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**Media Release
March 5, 2012**

The raw deal – Australian sugar industry at ‘turning point’

Australia’s sugar industry is at a ‘turning point’ and looks set for a recovery from recent challenging operating conditions, according to newly-released industry report.

The report, ***The raw deal*** from agribusiness banking specialist Rabobank, says despite favourable weather throughout the 2011 crush, and elevated international sugar prices, operating conditions have been challenging for the Australian sugar industry. However, with an influx of international investment and renewed confidence in the market, the Australian sugar industry is now at a turning point and is posed for a recovery.

Rabobank sugar analyst Tracey Allen says the firm international price outlook and strong demand for Australian sugar exports throughout the Far East has encouraged local mills to provide incentives to growers to expand the area under cane.

“We expect East Asia and the Far East region to remain in a ‘structural deficit’ for sugar in the medium-term, with the growth in regional consumption and import demand more than offsetting projected gains in production and export availability,” Ms Allen says.

“In Rabobank’s view, China will remain a net importer into the longer-term – fuelled by a rising middle class that is driving growth in sugar demand that cannot be met by local sugar production alone.”

Indonesia is also expected to remain a net importer in the medium-term, with growth in production very unlikely to be sufficient to bridge the gap between local output and domestic consumption, the report says. Thailand is deemed to play an increasingly important role, with increment supply growth expected over the next decade.

Ms Allen says, “On balance, the structural sugar supply deficit in the Far East appears entrenched over the medium-term and this enticing attribute remains a key focus of current industry participants and new investors alike”.

A growing East Asian market

The Far East region, which in the sugar trade comprises of East Asia, Oceania, South Asia and the Middle East, has been the focus of considerable corporate activity among sugar players in recent years.

The Rabobank report shows attractive characteristics in the Far East region including dynamic increases in regional income and consumption growth, which has led to a structural sugar supply deficit as increases in regional production struggle to keep pace with the increasing demand.

Ms Allen says that during the past decade, Oceania has been the only subregion within the Far East to consistently produce an exportable surplus of raw sugar each year which is due to Australia having a low cost of production and an output which exceeds domestic demand.



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“The big sugar demand markets such as China and Indonesia are deepening the regional deficit and placing more pressure on structural sugar exporters such as Thailand and Australia to meet the needs of growing Asian sugar markets,” Ms Allen says.

“This is presenting investment and trade opportunities for East Asian and Australian sugar markets – after many years languishing in Brazil's shadow.”

Investing in supply

According to the report, the Australian sugar sector is in a dynamic phase of consolidation, largely driven by international sugar players’ investing in the future supply potential of the industry.

“The corporate landscape has changed rapidly during the past year, following a wave of acquisitions,” Ms Allen says.

“Industry consolidation and expansion are expected to continue in the medium-term largely driven by capital inflows from international players as the struggle for these places continues.

“In Rabobank’s view, recent capital injections into the Australian sugar sector will stimulate the industry to capitalise on the growing supply deficit through the Far East region.”

Ms Allen says foreign investors, particularly sugar players from East Asia, have found the Australian sugar industry a favourable investment destination for a number of reasons.

“Geographical proximity to Asian markets, our management practices, efficiency and research and development within the Australian sugar industry are niche intellectual property regarded as an invaluable attribute, particularly for traders developing offshore sugar projects,” Ms Allen says.

“Finally, there is significant untapped supply growth potential in the Australian industry, which includes bringing more area back to cane from horticultural crops and plantation forestry- formerly managed by investment schemes, introducing new higher-yielding varieties and opening new area to cane through water infrastructure developments.”

A growing supply deficit and investment appetite

“The projected growth of consumption and trade in the region over the longer-term, coupled with high world prices in recent years, has created new dynamism in the region’s sugar business,” Ms Allen says.



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“Many existing milling and refining assets have recently changed hands, with a number being acquired by heavyweight international players with plans to boost production and processing.

“In addition, in Thailand, Indonesia, China and elsewhere, new investment by local players in milling capacity and/or refining capacity will come on-stream in the medium-term. For sugar producers and sugar traders in a region where consumption growth is so robust, life certainly looks sweet in the coming years.”

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Rabobank Australia & New Zealand is a part of the international Rabobank Group, the world’s leading specialist in food and agribusiness banking. Rabobank has more than 110 years’ experience providing customised banking and finance solutions to businesses involved in all aspects of food and agribusiness. Rabobank is structured as a cooperative and operates in 48 countries, servicing the needs of approximately 10 million clients worldwide through a network of more than 1600 offices and branches. Rabobank Australia & New Zealand is one of Australasia’s leading rural lenders and a significant provider of business and corporate banking and financial services to the region’s food and agribusiness sector. The bank has 93 branches throughout Australia and New Zealand.

Media contacts:

Denise Shaw
Media Relations
Rabobank Australia & New Zealand
Phone: 02 8115 2744 or 0439 603 525
Email: denise.shaw@rabobank.com

Jess Martin
Media Relations
Rabobank Australia & New Zealand
Phone: 02 8115 4861 or 0418 216 103
Email: jess.martin@rabobank.com