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# **China, Peoples Republic of**

## **Sugar**

### **Production and Reform Update**

#### **2000**

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#### **Report Highlights:**

**Overall sugar production is estimated to have dropped by 12% during MY 2000, less than originally expected. While sugar cane production was higher than expected, beet production was less. Further reductions are forecast for MY 2001. Increased demand and declining production have caused prices to rise, giving the government an opportunity to sell surplus stocks. Stocks are forecast to continue falling until China enters the WTO, at which time imports under the TRQ agreed to by China should cause prices to fall.**

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Includes PSD changes: Yes  
Includes Trade Matrix: No  
Unscheduled Report  
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## Executive Summary

Cane and cane sugar production estimates have been raised since the last report, as frost damage is now believed to be less than originally feared. Sugar beet production, on the other hand, has fallen even more rapidly than expected, with planted area falling as much as 40% over last year. Current estimates for overall sugar production for MY 2000 is slightly higher than previously estimated, at 6,400 TMT, still a 12% reduction over MY 1999. For MY 2001, sugar production is forecast to fall another 6%, due to continued reductions in sugar cane and sugar beet planted area. Demand has begun to grow again, and has combined with limited supplies to cause a jump in prices. In order to offset high prices, the government auctioned off 400 TMT of reserve sugar, with further sales expected in MY 2001. Stocks are forecast to drop rapidly in MY 2000 and 2001. Further increases in demand, along with increased tariff rate quotas, should boost imports in MY 2001.

## Production

### Sugar Cane

MY 2000 production estimates for cane sugar have been raised, as academic sources claim that frost damage was not as severe as originally believed. Losses are estimated at between 1 and 1.4 MMT. By contrast, estimates for area planted to cane in MY 2001 have been lowered. Originally expected to rebound due to high sugar prices, a survey of provincial government officials indicates that most provinces are continuing to reduce sugar cane production as part of the effort to reduce overproduction. Some industry sources dispute this claim, contending that falling production in MY 2001 will be the result of drought in Guangxi, rather than reductions in planted area. Fear of another early frost has led farmers in northern Guangxi to begin harvesting early. Industry sources who have examined the newly harvest cane claim that the quality is poor, with a low sugar content. (The Guangxi Autonomous Region is China's largest sugar cane producer, accounting for 44% of the MY1998 crop). The current MY 2001 forecast is based on the assumption that provincial governments are at least partially successful in reducing area, and that sugar yields are slightly lower than normal.

Reducing sugar production is a difficult issue for the Chinese government. In addition to being China's largest sugar cane producer, Guangxi is also China's poorest province and home to a large number of ethnic minority groups. The third largest cane producer, Yunnan, also suffers from chronic rural poverty and is home to the the most ethnically diverse population in China. Nonetheless, the high cost of supporting an insolvent industry has made reorganization a necessity. A note of urgency has recently been added by China's impending accession to the WTO, one condition of which is increased access for cheap, imported sugar. To help maintain incomes, the regional government in Guangxi has invested heavily in the development of alternative crops such as mulberry trees (for silkworms), fruit, peanuts and cassava. Cassava processing has received considerable government investment, with 150 manufacturers of cassava starch now in operation. The regional government plans to develop cassava starch and related products (denatured starch, alcohol, MSG, sorbostyl, etc.) into a \$2.41 billion industry. Officials in Guangxi are also encouraging increased production of 'industrial crops,' mostly spices and seasonings such as star anise, lemon grass, fennel, and cinnamon.

### Sugar Beets

According to official statistics, sugar beet production has fallen even further than originally forecast. This places the MY 2000 planted area for beets at a mere 341 thousand hectares, a drop of over 41 percent compared

to the previous year. Production is estimated to have fallen accordingly. The sharpest reductions took place in Heilongjiang (46.3% reduction) and Inner Mongolia (43.6%). Xinjiang, by contrast, suffered a reduction of only 28.8%. This is not surprising, given the higher concentration of plant closures in Heilongjiang and Inner Mongolia, and the comparatively high sugarbeet yields and isolated market in Xinjiang. (High transportation costs make it difficult to ship products out of Xinjiang, but also make cane sugar less competitive within the province. For the same reason, Xinjiang's sugar industry is likely to be less affected by imports under the WTO). For MY 2001, area is forecast to drop by another 7 percent, based on the assumption that the decline has begun to bottom out. This, however, remains far from certain.

