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China - Peoples Republic of

Sugar Semi-annual

Semi Annual

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Report Highlights:

For MY 10/11, total sugar production is forecast at 12.7 MMT (raw value), up 10 percent from the previous year. Cane and beet sugar production are projected at 11.7 MMT and 950,000 MT, up 8 percent and 45 percent, respectively, due to an estimated 4 percent and 40 percent rise in acreage. For MY 10/11, imports are forecast at 1.8 MMT (300,000 MT higher than last year), a new record since China joined the WTO in 2001.

Executive Summary:

For MY 10/11, total sugar production is forecast at 12.7 MMT (raw value), up 10 percent from the previous year. Cane and beet sugar production are projected at 11.7 MMT and 950,000 MT, 8 percent and 45 percent higher due to an estimated 4 percent and 40 percent rise in acreage. For the same year, imports are forecast at 1.8 MMT (300,000 MT higher than last year), a new record since China joined the WTO in 2001, and sugar consumption is forecast at 15.1 MMT (raw value), two percent higher than last year. The processed food and beverage sectors and catering services are the main drivers, with a growth rate expected to exceed 10 percent annually. In MY 10/11 ending stocks are forecast at 1.2 MMT (raw value), down 700,000 tons from the previous marketing year. Because the tariff-rate quote (TRQ) of 1.95 MMT is expected to be almost fully maximized this year, stocks are unlikely to be rebuilt unless the government temporarily does not enforce the out-of-quota tariff.

Commodities:

Sugar Cane for Centrifugal

Sugar Beets

Production:

Sugar Cane

For MY 10/11 sugar cane area is 1.78 million hectares (Ha), up four percent from last year. According to industry sources, an extended dry season this year delayed planting and reduced planted area. Nonetheless, favorable weather from August and September, a critical growth period, may raise yields and result in higher production.

Sugar cane area is estimated to account for 87 percent of the total sugar crop area (sugar beets make up the remaining portion). Guangxi remains the dominant sugar cane producing province, followed by Yunnan, Guangdong, and Hainan provinces. For MY 09/10, Guangxi's output comprised 65 percent of China's total sugar production.

Because of limited available arable land, the sugar cane industry has begun researching high yielding varieties, as well as creating hybrids that are less susceptible to disease and pests. Dominant cane varieties such as the "Tai (Taiwan) 22" have been in use for over a decade and cover more than 90 percent of some producing areas, such as Guangxi province.

Although farmers in sugar cane producing provinces have the option to grow a wide variety of crops, including grains, fruits (e.g. bananas), tubers (e.g. cassava), and vegetables, many decide to grow sugar cane. This is partly due to the close proximity of sugar mills (i.e. less transportation costs); however, sugar mill operations also voluntarily provide assistance including low interest loans, discounted fertilizer, machinery subsidies, road maintenance, irrigation facilities, and extension services. Moreover, sugar cane provides a more stable income due to the pre-set (floor) purchase price.

At the beginning of the marketing year, provincial governments announce a pre-set (floor) purchase price for sugar cane which, unofficially, is the lowest price that any sugar mill is allowed to offer farmers (all sugar mills follow the government's guidance and do not lower or offer a higher price to undercut competition). If the provincial government raises the sugar cane price during the marketing year, sugar mills will raise the contracted cane price or pay the farmers a bonus. This pricing scheme ensures a relatively more reliable and somewhat predictable stream of income for sugar cane producers. Moreover, it encourages less variance in sugar cane planted acreage, which is critical for sugar mill operation. Provincial governments also gain revenues by taxing the sugar mills.

For MY 09/10 production dropped 12 percent because of poor weather. During this period, the average cane price for four major producing provinces was USD $46.8/MT (RMB 319/MT), an increase of 25 percent from the previous year.

