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## China, Peoples Republic of

### Sugar

### Annual 2005

### 2005

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**Report Highlights:**

The MY05/06 sugar output is forecast at 10.91 MMT (raw value). The MY04/05 sugar import estimate has been revised upward to 1.4 MMT from the previous estimate of 1.2 MMT because of reduced sugar output and steady growth in consumption. Drought damage to sugar cane was the main reason for the 6 percent decline in overall sugar output in MY04/05. Cane and beet acreage are forecast to rise by 100,000 HA or 6 percent in MY05/06 because of the relatively high sugar prices the previous year.

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## Executive Summary

Overall sugar output for MY05/06 is forecast at 10.9 MMT (raw value), which is 8 percent higher than the MY04/05 estimate. Cane sugar in MY04/05 is estimated to account for 93 percent of total sugar output. Despite the decline in area, beet sugar output in MY04/05 is estimated to be slightly higher than the previous year, due to higher beet yields. Sugar cane planted area is forecast to rise by 5 percent in MY05/06. The estimate of sugar imports for MY04/05 have been revised upward to 1.4 MMT from the previous estimate of 1.2 MMT. The government's control on the sale of artificial sweeteners will be critical for keeping the market for natural sugar consumption in MY05/06. Because of higher sugar prices, it has been difficult for the government to control the sale of saccharine, the competitor of natural sugar. Industry sources estimate that 4,600 tons of saccharine were sold domestically in 2004, well above the Chinese government's set limit of 3,500 tons annually. The sale of saccharine in 2004 was equivalent to 2.3 million tons of natural sugar, or nearly 20 percent of national natural sugar consumption.

In response to firm prices for beet and cane in MY04/05, acreage of both crops are forecast to rise by 100,000 HA (6 percent) in MY05/06.

Note: The exchange rate is fixed at RMB8.26 per US\$1.

## Sugar Cane

Sugar cane area for MY05/06 is forecast at 1.52 million HA, which is 5 percent higher than MY04/05. Sugar cane area accounts for about 87 percent of the total sugar crop area in MY04/05, up from 85 percent the previous year. Guangxi Province remains the dominant sugar cane producing province, followed by Yunnan, Guangdong, and Hainan provinces. Its output accounts for more than half of China's sugar cane production. In MY04/05, the dry weather in Guangxi reduced yields by three percent from the previous year, according to provincial agricultural department. The department estimates that sugar cane yield for MY04/05 is 69 MT/HA, and sugar cane output totals 48.2 MMT, 1 MMT lower than the previous year. Industry sources estimate the sugar recovery rate for cane is above 12 percent, higher than the 11.5 percent average over the past several years. In MY04/05, Guangxi's sugar cane planted area was 669,000 HA, according to provincial agricultural bureau. Industry sources, however, believe that the actual sugar cane area is higher than the official estimate.

Sugar cane remains a stable source of income for Guangxi's farmers. Despite the nationwide price hikes for grains since fall of 2003, sugar cane is still a competitive cash crop in Guangxi province as compared to corn and rice. According to the local agricultural department, 90 percent of the sugar cane is planted on hilly land that is not suitable for rice production. The water shortage has been a consistent constraint for all crops in the region. To help the cane farmers, over the past several years, the local government has been investing in infrastructure, such as water conservation projects and irrigation facilities in demonstration fields located in selected counties.

Interviews with farmers and industries sources revealed that sugar cane acreage should continue to rise in MY05/06. Because of the rising price for cane over the past two years, some Guangxi rice farmers will shift irrigated rice paddy land to cane production in MY05/06. Given that this land irrigated, when planted to cane, it can yield up to 165 MT/HA, more than double the province's average yield on non-irrigated land. Local officials estimate that acreage in the province could rise by 500,000 mu (15 Chinese mu = 1 ha), or about 5 percent over the previous year. According to one industry source, if favorable weather

conditions prevail in MY05/06, total sugar output in Guangxi could reach a record high of 6 MMT. Industry sources estimate that the sugar output in Guangxi could range 5.5-5.6 MMT in MY04/05. In MY03/04, its output reached 5.88 MMT, accounting for 58 percent of national total.

