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China, Peoples Republic of

Sugar

Annual

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Approved by:

Larry Senger

U.S. Embassy

Prepared by:

Ralph Bean/Hu Dinghuan/Xiang Qing

Report Highlights:

Area planted to both sugar cane and sugar beets fell in MY 01, causing prices to jump. The government has continued to sell stocks to bring prices down, and increased imports are forecast. Production is forecast to increase in MY 02.

Includes PSD changes: Yes

Includes Trade Matrix: No

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Situation and Outlook

Area planted to sugar cane and sugar beets continued to fall in MY 01. This, combined with a drought in cane producing areas, has caused production to fall even further than expected. Sugar prices have increase sharply in response. In an effort to bring prices down, the government has continued sales of surplus stocks, and industry sources believe that increased imports will soon be permitted.

Sugar cane production fell by 8.6% in MY 01, down to 68.3 MMT. This is due primarily to a 9% fall in planted area. Industry sources report that cane yields have remained low, due to drought in Guangxi and Yunnan, and to the long-term effects of the previous years' freeze. Current high prices have created more interest on the part of farmers, and planted area and yields are both forecast to rebound in MY 02, with total production reaching 77 MMT. Long term prospects are less optimistic, as China's eventual entry into the WTO will provide increased access to inexpensive imports. Production of sugar cane will probably drop most significantly in coastal areas and where cane is grown on high-quality land, as farmers look to more profitable alternatives. As a consequence, it is likely that overall yields will fall as cane production shifts toward more marginal land. Cane producers continue to receive a protected price from refineries, though a market price component has been added to this. The cost of this protection is borne by refineries, who must purchase cane at the protected price while receiving market prices for their sugar.

Area planted to sugar beets continued to fall, posting a loss of 3.5% in MY 01. As a result, total production fell by an estimated 600 TMT, a decline of 6.6%. Most of the decline in area was concentrated in the highest-yielding provinces of Xinjiang and Gansu, accounting for the decline in yields. The decline in production was actually somewhat less than originally forecast, as poor weather had less of an effect than originally feared. For MY 02, planted area is forecast to increase, jumping by 392 thousand hectares in response to high sugar prices. Though high sugar prices do not necessarily translate into higher procurement prices for beets, farmers are well aware that improved profitability for refineries increases their chances of being paid promptly for their crop. The increase, the first in years, is likely to be short-lived as increased imports under WTO seem certain to bring prices back down. Long-term prospects for the industry remain grim.

Declining production of both sugar cane and sugar beets in MY 01 is forecast to result in an 8.3% drop in total production of sugar, down to 6.9 MMT. This will leave domestic production well short of demand for the second year in a row. The shortage has already caused prices to jump to their highest levels since 1996, and placed some of the governments reform and restructuring efforts in jeopardy. The government has continued to auction off surplus stocks of sugar. However, these sales have not had much effect on prices, and increased imports now seem certain. Imports for MY 01 are now forecast at 1.4 MMT. For MY 02, much will depend on the timing of China's entry into the WTO, and the details of the administration of the TRQ for sugar. Although the initial TRQ is for 1.6 MMT, Post's forecast calls for imports of only 1.2 MMT, based on the assumption that the TRQ does not go into effect until well into the marketing year. The refining industry in southern China is making preparations for China's entry into the WTO, and many of the largest refineries are confident that they can reduce costs enough to compete in this environment.

