



USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.09

Required Report - public distribution

Date: 9/29/2006

GAIN Report Number: CH6081

China, Peoples Republic of

Sugar

Semi-Annual

2006

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Report Highlights:

Total Chinese sugar output for marketing year 2006/07 is forecast to reach 11.15 million metric tons (MMT), 12 percent higher than the previous year. Higher sugar prices led to increased acreage for sugar cane and beet and expanded sugar production. To prevent the price from rising further, the government released 1.2 MMT of sugar from state reserves in the first nine months in 2006. Industry sources estimate that starch sweetener use in the food processing and beverage sector will grow by 20 percent in 2006, reaching 3.5 MMT of sugar equivalent.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
Semi-Annual Report
Beijing [CH1]
[CH]

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Executive Summary

Total Chinese centrifugal sugar output is forecast to increase 12 percent to 11.15 MMT (raw value) in marketing year (MY) 2006/07. Higher sugar prices will result in an acreage increase of about 10 percent for sugarcane and 19 percent for sugar beet. The MY 2006/07 production forecast is slightly higher than the previous forecast due to better than expected yields. To prevent the price from rising further, the government released 1.2 MMT of sugar from state reserves in the first nine months in 2006. Starch sugars and artificial sweeteners remain price-competitive due high natural sugar prices. Industry sources estimate that starch sweetener use in the food processing and beverage sector will grow by 20 percent in 2006, to reach 3.5 MMT of sugar equivalent. The consumption of natural sugar in MY 2005/06 is estimated to be lower than the previous year, which is in line with a slow downward trend in home sugar usage and rising industrial use of other sweeteners.

Sugar Cane

Sugarcane harvested area for MY 06/07 is forecast at 1.5 million hectares (Ha), 11 percent higher than MY 05/06. According to the preliminary data from the Chinese National Statistics Bureau (NSB), sugar cane acreage in calendar year 2005 reached 1.35 million Ha. Moreover, sugar cane area accounted for 87 percent of the total crop area in MY 05/06. Guangxi remains the dominant sugar cane producing province, followed by Yunnan, Guangdong, and Hainan provinces. Guangxi's output accounts for more than half of China's sugar cane production. According to Guangxi's provincial sugar association, sugar cane acreage in the province is forecast to rise seven percent, to 780,000 Ha, in MY06/07. Weather patterns in MY 06/07 have been favorable for sugarcane in Guangxi, Yunnan and other southern provinces. In recent marketing years, cane yields in southern China were damaged by consistent drought during the growing period. The cane yield in Guangxi has averaged 63 MT/Ha in recent years.

Sugar cane remains a stable source of income for Guangxi's farmers. Sugar cane is a cash crop in Guangxi province and competes for acreage with corn and rice. To encourage farmers to plant more cane, millers raised the purchase price for sugar cane in 2006.

At the beginning of each marketing year, provincial governments in the southern sugar cane production regions announce a pre-set purchase price for 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, sugar mills sometimes pay their contracted cane farmers a bonus. In MY 05/06, the average cane price was \$22.30/MT (RMB180/MT). As the sugar price rose to record highs in MY 05/06, millers in Guangxi paid an estimated \$36/MT (RMB 290/MT). Provincial governments have not announced the pre-set purchase price for cane in MY 06/07. Industry sources estimate that the average sugar cane price will be about RMB 20 higher than the last year's pre-set price.

Purchase Price of Sugar Cane in Major Production Provinces				
RMB/MT (USD1.00 = RMB8.26)				
	Guangxi	Yunnan	Guangdong	Hainan
MY 01/02	186	139	175	170
MY 02/03	160	130	140	150
MY 03/04	170	145	175	150
MY 04/05	180	150	185	160
MY 05/06	210	170	200	175

Sugar Beet

Sugar beet planted area for MY 06/07 is forecast at 250,000 Ha, 20 percent higher than MY 05/06. 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. Sugar beet millers raised the purchase price to make beets more competitive in MY 05/06. For example, the purchase price for beets in Xinjiang province was raised by RMB 20, to RMB 260/MT. Due to favorable weather conditions, provincial agricultural departments forecast beet yield to be five percent higher than the previous year in Xinjiang and Heilongjiang provinces in MY 06/07. The average beet yield in MY05/06 was 30 MT/Ha.

