

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

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## **China - Peoples Republic of**

### **Sugar Annual**

#### **China Sugar Blues**

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**Report Highlights:**

The sugar industry in China continues to struggle due to high production costs, the elimination of government support prices, and import competition. Most sugar mills are operating at a loss and some mills are closing; many sugar cane farmers are turning to other more profitable crops. As a result, domestic sugar production is falling and imports are rising.

**Executive Summary:**

The sugar industry in China has now suffered four consecutive years of operating losses due to high production costs, the elimination of government support prices, and import competition. Total sugar production in MY 2016/17 is forecast at 8.2 million metric tons (MMT) raw value, down 200,000 metric tons (MT) from post's revised MY 2015/16 estimate. Estimated MY 2015/16 total sugar production is lowered 2.15 MMT to 8.4 MMT. Sugar cane production suffered a major shock when Yunnan, Guangdong and Hainan provinces announced in September 2015 that they would cancel provincial floor prices for MY 2015/16. As of early March 2016, approximately 90 percent of sugar manufacturers were operating at a loss according to industry reports, and a number of mills have closed.

Sugar consumption is forecast to expand by 1.7 percent in MY 2016/17 to 17.8 MMT. Estimated MY 2015/16 sugar consumption is unchanged at 17.5 MMT. Industrial consumption accounts for approximately three quarters of sugar consumption in China, while household consumption makes up the other quarter. Industry analysts expect that that annual growth in sugar consumption will fall to 1.7 to 2.2 percent during the next 2 to 3 years as the economy slows, but will recover in the medium term.

Official and unofficial sugar imports (raw and refined converted to raw value) are forecast to reach 7.9 MMT in MY 2016/17, 1.2 MMT higher than estimated MY 2015/16 imports due to declining sugar production and the wide gap between international and domestic sugar prices. Estimated MY 2015/16 official and unofficial sugar imports are raised 1.2 MMT to 6.7 MMT million tons. The government has sought to crack down on smuggling in recent years, but the large gap between domestic and global prices makes this trade hard to control. According to industry sources and news reports, 1.5 MMT to 2 MMT of sugar was smuggled into China in 2015.

**Production**

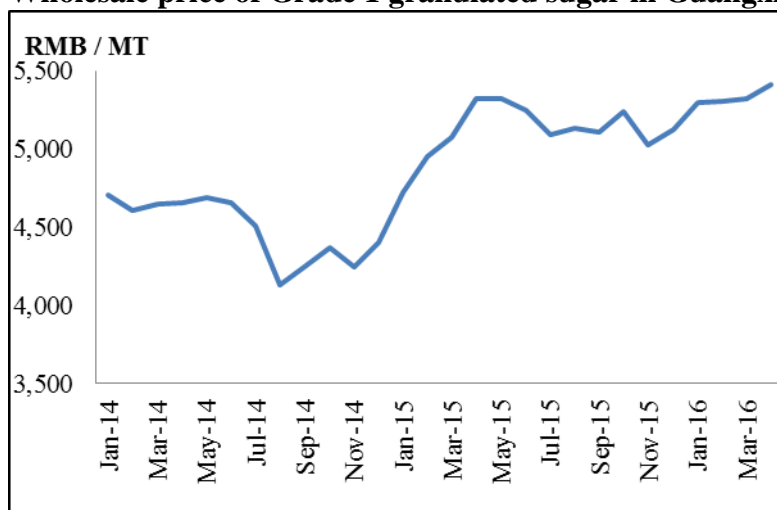
## Centrifugal Sugar Production

The sugar industry in China has now suffered four consecutive years of operating losses due to high production costs, the elimination of government support prices, and import competition. Total sugar production in MY 2016/17 is forecast at 8.2 MMT (raw value), down 200,000 MT from post's revised MY 2015/16 estimate. Farmers have already responded to the elimination of provincial minimum purchase prices in Yunnan, Guangdong, and Hainan by cutting production. The contraction in sugar production is expected to slow barring new policy or market shocks.

Estimated MY 2015/16 total sugar production is lowered 2.15 MMT to 8.4 MMT. Over 90 percent of sugar production in China comes from sugarcane. The combination of rising labor and land costs, the cancelation of minimum purchase prices for sugarcane in three major producing regions, and import competition have caused many sugarcane growers to switch to other tropical crops.

