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China - Peoples Republic of

Sugar Annual 2011

Annual

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Report Highlights:

For MY 2011/12, total sugar production is forecast at 12 MMT (raw value), up 6 percent from the current year on increased planted acreage. In MY 2010/11 total sugar production is estimated at 11.3 MMT (raw value), down 1 percent due to frost damage and low temperatures. MY 2010/11 and MY 2011/12 sugar consumption is forecast at 13.9 and 13.6 MMT (raw value), respectively, falling approximately 2 to 3 percent due to increased starch sweetener utilization.

Executive Summary:

For MY 2011/12, total sugar production is forecast at 12 MMT (raw value), up 6 percent from the current year on increased planted acreage. In MY 2010/11 total sugar production is estimated at 11.3 MMT (raw value), down 1 percent due to frost damage and low temperatures. MY 2010/11 and MY 2011/12 sugar consumption is forecast at 13.9 and 13.6 MMT (raw value), respectively, falling approximately 2 to 3 percent due to increased starch sweetener utilization.

Centrifugal Sugar Production

For MY 2011/12, total sugar production is forecast at 12 MMT (raw value), up 6 percent from the current year on higher planted acreage. More specifically, sugar cane and sugar beet production is projected at 11 MMT and 1 MMT (raw value), respectively, rising 5 and 16 percent. In MY 2010/11 total sugar production is estimated at 11.3 MMT (raw value), down 1 percent due to frost damage and low temperatures.

Guangxi, Yunnan, Guangdong, Hainan and Xinjiang are the top 5 sugar producing provinces (beet and sugar cane), accounting for 95 percent of China's total sugar production (5 year average) . Sugar beet and cane crushing starts in October and November. According to industry contacts, the crushing season normally lasts 120 days.

Sugar Cane

For MY 2011/12, sugar cane area and yield is forecast at 1.87 million hectares (ha) and 70 tons per ha, up 5 and 3 percent from last year. Although some industry contacts initially thought that low spring temperatures in southern China would affect plant yields, recent warmer temperatures and adequate soil moisture have alleviated many concerns. Sugar cane accounts for 87 percent of China's total sugar cane and beet area.

Guangxi is the largest sugar cane producing province (64 percent of China's total sugar cane production), followed by Yunnan, Guangdong, and Hainan provinces. In order to encourage production, sugar cane mills voluntarily offer financial assistance to cane farmers, such as discounted fertilizer or subsidized agricultural equipment. This year some sugar mills provided free or subsidized plastic covering to protect the crop from colder temperatures (for more information see GAIN CH10057 and CH10015).

Local media reported that the Australian government is collaborating with provincial agricultural departments to research and develop new sugar cane varieties to resolve ongoing challenges, such as seed degradation, that limit higher production potential (for further information on ongoing production challenges see GAIN CH10015). However, the process can take at least 5 to 10 years.

Agricultural costs continue to rise. For MY 2010/11, agricultural chemicals and fuel are estimated to increase 10 percent. On-farm wages rose around 50 percent to attract seasonal labor since many workers have started moving to the cities to find higher paying jobs. Average production costs increased 56 percent to USD $923 per ton.

The Guangxi provincial government is developing draft legislation specifically for the sugar cane sector. The main points include:

- Sugar mills must not raise purchasing prices to compete for product with other mills.
- New sugar mills must pass stricter environmental requirements and have a crushing capacity no less than 5,000 tons per day. Older mills will also have to upgrade their facilities to meet the new environmental requirements.
- Sugar mills are required to set aside funding to further develop nearby local farming communities.

The provincial government sets a sugar cane guidance price that all sugar cane mills are expected to offer throughout the year. In cases where the market price rises above the government guidance price, sugar mills traditionally have either given farmers a bonus or raised the price voluntarily to match market rates. In MY 2010/11 the average sugar price rose 35 percent to USD $70.30 per MT (RMB 456 per MT) from the previous year due to less total supplies and continued strong demand. For MY 2011/12, provincial government guidance prices are expected to rise to promote increased acreage.

