

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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China - Peoples Republic of

Sugar Annual

Annual

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Report Highlights:

MY 2014/15 centrifugal sugar production is forecast at 13.7 million tons, down 5 percent from the previous year due to falling domestic prices. MY 2013/14 production is revised down 3 percent from the previous estimate following weather-related damage. MY2014/15 imports are forecast at 3 million tons, down by 500,000 tons from the previous year, as lower domestic sugar prices reduce the price advantage of imports. Sugar consumption is forecast to grow 7 percent in MY 2014/15 to 17.3 million tons as lower sugar prices increase industrial consumption at the expense of starch-based sugar.

Executive Summary:

MY 2014/15 total centrifugal sugar production is forecast at 13.7 million tons (raw value), down 5 percent from the previous year, as farmers reduce sugar cane acreage in response to lower prices and higher production costs. MY 2014/15 imports are forecast down 500,000 tons from last year to 3 million tons, as the removal of the government reserve purchase program has lowered domestic prices and made importing sugar out-of-quota less profitable. As a result, ending stocks for MY2014/15 are forecast at 7.8 million tons, a drop of 635,000 tons from the previous year. Estimated MY 2013/14 centrifugal sugar production is cut 3 percent to 14.3 million tons due to frost damage to sugar cane in the south and extensive flood damage to sugar beets in Heilongjiang. Domestic sugar prices continued to fall in MY2013/14 as a result of relatively high stocks and imports.

Production

Centrifugal Sugar Production

Total sugar production in MY 2014/15 is forecast at 13.7 million tons (raw value), down 5 percent from the previous year, on lower planting intentions for sugarcane. Total MY2013/14 sugar production is estimated at 14.3 million tons, down 3 percent from the previous USDA estimate, as weather-related damage reduced yields for sugar cane in Guangxi and Yunnan and sugar beets in Heilongjiang.

Sugar Cane

MY 2014/15 cane production is forecast at 120 million tons, down 5 percent from the previous year, on declining acreage as lower profits for cane farmers in MY 2013/14 negatively influence planting decisions.

Estimated MY 2013/14 sugar cane production is lowered 2 percent to 126 million tons due to frost damage to sugar cane in Guangxi and Yunnan provinces in November, December and February which lowered yields. According to industry contacts, as of March 2014, average sugar extraction rates in Guangxi and Yunnan provinces were 12.07% and 11.41% respectively, around 0.4 percentage points lower than normal.

The government decision in MY2013/14 to eliminate a reserve purchase program which had supported sugar prices caused cane prices to drop 15 percent to RMB 4,801 a ton and sugar beet prices to fall 11 percent to RMB 5,244 a ton from the same period last year. The government adopted this new policy in an attempt to correct large sugar stocks which resulted from expanded production and significant imports in response to its policy which kept domestic sugar prices above the world price.

Sugar mills responded to lower sugar prices and falling profits in MY2013/14 by cutting cane prices to farmers 7 percent to RMB 440 per ton and reportedly some sugar mills have even delayed payments to farmers. Given the financial constraints, it is unlikely that mills will increase sugarcane prices in MY 2014/15 which will further impact production expectations.

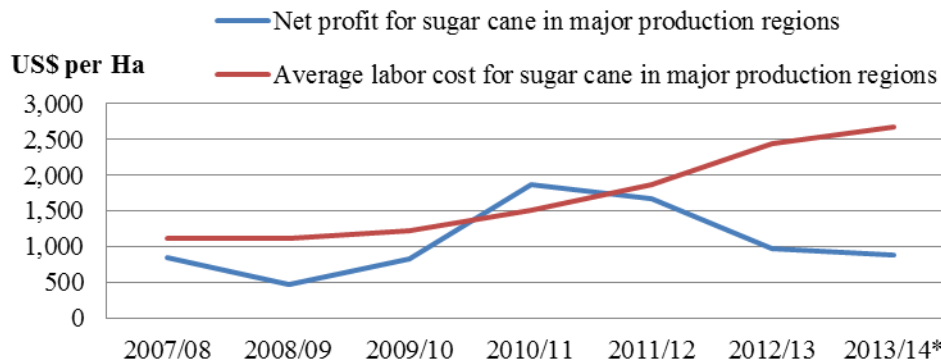
Purchase Price of Sugar Cane in Major Producing Provinces				
RMB per MT (USD \$1.00 = RMB 6.2)				
	Guangxi	Yunnan	Guangdong	Hainan
MY 2010/11	492	375	540-550	525