Purchase Price of Sugar Cane in Major Producing Provinces

RMB/MT (USD1.00 = RMB6.8)				
	Guangxi	Yunnan	Guangdong	Hainan
MY05/06	220	170	200	175
MY06/07	270	202	303	206
MY07/08	270	202	287	265
MY08/09	275	231	245	268
MY09/10	350	280	400-410	270
MY10/11	NA			
Industry Sources				

Sugar Beet

For MY 10/11, sugar beet area is forecast at 260,000 HA, up 40 percent from last year. A two week delay in planting (caused by low spring temperatures) in Xinjiang, Heilongjiang, and Inner Mongolia is expected to cause a late harvest. Nevertheless, industry contacts believe adequate rainfall and favorable temperatures during this summer may help raise production potential.

Because of rising sugar cane prices, sugar beet mills announced higher beet prices to encourage farmers to increase planted acreage. Provincial governments offer no (pre-set) floor prices for sugar beets. The contracting price averaged $55.2 per ton (RMB 376 per ton), 20 percent higher than the previous year.

For MY 09/10, production dropped by 39 percent due to poor weather and less planted acreage (caused by relatively low price for beet in comparison with rising prices for grains or oilseeds). Government encourages grain and oilseed production in the northeastern provinces by series of supporting programs, while beet production receives no government support. This caused several sugar beet mills in Heilongjiang and Inner Mongolia to stop operating in MY09/10.

Purchase Price of Sugar Beet in Major Producing Provinces			
RMB/MT (USD1.00 = RMB6.8)			
	Xinjiang	Heilongjiang	Inner Mongolia
MY05/06	240	280-320	260-300
MY06/07	260	310-340	300-350
MY07/08	230-260	320-360	310-330
MY08/09	300-330	320-360	320-370
MY09/10	280	320-370	320-370
MY10/11	330	400	400
Industry Sources			

China Sugar Cane/Beet/Starch Sweetener Production Regions

Commodities:

Sugar, Centrifugal

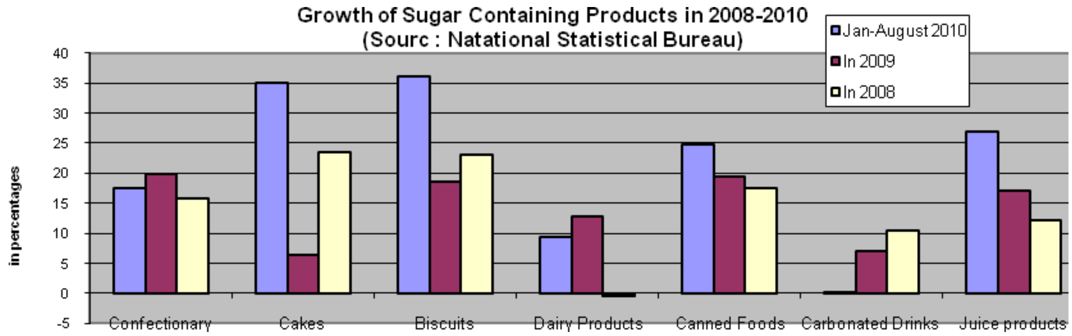
Production:

For MY 10/11, total sugar production is forecast at 12.7 MMT (raw value), up 10 percent from the previous year. Cane and beet sugar production are projected at 11.7 MMT and 950,000 MT, 8 percent and 45 percent higher due to an estimated 4 percent and 40 percent rise in acreage. Guangxi, Yunnan, Guangdong, Hainan and Xinjiang are the top 5 producing provinces, and account for approximately 95 percent of total sugar output.

For MY 09/10, total sugar production is estimated at 11.5 MMT (raw value), 14 percent lower than last year primarily due to poor weather. Due to the shortfall in beet and cane production, the MY 09/10 crushing season was about one month shorter than normal. According to industry contacts, a normal crushing season spans 120 days.

Consumption:

For MY 10/11, sugar consumption is forecast at 15.1 MMT (raw value), two percent higher than last year. The processed food and beverage sectors and catering services are the main drivers, with a growth rate expected to exceed 10 percent annually. According to the China Sugar Association, 65 percent of total sugar consumption comprises the food processing, beverage, and pharmaceutical industries, while 35% is at the household or food service level. In MY 09/10 natural sugar consumption was approximately 11 Kg (raw value) per capita.



