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Sugar Annual

China's Sugar Production Expected to Rise, and Imports Fall, for 3rd Straight Year

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Report Highlights:

China's sugar production in marketing year (MY) 2018/19 is forecast to rise for the third straight year, primarily due to expanded sugar beet area. Imports are also forecast to fall again, as import safeguard measures continue to constrain imports from large supplying countries. Since the safeguard measures went into effect, China's import patterns have dramatically shifted. While before the majority of imports were from Brazil, now China is being supplied by smaller amounts of sugar from a wide variety of relatively minor suppliers.

Executive Summary:

China's sugar production in marketing year (MY) 2018/19 is forecast to rise for the third straight year, primarily due to expanded sugar beet area. Overall sugar production is expected to increase nearly 600,000 metric tons to 10.8 million metric tons (MMT), the highest level since MY 2014/15. Imports are also forecast to fall again, as import safeguard measures continue to constrain imports from large supplying countries. (For more information on the safe guard measures, please see GAIN Report "[China Raises Tariffs on Imported Sugar](#)".) Since the safeguard measures went into effect, China's import patterns have dramatically shifted. While before the majority of imports were from Brazil, now China is being supplied by smaller amounts of sugar from a vast variety of relatively minor suppliers.

Sugar Cane

MY 2018/19 cane sugar production is forecast at 9.4 million metric tons (MMT), up 300,000 metric tons (MT) from the revised MY 2017/18 estimate as price supports for farmers continue to encourage area expansion. This will be the third year of increased production, although this year's growth is being tempered as a result of recently declining sugar prices. Nearly all of this production increase is expected to be in expanded acreage, as yield growth remains very low.

MY 2017/18 cane sugar production is estimated at 9.1 MMT, 100,000 MT lower than the previous estimate. Guangxi and Yunnan provinces both had abnormally low temperatures and even some frost in December 2017, which resulted in crop losses and impacted the sugar content in the sugar cane.

In MY 2017/18, cane acreage increased moderately among the key producing provinces: Guangxi by 10 percent, Yunnan by 4 percent and Guangdong by 10 percent. As China's largest sugar producer, Guangxi accounts for 60 percent of the domestic cane acreage.

To protect cane farmers' interests, in MY 2017/18 the Guangxi government set a floor price at RMB500 (\$79) per MT for cane purchases, which was similar to the level of MY 2016/17. Sugar mills were required to dispense payments to farmers within one month after the arrival of cane shipments at the mills. This support policy has encouraged farmers to continue to plant more cane, and much of this planting occurred in March and April 2018.

Despite a recovery in Chinese sugar production in recent years, obstacles still remain for further growth. These include:

- Landscape limitations: Guangxi, the main production area, is known for its hilly terrain, which limits mechanization and area expansion.
- High production costs: Labor costs are also continuing to rise (it costs RMB150-200 [\$24-32] per person per day to harvest cane) and harvest labor costs account for nearly 40 percent of the cane purchase price. China's production costs remain far above those in other producing countries.

--Other crops competing for the land: In previous years, low sugar prices resulted in many cane fields being converted to other crops such as cassava, vegetables, fruits, and eucalyptus trees. As some of these crops (especially fruits and eucalyptus trees) take several years to produce, it is unlikely this land will be converted back to sugar in the near term.

--Import competition: China's sugar production costs are extremely high, and the highest of any major producing country (industry contacts report production costs are double that of Thailand and 30 percent more than India). This price gap encourages both legitimate, and especially illegal, sugar imports which compete with domestic supplies. In addition to imported sugar, China also imports sugar cane from neighboring countries (Myanmar and Laos), and these cane imports have increased recently.

