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China, Peoples Republic of

Sugar

Annual

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Report Highlights:
The MY06/07 sugar output is forecast at 11.1 MMT (raw value), up 15 percent from the estimate for MY 05/06. Responding to higher sugar prices, cane and beet acreage are forecast to increase by 7 percent over MY05/06. The MY05/06 sugar import estimate is revised to 1.4 MMT from FAS Beijing's previous estimate of 1.3 MMT. The wholesale sugar price rose by 50 percent year on year in the beginning of MY05/06 due to an expected reduction in sugar output. The persistent drought in the major cane growing region was the main reason for a 2 percent reduction in sugar production in MY05/06. To curb the price from rising further, the government released 200,000 MT of sugar from state reserves in January 2006 and is planning to release another 400,000 MT of sugar in April. Due to high prices for natural sugar, more starch based sweetener is being used by the food and beverage sectors as a replacement for sugar. The consumption of natural sugar in MY05/06 is estimated to be lower than the previous year.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
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Executive Summary

Overall sugar output for MY06/07 is forecast at 11.1 MMT (raw value), up 15 percent from the estimate for MY 05/06. Responding to higher sugar prices, cane and beet acreage are forecast to increase by 7 percent over MY05/06. The MY05/06 sugar import estimate has been revised to 1.4 MMT from FAS Beijing's previous estimate of 1.3 MMT. The wholesale sugar price rose by 50 percent year on year in the beginning of MY05/06 due to an expected reduction in sugar output. The persistent drought in the major cane growing region was the main reason for a 2 percent reduction in sugar production in MY05/06. To curb the price from rising further, the government released 200,000 MT of sugar from state reserves in January 2006 and is planning to release another 400,000 MT of sugar in April. Due to high prices for natural sugar, more starch based sweetener is being used by the food and beverage sectors as a replacement for sugar. The consumption of natural sugar in MY05/06 is estimated to be lower than the previous year. The consumption of sugar in MY06/07 is forecast to be flat, due to competition by starch based sweeteners.

The government's control on the sale of artificial sweeteners will be necessary to sustain the market for natural sugar consumption in MY06/07. 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 estimated the domestic sales of saccharine in 2005 were 3,683 tons, while the government's set limit is 3,500 tons annually. The sale of saccharine in 2005 was equivalent to 2.5 MMT of natural sugar, or nearly 20 percent of the national natural sugar consumption.

Sugar Cane

Sugar cane area for MY06/07 is forecast at 1.55 million HA, which is 5 percent more than MY05/06. Sugar cane area accounts for about 85 percent of the total sugar crop area in MY05/06. 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 MY05/06, the dry weather in Guangxi reduced yields by one percent from the previous year, according to the provincial agricultural department. The department estimates that sugar cane yield for MY05/06 is 65 MT/HA, and sugar cane output totals 46 MMT, 2 MMT lower than the previous year. Industry sources estimate the sugar recovery rate for cane is 12 percent, slightly higher than the 11.5 percent average over the past several years. In MY05/06, Guangxi's sugar cane planted area was 720,000 HA, according to the provincial agricultural bureau. Industry sources, however, believe that the actual sugar cane area is higher than the official estimate, because the official survey does not cover some of cane that is planted on marginal land.

Sugar cane remains a stable source of income for Guangxi's farmers. Sugar cane is a competitive cash crop in Guangxi province as compared to corn and rice. To encourage farmers to plant more cane, the millers raised the purchase price for sugar cane for the 2005 planting season.

Interviews with farmers and industries sources revealed that sugar cane acreage should continue to rise in MY06/07. Because of the rising price for cane over the past two years, farmers stated they intended to cultivate more marginal land for cane planting in MY06/07. Local officials estimate that acreage in the province could increase by 20,000 HA, or about 3 percent over the previous year.

Despite a rise of 5 percent in acreage in MY05/06, the persistent drought in the early stage of the growth period hurt the crop in the region, industry sources estimate that the sugar output in Guangxi will reach 5.3 MMT in MY05/06, slightly less than the previous year. In MY04/05 output reached 5.32 MMT, accounting for 58 percent of China's total output.