Source: China National Statistical Bureau

Depending on price competiveness, many industries may substitute sugar for other less expensive ingredients. For example, the beverage, confectionary, and bakery industries sometimes substitute sugar for starch sweetners (See Starch-based Sweetners Section). Saccharine is also considered another potential substitute (see Saccharine section).

Trade:

For MY 10/11, imports are forecast at 1.8 MMT (300,000 MT higher than last year), a new record since China joined the WTO in 2001. Although sugar cane and beet production for MY 10/11 will increase, carry-in stock levels dropped by 50 percent because of poor production in MY 2009/10. As a result, due to lower total domestic supplies, increased imports are needed to meet rising consumption demands (see Consumption section).

Imports usually arrive in China after the crushing season ends and the domestic price starts to increase. Before making a purchase, many private traders take into account the timing of state sugar reserve auctions. These auctions set a price ceiling on domestic sugar prices, which can make sugar imports less price competitive.

Since 2005, the quota and tariff rate have remained unchanged. The TRQ is 1.95 MMT, with an in-quota-tariff of 15 percent. The out-of-quota tariff rate is 50 percent. 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.

Regarding the non-state trading enterprise quota, industry contacts report that allocations are generally not commercially viable for a Panamax vessel shipment, and may need to be combined in order to acquire a more competitive freight rate. For the state trading quota, NDRC evaluates the domestic market (in terms of supply and prices) before deciding to import. 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. The arrival of Cuban sugar is on a monthly basis, and generally begins in March.

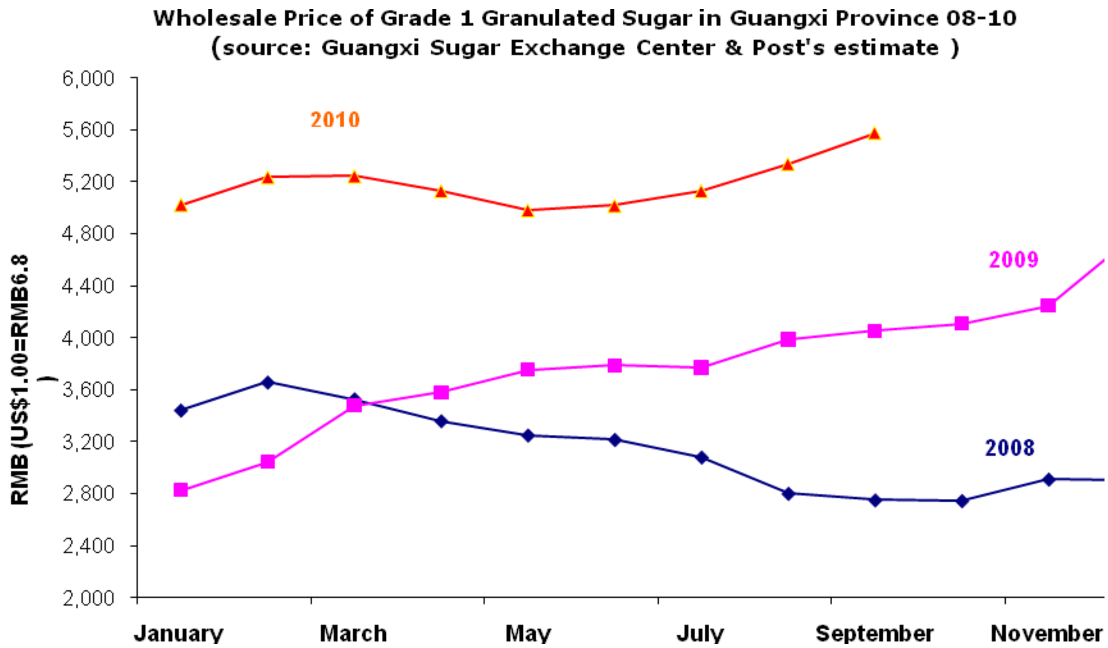
Stocks:

For MY10/11, ending stocks are forecast at 1.2 MMT (raw value), down 700,000 tons from the previous marketing year. Increased production is not expected to offset the drop in stocks. Because the TRQ of 1.95 MMT is expected to be almost fully maximized this year, stocks are unlikely to be rebuilt unless the government temporarily does not enforce the out-of-quota tariff.