China Sugarcane Major Production Area



Source: China Ministry of Agriculture; blank map from http://www.d-maps.com/carte.php?num_car=11570&lang=en

Legend:

- = 60% or more of total Chinese production (Guangxi)
- = 35% or more (Yunnan and Guangdong)
- = 2% (Hainan)

Purchase Price of Sugar Cane in Major Producing Provinces				
RMB per MT(USD \$1.00 =RMB6.3)				
	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	430-440	430	440-450	440-450
MY 2016/17	480-500	460	480	520
MY 2017/18	500	450	440-480	530
MY 2018/19 (Post Estimate)	480	450	460	520

Source: Guangxi sugar net and industry news

Sugar Beet

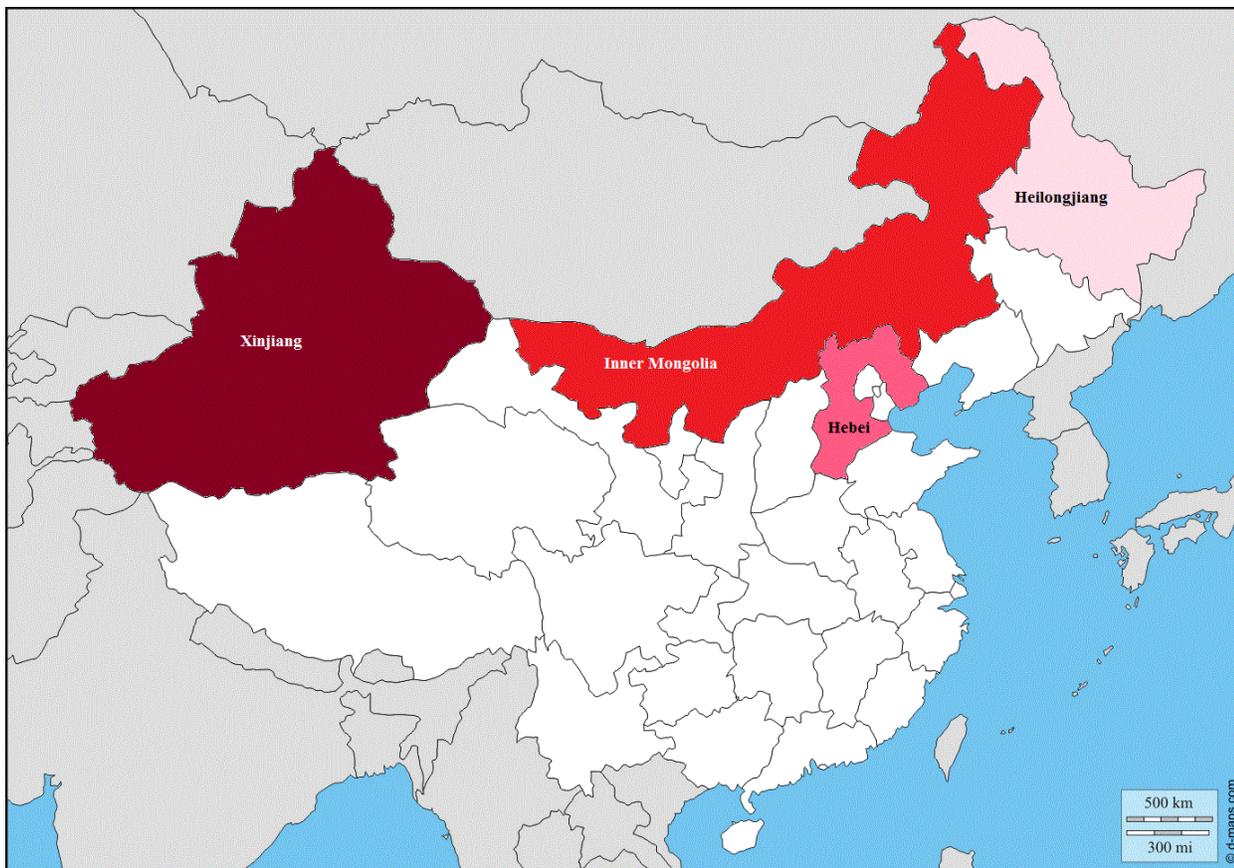
MY 2018/19 beet sugar production is forecast at a record 1.4 MMT, up 250,000 MT from the revised MY 2017/18 estimate. Although in MY 2017/18 Xinjiang remained the largest production region, in MY 2018/19 it is expected to be surpassed by Inner Mongolia where new lands are rapidly being brought into sugar beet production. Reasons for this large increase include:

