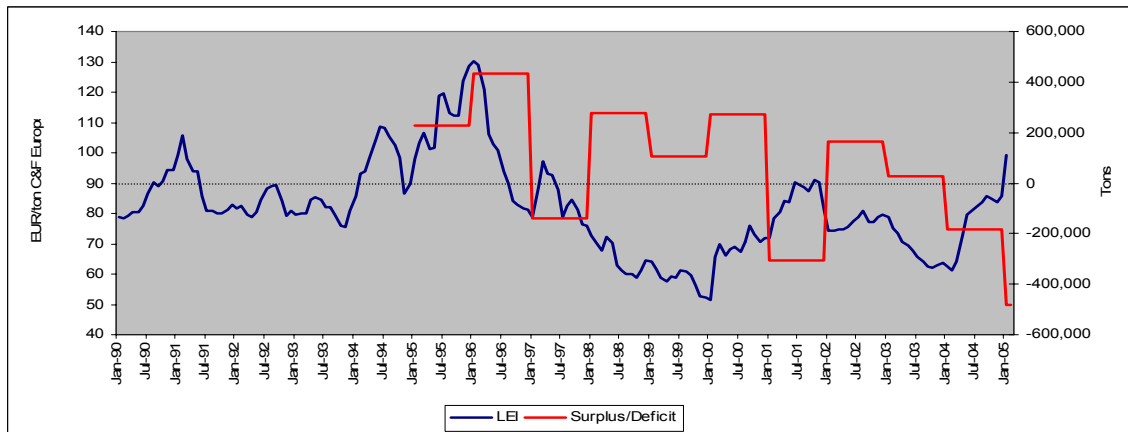


SUMMARY

The high price of molasses continues to subdue volumes being traded in the major origins, in particular Pakistan as European feed demand has fallen significantly. Having said this, prices have not fallen, in fact they have crept slightly higher, as international traders covered more tonnage from Pakistan.

The poor crop, and as a consequence import demand, in India continues to be the main driver with smaller production in Pakistan and Thailand only compounding the situation. As the chart below highlights; the market is suffering from only a small surplus in 2003 followed by two consecutive years of significant deficit.



Such a situation means that prices are unlikely to ease significantly anytime in the near future as the last three years, including this year, will have significantly run down stocks in all countries and it will take a couple of seasons of surplus for these to be rebuilt.

Right now the short term outlook will largely revolve around Pakistan and its ethanol production. If, for what ever reason, the country is able to produce more ethanol than most had been expecting then this could had even more serious implications for the available tonnage for the internationally traded market.

The likelihood is that such a situation would not prevail, but as mentioned before there is more than enough storage in Karachi to handle molasses that is left in the country and with the Asian region in significant deficit, largely due to a poor Thai crop, then prices are likely to remain at current levels for the time being.

CANE MOLASSES SUPPLY

CANE MOLASSES SUPPLIES

PAKISTAN

February witnessed a marked increase in activity from the international trade with just shy of 100,000 tons being purchased between three traders. While this is a significant increase in activity compared to previous months; compared to previous years it can only be described as subdued.

Having said this when we take into account what is likely to happen to production this season, combined with increased domestic use then there has already been a significant volume of the exportable tonnage traded.

Aside from the price of molasses in Pakistan, as high as \$91/ton FOB was traded during February for 48TS material, the uncertainty regarding Pakistan's ethanol access to the European Union seems to be the main reason why less tonnage is being committed further forward.

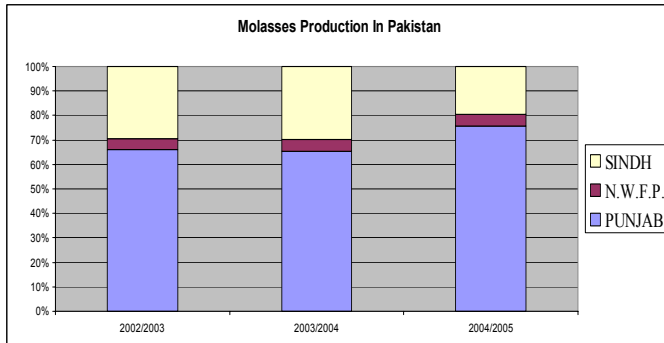
As time moves on the picture regarding duty free access of the Pakistani ethanol into Europe is becoming clearer. The GSP changes now look almost certain to come into force as of April 1, with a grace period through to June 30th 2005. However, what is not clear is what this grace period will allow.