Stocks include state reserves and those held by the industrial, commercial, and distribution sectors. Under normal storage conditions, raw sugar can be stored for up to five years and refined sugar can be stored for up to 15 months (this still meets Chinese sanitary requirements). In most circumstances, imported Cuban sugar normally enters state reserves first (unless Chinese domestic production is lower than expected).

The central and provincial governments manage reserve programs to stabilize market prices and ensure adequate supply. The National Development and Reform Commission (NDRC), a central government body, decides on the scale and timing of purchases and auction of state-owned (central government) sugar reserves. For example, in MY 09/10, the NDRC released 1.71 MMT of white sugar from state reserves (completed through a series of 8 auctions starting December 2009) due to a shortfall in production and rising domestic sugar prices. During these auctions, the floor price was set by the government at RMB 4,000 per ton, which was below average market prices.

Other purchasing mechanisms are also available. The central government can offer short term loans to the industry to purchase refined sugar to store as a temporary industrial reserve in order to support prices (and farmer's incomes). It also decides the total distribution of the reserve among the major producing provinces.



Auctions of State Sugar Reserves (in tons) in MY 09/10		
Date	Quantity	Average Price(in 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	5,660
Total to date	1,710,000	

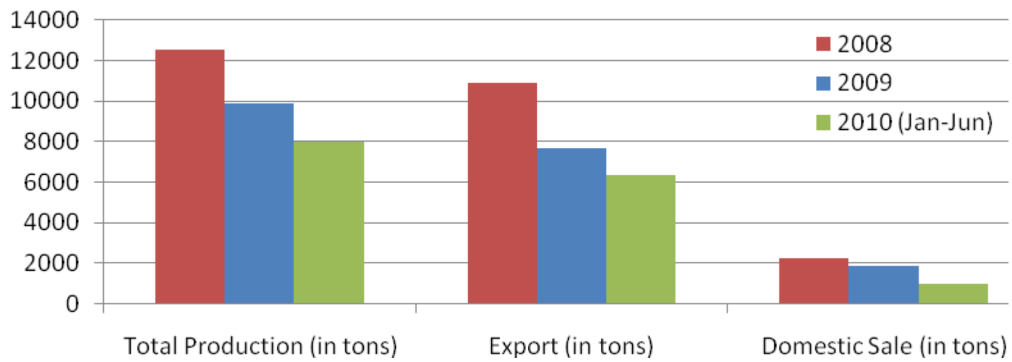
Other Sweeteners

Saccharine

Saccharine is considered a major competitor to domestic sugar sales (and is also 500 times sweeter). Currently, only four saccharine plants are licensed for operation, and are required to report to the China Sugar Association on their operational activities, including production, domestic and export sales, and stock levels.

Since 2002, the Chinese government has tightened controls on the sale of saccharine. However, production more than meets consumption needs and export market demands. For example, in 2009, China produced 15,403 MT of saccharine, of which 12,601 MT were exported and 2,794 MT sold domestically (which was 25 percent higher than the previous year). In 2010 due to high sugar prices, saccharine is expected to continue as a competitive substitute.

