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Report Highlights:

Total Chinese centrifugal sugar output is forecast to increase 2.5 percent to 12.9 MMT (raw value) in marketing year (MY) 2007/08. Responding to higher sugar prices, MY06/07 sugar production is estimated at a record 12.6 MMT. This estimated production level is 13 percent higher than the previous estimate due to better than expected yields and area expansion. In MY06/07, starch sugars are estimated to be less price-competitive versus natural sugar due to rising corn prices. However, both sugar and starch sweetener consumption will continue to rise driven by the rapidly growing food processing, beverage and catering sectors.

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

Total Chinese centrifugal sugar output is forecast to increase 2.5 percent to 12.9 MMT (raw value) in marketing year (MY) 2007/08. Responding to higher sugar prices, acreage for sugar cane and sugar beet is forecast to rise 3 percent and 10 percent respectively in MY07/08. The MY06/07 production is estimated at a record 12.6 MMT, 13 percent higher than the previous estimate due to better than expected yields and area expansion. In MY06/07, starch sweeteners are estimated to be less price-competitive versus natural sugar due to rising corn prices. The consumption of natural sugar in MY 2007/08 is forecast to rise 7 percent over the previous year, driven by growth in the beverage and food processing sectors. To sustain sugar consumption, the government will continue control production of the artificial sugar and limit its sale on the domestic market.

Sugar Cane

Sugar cane harvested area for MY 07/08 is forecast at 1.55 million hectares (Ha), 3 percent higher than MY 06/07. Sugar cane area accounted for 86 percent of the total crop area in MY 06/07. Guangxi remains the dominant sugar cane producing province, followed by Yunnan, Guangdong, and Hainan provinces. Guangxi's output is estimated to account for 55 percent of China's sugar cane production in MY06/07. According to Guangxi's agricultural department, sugar cane acreage in the province is estimated to rise seven percent, to 786,000 Ha, in MY06/07. The cane yield in Guangxi is estimated at 70 MT/Ha in MY06/07, 6 percent higher than the previous year. Despite a short drought in fall 2006, the weather patterns in MY06/07 have been favorable for sugar cane in Guangxi, Yunnan and other southern provinces. To counter the dry weather in recent years, the sector has put more investment into irrigation and mechanized planting.

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 have been raising the purchase price for sugar cane in the past several years. According to industry information, cane farmers generally receive a subsidy from the mills to cover partially the rental cost for machinery used for planting. In addition to the machinery rental subsidy, the mills offer a premium purchase price for the cane varieties with higher yield or higher sugar content.

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 pre-set purchase price is guidance for the miller when they purchase cane for the farmers. 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 06/07, the average cane price in four major producing provinces was \$31.2/MT (RMB250/MT). In Guangxi province, the cane purchase price is estimated at \$33.7/MT (RMB 270/MT) in MY06/07, 28 percent higher than the previous year.

Provincial governments have not announced the pre-set purchase price for cane in MY 07/08. Post forecasts that the purchase price will remain roughly at the same level as the previous year, which will guarantee a reasonable profit for the cane farmers.

Purchase Price of Sugar Cane in Major Producing Provinces				
RMB/MT (USD1.00 = RMB8.00)				
	Guangxi	Yunnan	Guangdong	Hainan
MY02/03	160	130	140	150
MY03/04	170	145	175	150
MY04/05	180	150	185	160
MY05/06	220	170	200	175
MY06/07	270	200	290	250

Sugar Beet

Sugar beet area for MY07/08 is forecast at 275,000 HA, 10 percent higher than the MY06/07 estimate of 250,000 HA as a result of farmers' response to increased beet prices. During the previous marketing years, beet production has been far behind the millers' processing capacity. To make sugar beet a competitive crop over beans, cotton and tomatoes, the millers in northern China provinces have kept raising the beet price.

