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**Report Highlights:**

Sugar production in MY21/22 (Oct-Sep) is forecast to marginally grow to 10.6 million metric tons as rising cane sugar production is expected to offset lower beet sugar production. Some sugar beet farmers are reportedly switching to corn because of strong corn prices and rising land rent costs. With the removal of the additional safeguard on imported sugar and the expectation that sugar consumption will rebound to pre-COVID levels, sugar imports are forecast to climb to at least 5.0 million metric tons in MY21/22. Meantime, the government made changes to its 2021 tariff schedule to better monitor the growing volume of sugar syrup imports from southeast Asia.

## Cane Sugar Production

MY21/22 (Oct-Sep) cane sugar production is forecast at 9.5 million metric tons, up 500,000 metric tons from the previous year's estimate. This projected increase assumes that planted acreage in Guangxi – the country's largest cane sugar producing province – will modestly increase because of provincial government's support. Upward-trending sugar prices are also expected to help boost production. Despite this forecasted increase in acreage, total area planted over the long-term is expected to stay relatively flat due to the short supply and rising cost of labor, limited mechanization, and increased competition from substitute crops.

MY20/21 cane sugar production is forecast to hold steady at 9.0 million metric tons, despite minor drought conditions in Yunnan and Guangdong provinces. Area planted/harvested is estimated at 1.2 million hectares. Post has revised its area planted/harvested figures for MY20/21 and MY19/20 to align with China's Ministry of Agriculture and Rural Affairs estimates.

In order to protect the interests of sugar growers, many of which are smallholder farmers, the local government sets an annual reference price for sugar cane. Both the millers and farmers respect this reference price in settling contracts. The MY21/22 reference price is forecast to remain unchanged from the previous year, ranging from region-to-region between \$65-80 (RMB420-520) per metric ton.<sup>1</sup>

	Guangxi	Yunnan	Guangdong	Hainan
MY17/18	500	450	440-480	530
MY18/19	490-520	420-450	380-400	500
MY19/20	490-520	450	380-450	500
MY20/21	490-520	450	420	500
MY21/22 (est)	490-520	450	420	500

Source: Mutian Technology ([www.msweet.com.cn](http://www.msweet.com.cn)) and industry news reports

Cane sugar accounts for over 85 percent of China's total sugar production. Sugarcane grows in the south and southwest parts of the country, mainly in Guangxi, Yunnan, Guangdong, and Hainan provinces. Guangxi alone accounts for nearly 70 percent of total cane sugar production. The average yield of cane per hectare is about 65 metric tons, which translates into a sugar recovery rate of about 12 percent.

The cane sugar sector faces a variety of challenges ranging from scarce labor, limited mechanization, and growing competition from other crops. Available labor is limited since the younger generation prefers to move to urban centers in search of work. In addition, hiring labor is relatively expensive. For example, farm labor costs in Guangxi are about \$261 (RMB170) per metric ton, or about one-third the price the farmer sells it to the mills. Mechanization development is constrained by hilly farm landscapes and small-scale farms. Growing other crops, especially citrus and other fruits, is becoming increasingly attractive and competing for the same land as sugar.

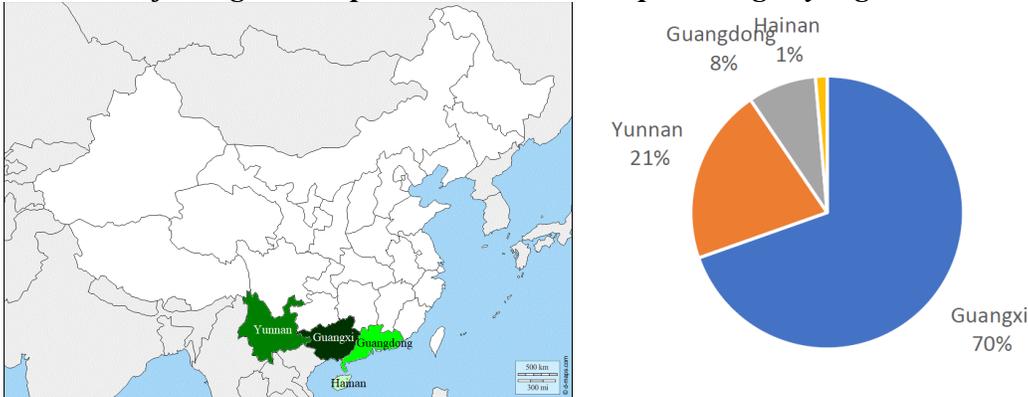
In order to stabilize cane production levels, the Guangxi government has provided financial incentives to encourage planting and promote mechanization. Cane farmers receive support for instituting

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<sup>1</sup> Exchange rate used in this report is \$1=RMB6.5.

mechanized seed and harvesting practices. Other sugar-producing provinces offer sugar growers similar forms of support.