MY 2011/12	500	420	510	550
MY 2012/13	475	420	500	500
MY 2013/14	440	400	420-385	450
Industry Sources				

Due to these financial considerations, cane farmers in major production areas, such as Guangxi, Guangdong and Hainan are instead planting more profitable crops. For example, in Guangxi, the largest cane producing province, cane acreage is forecast to drop 6 percent in MY 2014/15 as farmer's substitute low-labor, fast-growing tree species for industrial use, according to the provincial sugar industry bureau. Once transferred to forestry use, however, it is difficult to reclaim the land for sugar cane and the acreage loss may be permanent. Cane acreage loss in Hainan is estimated to reach 11 percent in MY 2014/15 as low profits also fuel farmer's trend toward alternative crops, such as rice, melons and vegetables, according to provincial statistics.

In addition to low prices, high labor costs have also factored into declining sugar cane production forecasts. More than half of sugar cane acreage is in hilly areas for which mechanized machinery is unsuitable and necessitates the use of hand labor for planting and harvesting. As the cost of labor continues to rise, averaging RMB 120 per ton in MY 2013/14, or 27 percent of the price of cane, farmer's profits from sugar cane will be impacted. According to a field survey, lower prices and rising labor costs caused a 9 percent drop in net income for cane farmers in MY 2013/14.

Net profit and labor costs in major cane production regions



Source: NDRC (2013/14 based on post estimate)

Sugar Beets

MY 2014/15 beet production is forecast at 10.7 million tons, up 19 percent as yields recover from extensive flood damage in MY 2013/14. MY2014/15 sugar beet area is forecast unchanged at 210,000 Ha as sugar beet profit remains comparable to competing crops in Xinjiang, the largest producing province, despite a 2 percent drop in beet prices in MY 2013/14.

MY 2013/14 sugar beet production is estimated at 9 million tons, down 1.5 million tons from the previous estimate. Sugar mills increased MY 2013/14 beet prices in Inner Mongolia, the second largest producing province, to keep beet acreage stable. However, a devastating flood in Heilongjiang, the

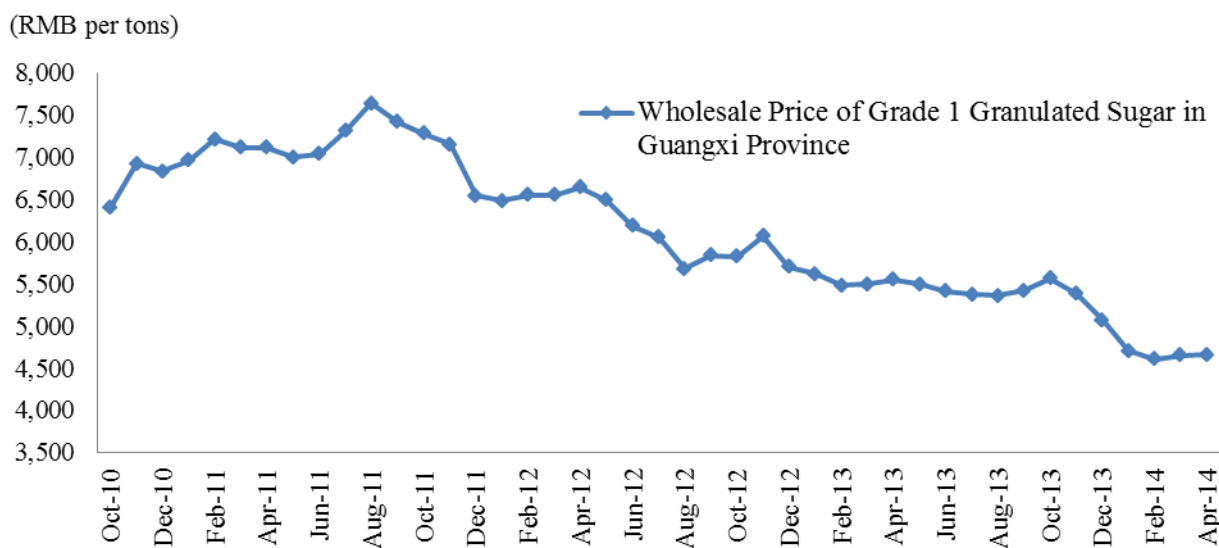
third largest sugar beet production area, resulted in an overall acreage loss. Industry estimates that 80 percent of beet acreage in northwest Heilongjiang was destroyed by flooding in August 2013. As a result of sugar beet shortages, only 5 sugar mills operated in Heilongjiang in MY2013/14, down from 10 mills the previous year.

