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China - Peoples Republic of

Sugar Annual

Chinese sugar production growth expected to slow, prices rise

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Report Highlights:

Growth in Chinese sugar production is expected to slow in 2019/20, with sugar cane acreage forecast to remain steady and sugar beet acreage forecast to increase slightly. Due to tightening supplies, prices are also expected to rise. Since the Chinese government amended its import safeguard policy in August 2018, Brazil has regained its position as the largest sugar supplier to China.

Executive Summary

Growth in Chinese sugar production is expected to slow in 2019/20, with sugar cane acreage forecast to remain steady and sugar beet acreage to increase slightly. Due to tightening supplies, prices are also expected to rise. Since the Chinese government amended its import safeguard policy in August 2018, Brazil has regained its position as the largest sugar supplier to China.

Sugar Cane

ATO Guangzhou forecasts marketing year (MY) 2019/20 cane sugar production at 9.25 million metric tons (MMT), the same as the MY 2018/19 estimate. Although cane sugar production in China had previously increased for 3 straight years, low prices and constraints to further acreage expansion is expected to result in production remaining steady from MY 2018/19.

These constraints to expanded sugar cane area include:

- Continued urbanization: More farm land is continually being converted for industrial use and real estate development.
- Competition from other agricultural products: The expanding Chinese middle class is boosting demand for fruits and vegetables, and farmers are increasingly switching to these more profitable crops.
- Rising labor costs: Labor shortages continue to drive up production costs in China, especially during the cane harvest season. As more rural workers leave for higher incomes in urban centers, harvest costs continue to increase. Total sugar production costs in China are nearly double those in many other producing countries.
- Lack of mechanization: Much of the sugar cane producing area in China is in hilly areas, which limits mechanization.

Although overall sugar cane area is expected to remain steady nationwide, industry contacts expect that provincial government policies will result in expanded acreage in Guangxi (which accounts for 60 percent of production), and reduced acreage in Guangdong and Hainan provinces.

The Guangxi provincial government has implemented policies to keep cane acreage from decreasing and ensure sufficient sugar supplies. These policies include:

- Mandating sugar mills pay farmers a high purchase price, RMB490 (\$73) per MT of sugar cane. Mills are required to pay within one month of the arrival of cane shipments at the mills.
- Encouraging farmers to plant better performing cane varieties. Farmers who plant designated varieties can receive a subsidy of RMB10-30 (USD\$1.50-4.50) per MT when selling cane to mills.
- Continuing to build and expand the “Double-High” (high yield and high sugar content) cane production area. The provincial government identifies suitable sugar cane areas and subsidizes these landowners/farmers to encourage them to use good breeds, apply fertilizer, mechanize as much as possible.

Owing to these efforts, Guangxi’s cane acreage is anticipated to increase slightly in MY2019/20. Sugar mills in Guangxi, however, have complained that these required prices paid to farmers are too high and as a result that mills are losing money. As a result the milling industry has petitioned the government to provide direct subsidies to farmers and allow the market to determine cane purchase prices.

CHINESE SUGARCANE PRODUCTION



Source:

China Sugar Association and ATO Guangzhou 2018, blank map from http://www.d-maps.com/carte.php?num_car=11570&lang=en

Legend:



Yunnan province is the second largest sugar cane producer and industry contacts expect sugar acreage to remain largely unchanged from the previous year. The provincial government does not implement a mandatory purchase price. The local sugar association, however, does organize mills to provide technical support and to subsidize farmers who use better varieties, fertilizers, and harvesting mechanics.

Neither Guangdong province nor Hainan province have a mandatory cane purchase price. As a result, as sugar prices fell in recent years, purchases prices also declined, especially in Guangdong where prices were significantly below those paid to Guangxi farmers. As a result, acreage in these provinces are expected to fall.

