnes), Indonesia (+125 thousand tonnes) and South Africa (+115 thousand tonnes), but none of them exceeds 300 thousand tonnes.

In 2008/09, world *beet* sugar production is expected to decrease by 3.1 mln tonnes (mainly reflecting the continuing restructuring of the European sugar sector following the reform of the EU sugar regime), while world *cane* sugar output is also projected to decline by 4.3 mln tonnes. Despite a forecasted drop in cane sugar production, the share of cane sugar in the world total is expected to grow to 79.8% as against 79.3% last season. Thus, a steady displacement of beet, which is now responsible for just over 20% of world production compared to 43.5% in the 1960s, continues (see table A2).

Importing countries are expected to produce 64.1 mln tonnes as against 68.6 mln tonnes in the previous season. A structural decline of sugar output in the EU is responsible for nearly two thirds of the projected decrease. The production expansion in **exporting countries** seems to halt in 2008/09. Their output is expected to decline to 97.6 mln tonnes,

0.9 mln tonnes down from the previous season. Of importance, however, if the special case of India, where production entered the downside phase of the cycle, is omitted, exporters are expected to increase production by 1.7 mln tonnes.

Western and Central Europe

The beet harvest has started in the **EU** - the third campaign under the new sugar regime. After the modifications in the rules for quota renunciation were approved last year, 3.3 mln tonnes of quota were given back for 2008/09 and 0.1 mln tonnes for 2009/10. Aggregating the figures shows that almost 5.7 mln tonnes, white value, has been shaved off the EU's supported sugar production since the sugar market reform came into effect in 2006. The Commission is therefore less than 356 thousand tonnes short of its goal of a 6 mln tonne cut in sugar production. Resulting from the quota renunciation agreed for 2008/09, EU sugar production is expected to drop by around 3 mln tonnes, raw value, in 2008/09 (see table A3 and fig. A2). A significant reduction of sugar output is expected to increase EU import demand quite dramatically the (for more discussion see *Imports Section of the Quarterly Market Outlook*).

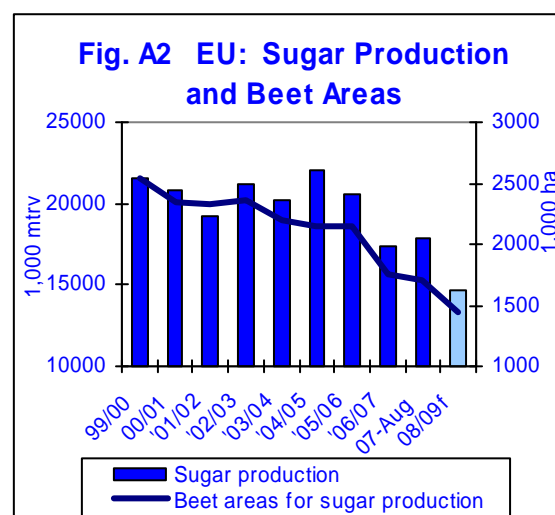


Table A3 EU - Sugar quota renunciations (tonnes, white value)

	Original Quota	Additional quotas	Quota Renunciations					Total	
			2006/07	2007/08	2008/09		2009/10		Total
					Jan 31	Mar 31			
Austria	387,330	18,490			54,785			54,785	351,035
Belgium	819,810	42,270			80,561	125,505		206,066	656,014
Bulgaria	4,752				4,752			4,752	0
Czech Rep	454,860	14,440		102,473	0			102,473	366,827
Denmark	420,750				61,083	19,000		80,083	340,667
Finland	146,090			56,087	9,001			65,088	81,002
France	3,768,990	351,700			492,012	171,644		663,655	3,457,035
Germany	3,416,900	238,560			490,692	266,508		757,200	2,898,260
Greece	317,500			158,800				158,800	158,700
Hungary	401,680	5,000		108,093	92,750	100,421		301,264	105,416
Ireland	199,260		199,260					199,260	0
Italy	1,557,440		778,737	24,861	259,375			1,062,972	494,468
Latvia	66,505			66,505				66,505	0
Lithuania	103,010				13,908			13,908	89,102
Netherlands	864,560	12,000				126,457		126,457	750,103
Poland	1,671,930	99,460			236,116	130,753		366,869	1,404,521
Portugal	79,670		35,218	19,500	15			69,718	9,952
Romania	109,160				4,475			4,475	104,685
Slovakia	207,430	2,730		70,133	15,018	18,566		103,717	106,443
Slovenia	52,973			52,973				52,973	0
Spain	996,960		93,119	16,679	231,806	24,772	132,106	498,481	498,479
Sweden	368,260		42,562		35,236	15,000		92,798	275,462
UK	1,138,630	82,850			165,000			165,000	1,056,480
Total	17,554,450	867,500	1,148,896	676,103	2,261,570	998,625	132,106	5,217,299	13,204,651

Source: F.O. Licht

No changes in production from the previous season are currently projected for **Switzerland**, the only producer in the region outside of the EU. As a result, in the new season sugar production in *Western and Central Europe* is expected to total 15.095 mln tonnes, raw value, as against 17.998 mln tonnes in the previous season.

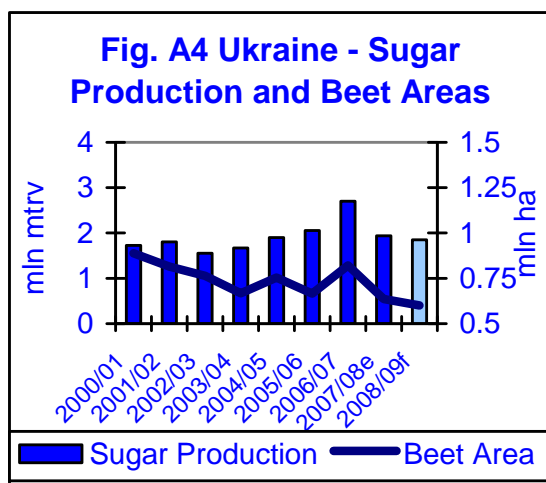
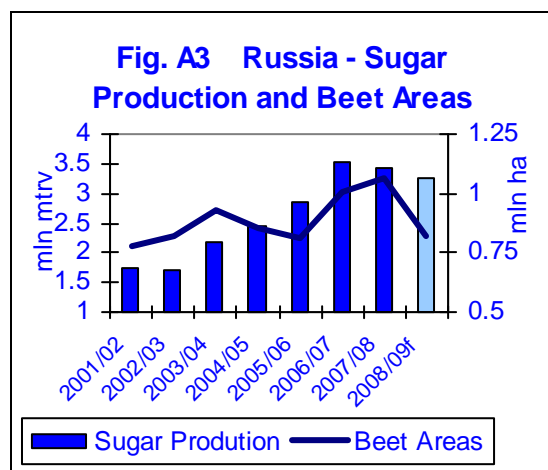
Eastern Europe and FSU

In contrast to Western and Central Europe sugar beet production in *Eastern Europe and FSU* is expected to remain nearly unchanged from the previous season. Our first assessment for 2008/09 shows only a

marginal 168 thousand tonne decrease in domestic production in the region.

At the time of beet sowing domestic production prospects looked rather grim for **Russia**, the regional leading producer. As a result of competition for land, farmers switched from sugar beet to much more lucrative grain and oilseed crops. Beet areas dropped by 23% and a considerable reduction in sugar output was expected. During the summer months, however, prospects improved considerably. The sixth sugar beet test taken on 26 August showed that the crop is in a better state than last year with results significantly above the five-year average. The sugar content was 15.1%, up from 14.2% in 2007, while average

root weight rose to 430 grams from 378 grams last season. As a result of favourable weather conditions, significant improvements in field practices and increasing use of modern beet varieties as well as advanced agricultural machinery, beet sugar production may remain nearly unchanged from the previous season despite a drastic 23% drop in beet areas (see fig. A3).

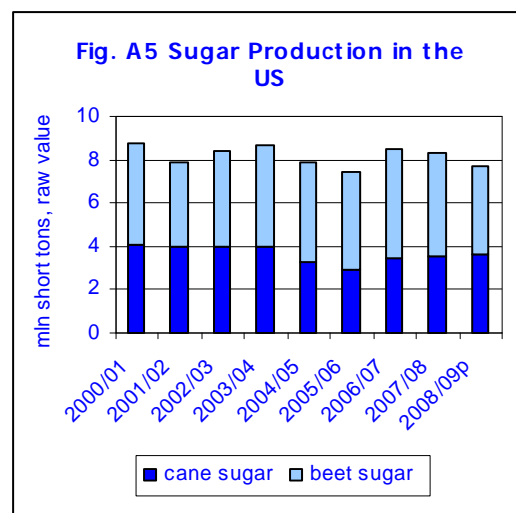


Last season **Ukraine** kept struggling against a sugar glut created by a bumper harvest in 2006/07, when output reached nearly 2.5 mln tonnes as against an estimated domestic consumption of 2.16 mln tonnes only. The surplus could not be sold on the world market due to high production costs while domestic markets of the neighbouring FSU countries have been well protected by high import duties. To redress the imbalance on the domestic market, last year farmers reduced the area sown to beet by nearly 26% (see fig. A4). A further drop in beet and, hence, sugar production is expected this season. The

fall is attributed to a low profitability of beet growing as against competing crops like grains, soybeans and sunflower seeds.

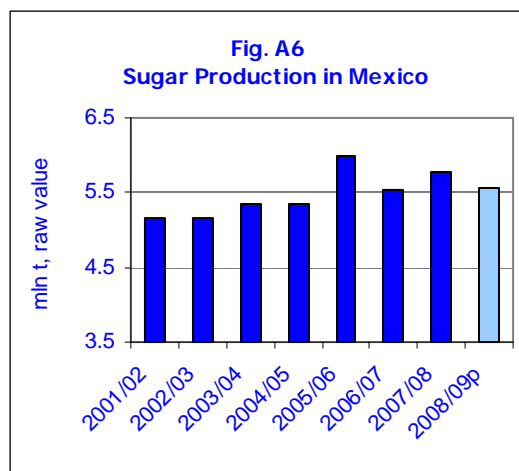
North and Central America

In the August World Agricultural Supply/Demand Estimates (WASDE) report the USDA forecasts **US** sugar production in 2008/09 at 7.721 mln short tons as against 8.267 mln tons produced in the previous season (see fig. A5). Beet sugar production is solely responsible for the decline: the harvested beet area is expected to decline by 18% due to a strong competition for land with more remunerative alternative crops. A significant drop in the beet area is expected to be partly compensated by higher sugar yields. An estimated 50% of acreage was sown to GMO sugar beet in 2008/09, and growers are hoping that improved yields will help to offset the acreage reduction. In order to cover the production shortfall, in August USDA announced an increase in its fiscal year 2008 tariff rate quota (TRQ) for white sugar. It is fixed now at 394.3 thousand short tons as against the initial quota of 94.3 thousand tons (for more details see *Imports Section of the Quarterly Market Outlook*).



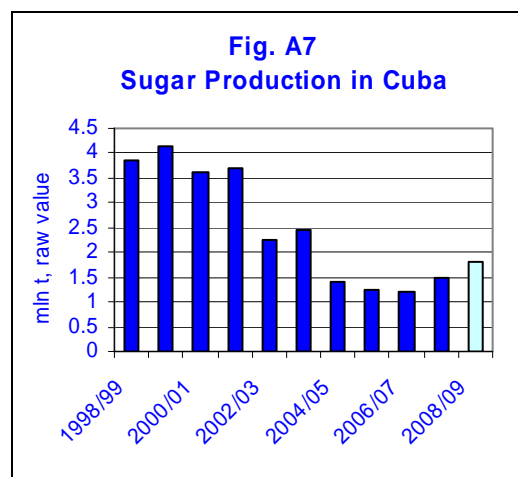
In **Mexico**, the second largest sugar producer in the region, the national Sugar Chamber expects sugar production to fall by 4% to a maximum of 5.3 mln tonnes, tel quel, from 5.52 mln produced in 2007/08. According to the industry, the country's cane fields have fallen into decay

due to a lack of fertilizer applications and general poor husbandry because of a strained economy and a lack of resources at sugar mills and growers.



In **Guatemala**, the largest sugar exporter in Central America, as reported by the Guatemala Sugar Association (ASAZGUA), sugar production fell 2.3% year-on-year to 2.12 mln tonnes in 2007/08. The drop is attributed to bad weather, despite an increase in the area planted and cane milled. For the coming harvest, the association hopes to see production increase, but has yet to release an estimate. The ISO expects production to grow to 2.275 mln tonnes in 2008/09 (October/September) from 2.170 mln tonnes estimated for the previous season.

Last season **Cuba's** sugar production rose 24% over the previous harvest's 1.193 mln tonnes. Moreover, Cuba's Sugar Ministry reported that cane planting rose 15% from January through June from a year earlier, insuring more raw material for the industry. Increased planting, combined with more irrigation, fertilizers and herbicides is expected to allow higher sugar output in 2009 after this year's 24% increase. Before more detailed information on the progress of the new campaign is available and assuming the return of normal climatic conditions, the ISO suggests that the new season's output will show growth of 20%, to 1.8 mln tonnes, raw value (see fig. A7).



Overall, for 2008/09 sugar production in *North and Central America* is projected to remain practically unchanged at 19.735 mln tonnes, raw value, as against 19.848 mln tonnes harvested last year.

South America

In most of South America the new sugar cane harvest started only 4 months ago. Our strict October/September balance incorporates parts of both the current crop cycle and the next season's production, which will not commence for another 7 to 8 months. Consequently, there are many uncertainties imposed by unpredictable weather patterns, world market developments, macroeconomic conditions, and so on. Without sufficient information on planting intentions and production programmes for the season to start in mid-2008, a no-change or same-change production assumption seems to be a justifiable technique in preparing the first forecasts for 2008/09 (October/September) for most of the producers in the region.

The supply situation in the region is dominated by **Brazil**. So far, the weather has been unstable in the all important Centre-South since the beginning of the new campaign in April. Due to wet weather in April and May, the 2008/09 season has got off to a rather disappointing start. The wet weather resulted in a lower sucrose yield and also led to doubts that Brazil would be able to process all available cane. In July, however, good weather boosted the harvest. UNICA has recently released its latest figures on the progress of the

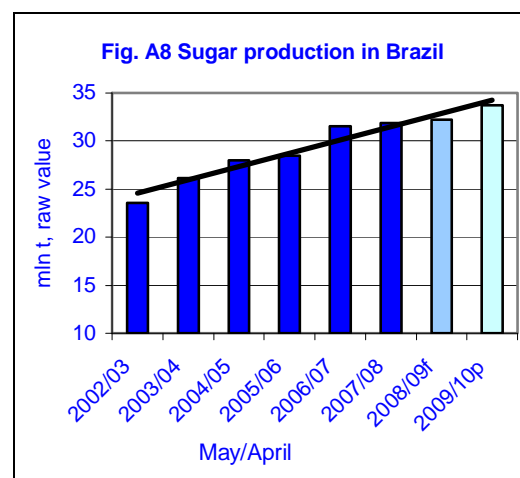
2008/09 Centre-South cane harvest as of 1st August. 11.57% more cane had been harvested compared to the same period last year. Total cane harvested in the season reached 214 mln tonnes. Ethanol production was up by 15.66% on the year, at 9.80 bln litres, while sugar production was down 2.51% on the year, at 10.73 mln tonnes. Of particular importance, the ATR (or total reducing sugars) was up by 7.49% on the year.

Crucially, mills remain predominantly in favour of ethanol production, with 59.9% of the cane harvested by 1st August destined for ethanol production, down from 61.1% a month ago but up from 55.8% at the same time last year. The question is what will be the cane use ratio during the peak production months (September-October). Our working assumption is that in 2008/09 (May/April) the nationwide sugar share in ATR utilization will reduce to 40.9% compared to 45.0% in 2007/08. The net result of a projected 11% increase in cane supply combined with an about 1% reduction in ATR and a higher proportion of cane used for booming ethanol production (for more details see *Fuel Ethanol* part) is only a marginal 0.8% increase in sugar production in Brazil during 2008/09 (May/April) season.

In the meantime, what can be said about the 2009/10 campaign, which has to be partly incorporated into our October/September balance? We expect the nationwide cane supply to grow to 594.4 mln tonnes using a 3 year average growth. With a generous allowance for cane use for ethanol in order to achieve a further 12% growth in ethanol output, there may be enough cane to increase sugar production by nearly 5% as against 2007/08.

In terms of the October/September season, in 2008/09 Brazil's sugar

production is expected to grow to 33.215 mln tonnes, raw value, as against 31.59 mln tonnes estimated for the previous October/September cycle (see fig. A8 and table A4).



In **Argentina** several years of large investment at the farm level have increased productivity significantly, but last season this improvement was slowed down by the coldest winter in 20 years. With a return of normal weather conditions in the remaining months of 2008 and 2009, the ISO expects that 2008/09 (October/September) production can improve to 2.525 mln tonnes, raw value, as against 2.445 mln tonnes estimated for 2007/08.

Colombian sugar production during the first four months of 2008 totalled 715 thousand tonnes, 1.2% less than during the same period last year. The drop in sugar output is attributed to a higher share of cane being used for ethanol production. The trend is expected to continue in 2009.

In 2007 sugar production in **Peru** improved to 908 thousand tonnes, tel quel, from 803 thousand tonnes in the previous season. Further growth is projected for 2008. The rise has been

Table A4 Sugar production in Brazil (in 1,000 tonnes, raw value)

	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
Oct-April	11071	11434	10960	11203	11803	
May-Sep	17004	20525	20687	20387	21412	
Total (Oct/Sep)	28075	31959	31647	31590	33215	
Total national year (May/April)	27988	28438	31485	31890	32190	33705
Changes in %	+7.1	+1.6	+10.7	+1.3	+0.9	+4.7

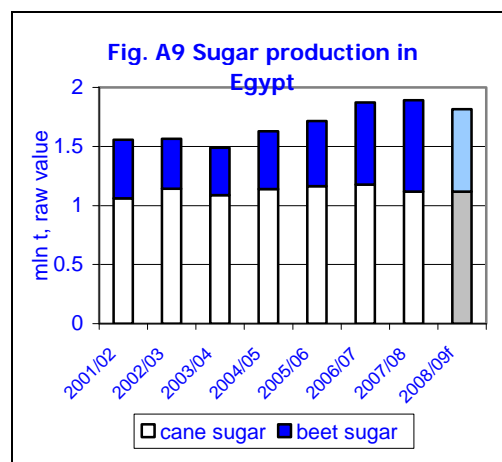
driven by increased productivity and a higher area planted to sugarcane, which was heading to the record level registered some 30 years ago. Peru, reached a record production of 993.1 thousand tonnes in 1974. Production had decreased gradually since then due to a fall in productivity after mills were taken over by the state, which subsequently turned the country into a net importer. The government now seeks to revive the sugar sector and also aims to develop regional projects to produce renewable fuels such as ethanol.

For the rest of *South America*, at this stage of the season, we do not anticipate any significant changes in production levels as against the previous October/September crop cycle.

Middle East and Northern Africa

Although some significant changes from the previous season are forecasted for sugar production in three out of seven sugar producing countries in the region, the overall level of output during 2008/09 is expected to grow by less than 1% as against the previous season.

Last season in **Turkey**, currently the world's fifth largest beet sugar producer after France, Germany, US and Russia, sugar beet production was again at around 2.1 mln tonnes, almost unchanged on the year. The large surpluses that hampered the industry in the past seem to be gone as production is now limited by quotas and largely in line with domestic consumption. No significant changes in the production level are so far anticipated for 2008/09. Stagnant production and growing consumption are expected to result in a slowly but steadily growing need to import sugar.



In **Egypt**, the second largest sugar producer in the Middle East and Northern Africa, both beet and cane sugar are produced, with the total at around 1.9 mln tonnes, raw value, in 2007/08. While cane sugar production is stagnant due to limited land and water resources, the beet sugar sector is more dynamic with new factories in the offing and the area under beet on the rise. The government is encouraging the cultivation of sugar beet in the north of the country because of the large amount of water consumed by sugarcane in the southern Nile valley, the main cane growing area. Nevertheless, no increase in sugar output is expected in 2008/09 (see fig. A9) as a sharp increase in wheat prices earlier in the season is likely to halt a further expansion of areas under beet while some growers may even shift to wheat from beets.

Similar to Egypt, **Iran** also produces sugar from both beet and cane. During the past three seasons beet was responsible on average for more than 60% of sugar output. This year drought and high temperature have damaged cane in the country's main growing areas. Moreover cane areas are expected to reduce by more than 50% due to strong competition for land by alternative crops. As a result, cane sugar production is expected to drop in 2008/09. The ISO puts Iran's production at 1.2 mln tonnes, raw value, as against 1.375 mln tonnes estimated for the previous season.

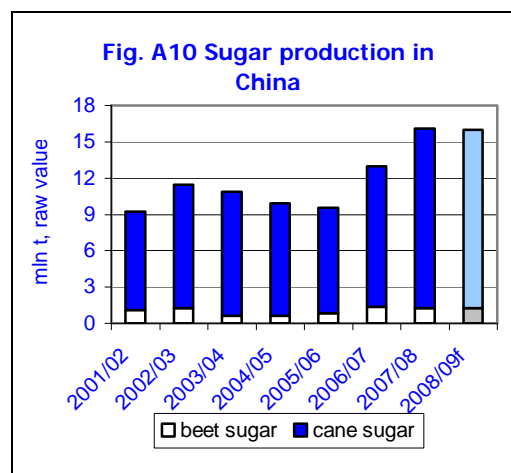
Since the beginning of the decade **Sudan's** sugar production has varied from 700 to 800 thousand tonnes. As we already noted in the May issue of *Quarterly Market Outlook*, 2008/09 is likely

to become a year of a significant output expansion. The White Nile sugar project is at its final stage. According to the Ministry of Industry, the irrigation system is nearly completed. Cane cultivation is expected to begin in 2008 and sugar production will start in 2009. When fully finished, the project is expected to increase the country's sugar production by about 450 thousand tonnes a year. Part of the additional production will be for the rapidly growing domestic market, while some increases in export availability are also anticipated taking into consideration the growing import demand of the EU and a further opening of the European market to LDCs in 2008/09, in particular under the EBA 2nd stream (imports subject to 20% import duty only during 2008/09).

In **Morocco**, another top producer in the region, the industry expects that better irrigation, farming and processing technology should allow the country to produce over half the sugar it consumes in coming years. Moreover, in 2008 alone the cane area is expected to increase by 12%. The ISO puts sugar production in 2008/09 at 550 thousand tonnes, 10% up from the previous season.

Far East and Oceania

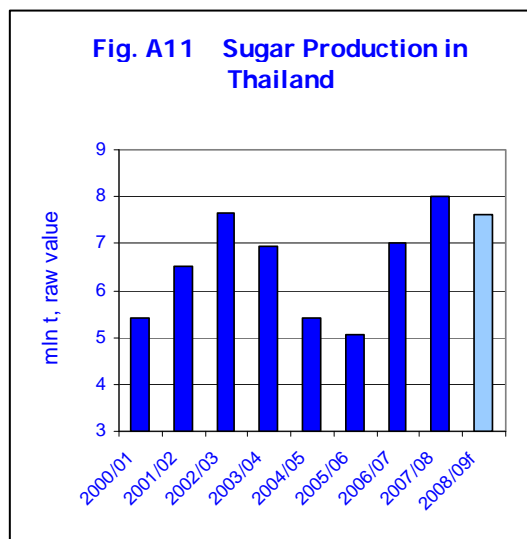
After a remarkable rebound of sugar output in the *Far East and Oceania* in 2006/07 and 2007/08, when production grew by 5.6 and 4.2 mln tonnes, correspondingly, no growth is projected in the new season. On the contrary, sugar output is expected to decrease by about 0.7 mln tonnes as a result of possible shifts of growers from cane to more remunerative crops in a number of key producers, including Thailand, Philippines and Vietnam.



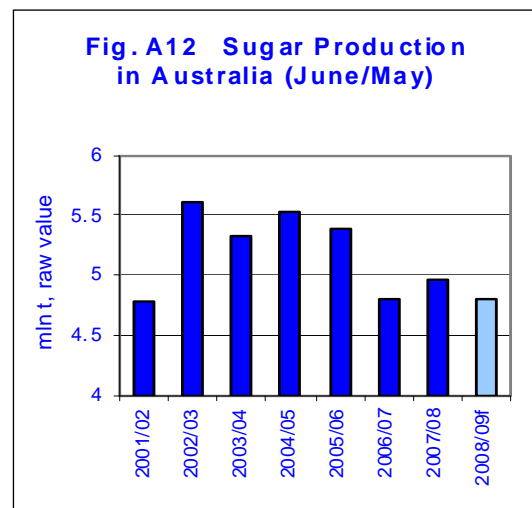
Last season **China** produced a record 14.84 mln tonnes of sugar, *tel quel* (13.68 mln tonnes from cane and 1.16 mln tonnes from beet). This was nearly 25% higher than in 2006/07 and nearly 70% more than the level produced two years ago. Of importance, a record production was achieved during a season of severe weather calamities (in February the main cane growing areas experienced a prolonged freezing period). The China Sugar Association forecasts that sugar production in 2008/09 will be the same or less than this season's level. According to the industry, the potential negative impact from the cold snap in southern China earlier this year may postpone cane crushing and could affect sugar output in the new season. At this early stage of the season the ISO puts China's new season production at 16.0 mln tonnes, raw value, 90 thousand tonnes or 0.6% down from the previous year (see fig. A10). However, in 2008/09 China is expected to become the third largest sugar producers in the world after Brazil and India.

