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Korea, Republic of

Sugar - Revised

Annual

2000

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Report Highlights:

Sugar consumption remains flat, and on line to expand only at 2-3 percent per annum over the next 3-5 years. Population expansion coupled with steady consumer demand for products containing sugar are driving disappearance. Export markets are contracting with the appreciating Korean won and soft demand in Asian countries.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
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SECTION I. SITUATION AND OUTLOOK

Korea's three refineries process imported raw sugar to meet domestic and export requirements. Korea consumes approximately 80 percent of what it refines and exports the balance to other countries.

In MY 2000, refined sugar production is expected to surpass the quantity recorded in 1996. Production has been on the increase since 1999 to meet steadily expanding broad-based industrial demand in a recovering economy. Production dipped in 1998 when the softening economy led to weaker demand for sugar-based products.

Total domestic consumption is forecast to expand, on average, 2-3 percent per annum over the next few years in a tandem with expansion of the general population. Further declines in the world sugar price are not expected to influence domestic consumption measurably.

If a major beverage company is successful with its financial restructuring efforts, refined sugar demand could increase more rapidly within that sector. The beverage sector accounts for about 18 percent of industrial sugar disappearance but has witnessed falling consumption the last couple years due to the financial problems of one major beverage company. Home-use demand for sugar is expected to remain constant.

During the past two years the factory price for refined sugar has declined 41 percent. Falling raw sugar input costs and governmental efforts, e.g., offsetting the won's rising value, eliminating the special consumption tax (10 percent) and education tax (3 percent), are credited for causing the price decline. Meanwhile wholesale and retail prices have dropped only 60-70 percent of the factory price decline. Spreading distribution margins appear to account for the difference. With the government expected to stabilize the won's value to stimulate exports, factory prices are not anticipated to decline further.

Demand for high fructose corn syrup (HFCS), the primary substitute for sugar, remains constant. HFCS-55 is the primary sweetening agent for carbonated soft drinks. HFCS-42 is used mostly in the bread and confectionary industry, and represents about 5 percent of HFCS produced in Korea. As with refined sugar, total domestic consumption of HFCS is forecast to expand, on average, 2-3 percent per annum over the next few years in a tandem with expansion of the general population.

Stock levels have declined in the wake of industry efforts to reduce overhead cost during the economic crisis. Tighter stock management controls implemented to reduce resources tied up in inventories have resulted in refineries now carrying a month's supply versus the past practice of one and half months supply. The smaller inventory quantity appears to be sufficient for an industry still operating at 80 percent capacity.

In MY 2000, raw sugar imports are projected to increase at a rate sufficient to satisfy expected demand. In MY 1999 imports had dropped slightly, despite increased consumption, as stocks were drawn down. Australia remains the supplier of choice on quality grounds. Guatemala has made some inroads into this market due to cheap freight rates.

MY 1999 sugar exports exceeded preliminary projections on stronger demand from traditional buyers. In MY

2000, weaker demand in East Asian markets still trying to regain economic stability, and a stronger won that is increasing the Korean sugar's price are combining to dampen the trade outlook for this year. Current export market conditions, lower world prices for raw and refined sugar, coupled with the falling price competitiveness of Korean sugar produced by an industry constrained by high fixed costs are squeezing hard the operating margins of local refineries.

Raw sugar commands a 3-percent tariff while refined sugar (H.S. Code 1701.91 and 1701.99) commands a 50-percent tariff, CIF value. The applied tariff, however, is 2.7 percent, subject to the cooperation rate agreed to between Korea and Thailand. Korea applies a 10-percent VAT tax at retail.