Statistical Tables

Production, Supply and Distribution Tables

Table 1. Sugar

PSD Table						
Country:	China, Peoples Republic of					
Commodity:	Sugar					
		2000		2001		2002
	Old	New	Old	New	Old	New
Market Year Begin		10/1999		10/2000		10/2001
Beginning Stocks	3126	2548	2339	1851	1383	1295
Beet Sugar Production	1011	1011	891	945	0	1073
Cane Sugar Production	6400	6514	6075	5954	0	6765
TOTAL Sugar Production	7411	7525	6966	6899	0	7838
Raw Imports	627	627	850	1200	0	1100
Refined Imp.(Raw Val)	56	60	50	200	0	100
TOTAL Imports	683	687	900	1400	0	1200
TOTAL SUPPLY	11220	10760	10205	10150	1383	10333
Raw Exports	6	6	5	5	0	4
Refined Exp.(Raw Val)	399	427	167	200	0	350
TOTAL EXPORTS	405	433	172	205	0	354
Human Dom. Consumption	8476	8476	8650	8650	0	8780
Feed Dom. Consumption	0	0	0	0	0	0
TOTAL Dom. Consumption	8476	8476	8650	8650	0	8780
Ending Stocks	2339	1851	1383	1295	0	1199
TOTAL DISTRIBUTION	11220	10760	10205	10150	0	10333

Table 2. Sugar Beets

PSD Table						
Country:						
Commodity:	Sugar Beets					
		2000		2001		2002
	Old	New	Old	New	Old	New
Market Year Begin						
Area Planted	341	341	317	329		392
Area Harvested	341	341	317	329		392
Production	8639	8639	7612	8073		9175
TOTAL SUPPLY	8639	8639	7612	8073	0	9175
Utilization for Sugar	8639	8639	7612	8073		9175
Utilizatn for Alcohol	0	0	0	0	0	0
TOTAL UTILIZATION	8639	8639	7612	8073	0	9175

Table 3. Sugar Cane

PSD Table						
Country:						
Commodity:	Sugar Cane Centrifugal					
		2000		2001		2002
		New	Old	New	Old	New
Market Year Begin						
Area Planted	1260	1303	1152	1185	0	1302
Area Harvested	1237	1303	1152	1185	0	1302
Production	74703	74703	70051	68280	0	77575
TOTAL SUPPLY	74703	74703	70051	68280	0	77575
Utilization for Sugar	74703	74703	70051	68280	0	77575
Utilizatn for Alcohol	0	0	0	0	0	0
TOTAL UTILIZATION	74703	74703	70051	68280	0	77575

Provincial Production Tables

Table 4. Sugar Production

China's Quarterly Imports of Sugar by Origin Oct - Sept 1999/2000 (MT, raw basis)					
Country	Oct-Dec 1999	Jan-Mar 2000	Apr-Jun 2000	Jul-Sept 2000	Oct 1999 Sept 2000
Cuba	22,391	31,231	35,507	313,850	402,979
Australia	40,306	3	47	62,046	102,401
Thailand	23,790	23,805	44,569	6,724	98,888
South Korea	300	11,308	12,055	15,939	39,602
Guatemala	0	0	25,838	0	25,838
UK	0	270	675	1,642	2,586
Nepal	113	0	99	2,320	2,532
Japan	4	1,053	1,065	373	2,494
Belgium	0	193	644	851	1,688
Hong Kong	297	334	338	342	1,312
France	0	161	230	712	1,103
U.A.E	0	138	345	0	483
Singapore	0	0	0	220	220
China	0	17	51	141	210
United States	0	3	4	10	17
Malaysia	0	0	0	11	11
Others	1	129	1	602	733
TOTAL	87,203	68,643	121,468	405,783	683,097
Source: PRC Customs Statistics					

Table 5. Sugar Beets

Sugar Beet Production by Province (1,000 ha, 1,000 metric tons, ton/ha)						
	MY 2000(revised)			MY 2001(prelim)		
Province	Area	Production	Yield	Area	Production	Yield
Heilongjiang	124	2036	16	146	2548	17
Xinjiang	78	3542	45	56	2650	47
Inner Mong.	66	1368	21	59	1413	24
Gansu	19	738	39	10	379	38
Shanxi	14	205	15	8	210	26
Jilin	12	258	21	23	444	19
Liaoning	14	264	19	17	287	17
Ningxia	3	118	35	0	3	30
Hebei	8	75	9	10	115	12
Other	3	35	12	0	24	25
Total	341	8639	25	329	8073	25