Purchase Price of Sugar Cane in Major Producing Provinces

RMB per MT(USD\$1.00=RMB6.7)

| | Guangxi | Yunnan | Guangdong | Hainan |
|--|---------|--------|-----------|--------|
| | | | | |

| | | | | |
|----------------------------|---------|---------|---------|---------|
| MY 2014/15 | 390-410 | 390-410 | 405-380 | 400 |
| MY 2015/16 | 430-440 | 430 | 440-450 | 440-450 |
| MY 2016/17 | 480-500 | 460 | 480 | 520 |
| MY 2017/18 | 500 | 450 | 440-480 | 530 |
| MY 2018/19 | 490-520 | 420-450 | 380-400 | 500 |
| MY 2019/20 (Post Estimate) | 480 | 450 | 390 | 490 |

Source: Mutian Technology (www.msweet.com.cn) and industry news

The MY 2018/19 sugar cane production estimate is revised down to 9.25 MMT in light of Chinese government statistics and industry estimates

Sugar Beet

MY 2019/20 beet sugar production is forecast at 1.45 MMT, up 100,000 metric tons (MT) from the revised MY 2018/19 estimate. The production increase is expected to be in Inner Mongolia, where six new sugar mills opened in calendar year (CY) 2018 and beet acreage is expected to expand to meet increased mill capacity. The opening of these new mills brought Inner Mongolia's total to 14 mills and this additional demand resulted in Inner Mongolia surpassing Xinjiang as China's largest beet sugar producing province.

While sugar cane production growth has largely stopped, ATO Guangzhou expects sugar beet production to continue to expand for a number of reasons:

- Adoption of high-performing beet varieties: Sugar beet seeds in China primarily are imported from Europe and have good performance in yield and high sugar content.
- High level of mechanization: Unlike sugar cane growing areas, sugar beet growing terrain in Inner Mongolia and other parts of North China beet producing areas are suitable for large-scale farming with a high level of mechanization. As a result, labor costs are significantly lower than those for sugar cane.
- Continued demand from new mills: As stated above, the construction of new sugar mills in Inner Mongolia and subsequent growth in demand for sugar beets will continue to support acreage expansion.

Sugar beet purchase prices are determined and specified by contracts signed between sugar mills and beet farmers before planting. In MY 2018/19, based on the beet purchase price of RMB530 (\$79) per MT, Inner Mongolia sugar mills produced beet sugar at a cost of RMB 5300-5500 (\$791-\$821) per MT, which was lower than the sugar cane production cost.

MY 2018/19 beet sugar production is revised down to 1.35 MMT in light of Chinese government production statistics and industry estimates. Despite increasing demand from new mills, lower prices in MY2018/19 limited some of the growth in area.

Purchase Price of Sugar Beets in Major Producing Provinces

RMB per MT(USD\$1.00=RMB6.7)

| | Inner Mongolia | Xinjiang | Heilongjiang |
|--------------------------|----------------|----------|--------------|
| MY 14/15 | 530-550 | 440 | 550 |
| MY 15/16 | 540 | 448 | 555 |
| MY 16/17 | 530-540 | 443 | 560 |
| MY 17/18 | 550 | 450 | 560 |
| MY 18/19 | 530 | 460 | N/A |
| MY 19/20 (Post Estimate) | 520 | 450 | 500 |

Source: Mutian Technology (www.msweet.com.cn) and industry news

CHINESE SUGARBEET PRODUCTION



Source: China Sugar Association and ATO Guangzhou 2018, blank map from http://www.d-maps.com/carte.php?num_car=11570&lang=en

Legend:

- Inner Mongolia: 50%
- Xinjiang: 40%
- Heilongjiang: 8%

Centrifugal Sugar

MY 2019/20 total sugar production is forecast at 10.7 MMT, 100,000 MT higher than the revised MY 2018/19 estimate. This sugar production increase is mainly due to the expected expansion in beet sugar production in Inner Mongolia.

MY 2018/19 total sugar production is estimated at 10.6 MMT, 200,000 MT lower than the previous forecast as a result of revised production estimates for cane and beet sugar.

