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China, Peoples Republic of

Sugar

Guangxi Stricken By Frost - Revised

2000

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Report Highlights:

A severe frost has stricken China's leading producer of sugar cane, the Guangxi Autonomous Region. The neighboring provinces of Yunnan and Guangdong were also affected. Regional government sources estimate that this could cause sugar production to fall by as much as 800,000 metric tons. Large government stocks however, mean that imports are unlikely to increase.

Includes PSD changes: No
Includes Trade Matrix: No
Unscheduled Report
Beijing[CH1], CH

Heavy Frost Decimates Crops in Guangxi

On January 4, the Guangxi Daily reported that Guangxi Autonomous Region, China's leading producer of sugarcane, had suffered its most severe frost since 1975. Though weather forecasts had accurately predicted the frost, local authorities did not take any active measures to minimize the damage. Over 1.33 million hectares were affected, with total losses in 287 thousand hectares, and severe losses in 433 thousand hectares. The Regional government issued a circular on January 4, stating that \$120.48 million will be allocated for disaster assistance to farmers.

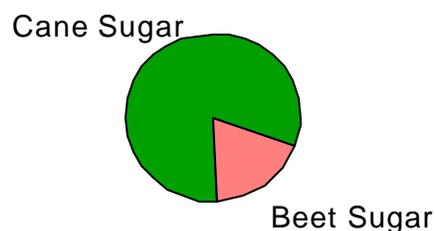
Razing Cane

For sugarcane, over 350 thousand hectares (79% of planted area) were damaged, with losses in some areas as high as 90%. Provincial authorities estimate that sugarcane production will fall by 2 million MT over the previous year, and sugar production will fall by 800,000 MT. The impact on sugar production in other provinces is not yet clear. Press reports indicate that production in Guangdong province was likely to fall by as much as 25% even before the freeze. It is unclear whether this will affect recent decisions by local governments to reduce procurement prices for sugarcane. All three leading cane producers, Guangxi, Yunnan and Guangdong, had decided to reduce the procurement price during the coming year. China Sugar & Spirit Group Corp. Vice President Wang Xinguo estimates that total sugar production will still reach 8.5 million MT which, combined with over 1 MMT in stocks, will be more than sufficient to meet domestic requirements. As a result, it appears that trade will not be heavily affected. (China imports raw sugar primarily to be refined and re-exported to other countries).

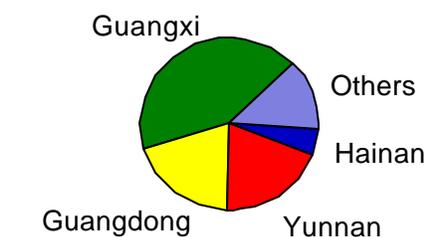
China's sugar industry is still in the process of restructuring, and, although the freeze is a major disaster for farmers, it may help China to reduce its massive surplus of sugar. High domestic support prices, massive smuggling and increased use of artificial sweeteners during the mid 1990's led to the accumulation of surpluses, which in turn depressed prices, which in turn left the government in the position of putting even more sugar into stocks in order to keep prices from sliding further. Since then, domestic sugar prices have been allowed to float, and are now approaching (though still above) world market prices.

This drop in sugar prices has put refineries in difficulty. As a result, many refineries are unable to pay cash to farmers, instead issuing IOUs, which provide a further disincentive to production. The government announced in December that it would close down 147 refineries throughout China, bringing production of refined sugar down by roughly 20 percent in the next year. The refineries being closed owe \$1.52 billion in debts to state banks, as well as \$602 million in IOUs to farmers. The government will

1998 Sugar Production
By Source



1998 Sugar Cane Production
By Province



Source: NSB Unofficial Data

write off the bad debts, while provincial governments are responsible for settling the IOUs. Procurement prices for sugarcane have also been reduced, which should alleviate some of the financial pressure on refiners. The government also reiterated its plan to shut down nine of 14 saccharine factories to reduce competition with natural sugar.

Other Victims

The frost also affected the neighboring provinces of Yunnan and Guangdong. At present, information on frost damage is available from only a handful of areas in these provinces. In Yunnan's Xishuangbanna Dai Minority Autonomous Prefecture nearly 52,000 hectares of oilseeds, coffee, sugarcane, rubber and tea were damaged, along with nearly 3,000 hectares of fruit and nut trees. In the Guangzhou municipal region of Guangdong Province, 50,000 hectares of sugarcane, bananas, lichees, vegetables and flowers were damaged, with losses estimated at \$84.34 million. Guangdong is experiencing its coldest winter in 50 years, and sugarcane production was already expected to fall by as much as 25% due to low prices and damage from spring drought and summer storms