At the beginning of each marketing year, provincial governments in the southern sugar cane production region announce a pre-set purchase price on cane. The table below shows the historical pre-set purchase price in Guangxi and other provinces. If the sugar price increases during the marketing year, the sugar mills in some provinces might pay their contracted cane farmers a bonus. Industry sources estimated that the average sugar cane price for MY06/07 would be about RMB20 higher than the previous year. In MY05/06, the average cane price was $ 22.3/MT (RMB180/MT). As the sugar price rose to record highs in MY05/06, the miller will pay its contracted cane farmers more. In Guangxi, for example, the cane farmers' final receipt on sugar cane is estimated at $36/MT (RMB290/ton) in MY05/06.

Purchase Price of Sugar Cane in Major Production Provinces				
RMB/MT (USD1.00 = RMB8.26)				
	Guangxi	Yunnan	Guangdong	Hainan
MY01/02	186	139	175	170
MY02/03	160	130	140	150
MY03/04	170	145	175	150
MY04/05	180	150	185	160
MY05/06	210	170	200	175

Sugar Beet

Sugar beet area for MY06/07 is forecast at 300,000 HA, 20 percent higher than the MY05/06 estimate of 250,000 HA as a result of farmers' response to increased beet prices. In the previous marketing years, 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 beets to make the crop competitive in MY05/06. Industry sources estimate that the average beet price in MY05/06 is RMB30 higher than the previous year. In MY04/05, the beet price averaged about $31/ton (RMB250/MT). Because of favorable weather conditions, the beet yield in Xinjiang and Heilongjiang provinces in MY05/06 is estimated to be 10 percent higher than the previous year. The average beet yield in MY04/05 was 31 MT/HA.

In Xinjiang, the largest sugar beet producing province in China, some cotton or tomato farmers shifted to sugar beet production in MY05/06 in response to the higher beet price. In MY05/06, the province's sugar output is estimated to account for 5 percent of national sugar output.

