Foreign Agricultural Service
GAIN Report
Global Agriculture Information Network

Required Report - public distribution **Date: 4/10/2003**

GAIN Report #CH3024

China, Peoples Republic of

Sugar

Annual

2003

Approved by:
Larry M. Senger
U.S. Embassy, Beijing
Prepared by:
James Butterworth & Jiang Junyang

Report Highlights:
Sugar production for MY04 is forecast to be 9.53 MMT, approximately the same as the preliminary estimate for MY03. Human domestic consumption during the same periods is 9.2 MMT and 9.1 MMT respectively. Given an expected sugar surplus, the import estimate for MY03 has been revised downward sharply to 450 TMT. Imports for MY04 are forecast at 500 TMT.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
Annual Report
Beijing [CH1], CH

Table of Contents

Executive Summary

China's sugar production for MY04 is forecast at 9.53 MMT, which is essentially the same as the preliminary estimate of 9.48 MMT for MY03.

In response to a projected sugar surplus, the government has lowered the purchase price for sugar in each of the past two years. The move, however, did not have the intended effect. In fact, acreage for beets and cane in several of the major production provinces, such as Guangxi, Yunnan, Heilongjiang and Inner Mongolia, actually increased in MY03. The government's purchase price for national reserve sugar was near to the cost of production when the crushing season started in MY03.

The low price for sugar has made the use of artificial sweeteners less attractive for food processors and other industrial sectors. Also, the government has strengthened control on the domestic sale of saccharine, and improved supervision on the use of food additives. Sugar consumption increased in MY02 and is expected to continue increasing in the coming years. The record high sugar output in MY03 is expected to suppress the domestic price and reduce imports compared to MY02.

Tables
Production, Supply, & Demand

Table 1. Sugar

PSD Table						
Country	China, Peoples Republic of					
Commodity	Centrifugal Sugar				(1000 MT)	
	Revised	2002	Preliminary	2003	Forecast	2004
	Old	New	Old	New	Old	New
Market Year Begin		10/2001		10/2002		10/2003
Beginning Stocks	1004	1004	923	1142	1408	1538
Beet Sugar Production	1274	1090	1491	1258	0	1220
Cane Sugar Production	6598	7215	6919	8230	0	8312
TOTAL Sugar Production	7872	8305	8410	9488	0	9532
Raw Imports	1258	1234	1320	450	0	500
Refined Imp.(Raw Val)	134	141	200	90	0	80
TOTAL Imports	1392	1375	1520	540	0	580
TOTAL SUPPLY	10268	10684	10853	11170	1408	11650
Raw Exports	9	9	10	10	0	10
Refined Exp.(Raw Val)	638	483	650	500	0	400
TOTAL EXPORTS	647	492	660	510	0	410
Human Dom. Consumption	8698	9050	8785	9122	0	9194
Other Disappearance	0	0	0	0	0	0
Total Disappearance	8698	9050	8785	9122	0	9194
Ending Stocks	923	1142	1408	1538	0	2046
TOTAL DISTRIBUTION	10268	10684	10853	11170	0	11650

Table 2. Sugar Beets

PSD Table						
Country	China, Peoples Republic of					
Commodity	Sugar Beets		(1000 HA)(1000 MT)			
	Revised	2002	Preliminary	2003	Forecast	2004
	Old	New	Old	New	Old	New
Market Year Begin		10/2001		10/2002		10/2003
Area Planted	406	406	525	422	0	413
Area Harvested	406	406	525	422	0	413
Production	9572	10889	12741	11433	0	11090
TOTAL SUPPLY	9572	10889	12741	11433	0	11090
Utilization for Sugar	9572	10889	12741	11433	0	11090
Utilizatn for Alcohol	0	0	0	0	0	0
TOTAL UTILIZATION	9572	10889	12741	11433	0	11090