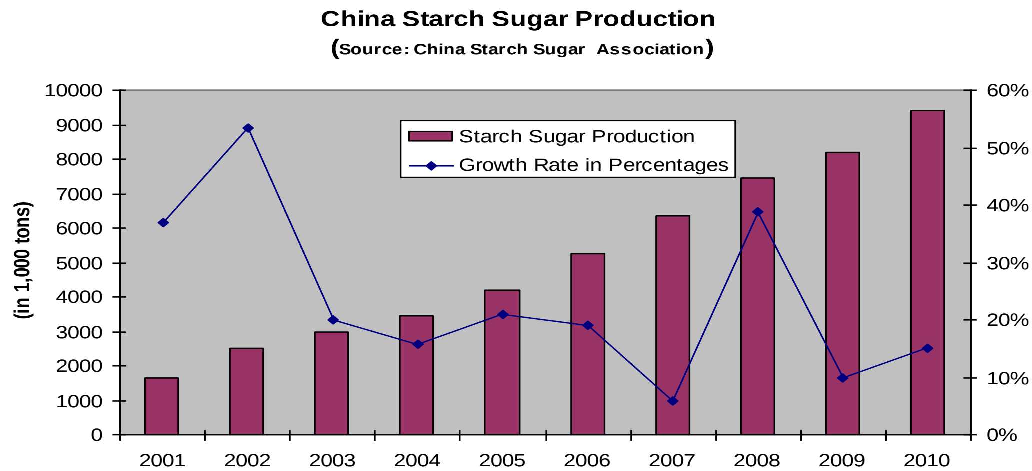
China Saccharine Production, Export, and Domestic Sale from CY 2008-2010

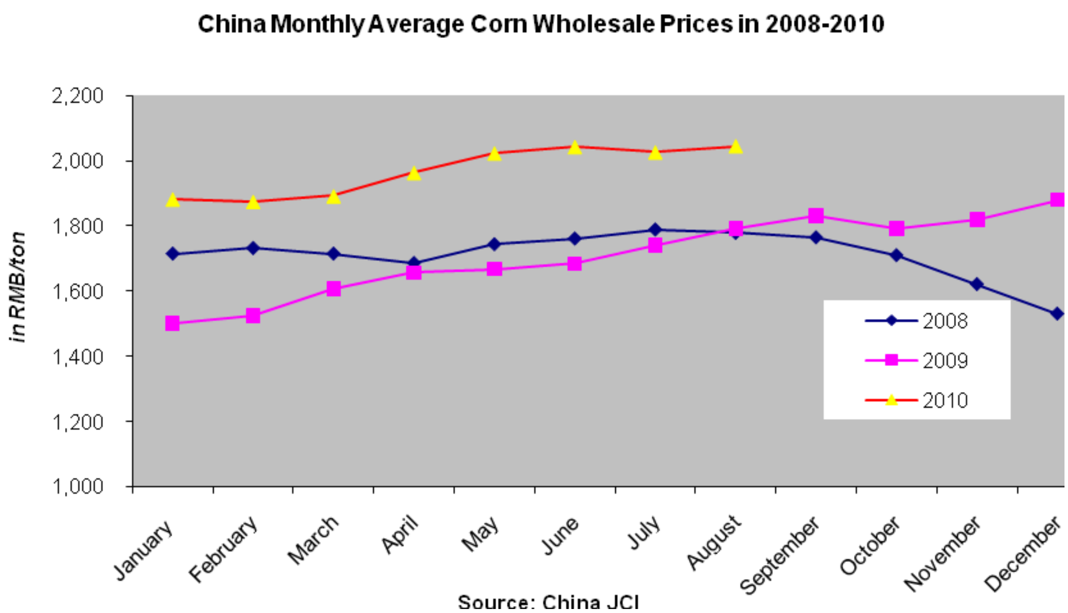


Starched-based Sweeteners

For CY 2010, starch sugar production is expected to rise 30 percent to over 9 MMT. For the last 5 years, the average annual growth rate has been above 15 percent. Rising consumption (see Consumption section) has increased the demand for starch sugar, particularly in the food processing and pharmacy sector. Moreover, high domestic natural sugar prices have made starch sugar a competitive substitute.

Shandong, Hebei and Jilin province, which account for approximately 85 percent of total production, are top three starch sweetener producing provinces. China's starch sugar exports to its neighboring Asian countries also have been growing steadily in recent years.


