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China, Peoples Republic of

Sugar

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Report Highlights:
Total Chinese centrifugal sugar output is forecast to increase eight percent to a record 13.85 MMT (raw value) in marketing year (MY) 2007/08. The steady rise in corn prices has given sugar a competitive edge over starch sweeteners and fueled sugar beet and cane area expansion. Total natural sweetener consumption is forecast to rise by ten percent in MY07/08 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 eight percent to a record 13.85 MMT (raw value) in marketing year (MY) 2007/08 from a revised estimated output of 12.85 MMT in MY06/07. In response to higher sugar prices, sugar cane and sugar beet acreage is forecast to rise four percent and five percent, respectively, in MY07/08. MY06/07 sugar production increased by 36 percent, to 12.85 MMT, over the previous year thanks to higher yields and area expansion. In MY06/07, starch sweeteners were less price-competitive versus sugar due to a 15 percent rise in corn prices. The consumption of natural sweeteners in MY 2007/08 is forecast to rise ten percent over the previous year driven by growth in the beverage and food processing sectors. To maintain sugar consumption growth, the government will continue to control production of artificial sweeteners 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), four percent higher than MY 06/07. Sugar cane area accounted for 84 percent of the total sugar crop area in MY 06/07. Guangxi remains the dominant sugar cane producing province, followed by Yunnan, Guangdong, and Hainan provinces. Guangxi's output accounted for 58 percent of China's sugar cane production in MY06/07. According to the Guangxi provincial government's agricultural department, sugar cane acreage in the province is forecast to rise seven percent, to 800,000 Ha, in MY07/08. The cane yield in Guangxi is estimated at 70 MT/Ha in MY06/07, six percent higher than the previous year. Despite brief drought conditions in fall 2006, 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, both the provincial government and the private sector mills have invested in 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 against corn, rice, vegetables, and fruits. 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 partially cover the rental cost of 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 and higher sugar content. In many counties in Guangxi, mills invest in irrigation facilities and pave roads to improve cane transportation infrastructure.

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 minimum price the miller must pay to purchase cane from the farmers. If the sugar price increases during the marketing year, sugar mills often pay their contracted cane farmers a bonus. In MY 06/07, the average cane price in the four major producing provinces was $31.2/MT (RMB 250/MT). In Guangxi province, the cane purchase price was estimated at $33.7/MT (RMB 270/MT) in MY06/07, 28 percent higher than the previous year.

However, 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. Authorities believe the current price will guarantee a reasonable profit for cane farmers.

Sugar Cane Purchase Price 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
MY07/08 *	270	200	290	250
*Post Estimate				

Sugar Beet

Sugar beet output for MY07/08 is forecast at 10.5 million MT, unchanged from the previous year despite a five percent rise in acreage. According to industry sources, the yield is forecast to be below the five year average (32 MT/Ha) due to a summer drought in Heilongjiang and Inner Mongolia. Beet area for MY07/08 is forecast to increase five percent, to 300,000 HA, as farmers respond to increased beet prices. During previous marketing years, beet production has been far behind the millers' processing capacity. To make sugar beets a competitive crop versus beans, cotton, and tomatoes, millers in northern China continue to raise 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 ten percent higher than the previous year. Due to favorable weather conditions, Post estimates the average beet yield in MY06/07 in Xinjiang was 33 MT/HA, six percent higher than the previous year.

Due to the rise in sugar prices, beet acreage has expanded the past two years. However, the expansion is restrained by the lack of quality seed. Unlike other major field crops, beet seed research is not viewed as a priority by central and provincial agricultural departments and received low amounts of funding. In MY05/06 and MY06/07, the China Sugar Association coordinated imports of beet seed. While the imported varieties had a high yield, the sugar content was lower than Chinese varieties. According to industry sources, domestic varieties have degraded in terms of yield and sugar content and become more vulnerable to plant diseases due to a lack of good breeding practices and continued research. Post forecasts that the shortage of quality seeds will remain and continue to limit further expansion of the beet sugar sector in the near term.