- Farmers switching to sugar beets: With the Chinese government ending the corn temporary reserve program in 2016, farmers are increasingly switching to other crops such as sugar beets for better returns.
- Improved mechanization: Sugar beet producing areas in North China are suitable for large-scale farming with a high level of mechanization. As a result, yields per acre are also expected to rise in the future, and labor costs are significantly lower than those for sugar cane.
- Adoption of new sugar beet varieties: Farmers increasingly rely on imported seeds for production of sugar beets, and farmers have begun to plant new varieties with higher sugar content (16-18 percent of sugar content) higher than older varieties.
- Demand from newly built mills: In 2019 there will be four new beet sugar mills scheduled to come online (in addition to others that have opened in 2017 and 2018) in Inner Mongolia. In order to have sufficient supplies to run these new mills, a rapid increase of production in the region is expected.

Thanks to improved efficiency in beet farming and milling, the profitability for both beet farmers and mills are higher than those for sugar cane. As a result, beet acreage and beet sugar production are poised to continue to grow.

MY 2017/18 cane sugar production is estimated at 1.15 MMT, 150,000 MT lower than the previous forecast as a result of recently released Chinese government production statistics.

China Sugar Beet Production Area



Source: China Ministry of Agriculture, blank map from http://www.d-maps.com/carte.php?num_car=11570&lang=en

Legend:

- = 52% or more of total Chinese production (Xinjiang)
- = 42% or more of total Chinese production (Inner Mongolia)
- = 5% (Hebei)
- = 1% to 2% (Heilongjiang)

Purchase Price of Sugar Beets in Major Producing Provinces			
RMB per MT(USD \$1.00 =RMB6.3)			
	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
MY15/16	448	555	540
MY16/17	443	560	530-540
MY 17/18	450	560	550
MY 18/19 (Estimate)	450	560	560

Source: Guangxi sugar net and industry news

Centrifugal Sugar Production

MY 2018/19 total sugar production is forecast at 10.8 MMT, up 550,000 MT from the revised MY 2017/18 estimate. This production increase is largely due to significant expansion in beet sugar area in Inner Mongolia and recovering production of cane sugar in Guangxi.

MY 2017/18 total sugar production is estimated at 10.25 MMT, down 250,000 MT from the previous forecast as a result of recently released Chinese government statistics.

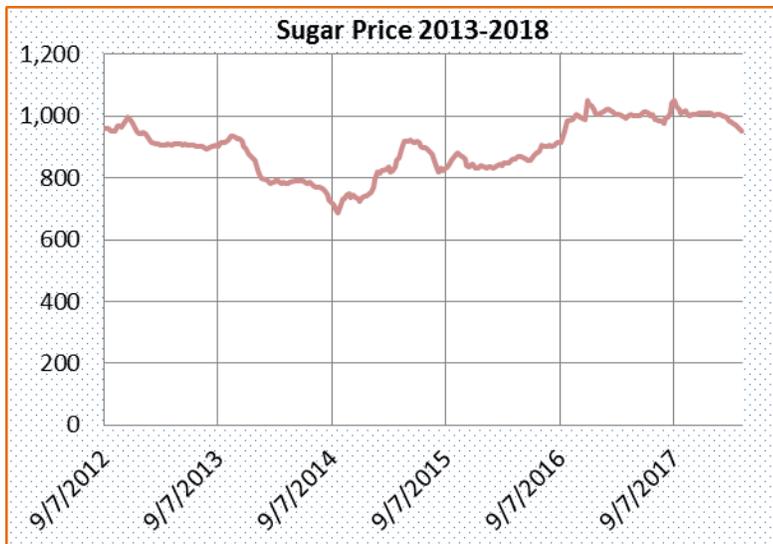
Chart: Wholesale Price of Grade 1 Granulated Sugar in Guangxi Province (April 2017-April 2018)



Source: Guangxi Sugar Net

Following the implementation of the import safeguard measure in May 2017, sugar prices remained relatively stable, spiking at \$1,050 per MT in September 2017. In recent weeks though, China's sugar prices have started declining, especially after Guangxi sugar mills began processing in late 2017 and early 2018. Industry contacts believe that the combination of weaker global sugar prices, as well as the continued large scale smuggling of imports, is causing the price decline.

