



USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.09

Required Report - public distribution

Date: 10/01/2008

GAIN Report Number: CH8086

China, Peoples Republic of

Sugar

Semi-Annual

2008

Approved by:

William Westman

AgBeijing

Prepared by:

Mark Petry and Jiang Junyang

Report Highlights:

Total Chinese centrifugal sugar output is forecast to decrease slightly to 15.79 MMT (raw value) in marketing year (MY) 2008/09. Sugar beet acreage is forecast to rise five percent in MY08/09 and acreage for sugar cane is forecast to rise one percent, though yield and sugar content is forecast to return to normal. MY07/08 production is estimated at a record 15.9 MMT (raw value), ten percent higher than the previous estimate due to a record yield and area expansion. In MY07/08, a sluggish sugar market and rising corn prices combined to squeeze starch sweetener production and lower its use in the food and beverage sectors.

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

Table of Contents

Executive Summary	3
Sugar Cane	3
Sugar Beet	4
Sugar	5
Production.....	5
Consumption	6
Trade	7
Stocks	7
Other Sweeteners	7
Saccharine	7
Starched-based Sweeteners	8
Tables	9
Production, Supply, and Demand (PSD) Tables	9
Table 1. Centrifugal Sugar	9
Table 2. Sugar Cane	9
Table 3. Sugar Beet	10
Price Table	10
Table 4. Wholesale Price of Grade 1 Granulated Sugar in Guangxi Province	10
Trade Tables	11
Table 5. China's Sugar Imports by Origin - MY 2006/2007 (In MT)	11
Table 6. China's Sugar Imports by Origin - MY 2007/2008 (In MT)	11
Table 7. China's Sugar Exports by Destination - MY 2006/2007 (In MT).....	12
Table 8. China's Sugar Exports by Destination - MY 2007/2008 (In MT).....	12

Executive Summary

Total Chinese centrifugal sugar output is forecast to drop slightly to 15.79 MMT (raw value) in marketing year (MY) 2008/09 from a revised estimated output of 15.9 MMT in MY07/08. In response to higher sugar prices in MY07/08, sugar beet and sugar cane acreage is forecast to rise five percent and one percent, respectively, in MY08/09. MY07/08 production is estimated at a record 15.9 MMT (raw value), 10 percent higher than the previous estimate due to a record yield and area expansion. Amid surplus sugar production and falling prices, the government purchased 1.1 MMT of white sugar during the MY07/08. In MY07/08, a sluggish sugar market and rising corn prices combined to reduce starch sweetener production and use in food and beverages. The 2007 government policies that restricted expansion of the grain processing sector (including starch sweeteners) will remain in effect in MY08/09 and further limit the development of the starch sweetener sector.

Sugar Cane

Sugar cane harvested area for MY08/09 is forecast at 1.62 million hectares (Ha), one percent higher than MY 07/08. Sugar cane area accounted for 84 percent of the total crop area sown in MY07/08. Guangxi remains the dominant sugar cane producing province, followed by Yunnan, Guangdong, and Hainan provinces. Guangxi's output is estimated to account for 65 percent of China's sugar cane production in MY07/08. According to Guangxi's agricultural department, sugar cane acreage in the province will be 12 percent higher, 880,000 Ha, in MY07/08. The cane yield in Guangxi is estimated at a record 73 MT/Ha in MY07/08, four percent higher than the previous year.

Weather patterns have been favorable for most growth stages in MY 07/08, except for a 40-day period of low temperatures in January and February 2008. While the low temperatures and freezing rain devastated fruit and vegetable production in some southern provinces, the impact on sugar cane was marginal. During the adverse weather, about half of the cane in Guangxi had already been harvested and only minor production regions in northern and eastern parts of the province were affected. Industry sources report that as of March 31, 2008, the average sugar extraction rate for the current crushing season was 12.35 percent, 0.32 percentage points lower than the previous year. For the affected crop, there was substantial plant recovery due to subsequent warm weather and adequate rainfall. Post's September 2008 interviews with the mills showed that the recovery was beyond industry's initial expectations. Due to this unexpectedly prolonged harvest, the processing season in Guangxi dragged into June in MY07/08, while the previous year processing season ended in early May as normal.

However, freezing temperatures did impact the sprouting rate for the new crop for MY08/09. Industry sources report that due to root damage, plant density at some farms is about 10 percent lower than the previous year. For the crop planted after the freezing spell, the plant conditions have been above the five-year average, as a result of sufficient rainfall and temperature this year.