The table below shows the purchase price on sugar cane set by provincial governments or provincial sugar associations in southern sugar cane production region. If the sugar price increases during the market year, the sugar mills in some provinces might pay their contracted cane farmers a bonus. Industry sources estimated that average sugar cane price for MY 04/05 would be about RMB15 higher than the previous year. In MY03/04, the average cane price was RMB180/MT.

Purchase Price of Sugar Cane in Major Production Provinces				
RMB/MT (USD1.00 = RMB8.26)				
	Guangxi	Yunnan	Guangdong	Hainan
MY00/01	206	151	200	165
MY01/02	186	139	175	170
MY02/03	160	130	140	150
MY03/04	170	145	175	150
MY04/05	180	150	185	160

## Sugar Beet

Sugar beet area for MY05/06 is forecast at 250,000 HA, 14 percent higher than the MY04/05 estimate of 220,000 HA as a result of farmers' response to increased beet prices. In the previous market year, sugar beet output declined in the major producing provinces of Xinjiang, Heilongjiang and Inner Mongolia because other cash crops, such as soybeans, cotton and tomatoes, were more profitable. Beet production fell far behind the millers' processing capacity in MY03/04 and 04/05. The millers raised the purchase price for beet to make the crop competitive in MY04/05. Industry sources estimate that the average beet price in MY04/05 could be RMB30 higher than the previous year. In MY03/04, the beet price averaged about RMB220/MT. Because of favorable weather conditions, the beet yield in MY04/05 is estimated to be higher than the previous year, which was hurt by excessive rainfall. Industry sources estimate that average beet yield in MY03/04 was 32.4 MT/HA.

In Xinjiang, the largest beet sugar producing province in China, industry sources estimate that some cotton or tomato farmers will shift to sugar beet production in MY05/06 in response to the higher beet price. In MY04/05, the province's sugar output is estimated to account for less than 4 percent of national sugar output.