In Xinjiang province, the largest beet sugar producer in China, the beet price in MY06/07 is \$30/MT (RMB240/MT). This is 10 percent higher than the previous year. In MY06/07, the province's sugar output is estimated to account for 6 percent of national sugar output. Due to favorable weather conditions, Post estimates the average beet yield in MY06/07 was 32.5 MT/HA, 5 percent higher than the previous year in the province.

Due to the rise in sugar price, beet acreage has expanded the past two years. However, the expansion is restrained by the lack of quality seed. Unlike the major field crops, beet seed research is not viewed as a priority by central and provincial agricultural departments. Prior to 2005, beet and beet seed acreage has been on the decline. In MY05/06 and MY06/07, China Sugar Association coordinated the import of beet seed. While the imported varieties had a high yield, the sugar content was lower than its Chinese counterparts. Industry representatives hope the government will continue help to introduce better quality beet varieties to China.

As the sector consolidates, some state farms in Xinjiang are turning to mechanized planting and harvesting. According to provincial sugar association in Xinjiang, some state farms are interested in buying imported beet harvesters.

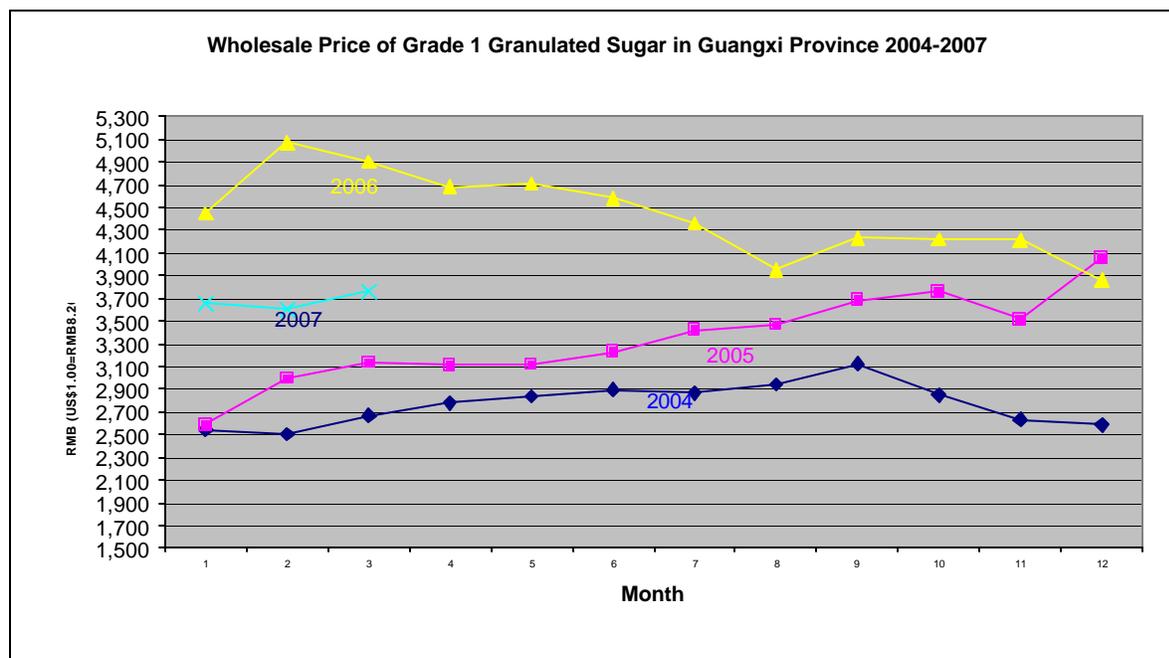
Sugar

Production

Overall sugar output for MY 07/08 is forecast to reach 12.9 MMT (raw value), 2.5 percent higher than MY 06/07. Cane sugar output for MY 07/08 is forecast at 11.5 MMT, 2 percent higher than MY 06/07. Beet sugar output is forecast at 1.45 MMT in MY 07/08 compared to 1.38 MMT in MY 06/07. The top five producing provinces are: Guangxi, Yunnan, Guangdong, Hainan and Xinjiang. Their output is estimated to account for 95 percent of national total sugar output in MY06/07.

