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Global Agricultural Information Network

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China - Peoples Republic of

Sugar Semi-annual

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Report Highlights:

In MY 2012/13, total sugar production is forecast at 14.6 MMT (raw value), up 18 percent due to a rise in yield and acreage for sugar cane and beets. In MY 2011/12, total sugar production is estimated at 12.3 MMT (raw value), up 10 percent on higher acreage. In MY 2012/13, sugar imports are forecast to drop to 1 MMT (raw value) due to an anticipated rise in domestic production. In MY 2011/12 sugar imports are estimated at 4.2 MMT (raw value) on very competitive international prices.

Executive Summary:

In MY 2012/13, total sugar production is forecast at 14.6 MMT (raw value), up 18 percent due to a rise in yield and acreage for sugar cane and beets. In MY 2011/12, total sugar production is estimated at 12.3 MMT (raw value), up 10 percent on higher acreage. In MY 2012/13, sugar imports are forecast to drop to 1 MMT (raw value) due to an anticipated rise in domestic production. In MY 2011/12 sugar imports are estimated at 4.2 MMT (raw value) on very competitive international prices.

Centrifugal Sugar Production

In MY 2012/13, total sugar production is forecast at 14.6 MMT (raw value), up 18 percent from the previous year due to a rise in yields and acreage for sugar cane and beets. Cane and beet sugar production is projected at 13.3 MMT and 1.3 MMT (raw value), rising 18 and 15 percent from the previous year.

For MY 2012/13, in Xinjiang province the sugar beet crushing season began at the end of September, while Inner Mongolia and Heilongjiang are expected to start crushing in October. Sugar cane crushing season generally starts in November for Guangxi, Yunnan, Guangdong, and Hainan province.

Sugar Cane

For MY 2012/13, total sugar cane area is forecast at 1.79 million hectares (HA), up 3 percent as some farmers switched from less profitable crops, such as cassava.

Cane production is projected to increase to 130 MMT, or 14 percent higher than the previous year due to favorable temperature and sufficient rainfall, which contributed to higher yields (i.e. higher sugar cane height). Because of these weather conditions, Guangxi province (the largest sugar cane producing province) had particularly high yields. In July and August, several typhoons caused some lodging in Guangxi and Guangdong province, but the storms were not significant enough to affect overall production.

Sugar cane accounts for 87 percent of China's total sugar area (sugar cane and sugar beets). Guangxi province produces 64 percent of China's total sugar cane production, followed by Yunnan, Guangdong, and Hainan provinces.

Since MY 2011/12, the central government required all major sugar cane producing provinces to set a unified guidance purchase price (i.e. farm-gate price). Sugar mills are expected to purchase sugar cane only at the guidance price (no competitive bidding).

In MY 2012/13, the domestic sugar cane market price may ease due to expectations of a bumper crop, and increase total domestic supplies and raise stock levels. Lower market prices may also incite stronger industrial demand for domestic sugar, but strong competition from starch sugar and imports may also influence buyer behavior (See Consumption, Trade, and Starch Sugar sections).

To date, the provincial governments have not yet announced a MY 2012/13 guidance purchase price. Due to competition from imported sugar and domestically produced starch sugar (see Trade and Starch Sugar sections), if provincial governments institute a higher guidance purchase price, this may cause

domestic sugar to be less competitive on the market (and lower profits for the sugar industry). Likewise, a lower guidance price might incentivize farmers to switch to other crops, resulting in less domestic supplies and potentially higher prices in the next marketing year.

Although China has a sugar Trade Rate Quota (TRQ), if domestic sugar prices remain strong, relatively lower international sugar prices may continue to stimulate further imports, even out of quota imports (See Consumption and Trade section).

Purchase Price of Sugar Cane in Major Producing Provinces				
RMB per MT (USD \$1.00 = RMB 6.30)				
	Guangxi	Yunnan	Guangdong	Hainan
MY09/10	350	280	400-410	304
MY10/11	492	375	540-550	525
MY11/12	500	420	510	550
MY12/13*	460-480	NA	NA	NA
*Post Estimate				
Industry Sources				

Sugar Beets

For MY 2012/13, sugar beet production is forecast at 12.3 MMT on higher acreage (up 15 percent). Xinjiang, Heilongjiang, and Inner Mongolia comprise approximately 90 percent of China's total sugar beet production.