As reported by the Office of the Cane and Sugar Board, **Thailand** produced an all-time record crop of 8.022 mln tonnes in 2007/08, after good rains yielded a bumper cane crop (see fig. A11). For 2008/09, the Agriculture Ministry expects a 5% drop in sugarcane production as farmers are shifting to other lucrative commodities such as cassava and rubber. In the longer run, the government targets to boost further cane sugar production. Thus in July the Thai Cabinet approved an Action Plan on Sugar Cane Development, in accordance with the National Agenda on Sugar Cane that had been proposed by the Cane and Sugar Board. According to

the Ministry of Industry, the Action Plan will be used as a guideline for Thailand's sugar cane and sugar industrial development covering the years 2009-2011. It aims to boost average cane yield by nearly 30% from 11.8 mt per rai (1 rai=1,600 square metres) to 15 mt/rai, reduce sugar production costs and encourage investment in related industries, notably ethanol. Cane output is targeted to reach 95 mln tonnes by 2010-2011 from 73.3 mln tonnes last season.



In **Australia** the sugar industry has another tough year. Heavy rains in the main sugar cane producing regions of Queensland in early 2008 had already resulted in some isolated flood damage. Otherwise, at that stage of the season they looked beneficial for cane production, as irrigation dams were replenished. Then, reasonably favourable conditions prevailed in most growing regions, but wet weather returned in July. Heavy rain temporarily brought sugar cane harvesting and crushing to a halt in key areas of Australia's sugar cane state of Queensland. The rain-related delays to harvesting will likely extend the crushing season, which normally ends before Christmas. Prolonged harvesting reduces sugar content and also can cause cane to be left uncut in fields, potentially resulting in lower production. In terms of the October/September season, at this stage of the harvest and assuming the return of normal weather conditions in the coming 12 months, the ISO puts Australia's production at 4.950 mln tonnes, raw



value, as against 5.1 mln tonnes estimated for 2007/08.

In **Indonesia**, currently the world's fourth largest importer of sugar, the struggle for self-sufficiency in sugar continues. In June the industry announced that cane area would be increased by nearly 5% next year to around 450 thousand ha, boosting output to as much as 3.3 mln tonnes, tel quel. The government reportedly plans to raise about USD851 mln to revamp ageing sugar mills. Of importance, even if the ambitious target is achieved, according to our forecast, the country might still need to import more than 1 mln tonnes in order to meet growing consumption. For the time being, the ISO forecasts Indonesia's production in 2008/09 at 2.975 mln tonnes, raw value, while consumption is projected to reach 4.650 mln tonnes, raw value.

According to the **Philippines** Sugar Regulatory Administration (SRA), sugar output is expected to fall 10% because of "under-fertilization" of crops. The price of fertilizers has nearly doubled since last year. In line with the latest official forecast the ISO expects sugar output to reduce in 2008/09 (October/September) to 2.125 mln tonnes, raw value, as against 2.33 mln tonnes estimated for the previous season.

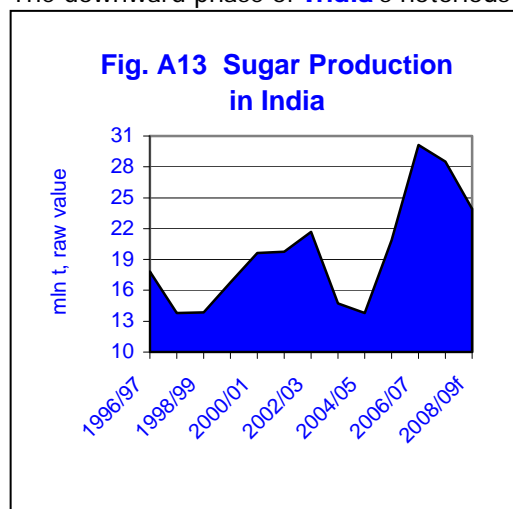
Sugar production is also projected to remain stable in **Vietnam**. According to official sources, the Vietnam Sugarcane and Sugar Association (VSSA), sugar output is expected to remain similar to the previous season despite a 5.4% drop in area under sugar cane. The price increase

of several key agricultural inputs diminished the profitability of cane growing, leading many growers to consider a change to other crops.

Indian Subcontinent

After a drop in sugar output in 2007/08, a further reduction in production in the *Indian Subcontinent* is anticipated in 2008/09. The region is expected to reduce domestic supply by a massive 5.6 mln tonnes, raw value.

The downward phase of **India's** notorious



sugar cycle is expected to accelerate in 2008/09. As reported by the industry, the country produced 26.1 mln tonnes of sugar, white value, in the first nine months of 2007/08 (October/September), down by 6.5% from 27.9 mln tonnes produced by that date a year ago. According to the National Federation of Cooperative Sugar Factories, there is not much sugarcane left to be crushed and overall output is not expected to rise significantly from the volume produced by the end of July. It now seems all but certain that India will experience a considerable further drop in output next season. Smaller production is expected due to a significant decrease in cane areas and fewer agricultural inputs as a result of accumulated cane payment arrears to the growers. The area planted to sugarcane in the country reached just 4.32 mln ha as of July 18, down 18.2% from 5.28 mln by the same date last year, government data showed. The shortfall might be even larger as in June-July monsoon rains were not adequate. However, earlier reports of dry conditions in the Southern part of

Maharashtra state as a result of a poor monsoon season appear to be premature at this stage as sugar growing regions have received rains since mid-August. At this early stage, the ISO forecasts India's production in 2008/09 at 23.915 mln tonnes, raw value, a massive 4.585 mln tonne or 16% decrease from the previous year (see fig. A13).

A significant decrease in production is also expected in neighbouring **Pakistan** after last year's record crop. According to the Pakistan Sugar Mills Association, the growers reduced the area on which sugarcane was sown this year, which may trim down sugar production by as much as 15% in 2009 (see fig. A14). Cane cultivation fell this year because of a water shortage. Farmers also reduced the area on which cane is grown after factory owners delayed PKR30 bln (USD431.4 mln) of payments for last year's crop. Factories may produce 3.5-3.8 mln tonnes of white sugar in the year starting 1 October, compared with 4.8 mln tonnes last season. The production shortfall may not necessarily trigger large scale imports as both the industry and the Trading Corporation of Pakistan have accumulated more than 2 mln tonnes in stocks.



Equatorial and Southern Africa

The ISO forecasts the region to produce 7.036 mln tonnes in 2008/09 (October/September), up 274 thousand tonnes or 4.1% from the previous season. As we already noted in the previous issues of the *Quarterly Market Outlook*, in the case of most Southern African producers, the October/September period covers two national crop years, thus considerably smoothing out year-to-year fluctuations in

individual countries. The region houses a number of sugar producing nations but only South Africa produces more than 1 mln tonnes a year.

In **South Africa**, by far the biggest sugar producer in Africa, in 2007/08 (March/February) production recovered slightly from adverse weather conditions in 2006/07. Current indications for 2008/09 season are that output may grow by as much as 10% due to favourable weather conditions in the main cane growing areas. In the longer run, the industry's future seems greatly dependent on the developments in land distribution. The government wants to hand 30% of all agricultural land to the black majority by 2014. The Inkezo Land Company, operated as an independent land reform entity by the industry, has so far transferred 17% of the freehold land under sugarcane to black growers, up from 5% fifteen years ago. However, the slow pace at which land claims are being dealt with has slowed the industry's transformation efforts. Further delays in its implementation increase political uncertainty and may threaten investments in the industry and therefore, production.

In **Swaziland**, currently the second largest sugar producer and exporter in the region, despite a serious drought sugar production is estimated at 643 thousand tonnes in 2007/08, only slightly less than was produced in the previous year as most of the cane is irrigated. With a return of normal weather in the coming 12 months sugar production is expected to rebound to a 650 thousand tonne level.

Mauritius sees its sugar harvest growing as much as 5.5%, to 485 thousand tonnes in 2008/09 from last year's 460 thousand tonnes.

As expected by the industry, sugar output may also rise by a fifth this season in **Tanzania**. The production increase is attributed to improved rainfall and increased supply of cane. In 2008/09 (June/May) output may increase to 317 thousand tonnes from 265 thousand tonnes a year earlier. The east African nation aims to produce 400 thousand tonnes by 2010.

Mozambique's sugar production will rise to 295 thousand tonnes in 2008, a 21% increase from 243 thousand tonnes in 2007, due to favourable weather and widespread investment. A further increase is anticipated in 2009, exactly in time for the final removal by the EU of import quotas and duties on sugar from the LDCs under the EBA initiative.

EXPORT AVAILABILITY

- **Export availability to decrease globally in 2008/09**
- **Significant reduction in India's exports**
- **EU –export era ends**
- **Brazil's shipments to grow**
- **Cuba's export to grow for the first time since 2003/04**
- **Will China become a net-exporter in 2008/09?**

World export availability is expected to decrease due to the earlier discussed projected production decline in exporting countries. Exporters' output this season is forecasted at 97.565 mln tonnes, 2.851 mln tonnes down from 100.416 mln tonnes in the previous crop cycle. The drop in export availability is expected to be, however, significantly smaller as some of the production shortfalls are expected to be compensated by shipments of sugar from surplus stocks accumulated during two previous surplus seasons. In 2006/07 and 2007/08, the ending stocks of exporters grew by 5.040 and 2.675 mln tonnes, correspondingly. In 2008/09 the ISO expects 2.140 mln tonnes of sugar from exporters' stocks to be channelled to the world market. As a result, export availability is projected at 46.791 mln tonnes, 1.135 mln tonnes or 2.37% down from the previous year.

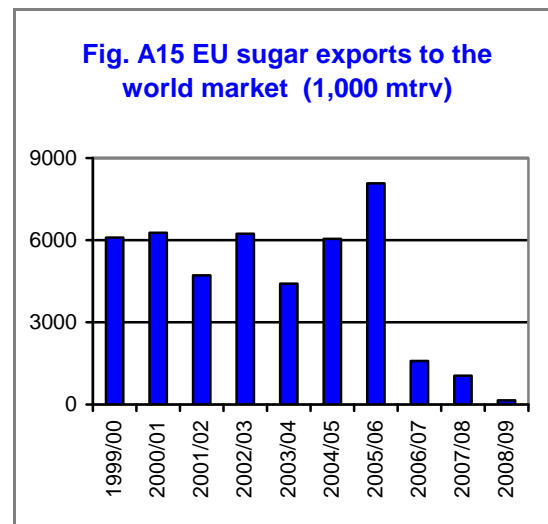
The main changes on the export map in 2008/09, as currently anticipated, include large decreases in export availability in India (2.4 mln tonnes down from the previous season) and the EU (-0.905 mln tonnes), while Brazil's shipments are expected to grow by 2.270 mln tonnes.

The fast ascent of **India** as a new supplying power in the world sugar market was one of the major features of 2007/08.

In the previous 12 months the country had managed to deliver to the world market 4.3 mln tonnes of sugar. Of the total 1.8 mln tonnes were white sugar while the rest were raw sugar shipments (2.5 mln tonnes). Last season India became the third largest sugar exporter after Brazil and Thailand. Of importance, in 2007/08 India has become the main raw sugar supplier to the world's largest sugar refinery in Dubai, replacing Brazil. Can India repeat its stunning performance in the coming season taking into consideration the anticipated production shortfall? The country still has an exportable surplus of about 0.7 mln tonnes (the excess of production over consumption), moreover, during the last season alone 1.75 mln tonnes were added to stocks, which had already reached a record high level at the end of the 2006/07 season. Statistically, India may ship, say, 4 to 5 mln tonnes and still have enough sugar in stocks to cover domestic demand during the inter-crop period. On the other hand, domestic prices have risen to a level which makes sugar exports unattractive, at least at the current level of world prices (for more details see *Domestic Market and Price* section). Furthermore, higher exports are likely to push domestic prices even higher – an unaffordable luxury for the central government during an election year. Although the government has already declared more than once that it will not limit sugar exports to control domestic prices (the restrictions have been already introduced for exports of rice, wheat, corn and cooking oil), there is no long-term policy to enable the industry to export regularly irrespective of variations in output. For the time being, before more information on the progress of the new campaign is available, the ISO forecasts new season's exports at 2 mln tonnes, raw value, compared to 4.4 mln tonnes estimated for 2007/08.

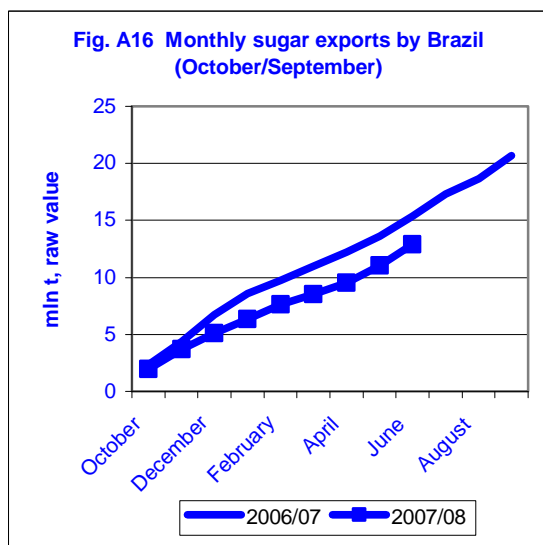
The second major reduction in export availability is forecasted for the **EU**. Practically no sugar is left for export during the third season of the radical reform of the sugar regime there. No export subsidies are budgeted for 2008/09 and, although some quantities may still spill out under licences issued before 1st October 2008, the EU may become a

virtually "sugar export free zone" as against estimated exports of 1.055 mln tonnes, raw value, in 2007/08 (see fig. A15). It is worth reminding that only three seasons ago the pre-reformed sugar sector delivered 8.077 mln tonnes to the world market.



On the credit side, our first assessment of sugar fundamentals for the 2008/09 October/September season suggests a significant increase in exports in the case of **Brazil**, the world's leading exporter. The projected growth is even higher than production gains as against the previous season (2.27 mln tonnes v 1.625 mln tonnes). An apparent dichotomy can be explained by a reduction in export shipments in 2007/08. As already noted in the May issue of the *Quarterly Market Outlook*, last season poor import demand and strong competition from sugar of other origins, and India, in particular, limited Brazil's exports. Fig. A16 shows that during the period from October 2007 to July 2008 sugar exports decreased by about 2.5 mln tonnes. The ISO does not expect the situation in the remaining two months of the 2007/08 (October/September) crop year to improve significantly. As a result, Brazil's exports are expected to have declined to around 19.0 mln tonnes, raw value, from a record 22.014 mln tonnes in 2006/07 (we also anticipate that unsold sugar will go to stocks, which are likely to find their way to the world market in the coming 12 months). The situation is probably different in the coming crop cycle with anticipated improvements in import demand (discussed later) and the gradual

withdrawal of Indian sugar from the world market.



Apart from the three above mentioned major changes in export availability, there are several developments smaller on the world scale but still significant in several key players.

Mirroring the earlier discussed reduction in sugar output in **Thailand**, the world's second largest sugar exporter, sugar shipments are expected to decrease by about 0.3 mln tonnes from the record high level of 2007/08 (5.376 mln tonnes, raw value).

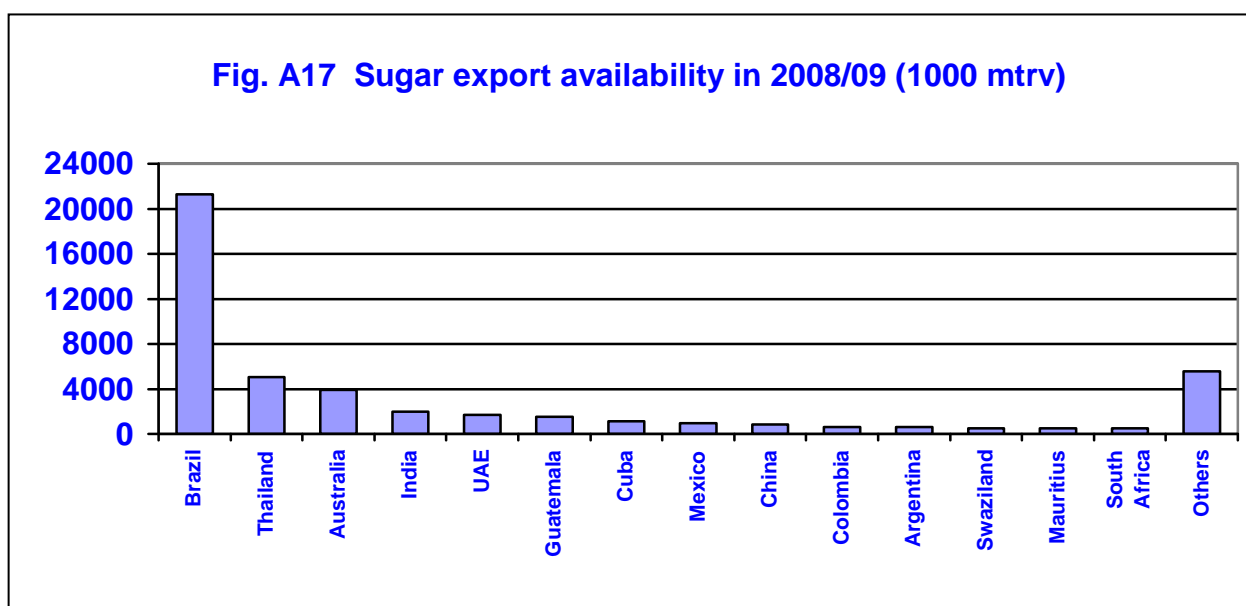
Similarly, a decrease in exports (180 thousand tonnes down in terms of the October/September year) is anticipated for **Australia** due to the weather induced production decline.

By contrast, the revival of sugar production in **Cuba** will allow the island to raise deliveries to the world market by about 200 thousand tonnes. For the first time since 2003/04 Cuba's annual exports are expected to exceed 1 mln tonne.

Finally, export availability is projected to improve considerably in **China**. Despite an anticipated downside correction in domestic output and fast growing sugar consumption, the Asian giant may still have an exportable surplus, in particular, taking into account the given imports under a long-term government-to-government agreement with Cuba. Our first assessment of fundamentals for 2008/09 shows that China may become a net-exporter of about 400 thousand tonnes. Importantly, improving world market values and depressed domestic prices (for more discussion see *Domestic Markets and Price* section of the *Outlook*) make exports economically viable.

DEMAND

In 2008/09, we anticipate global use of sugar to grow by 2.35%, generally in line with the long-term (15-year) average of 2.52%. The anticipated higher consumption is expected to lead to increasing import demand in 2008/09. World total demand is forecasted to grow by 1.196 mln tonnes or 2.63% from the level of the previous crop cycle.



CONSUMPTION

- **Population and income growth remain the main drivers of consumption**
- **World use of sugar to grow by a healthy 2.35%**
- **Far East consolidates its position as the power-house of world consumption growth**
- **The growth of sugar use in India to slow down due to high prices?**
- **Stagnant consumption in mature and saturated markets of developed countries**

Based on the most recent calendar year consumption statistics (as in the forthcoming 2008 ISO Yearbook), world sugar consumption for the coming 2008/09 crop year is put at 165.547 mln tonnes, raw value (including 4.309 mln tonnes of adjustment for unknown trade). Currently, as illustrated by table A5, global use of sugar is anticipated to grow by 3.795 mln tonnes, or 2.35% from the previous season. There are two key underlying drivers of consumption at the global level. Sugar use is growing due to

population growth, which has been rising by 1.3% annually since the mid-1990s. Consumption is also increasing as a result of income growth, in particular in developing countries. Per capita income (measured as per capita GDP in purchasing-power-parity terms) has grown in emerging and developing economies by 7.6% a year on average since the beginning of the current decade. Of importance, the IMF expects a continuingly high growth in excess of 7% in the world average per capita income among developing countries in 2008 and 2009.

The highest growth rate of consumption is projected for the *Far East and Oceania*. Sugar use in the region is forecasted to reach 34.433 mln tonnes, up 3.85% from the previous year. Of importance, the Far East and Oceania do not only demonstrate the highest growth rate in percentage terms but are also responsible for more than one third of the growth in world sugar consumption in absolute terms (1.119 mln tonnes out of the world total of 3.564 mln tonnes). Consumption growth rates significantly higher than the world average are for the most part due to a continuing rapid growth of sugar use in

Table A5 Geographical Distribution of World Sugar Consumption

	2008/09	2007/08	2006/07	2005/06	2004/05	
Total consumption (in 1,000 mtrv)						
Western and Central Europe	20,502	20,386	20,367	19,239	18,442	
Eastern Europe and FSU	12,016	11,960	11,939	11,937	11,967	
North America	10,965	10,940	10,476	10,796	10,677	
Central America	8,237	8,176	8,044	8,468	8,255	
South America	20,180	19,638	19,488	19,568	17,637	
Middle East and North Africa	16,465	16,043	15,474	15,314	14,554	
Far East and Oceania	34,433	33,157	31,325	29,208	28,954	
Indian Subcontinent	29,691	28,611	27,216	25,793	25,888	
Equatorial and Southern Africa	8,749	8,532	8,304	8,108	7,373	
WORLD	165,547	161,752	156,942	152,626	146,912	
Annual growth rate in %						<i>15-year average</i>
Western and Central Europe	0.57	0.09	5.86	4.32	-3.88	0.61
Eastern Europe and FSU	0.47	0.18	0.02	-0.25	0.44	1.46
North America	0.23	4.43	-2.96	1.11	3.59	0.82
Central America	0.75	1.64	-5.01	2.58	-0.83	1.58
South America	2.76	0.77	-0.41	10.95	1.08	2.67
Middle East and North Africa	2.63	3.68	1.04	5.22	3.26	3.18
Far East and Oceania	3.85	5.85	7.25	0.88	1.73	3.22
Indian Subcontinent	3.77	5.13	5.52	-0.37	5.43	3.94
Equatorial and Southern Africa	2.54	2.75	2.42	9.97	6.82	4.40
WORLD	2.35	3.06	2.83	3.89	1.66	2.52

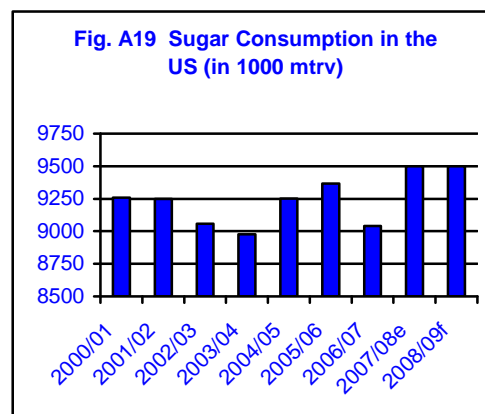
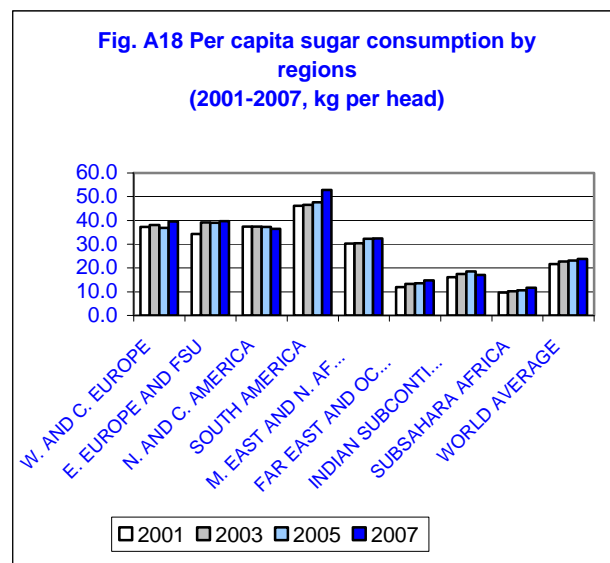
China. With monitored significant increases in corn prices in China most of the growth in the overall sweetener demand is expected to be covered by sugar rather than corn sweeteners as was the case two seasons ago.

Consumption growth considerably higher than the world average is also expected for the **Indian Subcontinent**. Sugar use of the region, where nearly 18% of global total is consumed, is expected to grow by 3.77% this season. The ISO expects a certain slowing down in consumption growth in **India** due to significant rises in domestic prices in expectations of a tighter supply in the coming season. The ISO forecasts India's consumption growth to ease to 3.9% from more than 5% a year during two previous seasons.

Consumption growth only slightly higher than the world average is projected in three regions: **South America, Equatorial - Southern Africa** and **Middle East - North Africa**. These three regions are currently responsible for 12%, 10 and 5% of the world consumption, respectively.

Consumption in the generally mature and saturated markets of the remaining regions (**Western and Central Europe, Eastern Europe and FSU, and South America**) is characterized by per capita consumption significantly higher than the world average (see fig A.18) and is expected to grow at a rate lower than the latter. Having said this, it is also important to note some interesting developments on the **US** sweeteners market. FSA's Sweetener Market Data shows that domestic deliveries are up 8.3% for June 2008 from June 2007 and up 6.8% for October-May 2007/08 versus the same period last year. The rapid advance of sugar sales can be explained by further decreases in competitiveness of the HFCS due to high corn prices (for more details see *Alternative Sweeteners* part of the *Outlook*). It remains to be seen, however, whether the trend will continue since corn prices have stabilized recently. It is interesting that the US sugar consumption data show a surprising volatility (as illustrated by fig. A19), which can be explained more by the disappearance

reporting mechanism rather than changes in sugar use. The long-term average annual growth rate of less than 1% reveals how stagnant sugar consumption in North America is.



