NOV 2018

SUGAR POLICY INSIGHTS

INSIDE

AUSTRALIAN Sugar Milling COUNCIL

TRADE POLICY
THE CASE AGAINST SUBSIDISED SUGAR

The world is currently awash with subsidised sugar. The Indian government's array of interventions in their sugar industry – from set minimum prices for sugarcane to export subsidies – has stimulated a boost in production completely out of step with global demand.

India produced an extraordinary 32.2 million tonnes (MT) of subsidised raw sugar in the 2017/18 crop year – an enormous increase on the 20.3 MT produced in 2016/17. It is expected to produce around 31.5 MT in 2018/19, comfortably in excess of its domestic sugar requirements of around 27.5 MT per year.

For the first time, global production in the 2017/18 crop year exceeded 200 million tonnes (MT) – well above global consumption of around 180 MT.

Volatility in global prices creates a threat to the viability of low-cost, non-subsidised sugar producers like Australia.

In March 2018, ASMC wrote to the federal Trade Minister to highlight the consequence of subsidised sugar flooding the global market. We sought the support of the Australian government to investigate whether the growing list of subsidies, particularly the raft of support measures introduced in India, contravened WTO rules.

WHY THE CODE OF CONDUCT FAILS THE SUGAR INDUSTRY

CEO David Pietsch

Alarm bells sounded in global sugar markets early in 2018, and the Australian Sugar Milling Council (ASMC) was first to calculate the likely impact of foreign subsidies on returns for Australia's sugar producers and exporters.

At this time of global market instability, the last thing our sugar industry needs is to be held back further by unnecessary, restrictive domestic regulation. A case in point is the federal Sugar Code of Conduct (Code) and its mirroring Queensland state marketing legislation.

Both instruments ignore the fact that price discovery for sugarcane in Australia is completely transparent and opportunities exist for grower price exposure to be managed independent of sugar millers.

ASMC believes the Sugar Code of Conduct must be repealed because it:

1. Delivers no net benefits to the industry and the communities that rely upon it
2. Usurps millers' rights by confusing the issues of grower price exposure with the ownership and marketing rights of sugar, and
3. Adds risk to future investment through its provisions for pre-contractual arbitration.

Our AU$2 billion industry is at a fork-in-the-road, where policy decisions can help stimulate growth in income and jobs or consign us to a stagnant future.

Viability, competitiveness and growth will only come with investment, and investment will only come with confidence. The Code discourages both.

INDIA – THE NEED TO CHALLENGE & REFORM

by David Rynne, Director of Economics, Policy and Trade

India is a member of the World Trade Organisation (WTO) and as a developing country enjoys certain subsidy entitlements. It is obliged to report domestic levels of assistance to the WTO, and to stay within its entitlements.

India can and should expect to be challenged if inconsistencies are identified, including through formal WTO dispute proceedings.

Since March 2018, the Australian Sugar Milling Council (ASMC) with like-minded bodies has been working with the Australian government to investigate and pursue remedies to prevent subsidised Indian sugar exports from entering the global market.

THE CASE AGAINST INDIAN SUBSIDISED SUGAR

Through regulated cane prices, the Indian national and state governments provide significant assistance to Indian growers. Additional aid, in the form of export and assistance payments have been announced more recently and there is additional support by way of fertiliser, power and water subsidies. India is suffering from the vicious cycle of subsidies that incentivise production leading to further support measures that respond to high stocks levels, and cash-flow issues and mounting debt levels for mills.

WORLD TRADE ORGANISATION – ACTION TO UPHOLD THE RULES

In partnership with government, the Australian industry has assessed whether the growing list of Indian interventions have exceeded allowable:

(1) export subsidies under the WTO Agreement of Agriculture (AoA) and Subsidies and Countervailing Measures (SCM) Agreement, and levels of

(2) subsidy support to cane growers under the same two Agreements – including the so-called 10% de minimis test, as measured by the product's Aggregate Measure of Support (AMS).

Of particular interest to ASMC is the 10% de minimis test. It assesses whether the root of the problem – the very high and increasing minimum cane prices set by the Indian governments – are within their entitlements (through Fair & Remunerative and State Advised Prices). These minimum prices generate returns considerably higher for cane than for alternate crops like wheat, and incentivise over-production and the need for subsidised exports.

Under the 10% de minimis test, some support for growers is allowed, but only to a maximum of 10% of the sugarcane crop's value in any given year. The AoA provides a market price support (MPS) methodology to calculate whether the 10% limit has been exceeded. MPS calculations for India suggest that the high minimum cane prices do create an exceedance of entitlement and would need to be considerably reduced to become compliant with the WTO obligations.

WHERE TO FROM HERE?

ASMC remains concerned that India will continue to produce sugar in excess of its domestic requirements. WTO dispute cases can take time, but in our view the threat is likely to continue and needs to be addressed.

Previous successful WTO disputes of this nature (EU in 2004 and Thailand in 2017) have been a major catalyst for reform and liberalisation and we believe a similar outcome is possible in India.

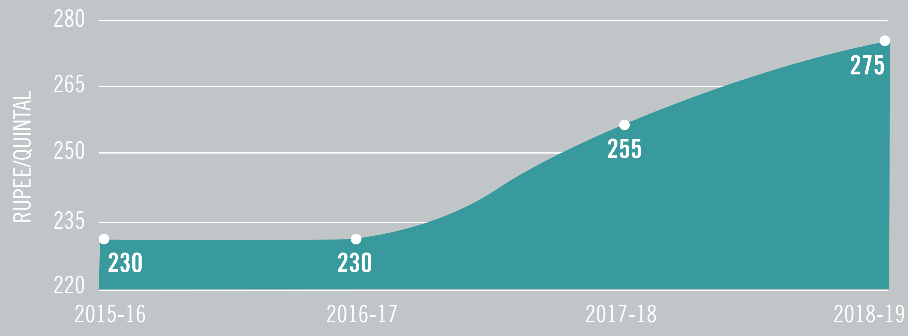
ASMC continues to advocate and work with like-minded global producers, the Department of Foreign Affairs and Trade and the Department of Agriculture and Water Resources to advance trade liberalisation in the global sugar industry.