On the one hand it could mean that only vessels that arrive before June 30th will gain the tariff free access, or it could mean as long as a license is applied for before this date then more ethanol could well be shipped. If the latter situation were to occur then we could once again expect significant quantities of ethanol to be exported into Europe from Pakistan.

What ever happens with the tariff it appears that a minimum of 600,000 tons of molasses will be used up to June 30th 2005. In theory this could mean that there is only 800,000 tons of molasses left for the international trade, or even less depending on exactly what is allowed to happen in the grace period.

Another concern is that crop could also be revised down further, again limiting the available tonnage. As we have mentioned

before it is the Sindh region that is the area hardest hit by the poor rainfall and switching to other crops. The chart below highlights this, showing that of cane crushed so far the Sindh region will only account for 20% of production instead of its normal 30%:



Another reason for lower production this season could well be the government's decision to allow duty free imports of refined white sugar. By doing this it leaves millers little incentive to crush the remainder of their crop, so in theory the crush could well be over by the middle of March at the latest.

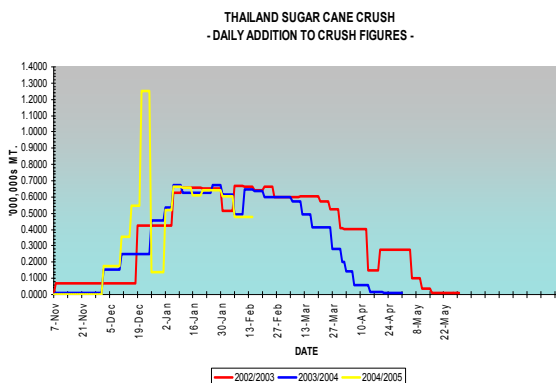
In other news, Pakistan's Industries Minister said that a national policy will be drawn up to encourage use of cane by-products with inputs expected from the Pakistan Sugar Mills Association, Petroleum Industry and oil marketing companies, the Business Recorder reports. At a meeting recently, sugar mills said that there was great potential for making ethanol from molasses.

Whether this actually happens or not is another matter. The complications of setting up a fuel scheme have been highlighted recently in many countries including India and Thailand where the schemes have collapsed due to the high cost of molasses.

CANE MOLASSES SUPPLIES

THAILAND

Everyone is currently watching the progress of the Thai crush at the moment to see whether or not it will come in at 45 million, 50 million or 55 million tons of cane crushed.



From the graph below it is clear that the tail of crop is now being crushed and a crop of 48-50 million tons is the most likely scenario.

If the crop does indeed turn out to be 50 million tons of cane crushed, this appears to be the consensus estimate, then total molasses available to the export market, uncommitted, is now less than 200,000 tons.

The lack of tonnage for the remainder of the year helps to explain why \$95/ton FOB has been paid by one international trade house for August/September shipment.

Up until now the rising Thai price has been accepted by both buyers in Korea and India; however these sharp rises are unlikely to be maintained going forward.

One thing that is clear is that the high price of molasses, and the lower availability, has put pay to any chance of the much talked about fuel ethanol program starting in the next few seasons. This was highlighted in a recent report from Reuters:

A need for oil is helping to promote ethanol and bio-diesel programmes in Asia but Thailand has found that home-grown fuel is not necessarily cheap, Reuters reports. Two of the three factories making ethanol from molasses in the country have been forced to close, after increasing molasses prices took production costs 30% above the maximum ethanol sale price. High tapioca prices might delay the start of a fourth plant. An ethanol committee member said that it 'is not economically viable to produce ethanol, especially without subsidies from the government'.

CANE MOLASSES SUPPLIES

PHILIPPINES

As harvesting progresses it appears that slightly more molasses will be produced this season than last, around 1.05 million tons, and consequently exports are also likely to show an increase this season, especially given the high international price.

However, the upward trend in production is unlikely to continue as sugar that had to be exported turned out to be a loss making exercise.

CANE MOLASSES SUPPLIES

FIJI

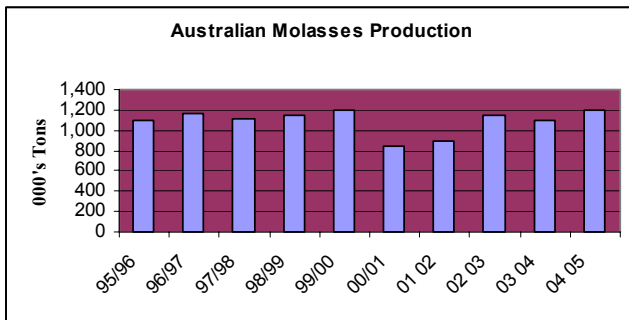
Harvesting has now finished with just over 100,000 tons of molasses produced, still some way off its peak production of around 200,000 tons in the early 1990's.