Sugar

Production

Overall sugar output for MY 06/07 is forecast to reach 11.15 MMT (raw value), 12 percent higher than MY 05/06. Cane sugar output for MY 06/07 is forecast at 10 MMT, unchanged from post's April forecast but 16 percent higher than MY 05/06. Beet sugar output in MY 05/06 is estimated at 1.15 MMT in MY 06/06 compared to 877,000 MT in MY 06/07.

According to the China Sugar Association, as of the end of CY 2005, 304 sugar mills were in operation. Among that number, 28 millers had output exceeding 100,000 MT. The sugar output by these 28 mills accounted for 70 percent of national sugar output. Since the restructuring of the sector in the late 1990's, the top five producing provinces are: Guangxi, Yunnan, Guangdong, Hainan and Xinjiang. These five provinces accounted for 96 percent of national total sugar output in MY05/06.

Consumption

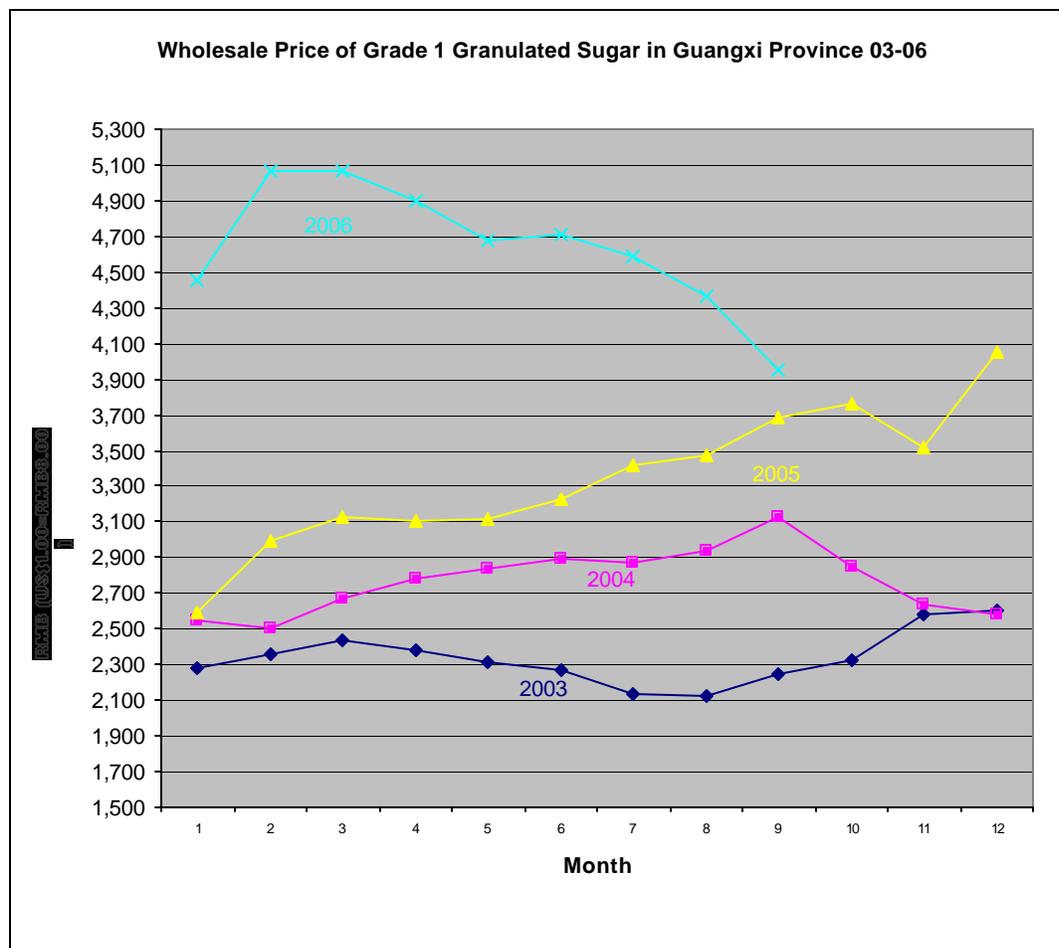
The MY 06/07 sugar consumption forecast is 11.4 MMT (raw value), slightly higher than MY 05/06. Total per capita natural sugar consumption in MY 06/07 is estimated at about 8 Kg, unchanged from the previous year. The food processing, beverage and pharmaceutical industries are the largest consumers of sugar, while household table sugar consumption accounts for a relatively small portion of the total. Official data shows that rural per capita table sugar consumption dropped to 1.11 Kg in 2004 from 1.24 Kg in 2003. Though the government stopped releasing data on urban per capita sugar consumption in 2001, it was also steadily dropping. The drop in household table sugar consumption is caused by more consumption in restaurants and of 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