The Sugar Milling Council supports a number of actions going forward:

- Commencement of formal WTO proceedings, including lodgement by the Australian government of a counter-notification at WTO at the next opportunity in November 2018
- Continued international pressure on the Indian government to adhere to its WTO obligations and particularly and urgently to agree to store rather than export subsidised sugar onto the global market as well as to remove the compulsory obligation on Indian millers to export
- Commitment by the Indian Government to reform of the Indian sugar industry including a move to market driven cane prices, removal of product-specific subsidies and a move to an improved welfare safety net for cane growers, and
- WTO parties to pursue reforms that achieve greater WTO transparency requirements on subsidies, stronger subsidy rules and stricter disciplines on public bodies and state-owned enterprises.

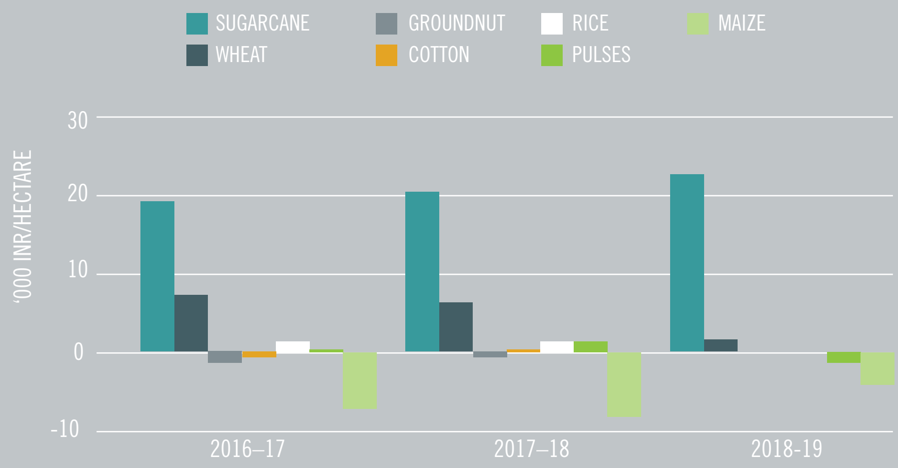
For an update on the global price outlook from Green Pool Commodities visit https://asmc.com.au/policy-advocacy/trade-and-market-access/

INDIAN FAIR AND REMUNERATIVE PRICE OF SUGARCANE



SOURCE: INDIAN SUGAR MILLS ASSOCIATION

INDIA HIGH RELATIVE CANE RETURNS PER HECTARE



SOURCE: CZARNIKOW

Japan In Focus

The **Japanese Australia Partnership Agreement (JAEPA) 2015** cemented the Australian sugar industry's positive and long-standing economic links with Japan.

The recently ratified **Comprehensive and Progressive Trans-Pacific Partnership (CPTPP)** will further reduce trade barriers and allow improved access for Australian sugar.

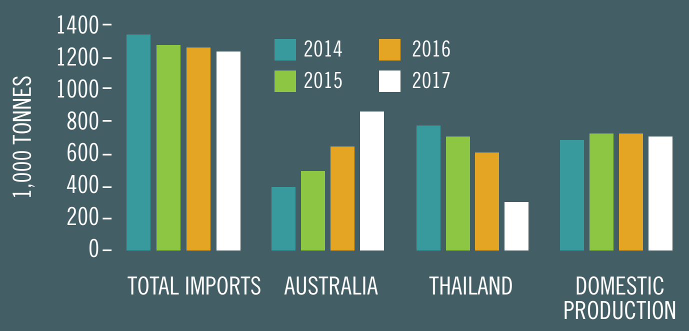
These two agreements have removed tariffs and reduced levies, making Japan Australia's highest returning market.

Prior to JAEPA, Australia supplied Japan with a market-specific raw sugar of a lower pol (98.5 pol) and higher colour relative to product sent to other export destinations. JAEPA saw the first high pol sugar deliveries from Australia. Combined with other market developments and changing trade flows, the volumes of Australian raw sugar sold to Japan have continued to increase.

High pol sugar has lower moisture and less colour. High moisture makes sugar 'sticky,' which is harder to handle and more costly to load/unload.*

* Polarisation ("pol") is a measure of sucrose content of the sugar based on the degree of optical rotation of polarised light passing through a sample in solution.

JAPANESE RAW SUGAR MARKET



SOURCE: ISO YEAR BOOK

Australian Exports to Japan in 2017

Volume
850k tonnes

Value (AUD)
$441 million

38% volume increase since 2014

About ASMC

Australian Sugar Milling Council

IBM Building
Level 11, 348 Edward St
Brisbane

GPO Box 945
Brisbane Qld 4001

Phone +61 7 3231 5000
Fax +61 7 3112 5013

asmc.com.au

Established in 1987, the Australian Sugar Milling Council represents Australia's raw sugar producers and exporters.

Our aim is to be a leading voice for change to create opportunities for a more profitable and sustainable Australian sugar industry.

Our areas of focus are to:

1. Enhance trade **policy & market access** outcomes
2. Strengthen our **social licence to operate**
3. **Advocate** industry responsive government policies
4. Ensure **research strategy** and governance that delivers results
5. Promote **industry revitalisation** that fuels investment

KEY FOCUS AREAS

Trade policy

Social licence

Advocacy

Co-generation policy

Research strategy