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# GAIN Report

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## **China - Peoples Republic of**

### **Sugar Annual**

#### **China 2015 Sugar Annual**

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**Report Highlights:**

MY 2015/16 centrifugal sugar production is forecast at 10.8 million tons, down 1.8 percent from the previous year due to low operating rates and weak domestic prices. MY 2014/15 production is revised down 17.3 percent from the previous estimate following weather-related damage and large financial losses by sugar mills. MY 2015/16 imports are forecast to reach 5.5 million tons, up 700,000 tons from this marketing year as domestic production continues to weaken and prices remain far above international levels. MY2014/15 imports are revised up one million tons to 4.8 million tons as sugar production falls and the large gap between international and domestic sugar prices continues to attract imports. China is now the world's largest importer and fourth largest producer of sugar. Sugar consumption is forecast to grow 1.7 percent in MY 2015/16 to 17.7 million tons driven by continued growth and investment in food manufacturing.

## **Executive Summary:**

MY 2015/16 total centrifugal sugar production is forecast at 10.8 million tons (raw value), down 1.8 percent from the previous year, as farmers continue to reduce sugar cane acreage in response to lower floor prices, delayed payments and higher production costs. MY 2014/15 production is revised down 17.3 percent from the previous estimate to 11 million tons due to hurricane damage in major production areas and operating losses across the industry. The China Sugar Association (CSA) estimates the production drop in MY 2014/15 at 21 percent. By end of April 2015, CSA estimates that more than 70 percent sugar manufacturing businesses were operating at a loss and the entire sugar industry incurred close to 10 billion RMB in losses (approximately 1.6 billion dollars) in MY 2013/14.

MY 2015/16 imports are forecast 5.5 million tons, up 700,000 tons from MY 2014/15 as domestic production continues to weaken. MY2014/15 imports are forecast at 4.8 million tons, up 1 million tons from the previous estimate as sugar production falls and the large gap between international and domestic sugar prices continues to attract imports. Sugar imports in recent marketing years have greatly exceeded the 1.95 million ton annual tariff rate quota (TRQ), as artificially high domestic prices make imports price competitive even with an out-of-quota tariff rate of 50 percent.

MY 2015/16 sugar consumption is forecast at 17.7 million tons. Growth in consumption is expected to temporarily slow as falling production pushes up domestic prices and as the economy cools. However, the long term outlook for consumption growth is strong given China's continued urbanization and growth and investment in food manufacturing. Ending stocks for MY2015/16 are forecast at 6.242 million tons, a drop of 945,000 tons from the previous year as production declines and the government works to unload excess stocks.

## **Production**

### **Centrifugal Sugar Production**

Total sugar production in MY 2015/16 is forecast at 10.8 million tons (raw value), down 1.8 percent from the previous year. The government floor price in MY 2014/15 was 400 RMB, down substantially from the 475 RMB floor price just two years prior. The lower support price has caused a dramatic drop in planting intentions for sugarcane. Total MY2014/15 sugar production is estimated at 11 million tons, down 17.3 percent from the previous estimate, as weather-related damage reduced yields for sugar cane in major production provinces including Guangxi, Hainan and Yunnan. The drop in sugar cane production and low profitability has resulted in low operating rates for sugar mills.

### **Sugar Cane**

MY 2015/16 sugar cane production is forecast at 91 million tons, down 7 percent from the previous year on declining acreage. Falling profits for cane farmers in MY 2014/15 has negatively influenced planting decisions for the coming year. Estimated MY 2014/15 sugar cane production is lowered 22 percent to 98 million tons due to hurricane damage to sugar cane in Guangxi and Yunnan provinces in July and September which lowered yields. According to industry contacts, average sugar extraction rates in Guangxi and Yunnan provinces were 12.14% and 12.29% respectively as of March 2014, up approximately 0.1 and 1 percent from last year.

Higher domestic production costs combined with the drop in sugar prices has caused sugar mill margins to fall. As of spring 2015, more than 70 percent of sugar manufacturers were operating at a loss due to

high input costs and production inefficiencies according to industry reports. Domestic producers continue to face competition from imports attracted by high internal sugar prices. In addition to legal imports, industry reports estimate that approximately one million tons of sugar was smuggled into China during MY 2013/14.

The government eliminated its reserve purchase program for sugar in MY2013/14. The program had led to a rapid buildup in stocks as mills sold their production to the government at high prices while traders brought in cheaper imports to meet demand. The government is also now requiring traders to register out-of-quota imports in order to better monitor and manage imports.