Sugar prices have been relatively low in the past year but industry sources believe late CY 2019 will be the beginning of a new cycle of rising prices for sugar. China's slowing production growth, decreasing stocks, and support from global price changes are expected to help boost prices. According to these sources, sugar prices are likely to rise above RMB5600 (\$836) per MT in the second half of CY 2019 and by the end of CY 2019 could reach as high as RMB6000 (\$896) per MT.

Chart: China Sugar Prices (January 2015 - April 2019)



Source: Data by Mutian Technology (www.msweet.com.cn) and chart by ATO Guangzhou

Consumption

MY 2019/20 sugar consumption is forecast at 15.8 MMT, unchanged from the MY 2018/19 estimate. Although China's urbanization and increased purchasing power is leading consumers to upgrade their preferences and demand a greater variety of products, including processed products, rising sugar prices are expected to constrain demand growth. Industry sources report Chinese per capita sugar demand is 10.5kg annually compared with the world average of 17kg.

MY 2018/19 sugar consumption is estimated at 15.8 MMT, unchanged from the previous estimate. The trend of consumers' demanding more variety products continues and helps growth in the food

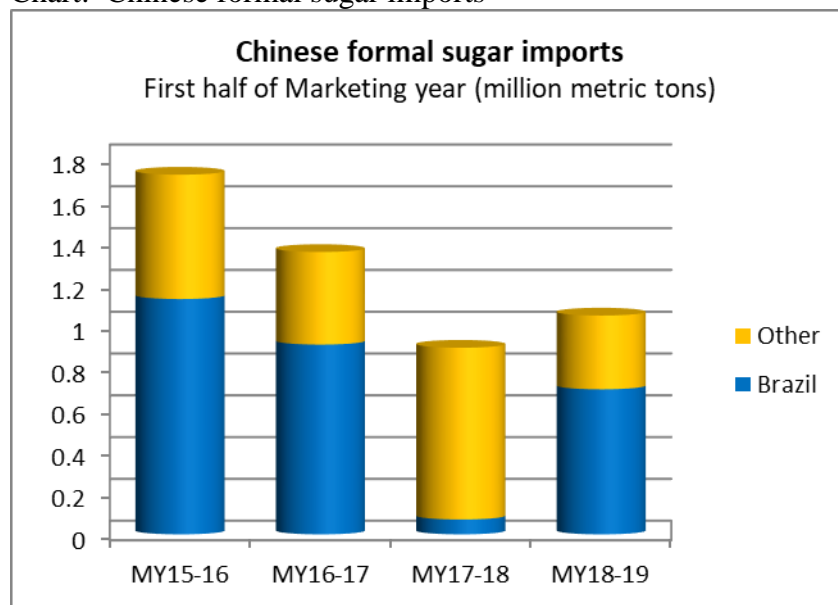
processing industry, particularly carbonated beverages, juices and processed foods. However, as corn prices have been low, increased demand for sugar has been largely replaced by starch-based sweeteners.

Trade

MY 2019/20 sugar imports are forecast at 4.3 MMT, unchanged from the revised MY 2018/19 estimate.

The MY 2018/19 sugar import estimate is revised to 4.3 MMT, up 300,000 from the previous estimate due to strong shipments from Brazil. Although formal sugar imports are up nearly 20 percent during the first 6 months of the marketing year, this increase is partially offset by reportedly reduced illegal imports.

Chart: Chinese formal sugar imports



Source: Chinese Customs Data

China applies a tariff-rate quota (TRQ) on sugar imports. The within-quota tariff is 15 percent and applies to 1.945 million tons annually; 70 percent of these quotas are allocated to state-owned companies. For out-of-quota imports, although the tariff has traditionally been 50 percent, China's Ministry of Commerce announced on May 22, 2017 an increase of this tariff to 95 percent to protect its domestic industry from major supplying countries. This 95 percent tariff was in effect from May 22, 2017 to May 21, 2018. From May 22, 2018 until May 21, 2019, the tariff was reduced to 90 percent and from May 22, 2019 to May 21, 2020 it will be 85 percent. There has been no announcement on tariffs after May 21, 2020.