Sugar cane in Guangxi competes for acreage with corn, rice, and cassava. To encourage farmers to plant more, millers have been raising the purchase price for sugar cane in recent years. In MY07/08, though sugar prices declined due to a record production, mills did not lower the purchase price for cane accordingly. According to industry information, cane farmers generally also receive a subsidy from the mills to partially cover the rental cost for machinery used for planting. Additionally, the mills offer a premium purchase price for cane varieties with higher yield and/or sugar content. Post's interviews show some mills also offer discounted fertilizer for its contract farmers to offset the rise in input prices. Such support measures for the farmers are expected to continue in MY08/09.

Each marketing year, the Guangxi provincial government announces a pre-set (floor) purchase price for cane before the processing season starts. The pre-set purchase price is guidance for the miller when they purchase cane from the farmers. The table below shows the historic pre-set purchase price in Guangxi and other provinces. If the sugar price increases during the marketing year, sugar mills usually pay their contracted cane farmers a bonus. In MY 07/08, the average cane price in four major producing provinces was \$35.5/MT (RMB242/MT). In Guangxi province, the cane purchase price is estimated at \$39.7/MT (RMB 270/MT) in MY07/08, unchanged from the previous year. However, due to the falling sugar price in MY07/08, the profit margin for sugar mills has narrowed substantially and may have been negative in the later stages of the marketing year. (See the table in Sugar Section).

Provincial governments have not announced the pre-set purchase price for cane in MY 08/09. Post forecasts that the purchase price will remain roughly at the same level as the previous year, which will guarantee a reasonable profit for cane farmers. This will further squeeze the profit margin for the mills in MY08/09.

Purchase Price of Sugar Cane in Major Producing Provinces				
RMB/MT (USD1.00 = RMB6.8)				
	Guangxi	Yunnan	Guangdong	Hainan
MY03/04	170	145	175	150
MY04/05	180	150	185	160
MY05/06	220	170	200	175
MY06/07	270	202	303	206
MY07/08	270	202	290	206

Sugar Beet

Sugar beet area for MY08/09 is forecast at 315,000 HA, five percent higher than MY07/08. To encourage beet planting, some sugar mills have raised the beet purchase price by 25 percent (to \$47/ MT) for the MY08/09 planting season. Some big mills in Heilongjiang province are also developing more contract purchasing from local farmers in order to secure a long term beet supply, heavily investing in machinery for planting and harvesting, and offering better field management services to beet farmers. However, the rising price for competitor crops, such as tomatoes and oilseeds, is making sugar beets less attractive to farmers. Increased prices for agricultural inputs are expected to reduce the profit margin for both beet farmers and mills in MY07/08. Industry sources estimate that the price for agricultural chemicals and fuels rose by 30 percent in MY07/08, while the average sugar price in MY07/08 is 10 percent lower than the previous year. During previous marketing years, beet production was far behind the millers' processing capacity. To keep sugar beets competitive with other crops, the millers in northern China provinces have repeatedly raised the beet purchase price. In MY08/09, the cost of agricultural inputs, including fertilizer, fuels and labor, are estimated to be about 40 percent higher than the previous year.

In Xinjiang province, the largest beet sugar producer in China, the average beet price in MY08/09 is set at \$47/MT (RMB320/MT), a rise of 25 percent from the previous year which was \$38.2/MT (RMB260/MT). In MY07/08, the province's sugar output is estimated at four percent of total national sugar output. Post estimates the average beet yield in MY07/08 was 34.1 MT/HA, five percent lower than the previous year. Industry sources attribute the reduced yield to inferior seeds used by some beet farms after quality seed sold out in MY07/08.

While beet acreage has expanded the past two years despite these challenges, beet production 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 was on the decline. In MY06/07 and MY07/08, imported beet seeds were used to make up for the domestic seed shortfall. While the imported varieties had a high yield, the sugar content was lower than their Chinese counterparts. As the sector consolidates, some large scale farms in Xinjiang and Heilongjiang provinces are looking for introducing imported varieties that are suitable for planting locally.