### ***China's major sugar cane production areas and percentage by region***



### **Beet Sugar Production**

MY21/22 beet sugar production is forecast at 1.1 million metric tons, down 400,000 metric tons from the previous year. This anticipated drop in production is due to strong corn prices which are causing farmers to switch from growing beets to corn. In response to this anticipated switch to corn, beet acreage is forecast to decline.

In Inner Mongolia – which is the country's leading producer of beet sugar, accounting for about half of total production – there is concern that some sugar mills might run into sourcing challenges because of the anticipated drop in MY21/22 production. At the same time, purchase prices in Inner Mongolia don't appear to have responded yet to this predicted decline in production. In contrast, the purchase prices in Xinjiang seem to have reacted and are forecasted higher than last year. See purchase price table below.

In addition, rising land rental costs is also contributing to downward pressure on beet sugar production in MY21/22. Land rent in Inner Mongolia and Xinjiang provinces – which combined account for about 95 percent of beet sugar production – have seen land rent prices double or even triple in the last year. For example, land rent in Inner Mongolia has grown from \$923 per hectare (RMB400 per mu) to as much as \$2,308-2,769 per hectare (RMB1000-1200 per mu).

The MY20/21 beet sugar production estimate remains unchanged at 1.5 MMT and is up 100,000 metric tons year-over-year due to favorable growing conditions in Inner Mongolia. Area planted/harvested is forecast at 260,000 hectares. Post has revised its area planted/harvested figures for MY20/21 and MY19/20 to align with China's Ministry of Agriculture and Rural Affairs estimates.

Sugar beet purchase prices are market driven and are specified in grower-miller contracts that are signed prior to planting. The MY20/21 purchase price for sugar beets ranges from \$71-78 (RMB460-510) per metric ton. Beet sugar is currently selling for about \$815 (RMB5,300) per metric ton which is below the existing cost of production of \$831-892 (RMB5,400-5,800) per metric ton. As a result of this difference, some millers are expected to look for ways to cut back on costs and may hold onto stocks until sugar prices climb higher.

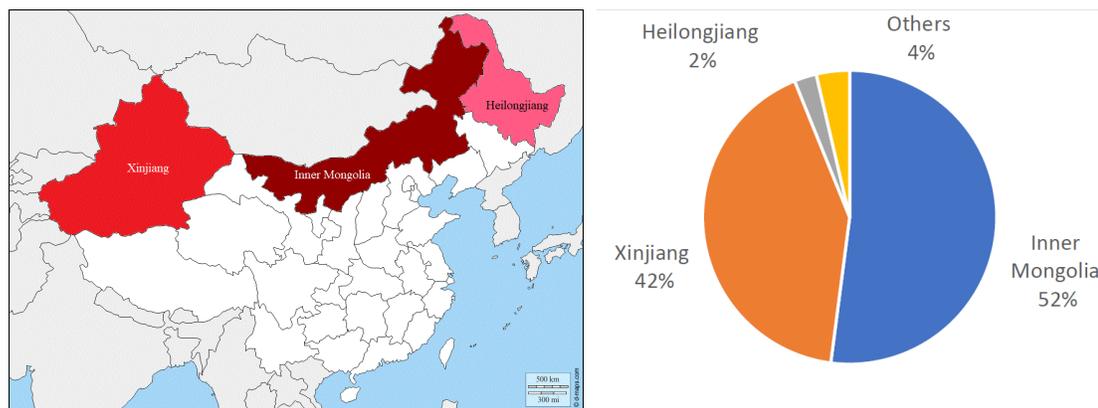
Purchase Price of Sugar Beets in Major Producing Provinces			
	Inner Mongolia	Xinjiang	Heilongjiang
MY17/18	550	450	560
MY18/19	530	460	N/A
MY19/20	520	460	N/A
MY20/21	540	460-510	520
MY21/22 (est)	540	500-510	520

Source: Mutian Technology ([www.msweet.com.cn](http://www.msweet.com.cn)) and industry news

Beet sugar accounts for about 15 percent of China’s sugar production. Sugar beets grow in the north and northwestern parts of China, mainly in Inner Mongolia, Xinjiang, and Heilongjiang provinces. Inner Mongolia is the leading beet sugar producer, accounting for over 50 percent of production. Xinjiang is the second largest producer with 40 percent of production. The average sugar beet yield is about 52 metric tons per hectare, with a sugar recovery rate of 11-12 percent.