Table 6. Sugar Cane

Sugar Cane Production by Province* (1,000 ha, 1,000 metric tons, ton/ha)						
	MY 2000(revised)			MY 2001(prelim)		
Province	Area	Production	Yield	Area	Production	Yield
Guangxi	553	32206	58	509	29379	58
Guangdong	195	13671	70	178	12532	70
Yunnan	287	15265	53	260	14203	55
Hainan	80	3845	48	62	3389	55
Fujian	22	1388	62	14	827	59
Jiangxi	34	1720	51	28	1368	50
Sichuan	29	1610	55	31	1667	54
Hunan	33	1685	51	25	1159	46
Hubei	23	1142	49	22	1017	46
Other	47	2171	46	56	2739	49
Total	1303	74703	57	1185	68280	58

Trade Tables

Table 7. Quarterly Sugar Imports, MY 00

China's Quarterly Imports of Sugar by Origin Oct - Sept 1999/2000 (MT, raw basis)					
Country	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sept	Oct 1999
	1999	2000	2000	2000	Sept 2000
Cuba	22,391	31,231	35,507	313,850	402,979
Australia	40,306	3	47	62,046	102,401
Thailand	23,790	23,805	44,569	6,724	98,888
South Korea	300	11,308	12,055	15,939	39,602
Guatemala	0	0	25,838	0	25,838
U.K.	0	270	675	1,642	2,586
Nepal	113	0	99	2,320	2,532
Japan	4	1,053	1,065	373	2,494
Belgium	0	193	644	851	1,688
Hong Kong	297	334	338	342	1,312
France	0	161	230	712	1,103
U.A.E	0	138	345	0	483
Singapore	0	0	0	220	220
China	0	17	51	141	210
United States	0	3	4	10	17
Malaysia	0	0	0	11	11
Others	1	129	1	602	733
TOTAL	87,203	68,643	121,468	405,783	683,097
Source: PRC Customs Statistics					

Table 8. Quarterly Sugar Imports, MY 01

China's Quarterly Imports of Sugar by Origin Oct - Sept 2000/2001 (MT, raw basis)					
Country	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sept	Oct 2000- Sept-2001
	2000	2001	2001	2001	
Cuba	67,486				67,486
South Korea	20,406				20,406
Thailand	10,256				10,256
France	2,414				2,414
U.K.	1,258				1,258
Belgium	1,105				1,105
Japan	1,036				1,036
Hong Kong	607				607
Nepal	463				463
Germany	46				46
Australia	23				23
United States	4				4
Malaysia	0				0
Singapore	0				0
South Africa	0				0
U.A.E	0				0
Saudi Arabia	0				0
Brazil	0				0
Guatemala	0				0
China	0				0
Others	249				249
TOTAL	105,355				105,355

Table 9. Quarterly Sugar Exports, MY 00

China's Quarterly Exports of Sugar by Destination*					
Oct - Sept 1999/2000 (MT, raw basis)					
Country	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sept	Oct 1999
	1999	2000	2000	2000	Sept 2000
Saudi Arabia	43	15,301	26,161	121	41,625
Indonesia	0	10,700	27,552	1	38,254
Hong Kong	4,283	6,796	6,457	7,708	25,244
India	0	8,560	8,560	0	17,120
Mongolia	0	5	1,147	5,936	7,089
Japan	229	1,721	1,643	434	4,028
Macau	237	299	414	480	1,429
United States	798	121	76	121	1,115
Canada	295	116	141	130	683
Malaysia	147	166	193	138	644
Singapore	85	69	65	175	394
South Korea	19	0	347	12	378
North Korea	16	190	86	60	352
Australia	108	42	32	82	263
United Kingdom	48	32	55	24	159
Others	933	523	53,940	210,691	266,087
TOTAL	7,240	44,641	126,869	226,113	404,862
Source: PRC Customs Statistics					