IMPORTS

- **World import demand to increase**
- **EU to become world's undisputed leading sugar importer**
- **Russia imports less**
- **Further cuts in imports by China**
- **US increased TRQ for refined sugar**
- **Higher import demand by Middle East and Indian subcontinent**

In 2008/09, world total import demand is expected to grow and reach 46.702 mln

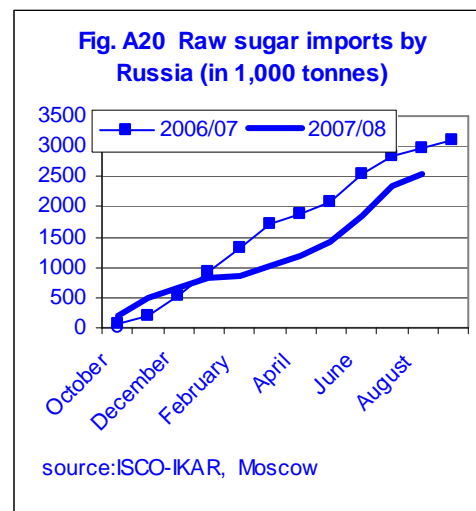
tonnes, raw value, as against 45.506 mln tonnes estimated for 2007/08.

The main change from the previous year is a significant growth of import demand by the EU, as a result of production restructuring in the course of the sugar regime reform. The EU is expected to become the world's undisputed leading importer of sugar in both gross and net terms as soon as 2008/09. Taking into account our production and consumption projections and assuming no significant exports as well as assuming that some sugar from stocks may be released to cover domestic demand, EU imports are expected to reach a massive 4.2 mln tonnes, raw value, in 2008/09. Due to a prohibitive import duty, all sugar imported to the EU has to be delivered under one of the existing preferential access scheme including:

- 1.3 mln tonnes under the ACP/India Protocol,
- 0.205 mln tonnes under the EBA TRQ,
- EBA 2nd stream (unlimited quantities subject to 20% of the normal import duty),
- 0.230 mln tonnes of transitional EPA TRQ,
- 0.640 mln tonnes of CXL – the quotas agreed at the time of accession of Finland and later of Bulgaria and Romania,
- 0.380 mln tonnes of West Balkan sugar,
- 0.4 mln tonnes of quota for the chemical industry, or
- “complimentary quantity” based on the EU raw sugar balance.

The fixed quantities total 3.2 mln tonnes meaning that under the EBA 2nd stream and “complimentary quantity” about 1 mln tonnes have to be shipped to the EU, if our production/consumption/stocks projections are validated in the course of the season. Without going into the detailed analysis of possible origins and the product structure of these imports it can be noted that EBA countries are unlikely to increase their export availability by 1.0 mln tonnes in 2008/09, similarly it is unlikely that European sugar sector has enough capacities to refine such quantities of sugar.

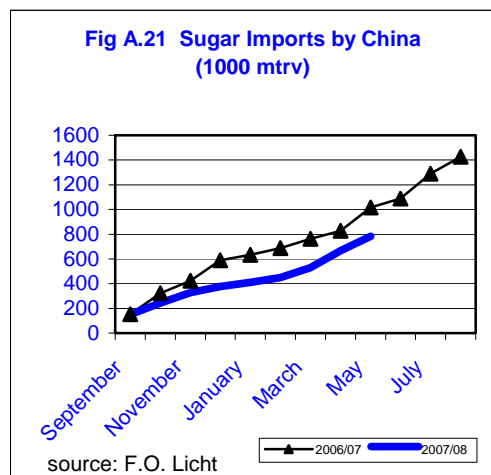
Meantime in **Russia**, the world's largest sugar net-importer in 2007/08, cumulative imports significantly lower than that in 2006/07 have been monitored (see fig. A20). According to the Russian Union of Sugar Manufacturers, the industry refined 2.143 mln tonnes of white sugar from imported raws between the start of the year and 20th August, down by 13.2% from 2.469 mln produced in the same period a year ago. Sugar factories have so far received only 1.927 mln tonnes of raw sugar, down from 2.432 mln last year as imports of raw sugar were restricted through a seasonal tariff of USD220 per tonne from December 2007 to the end of May 2008, after which the tariff returned to its previous level of USD140 per tonne. With the start of the domestic campaign, raw sugar imports are expected to dry up in the remaining part of 2008. Most likely, the seasonal duty will be introduced again for six months starting from December 2008. For the time being the ISO forecasts the new season's import demand at 3.225 mln tonnes, practically unchanged from the previous season.



In August the **US** Department of Agriculture (USDA) sharply increased its 2007/08 year TRQ for refined sugar to make up for an estimated domestic production shortfall (the TRQ for raw sugar remained unchanged – 1.212 mln short tons). The quota for refined sugar was raised by 300,000 short tons, raw value, which is an increase from the initial 94.3 thousand tons. The addition to the white sugar TRQ was opened on 14th August and may be entered until 31st

December 2008. Sugar entering under this additional refined sugar TRQ must be in containers. The Office of the US Trade Representative announced allocations for the increased TRQ to Mexico (68.3 thousand tons) and Canada (40 thousand tons), while other nations can supply sugar on a first-come, first-served basis. No further growth in import demand is currently projected for 2008/09, but the level of stocks remains critically low and some additional TRQ for the new season may be expected.

In **Indonesia**, the world's fourth largest importer, better domestic production is expected to cut import demand by 50 thousand tonnes. This season level has to be viewed, however, in the context of major reductions in imports last year. In 2007/08 the country imported, as estimated, 1.65 mln tonnes as against a massive 2.78 mln tonnes a year ago.



The record production has resulted in a significant decrease in sugar imports by **China**. Sugar imports in May 2008 amounted to 115 thousand tonnes, raw value, down from 191 thousand tonnes imported in May 2007. This brought cumulative imports in 2007/08 (September/May) to 784 thousand tonnes, down from 1.017 mln tonnes imported in the same period in 2006/07 (see fig. A21). In 2008/09 imports are expected to decline further.

Anticipated changes in import demand by other individual countries from the level of imports in 2007/08 are relatively small at the scale of the global surplus, but import

demand is forecasted to grow in **Middle East and North Africa** (+392 thousand tonnes from 2007/08) and in **Indian Subcontinent** (+125 thousand tonnes). Although imports of China are expected to decrease, the total imports for other **Far East and Oceania** countries are projected to grow by 158 thousand tonnes.

WORLD MARKET EVENTS AND PRICES

- **High volatility of world market prices**
- **Jigsaw price pattern to continue?**

Since our previous *Quarterly Market Outlook* in May, world market prices have continued a rollercoaster ride. On the 5th June the raw sugar price (ISA daily price) was as low as 11.03 cents/lb, the lowest daily quotation for 2008. Five weeks later on 11th July, the ISA daily price was as high as 15.08 cents/lb, the second highest daily price in 2008 after 15.21 cents/lb fixed on 3 March. Then, world values suffered from a rapid and significant downward correction. During one day only (17th July) raw sugar futures lost more than 1 cent/lb. By 22 July the ISA daily price had decreased to 13.11 cents/lb only. At the end of July, a new upward wave started. August demonstrated a jigsaw movement of prices in a wide range between 14.08 cents/lb and 15.14 cents/lb (see fig. A22).

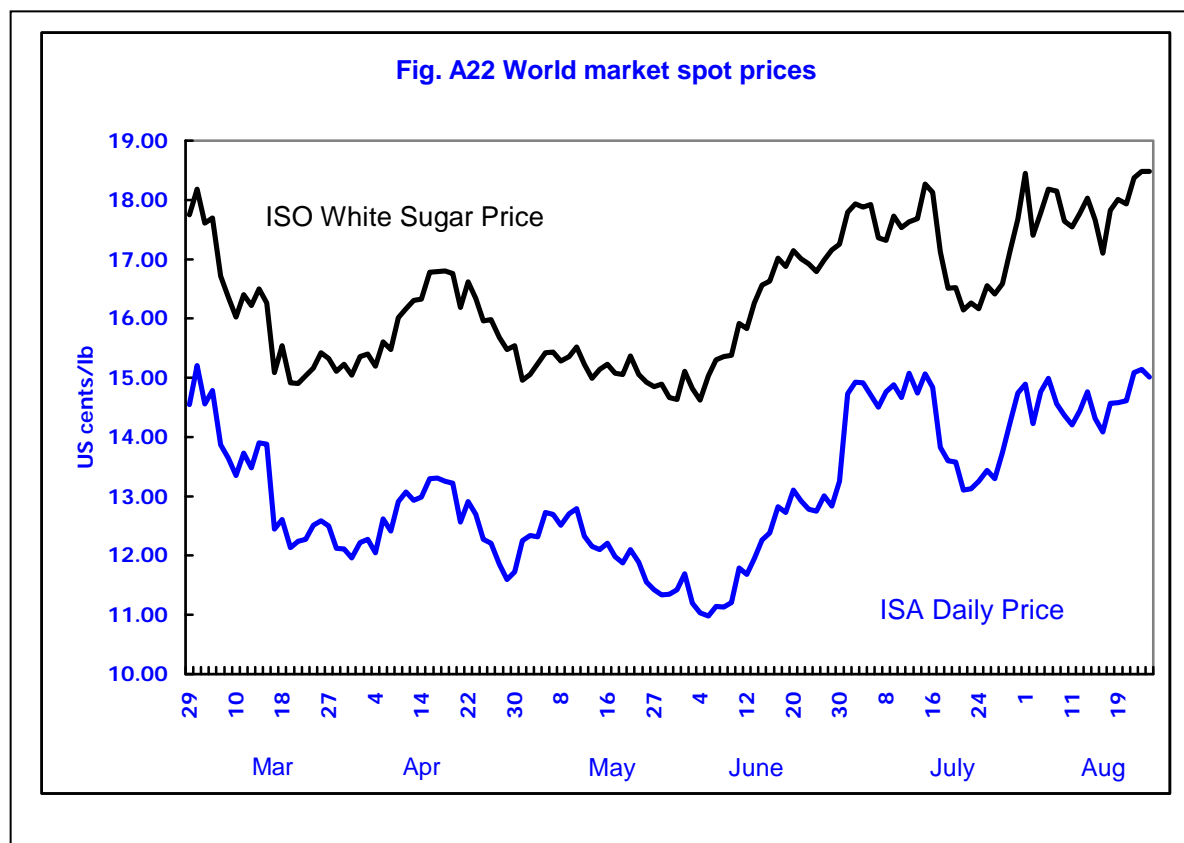
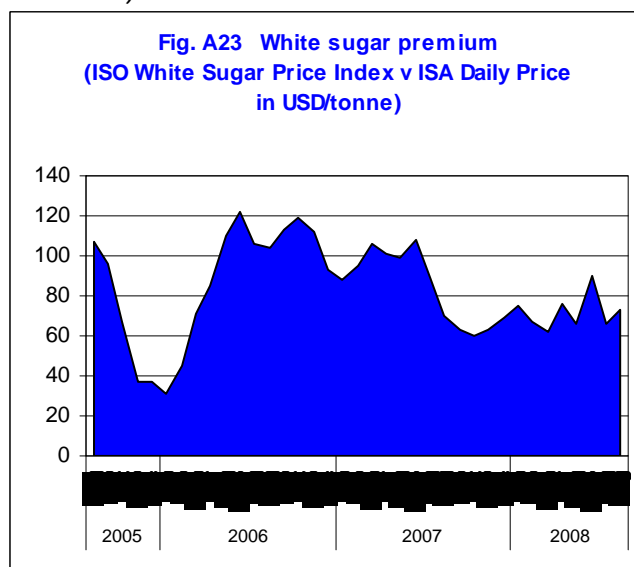
White sugar prices followed a very similar pattern. The ISO White Sugar Price Index started June at USD333.10/tonne (15.11 cents/lb) and improved to USD402.75/tonne (18.27 cents/lb) by 15th July. Five days later prices collapsed to USD356.00/tonne (16.15 cents/lb) only. By the 26 August however, they had recovered to USD 413.80/tonne (18.77 cents/lb), the highest daily quotation for nearly two years since September 2006.

In terms of monthly averages the ISA daily price improved from 12.10 cents/lb in May and 12.13 cents/lb in June to 14.23 cents/lb in July and further to 14.56 cents/lb in the first 15 working days of August. The ISO White Sugar Price Index also grew from USD333.06/tonne (15.11 cents/lb) in May to USD356.92/tonne (16.19 cents/lb) in June and further to USD379.85/tonne (17.3 cents/lb) in July. The average for the first 15 working days of August was USD 383.66/tonne (17.86 cents/lb).

During the period under review, the white sugar premium (the differential between the ISO white Sugar Price Index and ISA daily price) was also volatile (see fig. A23). In terms of monthly averages it improved from USD66.36/tonne in May to USD89.51/tonne in July but returned to USD66.14/tonne in August showing a further improvement in August. In the mid-term, little significant improvement in the level of the premium is anticipated taking into account a growing availability of whites from the new refining capacities coming into operation in 2008 and the first half of 2009.

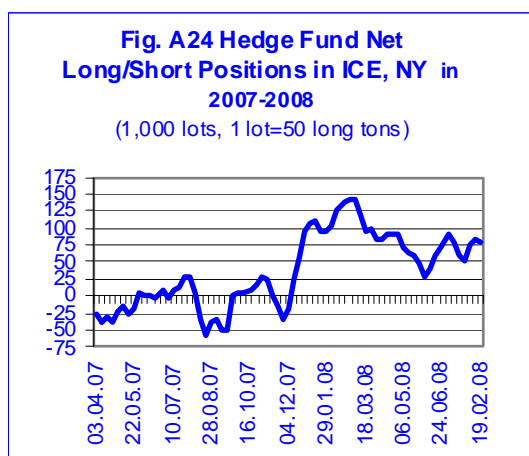
What are the factors behind the current significant price volatility? In February the ISO suggested that since the end of 2007

non specific-sugar factors had remained the key driver of world market price movements. The dichotomy between commodity markets in general and sugar fundamentals remains. However, during the first half of 2008 we saw the 'confrontation' of funds considering sugar prices historically cheap and the bearish short term fundamentals. While more recently sugar prices have surged on the back of more constructive sugar fundamentals in the coming 12 months and against the negative tide of other commodities (for more details, see *Special Focus*).



Looking at the funds' activity, one can notice that the net-long positions of hedge funds have reduced considerably since the beginning of 2008 but still remain relatively high as shown by Fig. A24. The net-long sugar futures position of index funds in the ICE New York decreased from a record high of 392 thousand lots in mid April to 339 thousand lots on 19th August.

How can our understanding of the current supply/demand situation (the return of world sugar fundamentals to a global deficit with still a high level of stocks accumulated during two previous surplus seasons) be interpreted in terms of future market values? Fundamentally, the balance between export availability and import demand looks relatively tight although no shortage in physical supply is anticipated at this still early stage of the crop year. Clearly, final numbers may differ from these early forecasts but the current fundamental outlook is the most constructive for the market values since 2005/06. The question is whether non sugar-specific drivers (including the outlook for crude oil and other hard and soft commodities, exchange rate fluctuations, developments in ethanol production and use, the upsurge in renewable energy programmes and continuing criticisms over use of food crops for energy, the general outlook for different classes of investment assets, and last but not least funds activity in sugar futures markets) will mitigate or reinforce the positive fundamental picture.



In table A6 the estimates of world sugar production and consumption in 2007/08

TABLE A6
Estimates of World Production and Consumption
(mln tonnes, raw value)
2007/08 crop year

		Production	Consumption	Surplus/deficit
USDA(c)	4-June	163.27	149.43*	+5.75
ABARE(b)	25-Jun	168.50	157.40	+11.00
OECD/FAO(b)	5-July	163.21	158.89	+3.32
C.Czarnikow(c)	8-Aug	172.47	161.44*	+11.03
ED&F Man (b)	23-Aug	173.92	158.67	+15.25
ISO(b)	24-Aug	169.58	158.78	+10.80
ABARE(b)	10-Sep	169.60	158.90	+10.70
C.Czarnikow(c)	14-Nov	172.4	161.8**	+10.60
F.O. Licht (b)	15-Nov	169.19	154.89*	+10.45
ISO(b)	15-Nov	170.31	159.17	+11.14
C.Czarnikow(c)	18-Feb	170.75	161.07**	+9.68
ISO(b)	21-Feb	168.44	159.13	+9.31
ED&F Man (b)	10-Mch	167.36	159.21	+8.15
F.O. Licht (b)	27-Mch	168.87	154.60*	+10.22
ISO(b)	14-May	168.73	160.92	+7.81
ABARE(b)	23-June	169.00	157.00	+12.00
F.O. Licht (b)	23-July	170.38	156.91*	+9.64
C.Czarnikow(c)	15-Aug	171.98	162.60	+9.38
ISO (b)	28-Aug	169.00	161.75	+7.25

2008/09 crop year

ABARE(b)	23-Jun	165.50	159.90	+5.60
C.Czarnikow(c)	15-Aug	164.15	167.49**	-3.34
ISO (b)	28-Aug	161.65	165.55	-3.90

b)=balance; (c)=individual crop years aggregated
* excluding unreported consumption
** including 1 mln tonne allowance for unrecorded disappearance

and in 2008/09 released to date by leading sugar analysts are summarized. Sugar spot prices and price differentials are given in tables A7, A8 and A9 on pages 24 and 25.

CURRENCY MOVEMENTS

- Continued BRL appreciation
- THB, AUD and JPY depreciation
- Domestic prices falling in China, rising in India

ISA Prices

In March 2008, ISA prices averaged 13.20 cents/lb. World sugar prices fell during the ensuing months to average 12.1 cents/lb in May and June. Prices have recovered since then to reach an average of 14.50 cents/lb during the first three weeks of August. In aggregate terms, ISA prices rose by 9.8% over the past six months. For some major exporters, in particular Brazil, the continued weakening of the USD has cushioned the sugar price rise since March when expressed in national currency. For others, like Thailand and Australia, the USD has strengthened, pushing up sugar prices expressed in national currency. Over the long-term (past 5 years) the USD remains weak, in particular against the currencies of major exporters Brazil (-44%), Australia (-26%), Colombia (-36%) and Thailand (-19%).

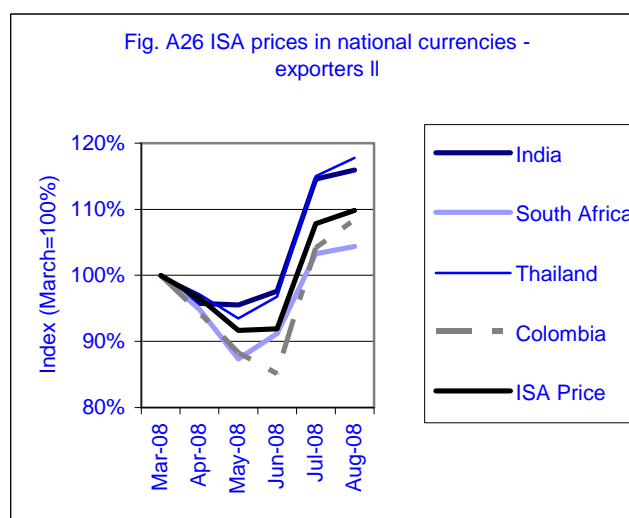
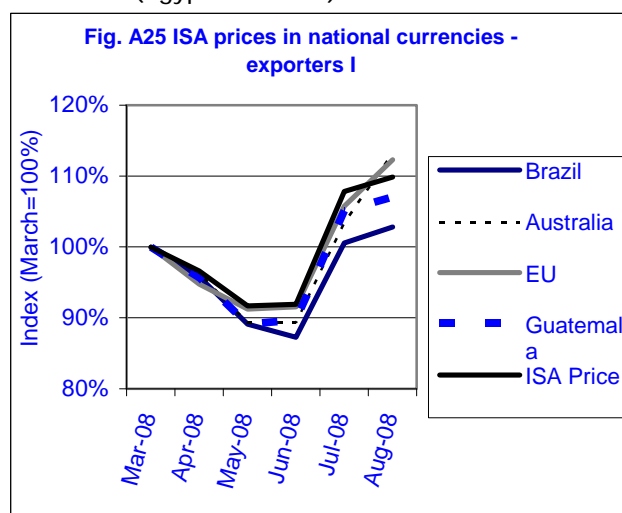
Exporters

Among sugar exporters, the largest currency appreciation since March with respect to the USD has occurred to the Brazilian Real (BRL) at 6.4%, the South African Rand (ZAR) at 5%, followed by the Guatemalan Quetzal (GTQ) at 2.6% and the Colombian Peso (COP) at 1.3%. This means the large rise of USD-nominated world sugar prices has been lessened if converted to these national currencies (see fig. A25 and A26). World prices expressed in BRL are now only 2.8% higher than in March; when expressed in ZAR, they are 4.4% higher; and 7% higher when expressed in GTQ and 8.4% higher in COP. By contrast, the Thai Baht (THB), the Indian Rupee (INR) and the Australian Dollar (AUD) have depreciated by a respective 7.2%, 5.5% and 3% against the USD since March. As a result, world prices expressed in these currencies have risen by a respective 17.8%, 15.9% and 13.2% in the period. It is important to note that, over the long-term (past 5 years), the USD remains weak across the currencies of all exporters except South Africa (against which it strengthened by 1% since 2003). This implies that, although sugar prices expressed in USD rose by 111% since July 2003 - from 6.8 cents/lb to around 14.5 cents/lb in August 2008 -, when expressed in BRL, the currency

of the largest sugar exporter, they increased by only 17.4% (which is less than the country's inflation in the period).

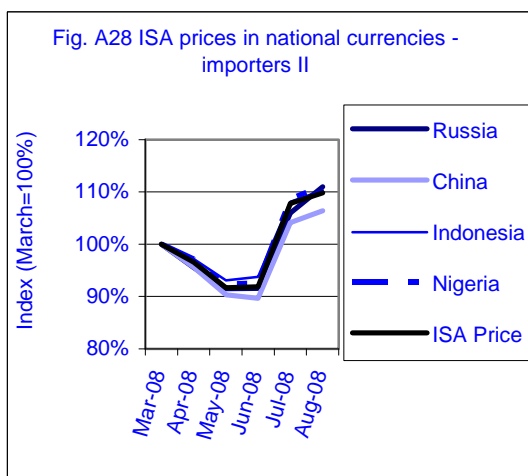
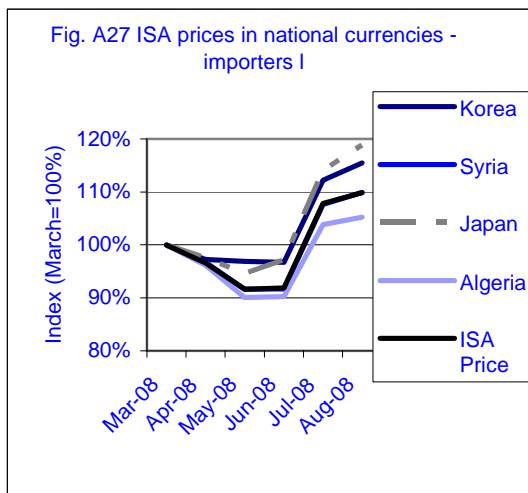
Importers

The biggest currency movements among importers have been the depreciation of the Japanese Yen (JPY) by 8.2% and that of the Korean Won (KWN) by 5.1%, as well as the appreciation of the Chinese Yuan (CYN) by 3% against the USD. In addition, there was a 2.2% depreciation of the EUR (euro), a 1.2% depreciation of the Nigerian Naira (NGN) and a 1% depreciation in the RUB (Russian Rouble). There was also a 4.2% appreciation of the Algerian Dinar (DZD) and a 2.9% appreciation of the EGP (Egyptian Pound).



As a result, world sugar prices are 18.9% higher than in March when expressed in JPY (compared to the rise of 9.8% in USD). Prices have also risen by more than the USD line when expressed in KWN (15.5%), and in both NGN and in RUB (11%) – see figs. A27 and

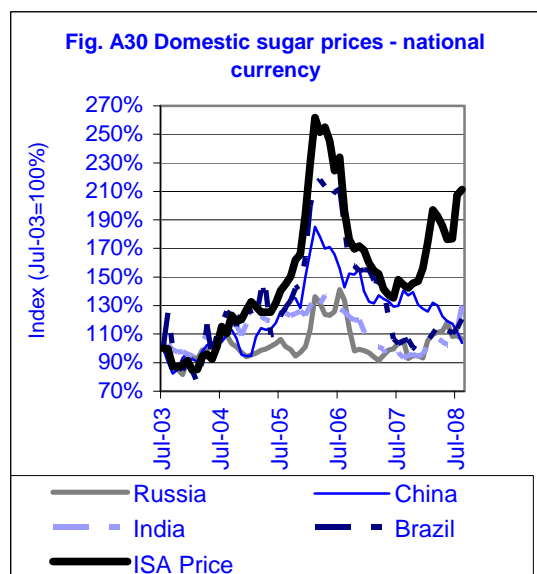
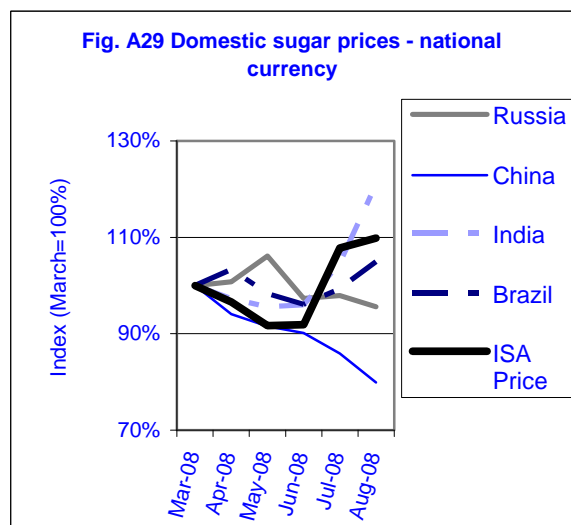
A28. By contrast, world prices rose by only 6.4% when expressed in CYN and 6.6% when expressed in EGP. Going back to 2003, while the EUR, the RUB and the CYN are now about 20% stronger relative to the USD, the IDR is 10% weaker. As a result, world prices expressed in Indonesian Rupees (IDR) have skyrocketed over the past 5 years, rising by 133%.