Unlike sugar cane, sugar beet prices are determined by the market (no government intervention). In order to encourage higher acreage, mills offer high sugar beet prices, as well as extension services, tractors, subsidized seeds, and fertilizer to farmers. According to provincial sugar beet associations, the sugar beet industry has actively lobbied the central government to provide subsidy programs (e.g. seed and machinery subsidies). To date these efforts have provided no positive results.

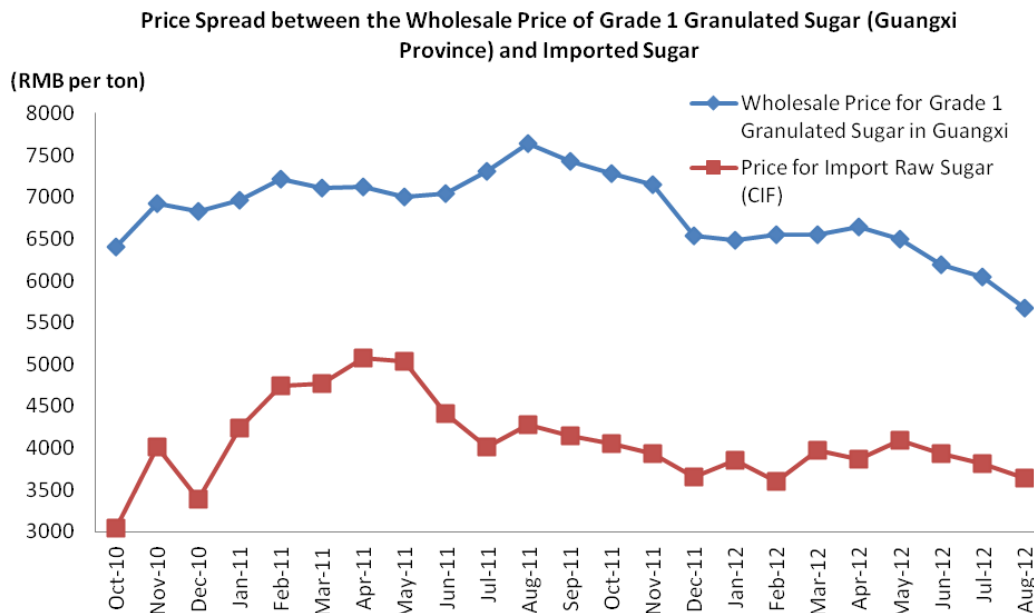
According to state media, in MY 2012/13 the Ministry of Agricultural began investing in a few demonstration sugar beet farms to exhibit improved practices for planting, fertilizer application, irrigation, disease/insect control, and mechanized harvest in some selected counties. These plots are intended to illustrate to local farmers how to increase production, as well as the benefits of consolidating and farming on larger areas (economies of scale).

Purchase Price of Sugar Beets in Major Producing Provinces			
RMB per MT (USD \$1.00 = RMB 6.3)			
	Xinjiang	Heilongjiang	Inner Mongolia
MY 09/10	280	320-370	320-360
MY 10/11	353	400	390

MY 11/12	450	532	480-500
MY12/13	450	560	500
Industry Sources			

Consumption

MY 2012/13 sugar consumption is forecast at 15.3 MMT (raw value). As Chinese incomes continue to rise, demand is expected to increase for products in key industries, such as the confectionary, dairy, beverage, and food processing. For MY 2012/13 higher domestic sugar supplies may cause prices to ease and increase overall demand for domestically produced sugar. Some industry contacts (e.g. confectionary or food processing) noted that if the spread between domestic sugar and starch sugar is only RMB 500 to 1000, then they may be less likely to utilize starch sugar. Moreover, some industries cannot use starch sugar and will not substitute ingredients. The price spread between domestic and imported sugar is graphed below (See Starch and Trade section).



**Source: Guangxi Sugar Market (<http://www.gsmn.com.cn>) and China Customs Data

Trade

MY 2012/13 sugar imports are forecast down to 1 MMT due to a rise in domestic production and more competitive domestic sugar (see Consumption section). As imported sugar prices are expected to remain low in the coming marketing year (due to large crops in Brazil and other third country suppliers), industry sources also believe the Chinese government may try to restrict or discourage imports in order to support domestic sugar mills. Part of the quota is allocated to state owned enterprises, which may decide not to import sugar.