As of early March 2016, approximately 90 percent of sugar manufacturers were operating at a loss due to high sugarcane costs and production inefficiencies according to industry reports. The CEO of Bright Foods China said in March 2016 that the cost of cane sugar production in Guangxi in 2015 was RMB 5,600 to 5,800 per MT, while the market price for sugar in Guangxi that year averaged around RMB 5,400.

## Wholesale price of Grade 1 granulated sugar in Guangxi Province 2011-2015



Source: Guangxi Sugar Market ([www.gsmn.com.cn](http://www.gsmn.com.cn))

## Sugar Cane

Cane sugar production is forecast to stabilize slightly lower at 7.6 MMT in MY 2016/17 absent new policy shocks. Cane production has been falling for years as falling prices and rising costs have made cane farming a losing proposition for many farmers. Many high cost growers have already switched to tobacco, bananas, and other tropical crops.

MY 2015/16 cane sugar production is slashed 2.0 MMT to 7.8 MMT. Sugar cane production suffered a major shock when Yunnan, Guangdong and Hainan provinces announced in September 2015 that they would cancel provincial minimum purchase prices for MY 2015/16. The central government had already eliminated the reserve purchase program for sugar in MY 2013/14. Guangxi is now the last

major sugarcane producing province to maintain support prices for sugarcane (see chart below). The elimination of the floor price in three of the four major sugar producing provinces caused sugarcane planting intentions to drop to a historic low.

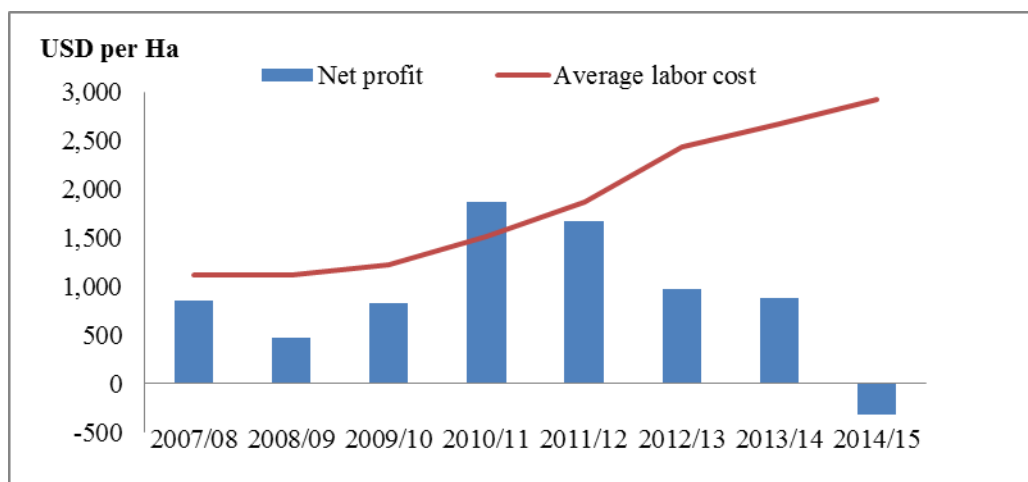
MY 2015/16 cane production was also impacted by weather-related damage in Southwest China. Approximately half of sugarcane acreage in Guangxi, Yunnan, Guangdong and Hainan suffered from lower yields due to varying levels of weather related damage in 2015 according to industry analysts at an annual sugar conference in March 2016. The weather damage has also impacted cane quality. According to industry contacts, average sugar extraction rates in Guangxi and Yunnan provinces were 11.75 percent and 12.2 percent respectively in March 2016, compared to 12.14 percent and 12.3 percent respectively in MY 2014/15.

<b>Sugar Cane Minimum Purchase Price</b>				
RMB per MT (USD \$1.00 = RMB 6.5)				
	<b>Guangxi</b>	<b>Yunnan</b>	<b>Guangdong</b>	<b>Hainan</b>
<b>MY 2010/11</b>	492	375	540-550	525
<b>MY 2011/12</b>	500	420	510	550
<b>MY 2012/13</b>	475	420	500	500
<b>MY 2013/14</b>	440	400	420-385	450
<b>MY 2014/15</b>	390-410	390-410	405-380	400
<b>MY 2015/16</b>	440-450	N/A	N/A	N/A
Source: industry and government websites				

Labor and land rental costs have continued to rise for sugar cane producers. Based on Guangxi and Yunnan Sugar industry association surveys, labor costs are estimated to have risen on average by 20 percent in 2015 and harvest costs by 25 percent. Sugarcane seeding is still mostly done by hand in China. The mechanical seeding rate in Guangxi and Yunnan is only 27 percent and 7.6 percent respectively. Over 95 percent of sugarcane in these provinces is still harvested by hand. The lack of mechanization combined with rising wages and land rents have made sugar production uncompetitive in China.