Unlike the sugarcane growing areas in the south, the sugar beet growing areas in Inner Mongolia, Xinjiang, and other parts of north China are suitable for large-scale farming with a high level of mechanization. Higher levels of mechanization result in lower labor costs, which end up making the sugar beet industry more profitable than their cane sugar counterparts. However, as of 2020, due to increased land rental prices and strong competition from other crops such as corn and potatoes, profit margins have been shrinking. Consequently, the beet sugar industry has asked the government for support to maintain production levels.

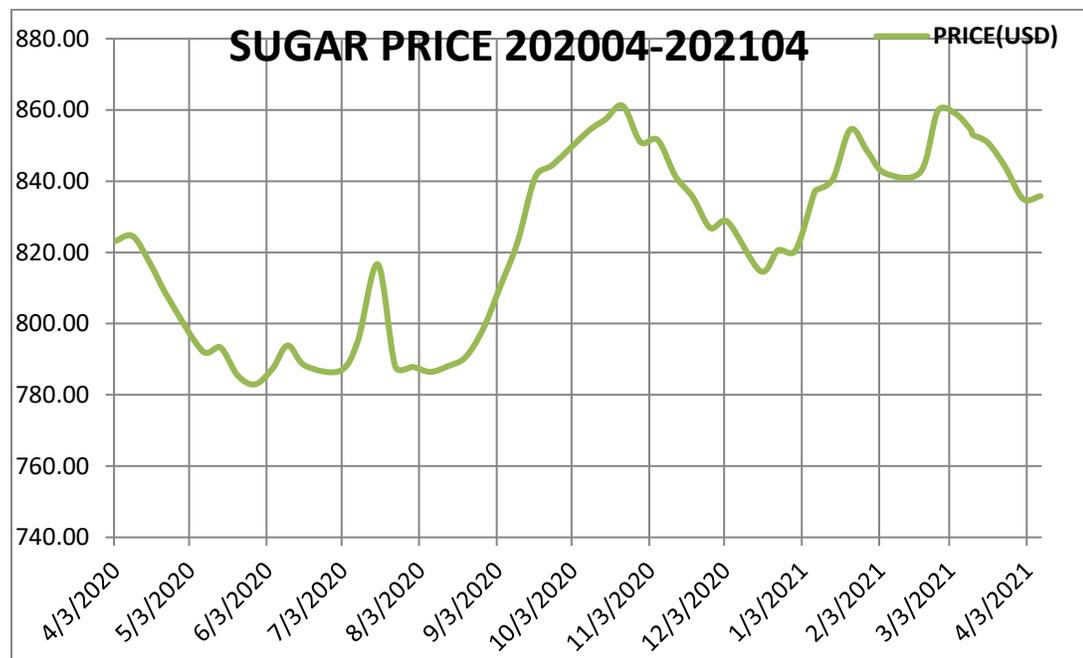
### *China’s major sugar beet production areas and percentage by region*



### **Centrifugal Sugar Production**

MY21/22 total sugar production is forecast at 10.6 million metric tons, up 100,000 metric tons from the previous year’s estimate. This projected increase in sugar production assumes the expected increase in cane sugar production will more than offset the anticipated decrease in beet sugar production. MY20/21 total sugar production is forecast to remain unchanged from the official USDA estimate at 10.5 million metric tons.

Industry insiders are bullish on MY21/22 sugar prices based on the assumptions that China’s economy will continue growing, food and beverage demand will stay on its upward trajectory, and the impact of COVID-19 will gradually dissipate. The upward trend in sugar prices since summer of 2020 signals that demand has rebounded and will likely stay strong for the foreseeable future.



Source: Mutian Technology (www.msweet.com.cn) and chart by ATO Guangzhou  
 Note: Prices are reported on a metric ton basis

### Consumption

MY21/22 sugar consumption is forecast at 15.8 million metric tons based on the assumption that sugar demand will continue along its current trajectory and return to pre-COVID levels.

MY20/21 sugar consumption is estimated at 15.5 million metric tons, down 300,000 metric tons from the official USDA estimate. This earlier estimate is being trimmed back since consumption did not recover as quickly as was originally expected.

Historically, industrial sugar use has accounted for about 60 percent of consumption with the remaining 40 percent has gone to household use. Industrial use includes beverages (e.g., soda, juice, yogurt, and soymilk), ice cream, canned fruit, candy, bakery, brewing, and pharmaceuticals, etc. Amid the pandemic in 2020, industrial use reportedly slackened while home use increased as consumers cooked and baked more at home. In MY21/22, as the effects of the pandemic wear off, industrial use is expected to rebound.