In MY 2011/12, China imported a record 4.2 MMT (exceeded the TRQ of 1.95 MMT) due to special government purchases and lower import prices. During that same time frame, trade sources reported that the National Development & Reform Commission issued a special permit to import 1 MMT of sugar (did not charge the out-of-quota tariff), but most of these imports replenished state reserves. Moreover, for MY 2011/12 the price spread between domestic and imported sugar was so large that

some importers paid the out-of-quota tariff rate (50 percent) and still earned profits. Reportedly, in first half of CY 2012 profit margins for in-quota imports ranged from RMB 500 to 1,500 per ton.

Higher domestic sugar prices and inland transportation costs (e.g. rail) have incited new investments on China's coast. In recent years, private and state investors have built sugar refineries in Tianjin and other port cities in Shandong and Guangdong provinces in order to import and refine imported raw sugar for coastal markets. Reportedly, utilizing sugar imports has been more profitable than buying domestic sugar. China's current total refinery capacity is estimated at 2.5 MMT on an annual basis.

The CY 2012 TRQ is 1.95 MMT, with an in-quota-tariff of 15 percent. The CY 2012 out-of-quota tariff rate is 50 percent. Since 2005, the quota and tariff rate have not changed.

Stocks

For MY 2012/13, ending stocks are forecast at 4.3 MMT (raw value). According to the CSA, in MY 2011/12 some sugar imports entered state reserves, including Cuba sugar imports.

Because sugar mills are required to purchase sugar cane from farmers (farm-gate level) at the guidance price (see Sugar Cane section), in order prevent sugar mills from losing profits if sugar market prices drop, the National Development & Reform Commission announced plans to start a temporary sugar reserve program in February 2012. According to the program, on an annual basis the government will purchase 1 MMT of sugar. In March 2012, the first purchase totaled 500,000 tons at RMB 6550 per ton (in Guangxi). In September 2012, the government purchased 500,000 tons at RMB 6200 per ton (in Guangxi). The National Development & Reform Commission, Ministry of Trade and Commerce, Ministry of Finance, and Agricultural Development Bank jointly implement this program.

Other Sweeteners

Saccharine

The CSA instituted a cap on Chinese produced saccharine to promote domestic sugar sales (for the benefit of sugar cane and beet mills and farmers). It also supervises and inspects saccharine plants that operate in China (there currently are 4 plants). Industry sources believe these 4 plants annually sell more saccharine than what is reported to CSA.

In the first 5 month of CY 2012, CSA data on total saccharine production was 7,857 tons, up 13.4 percent from the previous year. During the same time period, exports totaled 5,807 tons (up 36 percent) and domestic sales were 800 tons (up 4 percent).

According to industry sources, in CY 2011 and CY 2012 domestic saccharine prices ranged from RMB 40,000 to 55,000 per ton. Saccharine is about 400 times sweeter than sugar.

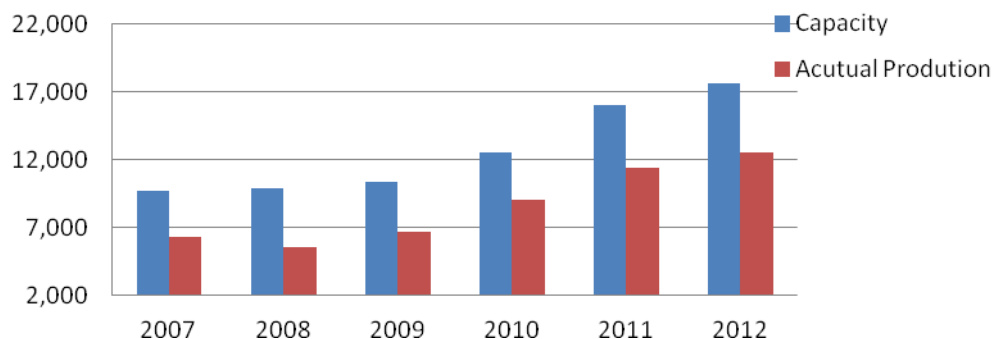
Starched-based Sweeteners

According to the China Fermentation Association (CFA), for CY 2012 total starch sugar production is forecast at 12.58 MMT, up 10 percent from the previous year. For 2010 and 2011, it increased 36 and 26 percent. Post believes that because of high domestic cane and beet sugar prices, demand for starch sugar will remain strong, and CY 2012 production may rise approximately 15 percent. In the last few years, the confectionary, dairy, beverage, food processing, and pharmaceutical sector have increased its

utilization of starch sugar due to high sugar cane and beet prices. The Grain Law may limit further expansion in the starch sugar sector (see Gain CH12023).