## Sugar

### Production

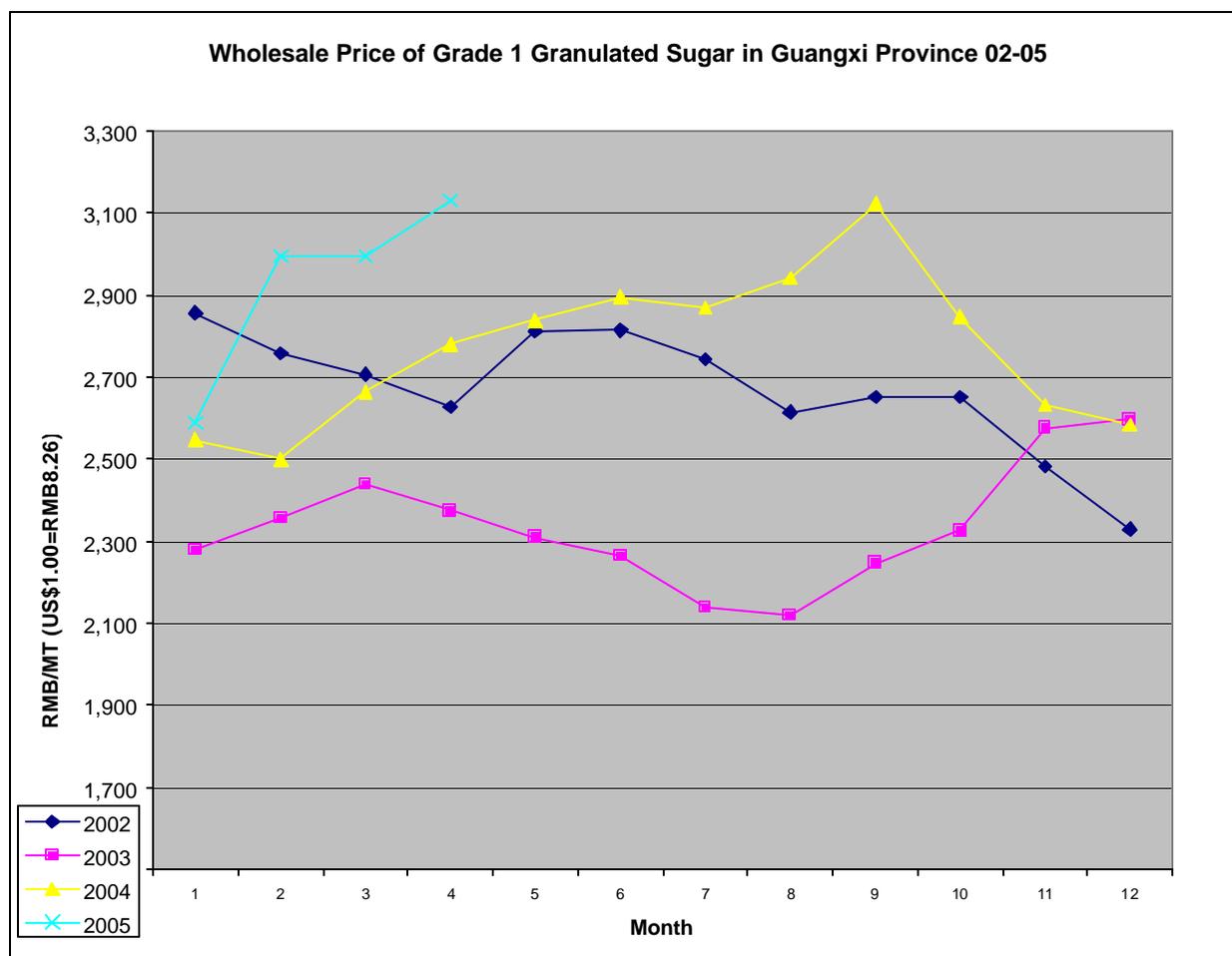
Overall sugar output for MY05/06 is forecast to reach 10.9 MMT (raw value), 8 percent higher than MY04/05. According to industry sources, the MY04/05 crushing season for beets started last September and ended this March. Beet sugar output is estimated at 655,000 MT (raw value), slightly higher than the previous year of 638,000 MT.

Cane sugar output for MY05/06 is forecast at 10.15 MMT (raw value), 7 percent higher than MY04/05. As of this date, the cane-crushing season is ongoing in Guangxi and Yunnan provinces. Because of reduced sugar cane output and sector's growing daily processing capacity, industry sources estimate the MY04/05 crushing season will end in late April. In MY03/04, the crushing season ended by June 18, according to the China Sugar Association.

There are more than 400 mills in 21 provinces. However, according to industry sources, as of the end of CY2003, only 315 sugar mills were actually operating. Among them, the top 20 millers' output account for 67 percent of national total in MY03/04. After the restructuring of the sector since late 1990's, the top five producing provinces including Guangxi, Yunnan, Guangdong, Hainan and Xinjiang account for 96 percent of national total sugar output.

<b>China's Sugar Mills and Refineries in Operation by end of 2003</b>			
Total	Beet Sugar Mills	Cane Sugar Mills	Refineries/1
315	40	266	9
Data: China Sugar Association			
1/ on imported raw sugar			

The Guangxi provincial government has been very successful in improving the sector's efficiency over the past several years. According to the provincial government, the average pre-tax production cost was RMB2,276/MT in MY03/04, while it was RMB3,200/MT in MY00/01. For MY04/05, Industry sources estimate that production cost are more than RMB100/MT higher than the previous year due to higher prices paid for cane and other industrial inputs. Millers, however, will continue to maintain their profit margins because of the higher sugar price.