China’s per capita sugar consumption is estimated between 11-12 kilograms, which is far behind the world average of more than 20 kilograms. Per capita consumption is expected to increase in the future as China’s economy continues to grow and consumers diversify their diets. A significant part of the anticipated increase in consumption will come from consumers living in second-, third-tier cities, and beyond.

## **Trade**

MY21/22 sugar imports are forecast to increase marginally to 5.0 million metric tons under the assumption that demand will continue its recovery and hold steady.<sup>2</sup> Longer term, with constraints on local sugar production, import volumes are expected to keep growing.

MY20/21 sugar imports are estimated at a conservative 4.9 million metric tons, up 500,000 metric tons from the earlier official estimate. Industry insiders predict imports could possibly go even higher. This forecasted increase is largely being fueled by the removal of China's additional safeguard duty on out-of-quota imports. Since the safeguard was lifted, imports of Brazilian sugar have quickly ramped up. In the first five months (Oct-Feb) of MY20/21 alone, imports of Brazilian sugar climbed to 3.2 million metric tons, easily surpassing the previous year's total of just 2.0 million metric tons.

China applies a tariff-rate quota (TRQ) on imported sugar. The within-quota tariff is 15 percent on 1.945 million metric tons. About 70 percent of the quota is allocated to state-owned enterprises (SOEs). The out-of-quota tariff is 50 percent. From 2017-2020, China imposed an additional safeguard duty on top of the out-of-quota rate. This safeguard measure was lifted in May 2020 and the out-of-quota tariff has since returned to 50 percent.

In July 2020, after the safeguard was removed, China announced that all out-of-quota sugar imports would now be subject to an automatic import licensing system, which the government uses to monitor imports of other bulk commodities, such as palm oil, soybeans, and meat. This system requires importers to apply and receive advance approval prior to import.

MY21/22 export volumes are forecast unchanged from the previous year at 155,000 metric tons. China exports minimal volumes of sugar, mainly to North Korea.

## **Sugar Syrup Imports**

As previously reported, imports of sugar syrup from certain southeast Asian countries, particularly Thailand and Vietnam, have skyrocketed in recent years. Syrup imports during MY20/21 are on track to surpass the previous year's amount of 750,000 metric tons, or 500,000 metric tons on a raw basis. In the first five months (Oct-Feb) of MY20/21, imports totaled almost 450,000 metric tons, which is equivalent to nearly 300,000 metric tons on a raw sugar basis. See table below. (Note: imports of sugar syrup are not included in PSD figures.)

In December 2020, in order to monitor this growing trade more closely, China introduced new HTS codes and the corresponding MFN tariff of 30 percent for sugar syrup imports. The duty isn't expected to dent trade volumes since major supplying countries maintain duty free access as part the China-ASEAN (Association of Southeast Asian Nations) and RCEP (Regional Comprehensive Economic Partnership) trade agreements. Nonetheless, this change suggest that China is monitoring this trade and may, at some point, intervene to stem its growth.

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<sup>2</sup> In addition to officially reported trade numbers, the PSD import figures have historically included industry-estimated informal sugar trade. This unofficial trade has reportedly declined in recent years due to stronger border and customs enforcement.

<b>China Imports of Sugar Syrup - HTS 170290 (Units: Metric Tons)</b>						
<b>Partner</b>	<b>Oct-20</b>	<b>Nov-20</b>	<b>Dec-20</b>	<b>Jan-21</b>	<b>Feb-21</b>	<b>Total</b>
World	148,741	116,271	108,541	40,392	32,885	<b>446,830</b>
Thailand	62,674	50,213	60,998	12,886	25,036	<b>211,807</b>
Vietnam	39,048	23,760	18,006	13,200	3,600	<b>97,614</b>
Myanmar	22,438	24,977	16,030	4,401	3,194	<b>71,040</b>
Laos	5,907	2,294	1,682	129	453	<b>10,465</b>
Malaysia	13,050	9,913	10,887	9,099	282	<b>43,231</b>
Others	5,622	5,114	935	676	319	<b>12,666</b>

Source: TDM

<b>New HTS Codes Replacing the HTS Code 1702.9000</b>	
<b>New HTS Code</b>	<b>Description</b>
1702.9011	-Cane sugar or beet sugar solution
1702.9012	-Cane sugar, beet sugar and other sugars in simple solid mixture with more than 50% by weight of cane sucrose
1702.9090	-Other
1702.9090 10	Artificial honey
1702.9090 90	Other sugars, syrup and caramel (including invert sugar, in the dry state 50%)

Source: China Customs

### **Stocks**

MY21/22 sugar stocks are forecast at 4.0 million metric tons. MY20/21 sugar stocks are revised upward to 4.4 million metric tons because consumption did not pick up as quickly as originally expected. Industry sources predict stock levels will continue trending downward over the long term.