Many cane growers are experiencing cash flow problems. Sugar processors, themselves under pressure from low sugar prices, generally buy sugarcane on credit or at a steep discount. Farmers have had difficulty in collecting payments on time, and some cane farmers are not paid for months or even a year. Farmers are reluctant to sell their cane for cash at a discount. Banks are hesitant to lend to cane farmers given their lack of profitability and, in many cases, existing outstanding debt. Without access to bank loans or timely payment from processors, many small to mid-sized cane producers struggle to pay their bills.

### **Net profit and labor cost for sugar cane in major production regions**



Source: National Development and Reform Commission (NDRC)

### Sugar Beets

MY 2016/17 beet sugar production is forecast to plateau at 630,000 MT. Most beet farmers looking to switch to other crops are believed to have already done so in MY 2015/16. Estimated MY 2015/16 beet sugar production is revised down 150,000 MT to 630,000 MT as farmers in the Northeast abandoned sugar beets in favor of more profitable crops such as corn, rice and soybeans. Some sugar mills in sugar beet producing areas have been closing due to persistent operating losses. The closure of sugar beet mills will stop demand for sugar beets in the areas they used to serve as it is not economically viable to ship sugar beets long distances.

Sugar beets only remain profitable in Xinjiang due to largescale farms, favorable weather and a concentration of processing mills (15 in total) which helps support beet prices. In contrast, many mills that relied on sugar beets in other provinces have closed or gone bankrupt. Inner Mongolia has only four mills left and Heilongjiang has only one mill left. Farmers have responded by further cutting beet production in these regions.

<b>Purchase Price of Sugar Beets in Major Producing Provinces</b>			
RMB per MT (USD \$1.00 = RMB 6.5)			
	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	440	590	560-570

Source: Industry and Government websites. \*No floor price was set in Heilongjiang for MY 2013/14 as most of the beet crop was wiped out by floods.

### Policy

Sugar industry associations in all production regions continue to lobby the government to take measures to support the domestic sugar industry by re-adopting the temporary sugar reserve program, restricting sugar imports, and combating smuggling.

In May 2015, NDRC and the Ministry of Agriculture issued a five-year plan which set a target of raising annual sugar production to 15 MMT by 2020. Sugar consumption is forecast to reach 18 MMT by 2020, indicating that the government hopes to gradually reduce imports.

Sugar production needs to increase no less than ten percent annually from 2016 to 2020 in order to meet these challenging policy targets. The government will provide subsidies and financial support to farmers to increase yields and reverse declines in sugarcane acreage. According to news reports, in first quarter 2016 the Guangxi local government started providing sugarcane farmers subsidies of RMB 400 per mu (\$375 per acre) for seeds, farm machinery, mulching film, and fertilizer. Additional subsidies and low interest rate loans will be provided to strengthen production in Guangxi and Yunnan.

It will be very hard for the government to reach these targets unless it restores the floor price for sugar or dramatically increase subsidies for growers. The government has not announced any plans to reinstitute a floor price and is likely reluctant to do so due to its high cost and for fear it would once again drive up imports. The last time sugar production reached 15 MMT was MY 2007/08.

### **Consumption**

Sugar consumption is forecast to expand by 1.7 percent in MY 2016/17 to 17.8 MMT. Estimated MY 2015/16 sugar consumption is unchanged at 17.5 MMT. Industrial consumption accounts for approximately three quarters of sugar consumption in China, while household consumption makes up the other quarter. Annual per capita sugar consumption in China was 11 kilograms per year in 2014. Per capita consumption has been rising as China urbanizes, but consumption is still far below the world average of 24 KG per year according to the World Health Organization data.

Growth in industrial sugar consumption has slowed over the past two years along with overall economic growth. However, certain high sugar processed foods showed robust growth in 2015. According to the National Bureau of Statistics, food manufacturing in China grew by 6.8 percent in 2015. Frozen pastry and dessert production grew by 5.1 percent to reach 2.8 MMT and the beverage industry (including wine, soft drinks, and refined tea) grew by 8 percent.