Purchase Price of Sugar Beets in Major Producing Provinces			
RMB per MT (USD \$1.00 = RMB 6.2)			
	Xinjiang	Heilongjiang	Inner Mongolia
MY 10/11	353	400	390
MY 11/12	450	532	480-500
MY12/13	450	560	500
MY13/14	440	NA	520-550
Industry Sources			

Consumption

Sugar consumption is forecast to grow 7 percent in MY 2014/15 to 17.3 million tons due its lower price. A 15 percent drop in the price of sugar in MY 2013/14 compared to a 5 percent drop in starch sugar, as corn prices are supported by government procurement programs, drew consumption away from starch sugar in the beverage and food processing sectors. Thus, estimated MY 2013/14 sugar consumption is raised one percent to 16.2 million tons due to sugar’s favorable prices.

Wholesale price of Grade 1 granulated sugar in Guangxi Province 2010-2014



Source: Guangxi Sugar Market (<http://www.gsmn.com.cn>)

Marketing Efforts by China Sugar Association

According to the China Sugar Association, sugar mills had sold 4.78 million tons of sugar through March 2014, equaling 39 percent of domestic production; sales exceeded 50 percent of production during the same period last year. The slower sales rate indicates that sugar mills are holding product due to low market prices in anticipation of better conditions. To improve the options for sugar mills,

CSA is lobbying the government to take measures to support the domestic sugar industry, including a temporary sugar reserve program, restrictions on sugar imports and artificial sweeteners, and a crackdown on smuggling. CSA is also advocating for a target price program for sugar cane in MY14/15.

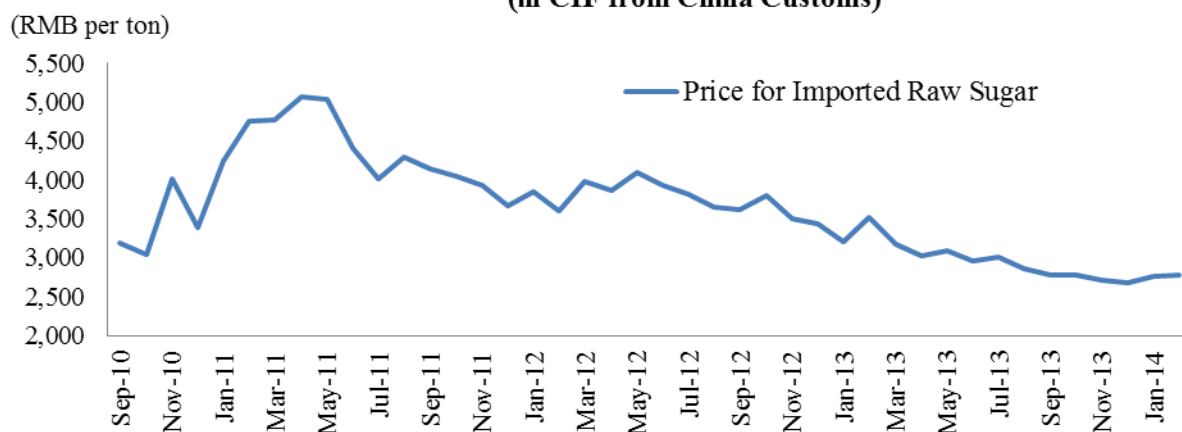
Trade

MY2014/15 sugar imports are forecast at 3.0 million tons (raw value), 500,000 tons lower than the previous year, as the removal of the government reserve purchase program has lowered domestic prices and made importing sugar out-of-quota less profitable.