Purchase Price of Sugar Cane in Major Producing Provinces				
RMB per MT (USD $1.00 = RMB 6.80)				
	Guangxi	Yunnan	Guangdong	Hainan
MY 05/06	220	170	200	175
MY 06/07	270	202	303	206
MY 07/08	270	202	287	265
MY 08/09	275	231	245	268
MY 09/10	350	280	400-410	270
MY 10/11	482	350	540-550	450
Industry Sources				

Sugar Beets

For MY 2011/12, sugar beet area is forecast at 285,000 ha, up 10 percent from last year. Xinjiang, Heilongjiang, and Inner Mongolia comprise approximately 90 percent of China's total sugar beet output. For MY 2010/11, yield is projected to be 3 percent lower.

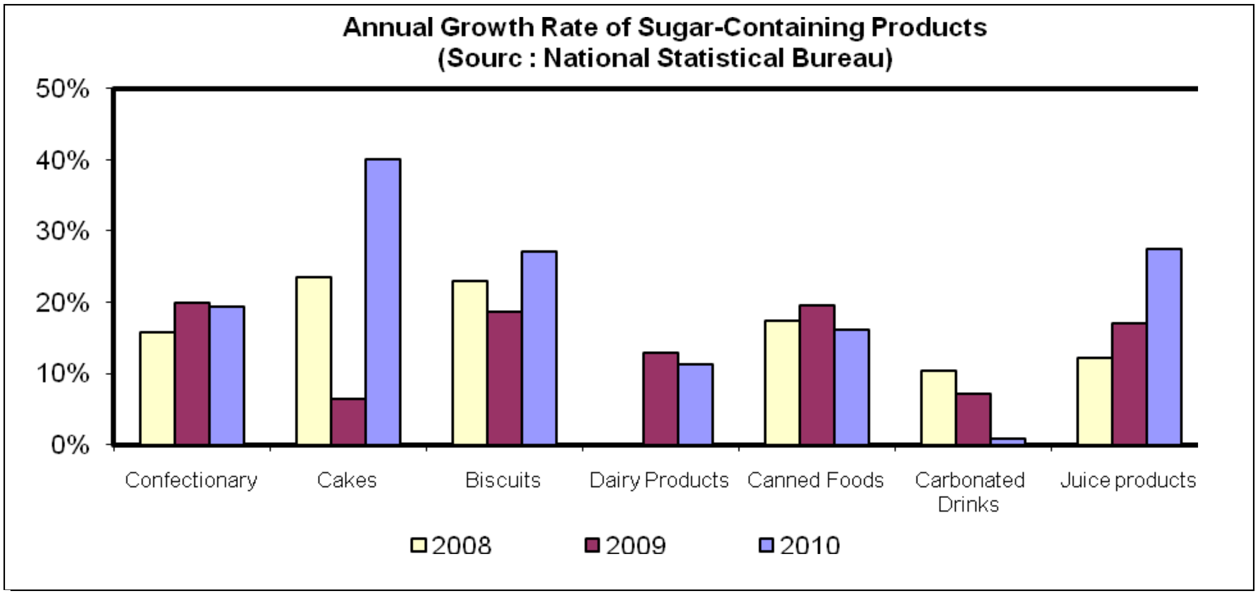
There is no provincial government sugar beet guidance price. In MY 2010/11, the contracting price averaged around USD $67.20 per ton (RMB 436 per ton), 36 percent higher than the previous year. In MY 2011/12, sugar mills in Xinjiang and Heilongjiang announced they planned to raise the sugar beet purchasing price by 20 and 15 percent to encourage farmers to boost planting area.

Purchase Price of Sugar Beets in Major Producing Provinces			
RMB per MT (USD $1.00 = RMB 6.8)			
	Xinjiang	Heilongjiang	Inner Mongolia
MY 05/06	240	280-320	260-300
MY 06/07	260	310-340	300-350
MY 07/08	230-260	320-360	310-330
MY 08/09	300-330	320-370	320-340
MY 09/10	280	320-370	320-360
MY 10/11	380	480	450
MY 11/12	420-490	550	
Industry Sources			

Consumption

MY 2010/11 and MY 2011/12 sugar consumption is forecast at 13.9 and 13.6 MMT (raw value), respectively, dropping approximately 2 to 3 percent on increased starch sweetener utilization. Demand from the processed food, beverage, and catering sector has risen on average 10 percent each year, which placed pressure on domestic cane/beet sugar supplies and caused prices to rise. As a result, more businesses have begun substituting cane/beet sugar with starch sugar. For instance, according to industry sources, a few businesses have replaced 50 and 90 percent of the total sugar content in coca mix and moon cakes with starch sugar.