The precipitous drop in planted area during 2000 is directly linked to the collapse of the sugar beet processing industry in Northeast China. For a number of years, financially distressed beet sugar refineries have frequently paid farmers with IOUs, providing a considerable disincentive to producers. This has been aggravated by the recent bankruptcies of several of China's largest sugar beet refineries. In the case of plants with large numbers of outstanding IOUs, the status of these debts is uncertain. The government has provided assurances that these debts will be paid, but even official media remain skeptical. Facing the possibility that they may never get paid even for past crops, farmers have abandoned sugar beets en masse.

## Consumption, Stocks and Trade

Market surveys indicate that sugar consumption rose during MY 2000, despite high prices. Consumption is reported to be increasing in rural areas, a departure from the pattern of recent years, when increases were largely limited to the major cities. A sharper (2%) increase in consumption is forecast for MY 2001, bringing growth back to previous levels. China's largest sugar consumer is Guangdong province, which accounts for roughly 1 MMT of sugar each year. Industry accounts for the bulk of sugar consumption, with the four major uses being soft drinks, candies, pastries and ice cream. Government sources attribute growing consumption to a crackdown on the illegal use of artificial sweeteners. For CY 2000, saccharine production was officially limited to 16 TMT. Most of this is to be exported, with domestic use limited to 3 TMT, as compared to 13 TMT consumed domestically in 1998. While these quantities may seem small, it should be kept in mind that 13 TMT of saccharine is equivalent in sweetness to between 3 and 5 MMT of sugar. Substitution tends to be highest in rural areas, and growing sugar consumption in these areas indicates some success. Nonetheless, industry and press sources dispute the effectiveness of the crackdown (see the reform update for more on substitution).

Reduced production and growing demand have triggered a jump in sugar prices after four years of continuous decline. Factory prices were reported at between \$434/MT and \$440/MT in November, compared to an average of under \$330/MT during 1999. Market surveys indicates that retail prices have remained constant in the major urban areas while climbing by as much as 20% in smaller cities. In response to rising prices, the government announced the auction of 400 TMT of government reserves, with more auctions expected in MY 2001. Commercial reserves are also believed to have fallen substantially during the year, with overall stocks forecast to drop by 787 TMT. The liquidation of stocks is forecast to continue. The current high prices have given both the government and sugar enterprises a perfect opportunity to reduce stocks prior to China's entry into the WTO, at which time prices are expected to drop.

China's entry into the WTO (assumed, for analytical purposes, to take place in Spring, 2001), will influence trade as well as stocks. At present, China strictly limits imports in order to keep prices high for domestic producers. Under the current agreement, China has committed to opening a tariff rate quota (TRQ) for 1.6 MMT of sugar, increasing to 1.945 MMT over a four year period. The current in-quota tariff is 20%, and the

out-of-quota tariff is 76%. Under the agreement, China will also reduce the out-of-quota tariff down to 65% over four years. Since world sugar prices are significantly lower than China's domestic prices, imports are likely to increase under the TRQ. Assuming that the TRQ goes into effect midway through the marketing year, and there is a certain amount of confusion over administration of the TRQ, imports are forecast to reach roughly 900 TMT. In addition, re-exports of refined sugar are forecast to drop as a proportion of trade, as larger amounts of imported sugar remain in China. Imports are likely to see a major jump in 2002, as administration of the TRQ becomes more effective.

## Marketing

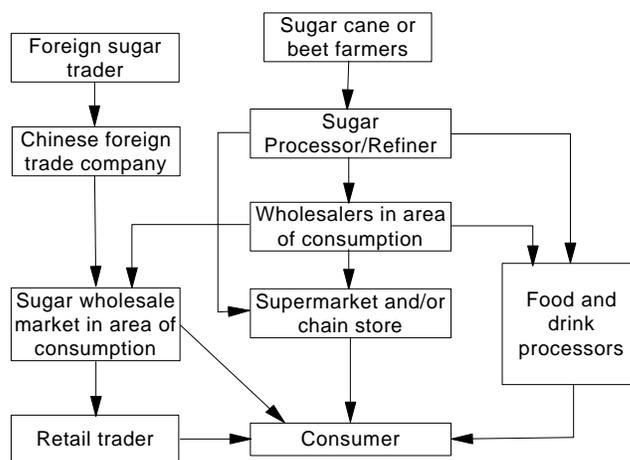
Until 1992, sugar distribution in China was monopolized by the state-owned Sugar, Tobacco and Alcohol, Inc. (STAI). STAI purchased all sugar from processors, and sold the sugar through its own distribution chain. After 1992, the sugar market was opened to private, licensed distributors. Nonetheless, STAI retains control of a large proportion of the domestic market through its longstanding relationship with buyers and well-developed distribution system. Distribution occurs at several levels, including direct sales by refineries to food manufacturers, direct sales to large-scale retailers, and sales through wholesalers to retail outlets. Imports are typically purchased by wholesalers through foreign trade companies.