Another competitive factor for sugar beet planting is the price rise for the competing crops such as beans, rapeseed, barley, cotton and tomatoes. Farmers would need to adopt more mechanized planting and harvesting to make sugar beets more competitive in the region, especially on the large state farms in Xinjiang and Heilongjiang provinces.

Sugar

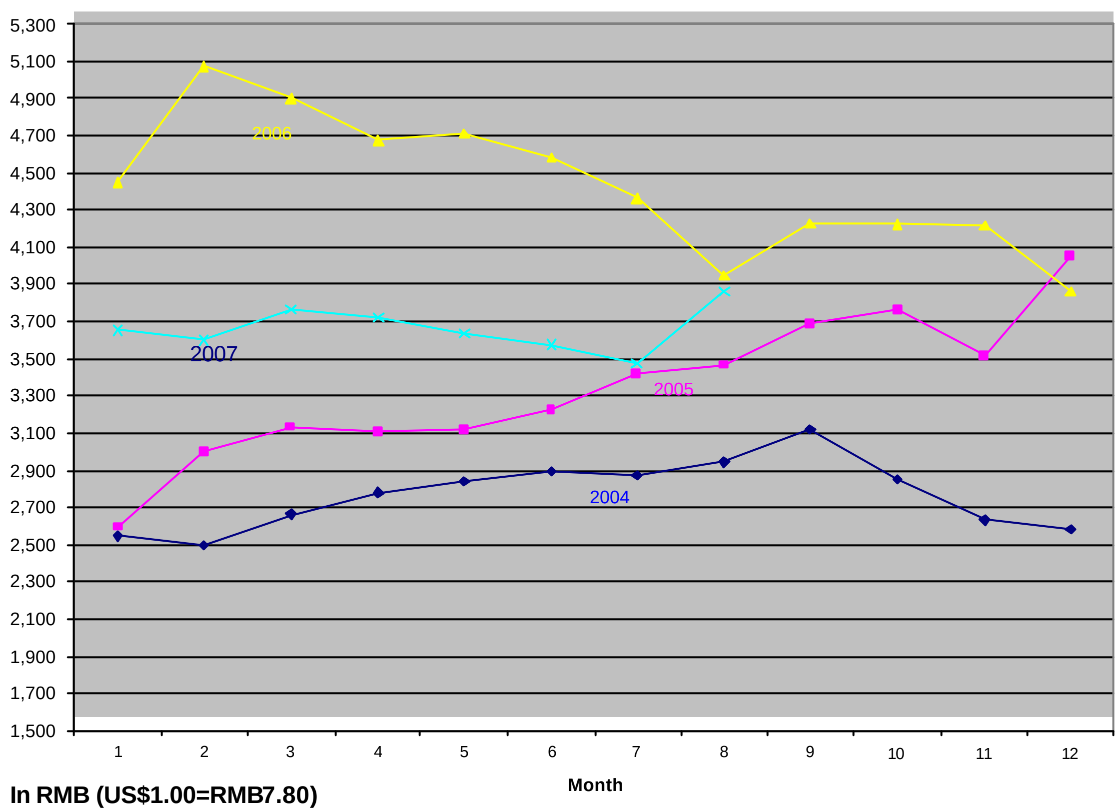
Production

Overall sugar output for MY 07/08 is forecast to reach 13.85 MMT (raw value), eight percent higher than MY 06/07. Cane sugar output for MY 07/08 is forecast at 12.5 MMT, nine percent higher than MY 06/07. Beet sugar output is forecast at 1.35 MMT in MY 07/08, unchanged from the previous year. The top five producing provinces are: Guangxi, Yunnan, Guangdong, Hainan and Xinjiang. Their output is estimated to account for 95 percent of total national sugar output in MY06/07.

In MY06/07, industry sources estimate that production costs are about $40/ton (RMB320/MT) higher than the previous year due to higher inputs costs. The production cost for sugar in Guangxi is estimated at over $412/ton (RMB 3,300/ton) in MY06/07 versus $375/ton (RMB3,000/ton) in MY05/06. However, millers will continue to maintain their profit margins thanks to the higher sugar price.