Chart: Wholesale Price of Grade 1 Granulated Sugar in Guangxi Province (2013-2018)



Source: Guangxi Sugar Net

Sugar mills are complaining that even with the safeguard measure, falling prices are still making their operations unprofitable. While the cane purchase floor price is set by the provincial governments, the price of sugar is determined by the market demand and supply situation. As a result, with support prices paid to farmers by the mills remaining strong, some operations have reportedly started losing money. It is estimated that when paying RMB500 (\$79) per MT to farmers for cane, the cost to Guangxi sugar mills to produce one metric ton of sugar would be about RMB6,000 (\$952) on average. However, the current sugar price has fallen below this amount to RMB5,600-5,800 (\$889-920) per MT, creating unprofitability in some mills. Furthermore, cane mills need to sell sugar right after processing to ensure timely payments to cane farmers and this has resulted in cyclical oversupply of sugar in the market, further pressuring prices.

In order to stop the future decline of domestic prices, sugar industry representatives have petitioned that the Chinese government step up efforts to combat smuggling, expand the safeguard measure to include increased tariffs on smaller supplying countries, and prolong the implementation period of the safeguard measure beyond the current three-year period.

Consumption

MY 2018/19 sugar consumption is forecast at 15.7 MMT, steady with the revised MY 2017/18 estimate. Due to increased health concerns, Chinese consumers now pay closer attention to sugar intake in daily diets. Large beverage producers reported slow growth in sugary carbonated drinks and strong growth in non-sugary products such as bottled water. In addition to flat demand growth from consumers, competition from sugar replacements and sweeteners is also strong.

MY 2017/18 sugar consumption is estimated at 15.7 MMT, down 100,000 MT from the previous estimate. Low corn prices have made sugar replacements attractive compared to sugar. In addition,

beverage producers now promote their drinks with sugar replacements by labelling them as low-sugar or sugar-free healthy products. In Calendar Year (CY) 2017, China exported a large amount of starch-based sweetener products to the Philippines. However, as of December 2017, the Philippines increased the tariff on these imports and this could result in more of these products staying domestically and replacing more sugar.

In China, approximately 70 percent of sugar is for industrial/food processing consumption and 30 percent for household use. Industrial consumption is mainly for fruit drinks, carbonated drinks, candy, dairy products, cold beverage (e.g. yogurt and ice cream), and canned products.

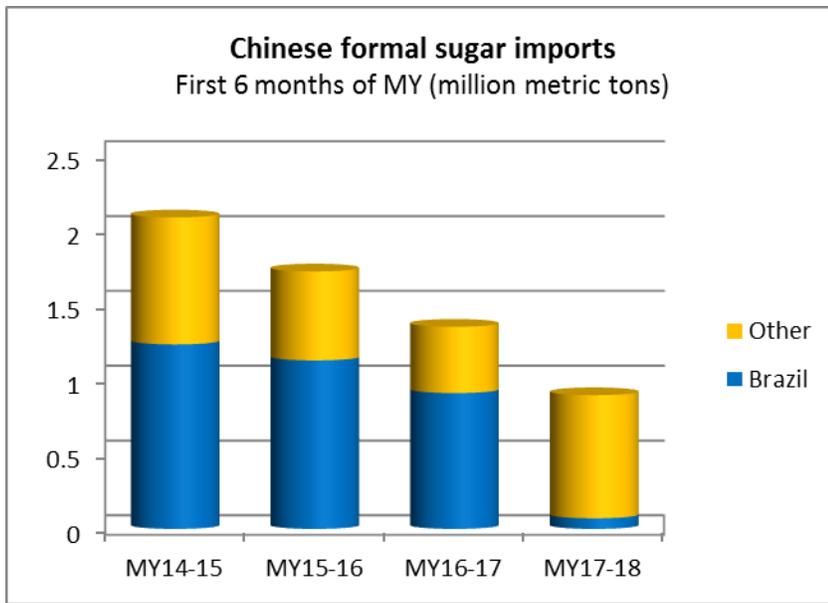
Trade

MY 2018/19 sugar imports are forecast at 4 MMT, down 200,000 from the MY 2017/18 estimate. If this projection is realized, MY 2018/19 would be the third straight year of declining imports. Higher domestic production, as well as the continuation of safeguard restrictions and higher tariffs on key supplying countries, is the primary reasons for the expected reduction in imports.