Table 3. Sugar Cane

PSD Table						
Country	China, Peoples Republic of					
Commodity	Sugar Cane for Centrifugal				(1000 HA)(1000 MT)	
	Revised	2002	Preliminary	2003	Forecast	2004
	Old	New	Old	New	Old	New
Market Year Begin		10/2001		10/2002		10/2003
Area Planted	1264	1248	1307	1379	0	1406
Area Harvested	1264	1248	1307	1379	0	1406
Production	75663	75663	79341	83985	0	84825
TOTAL SUPPLY	75663	75663	79341	83985	0	84825
Utilization for Sugar	75663	75663	79341	83985	0	84825
Utilizatn for Alcohol	0	0	0	0	0	0
TOTAL UTILIZATION	75663	75663	79341	83985	0	84825

Trade Tables

Table 4. China's Sugar Imports by Origin, MY 2001/2002

(MT, raw basis)					
Country	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sept	MY Total
Cuba	0	68,890	249,663	157,325	475,877
Australia	52,275	341	24,544	254,645	331,805
Thailand	119,193	82,786	111,577	4,561	318,116
South Korea	28,667	19,804	22,040	29,620	100,131
Brazil	67,275	41	0	0	67,316
South Africa	21,882	295	0	23,317	45,494
Mozambique	0	0	0	17,595	17,595
United Kingdom	3,603	1,394	897	1,697	7,590
Germany	1,871	430	55	10	2,366
France	2,018	0	123	74	2,216
Japan	334	562	557	367	1,820
China	644	34	458	232	1,369
Hong Kong	555	449	88	178	1,271
Belgium	579	0	49	0	629
Malaysia	27	34	153	406	619
United States	71	119	242	160	593
Netherlands	0	25	0	172	197
Singapore	29	17	37	51	135
Denmark	0	0	123	0	123
Italy	0	0	0	74	74
All Others	60	18	12	7	96
Grand Total	299,083	175,240	410,618	490,491	1,375,432
Source: China Customs					

Table 5. China's Sugar Imports by Origin, MY 2002/2003

(MT, raw basis)					
Country	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sept	MY Total
Australia	104,714				104,714
South Korea	33,288				33,288
South Africa	16,304				16,304
U.A.E	2,118				2,118
Thailand	1,331				1,331
Mozambique	1,019				1,019
United Kingdom	882				882
Vietnam	591				591
China	405				405
Germany	402				402
Japan	293				293
Hong Kong	253				253
Belgium	123				123
United States	123				123
France	75				75
Singapore	73				73
Brazil	56				56
Nepal	34				34
Taiwan	5				5
Malaysia	0				0
All Others	0				0
Grand Total	162,089				162,089
Source: China Customs					

Table 6. China's Sugar Exports by Destination, MY 2001/2002

(MT, raw basis)					
Country	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sept	MY Total
Indonesia	87,393	75,060	67,943	18,254	248,651
Saudi Arabia	3,435	13,739	30,979	0	48,152
Malaysia	38	74	10,566	26,529	37,208
Hong Kong	10,974	8,549	8,417	9,149	37,090
Vietnam	34,004	0	0	0	34,004
Bangladesh	0	0	12,594	14,931	27,525
Yemen	0	14,956	144	72	15,172
Mongolia	4,829	4,940	687	2,400	12,856
Cambodia	5,724	2,862	0	0	8,587
Japan	984	3,733	1,943	633	7,293
Singapore	107	2,936	2,882	966	6,890
North Korea	2,913	64	27	9	3,013
Macau	392	412	303	286	1,393
Canada	358	279	317	181	1,135
United States	196	56	187	412	851
Australia	115	24	77	123	339
Kazakstan	0	0	0	252	252
U.A.E	40	21	82	21	165
United Kingdom	27	62	20	41	150
Lebanon	70	24	24	24	141
All Others	206	68	243	217	734
Grand Total	151,805	127,859	137,437	74,499	491,600
Source: China Customs					