China Starch Sugar Production
(Source: China Starch Sugar Association)
Starch Sugar Production
Growth Rate in Percentages
(in 1,000 tons)
10000
9000
8000
7000
6000
5000
4000
3000
2000
1000
0
60%
50%
40%
30%
20%
10%
0%
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010


China Monthly Average Corn Wholesale Prices in 2008-2010
in RMB/ton
2,200
2,000
1,800
1,600
1,400
1,200
1,000
2008
2009
2010
January
February
March
April
May
June
July
August
September
October
November
December
Source: China JCI

Production, Supply and Demand Data Statistics:

Production, Supply, and Demand (PSD) Tables

Table 1. Centrifugal Sugar

Sugar, Centrifugal China	2008/2009			2009/2010			2010/2011		
	Market Year Begin: Oct 2008			Market Year Begin: Oct 2009			Market Year Begin: Oct 2010		
	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post
Beginning Stocks	3,965	3,965	3,965	3,784	3,784	3,784	1,485	1,485	1,900
Beet Sugar Production	980	980	980	598	598	652	1,070	1,070	950
Cane Sugar Production	12,337	12,337	12,337	10,968	10,968	10,848	12,950	12,950	11,720
Total Sugar Production	13,317	13,317	13,317	11,566	11,566	11,500	14,020	14,020	12,670
Raw Imports	905	905	905	900	900	1,300	1,300	1,300	1,600
Refined Imp.(Raw Val)	172	172	172	200	200	200	200	200	200
Total Imports	1,077	1,077	1,077	1,100	1,100	1,500	1,500	1,500	1,800
Total Supply	18,359	18,359	18,359	16,450	16,450	16,784	17,005	17,005	16,370
Raw Exports	5	5	5	5	5	4	8	8	5
Refined Exp.(Raw Val)	70	70	70	60	60	90	70	70	50
Total Exports	75	75	75	65	65	94	78	78	55
Human Dom. Consumption	14,500	14,500	14,500	14,900	14,900	14,790	15,500	15,500	15,100
Other Disappearance	0	0		0	0		0	0	0
Total Use	14,500	14,500	14,500	14,900	14,900	14,790	15,500	15,500	15,100
Ending Stocks	3,784	3,784	3,784	1,485	1,485	1,900	1,427	1,427	1,215
Total Distribution	18,359	18,359	18,359	16,450	16,450	16,784	17,005	17,005	16,370

Table 2. Sugar Cane

Sugar Cane for Centrifugal China	2008/2009			2009/2010			2010/2011		
	Market Year Begin: Oct 2008			Market Year Begin: Oct 2009			Market Year Begin: Jan 2010		
	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post
Area Planted	1,744	1,744	1,744	1,709	1,709	1,709	1,846	1,846	1,777
Area Harvested	1,744	1,744	1,744	1,709	1,709	1,709	1,846	1,846	1,777
Production	124,152	124,152	124,152	112,000	112,000	115,587	130,000	130,000	125,000
Total Supply	124,152	124,152	124,152	112,000	112,000	115,587	130,000	130,000	125,000
Utilization for Sugar	124,152	124,152	124,152	112,000	112,000	115,587	130,000	130,000	125,000
Utilizatn for Alcohol	0	0	0	0	0	0	0	0	0
Total Utilization	124,152	124,152	124,152	112,000	112,000	115,587	130,000	130,000	125,000

Table 3. Sugar Beet

Sugar Beets China	2008/2009			2009/2010			2010/2011		
	Market Year Begin: Oct 2008			Market Year Begin: Oct 2009			Market Year Begin: Oct 2010		
	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post
Area Planted	315	246	246		185	185		280	260
Area Harvested	315	246	246		185	185		280	260
Production	11,100	10,043	10,043		6,500	7,179		11,000	10,400
Total Supply	11,100	10,043	10,043		6,500	7,179		11,000	10,400
Utilization for Sugar	11,100	10,043	10,043		6,500	7,179		11,000	10,400
Utilizatn for Alcohol	0	0	0		0	0		0	0
Total Distribution	11,100	10,043	10,043		6,500	7,179		11,000	10,400