Originally as part of this safeguard measure, sugar imports from many developing countries and regions were exempted from this additional tariff and were only required to pay the out-of-quota tariff of 50 percent as long as the respective supplier's market share remained below three percent. This change resulted in a sharp drop in imports from Brazil, and a huge increase in imports from a wide range of very small sugar suppliers. In August 2018, however, this exemption was removed.

Because of this exemption removal, Brazil has quickly returned as the largest sugar supplier to China (see chart below). While during the first half of the MY 2017/18 year China only imported 71,000 MT of Brazilian sugar, during the same period in MY 2018/19 imports jumped to nearly 700,000 MT.

According to industry sources, the Chinese government has significantly increased enforcement at land borders with Myanmar, Laos, and Vietnam. This has resulted in a significant decline in illegal sugar trade, and also shifted some illegal sugar trade to sea routes.

Stocks

MY 2019/20 ending stocks are forecast at 4.5 MMT, down nearly 1 MMT from MY 2018/19. Stocks are expected to continue to fall as industry contacts believe national reserves will be released to fill the gap between domestic consumption and production.

MY 2018/19 ending stocks are estimated at about 5.5 MMT, also down about 1 MMT from the previous marketing year. Although sugar production has increased slightly, strong domestic demand and increased tariffs on out-of-quota imports have resulted in a stock drawdown. China's government does not provide statistics of its national reserves stocks. The Chinese government has not yet given a signal that it will release national reserves, but some industry experts expect this will happen in late CY 2019 if sugar prices rise above RMB6000 per MT.

Other sweeteners

In CY 2018, starch-based sweetener products such as high fructose corn syrup, fructose, and glucose are estimated to replace approximately 3-4 MMT of sugar. Low corn prices are expected to continue to make these sugar substitutes competitive. As domestic demand from the food/beverage industries is becoming saturated, China has started exporting starch-based sweetener products, mainly to Asian countries. According to the 2019 Sugar Annual report by FAS Thailand the imports of artificial sweeteners increased 40 percent in CY 2018, particularly from China and India, as beverage manufacturers reformulated their products to avoid the new sugar tax.

Government policy restricts the development of the saccharine industry in China to protect the domestic sugar market and to address environmental, food safety and consumer health concerns. The government controls the sector by restricting production and domestic sales, conducting an annual review on production plans, and standardizing its usage as an additive in food. Only three plants are licensed for saccharine production in China. These plants are monitored and inspected by the China Sugar Association (CSA) to ensure compliance with production guidelines and limits. The saccharine production quota for CY 2018 was 19,000 MT, with 3,200 MT designated for domestic sale and 15,800 MT for export. Based on CSA inspections, actual CY 2018 production was 18,515.74 MT while actual domestic sales and exports totaled 2,989.05 MT and 13,346.05 tons, respectively.

Production, Supply, and Demand (PS&D) Tables

Table 1. Centrifugal Sugar

| Sugar, Centrifugal Market Begin Year | 2017/2018 | | 2018/2019 | | 2019/2020 | |
|---|------------------|-------------|------------------|-------------|------------------|-------------|
| | Oct 2017 | | Oct 2018 | | Oct 2019 | |
| China | USDA Official | New Post | USDA Official | New Post | USDA Official | New Post |
| Beginning Stocks | 7811 | 7811 | 6511 | 6591 | 0 | 5471 |
| Beet Sugar | 1150 | 1150 | 1400 | 1350 | 0 | 1450 |