China Starch Sugar Production and Capacity 2007-2012 in 1000 Tons

Source: China Fermentation Association



According to the CFA, in CY 2011 high fructose corn syrup (HFCS) and HFCS-F55 production is estimated at 2.36 MMT and 1 MMT. However, for CY 2011 and 2012, some industry sources estimate HFCS production capacity at 3.5 and 4.5 MMT (not fully utilized). Currently, HFCS-55 is mainly used in the beverage sector, which in recent years has annually increased approximately 10 percent.

For MY 2012/13, industry sources estimate that if cane and beet sugar prices remain above RMB 5,000 per ton, starch sugar will continue to be price competitive. For example, from CY 2011-2012 HFCS-F55 prices have been relatively stable, ranging from RMB 3,800 to 4,100 per ton. Because of the price difference, industry contacts also believe that HFCS, maltose syrup, glucose syrup, and other forms of starch sugar will be increasingly used in drinks, canned fruits, bakery, candies, and dairy products. That being said, others industry players are less willing to substitute cane or beet sugar for starch sugar if the price differential is low (see Consumption section).

Tables Production, Supply, and Demand (PSD) Tables

Table 1. Centrifugal Sugar

Sugar, Centrifugal China (1000 MT) (HA)	2010/2011		2011/2012		2012/2013	
	Market Year Begin: Oct 2010		Market Year Begin: Oct 2011		Market Year Begin: Oct 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	2,355	2,355	1,621	1,621	1,891	4,105
Beet Sugar Production	863	863	1,100	1,095	1,265	1,260
Cane Sugar Production	10,336	10,336	11,224	11,246	11,800	13,320
Total Sugar Production	11,199	11,199	12,324	12,341	13,065	14,580
Raw Imports	1,837	1,837	2,100	3,800	2,200	800
Refined Imp.(Raw Val)	306	306	300	390	300	200

Total Imports	2,143	2,143	2,400	4,190	2,500	1,000
Total Supply	15,697	15,697	16,345	18,152	17,456	19,685
Raw Exports	5	5	4	5	4	4
Refined Exp.(Raw Val)	71	71	50	42	50	40
Total Exports	76	76	54	47	54	44
Human Dom. Consumption	14,000	14,000	14,400	14,000	14,900	15,300
Other Disappearance	0		0	0	0	
Total Use	14,000	14,000	14,400	14,000	14,900	15,300
Ending Stocks	1,621	1,621	1,891	4,105	2,502	4,341
Total Distribution	15,697	15,697	16,345	18,152	17,456	19,685

Table 2. Sugar Cane

Sugar Cane for Centrifugal China	2010/2011		2011/2012		2012/2013	
(1000 MT) (HA)	Market Year Begin: Oct 2010		Market Year Begin: Oct 2011		Market Year Begin: Oct 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	1,686	1,686	1,740	1,740	1,790	1,790
Area Harvested	1,686	1,686	1,740	1,740	1,790	1,790
Production	110,789	110,789	121,000	114,434	126,000	130,000
Total Supply	110,789	110,789	121,000	114,434	126,000	130,000
Utilization for Sugar	110,789	110,789	121,000	114,434	126,000	130,000
Utilization for Alcohol	0		0		0	
Total Utilization	110,789	110,789	121,000	114,434	126,000	130,000

Table 3. Sugar Beets

Sugar Beets China	2010/2011		2011/2012		2012/2013	
(1000 MT) (HA)	Market Year Begin: Oct 2010		Market Year Begin: Oct 2011		Market Year Begin: Oct 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	219	219	262	262	300	300
Area Harvested	219	219	262	262	300	300

Production	9,296	9,296	11,620	10,731	13,400	12,340
Total Supply	9,296	9,296	11,620	10,731	13,400	12,340
Utilization for Sugar	9,296	9,296	11,620	10,731	13,400	12,340
Utilization for Alcohol	0	0	0	0	0	0
Total Distribution	9,296	9,296	11,620	10,731	13,400	12,340

