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China's Sugar Dilemma- Declining production and high domestic prices

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Report Highlights:
China is a major producer of sugar, the largest importer, and the third largest consumer of sugar in the world. Domestic production continues to fall rapidly as high domestic production costs make domestic sugar uncompetitive. As a result, forecast MY2015/16 sugar production is revised down 0.24 million tons to 10.58 million tons. Consumption growth is slowing, but remains positive.

Executive Summary:

China is the third largest consumer of sugar in the world and the largest importer. It is also a major producer of sugar. MY 2015/16 sugar production is forecasted at 10.58 million tons, down 0.24 million tons from previous forecast on declining sugar cane and sugar beet acreage. If current forecasts are correct, Thailand will supplant China as the fourth largest producer of sugar in MY2015/16 for the first time. Rising production costs due to higher wages and low rates of mechanization have made domestic sugar uncompetitive, resulting in rising imports and falling production.

Forecast MY 2015/16 imports are unchanged at 5.5 million tons. Declining production and high domestic prices have caused imports to expand rapidly in recent years, cementing China's position as the world's largest importer. MY 2015/16 sugar consumption is forecast to grow slightly over one percent in MY 2015/16 to reach 17.5 million tons, down 0.2 million tons from the previous forecast due to a continued slowdown in the food and beverage industry combined. Forecast MY2015/16 ending stocks are revised up slightly to 5.82 million tons (raw value) as weakening consumption growth and imports compensate for declines in production.

Centrifugal Sugar Production

MY 2015/16 sugar production is forecasted at 10.58 million tons, down 0.24 million tons from the previous forecast on declining sugar cane and beet acreage. Rising production costs, stagnant domestic sugar prices, and increasing imports all continue to weigh heavily on domestic sugar production. Major sugar producing regions in the South-West were also affected by drought as a result of El Niño. Total MY2014/15 sugar production is estimated at 11 million tons, unchanged from the previous post estimate,

Cane sugar production in MY 2015/16 is revised down 0.2 million tons to 9.8 million tons (raw value) as the decline in sugar cane production has accelerated. In MY 2014/15, total sugar production is estimated at 10.20 million tons (raw value) unchanged from previous post estimate.

Sugar Cane

MY 2015/16 sugar cane production is forecast at 90 million tons, down 1 million tons from the previous forecast due to a larger than expected drop in acreage. Sugar cane support prices are expected to remain flat after falling for several years (see below). At the same time, production costs continue to rise, putting increasing pressure on cane farmers. Since MY2011/12, the floor price for sugar cane has dropped by more than a quarter, while production costs are estimated to have nearly doubled (largely due to higher labor costs). In some cases support payments have also been delayed, causing further challenges for growers.

Farmers have increasingly been abandoning sugar cane and switching to specialty crops to increase farm income. Industry contacts believe sugarcane acreage in Guangdong province could decline close to 20 percent in MY2015/16, and production in Zhanjiang province is expected to drop by over 25 percent.

Acreage in other major production zones like Guangxi and Yunnan are also expected to drop two to three percent.

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
MY 2014/15	390-410	390-410	405-380	400
MY 2015/16 (Post Estimate)	400-420	390-410	380-410	400
Industry Sources				

Source: NDRC (2015/16 based on post estimate)

Weather has also impacted production. Most of south-west regions suffered from drought due to the impact of El Nino, effecting sugarcane production. On June 9, 2015 Changjiang County Meteorological Observatory in Hainan province issued drought warnings in summer 2015. Field surveys suggest that the drought will significantly impact sugar cane production, further depressing already low sugar cane production.