Industry analysts at a sugar conference this spring forecast that annual growth in sugar consumption will fall to 1.7 to 2.2 percent during the next 2 to 3 years as the economy slows. However, they expect sugar consumption growth to recover in the medium term. The Guangxi Sugar Association forecasts that annual sugar consumption growth will average four percent a year from now until 2020.

### **Trade**

Official and unofficial sugar imports are forecast to reach 7.9 MMT (raw value) in MY 2016/17, 1.2 MMT higher than estimated MY 2015/16 imports due to declining sugar production and the wide gap between international and domestic sugar prices. Sugar imports in recent market years have greatly exceeded the 1.95 MMT annual tariff rate quota, as high domestic prices make imported sugar price competitive even with an out-of-quota tariff rate of 50 percent. In addition, multiple sources report that sugar smuggling is still widespread.

Estimated MY 2015/16 official and unofficial sugar imports are raised 1.2 MMT to 6.7 MMT million tons. China imported over 1.5 MMT of sugar in the first four months of MY 2015/16 according to exporter data. China continues implementing automatic import licensing (AIL) on out-of-quota sugar imports in 2016. Should imports increase too rapidly, the government could slow or even halt the issuance of AILs.

The government has sought to crack down on smuggling in recent years, but the large gap between domestic and global prices makes this trade hard to control. According to industry sources and news reports, 1.5 MMT to 2.0 MMT of sugar was smuggled into China in 2015. Most of the smuggled sugar is believed to be produced in India and Thailand, and then transshipped to Myanmar or Vietnam before entering Yunnan or Guangxi Province. China shares an extensive jungle border with Myanmar and Vietnam, which makes it difficult to stop smuggling.

**Stocks**

MY 2016/17 ending stocks are forecast at 3.2 MMT (raw value), down 1.7 MMT from MY 2015/16 due to weakening domestic production. Estimated MY 2015/16 stocks are lowered to 4.9 MMT, also on weaker domestic production. The stock estimates are highly dependent on the level of sugar imports, which is hard to estimate due to reported but unverifiable amounts of smuggling.

**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 2015 is unchanged from 2014 at 19,000 tons, with 3,200 tons designated for domestic sale and 15,800 tons for export. Based on CSA inspections, actual CY2015 production was 15,658 tons while actual domestic sales and exports totaled 3,198 tons and 12,181 tons, respectively.

Starch sugar products such corn syrup, fructose, and glucose replaced approximately 3.2 to 3.5 MMT of sugar in 2015. Rising domestic sugar prices and falling corn prices are expected to make starch sugar more competitive this year. In late March 2016, the government announced that it was ending the corn temporary reserve program, causing corn prices to fall sharply. At the same time the government is subsidizing corn processors to help consume excess government stocks. Starch sugar is a major corn industrial product. Starch sugar production costs have been declining for two years and are expected to keep dropping along with corn prices.

**PSD Tables**

<i>Sugar, Centrifugal</i>	2014/2015	2015/2016	2016/2017
<i>Market Begin Year</i>	Oct-14	Oct-15	Oct-16

<i>China</i>	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	8,832	8,832	7,287	7,287		4,872
Beet Sugar Production	800	800	780	630		630
Cane Sugar Production	10,200	10,200	9,800	7,800		7,600
Total Sugar Production	11,000	11,000	10,580	8,430		8,230
Raw Imports	4,350	4,350	5,100	6,300		7,500
Refined Imp.(Raw Val)	708	708	400	400		400
Total Imports	5,058	5,058	5,500	6,700		7,900
Total Supply	24,890	24,890	23,367	22,417		21,002
Raw Exports	5	5	5	5		5
Refined Exp.(Raw Val)	40	40	40	40		40
Total Exports	45	45	45	45		45
Human Dom. Consumption	17,558	17,558	17,500	17,500		17,800
Other Disappearance	0	0	0	0		0
Total Use	17,558	17,558	17,500	17,500		17,800
Ending Stocks	7,287	7,287	5,822	4,872		3,157
Total Distribution	24,890	24,890	23,367	22,417		21,002