SECTION II. STATISTICAL TABLES

Sugar PSD

PSD Table						
Country:	Korea, Republic of					
Commodity:	Sugar					
		1999		2000		2001
	Old	New	Old	New	Old	New
Market Year Begin		10/1998		10/1999		10/2000
Beginning Stocks	136	136	142	93	147	83
Beet Sugar Production	0	0	0	0	0	0
Cane Sugar Production	0	0	0	0	0	0
TOTAL Sugar Production	0	0	0	0	0	0
Raw Imports	1450	1403	1480	1440	0	1460
Refined Imp.(Raw Val)	0	0	0	0	0	0
TOTAL Imports	1450	1403	1480	1440	0	1460
TOTAL SUPPLY	1586	1539	1622	1533	147	1543
Raw Exports	0	0	0	0	0	0
Refined Exp.(Raw Val)	310	328	300	300	0	290
TOTAL EXPORTS	310	328	300	300	0	290
Human Dom. Consumption	1134	1118	1175	1150	0	1173
Feed Dom. Consumption	0	0	0	0	0	0
TOTAL Dom. Consumption	1134	1118	1175	1150	0	1173
Ending Stocks	142	93	147	83	0	80
TOTAL DISTRIBUTION	1586	1539	1622	1533	0	1543

MY 1999 - 2000 Raw Sugar Imports

	MY 1999		MY 2000 1/	
	MT	1000	MT	1000
Australia	721,329	153,929	366,963	69,269
Thailand	147,846	29,001	64,344	11,954
South Africa	242,005	51,095	23,332	4,377
Guatemala	275,900	56,558	0	0
Fiji	15,525	2,705	0	0
Total	1,402,604	293,288	454,639	85,600

Source: Korea Trade Information Services (KOTIS)

Note 1/ based on Oct. 1999 - Jan. 2000 data

MY 1999 - 2000 Refined Sugar Exports

	MY 1999		MY 2000 1/	
	MT	\$1,000	MT	\$1,000
Hong Kong	120,626	29,093	39,275	8,518
Philippine	66,759	17,910	20,512	4,703
P.R.C.	31,891	8,182	20,186	4,324
Indonesia	30,456	6,925	15,727	3,002
Singapore	19,133	3,772	9,132	1,806
Malaya	29,640	6,621	7,919	1,613
Macao	616	159	103	33
Russia	263	169	37	71
Japan	1,363	455	20	7
Canada	518	166	20	7
U.S.A.	25	25	1	25
Vietnam	1	1	0	2
Others	2,748	1,109	1,372	476
Total	328,008	81,016	114,305	24,587

Source: Korea Trade Information Services (KOTIS)

Note 1/ based on Oct. 1999 - Jan. 2000 data

Korea: Refined Sugar Production (Unit: 1,000 MT)

Year	1995	1996	1997	1998	1999
Volume	1132	1168	1198	1127	1176
Change	-1%	3%	3%	-6%	4%

Source: Korea Sugar Association (KSA)

Korea: HFCS Production by Corn Millers (Unit: 1,000 MT)

	Production	Raw sugar Equivalent
1990/91	212	173
1991/92	206	169
1992/93	187	153
1993/94	202	166
1994/95	200	164
1995/96	208	170
1996/97	231	189
1997/98	213	175
1998/99	218	179

Source: Korea Corn Processing Industry Association (KOCPIA)

Korea: Refined Sugar Prices (Unit: Won/Kg)

Date	Jan. 1998	Apr. '98	July '98	Dec. '98	Mar. 1999	Aug. '99	Dec. '99	Mar. 2000
Price	1103.52	1024.98	934.78	875.60	814.33	777.70	688.22	653.81
Change	17.6%	-7.1%	-8.8%	-6.3%	-7.0%	-4.5%	-11.5%	-5.0%

Source: Industry

Korea: Average Raw Sugar Import Prices

H.S. Code 1701.11 (US\$/MT, CIF Korea)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1998	305	307	306	298	284	280	272	252	243	250	235	237
1999	232	230	221	209	211	204	191	185	193	199	186	191
Change	-24%	-25%	-28%	-30%	-26%	-27%	-30%	-27%	-21%	-20%	-21%	-19%

Source: Korea Trade Information Services (KOTIS)

Korea: Average Refined Sugar Export Prices

H.S. Code 1701.99 (US\$/MT, FOB)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1998	360	351	342	339	322	327	312	314	289	289	294	295
1999	260	267	280	247	240	237	233	237	246	248	228	222
Change	-28%	-24%	-18%	-27%	-25%	-28%	-25%	-25%	-15%	-14%	-22%	-25%

Source: Korea Trade Information Services (KOTIS)