Despite the growth of the food processing and beverage sectors in recent years, growth in cane and beet sugar consumption in MY 05/06 is estimated to be slightly lower than the previous year. Due to the comparatively low production cost, starch based sweeteners remain price competitive with cane and beet sugar. (See "Other Sweeteners" section.) As a result, starch sweeteners are often used in beverage and confectionary production as a substitute for sugar. However, sugar containing product output continues to grow rapidly, so sugar is losing market share but little volume. According to the China Light Industry

Association, carbonated drink production rose 17 percent (to 5.22 MMT), confectionary product output rose 18.7 percent (413,000 MT), and dairy products rose 24 percent (8.07 MMT) in the first seven months in 2006. Industry sources report that the beverage and food processing sectors have begun using a higher proportion of starch-based sweeteners due to the higher price of sugar.



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

Trade

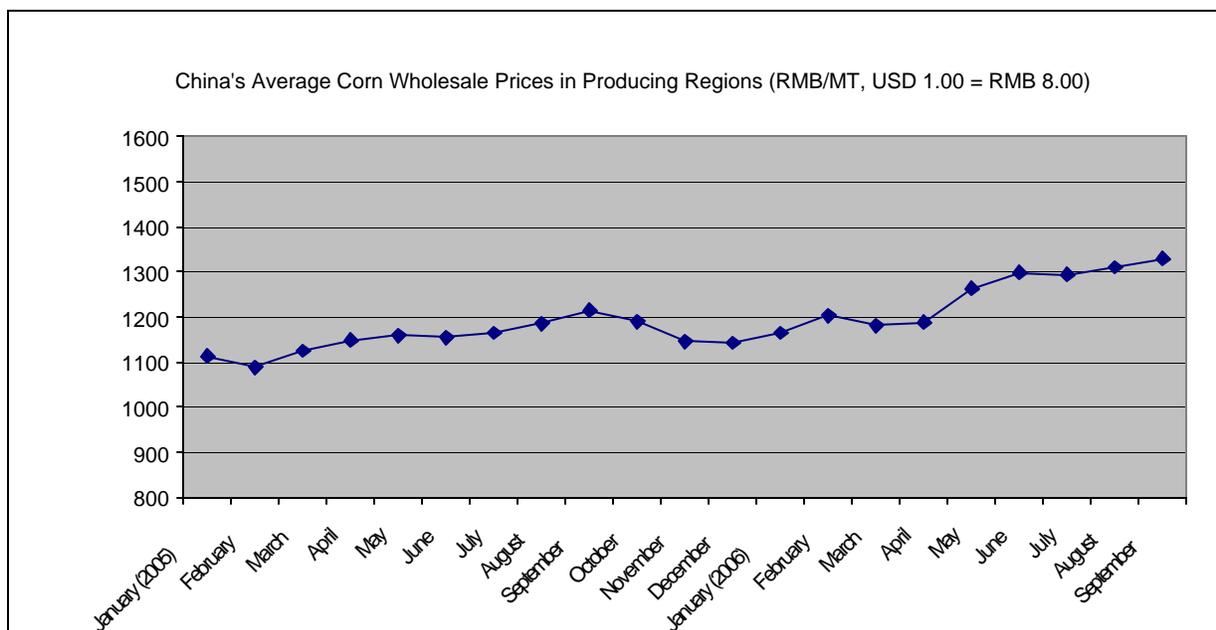
The MY 06/07 import forecast remains 1.1 MMT. Imports usually start to arrive in China after the crushing season ends and the domestic price starts to increase. The TRQ for CY 2006 is 1.95 MMT, with a within-quota-tariff of 15 percent. The CY 2006 out-of-quota tariff rate is 50 percent. The amount of the quota and the tariff rate will remain unchanged in the coming years in line with China's World Trade Organization (WTO) obligations.

As stipulated in China's WTO accession agreement, 30 percent of the TRQ (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 shipment under this agreement arrived in early April. Trade sources report that all of the Cuban sugar will arrive in China by October 2006.

Stocks

Ending stocks for MY 06/07 are forecast at 16.6 MMT (raw value). Ending stocks for MY 05/06 are estimated at 11.2 MMT (raw value), lower than the previous estimate of 14.1 MMT due to the lower crop. Stocks include state reserve and those held by the industrial, commercial, and distribution sectors.