DOMESTIC MARKETS AND PRICES

Domestic sugar prices rose sharply in India and in the US over the past 6 month period. In China, by contrast, domestic sugar prices plummeted. Domestic prices fell slightly in Russia, while in Brazil prices fell between March and June, with the onset of the Centre-South harvest, but recovered their losses over the past couple of months – see fig. A29. Over the longer term, Chinese domestic prices are just

slightly above the level of 5 years ago (+4%), when world prices were averaging around 6 cents/lb. In Russia, they have risen by an aggregate 6%, while in Brazil and India they have increased by a respective 20% and 30% - see fig. A30. It is important to note that, when expressed in USD, domestic prices have cumulatively risen by substantially more: by a respective 25%, 35%, 41% and 117% for China, Russia, India and Brazil. Therefore, over the long-term, a significant portion of price movements in USD is explained by exchange rate fluctuation.



In **India**, the price for sugar M grade Kolhapur rose from USD 370/tonne in mid March to over USD 450/tonne in August 2008. Of importance, when expressed in INR, the price rises have been even more

significant due to the weakening of the INR against the USD. Domestic prices have increased on the back of the industry and government downgrades to sugar production estimates for 2007/08 and especially in the 2008/09. Indeed, the very low sugar prices during 2007 made it difficult for millers to pay the SAP (state advised prices during the 2006/07 and 2007/08 campaign), as argued in previous editions of the *Quarterly Market Outlook*. Meanwhile, Indian sugar exports during 2007/08 have also exceeded expectations, reaching over 4 mln tonnes of sugar, considerably up on earlier forecasts, partly alleviating the huge built up in stocks accumulated over the past 2 seasons.

China's domestic prices fell sharply between March and August following the bumper 2007/08 crop. From USD 500/tonne set in mid March, domestic prices fell to USD 400/tonne in mid August. The ISO has upgraded the crop to 16 mln tonnes, raw value, compared to 14.2 mln tonnes estimated back in May. As commented in the previous section of this *Quarterly Market Outlook*, production is expected to remain firm over the next season, meaning that China may become a net exporter of sugar over the short-term, after several seasons as a relatively large net sugar importer.

After rising during the spring, domestic prices in **Russia** remained at the level of around USD 700/tonne over June and July, but declined in the first weeks of August to around USD 650/tonne, which is in line with the level of a year ago. Domestic prices rose sharply in Russia at the beginning of 2008, following the rise in import protection conferred by the higher seasonal import duty of USD 220/tonne applied until May. The strengthening of the RUB against the USD over the past 12 months (5%) combined with lower sugar production estimates for 2008/09 compared to 2007/08 may continue to support prices over the autumn, traditionally a period of domestic price falls.

Brazilian sugar prices have risen by 5% since March when expressed in BRL (and by 12% when expressed in USD). At an average of USD 357/tonne in August, Brazilian domestic prices are today USD 100/tonne higher than in August 2007. Prices have resisted to fall during the course of the harvest in the Centre-South following a growing share of the cane allocated to

ethanol. Higher world prices and a strong BRL should continue to support domestic prices in Brazil over the coming months.

US prices have risen sharply since March from USD 617/tonne to USD 837/tonne in August (see fig. A31). The rise is a result of a lower beet output estimated for 2007/08, and expectations of higher sugar consumption following the sharp rise in alternative sweetener prices on higher corn costs. A decline in beet areas for 2008/09 as well as further drops in sugar production are also a factor behind the rising prices. In the wake of lower production, it is possible that the country will have to recur to a greater volume of sugar imports in 2008/09, and the recently announced increase in its 2008/09 TRQ for refined sugar is the first indication of the trend.

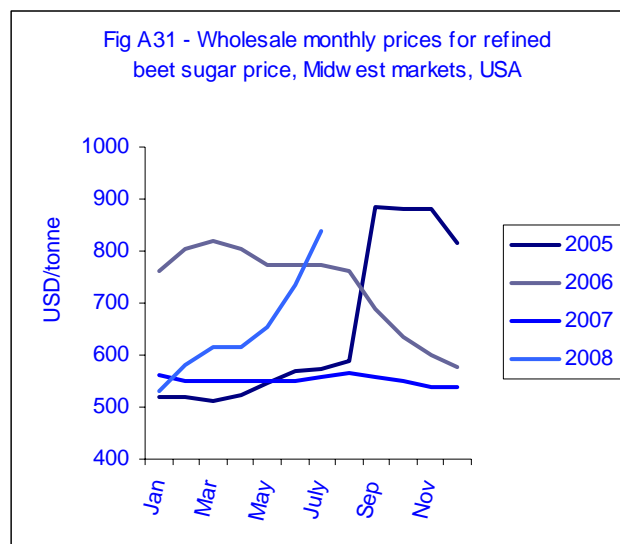


Table A7 ISA DAILY PRICE OF SUGAR**Monthly averages: 1991-2008**

(fob & stowed Caribbean Port)

	1991- 2000	2000	2001	2002	2003	2004	2005	2006	2007	2008
January	9.89	5.61	10.30	7.78	8.19	5.81	8.72	15.75	10.95	11.94
February	9.66	5.29	9.87	6.52	9.01	5.84	9.10	17.95	10.60	13.51
March	9.93	5.14	9.27	6.70	8.23	6.46	8.88	17.24	10.44	13.20
April	9.83	6.02	8.74	6.89	7.75	6.58	8.59	17.49	9.72	12.56
May	9.45	6.91	9.58	6.07	7.17	6.34	8.60	16.82	9.43	12.10
June	10.21	8.37	9.04	5.75	6.73	6.93	9.05	15.40	9.29	12.13
July	10.33	9.63	8.79	6.39	6.86	7.91	9.64	16.08	10.18	14.23
August	10.24	10.44	8.11	6.28	6.83	7.58	9.93	13.45	9.81	14.62*
September	9.96	10.03	7.64	6.96	5.98	7.69	10.31	12.08	9.75	
October	10.02	10.75	6.79	7.51	5.96	8.45	11.12	11.64	10.00	
November	10.05	9.93	7.69	7.83	6.08	8.16	11.38	11.78	10.09	
December	10.18	10.02	7.83	7.95	6.28	8.25	13.31	11.57	10.71	
Annual average	9.98	8.18	8.64	6.89	7.09	7.17	9.89	14.97	10.08	
Daily quotations										
Highest	15.45	11.69	10.72	8.31	9.37	8.87	14.24	19.25	11.42	15.21**
Lowest	4.70	4.70	6.27	5.28	5.67	5.48	8.20	10.53	8.87	11.00**

Table A8 FREE MARKET DAILY SPOT PRICES IN 2004-2008

(Monthly averages, US cents/lb)

	ISA daily price					LDP (whites)/ ISO White Sugar Price Index				
	2004	2005	2006	2007	2008	2004	2005	2006	2007	2008
January	5.81	8.72	15.75	10.95	11.94	9.16	11.63	17.14	14.95	15.33
February	5.84	9.10	15.75	10.60	13.51	9.54	12.10	19.98	14.90	16.56
March	6.46	8.88	17.95	10.44	13.20	10.59	12.03	20.45	15.24	16.03
April	6.58	8.59	17.24	9.72	12.56	11.19	11.73	21.36	14.28	15.99
May	6.34	8.60	16.82	9.43	12.10	10.74	11.75	21.82	14.64	15.11
June	6.93	9.05	15.40	9.29	12.13	10.73	12.60	20.93	14.17	16.19
July	7.91	9.64	16.08	10.18	14.23	11.82	14.70	20.89	14.20	17.23
August	7.58	9.93	13.45	9.81	14.62*	11.80	14.80	18.15	12.97	17.93*
September	7.69	10.31	12.08	9.75		11.12	14.67	17.20	12.59	
October	8.45	11.12	11.64	10.00		11.21	14.14	17.06	12.70	
November	8.16	11.38	11.78	10.09		11.27	13.08	16.84	12.97	
December	8.25	13.31	11.57	10.71		11.22	14.97	15.79	13.83	
Annual averages	7.17	9.89	14.97	10.08		10.87	13.18	18.97	13.96	
Daily quotations										
Highest	8.87	14.24	19.25	11.42	15.21**	12.50	15.56	22.63	15.52	18.48**
Lowest	5.67	5.48	8.20	8.87	11.00**	8.80	11.36	15.13	11.92	14.29**

* 1-25 August

** January-August

Table A9 DAILY SPOT PRICES AND SELECTED ECONOMIC INDICATORS

	<i>Raws</i>		<i>Whites</i>		<i>Differentials</i>				<i>Indicators</i>	
	LDP	NY No.11	ISA DP	(1)	LDP-NY		Whites(1)-ISA DP		UN index (2)	SDR/USD
	<i>US cents/lb.</i>				<i>c/lb.</i>	<i>%</i>	<i>c/lb.</i>	<i>%</i>	<i>2000=100</i>	
2005	9.84	11.37	9.89	13.18	-1.53	-13	3.29	33	119	0.6780
2006	n/a	15.51	14.77	18.97	n/a	n/a	4.13	28	129	0.6798
2007	n/a	11.60	10.08	13.96	n/a	n/a	3.88	38		0.6535
2005 July	10.89	10.89	9.64	14.70	-1.30	-14	5.06	52		0.6899
Aug	11.09	11.09	9.93	14.80	-1.21	-12	4.87	49		0.6817
Sep	10.26	11.59	10.31	14.67	-1.33	-11	4.36	42		0.6821
Oct	11.07	12.67	11.12	14.14	-1.60	-13	3.02	27		0.6919
Nov	11.33	12.89	11.38	13.08	-1.51	-12	1.70	15		0.7007
Dec	13.26	15.09	13.31	14.97	-1.83	-12	1.66	12		0.6987
2006 Jan	15.70	17.34	15.75	17.14	-1.64	-9	1.39	9		0.6911
Feb	17.90	18.93	17.95	19.98	-1.03	-6	2.03	11		0.6966
Mar	17.19	18.00	17.24	20.45	-0.81	-5	3.21	19		0.6949
Apr	17.44	18.13	17.49	21.36	-0.69	-4	3.87	22		0.6891
May	16.77	17.88	16.82	21.82	-1.11	-6	5.00	30		0.6717
Jun	15.35	16.18	15.40	20.93	-0.83	-5	5.53	36		0.6766
July	n/a	16.61	16.08	20.89	n/a	n/a	4.81	30		0.6767
Aug	n/a	13.58	13.45	18.15	n/a	n/a	4.70	35		0.6725
Sep	n/a	12.46	12.08	17.20	n/a	n/a	5.12	42		0.6749
Oct	n/a	12.09	11.64	17.06	n/a	n/a	5.42	47		0.6787
Nov	n/a	12.38	11.78	16.84	n/a	n/a	5.06	43		0.6713
Dec	n/a	12.47	11.57	15.79	n/a	n/a	4.22	36		0.6632
2007 Jan	n/a	11.85	10.95	14.96	n/a	n/a	4.01	37		0.6690
Feb	n/a	11.63	10.60	14.90	n/a	n/a	4.30	41		0.6679
Mar	n/a	11.44	10.44	15.24	n/a	n/a	4.80	46		0.6633
Apr	n/a	10.85	9.72	14.28	n/a	n/a	4.56	47		0.6580
May	n/a	10.78	9.43	14.64	n/a	n/a	4.48	48		0.6590
Jun	n/a	11.05	9.29	14.17	n/a	n/a	4.88	53		0.6617
July	n/a	12.18	10.18	14.20	n/a	n/a	4.02	40		0.6540
Aug	n/a	11.66	9.81	12.97	n/a	n/a	3.16	32		0.6538
Sep	n/a	11.61	9.75	12.59	n/a	n/a	2.84	29		0.6478
Oct	n/a	11.86	10.00	12.70	n/a	n/a	2.70	27		0.6417
Nov	n/a	11.82	10.09	12.96	n/a	n/a	2.87	28		0.6304
Dec	n/a	12.49	10.71	13.83	n/a	n/a	3.12	29		0.6351
2008 Jan	n/a	13.75	11.94	15.33	n/a	n/a	3.39	28		0.6312
Feb	n/a	15.16	13.51	16.56	n/a	n/a	3.05	23		0.6307
Mar	n/a	14.60	13.20	16.03	n/a	n/a	2.83	21		0.6127
Apr	n/a	13.68	12.56	15.99	n/a	n/a	3.43	27		0.6108
May	n/a	12.23	12.10	15.11	n/a	n/a	3.01	25		0.6159
Jun	n/a	13.29	12.13	16.19	n/a	n/a	4.06	33		0.6176
July	n/a	14.87	14.23	17.23	n/a	n/a	3.00	21		0.6132

(1) Up until 1 July 2006 – LDP (whites), afterwards – ISO White Sugar Price Index

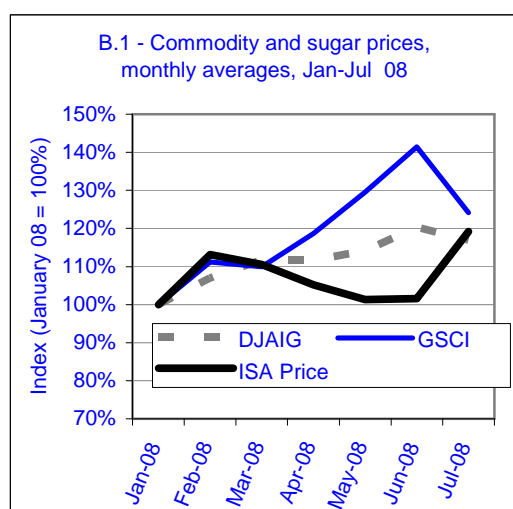
(2) US dollars unit values of manufactured goods exported by developed countries

SPECIAL FOCUS

COMMODITY PRICES, INDICES AND SUGAR

- **Commodity prices remain high, despite recent downturn**
- **Commodity index returns remain positive**
- **Index fund presence in sugar futures remains strong**

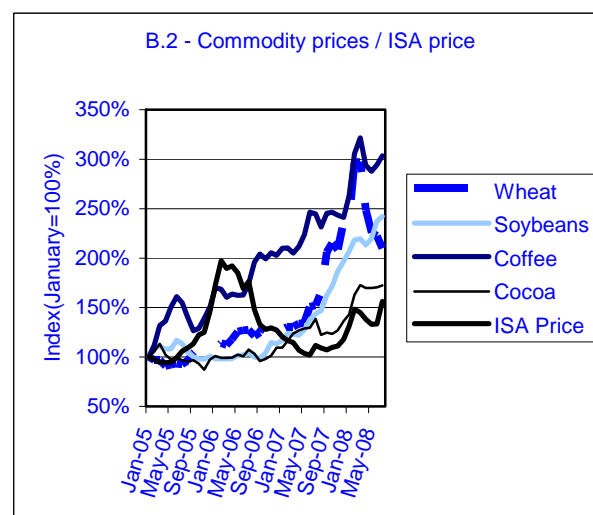
In the past edition of the *Quarterly Market Outlook*, the Special Focus was dedicated to an assessment of food price inflation, evaluating the role of the drivers pushing up food prices. In the February Edition, the Special Focus was on Commodity Index Funds, evaluating the increasing amount of speculation on commodity price rises by investment funds. During July, the price of most agricultural commodities suffered a downturn while sugar prices increased (see fig. B1). In terms of monthly averages, however, the prices of most agricultural commodities remain significantly higher than at the beginning of 2008. This time the *Special Focus* offers an analysis on commodity prices and commodity indices (DJAIG and GSCI in particular), focusing on energy and agricultural commodities. *This will form the basis for the ISO to produce a section on commodity price updates in its future editions.*

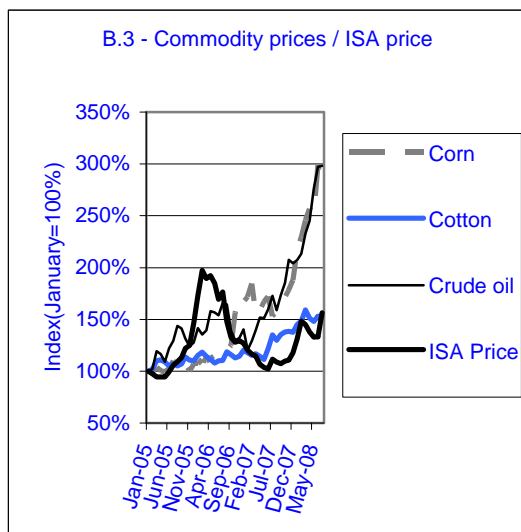


Relative to January 2005, agricultural commodity prices are significantly higher today. Food commodity inflation peaked during the first quarter of 2008 and since then has reached a plateau. Corn (n.2

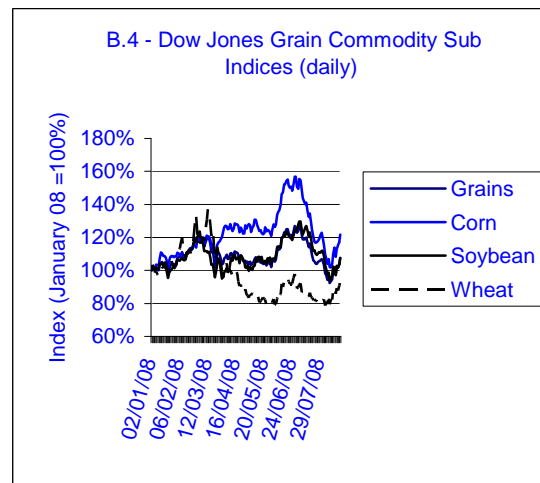
yellow gulf ports) and robusta coffee have so far seen the major gains, where prices have trebled since January 2005, in line with the rise in oil prices. Oil prices rose from USD 44.51/barrel in January 2005 to USD 132/barrel in July 2008. In March oil prices were at USD 104/barrel. Corn prices rose from USD 96/tonne in January 2005 to USD 236/tonne in March 2008, but kept rising steadily to reach USD 265/tonne in July 2008. Robusta coffee prices rose from USD 777/tonne in January 2005 to USD 3091/tonne in July 2008, although in March they were slightly higher at USD 3111/tonne. Soybeans prices rose from USD 262/tonne to USD 575/tonne in March and further to USD 634/tonne on average in July 2008. Wheat prices are perhaps the main agricultural commodity where prices have significantly decreased over the past few months. They rose from USD 152/tonne in January 2005 to USD 452/tonne in March 2008, but dropped to USD 319/tonne in July 2008.

Cotton, sugar and cocoa prices have risen by between 50% and 70% since January 2005, with cotton the only one of these three to see a decline in prices since March 2008- see figures B2 and B3.





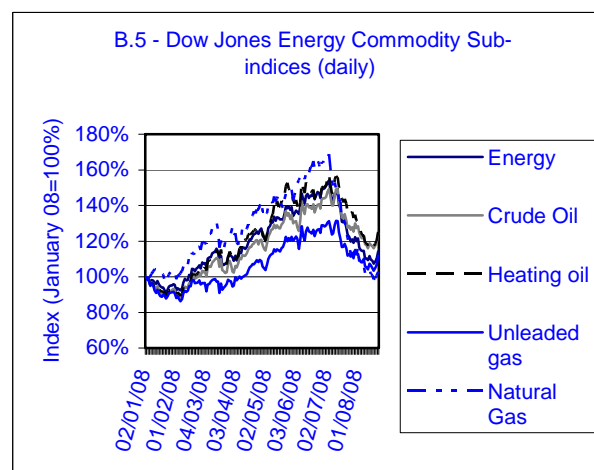
Grain Commodity Sub-index reached an accumulated gain of 8% in the year to August 21st, pushed mainly by corn performance (+22%) and soybeans (+7%), while wheat is the worst performer at 7% down (see fig. B4).



The previous Special Focus and a recent ISO study - see MECAS(08)06 on *Investment Funds and the World Sugar Economy* - pointed out that funds activity in the commodity futures markets may have an impact on food commodity inflation.¹ From examining the activities of index funds in sugar futures, in particular, it is inferred that the rapid increase in their share in total open interest in the sugar futures market may have lead world prices to rise in oblivion to developments in market fundamentals.

A recent sharp fall in daily quotations was also seen for energy sub-indices and for softs such as coffee, cocoa and sugar. The crude oil sub-index reached on July 3rd an accumulated gain in the year to date of 50%. By August 5th, this had dropped to 22%. Overall, the DJ energy sub-index shows a positive growth of 14% over 2008 to August 21st, with crude oil up by 25%, see fig. B5.

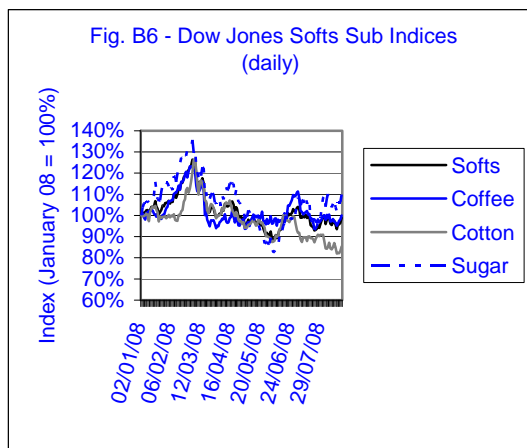
Index fund trading is based on daily price movements monitored by Commodity Indices, such as the Dow Jones and the Goldman Sachs. A closer examination at the two major Commodity Indices reveals that the prices of agricultural commodities have had a sharp downward correction during the second half of July/beginning of August, which has significantly dented the positive level of returns to individual commodities in the year to date. For instance, while at the beginning of July (July 3rd) the DJ-AIG sub-index for grains (which includes corn, soybeans and wheat) had accumulated an impressive gain of 27% since January 2nd, by August 5th the gains for this subcategory had been reversed into a loss of 3%. Nevertheless, prices have recovered over the course of August. The Dow Jones



The recent downward correction in soft commodity prices has been greater than grains and energy commodities. Indeed, the Dow Jones 2008 yields on soft commodities to date are poorer than grains and energy and accumulate a loss of 1% in the year to August 21st. Within this group, sugar is the best performer of

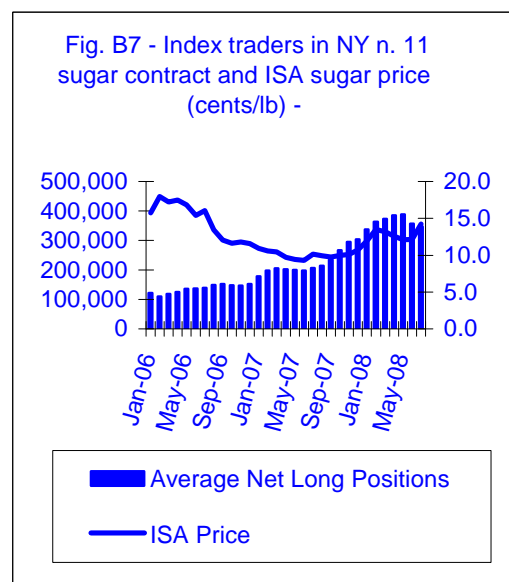
¹ This perception had been disseminated by several market analysts, culminating with a recent investigation by the CFTC – the US commodity futures regulator- on the impact of index traders on commodity prices.

the year so far, at 10%. The cotton sub-index has suffered an accumulated loss of 15%, while coffee has had a 0% change in aggregate terms since the beginning of the year – see fig. B6. Even with this relatively poor showing of softs as measured by Dow Jones, its general Commodity Index still shows a gain of 6% in 2008, which is hardly a disaster in the context of the currently depressed equity and bond markets.



However not all softs have been performing poorly. One soft commodity whose prices have risen by more than sugar this year is cocoa. Cocoa is not part of the Dow Jones Commodity Index, but it is part of the Goldman Sachs/ Standard & Poor's Agricultural Index (GS-SP) (which unlike the DJ, does not split agricultural commodities into grains and softs sub groupings). Indeed, cocoa was the best overall performer in agriculture this year, showing a price growth of 38% between December 2007 and July 2008. As a result, even after the recent decline in agricultural commodity prices, the GS-SP agricultural sub-index still showed a positive return of 2% in the year to July. Of importance, within the GS-SP Index, the weightings of energy commodities, in particular that of crude oil, are considerably higher – for more details on commodity weightings, see the Special Focus edition of the February QMO. Therefore, the general GS-SP commodity index showed a much stronger growth this year to July when compared to its major counterpart, the Dow Jones index, at 24%.