Source: Guangxi Sugar Exchange Center, [Website: www.chinasugarmarket.com](http://www.chinasugarmarket.com)

## Consumption

The MY05/06 sugar consumption forecast is 12.0 MMT slightly higher than the revised MY04/05 estimate of 11.8 MMT. The food processing, beverage, and pharmaceutical industries consume the majority of sugar. Household table sugar consumption accounts for a relatively small portion of the total. Total overall per capita sugar consumption in MY05/06 is estimated at above 8 Kg. Consumption has been increasing along with rising living standards and incomes and is expected to continue to rise in the foreseeable future. Overall sweetener (including natural and artificial sugar) demand has been growing at more than 5 percent annually over the past several years. Per capital consumption of natural sugar varies each year, depending in part on competition with artificial sweeteners. Industry sources estimate that natural sugar consumption grew less than five percent in MY04/05. Artificial sugar will continue to compete with the natural sugar in China into the foreseeable future. (See **Other Sweeteners Section**)

Regarding table sugar consumption, official data show that rural per capita consumption dropped to 1.24 KG in 2003 from 1.64 KG in 2002. It was 1.28 KG in 2000, 1.43 KG in 2001. In 2002 the government stopped releasing data on urban per capita sugar consumption. It was 1.81 KG in 1999, 1.70 KG in 2000, and 1.67 KG in 2001. The drop in household table sugar consumption is offset by more consumption in restaurant, processed food and beverages.

China's soft drink output in 2004 rose 18.78 percent to 29.1 MMT. Among them, sugar-containing drinks rose 19.3 percent to 17.1 MMT, according to the China Drinks and Beverage Association. Other sugar containing products also grew substantially in 2004.

Sugar Containing products in 2004 (in 1,000 MT)						
Product	Confectionary	Cakes	Biscuits	Dairy Products	Canned Foods	Convenient Staple Food
<b>Total</b>	632	340	1,055	9,492	3,134	3,645
<b>Growth Rate (%)</b>	9.4	20.3	7.8	32.3	17.4	12.0

Source: China Light Industry Association

## Trade

Sugar imports for MY04/05 have been revised upward to 1.4 MMT from the previous estimate of 1.2 MMT. Imports usually start to arrive in China after the crushing season ends and the domestic price starts to increase. The Tariff Rate Quota of 1.95 MMT for CY2004 was not filled. The TRQ for CY2005 is 1.95 MMT with a within-quota-tariff of 15 percent, which is the same as in CY2004. The CY2005 out-of-quota tariff rate is 50 percent, also the same as in CY2004. The amount of the quota and the tariff rate will stay unchanged in the coming years unless any new agreement could be reached during the new Doha Round of talks within World Trade Organization (WTO).

As stipulated in China's WTO accession agreement, 30 percent of the TRQ, or 585,000 MT, is reserved for non-state trade and the remaining 70 percent is assigned to state trading enterprises. Each year, China imports about 450,000 MT of raw sugar (state trade) from Cuba under a longstanding bilateral agreement signed in 1950's. No one knows if or when these imports will end. China's first MY04/05 imports under this agreement should arrive in early April 2005. Industry sources estimate that all the Cuban sugar will arrive China by end of June 2005.

## Stocks

Ending stocks for MY05/06 are forecast at 2.1 MMT. Ending stocks for MY04/05 are estimated at 1.95 MMT (raw value), lower than the previous estimate of 2.52 MMT. Stocks include state reserve and those held by the industrial, commercial, and distribution sectors.

Sugar imported under China's bilateral agreement with Cuba usually enters the state reserve first. Near the end of each marketing year, the government decides on the timing and the amount of the stocks to be auctioned, in an effort to dampen wide market price swings. For instance, between July and September 2004, the government held four auctions of state reserve sugar, at which a total of 536,000 MT of granulated white sugar were sold. These sales were intended to dampen further price increases.