According to the 2011 China Sugar Association report, MY 2009/10 per capita cane/beet sugar consumption is estimated at 11 kg (raw value). Food processing, beverage, and pharmaceutical industries are the largest sugar consumers, accounting for 65 percent of total sugar consumption. The remaining 35% is at the household and food service level.



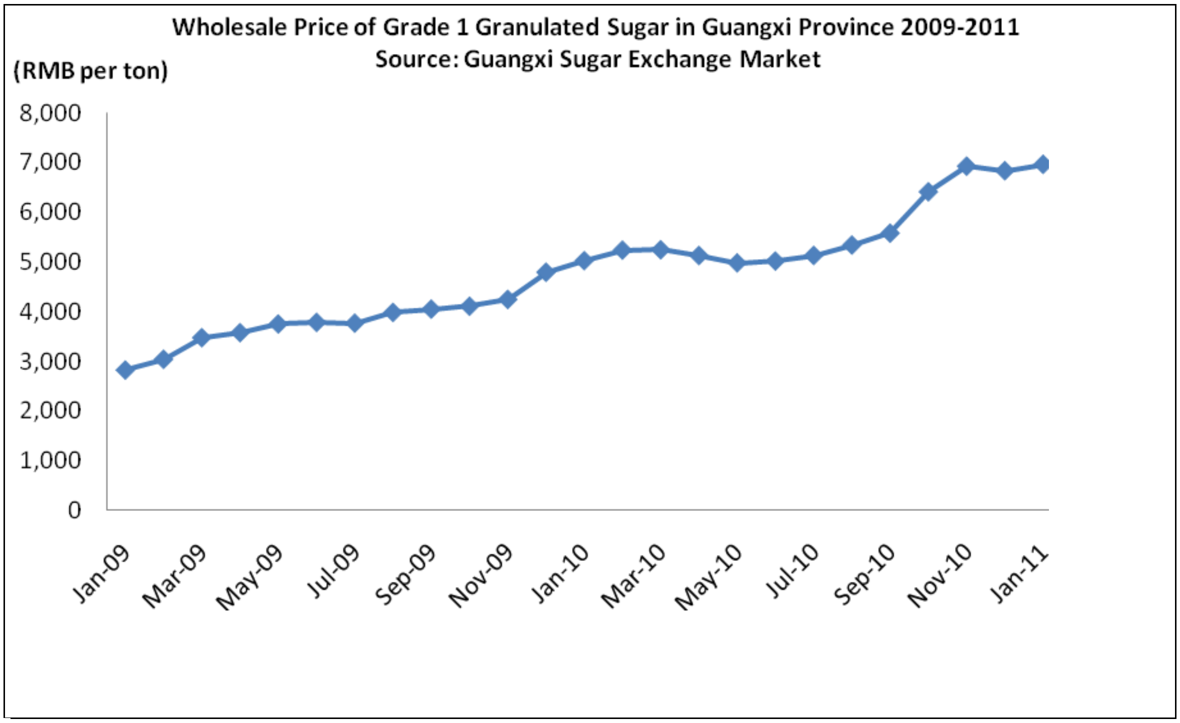
Trade

MY 2011/12 sugar imports are forecast at 1.6 MMT, unchanged from last year on strong demand and low total sugar supplies. After the crushing season ends, import sales are generally higher because it is more price competitive. Private traders consider the timing of state sugar reserve auctions before purchasing sugar imports, as this can affect their overall profit margins. The CY 2010 TRQ is 1.95 MMT, with an in-quota-tariff of 15 percent. The CY 2010 out-of-quota tariff rate is 50 percent. Since 2005, the quota and tariff rate have not changed.