MY 2017/18 imports are estimated at 4.2 MMT, unchanged from the last estimate. China applies a tariff-rate quota (TRQ) on sugar imports. The within-quota tariff is 15 percent and applies to 1.945 million tons annually; 70 percent of these quotas are allocated to state-owned companies. For out-of-quota imports, the tariff is 50 percent. On May 22, 2017, to protect its domestic industry, China's Ministry of Commerce (MOFCOM) announced a three-year long safeguard measure on sugar imports from major supplying countries, such as Brazil and Thailand. For out-of-quota imports from these suppliers, the tariff has risen from 50 percent to 95 percent, effective from May 22, 2017 to May 21, 2018. It will then fall to 90 percent from May 22, 2018 to May 21, 2019 and further drop to 85 percent from May 22, 2019 to May 21, 2020. Sugar imports from many developing countries and regions are exempted from this safeguard measure and only pay the out-of-quota tariff of 50 percent as long as the respective supplier's market share is below 3 percent.

This safeguard measure has had a huge impact on imports, especially from Brazil. In the first 6 months of the marketing year, China's sugar imports were 890,000 metric tons, down 34 percent from the same period last year. Imports from Brazil, however, were only 71,000 metric tons, down 92 percent from over 900,000 metric tons during the same period last year.

Chart: Chinese formal sugar imports



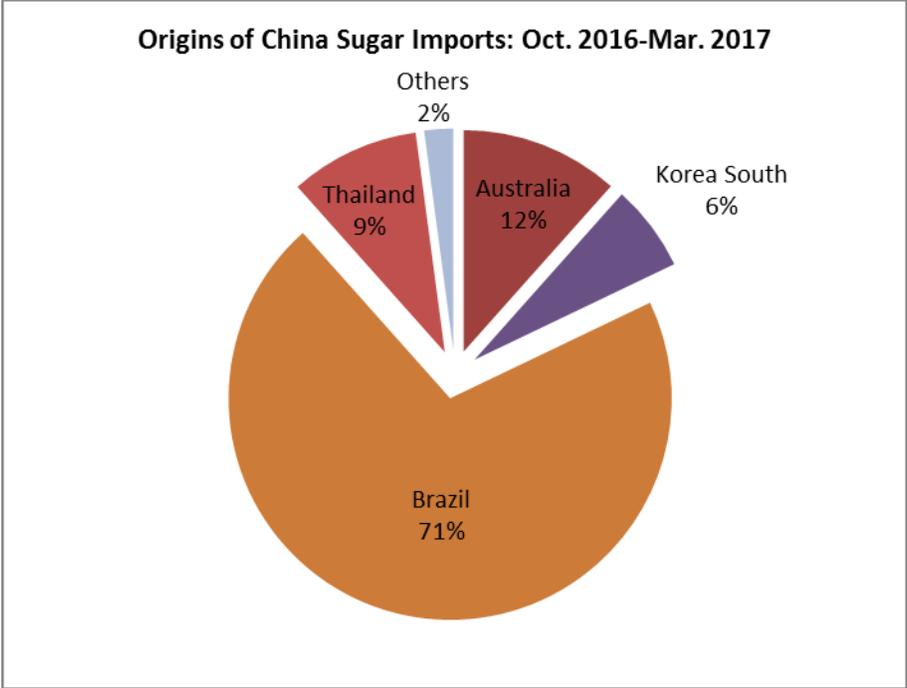
Source: Chinese Customs Data

The other result of the safeguard measure is a dramatic increase in the number of smaller suppliers shipping sugar to China. For example, China’s sugar imports from Costa Rica, Vietnam, Colombia, El Salvador, Cambodia, Swaziland, South Africa, Pakistan, the Philippines, and Nicaragua were all above 10,000 metric tons in the first 6 months of the marketing year, compared to no imports from any of these countries during the same period last year (which was right before the safeguard measures were enacted).

