

China, a year in sugar
By Colm Devlin

China, one of the world's largest sugar producers (in 2007, it was the fourth largest producer of sugar, after Brazil, India and the EU) performs a tightrope balancing act in most years, but 2008 was special.

First the government, which operates strict agricultural controls, was struggling to cope with an economic boom that was in danger of overheating. With 10% growth annually for the past five years, plus a rising consumer price index (which saw a 6.9% jump in November 2007) there was a danger of it spilling over into inflation.

There was also the issue of electing new state and government leaders in March 2008.

And on top of marking the country's 30th anniversary of reform and 'opening up', not to mention coping with a massive earthquake and severe weather patterns, China had the small matter of hosting the 2008 Olympic and Paralympic Games in Beijing.

In recent times China's sugar production, primarily from sugarcane, has grown year on year mainly due to rising demand from the local population. In 2007 alone, the country consumed 13.82 million tonnes.

Based on the previous years' figures, together with increased acreage planted in some of the country's most productive regions, 2008 was therefore being hyped by many analysts as yet another record breaking year.

And despite early severe snow and winter storms, which forced many to rethink their projections, and heavy rain and flooding in June, which further dampened expectations, the picture by the end of the growing season was of another bouncing baby record. Over 2007/08 China produced 14.84 million tonnes of sugar, up from 13.90 million tonnes the previous year.

The third largest producer of sugarcane in the world, China's principal sugar producing regions from this source are Guangxi Zhuang Autonomous Region (with 933,333 hectares) and Yunnan province (with about 270,000 hectares) in the south of the country. In 2007/2008 together they accounted for 75% of the total of China's sugar production.

Hainan province, also in the south, produced a further 520,000 metric tonnes of sugar.

North east and west China produce sugar as well, but from sugar beet, which is a dominant crop in Xinjiang, Heilongjiang, and Jilin. In 2007 China was sixth in the beet sugar world overall standings after the EU, the US, Russia,

Ukraine and Turkey. By March 2008 the yield from sugar beet came to 1.15 million tons, a decrease of 96,000 tons or 7.7% on the previous year.

Two primary objectives guide agricultural policy in China: the country is restructuring its agricultural framework as a requirement of its membership of the World Trade Organization, while the government also aims to enhance the wealth of its farming population.

With such a rapid growth in output in the 2007 season, the country's storage capacity for sugar in 2008 was scarce and the state's policy of tightening credit, together with a full inventory, meant producers were under financial pressure to sell quickly. But when prices are high, China buys sugar from mills annually and sells it back to the domestic market, enabling producers to count on a stable market and avoid inflationary price spikes.

China generally has little impact on the world sugar market because it exports and imports so little. It tightly controls imports by issuing quotas that are often ignored: in 2007 permits were issued for 1.9 million tonnes, but actual imports were only 1.2 million.

However, its sugar imports for 2008 totalled just 780,000 tonnes, down 34.6% on 2007. China usually buys most of its imported sugar from Cuba, with some coming from India, but toward the end of 2008 there were reports it bought as much as 200,000 metric tonnes from Brazil, taking advantage of extremely low shipping rates, as world trade has slowed in step with the deteriorating global economy.

Analysts don't expect sugar imports to recover in 2009, as China appears to have sufficient stocks – as much as 1.1 million metric tonnes – to meet its domestic needs for 6 to 12 months. This in turn is expected to cap further gains in international sugar prices this year.

In spite of the glut, sugar imports surged in January this year, adding to the country's ample stocks.

With regard to biofuels, China wants to double its production capacity of alternative fuels to 3.3 million tonnes by 2010, with the goal of replacing gasoline and addressing environmental and energy efficiency concerns.

However, a shortage of raw materials, such as cassava, which was to supply China's first bioethanol fuel production base in Guangxi, has cast doubt on this target. The government has also been unwilling to relax its control on using feedstocks other than grains to expand production. Meanwhile companies in China are looking at opportunities to produce bioethanol from raw materials such as sugar beet in the north of the country.

The global financial crisis, together with the early bad weather in Guangxi, contributed to perturbations in the price of sugar in China. As part of its strategy to stabilise falling domestic market prices the Chinese government

buys sugar from mills, but some planned purchases didn't proceed because the base price was below the current market level as a result of the snow storms.

In addition, the surplus from the previous year kept sugar prices weak – domestic sugar prices fell to their lowest in almost four years, and were about 20% lower than production costs in some areas. The situation was exacerbated by the baby milk scandal in 2008, which led to a drop in local consumption of baby food and dairy products containing sugar.

Sliding prices sugar left many mills in the red, and two in Yunnan province shut down because of bankruptcy in 2008 as a result. Many sugar growers also said they were considering switching to alternative crops that yield better returns.

And although the China Sugar Association proposed that Beijing subsidise exports of 500,000 tonnes of white sugar, aiming to cut stockpiles that have pressured domestic prices, the inferior quality of Chinese white sugar means it can only be exported to the international market as raw sugar instead of more expensive refined sugar.

The picture for 2008/2009 is unclear.

Analyst FO Licht suggested lower sugar production in many of the world's major producing countries should be a "light at the end of the tunnel" for the global sugar balance. The Guangxi Zhuang Autonomous Region wants to see greater consolidation among sugar firms based in the region, setting itself the goal of creating five giant sugar firms that will each have an annual production capacity of 1 million metric tonnes by 2012.

But despite the population's increasing wealth China's sugar consumption, at about 10kg per person per year, lags far behind that of most of its nearest neighbours, such as Japan at 19kg, Thailand at 35kg and Malaysia at 50kg (2004/05 figures).

With comparatively low demand from the local population, but with expectations of yet another record breaking year ahead with production estimated as high as 15 million metric tonnes, China's sugar rush could continue to cause problems for producers in 2009.