Sugar

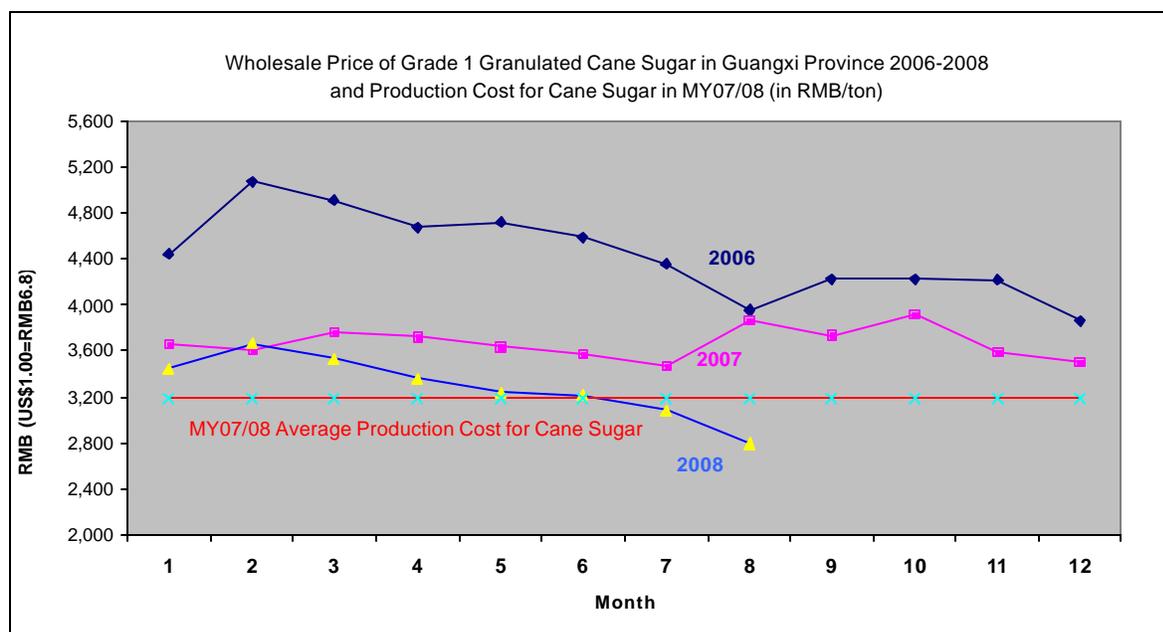
Production

Overall sugar output for MY08/09 is forecast to reach 15.78 MMT (raw value), one percent lower than MY07/08. Cane sugar output for MY08/09 is forecast at 14.5 MMT, one percent lower than MY 07/08. Beet sugar output is forecast at 1.28 MMT in MY08/09, compared to 1.26 MMT in MY07/08. 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 MY07/08. MY07/08 production is estimated at a record 15.9 MMT (raw value), ten percent higher than the previous estimate due to a record yield and area expansion.

The average production cost for sugar in Guangxi is estimated at over \$470/ton (RMB 3,200/ton) in MY07/08, while it was \$463/ton (RMB 3,150/ton) in MY06/07. Fertilizer, fuel and labor price rises are the major factors that boosted the production cost. In MY07/08, as a result of the surplus production, the average market price for cane sugar has been below the estimated average production cost since May 2008.

In MY07/08, due to the record crop and sugar output, the central government started to purchase sugar to hold in state reserve during the processing season. In January 2008, the Ministries of Commerce and Finance and the National Development & Reform Commission jointly announced intention to purchase 500,000 MT of refined sugar from the market after January 15. The purchase price is fixed at \$515/ton (RMB 3,500/ton), in reference to wholesale sugar price in Guangxi. The government designated about 20 sugar reserve warehouses in consuming regions to store the sugar. The final settlement prices at different warehouses vary in accordance with their transportation distance from Guangxi province. As the sugar price continued to fall after the government purchase, the government decided in June to purchase an additional amount of 600,000 MT at \$500/ton (RMB 3,400/ton).

In MY08/09, with an anticipated oversupply of sugar, the industry is lobbying the central government to continue to purchase sugar to hold in state reserve during the processing season.



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

Consumption

MY08/09 sugar consumption forecast is 16.3 MMT (raw value), ten percent higher than MY07/08. Total per capita natural sugar consumption in MY07/08 is estimated at about 10 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 was 1.09 Kg in 2006, down slightly from 1.13 Kg in 2005. 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 service sectors.