Sugar Beets

MY 2015/16 beet production is forecast lower at 9 million tons due to declining acreage and stagnant or falling prices (see below). Some beet farmers have responded by switched to growing other cash crops such as corn. As a result, MY2015/16 sugar beet seeding area is forecast to drop slightly to 190,000 hectares. According to industry data, 82,000 hectares of sugar beets were seeded in Xinjiang province in 2015 with an anticipated harvest of 4.3 million tons. Heilongjiang province's 2015/16 beets production is expected to reach 1.2 million tons based on seeding acreage of 21,000 hectares. Inner Mongolia province beet production is expected to reach three million tons based on seeding acreage of 63,000 hectares. Others provinces are expected to produce another 0.5 million tons of sugar beets on about 23,000 hectares of seeding acreage.

Purchase Price of Sugar Beets in Major Producing Provinces			
RMB per MT (USD $1.00 = RMB 6.33)			
	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
MY14/15 (forecast)	435	540	530-550

Industry Sources

Consumption

MY 2015/16 sugar consumption is forecast to grow slightly over one percent in MY 2015/16 to reach 17.5 million tons, down 0.2 million tons from the previous forecast due to a continued slowdown in the food and beverage industry. MY 2014/15 sugar consumption is estimated at 17.3 million tons, down 0.1 million tons from pervious post estimate. Despite the revision, MY 2014/15 sugar consumption still grew by 4.8 percent compared to MY 2013/14

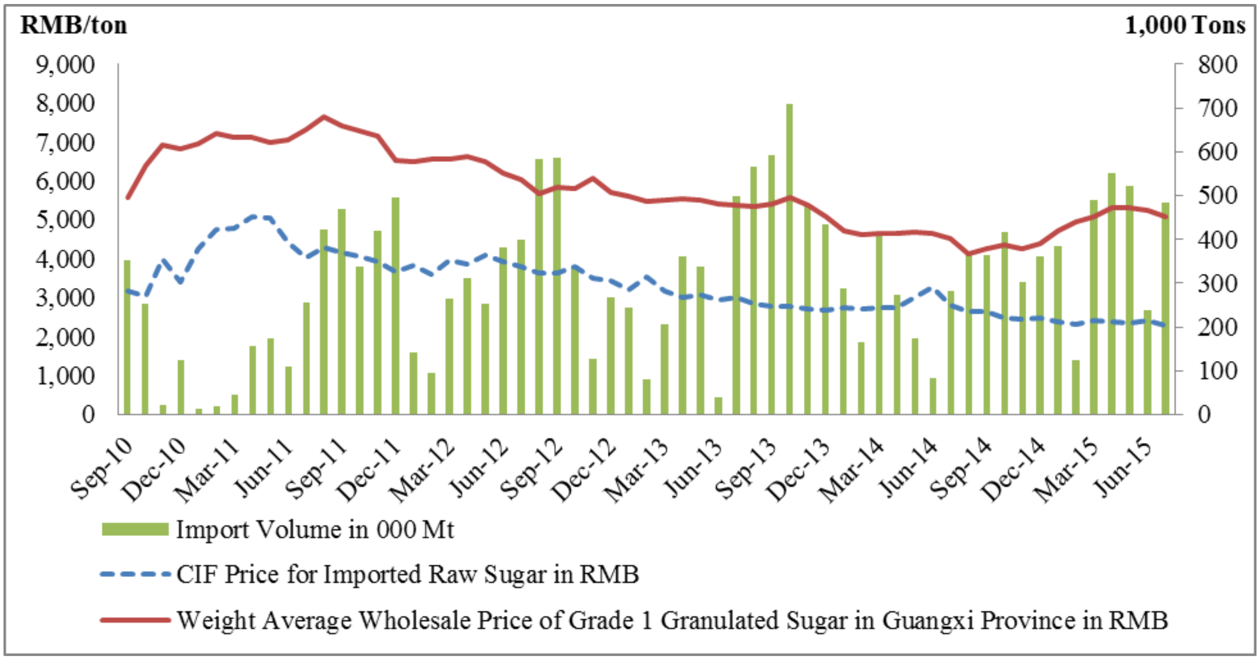
Trade

MY2015/16 sugar imports are forecast at 5.5 million tons (5.1 million tons raw value and 0.4 million tons of refined). Sugar imports in recent years have greatly exceeded the 1.95 million ton annual tariff rate quota (TRQ). Imports in the MY 2015 have already reached 4.16 million ton by end of August 2015. The post estimated that the additional of 0.4~0.45 million ton of sugar will be imported in the last month of MY 2015. Domestic production is not expected to recover significantly in the near future, and import demand will likely remain strong.