<i>Sugar Cane for Centrifugal</i>	2014/2015		2015/2016		2016/2017	
<i>Market Begin Year</i>	Oct-14		Oct-15		Oct-16	
<i>China</i>	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	1,720	1,720	1,550	1,344		1,300
Area Harvested	1,630	1,630	1,480	1,257		1,235
Production	98,000	98,000	90,000	73,000		71,600
Total Supply	98,000	98,000	90,000	73,000		71,600
Utilization for Sugar	98,000	98,000	90,000	73,000		71,600
Utilizatr for Alcohol	0	0	0	0		0
Total Utilization	98,000	98,000	90,000	73,000		71,600

<i>Sugar Beets</i>	2014/2015		2015/2016		2016/2017	
<i>Market Begin Year</i>	Oct-14		Oct-15		Oct-16	
<i>China</i>	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post



Area Planted	190	190	190	145	0	145
Area Harvested	184	184	180	140	0	140
Production	9,300	9,300	9,000	7,000	0	7,000
Total Supply	9,300	9,300	9,000	7,000	0	7,000
Utilization for Sugar	9,300	9,300	9,000	7,000	0	7,000
Utilizatr for Alcohol	0	0	0	0	0	0
Total Distribution	9,300	9,300	9,000	7,000	0	7,000

**Table 4. China's Sugar Imports by Origin - MY 2014/2015 (MY-Market Year, Unit-ton)**

Country	Oct.-Dec./14	Jan.-Mar./15	Apr.-Jun./15	Jul.-Sep./15	MY Total
World	1,082,259	999,806	1,313,047	1,416,954	4,812,066
United States	11	5	7	7	30
Brazil	531,494	701,893	422,510	872,913	2,528,810
Thailand	399,793	105,994	223,454	168,473	897,714
Cuba	27,500	93,900	289,850	72,600	483,850
Australia	63,802	151	42,578	176,581	283,112
Guatemala	-	54,988	187,420	75,280	317,688
Korea South	55,358	34,868	43,226	49,229	182,681
El Salvador	-	-	98,700	-	98,700
Malaysia	2,035	2,860	644	1,056	6,595
Myanmar	-	2,300	2,997	51	5,348
United Arab Emirates	1	-	-	-	1
Cambodia	2,040	2,360	-	-	4,400
India	-	-	1,353	-	1,353
Others	225	488	309	763	1,785

Source: China Customs Data

**Table 5. China's Sugar Imports by Origin - MY 2015/2016 (MY-Market Year, Unit-ton)**

Country	Oct.-Dec./15	Jan.-Mar./16	Apr.-Jun./16	Jul.-Sep./16	MY Total
World	1,116,413				1,116,413
United States	9				9
Brazil	744,126				744,126
Thailand	105,005				105,005
Cuba	64,300				64,300
Australia	134,967				134,967
Guatemala	-				-
Korea South	60,771				60,771
El Salvador	-				-

Malaysia	4,398				4,398
Myanmar	-				-
United Arab Emirates	2,650				2,650
Cambodia	-				-
India	-				-
Others	185				185

Source: China Customs Data

**Table 6. China's Sugar Exports by Destination - MY 2014/2015 (MY-Market Year, Unit-ton)**

Country	Oct.-Dec./14	Jan.-Mar./15	Apr.-Jun./15	Jul.-Sep./15	MY Total
World	46,229	11,053	16,694	20,805	94,781
Philippines	6	-	5,227	10,392	15,625
Hong Kong	25,891	6,806	5,093	5,625	43,415
United States	4,176	867	1,306	711	7,060
Japan	3,908	732	1,652	904	7,196
Malaysia	3,153	654	917	739	5,463
Korea North	717	270	777	843	2,607
Singapore	1,214	259	327	275	2,075
Mongolia	-	-	-	-	-
Canada	1,183	273	183	235	1,874
Australia	622	143	213	198	1,176
Macau	642	174	124	151	1,091
Others	4,717	874	875	729	7,195

Source: China Customs Data

**Table 7. China's Sugar Exports by Destination - MY 2015/2016 (MY-Market Year, Unit-ton)**

Country	Oct.-Dec./15	Jan.-Mar./16	Apr.-Jun./16	Jul.-Sep./16	MY Total
World	74,978				74,978
Philippines	31,114				31,114
Hong Kong	21,942				21,942
United States	4,147				4,147
Japan	3,737				3,737
Malaysia	3,250				3,250
Korea North	2,843				2,843
Singapore	1,133				1,133
Mongolia	1,120				1,120
Canada	986				986
Australia	755				755
Macau	545				545

Others	3,406				3,406
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Source: China Customs Data