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China Sugar Imports Expected to Continue to Decline as Government Removes Exemptions from Safeguard Measure

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Report Highlights:

China's sugar production in marketing year (MY) 2018/19 is forecast to increase for the third consecutive year, rising to 10.8 million metric tons (MMT). Imports are also expected to continue to fall for the third year in a row, especially following the Chinese government amending the import safeguard measure to make the additional duties apply to all suppliers. Previously, certain supplying countries had been exempt from these duties. After falling in the first half of 2018, in part because of change to import duties, China's sugar price has stabilized recently.

Executive Summary:

China's sugar production in marketing year (MY) 2018/19 is forecast to increase for the third consecutive year, rising to 10.8 million metric tons (MMT). Imports are also expected to continue to fall for the third year in a row, especially following the Chinese government amending the import safeguard measure to make the additional duties apply to all suppliers. Previously, certain supplying countries had been exempt from these duties. After falling in the first half of 2018, in part because of change to import duties, China's sugar price has stabilized recently.

Cane Sugar

MY 2018/19 cane sugar production is forecast at 9.4 million metric tons (MMT), unchanged from the previous forecast. Sugar cane acreage has expanded (although still far below the levels of earlier in this decade) by 3-5 percent as a result of price supports for farmers. In addition, weather during the growing season has been favorable.

Local governments have provided farmers with subsidies for seeds, farm machinery, plastic mulching film and fertilizers to help boost production. In addition, provincial governments such as Guangxi set minimum prices that sugar mills are mandated to pay farmers, and they are also required to pay in a timely manner. Sugar mills report that the combination of having to pay these minimum prices, along with falling sugar prices, has squeezed the profit margin for the mills. Because of this, the milling industry has been lobbying the government to provide direct subsidies to sugar farmers, rather than minimum purchase prices.

The MY 2017/18 cane sugar production estimate is revised slightly up to 9.15 MMT, as a result of Chinese government production statistics as well as industry estimates.

Purchase Price of Sugar Cane in Major Producing Provinces				
RMB per MT(USD \$1.00 =RMB6.8)				
	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)	470	430	450	510

Source: Guangxi sugar net and industry news

Beet Sugar

MY 2018/19 beet sugar production is forecast at 1.4 MMT, also unchanged from the previous forecast. The sugar beet harvest starts in late September and finishes in November, and weather during the growing season has reported to have been relatively good. Much of this increase in production is due to

expanding acreage, especially in Inner Mongolia. Since early 2016, high sugar prices, coupled with the ending of the corn temporary reserve program, have encouraged farmers to switch to grow more sugar beets, and also resulted in investors building new mills. Because of this, industry analysts estimate that Inner Mongolia will surpass Xinjiang as the largest producer of sugar beets.

The MY 2017/18 beet sugar production estimate is unchanged at 1.15 MMT.

Purchase Price of Sugar Beets in Major Producing Provinces			
RMB per MT(USD \$1.00 =RMB6.8)			
	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)	440	550	530