Now, have the relatively weaker agricultural prices during the middle of 2008 impacted the fund investment in sugar futures? So far, contrary to market rumours, the withdrawal of investment fund money from the sugar futures market has been fairly small. The Supplementary Commitment of Traders Report of the ICE n.11 sugar futures reveals an average of 347 thousand net long positions held by index traders during July 2008. Although this represents a decline from the peak of 389 thousand net long positions on average held during May, it is still significantly greater than the average of December last year, when it stood at 304 thousand lots, and of July last year, when it averaged only 206 thousand lots – see fig. B7.



What is the outlook on future funds participation in sugar futures? The generally more positive outlook for sugar prices for 2008/09 as a result of the world sugar market returning to deficit should sustain sugar index trading at higher levels than in the previous years. Moreover, it is important to note that a significant amount of fund investment in sugar futures occurs through general rather than individual commodity index trading, which remains buoyant due to good returns accrued by energy commodities. While it is expected that food commodity price rises may cool off over the short term due to weather improvements in main grain producing regions and a deceleration in oil price inflation, several of the main drivers

pushing up commodity prices should remain strong. Among them, it is worth noting the weak USD, booming protein demand in developing countries and global income growth.

WORLD FUEL ETHANOL

OVERVIEW

Global fuel ethanol production and consumption is forecasted to rise by almost one-third in 2008 to around 65.7 bln litres. Not only are production and consumption forecast to expand substantially in the world's dominant players – the United States and Brazil by 38% and 22% respectively, but aggregate growth is considerable in the rest of the world – up by 31%, albeit from a relatively low base.

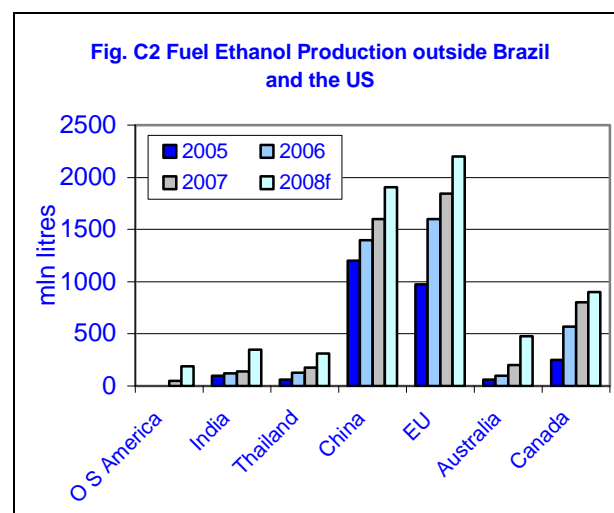
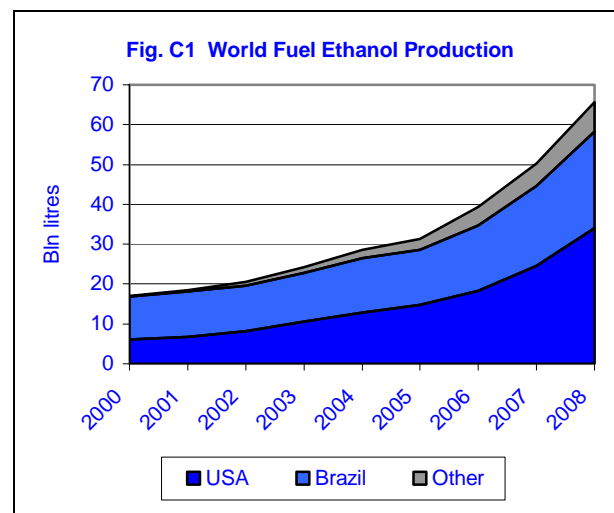
In the US, the Renewable Fuels Standard (RFS) mandates sharply higher inclusion in 2008 and discretionary blending as a gasoline substitute is further boosting consumption. In Brazil robust sales of flex-fuel vehicles is driving offtake higher whilst production is also boosted because of more remunerative domestic ethanol prices than sugar exports. New and increased inclusion mandates boost EU consumption. India's fuel ethanol programme is falling behind target and the success of the government's intended E10 mandate from October this year remains uncertain. Thailand's government continues to encourage consumption of E10 and E20 using consumer price incentives. Brazil is the key origin of internationally traded ethanol in 2008. The US and the EU remain considerable markets for Brazilian ethanol. Prices for ethanol have remained firm in the US over recent months whilst in Brazil ample supplies have recently pressured prices lower.

PRODUCTION

- **US production still rising strongly**
- **Brazil's mills favour ethanol over sugar**
- **EU production continues upward path**
- **India's production hit by high molasses prices**
- **Thailand's production capacity expands further**

Global fuel ethanol production is forecasted to rise by 31% to 65.7 bln litres in 2008 (see fig. C1 and fig. C2). Capacity expansions and construction of new facilities in the United States, Brazil, the

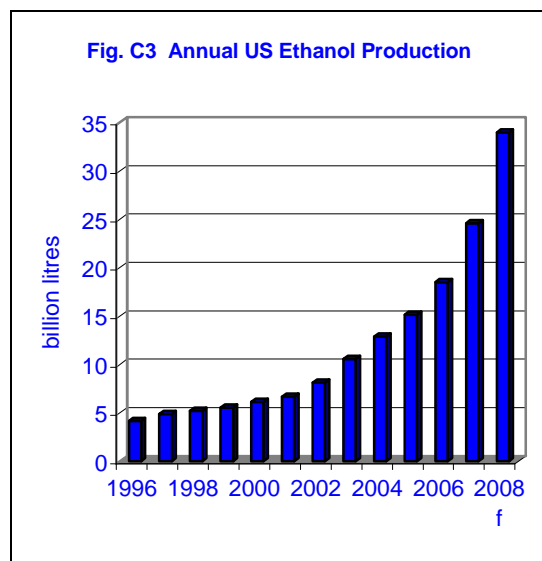
European Union, and Thailand, underlined the global increase, together with an even greater share of Brazil's cane crop directed toward ethanol production.



United States

US fuel ethanol production is forecasted to rise markedly by 38% to 34 bln litres in 2008 (see fig. C3), as new plants come on stream, mandated consumption rises and discretionary blending by fuel refiners continues. Data released by the Energy Information Administration show that ethanol production during January-May was up 36%. The forecasted strong growth in output in 2008 is despite the very high corn prices, which in July resulted in some plants losing profitability. Analysts earlier feared that the hike in corn prices since last October and its negative impact on the profitability of corn ethanol production, together with increased difficulties in accessing finance, could act to slow the pace of capacity

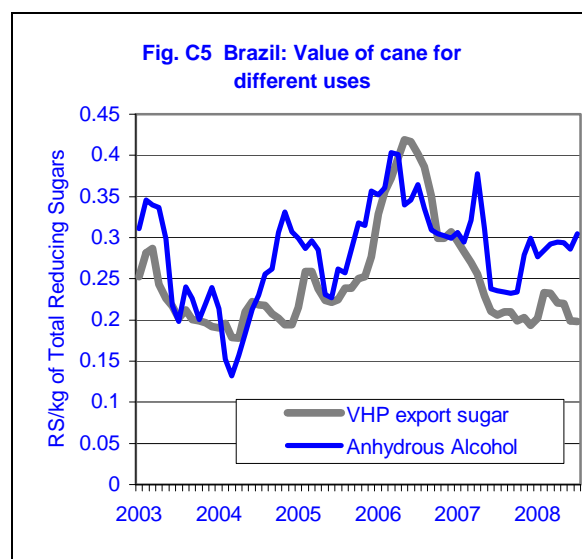
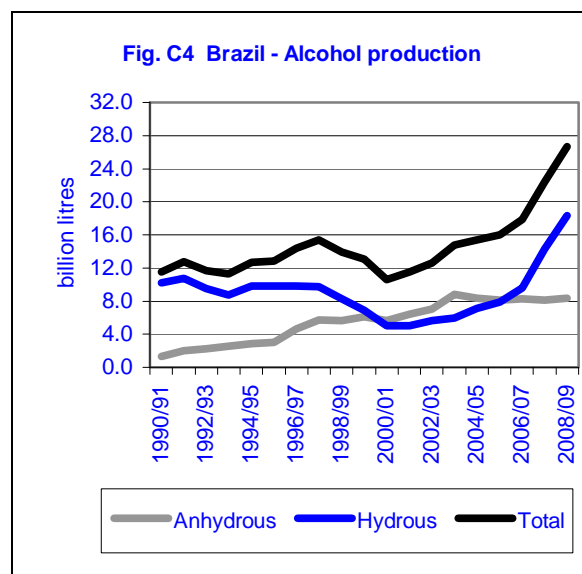
expansion. However production growth prospects remain strong in the near term.



According to the Renewable Fuels Association, as at end-May 147 ethanol biorefineries nationwide had a capacity to produce more than 32.2 bln litres annually. Additionally, 55 biorefineries were under construction and 6 were expanding that will add 19 bln litres of new production capacity by early 2010. This ongoing capacity expansion will ensure the production forecast for 2008 can be met.

Brazil

Brazil's fuel ethanol production is proving to grow more than originally expected this year and is now forecasted to expand by 19% to reach 26.7 bln litres in the 2008/09 campaign (fig. C4). Centre/South millers have so far favoured ethanol over sugar reflecting higher returns on the domestic ethanol market relative to sugar exports-see fig. C5. Consequently, the share of Brazil's much greater cane supply directed to ethanol production is forecasted to increase, with 59% of the nation-wide total reducing sugars (ATR) expected to be directed to ethanol in 2008/09, up from 55% in the last campaign.



An expected 28% boost in hydrous ethanol output to 18.3 bln litres in the 2008/09 crop year, mainly used by the rapidly expanding fleet of flex-fuel vehicles, is in contrast to near-stagnant output of anhydrous output.

Other Americas

Colombia's fuel ethanol production in 2008 is forecasted to reach 300 mln litres. Ethanol production from sugarcane has reached capacity levels and plans to expand ethanol production are set to begin in 2009-2010 at the earliest. According to ASOCANA, production during January-end April rose by 18% to 98 mln litres.

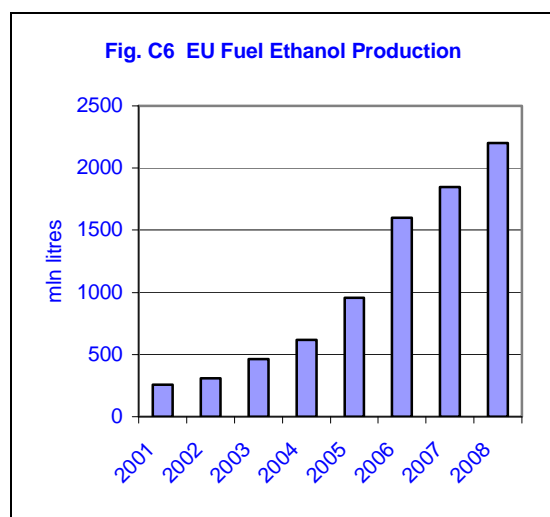
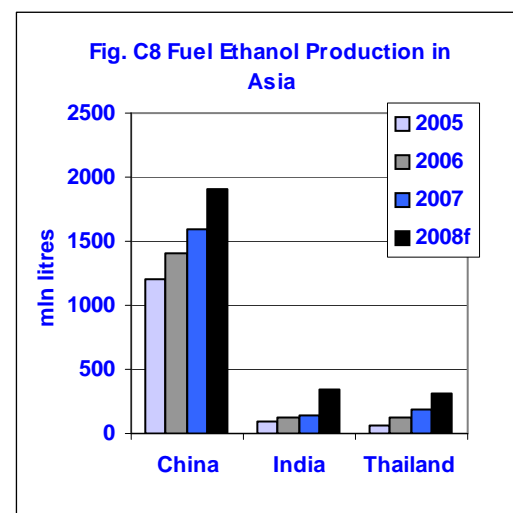
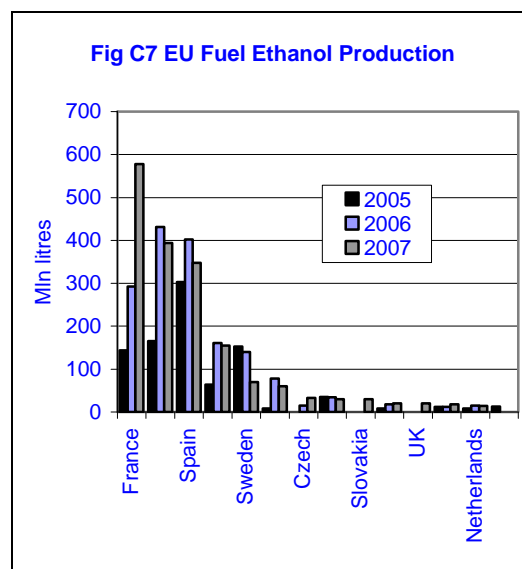
In **Uruguay** press reports suggest that cane-based ethanol production has started and may reach 15 mln litres in the current season. State-owned oil company Ancap is

blending ethanol in the second half of this year. In 2007, 6.5 thousand ha were under sugarcane for ethanol, up from 3 thousand ha in the prior season. The area under the crop may be expanded to 10 thousand ha. The government of Uruguay aims to introduce an E-5 mandate, equivalent to 23 mln litres of alcohol, from December 31, 2014.

European Union

EU fuel ethanol production is expected to reach 2.2 bln litres in 2008, up by 20% over the 2007 level – see Fig. C6. In 2007 the sharp rise in cereals prices heavily eroded margins for fuel ethanol producers, forcing several to shut down, slowing EU-wide production growth. In fact, production fell, according to the Ebio, in Germany, Spain, Poland and Italy – see fig C7. But a huge gain in France, together with new entrants UK and Slovakia ensured output still rose.

Germany based analysts FO Licht has recently identified a total of 9 new beet ethanol plants operating this year, with a total production capacity of 1.87 bln litres, and which are set to consume 8.7 mln tonnes of sugarbeets – representing more than 10% of the 2008/09 EU-27 beet crop. The plants are located in Austria, Belgium, Czech Republic, France, Germany, and the United Kingdom.



Asia

China's fuel alcohol production in 2008 is expected to rise to 1.9 bln litres, up from 1.6 bln litres in 2007. Presently there are 5 plants licensed for fuel ethanol production. Four plants use grain-based feedstock and are located in Jilin, Heilongjiang, Henan and Anhui. Around 80% of their production is corn based, the remainder is based on rice and wheat. In 2008, around 165 thousand litres will be produced from cassava at a new facility in Guangxi province constructed by grains processor and alcohol producer COFCO Ltd. The company has said it plans to construct a second ethanol plant in the region which will process cassava. The company also operates a corn-based ethanol plant in Heilongjiang and has minority stakes in two other facilities. The National Development and Reform

Commission earlier this year said the government plans to approve more non-grains-based fuel ethanol plants. These are to be set up in the provinces of Hubei, Jiangsu, Jiangxi, Hebei and Chongqing.

The existing 5 fuel ethanol producers still receive government subsidies to cover losses under the current fuel pricing scheme. The fuel ethanol price is linked to a government set gasoline price and is marketed by state designated retailers. Until last year the government applied a fixed subsidy. This year a flexible subsidy programme has been adopted under which the final subsidy level is based on an evaluation of each individual plant's performance.

Fuel ethanol production in **India** this year is proving to be much less than originally anticipated and is presently thought likely to reach no more than 350 mln litres. Molasses prices have doubled since the beginning of the year – see the Molasses part of the *Quarterly Market Outlook* – and quickly reached a level at which the sugar industry can not supply ethanol at the pre-negotiated prices. The oil marketing companies had late last year floated tenders and agreed to purchase ethanol from the sugar industry at prices at INR 21.5 per litre.

With prospects of a marked decline in molasses production from the upcoming 2008/09 crop, it remains to be seen if the government will be able to implement its mandated E10 blending programme starting October this year. Indeed, since sugarcane and molasses production is cyclical, the changing availability of molasses and consequent variations in molasses prices directly impact ethanol production costs. Disruptions to ethanol supply will therefore remain should pre-negotiated fixed ethanol prices continue to be a feature of the sector. Reports suggest that the government is likely to raise the fixed price to INR24 from the current level of INR21.50. In the longer term there is a real risk that, unless petroleum companies agree to link ethanol prices with the price of molasses, the blending programme will be successful only in times of excess molasses production.

Although the government has allowed mills to begin processing cane juice into ethanol since the second half of 2007, this measure is unlikely to have any strong impact of ethanol or sugar in the short term. This is because cane juice is too expensive as an ethanol feedstock given the regulated cane prices. Reportedly two sugar mills have tried production from ethanol from sugarcane juice on an experimental basis, but are yet to do so on a commercial basis.

Thailand's production capacity is thought to grow to around 850 mln litres by the end of this year. The vast majority of existing plants process molasses. The Energy Minister announced mid-year a 15 year Renewable Energy Development Plan, which provides detailed incentives and tax breaks for ethanol (and other sources of renewable energy). Thailand's cumulative production in the first 6 months of 2008 rose to 145.04 mln litres, compared with 71.140 mln in the same period a year ago. The country's production is forecasted to reach 310 mln litres in 2008, up from the estimated 2007 level of 180 mln litres, sufficient to meet anticipated domestic consumption. Production capacity still seems to advance well ahead of consumption levels.

Local oil refiner Thai Oil Plc. cancelled plans to invest THB5.1 bln (USD1=THB33.69) in a cassava-based 500 thousand litres per day ethanol project, which was expected to start operation in mid-2009, due to rising prices. However, its other ethanol venture will proceed. The company has a 30% stake in the THB1.5 bln-Mae Sot project, a joint venture with Padaeng Industry Plc. and Petro Green Co., which would have a production capacity of 100 thousand litres per day when it opens late 2009.

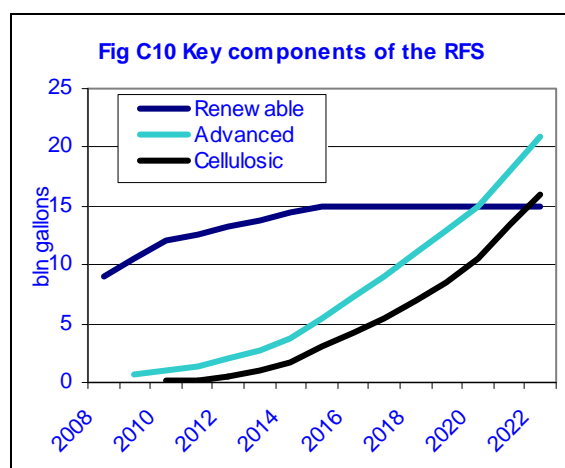
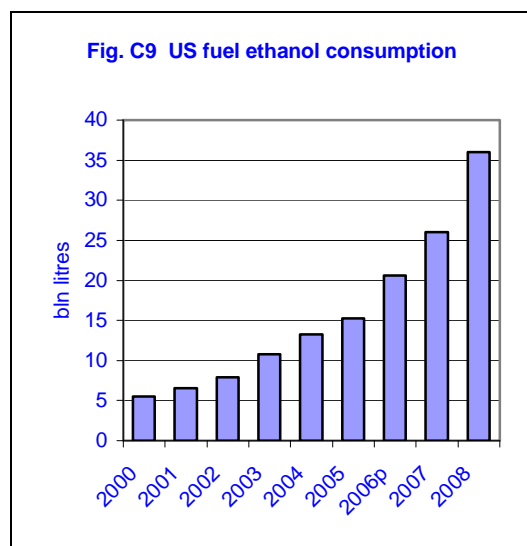
CONSUMPTION

- **US RFS and discretionary blending boosts consumption**
- **Expanding fleet of flex fuel vehicles drives surge in hydrous ethanol consumption**
- **New mandates boost EU consumption**

World fuel ethanol consumption is forecasted to reach around 65.2 bln litres in 2008, up 34% from the previous year. Consumption gains are focused in the United States and Brazil – forecasted up by 10 bln litres and 3.5 bln litres respectively.

United States

Fuel ethanol consumption will likely exceed the mandated level of 34 bln litres in 2008, as set under the Renewable Fuels Standard (RFS), possibly reaching 36 bln litres. This would represent a rise of around 38% on the 2007 level of 26 bln litres. (Fig. C9). As in 2007, a high level of discretionary blending is taking place where ethanol is used as a fuel extender to replace more expensive gasoline (even after adjusted for lower energy content). Imports of fuel ethanol will continue to supplement local production and are anticipated to rise strongly in 2008 (see later discussion).



Mandated inclusion of ethanol from differing feedstocks under the RFS – is

shown in fig. C10. Under the RFS 9 bln gallons of fuel alcohol must be blended into gasoline in 2008.

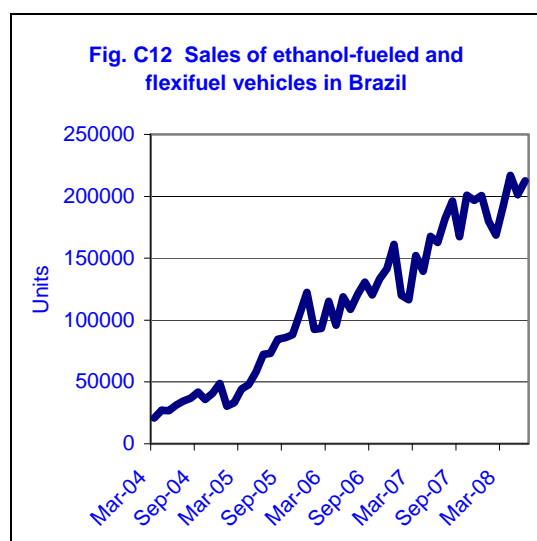
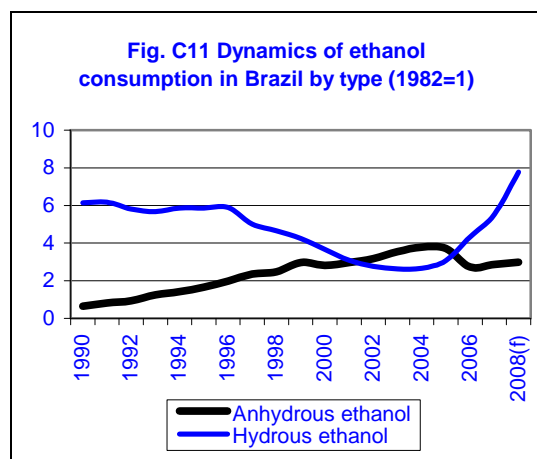
In an important test of the RFS, the Environmental Protection Agency (EPA) on August 7 denied a request by the state of Texas to temporarily cut federal ethanol requirements for the nation's fuel supply since the state had not proved the recent rise in corn prices is causing severe economic harm. The Texas Governor had sought to halve the RFS mandate to 4.5 bln gallons as it is seen hurting livestock producers and as increasing food costs.

In the meantime more States are also implementing fuel ethanol mandates. Recently in Pennsylvania mandates for fuel alcohol and biodiesel consumption were established. Under the law all gasoline sold at retail must contain 10% of fuel alcohol, once in-state cellulosic ethanol production reaches 350 mln gallons.

Brazil

Fuel ethanol consumption is expected to rise to 20.75 bln litres in 2008/09 (May-April), up by 19% on the level of the last season. Consumption of hydrous ethanol (used in Brazil's expanding fleet of flex fuel vehicles) is forecasted up substantially by 28%. This is in stark contrast to anhydrous alcohol where consumption is expected to be static (Fig. C11).

Sales of flex-fuel and alcohol vehicles (FFV) amounted to 212,537 units in June 2008, down from the record of 216,847 set in April but significantly up on the 162,745 units of June 2007, Anfaeva data show. The market share of FFV in the passenger car and light commercial vehicle category in May has stabilised at around 88% since last July, with greater FFV car sales reflecting higher overall car sales due to a booming economy and the expansion of consumer credit availability.



Other Americas

Consumption of fuel ethanol is anticipated to reach 300 mln litres in **Colombia** in 2008, equal to the requirements of the 8 cities included in the country's E10 fuel ethanol programme.

European Union

EU consumption of fuel ethanol is forecasted to rise significantly in 2008 to as much as 3.4 bln litres, up 28%. As noted in the previous edition of the *Quarterly Market Outlook*, additional countries have mandated ethanol inclusion (Denmark, the Czech Republic, and Austria), and existing mandates in several countries, including France, continue to enforce greater inclusion levels.

Fuel ethanol imports were very competitive in 2007, and as much as 800 mln litres of the EU's fuel ethanol consumption was sourced from overseas, particularly Brazil. Brazilian imports remain competitive in

Europe this year also, even though the EU's very high ethanol production costs seen last year have eased, due to weakening cereal prices. As much as 1 bln litres may be imported this calendar year.

In Sweden, E-85 consumption in May 2008 was 19.07 mln litres, up from 16.21 mln litres in the preceding month and 9.46 mln litres in May 2007, data from the Swedish Petroleum Institute (SPI) showed. This brought cumulative E-85 consumption in January/May 2008 to 73.79 mln litres, up sharply from 32.37 mln litres for the corresponding 2007 period. Total fuel ethanol use in January/May 2008 is estimated at 162.16 mln litres, compared with 132.24 mln litres for the comparable 2007 period.