Near the end of each marketing year, in an effort to dampen wide price swings, the government decides on the timing and the amount of the government held stocks to be auctioned. In January 2006, the government auctioned about 200,000 MT of sugar from the state reserve when the market price rose by 50 percent as a result of the reduction in domestic output. In the months since January, the government auctioned another 1.0 MMT. The state sugar reserves were sold through auctions held each month from January-September 2006. Though the stocks level in MY 05/06 is estimated to be lower than the past two years, government and industry officials are not concerned by the decline in stocks because of the forecast rise in domestic production.



Other Sweeteners

Saccharine

Saccharine, which is five hundred times sweeter than sugar, is the major competitor to sugar in China. According to the China Sugar Association, the government's 2006 saccharine domestic sales target is 3,500 MT, the same as in previous years. In 2005, China produced 19,330 MT of saccharine, of which 15,557 MT were exported and only 3,683 MT sold in China. To crackdown on the over-usage of saccharine in food and beverages and to sustain production of natural sugar, the Chinese government has tightened control on the sale of saccharine in China. Nevertheless, China still produces and exports far more than is consumed domestically.

The data from the China Sugar Association shows that the domestic sale of saccharine in the first seven months of 2006 dropped by 7.4 percent, to 1,769 MT. During the past two years,

due to hikes in sugar prices, artificial sweeteners have become more profitable and been more difficult to control in domestic market. Nevertheless, actual domestic sales of saccharine have always been higher than the government-set limit. In 2006, industry sources estimate that the actual sale of saccharine will continue be significantly higher than the government target.

Starched-based Sweeteners

Official data on starch-based sweeteners is not available. However, industry sources estimate that production of starch-based sweeteners in 2005 grew by more than 20 percent to 4.3 MMT. China's corn production in 2005 reached a record high of 139 MMT, therefore, the price of the corn-based starch has been relatively stable when compared with rising sugar prices. In MY 06/07, 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 3.0 MMT of cane sugar.

An industry survey showed that the sector's production capacity totaled 6.0 MMT in 2005. In MY 06/07, starch sweetener production is forecast to rise over 20 percent to reach 5.2 MMT (3.5 MMT of sugar equivalent).

Tables

Production, Supply, and Demand (PSD) Tables

Table 1. Centrifugal Sugar

PSD Table									
China, Peoples Republic of									
	Sugar, Centrifugal						(1000 MT)		
	2005	Revised	New	2006	Estimate	New	2007	Forecast	New
	USDA Official [Old]	Post Estimate[New]	Post Estimate[New]	USDA Official [Old]	Post Estimate[New]	Post Estimate[New]	USDA Official [Old]	Post Estimate[New]	Post Estimate[New]
Market Year Begin		10-2004	10-2004		10-2005	10-2005		10-2006	10-2006
Beginning Stocks	2323	2323	2323	1757	1757	1757	1407	1407	1118
Beet Sugar Production	655	655	655	900	900	877	1100	1100	1150
Cane Sugar Production	9171	9171	9171	8700	8700	8569	10005	10005	10000
Total Sugar Production	9826	9826	9826	9600	9600	9446	11105	11105	11150
Raw Imports	1172	1172	1172	1050	1050	1000	900	900	900
Refined Imp.(Raw Val)	188	188	188	350	350	300	200	200	200
Total Imports	1360	1360	1360	1400	1400	1300	1100	1100	1100
Total Supply	13509	13509	13509	12757	12757	12503	13612	13612	13368
Raw Exports	12	12	12	10	10	10	10	10	10
Refined Exp.(Raw Val)	340	340	340	140	140	175	400	400	300
Total Exports	352	352	352	150	150	185	410	410	310
Human Dom. Consumption	11400	11400	11400	11200	11200	11200	11200	11200	11400
Other Disappearance	0	0	0	0	0	0	0	0	0
Total Disappear	11400	11400	11400	11200	11200	11200	11200	11200	11400
Ending Stocks	1757	1757	1757	1407	1407	1118	2002	2002	1658
Total Distribution	13509	13509	13509	12757	12757	12503	13612	13612	13368