Source: Guangxi sugar net and industry news

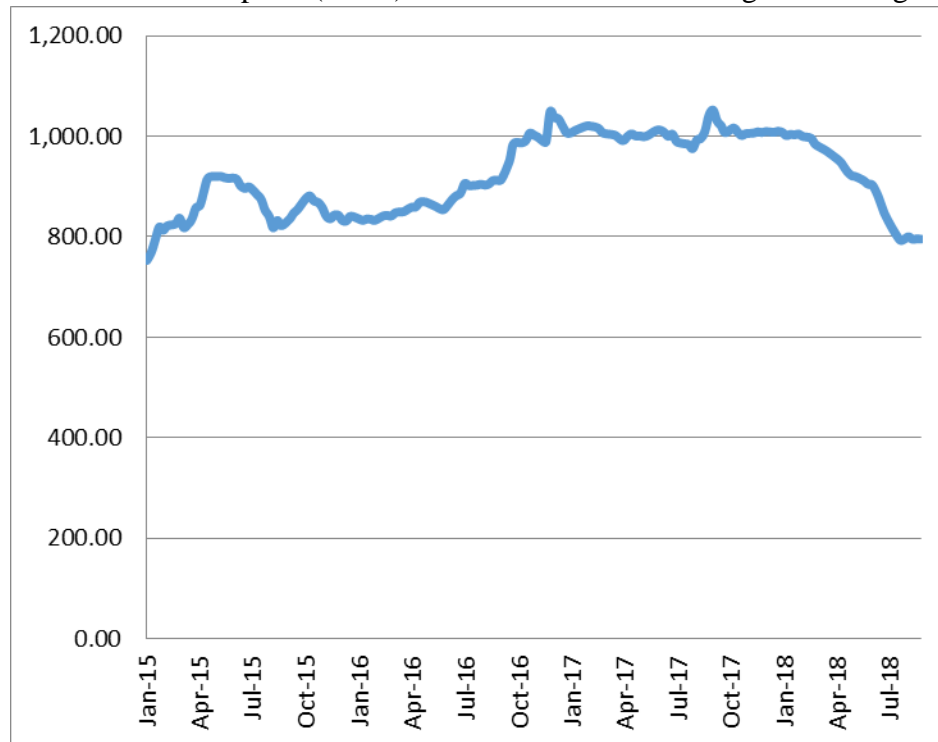
Centrifugal Sugar Production

MY 2018/19 sugar production is forecast at 10.8 MMT, unchanged from the previous estimate but up 500,000 metric tons (MT) from MY 2017/18 production. Of this total, 9.4 MMT is estimated to be cane sugar, and 1.4 MMT beet sugar. Guangxi province is expected to continue to be the largest producer of sugar cane, accounting for 60 percent of cane sugar production. For sugar beets, Inner Mongolia is estimated to surpass Xinjiang as the largest producer.

The MY 2017/18 sugar production estimate is 10.3 MMT, up slight from the previous estimate. This includes 9.15 MMT of cane sugar and 1.15 MMT beet sugar.

In the first half of 2018, sugar prices continued to fall as a result of declining global prices, and imports of sugar from a wide number of supplying countries not subject to the additional safeguard import duties. Since the government amended the safeguard measure in July 2018, however, sugar prices have stabilized and remained largely flat.

Chart: Wholesale price (RMB) of Grade 1 Granulated Sugar in Guangxi Province



Source: ATO Guangzhou, based on price information by Guangxi Sugar Net

Consumption

MY 2018/19 sugar consumption is forecast at 15.8 MMT, up 100,000 MT from the previous forecast. An increasing urban population and lower sugar prices will continue to support some consumption growth. Nevertheless, this growth is expected to remain limited as more middle class Chinese consumers are becoming concerned about nutrition and healthy eating and are limiting their sugar intake.

In China, approximately 70 percent of sugar is for industrial/food processing consumption and 30 percent for household use. Industrial consumption is mainly for products such as fruit juices, carbonated beverages, candy, dairy products (e.g., yogurt and ice cream), and canned products. Industry contacts report that consumption growth is being driven especially by carbonated beverages, as well as dairy products (especially yogurt). Yogurt producers reportedly prefer to use natural sugar in their products in order to improve the taste.

MY 2017/18 sugar consumption is estimated at 15.7 MMT, unchanged from the previous estimate.