Price Table

Table 4. Wholesale Price of Grade 1 Granulated Sugar in Guangxi Province

RMB per MT (USD \$1.00=RMB 6.3)					
Month	2008	2009	2010	2011	2012
January	3,442	2,828	5,025	6,961	6,486
February	3,657	3,045	5,236	7,213	6,551
March	3,528	3,478	5,244	7,114	6,553
April	3,360	3,579	5,129	7,117	6,640
May	3,250	3,753	4,981	6,997	6,491
June	3,216	3,786	5,017	7,041	6,188
July	3,081	3,770	5,130	7,310	6,051
August	2,802	3,986	5,339	7,636	5,679
September	2,751	4,052	5,578	7,421	
October	2,746	4,110	6,410	7,280	
November	2,911	4,246	6,924	7,153	
December	2,905	4,793	6,832	6,540	
Yearly Average	3,137	3,786	5,025	7,149	

Source: Guangxi Sugar Exchange Center and Guangxi Sugar Market
Website: www.chinasugarmarket.com and <http://www.gsmn.com.cn>

Trade Tables

Table 5. China's Sugar Imports by Origin - MY 2010/2011 (MT)

Country	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sept	MY Total
World	400,904	79,405	441,148	1,149,136	2,070,593
Brazil	312,940	1,143	138	838,586	1,152,807
Korea South	46,300	33,784	38,012	57,268	175,364
Thailand	1,394	7,575	139,707	110,242	258,918
Cuba	24,875	30,500	252,850	120,650	428,875

Australia	3,676	106	1,272	5,198	10,252
Philippines	0	0	0	16,800	16,800
Malaysia	1,519	0	1,927	206	3,652
India	52	1,040	520	0	1,612
Mauritius	152	110	111	13	386
China	0	66	0	0	66
New Zealand	682	264	0	0	946
Germany	24	1	30	24	79
Japan	48	17	29	4	98
United States	2	8	4	9	23
Others	9,240	4,791	6,548	136	20,715

Source: China Customs

Table 6. China's Sugar Imports by Origin - MY 2011/2012 (MT)

Country	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sept	MY Total
World	1,249,936	499,254	943,975		2,693,165
Thailand	17,343	129,200	596,260		742,803
Cuba	0	155,000	215,200		370,200
Korea South	62,268	35,820	50,362		148,450
Philippines	6,000	6,800	50,000		62,800
Australia	7,033	1,272	28,116		36,421
Myanmar	0	4,091	2,174		6,265
India	590	546	1,300		2,436
Malaysia	5,716	295	264		6,275
Brazil	1,150,466	97,697	120		1,248,283
Mauritius	324	0	76		400
Japan	17	16	70		103
United States	9	6	15		30
France	2	5	4		11
Belgium	4	0	3		7
Others	164	68,506	11		68,681

Source: China Customs

Table 7. China's Sugar Exports by Destination - MY 2010/2011 (MT)

Country	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sept	MY Total
World	22,716	15,008	20,671	12,385	70,780
Hong Kong	7,748	7,703	8,406	7,367	31,224
United States	878	543	1,055	1,112	3,588
Mongolia	4,709	2,592	5,719	633	13,653
Malaysia	3,504	475	886	833	5,698
Canada	235	172	348	271	1,026
Singapore	2,516	225	252	312	3,305
Korea North	257	81	89	72	499

Macau	143	171	101	118	533
Japan	178	1,590	2,450	253	4,471
Syria	42	21	42	126	231
Somalia	0	84	42	462	588
Mexico	0	0	0	53	53
Australia	80	94	175	128	477
Others	2,426	1,257	1,106	645	5,434

Source: China Customs

Table 8. China's Sugar Exports by Destination - MY 2011/2012 (MT)

Country	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sept	MY Total
World	11,325	11,603	15,518		38,446
Hong Kong	6,954	6,869	9,040		22,863
Japan	120	1,453	3,197		4,770
United States	1,286	625	699		2,610
Malaysia	627	665	647		1,939
Singapore	234	153	341		728
Egypt	17	50	323		390
Yemen	21	150	289		460
Canada	352	262	207		821
Saudi Arabia	60	84	159		303
United Arab Emirates	40	0	155		195
Australia	77	107	130		314
Korea North	137	165	50		352
Macau	123	56	47		226
Others	1,277	964	234		2,475

Source: China Customs