Production of Sugar Containing Products: Jan.-July 2008 (in 1,000 MT)							
	Confectionery	Cakes	Biscuits	Dairy Products	Canned Foods	Carbonated Drinks	Juice products
Total	635	425	1,598	11,113	2,931	6,375	7,034
* Growth Rate (%)	19.8	27.45	27.45	11.74	24.75	6.65	24.53

* Year on year growth in the first seven months

Source: China National Statistical Bureau

Starch sweeteners are often used in beverage, confectionery, and bakery production as a substitute for sugar. In MY07/08, because of a 17 percent rise in corn price, starch sweeteners became much less competitive versus cane and beet sugar.

Further, the sector's development was dampened by strict environmental regulation initiated in anticipation of the Beijing Olympic Games, as about 70 percent of the starch sweeteners production capacity is located near Beijing in Shandong, Hebei, and Henan provinces. Their operating costs increased under the strict environment regulations in the Beijing area. Unable to finance the renovation of their plants, some small scale plants were forced to close. During previous market years, due to the comparatively low production cost, starch based sweeteners have been price competitive with cane and beet sugar.

Trade

MY08/09 imports are forecast at 650,000 MT, 250,000 MT lower than the estimate for MY07/08 as a result of two consecutive years of increased domestic sugar output and accumulating sugar stocks. Imports usually start to arrive in China after the crushing season ends and the domestic price starts to increase. The TRQ for CY 2008 is 1.95 MMT, with an in-quota-tariff of 15 percent. The CY 2008 out-of-quota tariff rate is 50 percent. The amount of the quota and the tariff rate has 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 1950s.

Though raw sugar imports are estimated to drop by 57 percent to 500,000 MT in MY07/08, refined sugar imports are estimated to increase by 45 percent, reaching 400,000 MT in MY07/08, most of the increase is attributed to Chinese imports from India. According to trade sources, exports of Indian sugar were aided by an export subsidy in MY07/08.

Stocks

Ending stocks for MY08/09 are forecast at 3.35 MMT (raw value), slightly higher than the revised stocks estimate for MY07/08. Stocks include state reserves and those held by the industrial, commercial, and distribution sectors.

Given a record bumper crop and record sugar output in MY07/08, all Cuban sugar imports in CY2008 have entered state sugar reserves and will not be auctioned in MY07/08. In previous years, imported Cuban sugar first enters the state reserve and near the end of each marketing year the government decides on the timing and the volume of stocks to be auctioned in an effort to dampen wide market price swings. In normal storage conditions, raw sugar could be stored for up to five years while for refined sugar can be stored for up to 15 months and still meet Chinese sanitary requirements.

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 the first half of 2008, China produced 7,946 MT of saccharine, of which 7,583 MT were exported. Amid oversupply of natural sugar, China Sugar Association (CSA) tightened control on the domestic sale of saccharine. According to CSA, the domestic sale in the first half 2008 reached 1,103 MT, 11 percent lower than the same period last year.

Currently, only five saccharine plants are licensed for operation. Each month these five plants are required to report to CSA on their operational activities, including production progress, domestic and export sales, and stock levels.

Starched-based Sweeteners

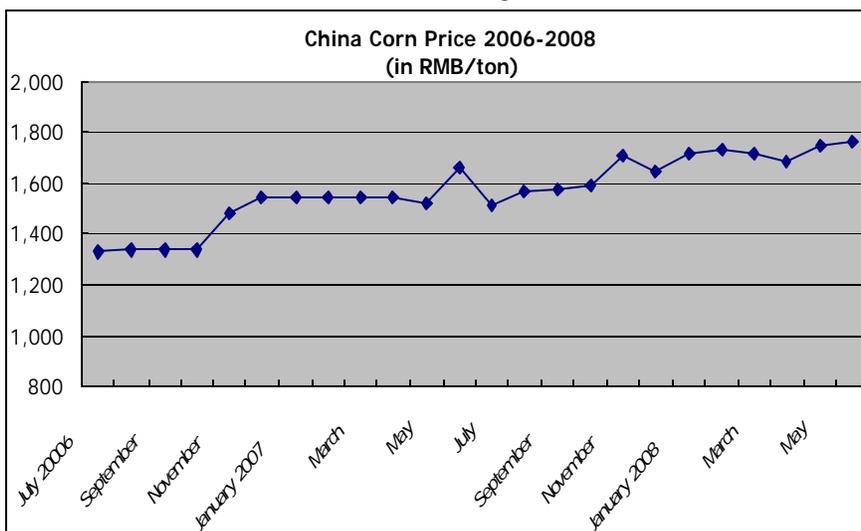
Official data on starch-based sweeteners is not available. Industry sources estimate that production of starch-based sweeteners in 2007 reached 6.0 MMT, unchanged from the previous year. Official data showed that China's corn production in 2007 reached a record high of approximately 151 MMT, while corn prices rose 17 percent year on year in MY07/08 because of rapid growth in feed and industrial use.