### **Other Sweeteners**

In calendar year 2020, starch-based sugar production reportedly declined because of the COVID-19 impact on demand. However, a starch-based sugar production figure for 2020 is currently unavailable. As a reference, China produced about 14.4 million metric tons of starch sugar in 2019, according to the China Starch Industry Association.

Since the middle of 2020, starch sugar prices have been driven higher because of strong corn prices. This has caused the price gap between starch-based sugar products, like high fructose corn syrup (HFCS) F55, and conventional sugar to narrow. As a result, some beverage manufacturers have reportedly decided to switch to sugar, which is sometimes preferred for certain flavor profiles. However, the price difference is still sufficiently large to discourage other companies from even considering the possibility of switching to sugar. For example, in early 2021, the price of HFCS F55 was around \$538 (RMB3500) per metric ton, while conventional sugar was about \$835 per metric ton.

China's government restricts the development of the saccharine industry in order to protect the domestic sugar market and to address environmental, food safety and consumer health concerns. The government imposes controls on production and domestic sales, conducts an annual document review and site inspection, and only allows saccharine to be used as a food additive.

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 annual saccharine production quota is 19,000 metric tons, with 3,200 metric tons designated for domestic sale and 15,800 metric tons for export. According to CSA, in calendar year 2020 (Jan-Nov), production was about 17,507 metric tons of which 2,864 was for domestic sales and 14,590 metric tons for export.

Sugar, Centrifugal Market Year Begins China	2019/2020		2020/2021		2021/2022	
	Oct 2019		Oct 2020		Oct 2021	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks (1000 MT)	5408	5408	4543	4639	0	4384
Beet Sugar Production (1000 MT)	1400	1400	1500	1500	0	1100
Cane Sugar Production (1000 MT)	9000	9000	9000	9000	0	9500
Total Sugar Production (1000 MT)	10400	10400	10500	10500	0	10600
Raw Imports (1000 MT)	3800	3800	3900	4300	0	4400
Refined Imp.(Raw Val) (1000 MT)	550	608	500	600	0	600
Total Imports (1000 MT)	4350	4408	4400	4900	0	5000
Total Supply (1000 MT)	20158	20216	19443	20039	0	19984
Raw Exports (1000 MT)	5	3	20	5	0	5
Refined Exp.(Raw Val) (1000 MT)	210	174	150	150	0	150
Total Exports (1000 MT)	215	177	170	155	0	155
Human Dom. Consumption (1000 MT)	15400	15400	15800	15500	0	15800
Other Disappearance (1000 MT)	0	0	0	0	0	0
Total Use (1000 MT)	15400	15400	15800	15500	0	15800
Ending Stocks (1000 MT)	4543	4639	3473	4384	0	4029
Total Distribution (1000 MT)	20158	20216	19443	20039	0	19984

Sugar Cane for Centrifugal Market Year Begins China	2019/2020		2020/2021		2021/2022	
	Oct 2019		Oct 2021		Oct 2022	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted (1000 HA)	1570	1165	1570	1191	0	1260
Area Harvested (1000 HA)	1495	1165	1495	1191	0	1260
Production (1000 MT)	86000	73046	86000	76820	0	81430
Total Supply (1000 MT)	86000	73046	86000	76820	0	81430
Utilization for Sugar (1000 MT)	86000	73046	86000	76820	0	81430
Utilizatn for Alcohol (1000 MT)	0	0	0	0	0	0
Total Utilization (1000 MT)	86000	73046	86000	76820	0	81430

Sugar Beets Market Year Begins China	2019/2020		2020/2021		2021/2022	
	Oct 2019		Oct 2021		Oct 2022	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted (1000 HA)	235	215	250	260	0	180
Area Harvested (1000 HA)	230	215	245	260	0	180
Production (1000 MT)	12000	12060	12700	13600	0	9520
Total Supply (1000 MT)	12000	12060	12700	13600	0	9520
Utilization for Sugar (1000 MT)	12000	12060	12700	13600	0	9520
Utilizatn for Alcohol (1000 MT)	0	0	0	0	0	0
Total Distribution (1000 MT)	12000	12060	12700	13600	0	9520

**Attachments:**

No Attachments