MY 2013/14 sugar imports are estimated at 3.5 million tons, 700,000 tons higher than the previous estimate as imported sugar remains price competitive over domestic sugar. Sugar imports in recent market years have greatly exceeded the 1.95 million ton annual tariff rate quota (TRQ), as artificially high domestic prices made imports price competitive even with an out-of-quota tariff rate of 50 percent.

By the end of February, sugar imports in MY2013/14 totaled 2.1 million tons according to customs data. However, trade contacts report that recent increases in the price of Brazilian sugar have made it unprofitable to import out of quota sugar since March 2014. Imports are expected to continue at a slower pace through the rest of MY 2013/14 as in-quota imports only face a 15 percent tariff.

**Average price for imported raw sugar in 2010-2014
(in CIF from China Customs)**



Source: China Customs Data

In response to China’s sugar mill industry concerns that imports threaten the viability of domestic mills, customs authorities have strengthened enforcement against smuggled agricultural commodities, including sugar. In addition, sugar mills continue to lobby for higher out-of-quota tariff rates to protect the domestic industry. However, the government is unlikely to raise rates given its WTO commitments.

By contrast, the sugar refinery industry is expected to continue to profit from its ability to access lower priced imports and to expand in coastal provinces. CSA is urging refiners to limit imports in

consideration of domestic farmers and mills. However, industry contacts expect this initiative to have limited results.

Stocks

MY2014/15 ending stocks are forecast at 7.8 million tons (raw value), 635,000 tons lower than the previous year due to lower production and imports and rising consumption. MY2013/14 ending stocks are estimated at 8.4 million tons, unchanged from the previous estimate. The government is unlikely to make large quantities of sugar available from its reserves in MY 2014/15 to avoid driving down prices.

Other Sweeteners

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 four plants are licensed for saccharine production in China. These plants are monitored and inspected by CSA to ensure compliance with production guidelines and limits. The saccharine production quota for 2013 was set at 19,000 tons, the same as last year, with 3,200 tons designated for domestic sale and 15,800 tons for export. Based on CSA inspections, actual CY2013 domestic sales and exports totaled 3,197 tons and 14,950 tons, respectively.

Starched-based Sweeteners

Industry sources estimate CY 2013 total starch sugar production at 12.6 million tons, down 5 percent from the previous year due to falling demand as beverage and food processing user’s substitute to lower priced sugar. This trend is expected to continue, with CY 2014 starch sugar production forecast down another 5 percent to 12 million tons.

Tables

Production, Supply, and Demand (PSD) Tables

Table 1. Centrifugal Sugar

Sugar, Centrifugal China	2012/2013		2013/2014		2014/2015	
	Market Year Begin: Oct 2012		Market Year Begin: Oct 2013		Market Year Begin: Oct 2014	
	USDA	New	USDA	New	USDA	New

	Official	Post	Official	Post	Official	Post
Beginning Stocks	4,140	4,140	6,790	6,793		8,394
Beet Sugar Production	1,179	1,179	1,000	811		850
Cane Sugar Production	12,821	12,822	13,800	13,535		12,860
Total Sugar Production	14,000	14,001	14,800	14,346		13,710
Raw Imports	3,500	3,468	2,500	3,200		2,700
Refined Imp.(Raw Val)	300	334	300	300		300
Total Imports	3,800	3,802	2,800	3,500		3,000
Total Supply	21,940	21,943	24,390	24,639		25,104
Raw Exports	5	5	5	5		5
Refined Exp.(Raw Val)	45	45	40	40		40
Total Exports	50	50	45	45		45
Human Dom. Consumption	15,100	15,100	16,000	16,200		17,300
Other Disappearance	0	0	0	0		0
Total Use	15,100	15,100	16,000	16,200		17,300
Ending Stocks	6,790	6,793	8,345	8,394		7,759
Total Distribution	21,940	21,943	24,390	24,639		25,104