For MY06/07, industry sources estimate that production costs are about \$40/ton (RMB320/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 \$412/ton (RMB3,300/ton) in MY06/07 while it was \$375/ton (RMB3,000/ton) in MY05/06. Millers will continue to maintain their profit margins because of the higher sugar price.

In MY06/07, due to a bumper crop and record sugar output, local industry lobbied the provincial government to purchase sugar and to hold as a temporary sugar reserve during the processing season. In January 2007, the Guangxi provincial government announced that it would purchase 400,000 MT of sugar from January 25 to February 28, 2007 at a floor price of \$450/MT, (RMB3,600/MT). However the market price has been above the government set floor price during the period and it is unclear how much was actually purchased.



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

Consumption

The MY07/08 sugar consumption forecast is 12.85 MMT (raw value), 7 percent higher than MY06/07. Total per capita natural sugar consumption in MY07/08 is estimated at about 8 Kg. 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 reached 1.13 Kg in 2005, rising slightly from 1.11 Kg in 2004. Though the government stopped releasing data on urban per capita sugar consumption in 2001, Post estimates that it rose slightly in recent years. Growth in sugar consumption is mostly attributed to the rapidly growing processed food, beverage sectors and catering services.

Sugar Containing Products in 2006 (in 1,000 MT)							
Product	Confectionary	Cakes	Biscuits	Dairy Products	Canned Foods	Carbonated Drinks	Juice products
Total	791	590	1,785	14,595	4,073	8,765	8,600
Growth Rate (%)	16.1	22.1	21.4	23.5	18.7	11.4	29

Source: China National Statistical Bureau

Growth in cane and beet sugar consumption in MY 06/07 is estimated at 7 percent, while it averaged 5 percent in recent marketing years. Starch sweeteners are often used in

beverage, confectionary and bakery production as a substitute for sugar. In MY06/07, because of the rise in corn price, the starch sweeteners became less competitive versus cane and beet sugar. During the previous market years, due to the comparatively low production cost, starch based sweeteners have been price competitive with cane and beet sugar.

Trade

MY07/08 imports are forecast at 850,000 MT, 100,000 MT lower than the estimate for MY06/07 as a result of two straight years' increase in domestic sugar output. Imports usually start to arrive in China after the crushing season ends and the domestic price starts to increase. The TRQ for CY 2007 is 1.95 MMT, with a within-quota-tariff of 15 percent. The CY 2007 out-of-quota tariff rate is 50 percent. The amount of the quota and the tariff rate has been unchanged from 2005 and will remain the same 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.

Regarding the 30 percent of the TRQ (585,000) for non-state trading enterprises, trade sources report that the amounts of allocation they receive in most cases are not commercial viable for a panamax vessel shipment. The traders have to pool their quota and sometimes the quotas are traded at a price of around \$20/ton.

Stocks

Ending stocks for MY07/08 are forecast at 2.8 MMT (raw value). Ending stocks for MY06/07 are estimated at 2.3 MMT (raw value), higher than the previous estimate of 1.6 MMT. Stocks include state reserve and those held by the industrial, commercial, and distribution sectors.

Industry sources estimate that all the Cuban sugar imports in MY06/07 will enter the state sugar reserves and will not be auctioned soon because of a bumper crop and record sugar output in MY06/07. In the previous market years, imported Cuban sugar enters the state reserve first, then 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.

Other Sweeteners

Saccharine

Saccharine, which is five hundred times sweeter than sugar, is viewed as the major competitor to sugar. 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 2006, for example, China produced 20,347 MT of saccharine, of which 16,569 MT were exported and 3,456 MT sold in China. In 2005, domestic sales were 3,684 MT. According to the China Sugar Association, the government's 2007 saccharine domestic sales target is set at 3,000 MT, which is 500 MT lower than the previous years. The more strict sale target in 2007 shows government's intention to sustain natural sugar consumption in MY06/07.