Domestic wholesale sugar prices had begun to recover over the last year after bottoming out in summer 2014. However, prices stumbled again in June 2015 as processors liquidated their stocks to strengthen their weak cash flow position. According to industry sources, approximately 80 percent of new stocks were liquidated in the past three months to raise cash. Supply has tightened again as a result and the sugar price is expected to stabilize around 5000 RMB per ton for the rest of the year.

Domestic sugar prices are still roughly double international prices, making imports price competitive even with an out-of-quota tariff rate of 50 percent. The large price gap and tight domestic supplies are expected to keep imports strong into the foreseeable future. Sugar mills continue to lobby for a higher out-of-quota tariff rate to protect the domestic industry. While the government is unlikely to raise rates given its WTO commitments, authorities have strengthened enforcement against smuggled sugar.

Weight average wholesale price of Grade 1 granulated sugar in Guangxi Province



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

Stocks

Forecast MY2015/16 ending stocks are revised up slightly to 5.82 million tons (raw value) as weakening consumption growth and imports compensate for declines in production. However, this still represents a sharp decrease in stocks compared to recent years. Estimated MY2014/15 ending stocks are revised slightly higher to 7.29 million tons on weaker than expected consumption. China will likely continue to draw down stocks if current policies remain in place, although its stocks to use ratio remains high by global standards.

Tables

Production, Supply, and Demand (PSD) Tables

Table 1. Centrifugal Sugar

Sugar, Centrifugal	2013/2014		2014/2015		2015/2016	
Market Begin Year	Oct 2013		Oct 2014		Oct 2015	
China	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	6,793	6,793	8,832	8,832	7,187	7,287
Beet Sugar Production	811	811	800	800	820	780
Cane Sugar Production	13,452	13,452	10,200	10,200	10,000	9,800
Total Sugar Production	14,263	14,263	11,000	11,000	10,820	10,580
Raw Imports	3,900	3,900	4,500	4,500	5,100	5,100
Refined Imp.(Raw Val)	430	430	300	300	400	400
Total Imports	4,330	4,330	4,800	4,800	5,500	5,500
Total Supply	25,386	25,386	24,632	24,632	23,507	23,367
Raw Exports	4	4	5	5	5	5
Refined Exp.(Raw Val)	50	50	40	40	40	40
Total Exports	54	54	45	45	45	45
Human Dom. Consumption	16,500	16,500	17,400	17,300	17,700	17,500
Total Use	16,500	16,500	17,400	17,300	17,700	17,500
Ending Stocks	8,832	8,832	7,187	7,287	5,762	5,822
Total Distribution	25,386	25,386	24,632	24,632	23,507	23,367

Table 2. Sugar Cane

Sugar Cane for Centrifugal	2013/2014		2014/2015		2015/2016	
Market Begin Year	Oct 2013		Oct 2014		Oct 2015	
China	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	1,810	1,810	1,720	1,720		1,550
Area Harvested	1,810	1,810		1,630		1,480
Production	126,000	126,000	120,000	98,000		90,000
Total Supply	126,000	126,000	120,000	98,000		90,000
Utilization for Sugar	126,000	126,000	120,000	98,000		90,000
Total Utilization	126,000	126,000	120,000	98,000		90,000

Table 3. Sugar Beets

Sugar Beets	2013/2014	2014/2015	2015/2016
Market Begin Year	Oct 2013	Oct 2014	Oct 2015