| | | | | | | |
|-------------------------------|-------|-------|-------|-------|---|-------|
| Production | | | | | | |
| Cane Sugar Production | 9150 | 9150 | 9400 | 9250 | 0 | 9250 |
| Total Sugar Production | 10300 | 10300 | 10800 | 10600 | 0 | 10700 |
| Raw Imports | 3800 | 3800 | 3600 | 3800 | 0 | 3800 |
| Refined Imp.(Raw Val) | 400 | 550 | 400 | 500 | 0 | 500 |
| Total Imports | 4200 | 4350 | 4000 | 4300 | 0 | 4300 |
| Total Supply | 22311 | 22461 | 21311 | 21491 | 0 | 20471 |
| Raw Exports | 20 | 20 | 20 | 20 | 0 | 20 |
| Refined Exp.(Raw Val) | 80 | 150 | 80 | 200 | 0 | 150 |
| Total Exports | 100 | 170 | 100 | 220 | 0 | 170 |
| Human Dom. Consumption | 15700 | 15700 | 15800 | 15800 | 0 | 15800 |
| Other Disappearance | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Use | 15700 | 15700 | 15800 | 15800 | 0 | 15800 |
| Ending Stocks | 6511 | 6591 | 5411 | 5471 | 0 | 4501 |
| Total Distribution | 22311 | 22461 | 21311 | 21491 | 0 | 20471 |
| | | | | | | |
| (1000 MT) | | | | | | |

Table 2. Sugar Cane

| Sugar Cane for Centrifugal Market Begin Year | 2017/2018 | | 2018/2019 | | 2019/2020 | |
|--|---------------|----------|---------------|----------|---------------|----------|
| | Oct 2017 | | Oct 2018 | | Oct 2019 | |
| | USDA Official | New Post | USDA Official | New Post | USDA Official | New Post |
| China | | | | | | |
| Area Planted | 1500 | 1500 | 1550 | 1515 | 0 | 1515 |
| Area Harvested | 1425 | 1425 | 1470 | 1440 | 0 | 1440 |
| Production | 83200 | 83200 | 85600 | 84100 | 0 | 84100 |
| Total Supply | 83200 | 83200 | 85600 | 84100 | 0 | 84100 |
| Utilization for Sugar | 83200 | 83200 | 85600 | 84100 | 0 | 84100 |
| Utilization for Alcohol | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Utilization | 83200 | 83200 | 85600 | 84100 | 0 | 84100 |
| | | | | | | |
| (1000 HA) ,(1000 MT) | | | | | | |

Table 3. Sugar Beet

| Sugar Beets | 2017/2018 | 2018/2019 | 2019/2020 |
|-------------|-----------|-----------|-----------|
|-------------|-----------|-----------|-----------|

| Market Begin Year | Oct 2017 | | Oct 2018 | | Oct 2019 | |
|--------------------------------|---------------|----------|---------------|----------|---------------|----------|
| | USDA Official | New Post | USDA Official | New Post | USDA Official | New Post |
| China | | | | | | |
| Area Planted | 190 | 190 | 230 | 225 | 0 | 235 |
| Area Harvested | 185 | 185 | 225 | 220 | 0 | 230 |
| Production | 9500 | 9500 | 11500 | 11000 | 0 | 12000 |
| Total Supply | 9500 | 9500 | 11500 | 11000 | 0 | 12000 |
| Utilization for Sugar | 9500 | 9500 | 11500 | 11000 | 0 | 12000 |
| Utilization for Alcohol | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Distribution | 9500 | 9500 | 11500 | 11000 | 0 | 12000 |
| | | | | | | |

(1000 HA) ,(1000 MT)

Table 4. China's Sugar Imports by Origin – MY 2017/18 (MY – Market Year, Metric Tons)