As stipulated in China's WTO accession agreement, 30 percent of the TRQ (585,000 MT) is reserved for non-state trading enterprises and the remaining 70 percent is assigned to state trading enterprises. Many industry sources believe that the quota allocations by themselves are insufficient to procure a Panamax vessel, which require pooling in order to get a competitive shipping rate. Each year China imports about 450,000 MT of raw sugar (state trade) from Cuba under a longstanding bilateral agreement signed in the 1950's. In March 2011, the first CY 2011 shipment of Cuban sugar landed in Tianjin.

Stocks

For MY 2011/12, ending stocks are forecast at 1.7 MMT (raw value), 200,000 tons higher than last year. Stocks include state, industrial, commercial, and distribution sector reserves. In MY 2010/11 strong demand and lower than average production (5 year average) caused stock levels to drop 800,000 tons from the previous year.



The central and provincial governments manage reserves to stabilize market prices and ensure adequate supplies. The National Development and Reform Commission is the lead agency that decides on the scale and the timing of purchases and auctions (For more information see GAIN CH10057 or CH10015). For MY 2010/11, by March the government auctioned 770,000 tons of sugar to mitigate price rises.

Auctions of State Sugar Reserves (tons) in MY 09/10		
Date	Quantity	Average Price (RMB)
12/10/2009	200,000	4,945
12/21/2010	300,000	4,672
01/21/2010	360,000	4,797
03/05/2010	260,000	5,437
04/28/2010	100,000	4,945
07/06/2010	100,000	5,248
08/12//2010	150,000	5,417
09/09/2010	240,000	5,662
Total in MY09/10	1,710,000	

Auctions of State Sugar Reserves (tons) in MY 10/11		
Date	Quantity	Average Price(in RMB)
10/22/2010	220,000	6,681
11/22/2010	200,000	6,296
12/22/2010	200,000	6,867

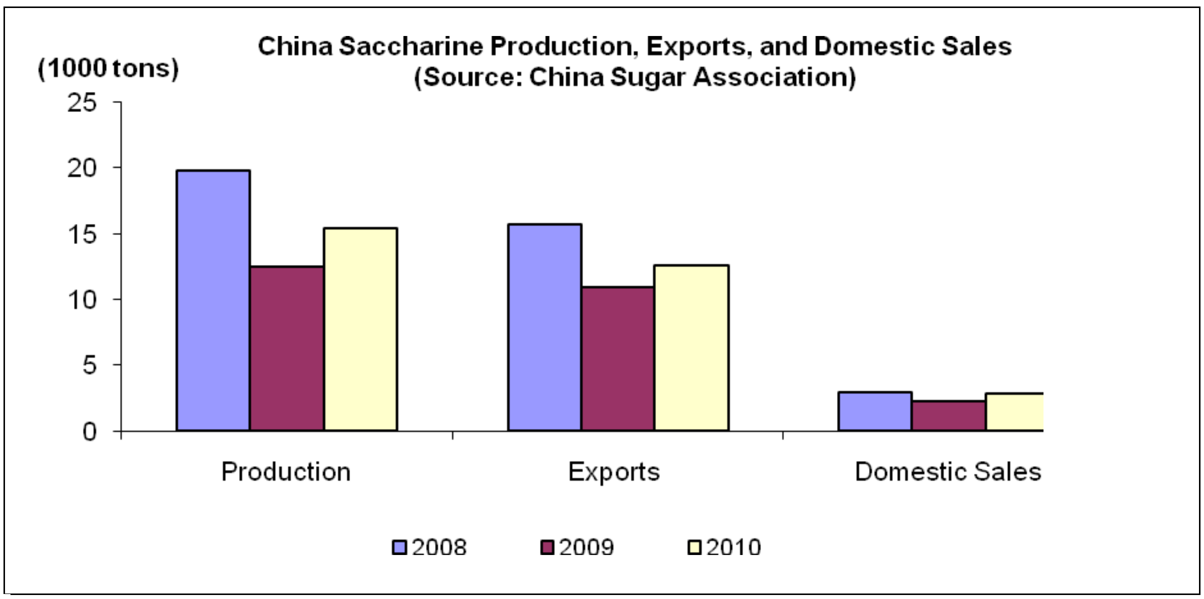
02/28/2011	150,000	7,424
Total to date	770,000	

Other Sweeteners

Saccharine

The China Sugar Association (CSA) (a government entity) limits domestic saccharine sales to promote domestic sugar cane and beet production, which ultimately benefits local farmers. Because of these restrictions, China annually exports more than it consumes. The CSA has not released 2010 data, but in 2009 it reported that China produced 15,403 MT of saccharine, of which 12,601 MT was exported. Domestic saccharine sales increased 25 percent to 2,794 MT due to high sugar cane and beet prices. Industry sources believe there are unmonitored sales that are not officially reported.

