Sugar Economics

Most sugar is either consumed in the country where it is produced under government controlled pricing arrangements or moved from one country to another under long-term supply agreements. The sugar not subject to such agreements is freely traded among a number of nations, corporations and individuals. This makes the market for sugar a "residual" market - a market in which freely traded sugar is only a fraction of worldwide production. Since the free market may be only 20-25% of world production, a small change in production or consumption can translate to a much larger change in free market sugar supply. The delicate supply/demand balance is a main reason for sugar's high levels of historical price volatility.

In the United States, import tariffs have long supported the domestic sugar industry, with quotas typically holding U.S. prices steadily above those in the world market.

Supply

There are two main types of sugar grown in the world: cane and beet. The sugar supplied by Hatton Group Limited and its subsidiaries are cane type. Both produce the identical refined sugar product. Sugar cane is a bamboo-like grass grown in semi-topical regions and equatorial region where rain is plentiful and the strong direct sunlight nourished the cane. Cane sugar accounts for about 70% of world production. Beet sugar comes from the sugar beet plant, which grows in temperate climates and accounts for the balance of world production. In temperate weather, disease, insects, soil quality and cultivation affect both cane and beet production, as do trade agreements and price support programs.

Brazil, India, China, Thailand, Cuba and Mexico are among the leading sugar cane producers. European Union nations, the Russian Federation and Ukraine produce the majority of all sugar beets. The European Union, Brazil, Thailand, Australia, Cuba and Ukraine are leading sugar exporters.

Both cane and beet sugar are grown in regions of the U.S.; sugar beet production in the U.S. accounts for about 9% of the world total and cane production about 3% of the world supply. U.S. sugar cane is grown in Florida, Louisiana, Hawaii, Texas and Puerto Rico. Beet sugar is grown in 14 states, with Minnesota, Idaho, North Dakota and California leading production.

The sugar industry closely monitors the level of sugar stocks relative to sugar consumption as a measure of available supply. In the past, small changes in the ratio have led to large price movements in the opposite direction.

Demand

Industrialized nations account for most sugar consumption. The European Union, Russian
Federation, United States, China and Japan are among the world's largest sugar importers.

An imbalance between world consumption and production in 1980 again sent sugar futures prices skyward - from around 15 cents per pound at the beginning of the year to about 45 cents per pound in the fall. By 1982, however, prices had fallen back to their 1977-79 range, averaging over 8 cents per pound for the year. Ample supplies and an evolving geo-political scene have led to prices in the 2 cents/pound to 16 cents/pound range since then.

Beyond price, other factors influencing sugar demand include: refinery activity; consumer income; candy and confectionery sales; changing eating habits; and sugars use in new technologies, such as ethanol production for automobile fuel. Many South American countries use sugar and corn based ethanol in their unleaded gasoline and diesel engines.