Table 7. China's Sugar Exports by Destination, MY 2002/2003

(MT, raw basis)					
Country	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sept	MY Total
Indonesia	13,533				13,533
Hong Kong	9,549				9,549
Malaysia	3,288				3,288
Mongolia	3,055				3,055
Japan	771				771
United States	590				590
Canada	268				268
Macau	262				262
Singapore	217				217
North Korea	189				189
Egypt	183				183
Philippines	120				120
Australia	102				102
Lebanon	50				50
United Kingdom	45				45
New Zealand	21				21
Germany	13				13
Tajikistan	11				11
France	11				11
Venezuela	3				3
All Others	6				6
Grand Total	32,287				32,287
Source: China Customs					

Production

Sugar cane continues to dominate sugar production in China vis-a-vis sugar beets. It accounts for 90 percent of China's sugar crop and the southern province of Guangxi continues to be the dominant cane-growing province. Most sugar beets continue to be grown in the Northeast. The preliminary estimate of total area planted to cane and beets combined in MY03 is projected to increase to 1.8 million HA, which is 9 percent more than MY02.

Sugar Cane

Sugar cane area is forecast to continue increasing, albeit slightly, in MY04 compared to MY03 which, in turn, was 10.6 percent more than in MY02. Farmers in the main cane-growing areas of Guangxi and Yunnan provinces continue to rely on sugar cane as the main source of income even though, as shown by the table below, the prices they receive for their crop have fallen by about 20 percent since MY01. The price of sugar cane, however, is more stable than other cash crops, so farmers are hesitant to switch. Furthermore, the cash flow problems many mills experienced in the 1990's have subsided so they are able to pay the farmers in a timely manner for their crop. Without other profitable choices, farmer's continue to plant cane.

In Guangxi province, the provincial government's goal for MY04 is to reduce sugar cane area by about 20 percent compared to MY03. A survey conducted in early 2003 by the Guangxi Provincial Agricultural Bureau, however, revealed that farmers intend to plant about the same acreage in MY04 that they planted in MY03. According to the Guangxi Agricultural Bureau, Guangxi's sugar cane output in MY02 rose 15 percent over MY01. The yield in Guangxi averages 63 MT/ha.

Purchase Price of Sugar Cane in Major Cane Producing Provinces, MY01 - MY 03
Unit = Chinese Renminbi/MT (US$1 = RMB8.27)

Province	**MY01**	**MY02**	**MY03**
Guangxi	206	186	160
Yunnan	151	139	130
Guangdong	200	175	140
Hainan	165	170	150
***Simple Average**	**181**	**168**	**145**

Source: Ministry of Agriculture

*****Given that Guangxi province dominates sugar cane production, one could argue that the price in Guangxi would be a more accurate indicator of the national average price than the simple average shown above. Regardless of which figure is used, the trend clearly is downward.

Sugar Beets

Sugar beet planted area is forecast to remain about the same in MY04 as it was in MY03. According to data from the Ministry of Agriculture, sugar beet planted area increased 4.4 percent in MY03 over the previous year.

Favorable growing conditions last year in northern China contributed to the above average yields in Heilongjiang, Xinjiang and Inner Mongolia. The sugar beet yield averaged 23 MT/ha, according to the China Sugar Association. Following the lead of the southern sugar cane producing provinces, over the past several years, the provincial governments in Heilongjiang, Inner Mongolia and Xinjiang have been working on standardizing the pre-purchase contracts that farmers sign with the mills. The objective is to more accurately project output and manage cash flow.

Purchase Price of Sugar Beets in Major Beet Producing Provinces, MY01 - MY 03
Unit = Chinese Renminbi/MT (US$1 = RMB8.27)

Province	**MY01**	**MY02**	**MY03**
Xinjiang	220	220	205
Heilongjiang	236	235	220
Inner Mongolia	260	260	238
Simple Average	**239**	**238**	**221**