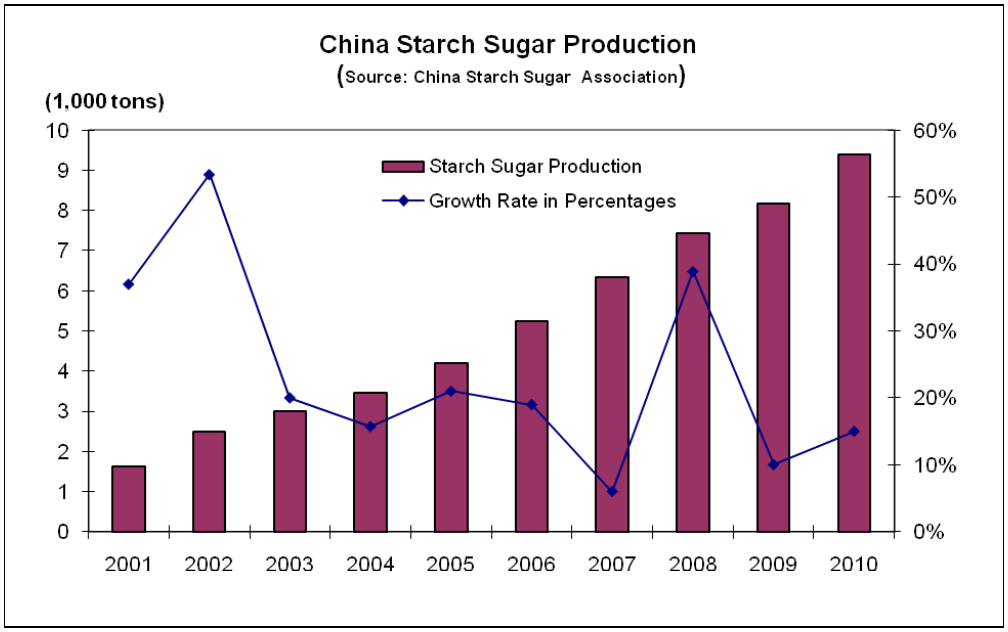
Currently, only 4 saccharine plants are licensed for operation. In 2008, the central government closed 1 plant in Suzhou City to reduce pollution levels in the Taihu Lake region. The plants are required to regularly report their operational activities to CSA, including production, domestic and export sales, and stock levels. In 2010, a few entrepreneurs illegally opened a few small plants in Henan and Hubei province to take advantage of high domestic sugar prices. The CSA led an investigation and advised the central government to close the plants, but it is unknown if the plants were shut-down.