The major concern going forward for the Fijian sugar industry are the reforms currently being proposed for the European Sugar sector. The Fijian sugar industry relies heavily on Europe for its sugar sales.

CANE MOLASSES SUPPLIES

AUSTRALIA

Australia appears to be the one major supplier in the Asian region that is not having major problems with its production, in fact current predictions point to an increase of around 5%.



The Australian tonnage is likely to be in high demand as harvesting of the crop is about to begin and will therefore be key to relieving a lot of the tightness in the Asian region during the third and fourth quarters of the year.

MAURITIUS

Harvesting has now finished with around 150,000 tons of molasses produced, up around 15% from the 130,000 tons produced last season, but there is little tonnage remaining for export.

Separately, the local distiller remains off line and there remains no clear indication as to when it may come back on line.

SOUTH AFRICA

It would appear that molasses production will be around the 800,000 tons mark this season, which should mean that there is no need to import or export any tonnage this season.

Separately, South African sugar producer Tongaat-Hulett has unveiled technology described as 'the biggest uncut diamond' in the group to produce refined white sugar at a raw sugar mill, cutting out the need for a refining process, Business Report says. Tongaat's chief executive said that in future the new technology would remove the need for refineries but retrofitted raw sugar mills would be less capital cost efficient than technology fitted into new mills. A pilot mill at Felixton in Kwa Zulu Natal has been running successfully for two years and the first move to internationalize the process will happen in Brazil with which an agreement has been signed and where the Carlos Lyra group is currently testing the process at two mills.

UNITED STATES

Domestic supplies within the US are going to be a lot less this year, mainly as a result of the hurricane damage in Florida, which should leave the supply and demand situation to tight.

MEXICO

The Mexican harvest continues at great pace and production is still on course to overtake last year's; in terms of molasses this could mean that around 1.7 mln tons is produced against 1.6 mln tons last year.

Despite the higher production, exports may not reach last season's levels as domestic ethanol demand is strong. Unlike last season, the bulk of the exports may not all head to the US.

GUYANA

Due to the recent floods in the country there is likely to be a significant short fall in the crop this year, with the final production figure likely to be less than the 60,000 tons produced last year.

CUBA

The severe drought is likely to mean the final production could be as much as 40% down on last year's production. In terms of sugar, raw value, this season's production could manage just 1.5 million tons compared to 2.53 mln tons last year.

BRAZIL

Exports from Brazil have halved this year due to the very strong domestic ethanol market, having said this more molasses may be available toward the end of the calendar year if another record Brazilian sugar crop pressures ethanol prices.

CANE MOLASSES DEMAND

INDIA

The predominant driver in the international market remains, and the country looks on course to buy over 0.5 million tons again this season. Despite reports that the crop may not be as bad as some had been expecting buyer's appetite for imports shows no chance of abating in the near future.

Following on from the previous few months there is no fresh news that will impact the market. Indeed, Indian buyers are expected to continue importing cargoes right up until the last quarter of the year.

At this point buyer's attention will be closely fixated on the fortunes of the 2005/2006 crop. Early indications suggest that there will be a recovery in production but what is clear at the moment is that the recovery will not be enough to halt imports completely.

What is likely to happen is that a small quantity of imports will be needed for next year, but not the quantity that was imported this year and last, roughly 10% of the globally traded tonnage each year.

Elsewhere, India's Finance Minister unveiled a financial package to help the sugar industry in his budget for 2005-2006 on Monday but doubling of excise duty on molasses to Rs1,000/mt (US\$22.93) will hit revenues, traders told Reuters. Import duty on molasses is being cut from 15% to 10% further affecting mills adversely. Under the package, mills are being given two year's grace on loans taken out in 2002-2003 and will also be able to renegotiate high interest loans as part of a scheme to be drawn up by Nabard and commercial banks but ISMA's secretary-general said that more was being taken away than was being given.

KOREA

CANE MOLASSES DEMAND

Freight issues continue to be a concern for sales into Korea, having said that fresh sales continue to be made. While the higher prices are expected to have some impact on demand in the country it is likely that if these levels hold, or even creep slightly higher, then current levels of demand will be maintained through the year.

TAIWAN & VIETNAM

CANE MOLASSES DEMAND

It now appears likely that import requirements for this year, purely due to prices, will be reduced to two thirds of normal levels.

US

CANE MOLASSES DEMAND

Given the lower production, domestic demand remaining fairly constant prices rose strongly during the month to around \$100/ton. Indeed the deficit in the region could well attract many more cargoes from Pakistan than in a normal year.