## Other Sweeteners

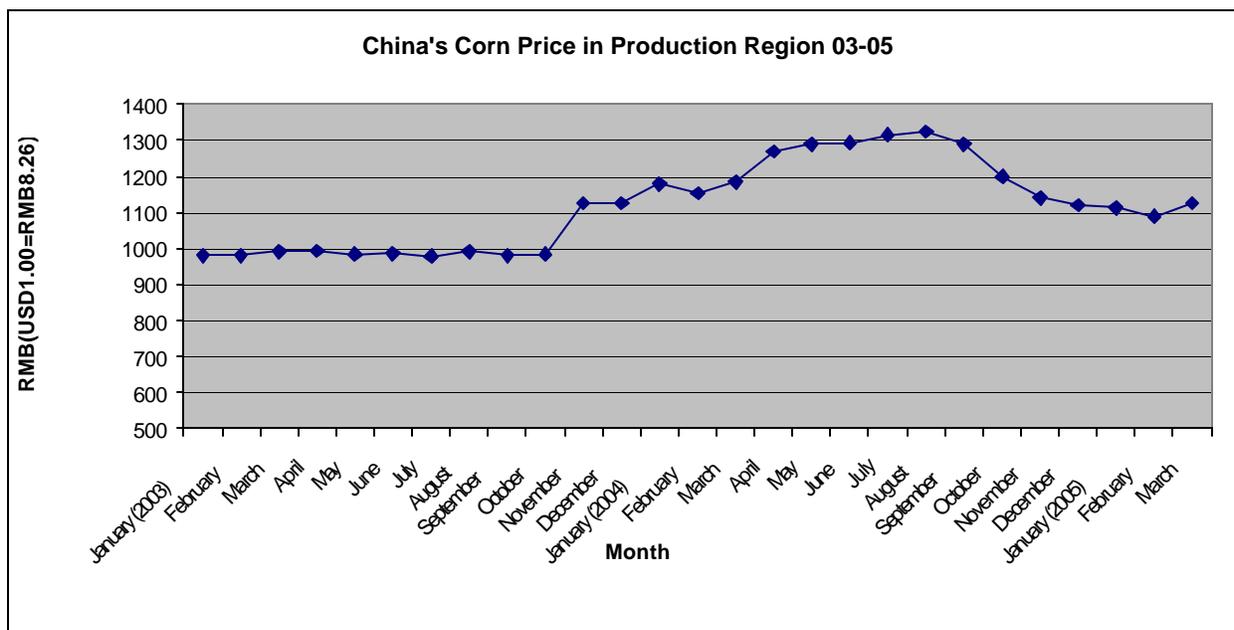
### Saccharine

Saccharine, which is five hundred times sweeter than sugar, is viewed as the major competitor to sugar in China. Since 2002, the Chinese government has tightened control on the sale of saccharine in China. However, it still produces and exports far more than it consumes domestically. In 2004 China, for example, produced 22,553 MT of saccharine, of which 17,899 MT were exported and 4,641 MT sold in China. In 2003 domestic sales were 3,862 MT. According to China Sugar Association, the government's 2005 saccharine domestic sales target is set at 3,500 MT, which is the same target as that in 2004. During

the past two years, due to hikes in sugar prices, artificial sugar becomes more profitable, therefore more difficult to control the domestic sale of saccharine. The actual domestic sale of saccharine was always higher than the government-set limit. In 2005, industry sources estimate that the actual sale of saccharine will continue be higher than government target.

**Starched-based Sweeteners**

Official data on starch-based sweeteners are not available. Industry sources, however, estimate that production of starch-based sweeteners in 2004 grew more than 20 percent to 3.47 MMT. China's corn production in 2004 reached a near record high of approximately 130 MMT, therefore, the price of the corn-based starch has been relatively stable as compared with the sugar price. In MY04/05, corn-based sweeteners will continue to be competitive in the food-processing sector. The use of corn-based sweeteners in 2004 was equivalent to about 2.4 MMT of cane sugar.