Asia

China's consumption is still forecasted to reach 1.9 bln litres in 2008 up from an estimated level of 1.6 bln litres in 2007, mirroring production levels. Presently 10 provinces participate in the country's E10 fuel ethanol programme. E10 is fully adopted in 6 of these provinces. According to the Renewable Energy Plan announced by the National Development and Reform Commission (NDRC), non-grain fuel ethanol consumption is to reach 2.5 bln litres by 2010. By 2020, total fuel alcohol consumption (grain and non grain) is to rise further to 12.7 bln litres.

India's consumption forecast is now put as low as 350 mln litres in 2008, due mainly to low production. The government has mandated since September 2006 that petroleum companies incorporate 5% ethanol in gasoline, subject to commercial viability, in 20 states and eight Union territories. However, the programme has not been effectively implemented in some states due to high state taxes, excise duties and levies which makes the ethanol supply for blending commercial unviable. In short, oil companies have so far blended only a fraction of the required volume. Full implementation of the 5% blending programme would boost ethanol consumption to around 800 mln litres. Looking ahead, the government announced October last year that it would move from an E5 to a mandated E10 blending programme by October this year,

requiring 1.6 bln litres in a full year. However, it seems quite unlikely that the E-10 goal will be met in its first year, particularly as it coincides with a tightening of molasses supplies.

In **Thailand** fuel ethanol consumption in the first half of 2008 reached 144.020 mln litres, compared with 71.240 mln in 2007. Total consumption in 2007 was 176.270 mln litres, compared with 126.930 mln in 2006. Sales of gasohol 91 (E-10) in June 2008 reached 70.338 mln litres, while gasohol 95 sales (E-5) were 182.066 mln litres. Sales of newly introduced E-20 blends reached 2.676 mln litres in June.

With the increasing sales of E20 – introduced in January - as well as E10, total fuel ethanol consumption is forecasted to increase to 310 mln litres in 2008, on the assumption of an average 10% ethanol inclusion in all gasoline sales. There are government expectations for gasohol sales to rise to 4.48 bln litres in 2008.

Besides E-10 and E-20, E-85 sales are due to start under a reduced excise tax rate. Local oil company PTT Plc. plans to start E-85 sales in late August. E-85 is to be offered at 15 forecourts by the end of this year. E-85 will be offered at prices 30% lower than premium gasoline which is currently priced at THB36.29 (1USD=THB34.08) per litre.

The **Philippines** E-5 fuel ethanol programme commenced in January 2008, rising to E-10 in 2010. The Sugar Regulatory Authority projects bio-ethanol demand to be at 268 million liters at the 5% mandated level, but most of this will be imported in the first year.

In **Japan** the government intends to introduce tax incentives to encourage the use of fuel ethanol this year. The fuel tax on E-3 blends is to be lowered by JPY1.6 (1USD=JPY110.219) per litre until March 31, 2013, against JPY25 for conventional gasoline. The bill, including tax breaks and financial assistance for biofuel manufacturers and feedstock-producing farmers, was approved by the Diet on May 21, 2008. In particular, the fixed property tax for newly-built biofuel facilities will be reduced by 50%. Additionally, the import

tariff on ETBE, currently amounting to JPY3 per litre, is to be removed.

Meanwhile, the petroleum industry continues trial sales of ETBE-blended gasoline (containing 7% Ethyl tertiary butyl ether). The Petroleum Association of Japan, representing 18 major oil refiners and distributors, aims to start nationwide sales of ETBE-blended fuel in fiscal 2010.

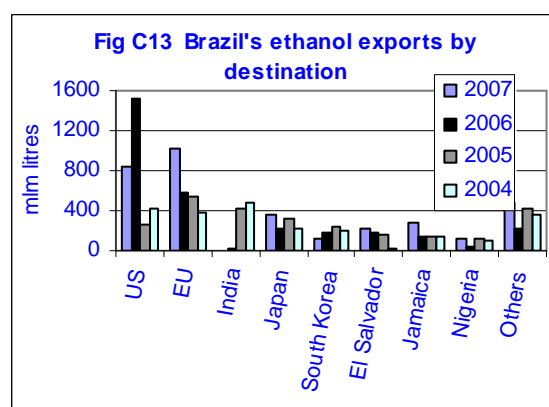
ETHANOL TRADE

- **Brazil expands ethanol exports**
- **US imports increase further**

Exports

In 2008 the global volume of traded ethanol is expected to increase by more than 16% over the 2007 level of around 6 bln litres to around 7 bln litres. As noted in the previous edition of the *Quarterly Market Outlook*, although a substantial part of the global ethanol trade is earmarked for use as fuel, a precise breakdown of the volumes specified above by end use is difficult to pinpoint. Roughly speaking around 75% can be considered as fuel ethanol, with the bulk exported from Brazil.

Direct duty-paid exports from Brazil to the United States were viable again mid-year with ethanol prices in Brazil significantly lower than that in the US, whilst the volume of ethanol entering the US under the Caribbean Basin Economic Recovery Act (CBERA) beneficiary countries – more colloquially known as Caribbean Basin Initiative (CBI) countries – is also rising.



Brazil's ethanol exports in the 2008/09 campaign are thought likely to rise to 4.5 bln litres, up 1 bln litres from the previous season. On a calendar year basis, exports for the January-July period of this year increased to 2.57 bln litres, up sharply from 1.9 bln litres for the corresponding 2007 period. Total 2007 exports were 3.53 bln litres, up from 3.4 bln litres in the prior year.

Table C1 Brazil's ethanol exports by major destination (mln litres)

	Year to end-July	
	2007	2008
US	610.8	749.3
EU	366.5	736.8
Jamaica	203.3	274.5
El Salvador	172.4	210.4
Costa Rica	88.5	86.2
Japan	194.7	93.8
South Korea	21.2	76.6

The main destination for alcohol in Jan/Jul 2008 was the United States, followed by the European Union. Major destinations within the Caribbean Basin Initiative were Jamaica, El Salvador and Costa Rica. Exports to Japan more than halved year-on-year whilst exports to South Korea in more than tripled year-on-year (see table C1).

Imports

Ethanol imports by the US (of which not all are used for fuel ethanol) in the first half of 2008 reached 0.91 bln litres, down by 9.8% from 1.01 bln for the comparable 2007 period. Total 2007 imports were 1.96 bln litres, down from 2.7 bln in the preceding calendar year.

Major origins for denatured alcohol so far this year were Brazil, Canada and Trinidad

and Tobago. Undenatured alcohol has been mainly sourced from Brazil, Jamaica and Trinidad and Tobago (see table C2).

Table C2 US ethanol imports by major origin (mln litres)

	Year to end-June	
	2007	2008
Denatured		
Brazil	31.150	66.629
Canada	16.585	16.280
Trinidad & Tobago	64.061	15.420
Undenatured		
Brazil	463.870	254.388
Jamaica	135.052	205.3763
Trinidad & Tobago	15.665	117.715

Shipments to the US from CBI countries have the potential to rise significantly in 2008 as the International Trade Commission (ITC) fixed the 2008 duty-free import quota for fuel ethanol shipments from the CBI countries at 1.71 bln litres (452.5 mln gallons), up from 1.33 bln litres (351.8 mln gallons) in 2007. Under the CBERA rules beneficiary countries are allowed to ship up to 7% of US fuel ethanol consumption duty-free.

Total imports by the US are forecasted to reach as much as 2 bln litres, reflecting not only the growing imports under the CBERA, but also competitive imports from Brazil during July when price differentials between the two countries allowed a full duty-paid trade.

In the EU ethanol imports are expected to rise further during 2008, with fuel ethanol accounting for as much as 1.1 bln litres, up from an estimated 0.8 bln litres imported for use as fuel ethanol in 2007.

Table C3 EU ethanol imports by major origin (mln litres)

	Year to end-May	
	2007	2008
Denatured		
Brazil	30.102	65.801
Pakistan	3.749	10.673
Undenatured		
Brazil	146.627	326.590
Pakistan	18.439	43.954
Costa Rica	17.085	26.633
Peru	8.017	15.833

Total ethanol imports in the January-May period this year reached 581.288 mln litres, up sharply from 382.623 mln for the corresponding 2007 period and against 1,136.157 mln in calendar year 2007. Major origins for denatured alcohol in Jan/May have been Brazil and Pakistan. Undenatured alcohol was mainly sourced from Brazil, followed by Pakistan, Costa Rica and Peru. The total volume of denatured and undenatured alcohol imports from Brazil rose by 122% on the year (See table C3).

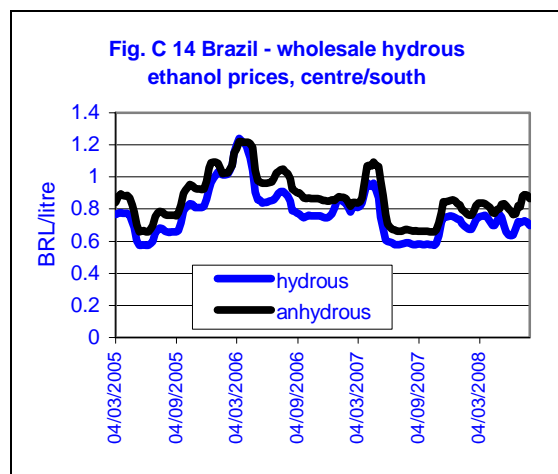
In the **Philippines** some 170 mln litres of ethanol could be imported from Brazil and Thailand in 2008, according to the Philippines Sugar Millers Association Inc.

PRICES

- **Prices in Brazil's weaker following inter-harvest period**
- **US spot prices remain firm**

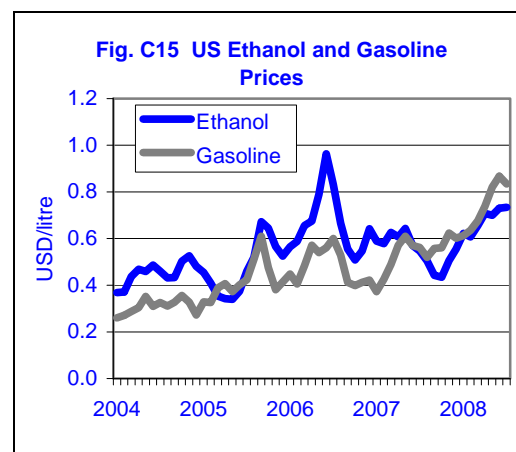
Brazil

Average wholesale domestic ethanol prices in Brazil rose during July from USD 0.49/l to USD 0.54/l for anhydrous and from USD 0.41/l to USD 0.45/l for hydrous alcohol. Prices increased sharply over the first half of the month on news of a smaller than expected cane crop in the country. However, during mid-July through to August, ethanol prices have declined somewhat. Booming FFV sales and record high domestic ethanol demand could prevent prices from falling further during the peak of the harvest.



United States

Ethanol prices in the US (spot basis) have generally improved over the past few months, dragged higher by sharp rises in gasoline prices. As can be seen in fig. C15, gasoline prices have risen much more than ethanol prices, which has boosted discretionary demand for ethanol by fuel refiners. In July ethanol price averaged USD0.74/litre, some 17 % higher than the January level of USD0.63/litre.



India

There are reports that the government is likely to raise the fixed ethanol price to INR24 (USD1=INR42.89) per litre from a current price of INR21.50. The current price of ethanol was fixed when crude oil was trading at around USD60 per barrel as opposed to the far higher levels seen presently. It was also said the higher ethanol price would be an incentive to raise domestic output.

ALTERNATIVE SWEETENERS

High Fructose Syrup (HFS)

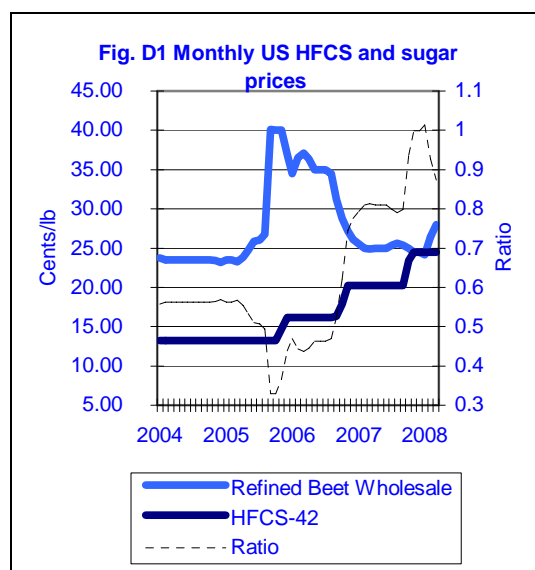
United States

- **HFCS producers may seek higher 2009 prices**
- **Little reprieve from high corn costs**

Prices

Spot market prices have continued to hold steady so far during 2008, after having risen in November last year- see fig. D1. Annual price negotiations between HFCS producers and major users for calendar year 2009, have yet to start in earnest but there are indications that HFCS manufacturers will be seeking considerable price rises (more than USD0.05/lb) but much depends on the level of corn prices during the key harvest months. Producers negotiated higher prices for deliveries in 2008 on the back of both increasing net corn sweetener and energy costs.

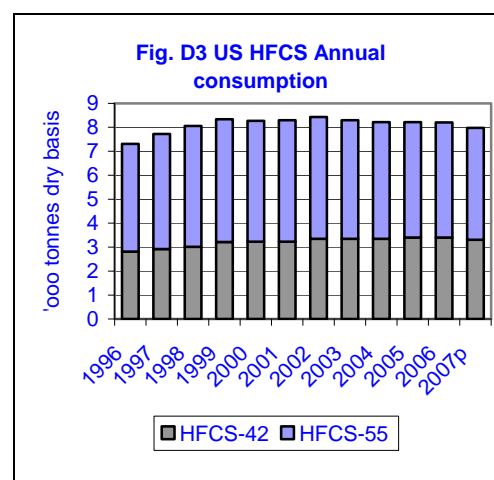
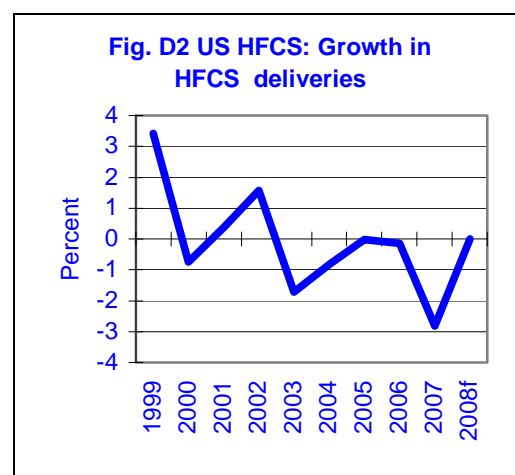
Higher HFCS prices, however, had markedly weakened the competitiveness of the sweetener as against sugar, until only recent when sugar prices began to spike sharply upwards.



Demand

Offtake of HFCS is expected to remain moribund during the remainder of 2008.

First quarter deliveries were much the same as for that of last year and expectations are for offtake to remain at last year's level of around 8.79 mln short tons – Fig. D2. The reduced competitiveness of HFCS against sugar as well as a lacklustre carbonated softdrinks (CSD) market contribute to the poor prospects. Indeed the almost 3% contraction in offtake in 2007 marked the 5th consecutive year of decline in the domestic HFCS market, which reached the lowest level since 1997. High costs of switching together with a consequent need to reposition established brands in competitive retail markets may reduce the likelihood of beverage and food manufacturers switching to sugar. Even so, permanently higher HFCS prices close to the sugar price increases the risk of a major rethink among major CSD manufacturers over the longer term.



Several smaller companies such as Thomas Kemper Soda, an Oregon based CSD manufacturer announced earlier this year that it would stop using HFCS in its products and instead would use cane

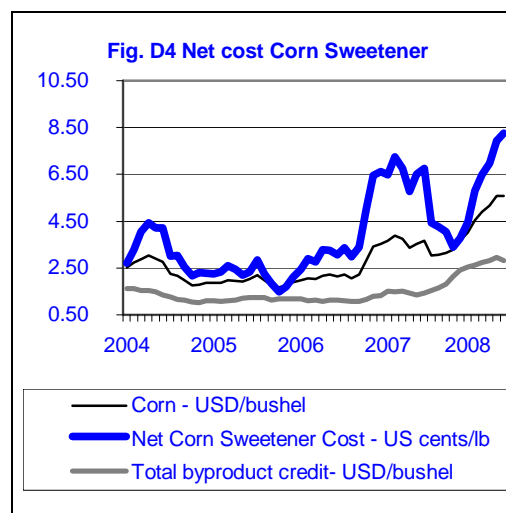
sugar in a drive to use only natural ingredients. In early April, California's Hansen's Natural Crop, made the same decision, noting that consumers had requested the move.

Part of the move away from HFCS has also been due to adverse publicity concerning HFCS and human health. The US Food and Drug Administration said earlier this year that it does not consider that HFCS is natural because of the use of synthetic fixing agents in the enzyme preparation phase. In the meantime this year larger companies have been declaring their products HFCS free. For instance Danone marketed its new Danone Danimals Extreme Drinkable as containing no HFCS as does Del Monte Bloom Energy Drink. Kraft foods reportedly had to omit its "all natural" label from its Capri sun juice drinks after it was sued by a US consumer group over its HFCS content.

The Corn Refiners Association has objected to the FDA's view and applauded a decision by the American Medical Association (AMA) that concluded "high fructose corn syrup does not contribute to obesity more than other caloric sweeteners." The CRA notes that consumption of HFCS has been dropping in recent years, yet the rates of obesity and diabetes in the United States continue to rise. Moreover, many other parts of the world have rising rates of obesity and diabetes, despite having little or no HFCS in their foods and beverages.

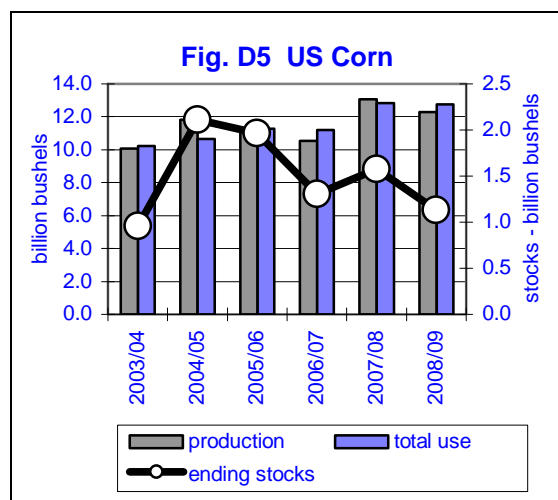
Feedstock costs

HFCS manufacturers continue to face historically high corn prices which have been directly translated into a sharp rise in net corn sweetener costs this year – see fig. D4. Rising byproduct values initially helped HFCS producers to cope with the situation of sharply higher corn prices evident since October last year. However, by-product credits have failed to keep pace with the very pronounced rise in corn prices this year. Consequently, net corn sweetener costs have surged to levels even higher than those seen late in 2006 and early in 2007, and in May (the latest data available from the USDA) averaged USD 0.083/lb.

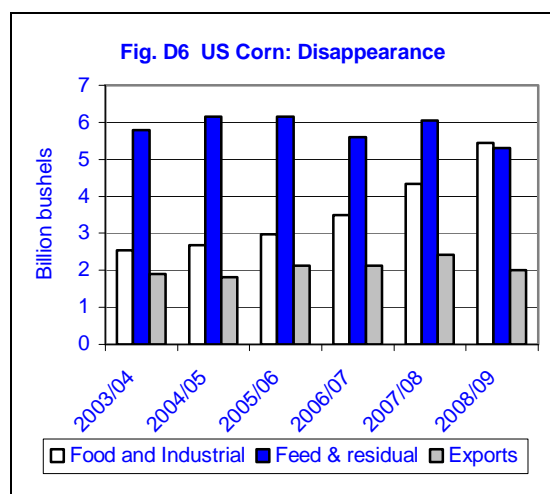


In fact prices for corn (No.2 yellow, Central Illinois) have risen markedly from the year 2007 low of USD3.03/bushel (set last July) to a peak of USD 6.55 /bushel in June (monthly averages) when flooding in the mid-west heightened market concerns about crop damage and lower available supplies from the new corn crop. Chicago Board of Trade (CBOT) December 2008 corn prices soared to a contract high of USD7.95 cents/lb in the second half of June. However, the cash corn price has slid back to USD5.97 in July when the USDA was able to more accurately gauge the impacts of the floods on crops area and prospective yields. For HFCS producers, revenues from the major co-products (corn oil, corn gluten feed and corn gluten meal) have risen by far less over the same period (from USD1.55/bushel to 2.83/bushel).

HFCS producers are unlikely to enjoy any great reprieve from the high corn costs over the coming six months at least. Reduced corn production in 2008/08 combined with robust demand from fuel ethanol producers (the surge in corn use for ethanol production is shown in fig. D6) is expected to leave corn ending stocks at a very low level – see fig. D5. Higher corn prices are needed, according to some analysts, to ensure demand is effectively rationed from the 2008/09 balance sheet.



Some sectors in the Mexican sugar industry had concerns that the lifting of all restrictions for HFCS imports into Mexico under NAFTA would result in very high imports, in turn limiting sugar production. However, lower domestic sugar prices and higher HFCS prices have so far limited demand. Therefore, HFCS imports for 2007/08 are expected to have grown only modestly to about 330 thousand tonnes as against 305 thousand tonnes in 2006/07.



Mexico

HFCS consumption for marketing year 2007/08 is forecast by the USDA to be between 700 thousand and 750 thousand tonnes dry basis, compared to estimated consumption of about 675 thousand to 720 thousand tonnes for the previous year. HFCS demand from CSD manufacturers was expected to increase as tariff and TRQ restrictions were completely removed in January 2008. However, increasing prices of imported US HFCS and imported corn could both act to limit demand growth.

HFCS production for 2007/08 is expected to have reached between 415 thousand and 450 thousand tonnes dry basis, much the same as the 2006/07 level of between 400 thousand and 420 thousand tonnes dry basis.

Table D1 United States: Supply/disappearance of corn. (mln bushels)

Marketing year	Production	Food Seed Industrial	Feed & Residual	Exports	Total Use	<i>Closing Stocks</i>
2002/03	8,967	2,340	5,563	1,588	9,491	1,087
2003/04	10,089	2,537	5,795	1,950	10,232	958
2004/05	11,807	2,686	6,158	1,818	10,662	2,114
2005/06	11,114	2,981	6,155	2,134	11,270	1,967
2006/07	10,535	3,488	5,598	2,125	11,210	1,304
2007/08	13,074	4,345	6,050	2,425	12,820	1,576
2008/09	12,288	5,445	5,300	2,000	12,745	1,133

- as at 12 August 2008. Source: WASDE-461.

Table D2 United States: Corn - Food and industrial uses. (mln bushels)

Marketing year	HFCS	Glucose & dextrose	Starch	Fuel Alcohol	Beverage & MFG	Cereals & other products	<i>Total</i>
2002/03	531.8	219.3	255.7	995.5	131.0	186.9	2,320.2
2003/04	530.2	227.9	271.5	1,167.5	132.0	187.4	2,516.6
2004/05	520.7	221.9	277.5	1,323.1	132.8	189.0	2,664.9
2005/06	528.6	229.3	275.4	1,602.8	135.0	190.2	2,961.3
2006/07	510.1	239.0	271.7	2,119.5	135.8	190.4	3,466.5
2007/08	490.0	240.0	265.0	3,000.0	135.4	192.4	4,322.8
2008/09	490.0	240.0	265.0	4,100.0	134.0	192.7	5,421.7

Source: USDA, Feed Outlook tables, FDS—08g, 14 August, 2008.

INTENSIVE SWEETENERS

- **New sucralose supplier enters European market**
- **Erythritol use blossoms but regulatory, technical challenges remain**
- **Nutrilib works towards a bright future for tagatose**

Sucralose

Early May, Dublin and Geneva-based Fusion Nutraceuticals, in partnership with Indian pharmaceutical company Alkem, announced it was targeting industrial ingredient use in Europe for their intellectual property (IP) validated sucralose. Commentators note that any moves to enter the market for this popular sweetener represent a potential legal minefield, as UK ingredients and sugar firm Tate & Lyle, which designed sucralose in the 1970s, holds a swathe of patents. But Fusion Nutraceuticals is confident its product does not infringe on any patents. Nutraceuticals claim that they are using purely expired IP for the manufacture of sucralose. The Fusion Nutraceuticals and Alkem partnership will bring up to 200 tonnes online (full capacity) of their SucraPlus brand, produced by Alkem's new plant, marking competition for Tate & Lyle, that has so far held a monopoly of the lucrative global sucralose market with its Splenda brand product.

However, the catalyst for this new market player is the arrival of generics, as certain patents from Tate & Lyle reach expiry and open up competition. Arguably, the threat for Tate & Lyle is not unexpected, but has been looming on the horizon for several years. However, Tate & Lyle responded confidently to news of the launch, noting that the Alkem plant is based on first-generation technology whilst their plants were based on third generation. If viable competition does emerge, at some point in the future market economics will start to put downward pressure on prices for the ingredient.

Erythritol

Foodnavigator reports that Cargill notes manufacturers are getting more adventurous over the use of the polyol

erythritol since it gained EU-wide approval this year, but the real boom will come when they can make a low-calorie claim in Europe. The sweetener has been allowed for use in the US since 1997 and in Japan since the early 1990s. In Europe it gained novel foods approval in 2006 and the subsequent directive required that all member states recognise it as a permitted ingredient within 18 months. Following the passing of this deadline in February, manufacturers have started to look more seriously at the sweetener and consider using it in different kinds of products.