Starched-based Sweeteners

Official data on starch-based sweeteners is not available. Industry sources estimate that production of starch-based sweeteners in 2006 grew about 15 percent to 4.8 MMT. China's corn production in 2006 reached a record high of approximately 143 MMT and corn prices

rose 15 percent year on year in 2006 because of rapid growth in feed and industrial use. The rise in corn price erodes the profit margin for starch sweeteners. Though starch sweeteners continue to substitute for sugar in the food processing sector, Post estimates that the starch sweetener will become less price competitive in MY06/07 and MY07/08, and the growth rate for starch sweetener use will be lower than the previous years.

Post estimate that the starch sweetener production will rise 10 percent to reach 5.3 MMT in MY07/08, 5 percent lower than the previous year. The use of starch sweeteners in MY06/07 is estimated at an equivalent to about 3.4 MMT of cane sugar.

Tables

Production, Supply, and Demand (PSD) Tables

Table 1. Centrifugal Sugar

China, Peoples Republic of									
Sugar, Centrifugal							(1000 MT)		
	2006	Revised		2007	Estimate		2008	Forecast	
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Market Year Begin		10/2005	10/2005		10/2006	10/2006		10/2007	10/2007
Beginning Stocks	1757	1757	1757	1118	1118	1003	1658	1658	2258
Beet Sugar Production	877	877	877	1150	1150	1380	0	0	1450
Cane Sugar Production	8569	8569	8569	10000	10000	11235	0	0	11500
Total Sugar Production	9446	9446	9446	11150	11150	12615	0	0	12950
Raw Imports	1000	1000	967	900	900	800	0	0	700
Refined Imp.(Raw Val)	300	300	267	200	200	150	0	0	150
Total Imports	1300	1300	1234	1100	1100	950	0	0	850
Total Supply	12503	12503	12437	13368	13368	14568	1658	1658	16058
Raw Exports	10	10	10	10	10	10	0	0	15
Refined Exp.(Raw Val)	175	175	224	300	300	300	0	0	400
Total Exports	185	185	234	310	310	310	0	0	415
Human Dom. Consumption	11200	11200	11200	11400	11400	12000	0	0	12850
Other Disappearance	0	0	0	0	0	0	0	0	0
Total Use	11200	11200	11200	11400	11400	12000	0	0	12850
Ending Stocks	1118	1118	1003	1658	1658	2258	0	0	2793
Total Distribution	12503	12503	12437	13368	13368	14568	0	0	16058

Table 2. Sugar Cane

China, Peoples Republic of									
Sugar Cane for Centrifugal							(1000 HA)(1000 MT)		
	2006	Revised		2007	Estimate		2008	Forecast	
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Market Year Begin		10/2005	10/2005		10/2006	10/2006		10/2007	10/2007
Area Planted	1480	1354	1354	1550	1500	1500	0	0	1545
Area Harvested	1480	1354	1354	1550	1500	1500	0	0	1545
Production	88500	86638	86638	96000	98000	96000	0	0	97000
Total Supply	88500	86638	86638	96000	98000	96000	0	0	97000
Utilization for Sugar	88500	86638	86638	96000	98000	96000	0	0	97000
Utilizatr for Alcohol	0	0	0	0	0	0	0	0	0
Total Utilization	88500	86638	86638	96000	98000	96000	0	0	97000