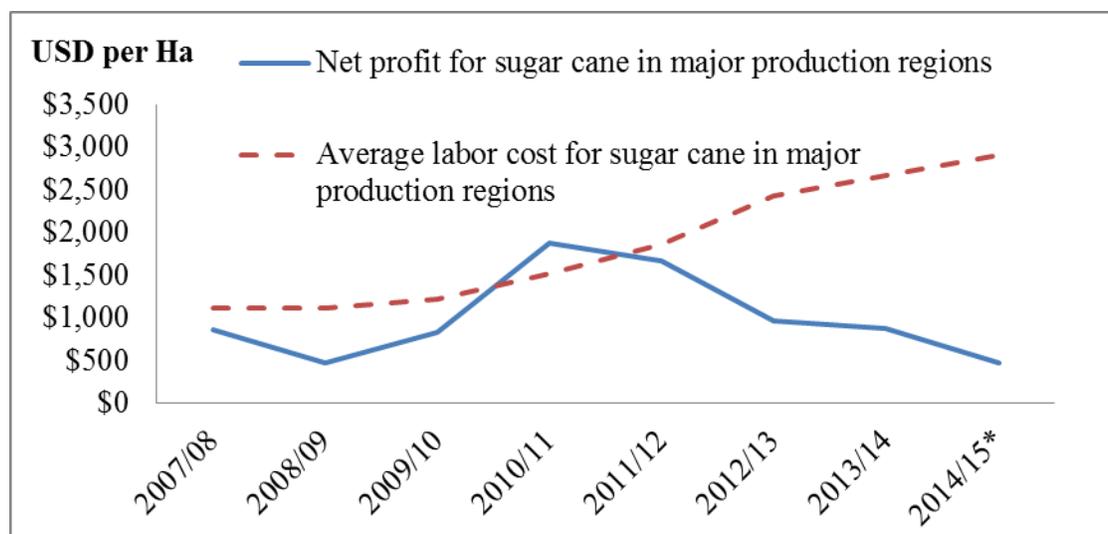
Sugar mills have responded to lower sugar prices and falling profits in MY2014/15 by cutting cane procurement prices to growers about 9 percent to 400 RMB per ton on top of the 7 percent cut the previous year. The majority of sugar mills experienced cash flow difficulties and have struggled to secure financing from banks due to their weak profitability. This has resulted in delayed payments and in some cases nonpayment to growers in MY 2014/15, which has further depressed sugarcane planting intentions for MY 2015/16.

<b>Purchase Price of Sugar Cane in Major Producing Provinces</b>				
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
MY 2014/15	390-410	390-410	405-380	400
Industry Sources				

Cane farmers in major production regions such as Guangxi, Guangdong and Hainan have switched to other tropical cash crop or specialty crops in search of higher profits. Sugar growers and sugar producers have suffered losses for three years. Labor, production, and land rental costs have continued to rise for sugar cane producers. Among these, labor costs are estimated to have risen by 120 percent and harvest costs by 50 percent.

Labor shortages have become a growing problem for cane producers. More than half of sugar cane acreage in the south west sugar cane production region is in hilly areas where mechanized machinery is unsuitable, necessitating the use of hand labor for planting and harvesting. According to government statistics, labor costs for cane sugar increased 140 percent over the last five years and, according to industry, labor costs continue to rise. At the same time, falling sugar prices have pushed cane prices to new lows. Sugarcane procurement prices have fallen from 500 RMB per ton in MY 2011/12, to 440 RMB per ton in MY 2013/14, to 400 RMB per ton for MY 2014/15. According to industry reports, cane growers in some areas have incurred losses of as much as 300 RMB per acre in MY 2014/15.

### **Net profit and labor cost for sugar cane production in major production region**



Source: National Development and Reform Commission (2014/15 based on post estimate)

### Sugar Beets

MY 2015/16 beet sugar production is forecast at 820,000 tons, up 2.5 percent on higher sugar beet production. MY 2015/16 beet production is forecast at 9.5 million tons, up 2.1 percent on higher acreage.

MY2015/16 sugar beet planted area is forecast to recover slightly to 200,000 hectares. Sugar beets remain profitable for farmers in Xinjiang and Inner Mongolia despite a one percent drop in beet prices in MY2014/15. Most of the acreage expansion in these provinces came at the expense of cotton and corn.