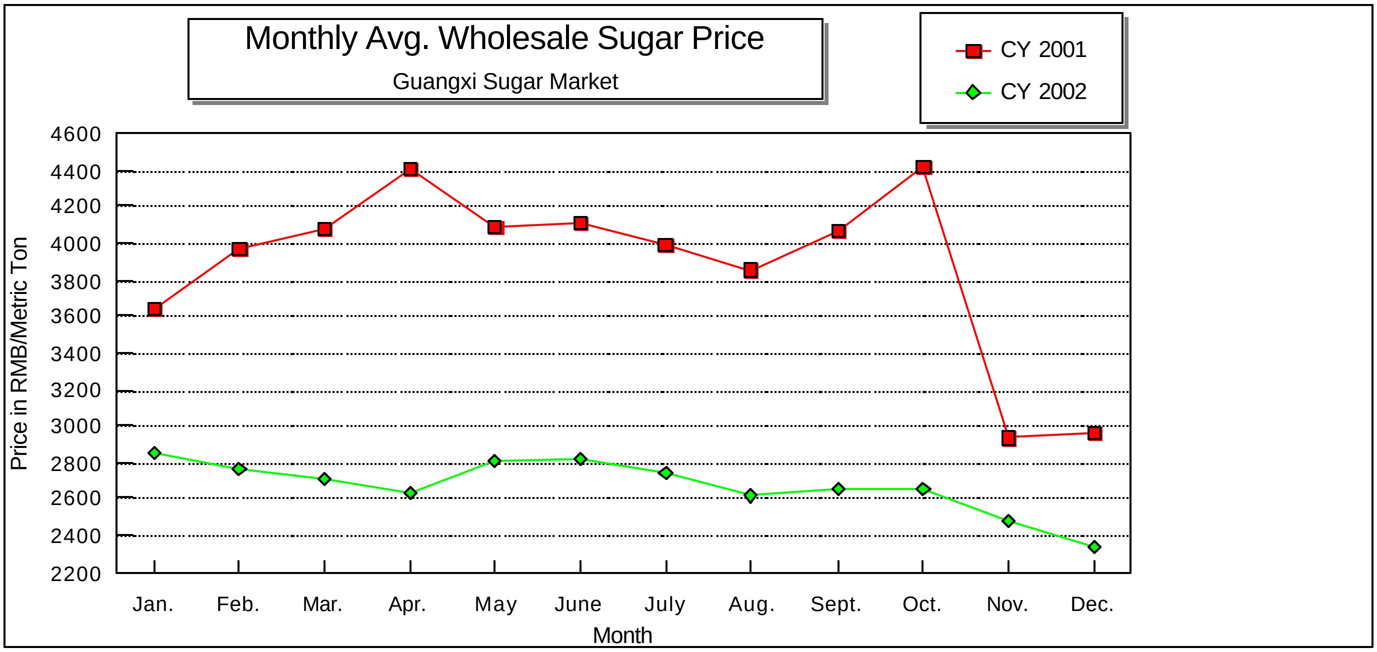
Source: Ministry of Agriculture

Sugar

Overall sugar production is forecast to reach over 9.5 MMT in MY04. The preliminary estimate for production for MY03 is 9.5 MMT, which is 14.2 percent more than in MY02. Sugar production has increased sharply since MY01 when a severe frost damaged the sugar cane in southern China and a caused a sugar shortage.

Facing record sugar output in MY03, the national government is trying to reduce beet and cane acreage. According to the State Economic & Trade Commission (SETC), which oversees the sugar industry at the national level, sugar output in CY03 is projected at 9.2 MMT. This is 4.6 percent less than in CY02. (Note: SETC statistics are only available on a calendar year.) In November 2003 the government reduced the purchase price for reserve sugar to RMB 2,300/MT for MY03 from RMB 2,600/MT that it paid in MY02. According to the China Sugar Association, the wholesale sugar price in the major production regions averaged between RMB 2400 and RMB 2,500 in MY03. Though the current market price is higher than the reserve price, SETC's reduction of the reserve price allows the wholesale price to fall further than it would have, which in turn pushes mills to cut their production costs and improve their efficiency. The MY03 drop in the wholesale price is part of a continuing trend -- in MY02 the wholesale prices averaged RMB 2,800/MT and in MY01 it averaged RMB 3,600/MT.