Table 10. Quarterly Sugar Exports, MY 01 YTD

China's Quarterly Exports of Sugar by Destination Oct - Sept 2000/2001 (MT, raw basis)					
Country	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sept	Oct 2000- Sept 2001
	2000	2001	2001	2001	
Indonesia	13,386				78.11
Yemen	13,375				8665.708
Mongolia	8,841				0
Hong Kong	8,666				13385.7
Japan	493				492.628
Macau	311				311.0808
United States	243				23.33825
Canada	119				8841.41
North Korea	78				0
Singapore	72				72.40462
U.K.	55				0
Australia	50				13375
Malaysia	23				3.67652
Taiwan	4				55.08946
South Korea	0				0
Saudi Arabia	0				0
Kazakhstan	0				118.9031
Russia	0				243.1757
India	0				50.0348
Others	117				117
TOTAL	47,833				45833.259
4Source: PRC Customs Statistics					

Table 11. Monthly Sugar Imports, MY 01 YTD

China's Monthly Sugar Imports (Metric Tons, MY 2000/2001)				
	Raw	Refined	Refined (raw value)	Total (raw value)
OCT'2000	117	9,071	9,706	9,823
NOV	33,364	11,663	12,479	45,844
DEC	41,941	9,067	9,702	51,643
JAN'2001				
FEB				
MAR				
APR				
MAY				
JUN				
JUL				
AUG				
SEP				
TOTAL	75,422	29,801	31,887	107,310
Source: PRC Customs Statistics.				

Table 12. Monthly Sugar Exports, MY 01, YTD

China's Monthly Sugar Exports (Metric Tons, MY 2000/2001)				
	Raw	Refined	Refined (raw value)	Total (raw value)
OCT'00	283	4,497	4,812	5,095
NOV	121	31,006	33,177	33,297
DEC	376	9,550	10,219	10,594
JAN'01				
FEB				
MAR				
APR				
MAY				
JUN				
JUL				
AUG				
SEP				
TOTAL	780	45,053	48,207	48,987
Source: PRC Customs Statistics.				

Price Table

Table 13. Procurement and Factory Prices

Prices of Sugar Cane, Sugar Beet, and Sugar, (RMB/metric ton)					
Year	Procurement Price			Factory	Retail
	Cane	Beets		Prices	Prices*
1995	233	304		5000	6055
1996	229	310		3750	5600
1997	220	304		3950	5600
1998	210	280		3906.55	5200
1999	160	255		2720	5000
2000	180	220		3650	5000
2001	200	250		3850	5600
Note:* retail prices are based on CAAS survey in Beijing, Shanghai, Sijiazhang, Nanjing and Chengdu.					
Factory price are based on CAAS survey of sugar factories in main sugar producing areas.					

Production

Sugar Beets

Preliminary data indicate that sugar beet planted area fell by 12,000 hectares in MY 2001, a decline of roughly 3.5% compared to MY 2000, and bringing planted area to its lowest level since 1980. This is less than the original 7% decline carried by official sources, and there has been no explanation for the revision. Overall production is estimated to have fallen by nearly 600 TMT (6.6%), due largely to the decline in planted area. Though significant, the decline in planted area is far less than the 41% drop experienced the year before.

