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## **Annual Sugar Report**

### **Taiwan**

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#### Report Highlight:

The monopoly producer and importer, Taiwan Sugar Corporation, is expected to be privatized in the near future and with Taiwan's accession to WTO, import tariffs should be halved. While production is expected to continue to fall below 300,000 MT, sugar consumption should increase by 2-3 percent per year as the market is liberalized and domestic prices come down closer to the world market level.

Includes PSD changes:  
Includes Trade Matrix:

## **1. Executive Summary**

Taiwan's production of sugarcane in MY1998 was 3,559,755 metric tons. The 8% decrease in sugarcane production compared to a year earlier is primarily attributable to the continuing implementation of the Taiwan Sugar Corporation's (TSC) Five Year Sugar Policy (1996-2001). The intent of this policy was to reduce annual local production of cane sugar to a base level of 310,000 MT by 2001. However, just halfway through the policy, Taiwan's annual local production of cane sugar in MY1998 was already down to 311,699 MT, a 10.3% reduction from a year earlier. However, it should be noted that this was mainly due to adverse weather conditions, rather than TSC's policy.

Local sugar consumption has remained stable at 500,000 MT per year for the past three years, or 23.8 kilograms per capita. Projections for MY2000 are that local consumption will rise to 510,000 MT, given in part the increasing westernization of the local diet.

Annual domestic consumption of high fructose corn syrup (HFCS) should remain at just over 150,000 MT until Taiwan accedes to the WTO, when the HFCS market is expected to grow modestly at 2-3% annually. Australia--with its monopoly on the Taiwan import market for centrifugal cane sugar, and the US--with its established HFCS industry and foothold on Taiwan's corn import market, are both expected to be the lead suppliers of HFCS upon Taiwan's WTO accession.

Processor prices on Taiwan are currently US\$0.55/kg for white cane sugar and US\$0.49/kg for raw cane sugar. The average retail price of refined sugar is US\$0.85/kg; the average wholesale price is US\$0.71/kg.

Taiwan's only export market for centrifugal sugar is the US, which imported 18,297 MT in FY1998. This is expected to dip to 13,000 MT in FY1999, though final quota allocations by the US are usually significantly higher. Taiwan's sole supplier of raw cane sugar is Australia, which shipped 187,500 MT to Taiwan in CY1998. The vast bulk of Taiwan's sugar crop is consumed by local industries as sweetener for food ingredients, or through retail sale as cane sugar. Because the industry is a government owned monopoly, and relies very little for its livelihood on exports, it has been more or less "recession-proof" in the midst of the on-going Asian financial crisis. The global surplus in world sugar supply also hasn't had much effect on the TSC's market, since there is a virtual ban on sugar imports onto the island.

The TSC intends to privatize in 2002. At that time, the TSC will no longer have monopoly producer and importer rights on Taiwan. Consequently, retail prices on the island should decline significantly. Recent pressure to reduce local retail sugar prices was led by the main political opposition party, as the TSC is managed by the ruling Nationalist Party. Trade contacts estimate that in the past three years, the TSC has lost approximately US\$180 million annually in the sugar business. Currently, less than half of TSC's operations involve sugar production, sales and distribution.

## 2. Production

PSD Table						
Country: Taiwan						
Commodity: Centrifugal Sugar						
Unit: 1000MT		MY1998		MY1999		MY2000
	Old	New	Old	New	Old	New
Mkt yr. begins:		9/1997		9/1998		9/1999
Beginning stocks	143	217	217	217	0	256
Beet sugar production	0	0	0	0	0	0
Cane sugar production	330	330	325	312	0	280
Total sugar production	330	330	325	312	0	280
Raw imports	190	190	210	188	0	200
Refined imports (raw value)	0	0	0	57	0	57
Total imports	200	190	210	245	0	257
Total supply	673	737	752	774	0	793
Raw exports	20	20	20	18	0	13
Refined exports (raw val)	0	0	0	0	0	0
Total exports	20	20	20	18	0	13
Human domestic consumption	510	500	500	500	0	510
Feed domestic consumption	0	0	0	0	0	0
Total domestic consumption	510	500	500	500	0	510
Ending stocks	143	217	232	256	0	270
Total distribution	673	737	752	774	0	793

\*Statistical Dept, Directorate General of Customs, Ministry of Finance, ROC

\*\*The average exchange rate for MY1999 was US\$1 = NT\$33.

Centrifugal Sugar (cane)			Units: 1000 ha / 1000 MT			
Taiwan	MY98 old	MY98 new	MY99 old	MY99 new	MY2000 old (pred)	MY2000 new (pred)
area planted	46	46	44	46	0	44
area harvested	45	42	41	45	0	43
production	3496	3408	3450	3560	0	3382
total supply	3496	3408	3450	3560	0	3382
utilization for sugar	3496	3408	3450	3560	0	3382
utilization for alcohol	0	0	0	0	0	0
total utilization	3496	3408	3450	3560	0	3382

\*Statistical Dept, Directorate General of Customs, Ministry of Finance, ROC

\*\*The average exchange rate for MY1999 was US\$1 = NT\$33.