Table 2. Sugar Cane

PSD Table									
China, Peoples Republic of									
Sugar Cane for Centrifugal							(1000HA)(1000 MT)		
	2005	Revised	New	2006	Estimate	New	2007	Forecast	New
	USDA Official [Old]	Post Estimate[New]	Post Estimate[New]	USDA Official [Old]	Post Estimate[New]	Post Estimate[New]	USDA Official [Old]	Post Estimate[New]	Post Estimate[New]
Market Year Begin		10-2004	10-2004		10-2005	10-2005		10-2006	10-2006
Area Planted	1378	1378	1378	1480	1480	1354	1550	1550	1500
Area Harvested	1378	1378	1378	1480	1480	1354	1550	1550	1500
Production	89849	89849	89849	88500	88500	86638	96000	96000	98000
Total Supply	89849	89849	89849	88500	88500	86638	96000	96000	98000
Utilization for Sugar	89849	89849	89849	88500	88500	86638	96000	96000	98000
Utilizatr for Alcohol	0	0	0	0	0	0	0	0	0
Total Utilization	89849	89849	89849	88500	88500	86638	96000	96000	98000

Table 3. Sugar Beet

PSD Table									
China, Peoples Republic of									
Sugar Beets						(1000 HA)(1000 MT)			
	2005	Revised	New	2006	Estimate	New	2007	Forecast	New
	USDA Official [Old]	Post Estimate[New]	Post Estimate[New]	USDA Official [Old]	Post Estimate[New]	Post Estimate[New]	USDA Official [Old]	Post Estimate[New]	Post Estimate[New]
Market Year Begin		10-2004	10-2004		10-2005	10-2005		10-2006	10-2006
Area Planted	190	190	190	250	250	210	300	300	250
Area Harvested	190	190	190	250	250	210	300	300	250
Production	5857	5857	5857	8100	8100	7881	9200	9200	9500
Total Supply	5857	5857	5857	8100	8100	7881	9200	9200	9500
Utilization for Sugar	5857	5857	5857	8100	8100	7881	9200	9200	9500
Utilizatr for Alcohol	0	0	0	0	0	0	0	0	0
Total Distribution	5857	5857	5857	8100	8100	7881	9200	9200	9500

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=RMB8.00)				
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	4,903
April	2,376	2,781	3,109	4,679
May	2,310	2,839	3,115	4,711
June	2,265	2,896	3,224	4,583
July	2,140	2,870	3,417	4,361
August	2,120	2,943	3,467	3,949
September	2,247	3,123	3,684	N/A
October	2,328	2,847	3,760	N/A
November	2,577	2,633	3,514	N/A
December	2,598	2,585	4,055	N/A
Yearly Average	2,337	2,769	3,339	* 4,588
Source: Guangxi Sugar Exchange Center				
Website: www.chinasugarmarket.com				
*To date				

Trade Tables

Table 5. China's Sugar Imports by Origin - MY 2004/2005 (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 (MT)

Country	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sept	MY Total
World	242,459	170,223	304,786	N/A	717,468
Cuba	34,119	0	194,350	N/A	228,469
Brazil	148	107,925	49	N/A	108,122
Korea, South	44,234	26,501	25,425	N/A	96,160
United Kingdom	10,651	6,172	19,045	N/A	35,867
Australia	6,012	92	26,005	N/A	32,109
France	3,450	4,305	9,545	N/A	17,300
Thailand	12,243	525	1,110	N/A	13,878
Belgium	69	9,253	4,016	N/A	13,338
Poland	0	225	11,858	N/A	12,083
Netherlands	0	8,062	2,645	N/A	10,707
Denmark	0	3,870	6,833	N/A	10,703
Sweden	0	1,250	2,270	N/A	3,520
Malaysia	0	154	1,242	N/A	1,396
Germany	699	543	150	N/A	1,393
Others	130,834	1,347	244	N/A	132,425

Source: China Customs

Table 7. China's Sugar Exports by Destination - MY 2004/2005 (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

Source: China Customs

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

Country	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sept	MY Total
World	70,483	55,142	32,861	N/A	158,486
Indonesia	22,000	29,002	38	N/A	51,040
Pakistan	27,753	0	13,423	N/A	41,176
Hong Kong	10,242	8,833	10,082	N/A	29,157
Mongolia	4,800	4,534	1,820	N/A	11,154
Japan	637	3,745	3,112	N/A	7,494
Singapore	3,471	1,471	1,331	N/A	6,273
Vietnam	0	6,000	42	N/A	6,042
United States	84	241	882	N/A	1,207
Macau	360	402	353	N/A	1,115
Kazakhstan	244	294	253	N/A	790
Malaysia	126	102	199	N/A	427
Canada	162	119	131	N/A	412
Russia	1	1	350	N/A	351
Egypt	100	102	32	N/A	234
Others	505	296	811	N/A	1,613

Source: China Customs