Sugar

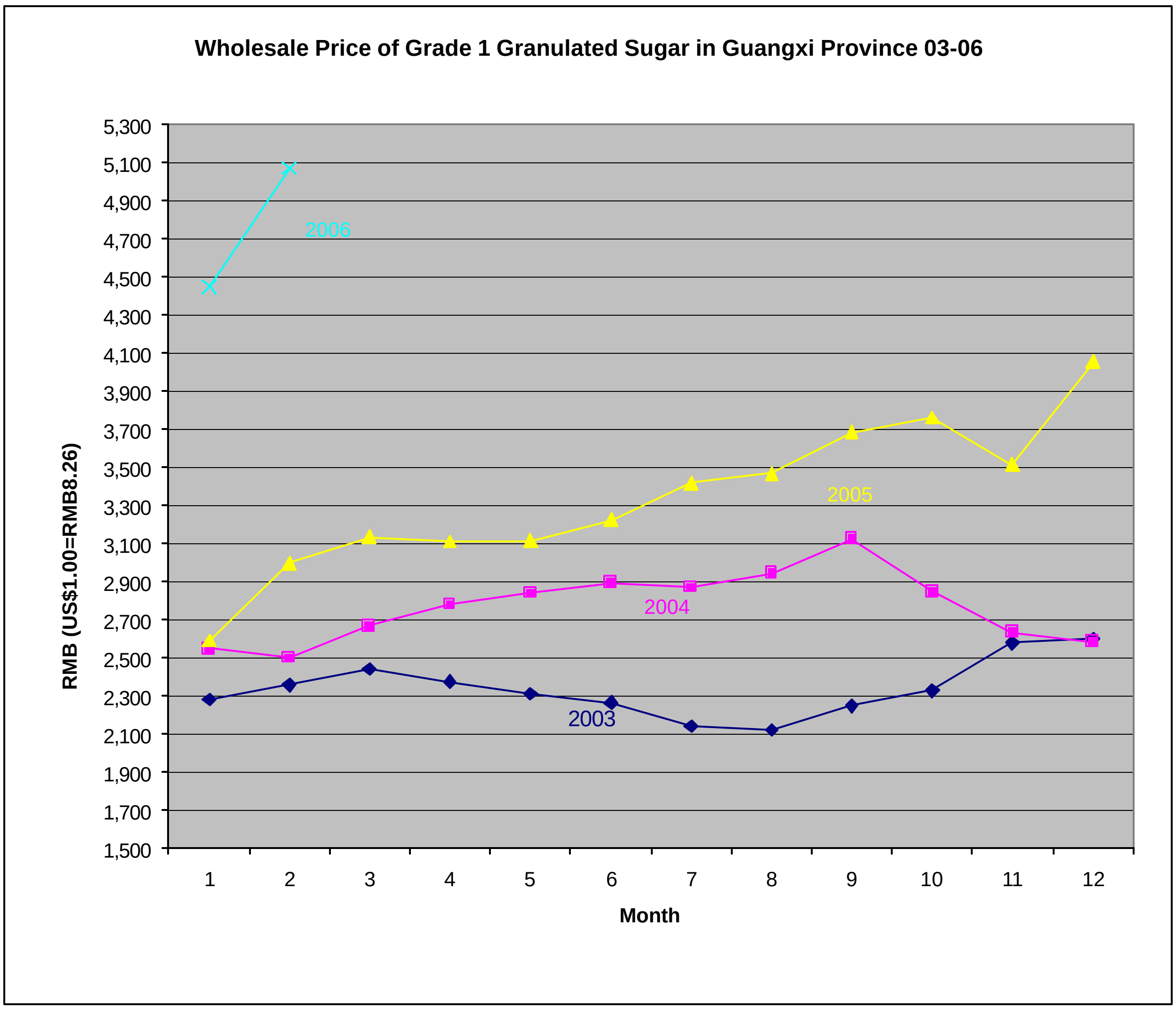
Production

Overall sugar output for MY06/07 is forecast to reach 11.1 MMT (raw value), 11 percent higher than MY05/06. According to industry sources, the MY05/06 crushing season for beets started last September and ended this March. Beet sugar output is estimated at 900,000 MT (raw value), 37 percent higher than the previous year of 655,000 MT.

Cane sugar output for MY06/07 is forecast at 10 MMT (raw value), 15 percent higher than MY05/06. As of this date, the cane-crushing season is ongoing in Guangxi and Yunnan provinces. Because of reduced sugar cane output and the sector's growing daily processing capacity, industry sources estimate the MY05/06 crushing season will end in late April.

There are more than 400 mills in 21 provinces. However, according to China Sugar Association, as of the end of CY2005, only 305 sugar mills were actually operating. Among them, the top 20 millers' output account for 70 percent of national total in MY04/05. 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.

For MY05/06, industry sources estimate that production costs are about $124/ton (RMB1,000/MT) higher than the previous year due to higher prices paid for cane and other inputs. The production cost for sugar in Guangxi is estimated at over $471/ton (RMB3,800/ton) in MY05/06 while it was $347/ton (RMB2,800/ton) in MY04/05. 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 MY06/07 sugar consumption forecast is 11.2 MMT (raw value), unchanged from the previous year. Because of competition from starch based sweeteners, FAS Beijing revised the estimate for consumption down to 11.2 MMT (raw value) in MY05/06 from the previous estimate of 11.7 MMT. The food processing, beverage and pharmaceutical industries are the largest consumers of sugar. Household table sugar consumption accounts for a relatively small portion of the total. Total overall per capita natural sugar consumption in MY06/07 is estimated at about 8 Kg, unchanged from the previous year.

Despite the growth of the food processing and beverage sectors in recent years, growth in cane and beet sugar consumption in MY05/06 is estimated to be slightly lower than the previous year. The MY06/07 growth is forecast to be flat. Because of the comparative low production cost, starch based sweeteners are price competitive over cane and beet sugar in recent years. (See "**Other Sweeteners"** section)

China's soft drink output rose 24 percent year-on-year to 33.8 MMT in 2005. Among the soft drinks, sugar-containing drinks rose 24 percent to 19.9 MMT, according to the China Drinks and Beverage Association. Industry sources report that the beverage and food processing sectors have turned to using a higher portion of starch-based sweetener instead of sugar in recent years because the former is cheaper to produce.

Regarding table sugar consumption, official data show that rural per capita consumption dropped to 1.11 KG in 2004 from 1.24 KG in 2003. 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 food, processed food, and beverages.