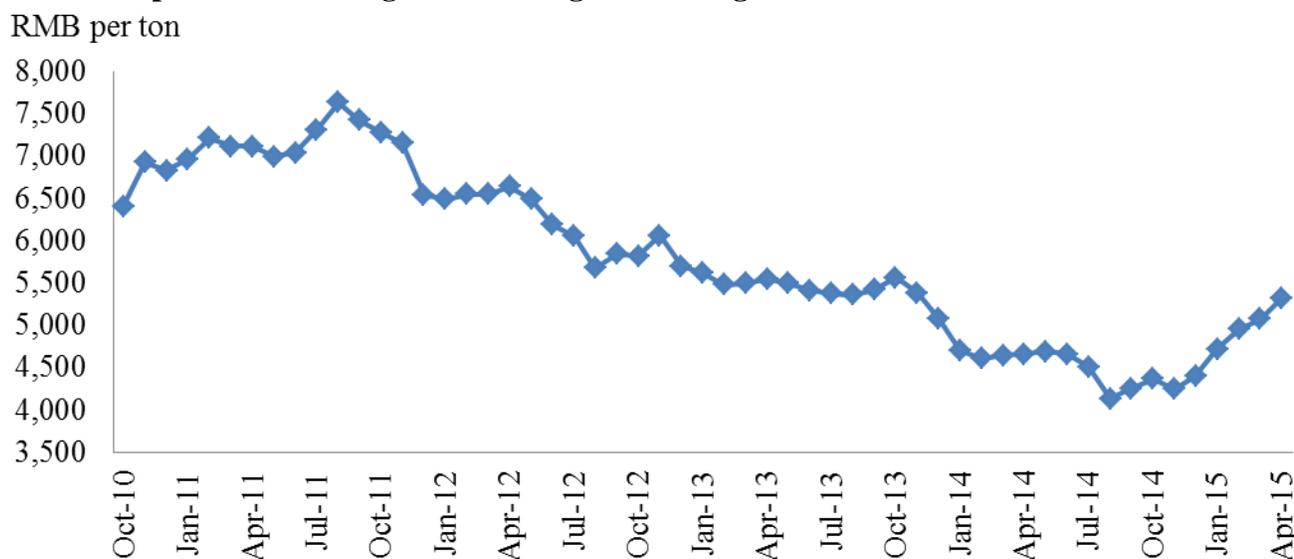
Estimated MY 2014/15 sugar beet production is revised down 13 percent to 9.3 million tons. Cold weather in Inner Mongolia and Xinjiang in May 2014, one month after seeding, reduced yields. Sugar mills kept MY 2014/15 beet procurement prices unchanged in Inner Mongolia, the second largest producing province, to keep beet acreage stable.

<b>Purchase Price of Sugar Beets in Major Producing Provinces</b>			
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
MY14/15	440	550	530-550
Industry Sources			
*: Flooding destroyed most of the sugar beet crop in Heilongjiang in MY 2013/14 so no direct price is given.			

### Consumption

MY 2015/16 sugar consumption is forecast at 17.7 million tons, up 1.7 percent from the year before. Sugar consumption has been increasing by over three percent in recent years. However, consumption growth is expected to temporarily decline as the economy cools and as falling production pushes up domestic prices. Rising sugar prices and falling corn prices may also make starch sugar more competitive again. However, the long term outlook for consumption growth is still strong given China's continued urbanization and growth and investment in food manufacturing. Estimated MY 2014/15 sugar consumption is unchanged at 17.4 million tons.

### Wholesale price of Grade 1 granulated sugar in Guangxi Province 2011-2014



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

### Marketing Efforts by China Sugar Association

According to the China Sugar Association, sugar mills sold 4.86 million tons of sugar through April 2015, equaling 45 percent of domestic production. At this time last year mills had sold 41 percent of production. While some sugar mills have tried to hold inventory in hopes that prices will rise, many have had to sell their inventories in order to cover expenses. Mills have had trouble getting financing from banks due to their low profitability.