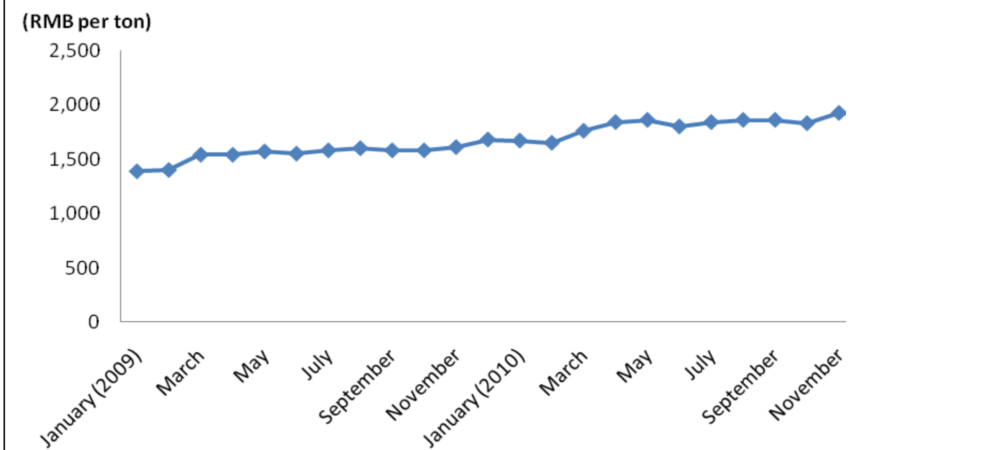


Starched-based Sweeteners

In CY 2011 industry sources report that starch sugar production will rise over 10 percent to 9 MMT (the US produced 35 MMT during the same year), and has grown on average 13 percent annually for the last 5 years. For CY 2010, starch sugar production rose 15 percent. Shandong, Hebei and Jilin province are the top 3 starch sweetener producing provinces, comprising over 85 percent of China’s total output.

In the last few years, high sugar cane and beet prices caused starch sugar usage to grow. Major starch sugar end-users include the beverage, food processing, and pharmacy sector. High international sugar prices also caused starch sugar exports to rise in recent years. In CY 2010, exports reached 820,000 tons, up 32% from the previous year.





China Corn Wholesale Prices in Production Region in 2009-2010
Source: China JCI

Tables

Production, Supply, and Demand (PSD) Tables

Table 1. Centrifugal Sugar

Sugar, Centrifugal China	2009/2010		2010/2011		2011/2012		
	Market Year Begin: Oct 2009		Market Year Begin: Oct 2010		Market Year Begin: Oct 2011		
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post	

Beginning Stocks	3,784	3,784	1,900	2,355		1,514	(1000 MT)
Beet Sugar Production	652	652	950	863		1,000	(1000 MT)
Cane Sugar Production	10,848	10,777	11,720	10,440		11,000	(1000 MT)
Total Sugar Production	11,500	11,429	12,670	11,303		12,000	(1000 MT)
Raw Imports	1,300	1,342	1,600	1,600		1,600	(1000 MT)
Refined Imp.(Raw Val)	200	193	200	220		250	(1000 MT)
Total Imports	1,500	1,535	1,800	1,820		1,850	(1000 MT)
Total Supply	16,784	16,748	16,370	15,478		15,364	(1000 MT)
Raw Exports	4	4	5	4		4	(1000 MT)
Refined Exp.(Raw Val)	90	89	50	60		60	(1000 MT)
Total Exports	94	93	55	64		64	(1000 MT)
Human Dom. Consumption	14,790	14,300	15,100	13,900		13,600	(1000 MT)
Other Disappearance	0		0				(1000 MT)
Total Use	14,790	14,300	15,100	13,900		13,600	(1000 MT)
Ending Stocks	1,900	2,355	1,215	1,514		1,700	(1000 MT)
Total Distribution	16,784	16,748	16,370	15,478		15,364	(1000 MT)

Table 2. Sugar Cane

Sugar Beets China	2009/2010		2010/2011		2011/2012		
	Market Year Begin: Jan 2010		Market Year Begin: Jan 2011		Market Year Begin: Jan 2012		
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post	
Area Planted		186		260		285	(1000 HA)

Area Harvested		186		260		285	(1000 HA)
Production		7,179		9,800		11,000	(1000 MT)
Total Supply		7,179		9,800		11,000	(1000 MT)
Utilization for Sugar		7,179		9,800		11,000	(1000 MT)
Utilizatn for Alcohol		0					(1000 MT)
Total Distribution		7,179		9,800		11,000	(1000 MT)

Table 3. Sugar Beets

Sugar Cane for Centrifugal China	2009/2010		2010/2011		2011/2012		
	Market Year Begin: Oct 2009		Market Year Begin: Oct 2010		Market Year Begin: Oct 2011		
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post	
Area Planted	1,709	1,698	1,846	1,780		1,870	(1000 HA)
Area Harvested	1,709	1,698	1,846	1,780		1,870	(1000 HA)
Production	112,000	115,587	130,000	124,000		130,000	(1000 MT)
Total Supply	112,000	115,587	130,000	124,000		130,000	(1000 MT)
Utilization for Sugar	112,000	115,587	130,000	124,000		130,000	(1000 MT)
Utilizatn for Alcohol	0		0				(1000 MT)
Total Utilization	112,000	115,587	130,000	124,000		130,000	(1000 MT)