Trade

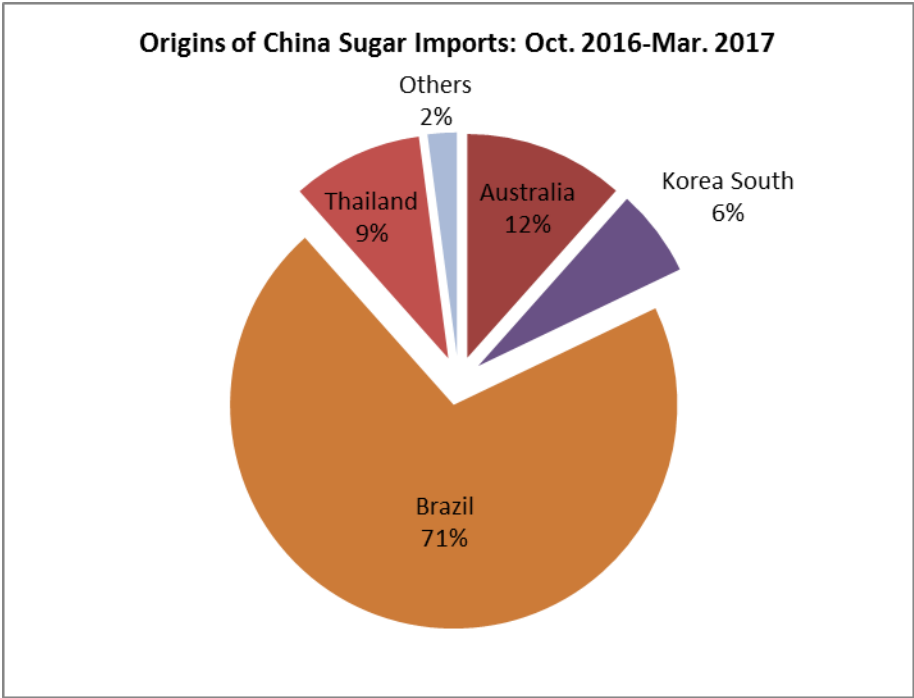
The MY 2018/19 sugar import forecast is unchanged from the previous forecast, at 4 MMT. If realized, this would be the third year of falling imports. These lower imports are a result of higher domestic production, and a safeguard measure on sugar imports, which was recently amended to make remove

exemptions for some suppliers. In addition, many industry contacts expect illegal sugar trade to fall as a result of stricter enforcement at the borders.

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 rose from 50 percent to 95 percent, effective from May 22, 2017 to May 21, 2018. It has then fallen to 90 percent, effective from May 22, 2018 to May 21, 2019. It will further drop to 85 percent, effective from May 22, 2019 to May 21, 2020. Sugar imports from many developing countries and regions were 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 (please see appendix for a list of the countries that were exempted).

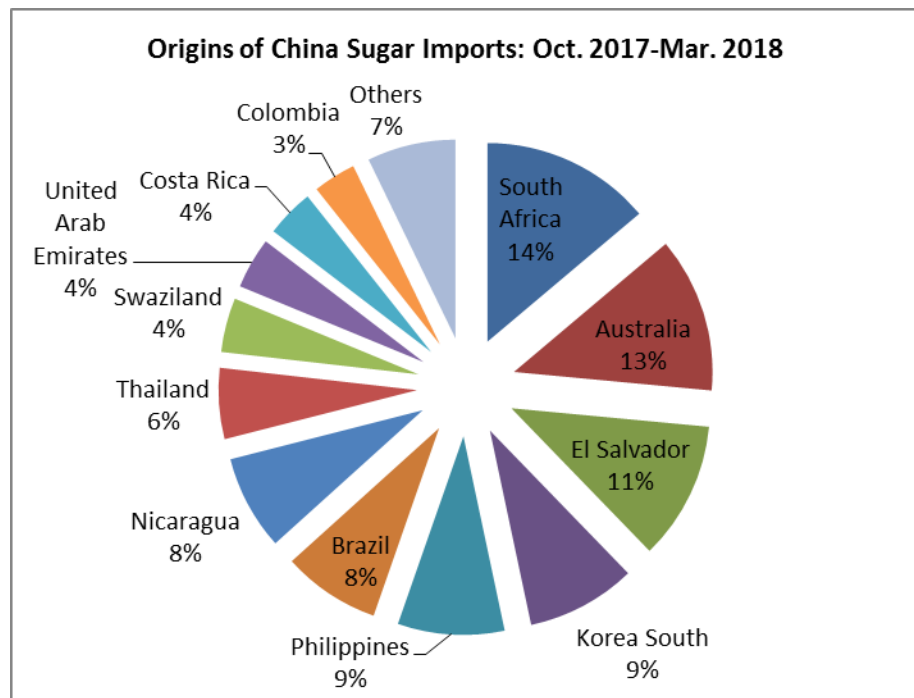
After the safeguard measure went into effect, China's import patterns dramatically shifted (see charts below). Imports from Brazil dropped significantly and there was a sharp increase in the number of smaller suppliers (exempt from the duties) shipping sugar to China. For example, China's sugar imports 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 MY 2017/18, compared to no imports from any of these countries during the same period last marketing year (which was right before the safeguard measures were enacted). Because of this shift in the origin of sugar shipments, the additional safeguard measure tariffs did not apply to the majority of sugar imports.