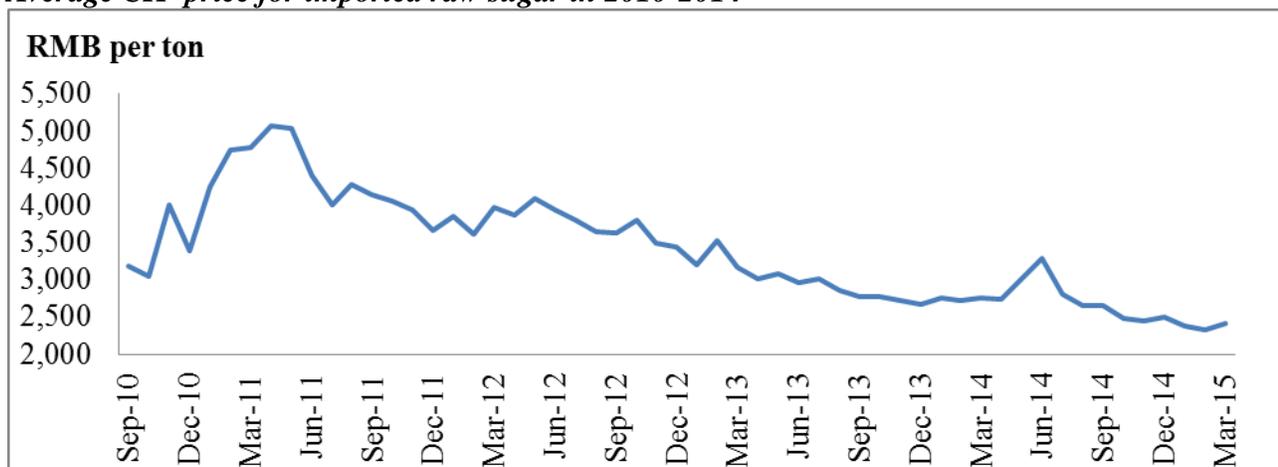
CSA is lobbying the central government to take measures to support the domestic sugar industry, including a temporary sugar reserve program, restrictions on sugar imports and artificial sweeteners, and a crackdown on smuggling. CSA is also advocating for a target price program for sugar cane in MY 2015/16.

### Trade

MY2015/16 sugar imports are forecast at 5.5 million tons (5.1 million tons raw value and 0.4 million tons of refined), 700,000 tons higher than the previous year. Imports are being driven higher by falling domestic production and the large gap between international and domestic sugar prices. Sugar imports in recent marketing years have greatly exceeded the 1.95 million ton annual TRQ, as artificially high domestic prices make imports price competitive even with an out-of-quota tariff rate of 50 percent.

Estimated MY 2014/15 sugar imports are revised up one million tons to 4.8 million tons on lower estimated production and continued import demand. Estimated MY 2014/15 sugar production is revised down 2.3 million tons; some Chinese industry estimates for MY 2014/15 production have been revised downward by as much as three million tons. By the end of March 2015, sugar imports in MY2014/15 totaled 2.08 million tons according to customs data.

**Average CIF price for imported raw sugar in 2010-2014**



Source: China Customs Data

China’s sugar mill industry has raised concerns that imports threaten the viability of domestic mills. Customs authorities have responded by strengthening 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.

**Stocks**

MY2015/16 ending stocks are forecast at 5.76 million tons (raw value), down 1.4 million tons from this marketing year due to weakening domestic production and rising consumption. While China’s stocks to use ratio is expected to fall substantially in the coming year, it remains above the world average. Estimated MY2013/14 ending stocks are revised down 1.3 million tons to 7.2 million tons due to lower estimated production.

**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 2014 is unchanged from 2013 at 19,000 tons, with 3,200 tons designated for domestic sale and 15,800 tons for

export. Based on CSA inspections, actual CY2014 production was 18,976 tons while actual domestic sales and exports totaled 3,194 tons and 15,530 tons, respectively.

**Starch-based Sweeteners**

Industry sources estimate CY 2014 total starch sugar production at 11million tons, down 12.6 percent from the previous year due to falling demand as beverage and food processers switch to lower priced sugar. After ten years of rapid growth, starch sugar consumption has begun to fall over the last two years as sugar prices have declined and corn prices have risen. After years of profitability, starch sugar manufactures incurred losses in 2014 due to falling sugar prices and rising corn and labor costs. Starch sugar production is expected to decline another six percent in CY 2015 to 10.5 million tons.