Price Table

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

RMB per MT (USD $1.00=RMB 6.8)					
Month	**2007**	**2008**	**2009**	**2010**	**2011**
January	3,656	3,442	2,828	5025	6961
February	3,599	3,657	3,045	5236	7213
March	3,760	3,528	3,478	5244	
April	3,723	3,360	3,579	5129	

May	3,639	3,250	3,753	4981	
June	3,576	3,216	3,786	5017	
July	3,476	3,081	3,770	5130	
August	3,867	2,802	3,986	5339	
September	3,736	2,751	4,052	5578	
October	3,925	2,746	4,110	6410	
November	3,595	2,911	4,246	6924	
December	3,498	2,905	4,793	6832	
Yearly Average	3,671	3,137	3,786	5025	
Source: Guangxi Sugar Exchange Center Website: www.chinasugarmarket.com					

Trade Tables

Table 5. China's Sugar Imports by Origin - MY 2009/2010 (MT)

Country	**Oct-Dec**	**Jan-Mar**	**Apr-Jun**	**Jul-Sept**	**MY Total**
World	111,978	88,959	319,575	956,677	1,477,189
Brazil	45,595	100	49,482	726,942	822,119
Korea South	38,456	21,476	42,497	44,814	147,243
Cuba	23,000	60,000	163,625	121,500	368,125
United Kingdom	0	2,486	638	1,738	4,862
Australia	247	571	2,500	57,253	60,571
Poland	0	0	240	0	240
Colombia	0	0	26	3	29
Malaysia	183	22	22	0	227
Thailand	4,276	2,312	3,803	1,925	12,316
New Zealand	0	0	0	0	0
Mauritius	0	10	42	195	247
Argentina	48	50	48	0	146
United Arab Emirates	0	0	0	25	25
India	0	0	0	0	0
Others	173	1,932	56,652	2,282	61,039
Source: China Customs					

Table 6. China's Sugar Imports by Origin - MY 2010/2011 (MT)

Country	**Oct-Dec**	**Jan-Mar**	**Apr-Jun**	**Jul-Sept**	**MY Total**
World	400,904				400,904
Brazil	312,940				312,940
Korea South	46,300				46,300
Cuba	24,875				24,875
United Kingdom	4,026				4,026
Australia	3,676				3,676
Poland	2,928				2,928
Colombia	2,080				2,080
Malaysia	1,519				1,519

Thailand	1,394				1,394
New Zealand	682				682
Mauritius	152				152
Argentina	122				122
United Arab Emirates	75				75
India	52				52
Others	83				83
Source: China Customs					

Table 7. China's Sugar Exports by Destination - MY 2009/2010 (MT)

Country	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sept	MY Total
World	15,045	33,990	23,170	14,472	86,677
Hong Kong	7,460	7,303	6,541	8,343	29,647
Mongolia	300	2,450	0	256	3,006
Malaysia	1,033	3,261	1,987	1,107	7,388
Singapore	2,104	274	1,622	1,009	5,009
Kuwait	18	5	5	9	37
United States	1,109	343	1,023	763	3,238
Saudi Arabia	76	1,555	134	96	1,861
Yemen	147	105	168	74	494
Korea North	90	234	1,161	931	2,416
Canada	325	264	489	156	1,234
Egypt	114	132	179	144	569
Japan	60	1,352	2,100	237	3,749
Macau	115	231	121	204	671
Others	2,094	16,481	7,640	1,143	27,358

Table 8. China's Sugar Exports by Destination - MY 2010/2011 (MT)

Country	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sept	MY Total
World	22,716				22,716
Hong Kong	7,748				7,748
Mongolia	4,709				4,709
Malaysia	3,504				3,504
Singapore	2,516				2,516
Kuwait	1,000				1,000
United States	878				878
Saudi Arabia	520				520
Yemen	271				271
Korea North	257				257

Canada	235				235
Egypt	192				192
Japan	178				178
Macau	143				143
Others	565				565