Sugar output from Guangxi province in MY02 reached 4.5 MMT, equivalent to over 50 percent of the nation's total production. Though sugar output by Guangxi in MY02 increased 65 percent from the prior year, the sector's pretaxation profit rose only 10.8 percent over the previous year due to low prices last year.



Saccharine

In an effort to help the sugar industry, the national government continues to limit production of saccharine. During China's sugar shortage, saccharine production and use increased sharply and the government has been trying to reduce production ever since. Early in 2002 China set up a special office for coordinating the production and sale of saccharine. Authorities of that office set targets for 2002 of 17,500 MT for saccharine production of which 3,500 MT was targeted. The actual figures, however, were 21,378 MT and 3,865 respectively. If one assumes saccharine is 500 times sweeter than sugar, such an amount of saccharine, together with other varieties of artificial sweeteners sold in China, would be equivalent to 2 MMT of sugar last year. The situation has improved remarkably compared to 2001 when 4,532 tons of saccharine were sold domestically.

In addition to government control of saccharine production, as people's living standard improves, saccharine is becoming less popular because consumers tend to prefer natural sugar. Also, the government is more strictly enforcing food additive regulations which require prior approval of the use of saccharine in food products. Some food processors simply switch to sugar rather than going through the time and expense of the approval process.

Consumption

About one-fourth of all sugar is consumed directly at home and the rest is consumed by the food processing and industrial sectors. According to official statistics, annual per capita direct sugar consumption in urban areas was 1.67

kg in 2001(slightly less than that in 2000), while in rural areas it was 1.43 kg. The slowing down of direct sugar consumption in urban areas was offset by increased consumption in processed foods and beverages. China's soft drink production in the first ten months of 2002 reached 17.71 MMT, which is about 20 percent more than the previous year. Among them, according to the China Soft Drink Industry Association, soft drinks containing sugar rose 22 percent to 10.5 MMT. Adding up direct and indirect consumption, total per capita sugar consumption was estimated to be about 7 kg in 2002. As people's living standards and diets improve, sugar consumption is expected to increase steadily.

Trade

The preliminary estimate of imports for MY03 has been reduced sharply to 450 TMT because of record domestic production. Imports in MY04 are forecast at 500 TMT. The 1.76 MMT sugar import quota for 2002 was not filled. According to China's WTO accession agreement, the import quota for 2003 is 1.85 MMT. Given the projected surplus of domestic sugar in MY03, the import quota is not expected to be filled.

Stocks

There are two categories of stocks -- national reserve and local industrial interim reserve. The industrial reserve functions as collateral for state bank loans that the mills take out to meet their working capital needs when the crushing season starts or the sugar market is sluggish. The amount of industrial reserve was 1.2 MMT in MY02. In MY03, to reduce the expected surplus, the government has increased the amount of reserve to 1.8 MMT. The price for reserve sugar usually functions as a floor price for the market. The price for sugar in reserve is set at RMB 2,300/MT in MY03. In principle, the industrial reserve should be disposed of within six months, i.e., before the new crushing season starts, in order to avoid carry-over.

Regarding the national reserve, the 450,000 MT of raw sugar imported in MY02 from Cuba was held in the national reserve in an effort to prevent the market price from declining further. Given the expected oversupply of domestic sugar in MY03, any sugar imported from Cuba would again enter the national reserve, and would not be sold on the domestic market.

Policy

Early in 2003, the Ministry of Agriculture released its latest "Five Year Plan" for the development of the major crops, including sugar cane, in China from 2003 through 2007. The Plan targets Guangxi, Yunnan, and Guangdong provinces for further development of the cane growing sector. The sugar output in the three mentioned provinces will account for 65 percent of nation's total by 2007. It set a yield target of 75 tons/HA, up from current average of 60 ton/HA. The Plan aims to achieve self-sufficiency in sugar production.

Marketing

Neither the government nor processors have market promotion programs for sugar. There are no programs known to this office that focus on value-added products. Sugar continues to be viewed as a basic commodity whose demand is relatively price inelastic. Saccharine, however, competes with sugar. See "Production" section above for a detailed discussion.