**Production, Supply, and Demand (PSD) Tables**

**Table 1. Centrifugal Sugar**

Sugar, Centrifugal	2013/2014	2014/2015	2015/2016
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	Oct 2013		Oct 2014		Oct 2015		
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post	
Beginning Stocks	6,793	6,793	8,832	8,832		7,187	(1000 MT)
Beet Sugar Production	811	811	850	800		820	(1000 MT)
Cane Sugar Production	13,452	13,452	12,450	10,200		10,000	(1000 MT)
Total Sugar Production	14,263	14,263	13,300	11,000		10,820	(1000 MT)
Raw Imports	3,900	3,900	3,500	4,500		5,100	(1000 MT)
Refined Imp.(Raw Val)	430	430	300	300		400	(1000 MT)
Total Imports	4,330	4,330	3,800	4,800		5,500	(1000 MT)
Total Supply	25,386	25,386	25,932	24,632		23,507	(1000 MT)
Raw Exports	4	4	5	5		5	(1000 MT)
Refined Exp.(Raw Val)	50	50	40	40		40	(1000 MT)
Total Exports	54	54	45	45		45	(1000 MT)
Human Dom. Consumption	16,500	16,500	17,400	17,400		17,700	(1000 MT)
Other Disappearance	0	0	0	0		0	(1000 MT)
Total Use	16,500	16,500	17,400	17,400		17,700	(1000 MT)
Ending Stocks	8,832	8,832	8,487	7,187		5,762	(1000 MT)
Total Distribution	25,386	25,386	25,932	24,632		23,487	(1000 MT)

**Table 2. Sugar Cane**

Sugar Cane	2013/2014		2014/2015		2015/2016		
	Oct 2013		Oct 2014		Oct 2015		
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post	
Area Planted	1,810	1,810	1,720	1,720		1,600	(1000 HA)
Area Harvested	1,810	1,810	0	1,630		1,520	(1000 HA)
Production	126,000	126,000	120,000	98,000		91,000	(1000 MT)
Total Supply	126,000	126,000	120,000	98,000		91,000	(1000 MT)

		0					MT)
Utilization for Sugar	126,000	126,000	120,000	98,000		91,000	(1000 MT)
Utilizatn for Alcohol	0	0	0	0		0	(1000 MT)
Total Utilization	126,000	126,000	120,000	98,000		91,000	(1000 MT)

**Table 3. Sugar Beets**

Sugar Beets	2013/2014		2014/2015		2015/2016		
	Oct 2013		Oct 2014		Oct 2015		
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post	
Area Planted	210	210	210	190		200	(1000 HA)
Area Harvested	180	180	210	184		189	(1000 HA)
Production	9,000	9,000	10,700	9,300		9,500	(1000 MT)
Total Supply	9,000	9,000	10,700	9,300		9,500	(1000 MT)
Utilization for Sugar	9,000	9,000	10,700	9,300		9,500	(1000 MT)
Utilization for Alcohol	0	0	0	0		0	(1000 MT)
Total Distribution	9,000	9,000	10,700	9,300		9,500	(1000 MT)

## Trade Tables

**Table 4. China's Sugar Imports by Origin - MY 2013/2014 (ton)**

Country	Oct-Dec	Jan-Mar	Apr-Jue	Jul-Sep	Total
World	1,620,259	863,563	528,362	1,011,934	<b>4,024,118</b>
United States	0	0	0	0	<b>0</b>
Algeria	1,415,685	701,289	150,960	717,485	<b>2,985,418</b>
Argentina	96,565	351	330	99,055	<b>196,301</b>
Australia	65,496	43,328	44,876	49,796	<b>203,495</b>
Austria	32,680	16,672	26,490	92,696	<b>168,538</b>
Bangladesh	7,059	3,952	0	0	<b>11,011</b>
Belgium	1,269	274	1,340	947	<b>3,830</b>

Brazil	1,090	669	10	14	<b>1,783</b>
Cambodia	205	221	44	268	<b>740</b>
Canada	77	18	11	16	<b>121</b>
China	44	48	66	45	<b>203</b>
Colombia	32	19	57	26	<b>134</b>
Costa Rica	20	24	24	0	<b>68</b>
Cuba	20	0	0	0	<b>20</b>
Czech Republic	6	40	16	24	<b>86</b>
Egypt	6	15	1	4	<b>26</b>
France	2	2	1	3	<b>8</b>
Germany	2	2	1	0	<b>4</b>
Guatemala	1	9	6	12	<b>27</b>
Honduras	0	1	1	1	<b>3</b>
Hong Kong	0	0	0	0	<b>0</b>
India	0	0	0	0	<b>1</b>
Israel	0	0	0	1	<b>2</b>
Italy	0	0	0	0	<b>0</b>
Other	0	96,630	304,128	51,541	<b>452,299</b>