To maintain cane farmer's income and aid the milling sector, both the central government and the Guangxi provincial government consider market intervention purchases. In MY06/07, due to a bumper crop and record sugar output, local industry lobbied the Guangxi provincial government to purchase sugar and to hold it 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). In July 2007, the central government also announced that it would purchase 300,000 MT of sugar from the market if the market price falls below the pre-set floor price. The floor price for the purchase was set at $437/MT (RMB3,500/MT) and the sugar, if purchased, would enter the state sugar reserve. However the market price has been above the government floor price and no sugar was actually purchased under either program.

Wholesale Price of Grade 1 Granulated Sugar in Guangxi Province 04-07



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

Consumption

The MY07/08 sugar consumption forecast is 14.3 MMT (raw value), 10 percent higher than MY06/07. Total per capita natural sugar consumption in MY07/08 is forecast at about 10 Kg. Food processing, beverage, and pharmaceutical industries are the largest consumers of sugar, amounting to 75 percent of total sugar use. The remaining 25 percent of sugar demand is for household table sugar consumption. 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 also rose in recent years.

Production of Sugar Containing Products in 2006 (in 1,000 MT)							
Product	Confectionary	Cakes	Biscuits	Dairy Products	Canned Food	Carbonated Drinks	Juice products
Total	791	590	1,785	14,595	4,073	8,765	8,600
2005-2006 Growth Rate (%)	16.1	22.1	21.4	23.5	18.7	11.4	29

Source: China National Statistical Bureau

Growth in sugar consumption is mostly attributed to the rapidly growing processed food, beverage sectors and catering services. National Statistical Bureau surveys showed that growth rates for such products ranged between 11-30 percent in 2006.

Trade

MY07/08 imports are forecast at 850,000 MT, 480,000 MT lower than the estimate for MY06/07 due to two straight years of increased 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 calendar year 2007 is 1.95 MMT, with an in-quota tariff of 15 percent. The 2007 out-of-quota tariff rate is 50 percent. The amount of the quota and the tariff rate have been unchanged since 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 the 1950's.

Regarding the 30 percent of the TRQ (585,000) for non-state trading enterprises, trade sources report that allocation amounts in most cases are not commercially viable for panamax vessel shipments. As a result, traders have to pool their quotas or trade them at a price of around $20/ton in order to collect sufficient amounts to economically ship to China. Imports for MY06/07 are estimated at 1.33 MMT, seven percent higher than the previous year. Raw sugar accounted for 90 percent of China's total imports in MY06/07.

China and Australia currently is negotiating on a possible Free Trade Agreement (FTA). So far, the two sides conducted nine rounds of talks and have not reached final agreement. Sugar has been part of the package for the talks. The sugar industry, led by China Sugar Association, has been actively lobbying the Chinese government against any cut in tariff for sugar imports under the FTA.

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 over the sale of saccharine in China. However, China still produces and exports far more than it consumes domestically. In 2006, China produced 20,347 MT of saccharine, of which 16,569 MT were exported. 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 2006. The stricter sales limit in 2007 shows the government's intention to sustain natural sugar consumption in MY06/07 and buoy prices. Currently, the government has given only five manufacturers licenses to produce saccharine. These five manufactures are require to submit reports on their production, domestic sale, and export progress to the China Sugar Association on a monthly basis.

Starched-based Sweeteners

Official data on starch-based sweeteners is not available. However, Post estimates that the starch sweetener production will rise 10 percent, to reach 5.3 MMT, in MY07/08. The use of starch sweeteners in MY06/07 is estimated at about 3.4 MMT of cane sugar equivalent. China's corn production in 2006 reached a record high of approximately 144 MMT, but corn prices rose 15 percent year on year in 2007 because of rapid growth in corn use in feed and industrial sectors. The rise in corn price eroded the profit margin for most starch sweeteners. Though starch sweeteners continue to substitute for sugar in the food processing sector, Post estimates that the starch sweetener will lose price competitiveness even more in MY07/08 and the growth rate for starch sweetener use will be lower than the previous years.