China	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	210	210	210	190		190
Area Harvested	180	180	210	184		180
Production	9,000	9,000	10,700	9,300		9,000
Total Supply	9,000	9,000	10,700	9,300		9,000
Utilization for Sugar	9,000	9,000	10,700	9,300		9,000
Total Distribution	9,000	9,000	10,700	9,300		9,000

Trade Tables

Table 4. China's Sugar Imports by Origin - MY 2014/2015 (ton) (Sep 2015 Trading Data unavailable)

	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Aug	Total

Argentina	0	0	23	0	**23**
Australia	63,802	151	42,578	149,481	**256,011**
Austria	0	0	1	0	**1**
Belgium	10	0	1	0	**11**
Brazil	531,494	701,893	422,510	315,881	**1,971,779**
Cambodia	2,040	2,360	0	0	**4,400**
China	0	0	0	9	**9**
Colombia	0	0	0	276	**276**
Cuba	27,500	93,900	289,850	72,600	**483,850**
El Salvador	0	0	98,700	0	**98,700**
France	3	10	4	0	**17**
Germany	23	48	5	5	**81**
Guatemala	0	54,988	187,420	73,580	**315,987**
Hong Kong	0	0	0	3	**3**
India	0	0	1,353	0	**1,353**
Japan	3	45	1	9	**58**
Kazakhstan	0	0	0	0	**0**
Korea, South	55,358	34,868	43,226	33,217	**166,668**
Malaysia	2,035	2,860	644	401	**5,940**
Mauritius	72	287	22	353	**735**
Mexico	0	0	0	0	**0**
Myanmar	0	2,300	2,997	51	**5,348**
Netherlands	0	0	1	0	**1**
New Zealand	40	40	83	26	**189**
Switzerland	2	3	2	0	**7**
Taiwan	71	54	165	52	**342**
Thailand	399,793	105,994	223,454	114,780	**844,021**
United Arab Emirates	1	0	0	0	**1**
United Kingdom	1	1	1	1	**4**
United States	11	5	7	4	**26**
Grand Total	**1,082,259**	**999,806**	**1,313,047**	**760,730**	**4,155,842**

Source: World Trade Atlas

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

	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Total

Argentina	20	24	24	0	**68**
Australia	96,565	351	330	99,055	**196,301**
Austria	2	2	1	0	**4**
Belgium	6	15	1	4	**26**
Brazil	1,415,685	701,289	150,960	717,485	**2,985,418**
China	6	40	16	24	**86**
Colombia	0	0	159	81	**240**
Costa Rica	0	0	0	100	**100**
Cuba	0	95,097	253,692	51,211	**400,000**
France	1	9	6	12	**27**
Germany	44	48	66	45	**203**
Guatemala	0	0	45,140	0	**45,140**
Hong Kong	0	0	0	125	**125**
India	7,059	3,952	0	0	**11,011**
Japan	77	18	11	16	**121**
Kazakhstan	0	20	0	0	**20**
Korea, South	65,496	43,328	44,876	49,796	**203,495**
Kyrgyzstan	0	10	0	0	**10**
Malaysia	1,269	274	1,340	947	**3,830**
Mauritius	205	221	44	268	**740**
Myanmar	0	724	5,136	0	**5,860**
New Zealand	20	0	0	0	**20**
Pakistan	0	780	0	0	**780**
Paraguay	0	0	0	24	**24**
Portugal	0	0	1	0	**1**
Switzerland	2	2	1	3	**8**
Taiwan	32	19	57	26	**134**
Thailand	32,680	16,672	26,490	92,696	**168,538**
United Arab Emirates	0	0	0	1	**2**
United Kingdom	0	1	1	1	**3**
United States	1,090	669	10	14	**1,783**
Grand Total	**1,620,259**	**863,563**	**528,362**	**1,011,934**	**4,024,119**

Source: World Trade Atlas