## Tables

## Production, Supply, and Demand (PSD) Tables

Table 1. Centrifugal Sugar

PSD Table						
Country	China, Peoples Republic of					
Commodity	Sugar, Centrifugal				(1000 MT)	
	2004	Revised	2005	Estimate	2006	Forecast
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin		10/2003		10/2004		10/2005
Beginning Stocks	2021	2021	2311	2323	2521	1948
Beet Sugar Production	638	638	680	655	0	760
Cane Sugar Production	10092	10096	10560	9420	0	10150
TOTAL Sugar Production	10730	10734	11240	10075	0	10910
Raw Imports	1000	1031	950	1150	0	1050
Refined Imp.(Raw Val)	220	204	250	250	0	250
TOTAL Imports	1220	1235	1200	1400	0	1300
<b>TOTAL SUPPLY</b>	<b>13971</b>	<b>13990</b>	<b>14751</b>	<b>13798</b>	<b>2521</b>	<b>14158</b>
Raw Exports	10	10	10	10	0	10
Refined Exp. (Raw Val)	50	57	40	40	0	40
TOTAL EXPORTS	60	67	50	50	0	50
Human Dom.	11600	11600	12180	11800	0	12000
Other Disappearance	0	0	0	0	0	0
Total Disappearance	11600	11600	12180	11800	0	12000
Ending Stocks	2311	2323	2521	1948	0	2108
<b>TOTAL DISTRIBUTION</b>	<b>13971</b>	<b>13990</b>	<b>14751</b>	<b>13798</b>	<b>0</b>	<b>14158</b>

Table 2. Sugar Cane

PSD Table						
Country	China, Peoples Republic of					
Commodity	Sugar Cane for Centrifugal				(1000 HA)(1000 MT)	
	2004	Revised	2005	Estimate	2006	Forecast
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
<b>Market Year Begin</b>		10/2003		10/2004		10/2005
Area Planted	1406	1409	1450	1450	0	1520
Area Harvested	1406	1409	1450	1450	0	1520
Production	84825	90235	93800	89480	0	96500
<b>TOTAL SUPPLY</b>	<b>84825</b>	<b>90235</b>	<b>93800</b>	<b>89480</b>	<b>0</b>	<b>96500</b>
Utilization for Sugar	84825	90235	93800	89480	0	96500
Utilization for Alcohol	0	0	0	0	0	0
<b>TOTAL UTILIZATION</b>	<b>84825</b>	<b>90235</b>	<b>93800</b>	<b>89480</b>	<b>0</b>	<b>96500</b>

Table 3. Sugar Beet

PSD Table						
Country	China, Peoples Republic of					
Commodity	Sugar Beets				(1000 HA)(1000 MT)	
	2004	Revised	2005	Estimate	2006	Forecast
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
<b>Market Year Begin</b>		10/2003		10/2004		10/2005
Area Planted	413	248	220	220	0	250
Area Harvested	413	248	220	220	0	250
Production	11090	6182	6800	5800	0	7200
<b>TOTAL SUPPLY</b>	<b>11090</b>	<b>6182</b>	<b>6800</b>	<b>5800</b>	<b>0</b>	<b>7200</b>
Utilization for Sugar	11090	6182	6800	5800	0	7200
Utilization for Alcohol	0	0	0	0	0	0
<b>TOTAL UTILIZATION</b>	<b>11090</b>	<b>6182</b>	<b>6800</b>	<b>5800</b>	<b>0</b>	<b>7200</b>

## Price Table

Table 4. Wholesale Price of Grade 1 Granulated Sugar in Guangxi Province

RMB/MT (USD1.00 = RMB8.26)				
	2002	2003	2004	2005
January	2,858	2,280	2,548	2,590
February	2,759	2,358	2,502	2,996
March	2,707	2,439	2,666	3,132
April	2,628	2,376	2,781	
May	2,813	2,310	2,839	
June	2,815	2,265	2,896	
July	2,744	2,140	2,870	
August	2,616	2,120	2,943	
September	2,652	2,247	3,123	
October	2,653	2,328	2,847	
November	2,483	2,577	2,633	
December	2,331	2,598	2,585	
Yearly Average	2,671	2,337	2,769	
Source: Guangxi Sugar Exchange Center Website: <a href="http://www.chinasugarmarket.com">www.chinasugarmarket.com</a>				