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

Because of this situation, on July 16, 2018, China announced it would remove the exemptions to the safeguard measure, and that it would apply the increased out-of-quota tariff on all imports, effective August 1, 2018. The stated reason for the change was that smaller suppliers had exceeded the threshold of market share for the exemption. Because of this change, it is expected that Brazil and Thailand will return to being the primary suppliers of sugar to China.

The MY 2017/18 import estimate is unchanged at 4.2 MMT. Formal imports during the first half of the marketing year were down 34 percent. China Customs has not released detailed trade data for any months since March 2018.

Stocks

MY 2018/19 ending stocks are forecast nearly unchanged from the previous forecast at 5.4 MMT. This level is down more than 1 MMT from MY 2017/18 as the safeguard measure is expected to continue to reduce sugar imports, and even with higher production it is expected that stocks will continue to be drawn down.

MY 2017/18 ending stocks are estimated at 6.5 MMT. In MY 2017/18, because of weakening sugar prices, the Chinese government has not released any sugar stocks from the national reserves and industry contacts do not expect any additional stocks to be sold until the end of 2018.

Tables

Production, Supply, and Demand (PSD) Table

Table1. Centrifugal Sugar

Sugar, Centrifugal Market Begin Year China	2016/2017		2017/2018		2018/2019	
	Oct 2016		Oct 2017		Oct 2018	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	9591	9591	7811	7811	6461	6511
Beet Sugar Production	1050	1050	1150	1150	1400	1400
Cane Sugar Production	8250	8250	9100	9150	9400	9400
Total Sugar Production	9300	9300	10250	10300	10800	10800
Raw Imports	4200	4200	3800	3800	3600	3600
Refined Imp.(Raw Val)	400	400	400	400	400	400
Total Imports	4600	4600	4200	4200	4000	4000
Total Supply	23491	23491	22261	22311	21261	21311
Raw Exports	5	5	20	20	20	20
Refined Exp.(Raw Val)	75	75	80	80	80	80
Total Exports	80	80	100	100	100	100
Human Dom. Consumption	15600	15600	15700	15700	15700	15800
Other Disappearance	0	0	0	0	0	0
Total Use	15600	15600	15700	15700	15700	15800
Ending Stocks	7811	7811	6461	6511	5461	5411
Total Distribution	23491	23491	22261	22311	21261	21311

(1000 MT)

Table 2. Sugar Cane

Sugar Cane for Centrifugal Market Begin Year China	2016/2017		2017/2018		2018/2019	
	Oct 2016		Oct 2017		Oct 2018	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	1380	1380	1495	1500	1550	1550
Area Harvested	1310	1310	1420	1425	1470	1470
Production	76500	76500	82800	83200	85600	85600
Total Supply	76500	76500	82800	83200	85600	85600
Utilization for Sugar	76500	76500	82800	83200	85600	85600
Utilizatn for Alcohol	0	0	0	0	0	0
Total Utilization	76500	76500	82800	83200	85600	85600

(1000 HA) ,(1000 MT)

Table 3. Sugar Beets

Sugar Beets Market Begin Year China	2016/2017		2017/2018		2018/2019	
	Oct 2016		Oct 2017		Oct 2018	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	175	175	190	190	230	230
Area Harvested	170	170	185	185	225	225
Production	9000	9000	9500	9500	11500	11500
Total Supply	9000	9000	9500	9500	11500	11500

Utilization for Sugar	9000	9000	9500	9500	11500	11500
Utilizatn for Alcohol	0	0	0	0	0	0
Total Distribution	9000	9000	9500	9500	11500	11500