In previous years, the decline in sugar beet area has been fairly consistent throughout the country. However in MY 01, sharp declines in some provinces were nearly offset by gains in others, following a very clear regional pattern. The sharpest declines all took place in interior provinces: Xinjiang (-23,000 ha or 17.7%), Gansu (-9,000 ha or 47%), Inner Mongolia (-7,000 ha or 10.6%) and Shanxi (-6,000 ha or 43%). By contrast, the provinces of Northeast China all reported double-digit increases: Heilongjiang (+22,000 ha or 17.7%), Jilin (+11,000 ha or 91%) and Liaoning (+3,000 ha, or 21%). Industry sources claim that this is the result of the isolation of inland markets, which did not benefit as quickly from higher prices in the rest of China. The Northeastern provinces, with easier access to domestic markets, were much more quickly affected. The regional shift in production helps to explain the slight drop in yields for MY 2001, despite good weather, since yields in the Northeast are typically half that of Xinjiang and Gansu. For MY 02, increased prices are forecast to result in growing interest in sugar beets by farmers, bringing total production up to a forecast 9.1 MMT. Though higher than MY 00 levels, this is still far below the average 14-16 MMT annual production of the late 1990's.

The continued overall decline in planted area reflects the long-term woes of the sugar industry, itself the result of low sugar prices. Low prices over the past several years have caused a number of refineries to go out of business. Although the recent upturn in domestic sugar prices has sparked a revival, this is likely to be short-lived. China has agreed, as part of its WTO accession agreement, to an initial tariff rate quota (TRQ) of 1.6 MMT of sugar, rising to 1.95 MMT over a four year period. Large-scale imports are likely to drive prices down again, putting many refineries back into trouble. Refineries in Northeast China are likely to be hardest hit, while those in the interior West will gain some protection as a result of high transportation costs from the coast. This will simply underscore the long-term trend, which had favored movement of sugar beet production to the west: in 1992 Heilongjiang produced 6.5 MMT of beets versus 2.24 MMT for Xinjiang, while in 2000 production was 2.5 and 2.65, respectively.

Sugar Cane

Total area planted to sugar cane dropped by an estimated 9% (118 thousand ha.) in MY 2001, and total cane production fell by 566 TMT. Current high prices for sugar, however, are forecast to cause both area and production to increase in MY 2002. The largest decline in planted area took place in the largest producing province of Guangxi, which saw area fall by 44,000 ha., or 7.9%. Similar declines were recorded for the other two major producers, Guangdong (-17,000 ha, or 8.7%) and Yunnan (-27,000 ha, or 9.4%). Many of the smaller cane producing provinces experienced even sharper reductions. Although MY 01 yields improved in comparison with MY 00, they remain low due to a September drought that affected parts of Guangxi and Yunnan. In addition, these areas continue to feel some of the aftereffects of the previous year's freeze, which damaged high-quality seed production and the root systems of some plants. MY 02 area is forecast to increase to 1.3 million ha (a rise of 117 thousand ha, or nearly 10%). Yields are also likely to increase, given a return to

normal weather, and production is forecast at over 77 MMT.

High sugar prices have led refineries to increase procurement at precisely the same time that cane production has fallen. The result has been cutthroat competition between refineries to procure existing cane, a situation that domestic analysts have termed 'the big sugar cane war.' Refineries have stepped across normal procurement boundaries. Some refineries have lost previously contracted supplies when previously closed refineries re-opened and sent agents to bid cane away from the contracted sources. Refiners have cried foul, and some local governments have established roadblocks to prevent sugar cane from moving out of their area. The refining industry is now urging the government to formulate laws to regulate trade in sugar cane with an eye to protecting established refineries from loss of what they see as their rightful supply of raw materiel.

Over the long term, WTO will place the sugar cane industry under increased pressure, though probably less so than for sugar beets. The sharpest decline in cane production is most likely to take place in prosperous coastal provinces, particularly Guangdong, where access to major urban markets such as Guangzhou provide farmers with a large number of alternatives crops such as fruit and vegetables. In these areas, falling sugar prices will simply reinforce the existing trend. In Guangxi province, however, cane is grown primarily on dry, unirrigated land, and farmers have a limited number of alternatives. Production is unlikely to fall as sharply in these areas. Anecdotal evidence from Guangxi indicates that prices much below RMB 200/MT (\$24/MT) will cause those producers with a choice to shift into alternative crops. While the official procurement price for MY 01 was RMB 170/MT, local governments have some discretion, and quality incentives can also add to the price. Farmers in Guangxi reported receiving prices anywhere from RMB 150/MT to RMB 200/MT, with some claiming that refiners deducted the agricultural tax from the price.