Source: World Trade Atlas

**Table 5. China's Sugar Imports by Origin - MY 2014/2015 (ton)**

Country	Oct-Dec	Jan-Mar	Apr-Jue	Jul-Sep	Total
World	1,082,258	999,805			<b>2,082,063</b>
United States	0	0			<b>0</b>
Algeria	531,494	701,893			<b>1,233,387</b>
Argentina	63,802	151			<b>63,953</b>
Australia	55,358	34,868			<b>90,225</b>
Austria	399,793	105,994			<b>505,786</b>
Bangladesh	0	0			<b>0</b>
Belgium	2,035	2,860			<b>4,895</b>
Brazil	11	4			<b>15</b>
Cambodia	72	287			<b>359</b>
Canada	3	45			<b>48</b>
China	23	48			<b>72</b>
Colombia	71	53			<b>124</b>
Costa Rica	0	0			<b>0</b>
Cuba	40	40			<b>80</b>
Czech Republic	0	0			<b>0</b>
Egypt	10	0			<b>10</b>
France	2	3			<b>5</b>

Germany	0	0			<b>0</b>
Guatemala	3	10			<b>13</b>
Honduras	0	1			<b>1</b>
Hong Kong	0	0			<b>0</b>
India	0	0			<b>0</b>
Israel	1	0			<b>1</b>
Italy	0	0			<b>0</b>
Other	29,540	153,548			<b>183,088</b>

Source: World Trade Atlas

**Table 6. China's Sugar Exports by Destination - MY 2013/2014 (ton)**

<b>Country</b>	<b>Oct-Dec</b>	<b>Jan-Mar</b>	<b>Apr-Jue</b>	<b>Jul-Sep</b>	<b>Total</b>
World	11,652	10,610	14,801	10,013	<b>47,077</b>
Hong Kong	5,594	6,210	8,095	5,578	<b>25,477</b>
United States	1,660	1,090	1,148	677	<b>4,575</b>
Korea, North	1,160	300	333	43	<b>1,836</b>
Malaysia	968	517	866	897	<b>3,249</b>
Singapore	424	180	371	328	<b>1,302</b>
Canada	301	125	231	423	<b>1,079</b>
Egypt	242	133	130	48	<b>553</b>
Yemen	224	320	186	61	<b>791</b>
Macau	168	223	126	140	<b>657</b>
Somalia	168	63	21	42	<b>294</b>
Japan	140	779	2,344	531	<b>3,793</b>
Australia	100	130	142	141	<b>512</b>
Saudi Arabia	100	141	160	141	<b>542</b>
Syria	86	0	0	0	<b>86</b>
Colombia	60	40	40	40	<b>180</b>
Kuwait	48	0	16	7	<b>71</b>
United Kingdom	41	32	60	94	<b>229</b>
United Arab Emirates	41	61	138	122	<b>361</b>
Panama	39	15	38	0	<b>93</b>
Turkey	21	0	0	0	<b>21</b>
Iran	21	24	0	0	<b>45</b>
Italy	8	13	10	38	<b>70</b>
Others	38	215	345	661	<b>1,260</b>

Source: World Trade Atlas

**Table 7. China's Sugar Exports by Destination - MY 2014/2015 (ton)**

Country	Oct-Dec	Jan-Mar	Apr-Jue	Jul-Sep	Total
World	10,600	10,994			<b>21,594</b>
Hong Kong	6,007	6,806			<b>12,813</b>
United States	1,101	815			<b>1,916</b>
Korea, North	41	270			<b>311</b>
Malaysia	872	654			<b>1,526</b>
Singapore	336	259			<b>594</b>
Canada	372	267			<b>639</b>
Egypt	34	81			<b>116</b>
Yemen	284	82			<b>366</b>
Macau	153	174			<b>327</b>
Somalia	127	130			<b>257</b>
Japan	255	732			<b>987</b>
Australia	198	143			<b>341</b>
Saudi Arabia	121	0			<b>121</b>
Syria	22	0			<b>22</b>
Colombia	120	80			<b>200</b>
Kuwait	0	16			<b>16</b>
United Kingdom	74	43			<b>117</b>
United Arab Emirates	101	121			<b>223</b>
Panama	36	1			<b>37</b>
Turkey	0	42			<b>42</b>
Iran	18	0			<b>18</b>
Italy	29	54			<b>83</b>
Others	298	224			<b>522</b>

Source: World Trade Atlas