| | 4th/17 | 1st/18 | 2nd/18 | 3rd/18 | MY Total |
|----------------------|---------------|---------------|---------------|---------------|----------------|
| World | 459126 | 434911 | 941650 | 580532 | 2416219 |
| Cuba | 0 | 0 | 217780 | 155231 | 373011 |
| El Salvador | 38441 | 62188 | 151094 | 0 | 251723 |
| Thailand | 35875 | 15756 | 79184 | 117879 | 248694 |
| Australia | 57857 | 55138 | 42498 | 47469 | 202962 |
| South Africa | 62413 | 61437 | 62529 | 0 | 186379 |
| Nicaragua | 2200 | 66752 | 109433 | 0 | 178385 |
| South Korea | 57052 | 22688 | 49626 | 48596 | 177962 |
| Brazil | 71197 | 14 | 19283 | 78961 | 169455 |
| Cambodia | 7100 | 10000 | 36160 | 36022 | 89282 |
| Costa Rica | 0 | 35038 | 50000 | 0 | 85038 |
| Philippines | 77634 | 0 | 6615 | 0 | 84249 |
| Swaziland | 0 | 39500 | 0 | 34000 | 73500 |
| Laos | 0 | 0 | 32948 | 34848 | 67796 |
| United Arab Emirates | 24353 | 12906 | 5814 | 1407 | 44480 |
| Vietnam | 6950 | 7460 | 11925 | 8233 | 34568 |
| Honduras | 0 | 0 | 34000 | 0 | 34000 |
| Colombia | 2391 | 28810 | 0 | 0 | 31201 |
| Pakistan | 8717 | 4469 | 10494 | 1040 | 24720 |
| Malaysia | 581 | 0 | 10221 | 8295 | 19097 |
| Guatemala | 1040 | 6333 | 5566 | 1560 | 14499 |
| India | 2727 | 1991 | 2861 | 4258 | 11837 |
| Others | 2596 | 4430 | 3618 | 2732 | 13376 |

Table 5. China's Sugar Imports by Origin – MY 2018/19 (MY – Market Year, Metric Tons)

| | 4th/18 | 1st/19 | Total |
|----------------------|---------------|---------------|----------------|
| World | 843121 | 204180 | 1047301 |
| Brazil | 638302 | 55556 | 693858 |
| Thailand | 74947 | 52138 | 127085 |
| South Korea | 63178 | 25999 | 89177 |
| Cuba | 0 | 58989 | 58989 |
| Fiji | 33730 | 0 | 33730 |
| India | 12092 | 8788 | 20880 |
| Mauritius | 4040 | 1915 | 5955 |
| Vietnam | 5850 | 0 | 5850 |
| Malaysia | 3348 | 125 | 3473 |
| United Arab Emirates | 3240 | 53 | 3293 |
| Poland | 2828 | 0 | 2828 |
| Others | 1565 | 616 | 2181 |

Table 6. China's Sugar Exports by Destination - MY 2017/18 (MY – Market Year, Metric Tons)

| | 4th/17 | 1st/18 | 2nd/18 | 3rd/18 | MY Total |
|---------------|--------------|--------------|--------------|--------------|---------------|
| World | 54268 | 40934 | 44663 | 43895 | 183760 |
| North Korea | 23068 | 7846 | 15055 | 10015 | 55984 |
| Mongolia | 5464 | 11863 | 13755 | 10823 | 41905 |
| Vietnam | 15024 | 10300 | 0 | 23 | 25347 |
| Hong Kong | 6317 | 6336 | 5987 | 4942 | 23582 |
| Philippines | 0 | 0 | 4362 | 13579 | 17941 |
| United States | 1104 | 1103 | 1116 | 1254 | 4577 |
| Japan | 551 | 1358 | 1601 | 487 | 3997 |
| Malaysia | 820 | 627 | 707 | 843 | 2997 |
| Canada | 421 | 264 | 353 | 251 | 1289 |
| Others | 1496 | 1233 | 1726 | 1675 | 6130 |

Table 7. China's Sugar Exports by Destination - MY 2018/19 (MY – Market Year, Metric Tons)

| | 4th/18 | 1st/19 | Total |
|--------------|--------------|--------------|---------------|
| World | 66255 | 40675 | 106930 |
| North Korea | 40486 | 19055 | 59541 |
| Mongolia | 9788 | 7276 | 17064 |
| Hong Kong | 6797 | 5724 | 12521 |
| Philippines | 4355 | 3881 | 8236 |

| | | | |
|---------------|------|------|------|
| United States | 1104 | 1352 | 2456 |
| Japan | 806 | 1023 | 1829 |
| Malaysia | 646 | 537 | 1183 |
| Others | 2276 | 1828 | 4104 |