(1000 HA) ,(1000 MT)

Table 4. 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

(NOTE: China Customs has not released detailed import data for any months since March 2018)

Table 5. China's Sugar Exports by Destination – MY2017/18 (MY-Market Year, Metric ton)

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

Australia	124	200	324
Macau	67	163	230
Singapore	252	135	387
United Arab Emirates	124	120	244
Indonesia	146	105	251
Egypt	0	80	80
United Kingdom	67	68	135
Saudi Arabia	161	60	221
France	1	50	51
Jordan	60	40	100
Kuwait	14	31	45
Qatar	25	25	50
Others	455	156	611

Source: China Customs data

(NOTE: China Customs has not released detailed import data for any months since March 2018)

Appendix:

List of developing countries previously exempted from sugar safeguard duty	
Afghanistan	Tajikistan
Bahrain	Turkmenistan
Bangladesh	Uzbekistan
Bhutan	Algeria
Negara Brunei Darussalam	Angola
Myanmar	Benin
Cambodia	Botswana
Korea	Burundi
China Hong Kong	Cameroon
India	Canary Islands
Indonesia	Cape Verde
Iran	Central Africa
Iraq	Sebo Tai (Ceuta)
Jordan	Chad
Kuwait	Comoros
Laos	Republic of Congo
Lebanon	Djibouti
China Macao	Egypt

Malaysia	Equatorial Guinea
Maldives	Ethiopia
Mongolia	Gabon
Federal Democratic Republic of Nepal	Gambia
Oman	Ghana
Pakistan	Guinea
Palestine	Guinea-Bissau
Philippines	Côte d'Ivoire
Qatar	Kenya
Saudi Arabia	Liberia
Singapore	Libya
Sri Lanka	Madagascar
Syria	Malawi
Turkey	Mali
United Arab	Emirates Mauritania
Yemen	Mauritius
Vietnam	Morocco
East Timor	Mozambique
Kazakhstan	Namibia
Kyrgyzstan	Niger
Nigeria	Bosnia and Herzegovina
Reunion	Vatican City State
Luwang Da	Faroe Islands
The Democratic Republic of Sao Tome and Principe	Republic of Serbia
Senegal	Montenegro
Seychelles	Antigua and Barbuda
Sierra Leone	Argentina
Somalia	Aruba
South Africa	Bahamas
Western Sahara	Barbados
Sudan	Belize

Tanzania	Bolivia
Togo	Bonaire
Tunisia	Cayman Islands
Uganda	Chile
Burkina Faso	Colombia
Congo (DRC)	Dominica
Zambia	Costa Rica
Zimbabwe	Curacao Island
Lesotho	Dominican Republic
Melilla	Ecuador
Swaziland	French Guiana
Eritrea	Grenada
Mayotte	Guadeloupe
Republic of South Sudan	Guyana
Republic of Albania	Haiti
Andorra	Honduras
Gibraltar	Jamaica
Monaco	Martinique
San Marino	Mexico
Georgia	Montserrat
The Republic of Armenia	Nicaragua
Azerbaijan	Republic of Fiji
Belarus	Paraguay
Moldova	Peru
Panama	Puerto Rico
The Russian Federation	Saba
Ukraine	Saint Lucia
Serbia and Montenegro	Saint Maarten
Macedonia	Saint Vincent and the Grenadines
The Republic of El Salvador	Vanuatu
Surinam	Norfolk Island
Trinidad and Tobago	Papua New Guinea

Turks and Caicos Islands	Society Islands
Uruguay	Solomon Islands
Venezuela	Tonga
The British Virgin Islands	Tuamotu Archipelago
St. Kitts and Nevis its	Tubuai
St. Pierre and Miquelon	Samoa
Netherlands Antilles	Kiribati
Greenland	Tuvalu
Bermuda	Federated States of Micronesia
Cook Islands	Marshall Islands
Gaby Islands	Republic of Palau
Marquesas Islands	French Polynesia
Nauru	Wallis and Futuna
New Caledonia	