

Global Sugar Shortage Compounded By Soaring Demand

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SpoonSugar For two seasons running global sugar demand has outstripped supply, creating a deficit of 15 million tonnes, according to the International Sugar Organization. Stocks are currently so low that the 2011/2012 harvest is unlikely to restore reserves to a healthy level.

Skyrocketing demand, particularly from the world's many emerging economies, combined with policies favouring biofuel production and adverse weather conditions in several of the world's leading sugar producing countries, have caused prices to rise to unprecedented levels. Policy changes and consumer trends drive up prices

Another factor contributing to sugar scarcity stems from a change in EU policy, effected back in 2006, when the trading bloc overhauled its "sugar regime", which had been in place virtually untouched for four decades, in response to a WTO ruling.

The revised regime was to guarantee a regular supply, moderate price fluctuations and make the EU sugar industry more competitive on the world market. As part of the plan, and in an effort to curb overproduction, the EU provided financial incentives for the closure of sugar refineries. Imports were also reduced and supplies diminished accordingly.

In the past, and as a much criticised result of the old sugar regime, sugar prices within the EU tended to be triple those of world prices. Policy makers assumed that, despite the reform, EU sugar prices would continue to remain above world prices, making it an attractive market for domestic producers as well as for exporters outside the EU.

However, this turned out not to be the case. Instead, the policy-induced sugar shortage within the EU was met by a global shortage, a situation further compounded by the EU's sizeable import tariffs of \$417 per tonne. In August 2011, a tonne of sugar in the EU cost just shy of \$900, compared to around \$550 the previous year.

The US is another major consumer of sugar suffering from the current shortage. Mexico, which normally supplies half of its northern neighbour's sugar imports, was hit by a drought earlier this year, leaving it unable to satisfy US demand.

In addition, growing consumer consternation over high fructose corn syrup (HFCS), made from domestically grown and government-subsidised corn, is forcing manufacturers, particularly those of soft drinks, to revert to sugar derived from cane and beet. This trend away from HFCS is yet another factor pushing up prices.

And although Central American countries such as Nicaragua and Guatemala could cover the US sugar shortfall, unlike Mexico these countries are not part of the North American Free Trade Agreement (NAFTA), making exporters liable to quotas and tariffs. However, the USDA stated in August 2011 that it was to relax import barriers in order to plug the supply gap.

Demand continues to rise

What is not helping the situation is the fact that several key sugar-producing nations are experiencing problems this season in maintaining, never mind boosting, their output. Brazil is the world's largest sugar producer as well as the largest exporter.

In August 2011, the Brazilian sugar cane industry association UNICA revised its harvest estimate of 568 million tonnes down to 510 million tonnes due to dry weather and insufficient replanting the previous year. Drought and flooding also caused devastation to sugar cane plantations in Australia and Thailand, two other major exporters.

And while production is suffering from much disruption, demand shows no sign of abating. Euromonitor International's fresh food statistics show that volume consumption of sugar and sweeteners, comprising all raw sugar products and natural sweeteners, whether sold packaged or unpackaged through retailers, consumer foodservice and institutional channels, increased by 26% worldwide over the 2005-2010 review period.

On the ingredients front, global demand for sugars and bulk sweeteners crept upwards by a CAGR of 2% over the same period, with around half ending up in packaged food and the other half in beverages. India the most dynamic growth market

India has emerged as the highest growth market. Sugars and bulk sweetener ingredient volume consumption in the country soared by a total of 66% between 2005 and 2010, followed by Vietnam (54%), Algeria (49%) and China (47%). On the fresh food front, packaged and unpackaged Indian sugar and sweetener volume sales growth rocketed by an incredible 172%, boosted by the country's rapidly expanding retail and foodservice channels.

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