The state of reform in sugar cane procurement policy is mixed. While changes in the procurement system represent some progress, prices for cane are still basically set by the government. In the past, the government set a fixed procurement price for cane. According to officials in Guangxi, the price now has three components. The first is a base price, which is fixed and is based on the farmers' cost of production. The second element is an incentive price for production of high-quality cane, which runs between RMB 12 and 50/MT (\$1.45 and \$6.05/MT), depending on the variety. The last component is based on the market price for sugar. Though a complete explanation of this was not provided, it appears to provide for a RMB5/MT increase in the cane price for every RMB100/MT increase in the sugar price. While this system provides some market incentives, it still places most of the burden of price protection on refiners, by fixing a base price for cane while allowing sugar prices to fluctuate.

The refining industry in Guangxi appears to be in a mixed state of preparedness for WTO. Provincial officials claim to have reduced the cost of production from \$459/MT to \$290/MT between 1995 and 1998. They are now in the process of restructuring the refining industry, and plan to close 12 small refineries by the end of this year, while consolidating a number of the remaining plants into 8-10 large refineries. Once completed, the consolidated refineries will represent roughly 70% of the province's refining capacity. Interviews indicate that the larger private and joint-venture refineries are preparing for hard times, but feel that they can be competitive under WTO. One company noted that it has already made plans to trim its workforce in order to reduce costs. Other refineries, particularly state-owned enterprises, seem to expect that the government will come to their rescue. Given the extremely large role these refineries play in the local economy, the expectation is not unreasonable. One possible step would be to reduce the substantial tax burden carried by the refineries.

Another reform proposed by provincial officials is to increase the scale of sugar cane production. Though they seem uncertain how to pursue this goal, the need to do so is clear. At present, the average farm size in Guangxi is less than ½ hectare, and cane is typically one of several crops grown on a farm. A recent survey of revenues and producer costs by the Chinese Academy of Agricultural Sciences indicates that, while per hectare production costs for small producers are about the same as for large-scale producers, yields are substantially higher, allowing large scale producers to reap higher profits.

Sugar cane revenue, cost and profit, by farm size, for Guangxi			
Farm Size	50 Ha.	5 Ha.	Less than 1 Ha.
Total Revenue	12,750	12,450	12,000
Profit	3,405	2,985	2,565
Seed	1,275	1,200	885
Fertilizer	3,000	3,150	3,300
Machinery	1,500	1,170	450
Pesticides	300	360	450
Ag. Film	270	285	300
Labor	2,700	2,850	3,600
Rent	300	450	450
From a survey by the Chinese Academy of Agricultural Sciences.			

Sugar

Total production of sugar is estimated at 6.89 MMT for MY 01, compared to 7.53 MMT in MY 00. The combination of last year's freeze in cane growing areas, overall decline in cane and beet planted area, and sugar industry reforms, have caused sugar supplies to drop more sharply than expected. In response, sugar prices have shot up, briefly peaking at \$500/MT in March, the highest level since 1996. Total production of cane sugar fell from 6.5 MMT to 5.95 MMT, while beet sugar production fell from 1.01 MMT to .945 MMT, a drop of 8.4 percent and 6.4 percent, respectively. For MY 02, current high prices are expected to cause cane and beet production to rebound, with sugar production forecast to reach 7.8 MMT.