Sugar smuggling continues to represent a large portion of overall imports, with industry estimates between 1.5-2.0 MMT of sugar entering illegally annually. Industry contacts report, however, that the Chinese government has increased monitoring and combating of sugar smuggling. However, a massive economic incentive for smuggling remains due to the large price gap between domestic and international sugar prices, and the increased out-of-quota tariff on key suppliers. To further combat smuggling, Chinese processors are being required to implement a traceability system by printing two-dimensional codes on packaging of their products. Once fully implemented, the aim of this system is to keep smuggled sugar from being packaged as Chinese domestic sugar products.

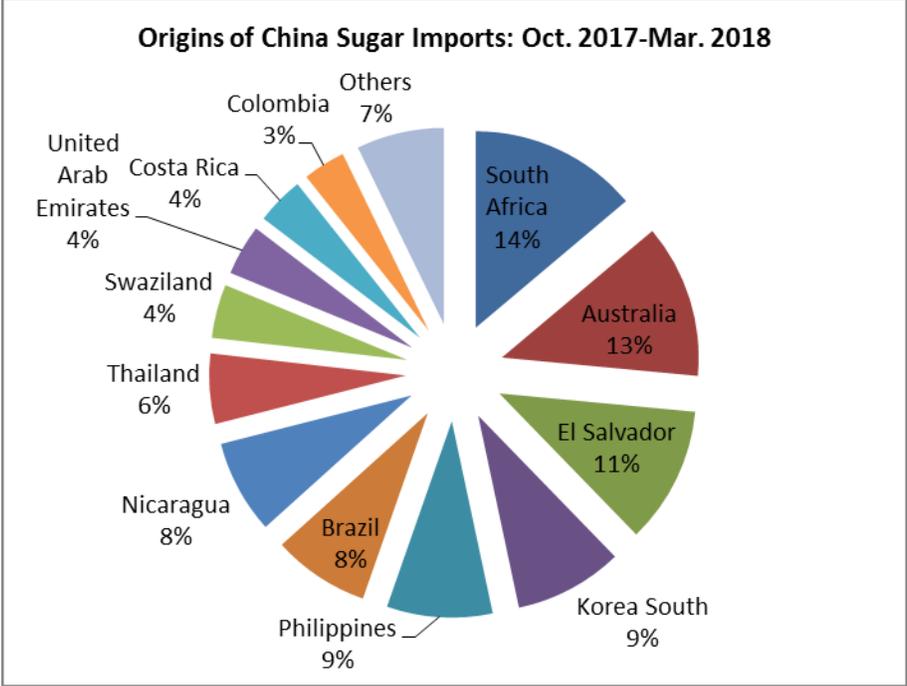
In addition to sugar imports, China also imports some sugar cane from neighboring countries. In recent years about 70 percent of these imports were from Myanmar, and 30 percent from Laos. With the implementation of the safeguard measures there has been a noticeable increase in this trade as the tariff for imported cane is only 20 percent. Sugar cane imports in the first 6 months of the marketing year doubled compared to the same period last year, reaching nearly 900,000 metric tons. It is believed that nearly all of this imported cane is processed in mills in Yunnan province.

Chart: Origins of China Sugar Imports from October 2016- March 2017



Source: Chinese Customs Data

Chart: Origins of China Sugar Imports from October 2017- March 2018



Source: Chinese Customs Data

Stock

MY 2018/19 ending stocks are forecast at 5.5 MMT, down 1 MMT from the revised MY 2017/18 estimate. Stocks are expected to continue to fall as national reserves are released to fill the gap between domestic consumption and production.