According to Cargill there are some challenges to erythritol's use - it cannot be used as a 100 % replacement sugar, but rather combined with another sweetener. Interest is high even though current EU restrictions mean erythritol-containing products cannot yet claim to be low-calorie. The new EU nutrition and health claims regulation allows for a low calorie claim to be made on products that contain less than 40 kcal (170 kJ)/100g and less than 20kcal (80kJ)/100ml. However erythritol is classified as a polyol, which under EU rules can only claim to contain 2.4 kcal/g of the sweetener. In fact the calorie level in erythritol is particularly low - just 0.2kcal/g, but this is not recognised within the current regulations.

Tagatose

Although Arla Foods halted production of the sweetener tagatose in 2006, saying it was not possible to identify a volume potential to justify continued investments, the low-calorie, low-GI sugar replacer has not disappeared. Rather Nutrilib sees a strong future. The company, a subsidiary of Belgian company Damhert, stepped in and bought up all of Arla's remaining supply. It immediately set about creating a market with the launch of consumer products using tagatose, which are distributed through Damher Nutrition to supermarkets in Benelux, northern France, Malta and Denmark. Then, once the European patent on the tagatose molecule expired in August 2007, it started producing its own tagatose using an enzymatic process and the raw material galactose, a waste product from a biofuels manufacturing group with which Nutrilib has a long-term supply agreement. Nutrilib expects to have a full-scale

industrial plant producing some 10,000 tonnes a year in operation by September 2009. There is a major difference between Nutrilab's and Arla's approaches to manufacturing Tagatose. According to Vastenavond, Arla's chemical process was very expensive, creating considerable waste. The enzymatic process that Nutrilab began developing in 2001 and had finalised by 2006, by contrast, is said to cost a fraction of Arla's. The raw material is extremely cheap.

MOLASSES

- Prices unlikely to fall back
- Export availability to decline into 2009.

Outlook and prices

The ascent of molasses values appears to have continued over recent months. Prices fob Karachi in July had risen to the USD100 per tonne mark, a level not seen since mid-2006 – see Table E1. As noted in the previous edition of the *Quarterly Market Outlook* the rally has been for the most part driven by buoyant grains markets which acted to boost demand for molasses from the livestock feed and fermentation sectors. Analysts report that in the US molasses price strengthened considerably during the first half of 2008 (price fell back to USD110/tonne in January 2008 before rising to USD137/tonne in June). Prices in the European Union (cif Amsterdam) have risen even more, reflecting the tight availability of molasses in the EU as well as very high ocean freight rates.

Fundamentally, the molasses market should remain adequately supplied during the remainder of 2008 whilst prices will remain firm. Looking ahead to 2009 there is little to suggest molasses prices will fall. Not only is molasses production anticipated to decline in the 2008/09 season in key exporting countries, particularly India and Pakistan, but domestic demand is also on the rise as ethanol demand strengthens. However, should grain prices weaken further from their recent highs, molasses incorporation rates in livestock feed may fall as high molasses values would certainly dampen enthusiasm about molasses as a feed ingredient.

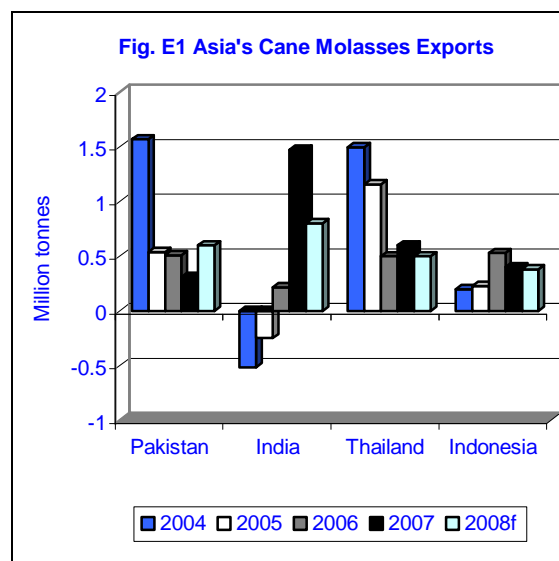
Table E1 Fob Molasses prices, Pakistan

Month	USD/tonne
January'04	30
April '04	50-55
July'04'	70
October'04	64-68
January'05	90
April'05	100
July'05	110
October'05	100
January'06	90
April'06	100
July'06	100
October'06	90
January'07	75
April'07	55
July'07	40
October'07	40
January'08	75
April '08	85

Exports

2007/08 molasses production in key Asian exporters - Pakistan, Thailand and India - together is estimated to have reached 17.4 mln tonnes, down 3.5 % on the very high 2006/07 level of 18.0 mln tonnes. Export availability in calendar year 2008 is anticipated to shrink (see Fig. E1) by 0.48 mln tonnes to 1.9 mln tonnes, due to the 2007/08 production contraction in India together with indications of an even greater decline in output in the 2008/09 season. At the same time, domestic demand for fuel ethanol production is rising strongly in all three countries, further reducing export availabilities.

Fig. E1 Asia's Cane Molasses Exports



In **Pakistan**, cane molasses output from the 2007/08 season rose strongly to reach 2.3 mln tonnes, up from the 2006/07 level of 1.9 mln tonnes. Because of the higher output, molasses exports were initially expected to exceed 1 mln tonnes in 2008. However, despite no domestic fuel ethanol programme as yet, high crude oil prices have allegedly made ethanol exports attractive, resulting in strong domestic use of molasses. Consequently molasses exports are now anticipated to reach 0.6 mln tonnes in 2008.

Thailand has been one of the globe's largest molasses exporters. Production in 2007/08 is put at 3.3 mln tonnes, up from the 2006/07 level of 3 mln tonnes. Despite the production increase, the country could export as little as 0.5 mln tonnes in 2008, down slightly from the 2007 level. The government is boosting incentives for ethanol inclusion in gasoline and this is ensuring lower molasses exports are lower than initially expected.

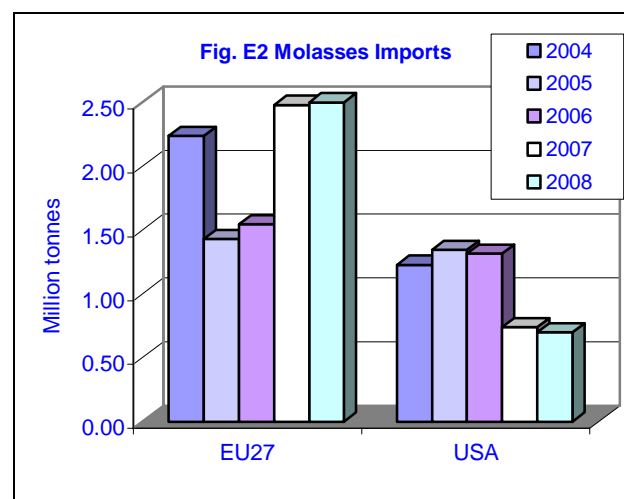
India filled a substantial gap in world export availability in 2007. Production in 2007/08 reached 11.9 mln tonnes, around 9 % lower than the huge 2006/07 level of 13.1 mln tonnes. These two successive large crops allowed India to export 1.5 mln tonnes of molasses in 2007, as opposed to having been a net importer in 2004 and 2005. In 2008, whilst India will remain Asia's largest exporter, tonnages are forecast to fall considerably, to 0.8 mln tonnes. Even though the nation's fuel ethanol programme is running behind target, molasses demand from the country's vast alcohol sector is still expanding. Crucially, if the country-wide E10 plan come into force from October this year, then molasses use would absorb an additional 3 mln tonnes, suggesting India would need to import molasses in 2009. However, there remains considerable uncertainty over the success of the E10 blending programme, see the Ethanol Section.

Imports

Molasses imports by the **European Union** increased sharply in 2007, reaching 2.3 mln tonnes (net from third countries), as shown in fig. E2 (up from 1.6 mln tonnes in 2006). Higher imports are explained by the fall in EU beet molasses production in

2006/07 (down by around 1 mln tonnes to 3.7 mln tonnes) – due to structural reform under EU sugar policy (see the Sugar Supply Section) together with improved competitiveness as against higher prices for feed grains. In 2007/08 beet molasses production is estimated to have fallen again to 3.57 mln tonnes. EU grain prices have been declining from earlier highs, suggesting the relative attractiveness of molasses over gains may be fading and demand could once again decline to minimum levels if this trend continues. Even so, import volumes are likely to remain considerable during the remainder of 2008 and may even rise during 2009.

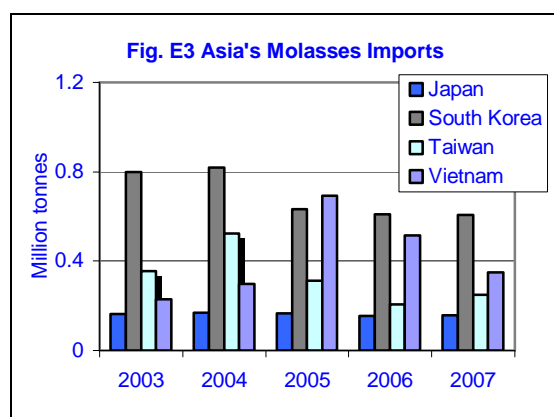
For the fermentation sector analysts are questioning the future of molasses use in the EU. If high molasses prices persist, yeast manufacturers have limited access to sugar at world market prices (via the chemical industry quota), and switching to glucose/dextrose can be another option. ADM and Tate & Lyle have both closed molasses based citric acid plants in Ireland and the UK respectively, and instead, citric acid is imported from China. Molasses based lysine plants in Hungary and Slovakia have been relocated to the United States to access dextrose, further reducing molasses demand in the EU chemical sector.



In the **United States**, the competitiveness of molasses over corn had begun to level out during the first half of the year – see the HFCS section for a description of developments in corn prices. Whilst expected to weaken further from the very high peaks set in June, corn prices over coming months will likely

remain structurally higher than in recent years, ensuring molasses remains competitive even at the firmer values evident this year, thereby maintaining demand for molasses from the livestock feed industry. This sector accounts for almost half of US molasses offtake. At the same time however, a surge in availability of corn by-products from the markedly higher use of corn to produce fuel ethanol acts to limit any increase in demand for additional molasses otherwise due to competitive prices relative to corn. Imports are therefore forecast to remain close to the 2007 level of 1.1 mln tonnes.

In Asia, imports by the key 4 buyers - **Japan, South Korea, Vietnam and Taiwan** fell in 2007 by around 8 % - see fig. E3 – Much greater offtake by Taiwan was more than offset by a fall in imports by Vietnam. So far during 2008, the general driver supportive of molasses offtake – high cereal prices pushing up carbohydrate and protein prices – is resulting in higher import volumes in both Taiwan and South Korea (January-May data).



WTO UPDATE

- **WTO high level summit fails to reach Doha deal**

Governments' latest attempt to salvage a deal in the Doha Round of trade talks broke down on Tuesday 29th July, as ministers acknowledged that they were unable to reach a compromise after 9 days of a high-level summit at the WTO headquarters. The multilateral negotiations on agriculture and non-agricultural market access (NAMA) now face an uncertain future, despite considerable headway towards an accord. Officials reportedly expressed surprise and disbelief that, in the end, the negotiations foundered on the extent to which developing countries would be able to raise tariffs to protect farmers from import surges under a 'special safeguard mechanism' (SSM). At the same time differences over cuts to farm subsidies and industrial tariffs, which had long seemed virtually intractable, appeared to be bridged to a significant extent during the 'mini-ministerial' gathering in Geneva. Even the always difficult issue of preference erosion was reportedly close to being finalised. One of the main sticking points about the SSM has been whether, and by how much, countries should be allowed to impose safeguard duties in excess of current (i.e., pre-Doha) tariff ceilings. Import-sensitive China, and especially India, were pitted against the US' demands for predictable market access for farm products.

On the SSM, WTO Director-General Pascal Lamy told a 30 July meeting of the entire Membership - the informal Trade Negotiations Committee - differences on how big import surges need to be in order to justify the highest safeguard remedies ultimately proved irreconcilable, despite "more than 60 hours" spent trying to bridge the gaps. "Those who feared that the safeguard would lead to a disruption of normal trade wanted this safeguard as high as possible.

Some trade sources have suggested that other matters - or the balance of gains and losses in the package as a whole - may in fact have been to blame also. By WTO Director-General's reckoning,

members made it "80-85 % of the way" to 'modalities' deals with formulae and figures for future subsidy and tariff ceilings. Of some 20 issues in the talks, he said that positions had converged on 18. Differences on the SSM proved "irreconcilable," Lamy conceded. The twentieth issue, cotton, was never discussed.

Agriculture negotiations chairperson Ambassador Crawford Falconer, on 11 August 2008, in submitting his report on the talks to the Trade Negotiations Committee, noted that with respect to the SSM it was not a purely technical breakdown. It was a political divide. In fact there was progress made on it politically, and technically, during that week. But it was simply not sufficient to bridge a political divide that had been enduring since at least Hong Kong.

In their initial reactions to the summit's collapse, governments largely refrained from the acrimonious "blame game" that has marked similar breakdowns in the past. Nevertheless, all agreed that the talks had come very close to agreement. Generally, WTO Members expressed a desire not to abandon the negotiations, nor to lose the progress they had made towards agreement. Nevertheless, the path towards putting the negotiations back on track is unclear. Lamy announced that the chairs of the committees on agricultural and industrial goods trade will soon issue "state-of-play" reports capturing progress that had been made before the talks fell apart.

With the failure of the summit, the next step for the Doha Round, already in its seventh year, is not yet clear. Whether countries can pick up where they left off remains to be seen. Despite various pledges and pleas to retain what is currently on the table, governments have no obligation to honour non-binding commitments offered in the course of the negotiations. Any real movement in world trade talks may take some time. US elections in November will constrain trade policymaking for the rest of this year, and many fear that in 2009, amid political changes in the US and Europe, and elections in India, global trade will be put on the political backburner.

REGIONAL TRADE AGREEMENTS

- **ACP, EU address regional integration and sugar**

Meeting in Addis Ababa, Ethiopia at the 87th summit of the ACP Council of Ministers from 9-11 June, officials from 79 African, Caribbean and Pacific (ACP) states laid out their stances on several controversial issues, including economic integration with the EU.

That summit was immediately followed by a gathering of ministers from both the ACP and the EU, which met from 12-13 June, also in the Ethiopian capital. The meeting resulted in the passage of a joint resolution on food prices, Economic Partnership Agreements (EPAs), and regional integration, among other issues.

Disagreement continues on EPAs

Regional integration was a major topic of discussion at both of the week's meetings. Specifically, officials discussed controversies over the terms of the Economic Partnership Agreements (EPAs) currently being negotiated between the EU and several developing countries. The EPAs are intended to replace longstanding unilateral preferences that became illegal at the WTO at the end of last year. Although EPA negotiations have been ongoing for more than four years, only one full agreement - between the EU and a coalition of Caribbean nations - has been signed to date. However, a number of African countries, as well as two Pacific nations, have successfully concluded interim agreements with the EU.

Many ACP countries are dissatisfied with both the process and substance of the negotiations, claiming that last year's push to meet an end-year WTO deadline pressured ACP states into prematurely signing unsatisfactory agreements.

Certain clauses in existing EPAs and interim agreements were identified as needing to be reviewed. Among these concerns was the level of flexibility that

least developed countries (LDCs) would be granted in implementing the market-opening conditions of the EPAs. Concern was also expressed over the inclusion of a most-favoured nation (MFN) clause in the EPAs. Some have claimed that such a provision would stifle trade among developing countries. The clause, which was included in the Caribbean EPA, requires that developing country signatories extend to the EU any trade preferences that they grant to a third-party "major trading economy."

ACP officials adopted a resolution calling on the EU to give special attention in the EPA negotiations to measures that could support the development of the cotton sector. Specific measures include developing a strategic vision for investment in cotton processing, building markets for products derived from cotton, committing to reduce fraud and smuggling, and adopting policies that support the textile sector.

In addition, ACP ministers stressed the need for continued cooperation among LDC sugar producers, especially in light of the new trading environment provided for under the EPAs. According to sources within the ACP, liberalisation measures on sugar that are set to take effect in October 2009 could further widen the gap between competitive and less competitive sugar producers. Thus, the lowering of those trade barriers will require closer collaboration within the group.

WORLD SUGAR BALANCE

2008/09

(thousand tonnes, raw value - October/September Year)

	Begin. stock	Production	Consumption	Change stock	Ending stock	Imports	Exports	Total net imports	exports
WESTERN EUROPE									
EC +	7167	14830	19742	-842	6325	4220	150	4070	-
<i>Austria</i>		485	345						
<i>Belgium-Luxemburg</i>		750	635						
<i>Bulgaria</i>			295						
<i>Cyprus</i>			38						
<i>Czech Republic</i>		450	520						
<i>Estonia</i>			85						
<i>Denmark</i>		370	275						
<i>Finland</i>		85	215						
<i>France</i>		3500	2645						
<i>Germany</i>		3825	3595						
<i>Greece</i>		125	335						
<i>Hungary</i>		110	350						
<i>Ireland</i>			175						
<i>Italy</i>		540	1880						
<i>Latvia</i>			75						
<i>Lithuania</i>		95	98						
<i>Malta</i>			28						
<i>Netherlands</i>		815	750						
<i>Poland</i>		1450	1845						
<i>Portugal</i>		15	305						
<i>Romania</i>		110	645						
<i>Slovakia</i>		115	260						
<i>Slovenia</i>			108						
<i>Spain</i>		540	1400						
<i>Sweden</i>		300	415						
<i>UK</i>		1150	2425						
French Territories	3		18	0	3	18	0	18	-
Gibraltar	1		1	0	1	1	0	1	-
Iceland	0		11	0	0	11	0	11	-
Norway	50		165	0	50	165	0	165	-
Switzerland	187	265	565	0	187	302	2	300	-
Total	7408	15095	20502	-842	6566	4717	152	4565	0
+ Including 200 thousand tonnes of cane raw sugar produced in DOM									
EASTERN EUROPE and FSU									
Albania	13	4	97	0	13	93		93	-
Armenia	27	5	90	0	27	85		85	-
Azerbaijan	53	125	195	0	53	135	65	70	-
Belarus	174	495	430	0	174	15	80	-	65
Bosnia	32		145	0	32	145		145	-
Croatia	268	210	205	0	268	210	215	-	5
Georgia	71		140	0	71	170	30	140	-
Kazakhstan	108	25	475	0	108	505	55	450	-
Kyrgyzstan	85	5	133	0	85	140	12	128	-
Macedonia	57	35	77	0	57	50	8	42	-
Moldova	43	150	117	0	43	5	38	-	33
Russia	1531	3275	6500	0	1531	3285	60	3225	-
Serbia & Montenegro	55	505	330	0	55	15	190	-	175
Tadjikistan	104	0	120	0	104	120	0	120	-
Turkmenistan	18	5	92	0	18	87	0	87	-
Ukraine	1083	1850	2350	-255	828	270	25	245	-
Uzbekistan	136	0	520	0	136	520	0	520	-
Total	3858	6689	12016	-255	3603	5850	778	5350	278
NORTH AND CENTRAL AMERICA									
Canada	268	105	1465	0	268	1455	95	1360	-
USA	1392	7200	9500	-375	1017	2150	225	1925	-
Bahamas	2		15	0	2	15		15	-
Barbados	7	35	15	0	7	15	35	-	20
Belize	14	110	15	0	14		95	-	95
Bermuda	2		2	0	2	2		2	-
Costa Rica	51	400	240	0	51		160	-	160
Cuba	124	1800	705	0	124	25	1120	-	1095
Dominican Republic	458	495	365	0	458	25	155	-	130
El Salvador	399	535	250	0	399		285	-	285
Guatemala	702	2275	760	0	702		1515	-	1515
Haiti	91	0	200	0	91	200		200	-
Honduras	134	390	265	0	134		125	-	125

WORLD SUGAR BALANCE (cont.)

2008/09

(thousand tonnes, raw value - October/September Year)

	Begin. stock	Production	Consumption	Change stock	Ending stock	Imports	Exports	Total net imports	exports
Jamaica	159	160	115	0	159	105	150	-	45
Mexico	2279	5575	4800	-150	2129	45	970	-	925
Netherlands Antilles	12		17	0	12	22	5	17	-
Nicaragua	374	520	225	0	374		295	-	295
Panama	115	155	125	0	115		30	-	30
St Christopher	6		3	0	6	3		3	-
Trinidad & Tobago	38		75	0	38	75		75	-
Other Central America	1		45	0	1	80	35	45	-
Total	6628	19755	19202	-525	6103	4217	5295	3642	4720
SOUTH AMERICA			0						
Argentina	1528	2525	1910	0	1528	5	620	-	615
Bolivia	185	375	345	0	185	5	35	-	30
Brazil	3296	33215	12620	-675	2621		21270	-	21270
Chile	297	370	705	0	297	335		335	-
Colombia	1399	2275	1630	0	1399		645	-	645
Ecuador	141	505	500	0	141	35	40	-	5
Guyana	139	265	27	0	139	10	248	-	238
Paraguay	10	120	127	0	10	25	18	7	-
Peru	248	1125	1025	0	248	25	125	-	100
Suriname	1	6	21	0	1	15		15	-
Uruguay	66	6	145	0	66	149	10	139	-
Venezuela	352	715	1125	0	352	410		410	-
Total	7662	41502	20180	-675	6987	1014	23011	906	22903
MIDDLE EAST and NORTHERN AFRICA									
Algeria	819		1325	0	819	1325		1325	-
Djibouti	27		17	0	27	17		17	-
Egypt, Arab Republic	1544	1895	2975	0	1544	1095	15	1080	-
Iran	1341	1200	2300	-100	1241	1000		1000	-
Iraq	325		730	0	325	730		730	-
Israel	118		485	0	118	595	110	485	-
Jordan	123		295	0	123	300	5	295	-
Kuwait	68		100	0	68	100		100	-
Lebanon	45		152	0	45	152		152	-
Libyan Arab Jamahiriya	54		280	0	54	280		280	-
Mauritania	119		175	0	119	175		175	-
Morocco	870	550	1220	0	870	750	80	670	-
Persian Gulf	25		126	0	25	126		126	-
Saudi Arabia	507		875	0	507	1060	185	875	-
Somalia	139	20	225	0	139	255	50	205	-
Sudan	174	920	950	0	174	195	165	30	-
Syrian Arab Republic	441	150	845	0	441	930	235	695	-
Tunisia	211		390	0	211	390		390	-
Turkey	1072	2000	2275	0	1072	295	20	275	-
UAE	723		170	0	723	1875	1705	170	-
Yemen	192		555	0	192	555	0	555	-
Total	8937	6735	16465	-100	8837	12200	2570	9630	0
FAR EAST and OCEANIA			0						
Australia	1442	4950	1040	0	1442	10	3920	-	3910
Brunei	4	0	12	0	4	12	0	12	-
China	3143	16000	15595	0	3143	445	850	-	405
China (Taiwan)	80	75	635	0	80	575	15	560	-
Hong Kong	114	0	190	0	114	230	40	190	-
Fiji	65	310	67	0	65	10	253	-	243
Indonesia	3638	2975	4650	0	3638	1675		1675	-
Japan	581	920	2400	0	581	1485	5	1480	-
Kampuchea	187	0	215	0	187	215		215	-
Korea, DPR	50	0	90	0	50	90		90	-
Korea, Republic of	1378	0	1240	0	1378	1495	255	1240	-
Laos, DPR	14	0	53	0	14	53		53	-
Macao	3	0	7	0	3	7		7	-
Malaysia	481	60	1340	0	481	1390	110	1280	-
Mongolia	18	0	27	0	18	27		27	-
Myanmar	43	160	190	0	43	35	5	30	-
New Zealand	33	0	230	0	33	235	5	230	-
Papua New Guinea	20	35	37	0	20	11	9	2	-
Philippines	278	2125	2065	0	278	105	165	-	60
Singapore	91	0	320	0	91	370	50	320	-
Thailand	1612	7620	2600	0	1612	15	5035	-	5020

WORLD SUGAR BALANCE (cont.)