Sugar Containing products in 2005 (in 1,000 MT)

Product	Confectionary	Cakes	Biscuits	Dairy Products	Canned Foods
Total	714	401	1,305	12,150	3,636
Growth Rate (%)	13	18.3	23.7	28	16.3

Source: China Light Industry Association

Trade

Sugar imports for MY05/06 have been revised upward to 1.4 MMT from the previous estimate of 1.3 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 CY2005 was not filled. The TRQ for CY2006 is 1.95 MMT with a within-quota-tariff of 15 percent, which is the same as in CY2005. The CY2006 out-of-quota tariff rate is 50 percent, also unchanged from CY2005. The amount of the quota and the tariff rate will remain unchanged in the coming years unless a new agreement is reached during the Doha Round of the 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 trading enterprises 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. In 2006 China's first imports under this agreement are expected to arrive in early April. Industry sources estimate that all the Cuban sugar will arrive China by end of July 2006.

Stocks

Ending stocks for MY06/07 are forecast at 2 MMT (raw value). Ending stocks for MY05/06 are estimated at 1.4 MMT (raw value), lower than the previous estimate of 1.6 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, in an effort to dampen wide market price swings, the government decides on the timing and the amount of the stocks to be auctioned. In January 2006, for example, the government auctioned about 200,000 MT of sugar from the state reserve when the market price rose by 50 percent year-on-year as a result of reduction in domestic output. In March, the government decided to release another 400,000 MT of sugar in April to keep the price from rising further. The amount for the two auctions totaled 600,000 MT. The stock level in MY05/06 is estimated to be lower than that in MY03/04 and MY04/05. Government and industry officials, however, are not concerned by the decline in stocks, because the stock level is expected to be replenished in MY06/07 by a forecast rise in domestic production.

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 2005, for example, China produced 19,330 MT of saccharine, of which 15,557 MT were exported and 3,683 MT sold in China. In 2004 domestic sales were 4,641 MT. According to the China Sugar Association, the government's 2006 saccharine domestic sales target is set at 3,500 MT, which is the same target set in previous years. During the past two years, due to hikes in sugar prices, artificial sugar has become more profitable, therefore more difficult to control in domestic market. The actual domestic sale of saccharine has always been higher than the government-set limit, however. In 2006, industry sources estimate that the actual sale of saccharine will continue be higher than the government target.