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	1003	1003	703	2258	2258	1728
Beet Sugar Production	877	877	877	1380	1380	1358	1450	1450	1350
Cane Sugar Production	8569	8569	8569	11235	11235	11497	11500	11500	12500
Total Sugar Production	9446	9446	9446	12615	12615	12855	12950	12950	13850
Raw Imports	967	967	967	800	800	1150	700	700	700
Refined Imp.(Raw Val)	267	267	267	150	150	180	150	150	150
Total Imports	1234	1234	1234	950	950	1330	850	850	850
Total Supply	12437	12437	12437	14568	14568	14888	16058	16058	16428
Raw Exports	10	10	10	10	10	10	15	15	10
Refined Exp.(Raw Val)	224	224	224	300	300	150	400	400	200
Total Exports	234	234	234	310	310	160	415	415	210
Human Dom. Consumption	11200	11200	11500	12000	12000	13000	12850	12850	14300
Other Disappearance	0	0	0	0	0	0	0	0	0
Total Use	11200	11200	11500	12000	12000	13000	12850	12850	14300
Ending Stocks	1003	1003	703	2258	2258	1728	2793	2793	1918
Total Distribution	12437	12437	12437	14568	14568	14888	16058	16058	16428

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	1495	0	1545	1550
Area Harvested	1480	1354	1354	1550	1500	1495	0	1545	1550
Production	88500	86638	86638	96000	96000	99784	0	97000	106000
Total Supply	88500	86638	86638	96000	96000	99784	0	97000	106000
Utilization for Sugar	88500	86638	86638	96000	96000	99784	0	97000	106000
Utilization for Alcohol	0	0	0	0	0	0	0	0	0
Total Utilization	88500	86638	86638	96000	96000	99784	0	97000	106000

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	287	0	275	300
Area Harvested	250	210	210	300	250	287	0	273	300
Production	8100	7881	7881	9200	9300	10536	0	9900	10500
Total Supply	8100	7881	7881	9200	9300	10536	0	9900	10500
Utilization for Sugar	8100	7881	7881	9200	9300	10536	0	9900	10500
Utilization for Alcohol	0	0	0	0	0	0	0	0	0
Total Distribution	8100	7881	7881	9200	9300	10536	0	9900	10500

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=RMB7.80)				
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	3,723
May	2,839	3,115	4,711	3,639
June	2,896	3,224	4,583	3,576
July	2,870	3,417	4,361	3,476
August	2,943	3,467	3,949	3,867
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	3,662
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	169,300	322,208		923,616
Cuba	49,897	0	130,250		180,147
Thailand	146,619	11,896	104,776		263,292
Korea, South	46,611	28,426	43,119		118,156
Korea, South	0	72,301	40,000		112,301
Guatemala	5,181	3,251	2,487		10,918
India	0	0	702		702
Malaysia	1,965	2,189	344		4,498
Brazil	181,002	50,627	179		231,808
Japan	319	113	176		608
China	103	101	105		309
Argentina	0	0	23		23
Germany	20	20	21		61
Mauritius	2	9	9		20
United States	2	61	7		70
Others	388	305	10		703
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	41,540	38,733		96,136
Iran	0	0	15,000		15,000
Hong Kong	8,439	8,297	10,255		26,991
Singapore	1,428	3,938	6,578		11,944
Japan	632	2,710	3,576		6,918
Mongolia	915	780	600		2,295
Yemen	232	792	468		1,492
Malaysia	207	263	254		724
United States	649	405	253		1,307
Egypt	67	412	250		729
Macau	440	286	222		948
Somalia	84	63	168		315
United Arab Emirates	78	31	164		274
Canada	201	127	140		468
Korea, North	80	65	113		257
Others	2,491	23,436	804		26,731