## Trade Tables

Table 5. China's Sugar Imports by Origin - MY 2003/2004 (In MT)

Country	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sept	MY Total
<b>World</b>	128,279	179,962	474,103	404,116	1,186,460
<b>Cuba</b>	0	59,500	271,112	131,763	462,375
<b>Thailand</b>	49,552	46,321	75,278	67,617	238,769
<b>Guatemala</b>	0	506	38,030	74,983	113,519
<b>Korea, South</b>	38,622	27,502	34,280	33,302	133,706
<b>Philippines</b>	0	0	28,750	0	28,750
<b>Australia</b>	38,486	18,467	18,279	59,366	134,598
<b>Colombia</b>	0	0	4,942	1,633	6,575
<b>United Kingdom</b>	889	1,599	1,992	2,808	7,287
<b>Netherlands</b>	409	473	753	575	2,209
<b>Japan</b>	252	365	262	200	1,078
<b>Saudi Arabia</b>	0	0	125	0	125
<b>China</b>	0	0	100	373	473
<b>Hong Kong</b>	29	129	70	41	269
<b>Brazil</b>	0	25	50	25	100
<b>Others</b>	41	25,075	82	31,429	56,627
<b>Source: China Customs</b>					

Table 6. China's Sugar Imports by Origin - MY 2004/2005 (In MT)

Country	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sept	MY Total
World	156,716				156,716
Cuba	0				0
Thailand	76,228				76,228
Guatemala	834				834
Korea, South	38,933				38,933
Philippines	0				0
Australia	35,104				35,104
Colombia	0				0
United Kingdom	4,747				4,747
Netherlands	258				258
Japan	227				227
Saudi Arabia	0				0
China	0				0
Hong Kong	95				95
Brazil	0				0
Others	291				291
Source: China Customs					

Table 7. China's Sugar Exports by Destination - MY 2003/2004 (In MT)

Country	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sept	MY Total
<b>World</b>	13,895	15,888	18,008	14,466	62,258
<b>Indonesia</b>	3	8	2,000	4	2,015
<b>Hong Kong</b>	8,450	6,801	9,181	7,252	31,683
<b>Mongolia</b>	803	4,305	1,833	4,670	11,611
<b>Singapore</b>	143	47	88	223	501
<b>Korea, North</b>	24	4	6	24	58
<b>Malaysia</b>	212	251	298	133	895
<b>Japan</b>	1,587	2,220	2,534	680	7,020
<b>Kazakhstan</b>	210	665	602	788	2,265
<b>Macau</b>	338	311	289	216	1,154
<b>United States</b>	647	273	210	131	1,261
<b>Yemen</b>	0	42	40	40	122
<b>Canada</b>	269	119	154	70	613
<b>United Arab Emirates</b>	21	73	35	18	147
<b>United Kingdom</b>	83	37	99	57	276
<b>Others</b>	1,105	733	639	161	2,639
<b>Source: China Customs</b>					

Table 8. China's Sugar Exports by Destination - MY 2004/2005 (In MT)

Country	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sept	MY Total
World	36,761				36,761
Indonesia	16,004				16,004
Hong Kong	9,169				9,169
Mongolia	3,884				3,884
Singapore	1,776				1,776
Korea, North	1,728				1,728
Malaysia	1,504				1,504
Japan	811				811
Kazakhstan	706				706
Macau	247				247
United States	215				215
Yemen	157				157
Canada	143				143
United Arab Emirates	112				112
United Kingdom	53				53
Others	252				252
Source: China Customs					