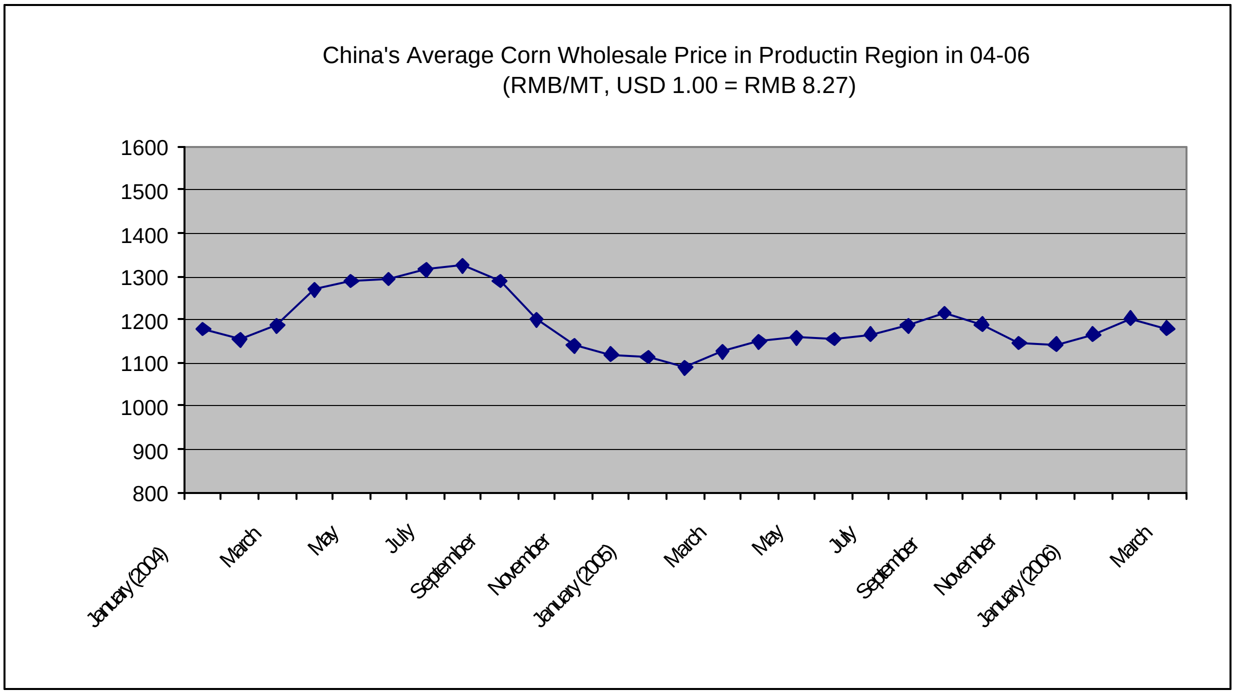
Starched-based Sweeteners

Official data on starch-based sweeteners are not available. Industry sources estimate that production of starch-based sweeteners in 2005 grew more than 20 percent to 4.3 MMT. China's corn production in 2005 reached a record high of approximately 134 MMT, therefore, the price of the corn-based starch has been relatively stable when compared with sugar prices. In MY06/07, corn-based sweeteners will continue to be competitive in the food-processing sector. The use of corn-based sweeteners in 2005 was equivalent to about 3 MMT of cane sugar.

An industry survey showed that the sector's production capacity totaled 6 MMT in 2005. In MY06/07, the starch sweetener production is forecast to rise over 20 percent to reach 5 MMT.

Market Opportunity

Chinese Sugar Industry Technology & Development Conference and 2006 Kunming International Exhibition on Hi-Tech and New Equipment for Sugar Industry will be held in Kunming, Yunnan province on April 19-20, 2006. China Sugar Association and other 11 provincial sugar associations jointly sponsor the event.


China's Average Corn Wholesale Price in Productin Region in 04-06
(RMB/MT, USD 1.00 = RMB 8.27)
1600
1500
1400
1300
1200
1100
1000
900
800
January (2004)
March
May
July
September
November
January (2005)
March
May
July
September
November
January (2006)
March

Tables

Production, Supply, and Demand (PSD) Tables

Table 1. Centrifugal Sugar

PSD Table						
Country	China, Peoples Republic of					
Commodity	Sugar, Centrifugal				(1000 MT)	
	2005	Revised	2006	Estimate	2007	Forecast
	USDA Official [Old]	Post Estimate[New]	USDA Official [Old]	Post Estimate[New]	USDA Official [Old]	Post Estimate[New]
Market Year Begin		10/2004		10/2005		10/2006
Beginning Stocks	2323	2323	1617	1757	1607	1407
Beet Sugar Production	655	655	850	900	0	1100
Cane Sugar Production	9171	9171	9650	8700	0	10005
TOTAL Sugar Production	9826	9826	10500	9600	0	11105
Raw Imports	1050	1172	1050	1050	0	900
Refined Imp.(Raw Val)	200	188	250	350	0	200
TOTAL Imports	1250	1360	1300	1400	0	1100
TOTAL SUPPLY	**13399**	**13509**	**13417**	**12757**	**1607**	**13612**
Raw Exports	12	12	10	10	0	10
Refined Exp.(Raw Val)	170	340	100	140	0	400
TOTAL EXPORTS	182	352	110	150	0	410
Human Dom. Consumption	11600	11400	11700	11200	0	11200
Other Disappearance	0	0	0	0	0	0
Total Disappearance	11600	11400	11700	11200	0	11200
Ending Stocks	1617	1757	1607	1407	0	2002
TOTAL DISTRIBUTION	**13399**	**13509**	**13417**	**12757**	**0**	**13612**

Table 2. Sugar Cane

PSD Table						
Country	**China, Peoples Republic of**					
Commodity	**Sugar Cane for Centrifugal**			(1000 HA)(1000 MT)		
	2005	Revised	2006	Estimate	2007	Forecast
	USDA Official [Old]	Post Estimate[New]	USDA Official [Old]	Post Estimate[New]	USDA Official [Old]	Post Estimate[New]
Market Year Begin		10/2004		10/2005		10/2006
Area Planted	1378	1378	1520	1480	0	1550
Area Harvested	1378	1378	1520	1480	0	1550
Production	89849	89849	96500	88500	0	96000
TOTAL SUPPLY	**89849**	**89849**	**96500**	**88500**	**0**	**96000**
Utilization for Sugar	89849	89849	96500	88500	0	96000
Utilization for Alcohol	0	0	0	0	0	0
TOTAL UTILIZATION	**89849**	**89849**	**96500**	**88500**	**0**	**96000**