## Reform Update

The current high prices and declining sugar stocks are, in part, the result of government reforms that have emphasized the reduction of planted area, closure of unprofitable refineries, and reduced use of artificial sweeteners. These reforms remain tentative, however, and now risk being undermined by the high prices that they brought about. For example, the government's China National Sugar and Wine Group has claimed that 152 sugar refineries representing a total capacity of 2.735 MMT would be closed this year. Press sources, however, have admitted that only 71% of these refineries have actually closed, while the rest temporarily suspended operations, and are now reopening in response to high sugar prices. Industry profits reached \$34.46 million during the first three quarters of CY 2000, and are expected to reach up to \$60 million by the end of the year, providing considerable incentive. In Guangxi, foreign sugar industry experts have found that the number of refineries has actually increased from 108 to 110. Of the 149 refineries targeted for closure in this region, almost half only partially closed down, and many of these have since returned to regular business in response to rising sugar prices. The number of profitable refineries in the region has increased from 41 to 69, and the number recording losses has fallen from 62 to 32.

Efforts to reduce production and use of saccharine have experienced similar difficulties. Officially, 9 saccharine plants have been closed, accounting for the sweetener equivalent of 1 MMT of sugar. Other regulations include restriction of the use of artificial sweeteners in infant formula and children's foods, and special labeling requirements for chemical-based artificial sweeteners. These regulations are difficult to enforce, however, as industry experts classify the saccharine industry as 'partly underground,' with little direct government involvement in production or management. Industry sources claim that, of the nine factories the government

The Sugar Distribution Chain  
In China



claims to have shut down, half are still in operation. Enforcement of labeling laws is also problematic, particularly in rural areas, where the large number of illegal food and soft drink manufacturers routinely flout food labeling laws, and use saccharine to cut costs. Even when strictly enforced, the efficacy of labeling laws as a deterrent is questionable, as most Chinese consumers are unaware of any health concerns associated with saccharine.

## Statistical Tables

### Production, Supply and Distribution Tables

Table 1. Sugar

PSD Table						
Country:	China, Peoples Republic of					
Commodity:	Sugar					
		1999		2000		2001
	Old	New	Old	New	Old	New
Market Year Begin		10/1998		10/1999		10/2000
Beginning Stocks	2515	2515	2548	3126	1101	2339
Beet Sugar Production	1693	1693	1236	1011	1342	891
Cane Sugar Production	7276	7276	5967	6400	6737	6075
TOTAL Sugar Production	8969	8969	7203	7411	8079	6966
Raw Imports	467	467	500	627	900	850
Refined Imp.(Raw Val)	50	50	55	56	100	50
TOTAL Imports	517	517	555	683	1000	900
TOTAL SUPPLY	12001	12001	10306	11220	10180	10205
Raw Exports	11	11	5	6	5	5
Refined Exp.(Raw Val)	442	442	200	399	250	167
TOTAL EXPORTS	453	453	205	405	255	172
Human Dom. Consumption	9000	8422	9000	8476	9150	8650
Feed Dom. Consumption	0	0	0	0	0	0
TOTAL Dom. Consumption	9000	8422	9000	8476	9150	8650
Ending Stocks	2548	3126	1101	2339	775	1383
TOTAL DISTRIBUTION	12001	12001	10306	11220	10180	10205

Table 2. Sugar Cane

PSD Table						
Country:						
Commodity:	Sugar Cane Centrifugal					
		1999		2000		2001
		New	Old	New	Old	New
Market Year Begin						
Area Planted	1401	1401	1210	1260	1296	1152
Area Harvested	1401	1401	1210	1237	1296	1152
Production	83438	83438	68428	74703	76869	70051
TOTAL SUPPLY	83438	83438	68428	74703	76869	70051
Utilization for Sugar	83438	83438	68428	74703	76869	70051
Utilizatn for Alcohol	0	0	0	0	0	0
TOTAL UTILIZATION	83438	83438	68428	74703	76869	70051

Table 3. Sugar Beets

PSD Table						
Country:						
Commodity:	Sugar Beets					
		1999		2000		2001
	Old	New	Old	New	Old	New
Market Year Begin						
Area Planted	583	583	434	341	445	317
Area Harvested	583	583	434	341	445	317
Production	14466	14466	10562	8639	11474	7612
TOTAL SUPPLY	14466	14466	10562	8639	11474	7612
Utilization for Sugar	14466	14466	10562	8639	11474	7612
Utilization for Alcohol	0	0	0	0	0	0
TOTAL UTILIZATION	14466	14466	10562	8639	11474	7612