Price Table

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

RMB/MT (US$1.00=RMB6.8)					
Month	**2006**	**2007**	**2008**	**2009**	**2010**
January	4,449	3,656	3,442	2,828	5,025
February	5,071	3,599	3,657	3,045	5,236
March	4,903	3,760	3,528	3,478	5,244
April	4,679	3,723	3,360	3,579	5,155
May	4,711	3,639	3,250	3,753	4,945
June	4,583	3,576	3,216	3,786	5,056
July	4,361	3,476	3,081	3,770	5,201
August	3,949	3,867	2,802	3,986	5,380
September	4,229	3,736	2,751	4,052	5,578
October	4,221	3,925	2,746	4,110	
November	4,217	3,595	2,911	4,246	
December	3,861	3,498	2,905	4,793	
Yearly Average	4,436	3,671	3,137	3,786	
Source: Guangxi Sugar Exchange Center Website: www.chinasugarmarket.com					

Trade Tables

Table 5. China's Sugar Imports by Origin - MY 2008/2009 (In MT)

Country	**Oct-Dec**	**Jan-Mar**	**Apr-Jun**	**Jul-Sept**	**MY Total**
World	81,055	313,888	416,371	222,220	1,033,533
Cuba	25,481	66,000	216,025	133,403	440,909
Korea, South	42,229	19,824	32,580	33,161	127,795
South Africa	0	0	0	30,000	30,000
Thailand	10,051	1,840	109,101	18,344	139,336
Myanmar	0	1,224	8,645	3,379	13,248
Guatemala	0	0	47,270	2,730	50,000

Australia	2,645	680	2,132	781	6,238
Japan	128	61	39	118	347
United Arab Emirates	0	0	0	100	100
Malaysia	328	22	398	96	843
Germany	66	2	22	44	134
China	19	0	0	19	38
Mauritius	50	0	28	17	95
Taiwan	2	0	7	12	22
Others	56	224,234	125	13	224,428
Source: China Customs					

Table 6. China's Sugar Imports by Origin - MY 2009/2010 (In MT)

Country	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sept	MY Total
World	111,978	88,959	319,575		520,512
Cuba	23,000	60,000	163,625		246,625
Brazil	45,595	100	49,482		95,177
Guatemala	0	0	46,400		46,400
Korea, South	38,456	21,476	42,497		102,428
Myanmar	0	1,644	9,102		10,746
Thailand	4,276	2,312	3,803		10,391
Australia	247	571	2,500		3,318
Belgium	1	2	1,010		1,013
United Kingdom	0	2,486	638		3,124
Poland	0	0	240		240
Japan	137	15	82		233
Argentina	48	50	48		146
Germany	24	60	43		127
Mauritius	0	10	42		52
others	196	233	63		492
Source: China Customs					

Table 7. China's Sugar Exports by Destination - MY 2008/2009 (In MT)

Country	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sept	MY Total
World	20,833	9,718	20,876	18,246	69,674
Hong Kong	7,670	4,499	7,558	8,970	28,698
Sri Lanka	0	0	5,130	2,466	7,596
Singapore	756	253	350	1,581	2,941
Malaysia	304	317	456	1,364	2,440
Pakistan	0	0	2,247	1,088	3,335
United States	733	200	659	852	2,443
Yemen	105	306	233	364	1,008
Macau	259	163	212	256	891
Mongolia	0	1,977	0	179	2,156
Canada	223	137	99	149	607

Japan	435	857	2,849	128	4,269
Australia	93	55	125	117	391
Somalia	105	0	21	105	231
Others	10,150	955	939	627	12,670

Table 8. China's Sugar Exports by Destination - MY 2009/2010 (In MT)

Country	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sept	MY Total
World	15,045	33,990	23,170		72,206
Hong Kong	7,460	7,303	6,541		21,304
Indonesia	817	5,762	6,248		12,827
Japan	60	1,352	2,100		3,512
Malaysia	1,033	3,261	1,987		6,281
Singapore	2,104	274	1,622		4,001
Korea, North	90	234	1,161		1,485
United States	1,109	343	1,023		2,475
India	0	10,000	500		10,500
Canada	325	264	489		1,078
Kyrgyzstan	0	30	197		227
Egypt	114	132	179		425
Yemen	147	105	168		420
Australia	56	55	140		251
Others	1,653	3,322	680		5,655