2008/09

(thousand tonnes, raw value - October/September Year)

	Begin. stock	Production	Consumption	Change stock	Ending stock	Imports	Exports	Total net imports	exports
Vietnam SR	293	1200	1400	0	293	225	25	-	-
Western Samoa	1	2	5	0	1	3		3	-
Other Oceania	1	0	25	0	1	25		25	-
Total	13570	36432	34433	0	13570	8743	10742	7439	9638
INDIAN SUBCONTINENT									
Afghanistan	72		165	0	72	165		165	-
Bangladesh	376	175	1165	0	376	990		990	-
India	13528	23915	23230	-1315	12213		2000	-	2000
Maldives	2		6	0	2	6		6	-
Nepal	28	140	150	0	28	15	5	10	-
Pakistan	2629	4100	4425	-275	2354	75	25	50	-
Sri Lanka	98	75	715	0	98	650	10	640	-
Total	16661	28405	29691	-1590	15071	1736	2040	1696	2000
EQUATORIAL and SOUTHERN AFRICA									
Angola	109		265	0	109	265		265	-
Benin	4	10	40	0	4	30		30	-
Botswana	10		53	0	10	53		53	-
Burkina Faso	27	40	95	0	27	60	5	55	-
Burundi	3	24	31	0	3	7		7	-
Cameroon UR	54	125	127	0	54	37	35	2	-
Cape Verde	3		18	0	3	18		18	-
Central African Republic	2		12	0	2	12		12	-
Chad	13	35	105	0	13	70		70	-
Comoros	1		10	0	1	10		10	-
Congo	48	55	90	0	48	55	20	35	-
Cote d'Ivoire	44	145	235	0	44	100	10	90	-
Ethiopia	299	360	420	0	299	75	15	60	-
Gabon	12	21	22	0	12	1		1	-
Gambia	49		78	0	49	83	5	78	-
Ghana	114		230	0	114	230		230	-
Guinea	17	25	140	0	17	115		115	-
Guinea Bissau	13		15	0	13	15		15	-
Kenya	112	545	795	0	112	270	20	250	-
Liberia	3		16	0	3	16		16	-
Madagascar	56	20	150	0	56	145	15	130	-
Malawi	243	280	180	0	243		100	-	100
Mali	33	35	113	0	33	78		78	-
Mauritius	182	515	45	0	182	45	515	-	470
Mozambique	56	310	190	0	56		120	-	120
Niger	11	10	83	0	11	73		73	-
Nigeria	638	55	1345	0	638	1290		1290	-
Rwanda	2	15	16	0	2	1		1	-
Senegal	135	95	199	0	135	104		104	-
Sierra Leone	34	6	29	0	34	23		23	-
South Africa	853	2415	2160	0	853	260	515	-	255
Swaziland	410	650	119	0	410		531	-	531
Tanzania, United Rep.	463	355	360	0	463	45	40	5	-
Togo	18		75	0	18	75		75	-
Uganda	45	195	285	0	45	90		90	-
Zaire	57	60	115	0	57	55		55	-
Zambia	55	240	123	0	55		117	-	117
Zimbabwe	263	395	255	0	263		140	-	140
Other Africa	2		110	0	2	110		110	-
Total	4493	7036	8749	0	4493	3916	2203	3446	1733
WORLD TOTAL	69217	161649	165547	-3987	65230	46702	46791	40983	41272

& Including adjustment for unknown net trade of 4,309,000 t

WORLD SUGAR BALANCE

2007/08

(thousand tonnes, raw value - October/September Year)

	Begin. stock	Production	Consumption	Change stock	Ending stock	Imports	Exports	Total net imports	exports
WESTERN EUROPE									
EC +	6840	17733*	19631*	327	7167	3280	1055	2225	-
<i>Austria</i>		387	340						
<i>Belgium-Luxemburg</i>		960	630						
<i>Bulgaria</i>		0	290						
<i>Cyprus</i>		0	38						
<i>Czech Republic</i>		390	515						
<i>Estonia</i>		0	85						
<i>Denmark</i>		410	275						
<i>Finland</i>		141	215						
<i>France</i>		4450	2635						
<i>Germany</i>		4240	3585						
<i>Greece</i>		95	335						
<i>Hungary</i>		290	340						
<i>Ireland</i>		0	175						
<i>Italy</i>		650	1875						
<i>Latvia</i>		0	75						
<i>Lithuania</i>		135	97						
<i>Malta</i>		0	28						
<i>Netherlands</i>		975	750						
<i>Poland</i>		2060	1830						
<i>Portugal</i>		15	302						
<i>Romania</i>		80	635						
<i>Slovakia</i>		160	255						
<i>Slovenia</i>		0	106						
<i>Spain</i>		800	1390						
<i>Sweden</i>		350	415						
<i>UK</i>		1145	2415						
French Territories	3		18*	0	3	18	0	18	-
Gibraltar	1		1	0	1	1	0	1	-
Iceland	0		11	0	0	11	0	11	-
Norway	50		165	0	50	165	0	165	-
Switzerland	187	265	560*	0	187	297	2	295	-
Total	7081	17998	20386	327	7408	3772	1057	2715	0
+ Including 300 thousand tonnes of cane raw sugar produced in DOM									
EASTERN EUROPE and FSU									
Albania	3	4*	95*	10	13	101		101	-
Armenia	27	3	88	0	27	85	0	85	-
Azerbaijan	23	120*	190*	30	53	275	175	100	-
Belarus	174	495	425	0	174	50	120	-	70
Bosnia	32		140*	0	32	141	1	140	-
Croatia	268	210	200	0	268	205	215	-	10
Georgia	71		137	0	71	222	85	137	-
Kazakhstan	108	25	470	0	108	445		445	-
Kyrgyzstan	85	5	130*	0	85	125		125	-
Macedonia	57	35*	75	0	57	45	5	40	-
Moldova	43	75	115*	0	43	65	25	40	-
Russia	1531	3415	6500*	0	1531	3200	115	3085	-
Serbia & Montenegro	10	505	325*	45	55	55	190	-	135
Tadjikistan	104		115*	0	104	115	0	115	-
Turkmenistan	16	5*	90	2	18	87	0	87	-
Ukraine	1458	1935	2350	-375	1083	150	110	40	-
Uzbekistan	136		515	0	136	515	0	515	-
Total	4146	6832	11960	-288	3858	5881	1041	5055	215
NORTH AND CENTRAL AMERICA									
Canada	183	135	1440*	85	268	1435	45	1390	-
USA	1292	7500*	9500	100	1392	2300	200	2100	-
Bahamas	2		14	0	2	14	0	14	-
Barbados	7	35	15	0	7	15	35	-	20
Belize	14	110*	14*	0	14	0	96	-	96
Bermuda	2		2	0	2	2	0	2	-
Costa Rica	31	400	238	20	51	0	142	-	142
Cuba	124	1500*	700	0	124	125	925	-	800
Dominican Republic	485	493	355	-27	458	25	190	-	165
El Salvador	399	535	245	0	399	0	290	-	290
Guatemala	702	2170	740	0	702	0	1430	-	1430
Haiti	91		195	0	91	195	0	195	-

WORLD SUGAR BALANCE (cont.)

2007/08

(thousand tonnes, raw value - October/September Year)

	Begin. stock	Production	Consumption	Change stock	Ending stock	Imports	Exports	Total net imports	exports
Honduras	134	380	260	0	134	0	120	-	120
Jamaica	159	160	115	0	159	110	155	-	45
Mexico	2179	5775*	4800	100	2279	15	890	-	875
Netherlands Antilles	12		17*	0	12	22	5	17	-
Nicaragua	374	500	220	0	374	0	280	-	280
Panama	116	155	123	-1	115	1	34	-	33
St Christopher	6		3*	0	6	3	0	3	-
Trinidad & Tobago	38		75	0	38	110	35	75	-
Other Central America	1		45*	0	1	45		45	-
Total	6351	19848	19116	277	6628	4417	4872	3841	4296
SOUTH AMERICA									
Argentina	1528	2445	1850*	0	1528	5	600	-	595
Bolivia	185	375	340*	0	185	5	40	-	35
Brazil	2956	31590*	12250	340	3296	0	19000	-	19000
Chile	297	370	700*	0	297	330	0	330	-
Colombia	1399	2300	1580*	0	1399	0	720	-	720
Ecuador	141	505	495	0	141	35	45	-	10
Guyana	154	265	27	-15	139	10	263	-	253
Paraguay	10	120	125	0	10	25	20	5	-
Peru	248	995*	1015*	0	248	95	75	20	-
Suriname	1	6	21	0	1	15	0	15	-
Uruguay	66	6	140	0	66	144	10	134	-
Venezuela	352	715	1095*	0	352	385	5	380	-
Total	7337	39692	19638	325	7662	1049	20778	884	20613
MIDDLE EAST and NORTHERN AFRICA									
Algeria	819		1285	0	819	1285		1285	-
Djibouti	27		17*	0	27	17		17	-
Egypt, Arab Republic	1544	1895	2890	0	1544	1015	20	995	-
Iran	1341	1375	2260*	0	1341	1250	365	885	-
Iraq	325		710	0	325	710	0	710	-
Israel	118		475*	0	118	575	100	475	-
Jordan	123		285*	0	123	325	40	285	-
Kuwait	68		96*	0	68	96		96	-
Lebanon	45		150	0	45	150		150	-
Libyan Arab Jamahiriya	54		280*	0	54	280		280	-
Mauritania	119		170*	0	119	170		170	-
Morocco	870	500	1200*	0	870	700		700	-
Persian Gulf	25		125	0	25	125		125	-
Saudi Arabia	507		840	0	507	1025	185	840	-
Somalia	139	20	215	0	139	285	90	195	-
Sudan	174	760	925	0	174	200	35	165	-
Syrian Arab Republic	441	150	835*	0	441	685		685	-
Tunisia	211		380*	0	211	380		380	-
Turkey	1172	2000	2200	-100	1072	125	25	100	-
UAE	723		165*	0	723	1870	1705	165	-
Yemen	192		540	0	192	540	0	540	-
Total	9037	6700	16043	-100	8937	11808	2565	9243	0
FAR EAST and OCEANIA									
Australia	1442	5130*	1040	0	1442	10	4100	-	4090
Brunei	4		12	0	4	12		12	-
China	1453	16090*	14695*	1690	3143	575	280	295	-
China (Taiwan)	35	75	630*	45	80	615	15	600	-
Hong Kong	114		190*	0	114	230	40	190	-
Fiji	89	306	65	-24	65	10	275	-	265
Indonesia	3638	2850	4500*	0	3638	1650		1650	-
Japan	581	920	2400	0	581	1485	5	1480	-
Kampuchea	187		200*	0	187	200		200	-
Korea, DPR	50		90	0	50	90		90	-
Korea, Republic of	1378		1220	0	1378	1495	275	1220	-
Laos, DPR	9		50*	5	14	55		55	-
Macao	3		7*	0	3	7		7	-
Malaysia	481	60	1305*	0	481	1380	135	1245	-
Mongolia	18		26	0	18	26		26	-
Myanmar	43	160	180*	0	43	20		20	-
New Zealand	33		230*	0	33	255	25	230	-
Papua New Guinea	20	35	37*	0	20	11	9	2	-
Philippines	278	2330	2065*	0	278	10	275	-	265
Singapore	91		320*	0	91	395	75	320	-

WORLD SUGAR BALANCE (cont.)

2007/08

(thousand tonnes, raw value - October/September Year)

	Begin. stock	Production	Consumption	Change stock	Ending stock	Imports	Exports	Total net imports	exports
Thailand	1500	8022*	2535	112	1612	1	5376	-	5375
Vietnam SR	293	1200*	1330*	0	293	155	25	130	-
Western Samoa	1	2	5*	0	1	3		3	-
Other Oceania	1		25	0	1	25		25	-
Total	11742	37180	33157	1828	13570	8715	10910	7800	9995
INDIAN SUBCONTINENT									
Afghanistan	72		165*	0	72	165	0	165	-
Bangladesh	376	175	1115	0	376	940	0	940	-
India	11778	28500*	22350*	1750	13528		4400	-	4400
Maldives	2		6		2	6	0	6	-
Nepal	28	140	145	0	28	10	5	5	-
Pakistan	1974	5100*	4300	655	2629	5	150	-	145
Sri Lanka	68	75	695*	30	98	650		650	-
Total	14226	33990	28611	2435	16661	1611	4555	1601	4545
EQUATORIAL and SOUTHERN AFRICA									
Angola	109		260*	0	109	290	30	260	-
Benin	1	10	39*	3	4	32		32	-
Botswana	7		52	3	10	55		55	-
Burkina Faso	27	40	90	0	27	50		50	-
Burundi	2	24	30	1	3	7		7	-
Cameroon UR	54	125	125*	0	54	35	35	-	-
Cape Verde	3		18*	0	3	18		18	-
Central African Republic	2		12	0	2	12		12	-
Chad	13	35	100	0	13	65		65	-
Comoros	1		10*	0	1	10		10	-
Congo	48	56	85*	0	48	54	25	29	-
Cote d'Ivoire	44	145	230*	0	44	85		85	-
Ethiopia	299	360	400	0	299	55	15	40	-
Gabon	13	21	22*	-1	12			-	-
Gambia	49		77	0	49	77		77	-
Ghana	114		225*	0	114	350	125	225	-
Guinea	17	25	135	0	17	110		110	-
Guinea Bissau	13		15	0	13	20	5	15	-
Kenya	112	545	775	0	112	250	20	230	-
Liberia	3		16*	0	3	16		16	-
Madagascar	56	20	145	0	56	135	10	125	-
Malawi	243	265*	175	0	243		90	-	90
Mali	33	35	110	0	33	75		75	-
Mauritius	182	485*	45	0	182	45	485	-	440
Mozambique	16	290*	180*	40	56		70	-	70
Niger	11	10	80	0	11	70		70	-
Nigeria	638	55	1310	0	638	1255		1255	-
Rwanda	2		16	0	2	16		16	-
Senegal	135	95	195	0	135	100		100	-
Sierra Leone	34	6	28	0	34	22		22	-
South Africa	853	2300*	2135	0	853	240	405	-	165
Swaziland	410	650	117*	0	410		533	-	533
Tanzania, United Rep.	483	275	340	-20	463	85	40	45	-
Togo	18		70*	0	18	70		70	-
Uganda	45	195	275	0	45	80		80	-
Zaire	57	60	110	0	57	50		50	-
Zambia	55	240	120	0	55		120	-	120
Zimbabwe	263	395*	255*	0	263		140	-	140
Other Africa	2		110	0	2	110		110	-
Total	4467	6762	8532	26	4493	3944	2148	3354	1558
WORLD TOTAL	64387	169002	161752&	4830	69217	45506&	47926	38802	41222

& Including adjustment for unknown net trade of 4,195,000 t

* Production and consumption estimates revised since the last issue of the world balance

WORLD SUGAR BALANCE (cont.)

2006/07

(thousand tonnes, raw value - October/September Year)

	Begin. stock	Production	Consumption	Change stock	Ending stock	Imports	Exports	Total net imports	exports
WESTERN EUROPE									
EC +	5965	18739*	19612*	875	6840	3340	1592	1748	-
<i>Austria</i>		393	339						
<i>Belgium-Luxemburg</i>		1031	631						
<i>Bulgaria</i>		3	291						
<i>Cyprus</i>			38						
<i>Czech Republic</i>		531	515						
<i>Estonia</i>		0	85						
<i>Denmark</i>		424	272						
<i>Finland</i>		151	212						
<i>France</i>		4962	2635						
<i>Germany</i>		3972	3584						
<i>Greece</i>		177	335						
<i>Hungary</i>		364	340						
<i>Ireland</i>			175						
<i>Italy</i>		775	1872						
<i>Latvia</i>		65	75						
<i>Lithuania</i>		116	97						
<i>Malta</i>			28						
<i>Netherlands</i>		946	747						
<i>Poland</i>		1913	1830						
<i>Portugal</i>		16	302						
<i>Romania</i>		126	632						
<i>Slovakia</i>		255	255						
<i>Slovenia</i>		43	106						
<i>Spain</i>		827	1390						
<i>Sweden</i>		351	414						
<i>UK</i>		1298	2412						
French Territories	6		18	-3	3	15		15	-
Gibraltar	1		1	0	1	1		1	-
Iceland	0		11*	0	0	11		11	-
Norway	65		165	-15	50	150		150	-
Switzerland	210	196*	560*	-23	187	344	3	341	-
Total	6247	18935	20367	834	7081	3861	1595	2266	0
+ Including 286 thousand tonnes of cane raw sugar produced in DOM									
EASTERN EUROPE and FSU									
Albania	8	5*	95	-5	3	85		85	-
Armenia	32	2	87	-5	27	80		80	-
Azerbaijan	54	115*	190	-31	23	281	237	44	-
Belarus	118	480	425	56	174	140	139	1	-
Bosnia	33	0	140*	-1	32	140	1	139	-
Croatia	218	230*	200	50	268	275	255	20	-
Georgia	89		137	-18	71	214	95	119	-
Kazakhstan	111	25	465	-3	108	461	24	437	-
Kyrgyzstan	77	15*	125	8	85	120	2	118	-
Macedonia	63	10*	75	-6	57	60	1	59	-
Moldova	56	152*	115*	-13	43	1	51	-	50
Russia	1417	3515	6500	114	1531	3404	305	3099	-
Serbia & Montenegro	36	505	325	-26	10	35	241	-	206
Tadjikistan	76		110*	28	104	138		138	-
Turkmenistan	16	3	90	0	16	87		87	-
Ukraine	1075	2700	2350	383	1458	42	9	33	-
Uzbekistan	136	0	510	0	136	510		510	-
Total	3615	7757	11939	531	4146	6073	1360	4969	256
NORTH AND CENTRAL AMERICA									
Canada	365	135	1435	-182	183	1161	43	1118	-
USA	1157	7666*	9041*	135	1292	1885	375	1510	-
Bahamas	3		14	-1	2	13		13	-
Barbados	7	35	15	0	7	15	35	-	20
Belize	14	103*	13	0	14		90	-	90
Bermuda	2		2	0	2	2		2	-
Costa Rica	51	341*	235	-20	31		126	-	126
Cuba	203	1193*	705*	-79	124	229	796	-	567
Dominican Republic	432	493*	330*	53	485	104	214	-	110
El Salvador	373	560	239	26	399		295	-	295
Guatemala	584	2280	701	118	702		1461	-	1461
Haiti	74		190	17	91	207		207	-

THE WORLD SUGAR BALANCE (cont.)

2006/07

(thousand tonnes, raw value - October/September Year)

	Begin. stock	Production	Consumption	Change stock	Ending stock	Imports	Exports	Total net imports	exports
Honduras	85	390*	255	49	134		86	-	86
Jamaica	125	164	100	34	159	123	153	-	30
Mexico	1333	5546	4770	846	2179	234	164	70	-
Netherlands Antilles	17		17*	-5	12	20	8	12	-
Nicaragua	330	505*	215	44	374		246	-	246
Panama	130	164	120	-14	116		58	-	58
St Christopher	5		3*	1	6	4		4	-
Trinidad & Tobago	15	35	75	23	38	101	38	63	-
Other Central America	16		45	-15	1	35	5	30	-
Total	5321	19610	18520	1030	6351	4133	4193	3029	3089
SOUTH AMERICA									
Argentina	1710	2280*	1819*	-182	1528	2	645	-	643
Bolivia	177	375	330*	8	185	9	46	-	37
Brazil	5571	31647	12248	-2615	2956		22014	-	22014
Chile	251	370*	695	46	297	371		371	-
Colombia	1194	2344	1519	205	1399	185	805	-	620
Ecuador	127	505	495*	14	141	20	16	4	-
Guyana	117	265*	26*	37	154	7	209	-	202
Paraguay	8	120	125	2	10	75	68	7	-
Peru	170	880	1005*	78	248	269	66	203	-
Suriname	1	6	21	0	1	15		15	-
Uruguay	78	6	130*	-12	66	112		112	-
Venezuela	406	700	1075*	-54	352	321		321	-
Total	9810	39498	19488	-2473	7337	1386	23869	1033	23516
MIDDLE EAST and NORTHERN AFRICA									
Algeria	943		1235*	-124	819	1111		1111	-
Djibouti	12		16	15	27	46	15	31	-
Egypt, Arab Republic	1696	1800*	2700*	-152	1544	875	127	748	-
Iran	1072	1375	2210*	269	1341	1644	540	1104	-
Iraq	125		695*	200	325	895		895	-
Israel	211		465*	-93	118	462	90	372	-
Jordan	123		275*	0	123	285	10	275	-
Kuwait	111		94*	-43	68	71	20	51	-
Lebanon	65	5	150	-20	45	125		125	-
Libyan Arab Jamahiriya	29		275	25	54	300		300	-
Mauritania	72		160*	47	119	237	30	207	-
Morocco	855	500	1185*	15	870	700		700	-
Persian Gulf	20		125	5	25	135	5	130	-
Saudi Arabia	434		795	73	507	1203	335	868	-
Somalia	127	20	215*	12	139	247	40	207	-
Sudan	174	736	873	0	174	166	29	137	-
Syrian Arab Republic	410	150*	830*	31	441	711		711	-
Tunisia	219		365	-8	211	357		357	-
Turkey	1395	1960	2131	-223	1172	8	60	-	52
UAE	778		160*	-55	723	1695	1590	105	-
Yemen	33		520	159	192	1009	330	679	-
Total	8904	6546	15474	133	9037	12282	3221	9113	52
FAR EAST and OCEANIA									
Australia	1625	4825*	1040	-183	1442	9	3977	-	3968
Brunei	4		11	0	4	11		11	-
China	468	13035	13360*	985	1453	1426	116	1310	-
China (Taiwan)	169	75*	625*	-134	35	442	26	416	-
Hong Kong	127		185	-13	114	201	29	172	-
Fiji	70	306	61	19	89	10	236	-	226
Indonesia	2370	2842*	4350*	1268	3638	2777	1	2776	-
Japan	726	845*	2416*	-145	581	1436	10	1426	-
Kampuchea	218		190	-31	187	159		159	-
Korea, DPR	55		90	-5	50	85		85	-
Korea, Republic of	1392		1111*	-14	1378	1485	388	1097	-
Laos, DPR	31		48*	-22	9	26		26	-
Macao	3		7*	0	3	7		7	-
Malaysia	351	60*	1265*	130	481	1787	452	1335	-
Mongolia	18		26	0	18	26		26	-
Myanmar	38	160	170*	5	43	15		15	-
New Zealand	59		230*	-26	33	229	25	204	-
Papua New Guinea	12	35*	37*	8	20	10		10	-
Philippines	229	2309*	2057*	49	278	45	248	-	203

THE WORLD SUGAR BALANCE (cont.)

2006/07

(thousand tonnes, raw value - October/September Year)

	Begin. stock	Production	Consumption	Change stock	Ending stock	Imports	Exports	Total net imports	exports
Singapore	133		320	-42	91	427	149	278	-
Thailand	1464	7007	2431	36	1500		4540	-	4540
Vietnam SR	340	1200	1265*	-47	293	33	15	18	-
Western Samoa	1	2	5*	0	1	3		3	-
Other Oceania	1		25	0	1	25		25	-
Total	9904	32701	31325	1838	11742	10674	10212	9399	8937
INDIAN SUBCONTINENT									
Afghanistan	20		155	52	72	207		207	-
Bangladesh	290	175	1050	86	376	961		961	-
India	4652	30102*	21120*	7126	11778		1856	-	1856
Maldives	2		6	0	2	6		6	-
Nepal	16	140*	140	12	28	13	1	12	-
Pakistan	2035	3875	4070*	-61	1974	135	1	134	-
Sri Lanka	107	75	675*	-39	68	561		561	-
Total	7122	34367	27216	7176	14298	1883	1858	1881	1856
EQUATORIAL and SOUTHERN AFRICA									
Angola	84		250*	25	109	305	30	275	-
Benin	17	10	39*	-16	1	30	17	13	-
Botswana	7		51	0	7	51		51	-
Burkina Faso	27	40	85	0	27	45		45	-
Burundi	3	24*	30*	-1	2	5		5	-
Cameroon UR	34	109*	123*	20	54	66	32	34	-
Cape Verde	3		18*	0	3	18		18	-
Central African Republic	11		11	-9	2	2		2	-
Chad	10	35*	90	3	13	58		58	-
Comoros	1	0	10*	0	1	10		10	-
Congo	70	56*	80*	-22	48	35	33	2	-
Cote d'Ivoire	47	145*	225*	-3	44	78	1	77	-
Ethiopia	266	360	365*	33	299	64	26	38	-
Gabon	11	21	22*	2	13	3		3	-
Gambia	52		75	-3	49	127	55	72	-
Ghana	113		220*	1	114	361	140	221	-
Guinea	17	25*	130	0	17	105		105	-
Guinea Bissau	10		15	3	13	28	10	18	-
Kenya	129	496*	755*	-17	112	253	11	242	-
Liberia	3	0	15*	0	3	15		15	-
Madagascar	52	20*	140	4	56	130	6	124	-
Malawi	225	270*	170	18	243		82	-	82
Mali	29	34*	105	4	33	75		75	-
Mauritius	154	474	41	28	182	35	440	-	405
Mozambique	75	223*	169*	-59	16	3	116	-	113
Niger	11	10	80*	0	11	70		70	-
Nigeria	716	30	1290	-78	638	1182		1182	-
Rwanda	2		15	0	2	15		15	-
Senegal	43	95	195*	92	135	192		192	-
Sierra Leone	31	6	27	3	34	24		24	-
South Africa	1173	2372	2133	-320	853	200	759	-	559
Swaziland	375	651	116*	35	410		500	-	500
Tanzania, United Rep.	321	283	308	162	483	204	17	187	-
Togo	20		67*	-2	18	65		65	-
Uganda	45	195	260	0	45	115	50	65	-
Zaire	47	60	105	10	57	55		55	-
Zambia	75	240	120	-20	55		140	-	140
Zimbabwe	268	381*	254*	-5	263		132	-	132
Other Africa	7		100*	-5	2	115	20	95	-
Total	4584	6665	8304	-117	4467	4139	2617	3453	1931
WORLD TOTAL	55507	166079	156942&	8952	64459	48740&	48925	39452	39637

& Including adjustment for unknown net trade of 4,309,000 t

* Production and consumption estimates revised since the last issue of the world balance