## Quarterly Trade Tables

Table 3. Quarterly Sugar Imports, MY 99

China's Quarterly Imports of Sugar by Origin, MY 99					
Oct - Sept 98/99	(Metric Tons, Raw Basis)				
Country	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sept	Oct 1998- Sept 1999
	1998	1999	1999	1999	1999
Hong Kong	181	260	220	241	902
Japan	2215	1333	1384	5	4937
Malaysia	189	28	19	0	236
Nepal	38	0	0	0	38
Saudi Arabia	262	0	0	0	262
Singapore	21	327	0	0	348
South Korea	13276	7317	7419	380	28392
Thailand	45	25875	0	0	25920
U. A. E	0	207	214	0	421
China	20	1717	30	0	1767
South Africa	387	414	0	0	801
Belgium	65	644	437	0	1146
United Kingdom	1397	1093	1610	0	4100
Germany	452	138	92	23	705
France	310	1	233	0	544
Brazil	32731	3	0	0	32734
Cuba	91554	0	175745	85213	352512
United States	29	1	1	0	31
Australia	49958	646	5	1	50610
Others	17	6	16	2	41
TOTAL	193147	40010	187425	85865	506447
Sources: PRC Customs Data					

Table 5. Quarterly Sugar Imports, MY 00

China's Quarterly Imports of Sugar by Origin					
Oct - Sept 1999/2000					
(Metric tons, raw basis)					
Country	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sept	Oct 1999
	1999	2000	2000	2000	Sept 2000
Cuba	22391	31231	35507	313850	402979
Australia	40306	3	47	62046	102401
Thailand	23790	23805	44569	6724	98888
South Korea	300	11308	12055	15939	39602
Guatemala	0	0	25838	0	25838
United Kingdom	0	270	675	1642	2586
Nepal	113	0	99	2320	2532
Japan	4	1053	1065	373	2494
Belgium	0	193	644	851	1688
Hong Kong	297	334	338	342	1312
France	0	161	230	712	1103
U.A.E	0	138	345	0	483
Singapore	0	0	0	220	220
China	0	17	51	141	210
Others	1	129	1	602	761
TOTAL	87203	68643	121468	405783	683097
Source: PRC Customs Statistics					

Table. 6. Quarterly Sugar Exports, MY 99

China's Quarterly Exports of Sugar by Destination					
Oct - Sept 98/99					
(Metric Tons, Raw Basis)					
Country	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sept	Oct 98- Sept 99
	1998	1999	1999	1999	
Indonesia	167355	55551	8560	0	231466
India	0	5350	73081	0	78431
Saudi Arabia	37422	0	30517	64	68003
Hong Kong	7989	8473	5700	4790	26952
United States	782	18310	378	540	20010
Macau	293	18295	176	213	18977
United Kingdom	8	18218	379	21	18626
Singapore	55	18231	115	103	18504
Australia	55	18211	78	104	18448
Taiwan	16	18215	6	0	18237
Japan	515	2060	2284	497	5356
Kazakhstan	2995	1835	0	0	4830
Mongolia	660	1421	1516	0	3597
North Korea	158	107	282	734	1281
Canada	319	298	319	275	1211
Russia	60	321	0	0	381
Malaysia	64	27	80	41	212
Others	70	491	569	536	1666
TOTAL	218816	185416	124040	7922	536194
Source: PRC Customs Statistics					

Table 7. Quarterly Sugar Exports, MY 00

China's Quarterly Exports of Sugar by Destination*					
Oct - Sept 1999/2000					
(Metric Tons, Raw Basis)					
Country	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sept	Oct 1999
	1999	2000	2000	2000	Sept 2000
Saudi Arabia	43	15301	26161	121	41625
Indonesia	0	10700	27552	1	38254
Hong Kong	4283	6796	6457	7708	25244
India	0	8560	8560	0	17120
Mongolia	0	5	1147	5936	7089
Japan	229	1721	1643	434	4028
Macau	237	299	414	480	1429
United States	798	121	76	121	1115
Canada	295	116	141	130	683
Malaysia	147	166	193	138	644
Singapore	85	69	65	175	394
South Korea	19	0	347	12	378
North Korea	16	190	86	60	352
Australia	108	42	32	82	263
United Kingdom	48	32	55	24	159
Others	933	523	53940	210691	266087
TOTAL	7240	44641	126869	226113	404862
Source: PRC Customs Statistics					