MY 2017/18 ending stocks are estimated at 6.5 MMT, down 1.3 MMT from the previous year. The decline was mainly the result of the released national and provincial (Guangxi) reserves. Since 2016, the Chinese government has gradually reduced its national reserves of agricultural products including corn, cotton and sugar.

Industry contacts report that these reserve stocks have been accumulated in past years through three primary sources:

- 1) Raw sugar imports from Cuba of approximately 400,000 MT every year. These are part of a long-standing government to government agreement.
- 2) Government purchases of domestic sugar (white) when market prices were low.
- 3) Sugar imports by state-owned companies earlier this decade that went directly into the national reserves.

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 the China Sugar Association (CSA) to ensure compliance with production guidelines and limits. The saccharine production quota for CY 2017 was 18,400 MT, with 2,900 MT designated for domestic sale and 15,500 MT for export. Based on CSA inspections, actual CY2017 production was 18,022 MT while actual domestic sales and exports totaled 2,895 MT and 15,213 tons, respectively. The ending stock was 923 MT.

In CY 2017, starch-based sweetener products such as corn syrup, fructose, and glucose are estimated to replace approximately 3-4 MMT of sugar. Low corn prices are expected to continue to make these products competitive. As domestic demand from the food/beverage industries is becoming saturated, China started exporting starch-based sweetener products, mainly to Asian countries such as the Philippines. However, since December 2017, the Philippines has increased the tariff on these imports from China. It is believed by analysts that some other Asian countries may follow suit.

Trade Tables

Production, Supply, and Demand (PSD) Tables

Table1. Centrifugal Sugar (1,000 MT)

Sugar, Centrifugal	2016/2017	2017/2018	2018/2019
Market Begin Year	Oct 2016	Oct 2017	Oct 2018

China	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	9591	9591	7811	7811	0	6461
Beet Sugar Production	1050	1050	1300	1150	0	1400
Cane Sugar Production	8250	8250	9200	9100	0	9400
Total Sugar Production	9300	9300	10500	10250	0	10800
Raw Imports	4200	4200	3800	3800	0	3600
Refined Imp.(Raw Val)	400	400	400	400	0	400
Total Imports	4600	4600	4200	4200	0	4000
Total Supply	23491	23491	22511	22261	0	21261
Raw Exports	5	5	5	20	0	20
Refined Exp.(Raw Val)	75	75	40	80	0	80
Total Exports	80	80	45	100	0	100
Human Dom. Consumption	15600	15600	15800	15700	0	15700
Other Disappearance	0	0	0	0	0	0
Total Use	15600	15600	15800	15700	0	15700
Ending Stocks	7811	7811	6666	6461	0	5461
Total Distribution	23491	23491	22511	22261	0	21261

(1000 MT)

Table 2. Sugar Cane (1000 MT; 1,000 Ha)

Sugar Cane for Centrifugal Market Begin Year	2016/2017		2017/2018		2018/2019	
	Oct 2016		Oct 2017		Oct 2018	
China	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	1380	1380	1520	1495	0	1550
Area Harvested	1310	1310	1440	1420	0	1470
Production	76500	76500	83700	82800	0	85600
Total Supply	76500	76500	83700	82800	0	85600
Utilization for Sugar	76500	76500	83700	82800	0	85600
Utilizatr for Alcohol	0	0	0	0	0	0
Total Utilization	76500	76500	83700	82800	0	85600

(1000 HA) ,(1000 MT)

Table 3. Sugar Beet (1000 MT; 1,000 Ha)

Sugar Beets Market Begin Year	2016/2017		2017/2018		2018/2019	
	Oct 2016		Oct 2017		Oct 2018	
China	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	175	175	205	190	0	230
Area Harvested	170	170	200	185	0	225
Production	9000	9000	11000	9500	0	11500
Total Supply	9000	9000	11000	9500	0	11500
Utilization for Sugar	9000	9000	11000	9500	0	11500
Utilizatr for Alcohol	0	0	0	0	0	0
Total Distribution	9000	9000	11000	9500	0	11500

(1000 HA) ,(1000 MT)

Table 4. China's Sugar Imports by Origin – MY2016/17 (MY-Market Year, Metric tons)