The rise in the corn price erodes the profit margin for starch sweeteners.

Post estimates the price competitiveness of starch sweeteners will continue to decline in MY08/09. Starch sugar production in MY08/09 is forecast to drop by 10 percent from the previous year due to high operational cost related with rising corn price, and environmental regulations. The use of starch sweeteners in MY07/08 is equivalent to about 4.2 MMT of cane sugar.

To curb rising food prices, in November 2007, the government stopped approval of new processing plants that use grains as ingredients. This policy shift will cap or severely restrict the further expansion of starch and starch sweetener production in China even if there is a favorable market price relationship for starch sweeteners. Post forecasts the tight policy control on grain processing sector will not ease in the short term given the mounting concern over food prices in China.

To discourage the export of grain based products, the government stopped the Value Added Tax rebate for starch sweeteners in 2008, which further curbs the expansion of the sector.



Tables

Production, Supply, and Demand (PSD) Tables

Table 1. Centrifugal Sugar

Sugar, Centrifugal China	2007			2008			2009		
	2006/2007			2007/2008			2008/2009		
	Market Year Begin: Oct 2006			Market Year Begin: Oct 2007			Market Year Begin: Oct 2008		
	Annual Data Displayed		New Post	Annual Data Displayed		New Post	Annual Data Displayed		
	(1000 MT)		Data			Data			Data
Beginning Stocks	703	703	703	1901	1901	1401	2893	2893	3297
Beet Sugar Production	1358	1358	1358	1300	1300	1262	1350	1350	1285
Cane Sugar Production	11497	11497	11497	13200	13200	14636	13000	13000	14500
Total Sugar Production	12855	12855	12855	14500	14500	15898	14350	14350	15785
Raw Imports	1190	1190	1190	600	600	500	600	600	450
Refined Imp.(Raw Val)	275	275	275	300	300	400	200	200	200
Total Imports	1465	1465	1465	900	900	900	800	800	650
Total Supply	15023	15023	15023	17301	17301	18199	18043	18043	19732
Raw Exports	10	10	10	8	8	7	10	10	6
Refined Exp.(Raw Val)	112	112	112	100	100	45	110	110	45
Total Exports	122	122	122	108	108	52	120	120	51
Human Dom. Consumption	13000	13000	13500	14300	14300	14850	15400	15400	16335
Other Disappearance	0	0	0	0	0	0	0	0	0
Total Use	13000	13000	13500	14300	14300	14850	15400	15400	16335
Ending Stocks	1901	1901	1401	2893	2893	3297	2523	2523	3346
Total Distribution	15023	15023	15023	17301	17301	18199	18043	18043	19732

Table 2. Sugar Cane

Sugar Cane for Centrifugal China	2007			2008			2009		
	2006/2007			2007/2008			2008/2009		
	Market Year Begin: Oct 2006			Market Year Begin: Oct 2007			Market Year Begin: Oct 2008		
	Annual Data Displayed		New Post	Annual Data Displayed		New Post	Annual Data Displayed		
			Data			Data			Data
Area Planted	1495	1495	1495	1550	1550	1600		1580	1620
Area Harvested	1495	1495	1495	1550	1550	1600		1580	1620
Production	99784	99784	99784	106000	110000	115000		102000	116000
Total Supply	99784	99784	99784	106000	110000	115000		102000	116000
Utilization for Sugar	99784	99784	99784	106000	110000	115000		102000	116000
Utilization for Alcohol	0	0		0	0			0	
Total Utilization	99784	99784	99784	106000	110000	115000		102000	116000