Table 2. Sugar Cane

Sugar Cane for Centrifugal China	2012/2013		2013/2014		2014/2015	
	Market Year Begin: Oct 2012		Market Year Begin: Oct 2013		Market Year Begin: Oct 2014	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	1,795	1,795	1,810	1,810		1,720
Area Harvested	1,795	1,795	1,810	1,810		1,720
Production	123,114	123,114	128,000	126,000		120,000
Total Supply	123,114	123,114	128,000	126,000		120,000
Utilization for Sugar	123,114	123,114	128,000	126,000		120,000
Utilizatn for Alcohol	0	0	0	0		0
Total Utilization	123,114	123,114	128,000	126,000		120,000

Table 3. Sugar Beets

Sugar Beets China	2012/2013		2013/2014		2014/2015	
	Market Year Begin: Oct 2012		Market Year Begin: Oct 2013		Market Year Begin: Oct 2014	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	236	236	210	210		210
Area Harvested	236	236	210	180		210

Production	11,740	11,740	10,500	9,000		10,700
Total Supply	11,740	11,740	10,500	9,000		10,700
Utilization for Sugar	11,740	11,740	10,500	9,000		10,700
Utilizatn for Alcohol	0	0	0	0		0
Total Distribution	11,740	11,740	10,500	9,000		10,700

Trade Tables

Table 4. China's Sugar Imports by Origin - MY 2012/2013 (ton)

Country	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sept	MY Total
World	735,758	528,944	739,043	1,657,674	3,661,419
Brazil	651,292	331,183	152,506	1,394,763	2,529,744
Cuba	0	138,020	167,502	129,978	435,500
Korea South	67,519	53,752	46,528	60,040	227,839
Thailand	11,396	4,965	45,558	45,479	107,398
Poland	0	520	0	0	520
Malaysia	2,893	165	820	964	4,842
Australia	1,371	127	1,006	2,493	4,997
Germany	26	91	28	85	230
Mauritius	309	22	137	155	623
New Zealand	60	20	20	45	145
United States	6	11	14	14	45
India	0	0	0	0	0
Others	886	68	324,924	23,658	349,536

Source: China Customs

Table 5. China's Sugar Imports by Origin - MY 2013/2014 (ton)

Country	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sept	MY Total
World	1,620,259				1,620,259
Brazil	1,415,685				1,415,685
Cuba	0				0
Korea South	65,496				65,496
Thailand	32,680				32,680
Poland	0				0
Malaysia	1,269				1,269
Australia	96,565				96,565
Germany	44				44
Mauritius	205				205
New Zealand	20				20
United States	1,090				1,090
India	7,059				7,059
Others	146				146

Source: China Customs

Table 6. China's Sugar Exports by Destination - MY 2012/2013 (ton)

Country	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sept	MY Total
World	10,069	12,421	13,100	10,427	46,017
Hong Kong	6,540	7,121	5,580	6,616	25,857
United States	868	705	902	441	2,916
Korea North	41	56	47	63	207
Malaysia	875	540	918	811	3,144
Singapore	202	189	250	367	1,008
Canada	287	310	298	191	1,086
Egypt	0	65	65	66	196
Yemen	368	199	243	141	951
Macau	101	124	106	125	456
Somalia	0	0	0	21	21
Japan	120	1,087	2,854	293	4,354
Australia	120	100	203	173	596
Saudi Arabia	0	20	60	20	100
Others	547	1,905	1,574	1,099	5,125
Source: China Customs					

Table 7. China's Sugar Exports by Destination - MY 2013/2014 (ton)

Country	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sept	MY Total
World	11,652				11,652
Hong Kong	5,594				5,594
United States	1,660				1,660
Korea North	1,160				1,160
Malaysia	968				968
Singapore	424				424
Canada	301				301
Egypt	242				242
Yemen	224				224
Macau	168				168
Somalia	168				168
Japan	140				140
Australia	100				100
Saudi Arabia	100				100
Others	403				403
Source: China Customs					