TURKEY

CANE MOLASSES DEMAND

Demand for imported cargoes is likely to drop this year due to a much improved domestic crop.

EUROPE

CANE MOLASSES DEMAND

Little change from the previous month, the high molasses prices and low cereal prices continue to slow off-take levels in the feed sector but there are signs that some buyers are now covering for the summer period after reluctantly accepting where the market is and potentially where it could go.

Industrial users have been taking advantage of the good beet crops across Europe and sugar syrups produced from C sugar given the sharp rise in molasses prices. This has meant that cane demand is likely to fall by around 20-40% this year for the industrial sector.

BEET MOLASSES

EUROPE

BEET MOLASSES

Nothing new in terms of production, the final crop numbers across Europe are now confirming that ideas of a good crop before harvesting began have now come to fruition.

FRANCE

BEET MOLASSES

The harvest is now over, but with more beet molasses heading to the animal feed sector the chances of exports appears highly unlikely.

GERMANY

BEET MOLASSES

Germany appears to be the only country where beet molasses prices have been set for new crop, somewhere in the low EUR80's a ton.

ITALY

BEET MOLASSES

The cheap ethanol imports from Pakistan has meant that less beet is going for ethanol production, which in turn should mean that there is more available for the feed market and could impact on cane molasses demand.

TARIFF, FOREIGN EXCHANGE, LEI & USDA PRICING & REGULATIONS

TARIFF, FOREIGN EXCHANGE, LEI & USDA PRICING AND REGULATIONS

TARIFF

There was once again no tariff during the month. The representative price for cane molasses rose from EUR103.40/ton at the start of the month to EUR103.50/ton at the end of the month. Beet molasses prices also rose slightly from EUR107.20/ton to EUR107.40/ton.

TARIFF, FOREIGN EXCHANGE, LEI & USDA PRICING AND REGULATIONS

FOREIGN EXCHANGE

Both the euro and sterling gained over the month, partly helped by some panic selling of the dollar after some countries suggested that they may look at other currencies as their reserves.

Currency	Feb 1st 2005	Feb 28th 2005
Euro	1.3035	1.3225
Sterling	1.8865	1.9210

LEI

Month	LEI Euro Ex-Tank
Nov-04	83.75
Dec-04	85.85
Jan-05	99.30
Avg For 04	77.20

Tariff, Foreign Exchange, LEI & USDA Pricing and Regulations

USDA

USDA Prices	Start of Feb	End of Feb
New Orleans	No quote	No quote
Houston	\$82.50-\$90.00	\$90.00-\$100.00
South Florida	No quote	No quote

All prices per short tonne ex-tank basis 43% Sugars

TARIFF, FOREIGN EXCHANGE, LEI & USDA PRICING AND REGULATIONS

REGULATION

With The European Commission adopted on 20 October 2004 a proposal for a new Council regulation applying a scheme of generalised tariff preferences for the period 1 July 2005 to 31 December 2008. On 10 February 2005 the Commission adopted an amended proposal advancing the entry into force date to 1 April 2005. The Commission proposal for a new GSP scheme has been transferred to the EU Council where this issue is still subject to ongoing discussions with EU Member States and no final agreement on the future GSP has been reached yet. The text is expected to be adopted by the EU Member States by mid-March.

FREIGHT

The molasses market at this time is certainly the most difficult for years in terms of tonnage availability and freight execution. Tonnage seems to be getting less as the phase out programme truly bights with many work horses already on the beach or beyond.

Older tonnage that still remains on the high seas will most likely have palm acceptability and with the palm markets jetting into in hyper space with 30/35,000 mtns lots from the Straits to Europe paying \$50/55 pmt suggests that, unless molasses freight rates can improve, molasses is certainly at the bottom of the pile. Palms are not just our concern but other product lines including mineral oils and chemicals which are moving in volumes that well exceed contract commitments, with all traders utilizing every angle of contract cover, which today is far cheaper then the spot alternative.

Quite simply, freights are very tight globally with few real opportunities for cheap freight cover. It is essential to take every opportunity on forward dates to cover freight risk.

The scrap markets remain strong with Bangladesh still ahead of the pack in offering firm prices already closing a deal at \$470 ldt however, this now seems untenable. Brokers are suggesting that prompt tanker tonnage could achieve \$460 ldt with China now immerging back into the frame, chasing tonnage and quoting prices. There still remain few new sales into the scrap market with little indication at this point of any increase in potential tonnage due to Marpol 13g phase out regulations.

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