Table 3. Sugar Beet

China, Peoples Republic of									
Sugar Beets							(1000 HA)(1000 MT)		
	2006	Revised		2007	Estimate		2008	Forecast	
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Market Year Begin		10/2005	10/2005		10/2006	10/2006		10/2007	10/2007
Area Planted	250	210	210	300	250	250	0	0	275
Area Harvested	250	210	210	300	250	250	0	0	273
Production	8100	7881	7881	9200	9500	9300	0	0	9900
Total Supply	8100	7881	7881	9200	9500	9300	0	0	9900
Utilization for Sugar	8100	7881	7881	9200	9500	9300	0	0	9900
Utilizatr for Alcohol	0	0	0	0	0	0	0	0	0
Total Distribution	8100	7881	7881	9200	9500	9300	0	0	9900

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	2004	2005	2006	2007
January	2,548	2,590	4,449	3,656
February	2,502	2,996	5,071	3,599
March	2,666	3,132	4,903	3,760
April	2,781	3,109	4,679	
May	2,839	3,115	4,711	
June	2,896	3,224	4,583	
July	2,870	3,417	4,361	
August	2,943	3,467	3,949	
September	3,123	3,684	4,229	
October	2,847	3,760	4,221	
November	2,633	3,514	4,217	
December	2,585	4,055	3,861	
Yearly Average	2,769	3,339	4,436	
Source: Guangxi Sugar Exchange Center Website: www.chinasugarmarket.com				

Trade Tables

Table 5. 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	170,223	304,786	466,837	1,184,305
Cuba	34,119	0	194,350	155,753	384,222
Brazil	148	107,925	49	89,550	197,672
Korea, South	44,234	26,501	25,425	32,864	129,025
Thailand	12,243	525	1,110	78,480	92,358
Australia	6,012	92	26,005	50,773	82,882
United Kingdom	10,651	6,172	19,045	1,323	37,191

France	3,450	4,305	9,545	710	18,010
Denmark	0	3,870	6,833	1,145	11,848
Malaysia	0	154	1,242	804	2,200
Germany	699	543	150	170	1,563
Japan	186	201	86	228	700
China	167	100	0	1	268
Mauritius	6	4	6	27	43
Singapore	0	0	40	0	40
Others	130,544	19,831	20,900	55,009	226,284

Source: China Customs

Table 6. China's Sugar Imports by Origin - MY 2006/2007 (In MT)

Country	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sept	MY Total
World	432,109				432,109
Brazil	181,002				181,002
Thailand	146,619				146,619
Cuba	49,897				49,897
Korea, South	46,611				46,611
Australia	5,181				5,181
Malaysia	1,965				1,965
Japan	319				319
United Kingdom	300				300
China	103				103
Denmark	86				86
Germany	20				20
United States	2				2
Mauritius	2				2
Switzerland	1				1
Others	1				1

Source: China Customs

Table 7. 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	55,142	32,861	50,516	209,002
Pakistan	27,753	0	13,423	21,000	62,176
Indonesia	22,000	29,002	38	63	51,103
Hong Kong	10,242	8,833	10,082	6,012	35,169
Sudan	0	0	0	14,000	14,000
Mongolia	4,800	4,534	1,820	1,614	12,768
Singapore	3,471	1,471	1,331	3,765	10,038
Japan	637	3,745	3,112	621	8,115
Vietnam	0	6,000	42	0	6,042
United States	84	241	882	834	2,041
Macau	360	402	353	267	1,382

Sri Lanka	0	0	0	1,008	1,008
Kazakhstan	244	294	253	115	905
Malaysia	126	102	199	266	693
Others	767	518	1,324	952	3,562

Table 8. China's Sugar Exports by Destination - MY 2006/2007 (In MT)

Country	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sept	MY Total
World	15,863				15,863
Hong Kong	8,439				8,439
Sri Lanka	2,016				2,016
Singapore	1,428				1,428
Mongolia	915				915
United States	649				649
Japan	632				632
Macau	440				440
Yemen	232				232
Malaysia	207				207
Canada	201				201
Australia	89				89
Somalia	84				84
Korea, North	80				80
United Arab Emirates	78				78
Others	374				374