Table 3. Sugar Beet

Sugar Beets China	2007		2008		2009			
	2006/2007		2007/2008		2008/2009			
	Market Year Begin: Oct 2006		Market Year Begin: Oct 2007		Market Year Begin: Oct 2008			
	Annual Data Displayed	New Post	Annual Data Displayed	New Post	Annual Data Displayed			
		Data		Data		Data		
Area Planted	287	287	300	300	300	300	300	315
Area Harvested	287	287	287	300	300	300	300	315
Production	10536	10536	10536	10500	10500	10000	11050	11100
Total Supply	10536	10536	10536	10500	10500	10000	11050	11100
Utilization for Sugar	10536	10536	10536	10500	10500	10000	11050	11100
Utilization for Alcohol	0	0	0	0	0	0	0	0
Total Distribution	10536	10536	10536	10500	10500	10000	11050	11100

Price Table

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

RMB/MT (US\$1.00=RMB 6.8)					
Month	2004	2005	2006	2007	2008
January	2,548	2,590	4,449	3,656	3,442
February	2,502	2,996	5,071	3,599	3,657
March	2,666	3,132	4,903	3,760	3,528
April	2,781	3,109	4,679	3,723	3,360
May	2,839	3,115	4,711	3,639	3,250
June	2,896	3,224	4,583	3,576	3,216
July	2,870	3,417	4,361	3,476	3,081
August	2,943	3,467	3,949	3,867	2,802
September	3,123	3,684	4,229	3,736	
October	2,847	3,760	4,221	3,925	
November	2,633	3,514	4,217	3,595	
December	2,585	4,055	3,861	3,498	
Yearly Average	2,769	3,339	4,436	3,670	3,292

Source: Guangxi Sugar Exchange Center
Website: www.chinasugarmarket.com

Trade Tables

Table 5. 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	480,728	1,404,344
India	0	0	702	53,825	54,527
Korea, South	46,611	28,426	43,119	42,995	161,151
Cuba	49,897	0	130,250	204,370	384,517
Thailand	146,619	11,896	104,776	41,639	304,930
Australia	5,181	3,251	2,487	81,492	92,410
Malaysia	1,965	2,189	344	522	5,020
Singapore	0	0	0	0	0
Brazil	181,002	50,627	179	32,434	264,242
Japan	319	113	176	317	926
United Arab Emirates	0	300	0	0	300
Paraguay	0	0	0	0	0
United States	2	61	7	3	73
Taiwan	1	1	2	1	5
Mauritius	2	9	9	5	25
Others	510	72,426	40,157	23,125	136,217

Source: China Customs

Table 6. China's Sugar Imports by Origin - MY 2007/2008 (In MT)

Country	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sept	MY Total
World	221,456	136,129	390,219		747,805
Cuba	45,323	27,104	240,560		312,987
India	96,930	76,755	78,385		252,070
Korea, South	46,049	26,553	30,177		102,779
Thailand	25,919	4,417	29,810		60,147
Myanmar	0	355	5,422		5,777
Pakistan	0	0	2,400		2,400
Malaysia	728	0	1,667		2,395
Australia	5,844	221	1,556		7,621
Brazil	125	95	100		320
Hong Kong	0	71	43		114
Japan	102	5	26		133
Singapore	300	0	21		321
Germany	1	5	21		27
Mauritius	3	12	16		30
Others	132	536	15		683

Source: China Customs

Table 7. 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	18,748	114,884
Hong Kong	8,439	8,297	10,255	13,428	40,419
Mongolia	915	780	600	1,200	3,495
Japan	632	2,710	3,576	960	7,878
United States	649	405	253	423	1,730
Singapore	1,428	3,938	6,578	285	12,229
Malaysia	207	263	254	493	1,217
Yemen	232	792	468	384	1,875
Canada	201	127	140	108	576
Australia	89	70	69	111	340
Macau	440	286	222	304	1,252
Korea, North	80	65	113	40	297
Indonesia	70	21,928	30	104	22,131
Korea, South	1	21	61	20	103
Others	2,482	1,858	16,114	888	21,342

Table 8. China's Sugar Exports by Destination - MY 2007/2008 (In MT)

Country	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sept	MY Total
World	11,442	15,697	11,653		38,792
Hong Kong	7,474	9,036	4,983		21,493
Japan	742	1,879	2,237		4,859
Mongolia	902	2,400	1,380		4,682
United States	619	867	1,036		2,522
Malaysia	361	184	367		912
Singapore	487	267	251		1,005
Macau	83	227	180		489
Canada	206	114	165		486
Egypt	0	17	152		168
Yemen	210	63	105		378
Korea, South	21	46	101		168
United Arab Emirates	18	109	91		219
United Kingdom	0	34	89		124
Others	318	454	515		1,287