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Korea, Republic of

Sugar

Annual

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Report Highlights: In MY 2001, Korean sugar demand is expected to remain flat after growing 7 percent in MY 2000 following the country's 1998-1999 economic recession. Local consumption of sugar-based products is dampened by an uncertain economic outlook. Export prospects for refined sugar are weakening as international competition intensifies for fewer markets, export prices fall and profits shrink due to rising costs for raw ingredients.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
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SECTION I. SITUATION AND OUTLOOK

The Korean economy is expected to slow this year to a respectable 4-5 percent rate, after growing 9 percent in 2000. Economic uncertainties, spreading rapidly since 4th quarter 2000, over rising unemployment, inflation, and a higher per household tax burden are causing a drag on the economy. Economic forecasts are for a second half up-tick of the economy, which will influence refined sugar disappearance for the remainder of the year.

In MY 2001, refined sugar disappearance is expected to remain constant, or increase slightly, depending on the direction the economy takes during the second half. In MY 2000, refined sugar production grew 7 percent overall in tandem with the country's economic rebound from the 1998-1999 recession. In 2000, the unusually hot summer coupled with the successful introduction of new-to market beverage products' catapulted demand in the beverage sector by 15 percent. Efforts to develop overseas markets in South East Asian countries also paid off as refined sugar exports grew 6 percent.

Refined sugar prices remain on a roller coaster, with ex-factory prices first dropping 5 percent in March 2000 due to the local currency's depreciation, then rising 5 percent in November on upward movement in international raw sugar prices. Since then, wholesale and retail prices per 15 kg bags have held at 10,300 won (US\$8.24) and 12,500 won (US\$10), respectively. The prognosis is domestic wholesale and retail prices will have to adjust upward in the near future as the Korean won has depreciated 17 percent over the last six months with no corresponding adjustment in product prices.

While the Korean government is not directly involved in setting domestic sugar prices, it does require local refineries to submit supporting documentation for review prior to implementing a price change. This documentation requirement tends to inhibit the markets' ability to respond freely to changing economic conditions. The government's rationale for the requirement is that refined sugar, one of 154 basic commodities included in the national consumer price index, requires close monitoring to prevent unjustified price increases.

Of total raw sugar disappearance, about annual 100-120,000 MT goes to the production of L-Lysine, an animal feed (growth) ingredient. More than 90 percent of Lysine production is exported. Recent livestock disease outbreaks in Europe should not dramatically affect local production. The boom in demand foreseen with the BSE outbreak gave way to lower interest once massive culling of FMD infected animals began in Europe.

In MY 2001, external demand for refined sugar is projected to decline despite greater competitiveness of the Korean product in recent months through currency devaluation. Oversupply in Europe, intensified competition from India and Thailand, and reduced consumption in Indonesia all contribute to a more conservative market outlook for the current year. Facing intensified international competition and deteriorating business profits from exports, local suppliers are retrenching to protect domestic market shares. In MY 2000, Hong Kong accounted for about 60 percent of Korean exports.

Japan's recent action to designate imported premix products (holding about 80 percent sugar content) as an item subject to careful monitoring (the pre-measure for a safeguard action) may eventually affect Korean exports to that market. Premix products garner a lower duty rate than pure refined sugar. Korea, which supplies half the Japanese import market, exports 60,000 MT of premix products to Japan annually.

In MY 2001, Korean raw sugar imports are projected to remain at last year's level on account of the sluggish economy and weaker export demand. Australia, supplier of over half of Korea's total raw sugar requirements, is expected to lose some market share to Guatemala due to falling prices in that country.

In MY 2000, high fructose corn syrup (HFCS) demand, the primary substitute for sugar, experienced strong growth after two down years during the country's economic crisis. Increased coke cola production by 11 percent spurred HFCS consumption as bottlers use only HFCS in production of coke -- no refined sugar is used. Korea's HFCS production consists of HFCS-55 (96 percent) and HFCS-42 (4 percent). Local HFCS production is consumed in the following sectors: soft drink (80 percent), confectionary and bakery (6 percent), and other processed foods (14 percent). HFCS-55, the primary sweetening agent for carbonated soft drinks due to its competitive price, currently trades at 436 Won/Kg. HFCS is priced 37 percent lower than refined sugar. Over the next five years HFCS consumption is expected to expand by only 2-3 percent, down from the 4-5 percent annual average growth during the 1990s, as market expansion opportunities are viewed as limited.