Table 3. Sugar Beet

PSD Table						
Country	**China, Peoples Republic of**					
Commodity	**Sugar Beets**			(1000 HA)(1000 MT)		
	2005	Revised	2006	Estimate	2007	Forecast
	USDA Official [Old]	Post Estimate[New]	USDA Official [Old]	Post Estimate[New]	USDA Official [Old]	Post Estimate[New]
Market Year Begin		10/2004		10/2005		10/2006
Area Planted	190	190	250	250	0	300
Area Harvested	190	190	250	250	0	300
Production	5857	5857	7500	8100	0	9200
TOTAL SUPPLY	**5857**	**5857**	**7500**	**8100**	**0**	**9200**
Utilization for Sugar	5857	5857	7500	8100	0	9200
Utilization for Alcohol	0	0	0	0	0	0
TOTAL UTILIZATION	**5857**	**5857**	**7500**	**8100**	**0**	**9200**

Price Table

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

Wholesale Price of Grade 1 Granulated Sugar in Guangxi Province				
RMB/MT (US$1.00=RMB8.26)				
Month	**2003**	**2004**	**2005**	**2006**
January	2,280	2,548	2,590	4,449
February	2,358	2,502	2,996	5,071
March	2,439	2,666	3,132	
April	2,376	2,781	3,109	
May	2,310	2,839	3,115	
June	2,265	2,896	3,224	
July	2,140	2,870	3,417	
August	2,120	2,943	3,467	
September	2,247	3,123	3,684	
October	2,328	2,847	3,760	
November	2,577	2,633	3,514	
December	2,598	2,585	4,055	
Yearly Average	2,337	2,769	3,339	
Source: Guangxi Sugar Exchange Center				
Website: www.chinasugarmarket.com				

Trade Tables

Table 5. 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	33,377	545,916	569,532	1,305,541
Cuba	0	0	253,163	112,718	365,881
Australia	35,104	171	99,998	136,806	272,079
Thailand	76,228	1,862	9,666	138,415	226,171
Guatemala	834	360	110,381	91,518	203,093
Korea, South	38,933	26,303	33,601	37,644	136,481
Honduras	0	0	30,000	0	30,000
South Africa	0	0	0	24,400	24,400
United Kingdom	4,747	3,970	5,508	5,666	19,890
Nicaragua	0	0	0	19,508	19,508
Netherlands	258	344	1,097	902	2,601
France	1	2	1,726	578	2,306
Germany	112	9	126	992	1,239
Japan	227	178	413	179	997
Malaysia	168	0	42	3	213
Others	105	179	196	203	683
Source: China Customs					

Table 6. China's Sugar Imports by Origin - MY 2005/2006 (In MT)

Country	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sept	MY Total
World	242,459				242,459
Guatemala	64,556				64,556
Korea, South	44,234				44,234
Cuba	34,119				34,119
Nicaragua	33,999				33,999
El Salvador	31,513				31,513
Thailand	12,243				12,243
United Kingdom	10,651				10,651
Australia	6,012				6,012
France	3,450				3,450
Germany	699				699
India	300				300
Japan	186				186
China	167				167
Brazil	148				148
Others	182				182
Source: China Customs					

Table 7. 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	34,089	47,482	206,214	324,546
Pakistan	0	0	16,576	185,434	202,010
Hong Kong	9,169	8,354	8,018	9,179	34,721
Indonesia	16,004	2,855	6,004	12	24,875
Mongolia	3,884	2,999	5,428	6,291	18,602
Singapore	1,776	4,470	4,603	1,955	12,803
Japan	811	3,983	3,689	784	9,268
Kazakhstan	706	596	1,370	844	3,515
Malaysia	1,504	232	182	131	2,048
Korea, North	1,728	227	19	62	2,035
Macau	247	300	286	457	1,291
United States	215	183	93	105	596
Canada	143	167	149	73	531
Egypt	52	117	287	34	490
Others	521	9,606	778	854	11,760

Table 8. China's Sugar Exports by Destination - MY 2005/2006 (In MT)

Country	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sept	MY Total
World	70,483				70,483
Pakistan	27,753				27,753
Indonesia	22,000				22,000
Hong Kong	10,242				10,242
Mongolia	4,800				4,800
Singapore	3,471				3,471
Japan	637				637
Macau	360				360
Kazakhstan	244				244
Canada	162				162
Malaysia	126				126
Angola	100				100
Egypt	100				100
United States	84				84
Korea, North	76				76
Others	330				330