	4th/16	1st/17	2nd/17	3rd/17	MY Total
World	456650	893982	519758	417883	2288273
Brazil	217187	690555	598	28053	936393
Cuba	29000	36300	300795	65100	431195

Thailand	42740	77683	89452	86244	296119
Australia	96682	50244	30506	42121	219553
Korea South	58052	27326	44089	53063	182530
El Salvador	0	500	520	72219	73239
Costa Rica	0	0	38000	16986	54986
Philippines	0	0	0	21780	21780
Guatemala	1459	3997	6086	5282	16824
Nicaragua	0	0	0	8927	8927
Vietnam	0	0	4000	4883	8883
Cambodia	0	0	0	7840	7840
Malaysia	5250	0	344	997	6591
United Arab Emirates	252	1002	2502	2662	6418
Myanmar	0	2520	2151	0	4671
Poland	0	3168	0	504	3672
India	1885	0	0	915	2800
Ukraine	1560	0	0	0	1560
Mauritius	682	506	44	0	1232
Czech Republic	1200	0	0	0	1200
Others	700	181	671	307	1859

Source: China Customs data

Table 5. China's Sugar Imports by Origin – MY2017/18 (MY-Market Year, Metric tons)

	4th/17	1st/18	MY Total
World	459126	434911	894037
South Africa	62413	61437	123850
Australia	57857	55138	112995
El Salvador	38441	62188	100629
Korea South	57052	22688	79740
Philippines	77634	0	77634
Brazil	71197	14	71211
Nicaragua	2200	66752	68952
Thailand	35875	15756	51631
Swaziland	0	39500	39500
United Arab Emirates	24353	12906	37259
Costa Rica	0	35038	35038
Colombia	2391	28810	31201
Cambodia	7100	10000	17100
Vietnam	6950	7460	14410
Pakistan	8717	4469	13186
Guatemala	1040	6333	7373
India	2727	1991	4718
Mauritius	616	1525	2141
Egypt	1325	0	1325

Germany	47	1066	1113
Others	1189	1839	3028

Source: China Customs data

Table 6. China's Sugar Exports by Destination – MY2016/17 (MY-Market Year, Metric ton)

	4th/16	1st/17	2nd/17	3rd/17	MY Total
World	21207	18255	23342	62068	124872
Korea North	1	325	2605	41795	44726
Mongolia	10136	7356	9312	10837	37641
Hong Kong	5736	5851	5228	4598	21413
United States	1326	1324	1309	1229	5188
Japan	710	1022	1755	567	4054
Malaysia	666	268	797	711	2442
Philippines	620	510	260	66	1456
Singapore	374	178	315	287	1154
Canada	358	188	263	296	1105
Australia	201	198	173	274	846
Macau	149	111	228	183	671
Yemen	243	170	0	187	600
Somalia	66	108	147	110	431
United Arab Emirates	61	102	181	63	407
Egypt	80	16	159	144	399
Saudi Arabia	44	124	121	60	349
Colombia	63	42	0	168	273
Indonesia	43	83	20	42	188
United Kingdom	35	58	37	44	174
Qatar	48	48	48	0	144
Others	247	177	385	407	1216

Source: China Customs data

Table 7. China's Sugar Exports by Destination – MY2017/18 (MY-Market Year, Metric ton)

	4th/17	1st/18	MY Total
World	54268	40934	95202
Korea North	23068	7846	30914
Vietnam	15024	10300	25324
Mongolia	5464	11863	17327
Hong Kong	6317	6336	12653
United States	1104	1103	2207
Japan	551	1358	1909
Malaysia	820	627	1447
Canada	421	264	685
Singapore	252	135	387

Australia	124	200	324
Indonesia	146	105	251
United Arab Emirates	124	120	244
Macau	67	163	230
Saudi Arabia	161	60	221
United Kingdom	67	68	135
Yemen	130	0	130
Lebanon	85	20	105
Jordan	60	40	100
Egypt	0	80	80
Netherlands	43	21	64
Others	237	221	458

Source: China Customs data