SECTION II. STATISTICAL TABLES

Sugar PSD

PSD Table						
Country	Korea, Republic of					
Commodity	Centrifugal Sugar				(1000 MT)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		10/1999		10/2000		10/2001
Beginning Stocks	93	93	83	85	80	95
Beet Sugar Production	0	0	0	0	0	0
Cane Sugar Production	0	0	0	0	0	0
TOTAL Sugar Production	0	0	0	0	0	0
Raw Imports	1440	1514	0	1520	0	1545
Refined Imp.(Raw Val)	0	0	0	0	0	0
TOTAL Imports	1440	1514	1460	1520	0	1545
TOTAL SUPPLY	1533	1607	1543	1605	80	1640
Raw Exports	0	0	0	0	0	0
Refined Exp.(Raw Val)	300	348	290	325	0	320
TOTAL EXPORTS	300	348	290	325	0	320
Human Dom. Consumption	1150	1174	1173	1185	0	1230
Feed Dom. Consumption	0	0	0	0	0	0
TOTAL Dom. Consumption	1150	1174	1173	1185	0	1230
Ending Stocks	83	85	80	95	0	90
TOTAL DISTRIBUTION	1533	1607	1543	1605	0	1640

MY 2000 - 2001 Raw Sugar Imports

	MY 2000		MY 2001 1/	
	MT	\$1000	MT	\$1000
Australia	885,835	165,560	296,101	73,394
South Africa	115,083	22,162	98,661	22,160
Thailand	349,570	58,395	40,301	8,592
Guatemala	132,227	22,169	31,774	7,699
Fiji	31,050	5,271	15,034	2,487
Brazil	0	0	1,557	450
U.S.A.	0	0	0	0
Total	1,513,765	273,557	483,429	114,782

Source: Korea Trade Information Services (KOTIS)

Note 1/ based on Oct. 2000 - Jan. 2001 data.

MY 2000 - 2001 Refined Sugar Exports

	MY 2000		MY 2001	
	MT	\$1,000	MT	\$1,000
Hong Kong	119,835	24,515	42,520	10,307
P.R.C.	49,310	10,594	21,791	6,107
Indonesia	41,672	8,712	9,031	2,486
Singapore	39,549	7,575	8,464	2,233
Philippine	77,142	17,817	5,315	1,220
Malaya	10,061	1,990	1	1
South Africa	4,815	1,038	0	0
Japan	1,730	480	520	191
Macao	904	208	268	62
Canada	20	7	20	7
Russia	27	61	0	0
U.S.A.	1	25	9	30
Others	3,081	1,036	1,094	350
Total	348,174	74,058	89,030	22,994

Source: Korea Trade Information Services (KOTIS)

Note 1/ based on Oct. 2000 - Jan. 2001 data.

Korea: Refined Sugar Production (Unit in 1000 MT)

Year	1995	1996	1997	1998	1999	2000
Volume	1132	1168	1198	1127	1176	1253
Change	-1%	3%	3%	-6%	4%	7%

Source: Korea Sugar Association

Korea: HFCS Production by Corn Wet Millers (Oct/Sept., 1000MT)

Market Year	Production	Raw sugar Equivalent
1990/91	319	262
1991/92	311	255
1992/93	282	231
1993/94	305	250
1994/95	302	247
1995/96	313	257
1996/97	348	285
1997/98	321	263
1998/99	329	270
2000/01	391	321

Source: KOCPIA (Korea Corn Processing Industry Association).

Korea: Factory Shipment Prices (Unit in Won/Kg)

Date	Jan. '98	Apr. '98	July '98	Dec. '98	Mar. '99	Aug. '99	Dec. '99	Mar. 2000	Nov. 2000
Price	1103.52	1024.98	934.78	875.60	814.33	777.70	688.22	653.8	686.62
Change	17.6%	-7.1%	-8.8%	-6.3%	-7.0%	-4.5%	-11.5%	-5.0%	5.0%
FX Rate	1,706.80	1,391.97	1,300.77	1,213.65	1,229.16	1,199.79	1,138.39	1,117.19	1151.2

Source: Industry trade

Korea: Import Prices of Raw Sugar

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1999	232	230	221	209	211	204	191	185	193	199	186	191
2000	194	180	176	174	162	166	193	205	214	243	242	253
Change	-16%	-22%	-20%	-17%	-23%	-19%	1%	11%	11%	22%	30%	32%

Source: Korea Trade Information Services (KOTIS)

Korea: Export Prices of Refined Sugar

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1999	260	267	280	247	240	237	233	237	246	248	228	222
2000	217	210	212	210	214	233	225	256	241	267	287	274
Change	-17%	-21%	-24%	-15%	-11%	-2%	-3%	8%	-2%	8%	26%	23%

Source: Korea Trade Information Services (KOTIS)