Production yield per hectare was 78,610 MT in MY1998. In MY1998, approximately 91,613 MT of sugarcane was damaged by typhoons and floods. However, the general trend is for an average annual decrease in production of 5-10%. This trend should continue until 2002, when TSC plans to privatize. After that imported sugar products will have far wider access to the Taiwan market and production should fall even more rapidly.

TSC estimates that sugar production will fall below 300,000 MT in MY1999. In an attempt to assuage political pressure, the ruling party-dominated TSC already has closed nine sugar mills since 1980, and plans to shut another two by the year 2001, leaving a total of 13 cane sugar production mills.

Processor prices for MY1999 on Taiwan currently are US\$0.55/kg for white cane sugar and US\$0.49/kg for raw cane sugar. The average retail price for refined sugar is US\$0.85/kg; the average wholesale price is US\$0.71/kg. Most of the pressure to reduce the price of sugar on Taiwan has been applied by the main opposition political party, since TSC is managed by the ruling Nationalist Party.

Currently, TSC produces three types of sugar:

- Superior White Crystal Sugar — polarization above 99.7 degrees
- A-Grade White Crystal Sugar — polarization above 99.3 degrees
- B-Grade White Crystal Sugar — polarization above 98.0 degrees

Based on these three types of sugars, the average polarization degree is 99.0.  
TSC does not produce refined brown sugar.

### 3. Consumption

The gradual fall in prices of refined sugar on Taiwan has led to a parallel increase in domestic consumption. Forecasts expect consumption to surpass 510,000 MT in MY2000. This would bring per capita consumption to 24.3 kg. Approximately 86% of the alternative sweetener market on Taiwan is supplied by high fructose corn syrup (HFCS). According to Taiwan's HFCS industry, domestic consumption of HFCS was approximately 155,000 MT in MY1998, and should remain near this level until Taiwan accedes to the WTO. In MY1999, the US supplied over 98% of the US\$423,000 total imported HFCS. However, imported HFCS made up less than one percent of total consumption. The HFCS industry expects a small decline in local production after Taiwan reduces controls on the sugar market to meet WTO commitments. There is no import quota for US HFCS imports, but prohibitive tariffs of 40% price most imports out of the market. The Taiwan beverage industry purchases nearly 99% of total locally produced HFCS. The average current wholesale price of HFCS is US\$0.38/kg. As use of HFCS is limited to use in refrigerated beverages such as soft drinks, the consumption of cane sugar on the island as a sweetener is far greater.

### 4. Stocks

<b>Cane Sugar Beginning Stocks</b>	<b>Unit: Metric Ton</b>
<b>Year</b>	<b>Quantity</b>
<b>MY1998</b>	<b>217</b>
<b>MY1999</b>	<b>217</b>
<b>MY2000</b>	<b>256 (estimate)</b>

Cane sugar stocks should remain fairly constant for the next three years. Imports are expected to make up for declines in production.

### 5. Trade

<b>Trade Matrix/Centrifugal Sugar/Taiwan Imports/CY1998</b>	<b>Unit: Metric Ton</b>
<b>Origin</b>	<b>Quantity</b>
<b>Australia</b>	<b>187,500</b>

Australia has been the sole supplier of raw cane sugar to Taiwan for the past three years. Due to local preference for cane sugar, the US has had difficulty gaining additional market share for beet sugar. To meet Taiwan's annual domestic need of approximately 500,000 MT, Taiwan is obliged to import between 150,000 to 200,000 MT of imported centrifugal sugar per year. In MY1999, due to a local shortage, TSC relaxed its ban on refined sugar imports and purchased 57,000 MT of primarily Australian sugar. Current tariff rates are 25% for raw sugar and 35% for refined sugar. After Taiwan joins the WTO, the import tariff rates could be reduced by as much as half of the current rates.

Trade Matrix / Centrifugal Sugar / Taiwan Exports		Unit: Metric Ton
Year*	Destination	Quantity
FY1997	US	23,497
FY1998	US	18,297
FY1999	US	12,999**

\* US raw cane sugar TRQ allocations are by fiscal year -- (October 1 through September 30).  
 \*\* Preliminary allocation only. Final allocations are usually significantly higher.

In FY1998, Taiwan provided 1.1% of the total quantity of sugar imported into the US. TSC privatization should effect no change in Taiwan's sugar export quota to the US. However, WTO accession for Taiwan should bring about an slight increase.

## 6. Government Policy/Marketing

As the government-owned Taiwan Sugar Corporation attempts to reduce its role in the sugar industry, and annual domestic consumption climbs gradually above 500,000 MT, imported sugar will play a larger role in the local marketplace. Australia is expected to register the sharpest increase in imports into Taiwan due to its current market share. As TSC cannot possibly meet full domestic sugar demand, and because their processing and retail prices are much higher than elsewhere in the world, the Taiwan government intends to liberalize sugar import restrictions in 2002. Therefore, TSC currently is studying the possibility and cost-effectiveness of establishing separate sugar storing and distribution centers in the north, center and south of the island. In theory this would save on inland transportation costs and make locally produced sugar more price-competitive. TSC also is promoting liquid sugar loaded in tank lorries as a cheaper and more energy efficient option for storage, transport, and processing.

**End of Report**