High prices have allowed the refining industry to post a profit for the first time in five years, converting a loss of \$120 million in CY 1999 into a profit of \$61 million in CY 2000. Profits are expected to be even higher in 2001. Unfortunately, reform is becoming the victim of its own success. One key element of reform has been the closure of small and unprofitable refineries, which helped to reduce sugar production and support prices. Due to the refineries' contribution to the local economy, this has been a politically difficult step. Now rising prices have made it even harder. As a result the National Light Industry Bureau has succeeded in closing only 1/3 of the plants that it had planned to close. (The original goal was to reduce the number of refineries from 539 down to 392). Although some of the plants were closed temporarily, many have reopened with the tacit support

of the local government now that prices have improved. Many of these plants were sold or leased to private operators prior to reopening, giving the government even less leverage in trying to close them.

Sugar refineries are making efforts to become more competitive in preparation for WTO. In addition to streamlining their operations, cane refineries have become more aggressive in seeking markets for waste products. Cane pulp prices are now closely tied to paper markets, though some plants have found it more profitable to sell pulp as fuel. Value-added sugar products such as alcohol and residue byproducts are gaining increased attention from refiners in search of new sources of income. Another step being taken by some refineries is increased integration of cane production and refining. Some of these refineries now provide loans to producers to cover all production costs, including seed, fertilizer and sometimes even labor, in exchange for guaranteed sale of the cane to the refinery. Refineries are also becoming more aggressive in promoting high-quality cane varieties, though anecdotal evidence indicates the results are mixed.

Industry prospects for MY 02 are unclear at this point, and will depend to a large degree on the timing of China's entry into the WTO. China has agreed to an initial TRQ for sugar of 1.6 MMT. With world prices well below domestic market levels, increased imports will cause domestic prices to fall. The brunt of this price cut will be absorbed by the refining industry, which must pay a minimum price for cane and beets to growers, but which receives no price protection for sugar. As a result, WTO entry is likely to accelerate the restructuring of the industry by driving less efficient refineries out of business quickly. It is also likely that many struggling refineries will return to the practice of issuing IOUs rather than paying cash to farmers, which has proved to be a strong disincentive in the past. The strength of WTO's impact will depend in part on the timing of China's entry, which does not appear likely before the end of the year. In addition, a large number of details regarding the form and the administration of the TRQ have yet to be addressed.

Consumption

Sugar consumption continues to grow, albeit at a slow pace. For MY 01, consumption is forecast to reach 8.65 MMT, an increase of 2 percent. The largest consumers of sugar are the soft drink and food industry, with total industry consumption standing at roughly 4.5 MMT in MY 2000. Soft drink production increased by 25.7% over 1999, to a total of 14.9 MMT. Of this, over 3.51 MMT is produced in Guangdong province. Over the long term, sweetener demand is forecast to grow. In the near term, however, high sugar prices have led to a renewal in the substitution of artificial sweeteners. Though the government planned to reduce production of saccharine from 8 MMT in CY 99 down to 3 MMT in CY 00, industry sources estimate that consumption of artificial sweeteners actually increased slightly. Actual production and consumption of artificial sweeteners is difficult to estimate, since the artificial sweetener industry is largely unregulated, and much of the substitution takes place in smaller factories located in rural areas. High sugar prices have also sparked growing interest in corn sweeteners. Production of corn sweeteners doubled to 1 MMT in CY 2000, accounting for the equivalent of 200-300 TMT of sugar.

Direct consumption of sugar in both urban and rural households is relatively stable, with urban households consuming between 1.76 kg and 2.14 kg/capita, and rural households consuming between 1.28 kg and 1.5 kg/capita. Total direct consumption of sugar is estimated at an average of 4.2 MMT/year.

Marketing

Marketing of sugar is conducted primarily through three channels. The largest consists of direct sales by

refineries to the major industrial consumers, particularly soft drink manufacturers. The relationship is typically long-term in nature, with the largest refineries relying heavily on a small number of customers. The second market channel includes refineries that dispatch salesmen throughout China to market directly to local industrial buyers, wholesale markets and large-scale retailers. Wholesale markets form the third major market channel, and are utilized primarily by small refineries. As part of the reform efforts, several provincial governments are attempting to establish regulated wholesale markets through which most trade will be channeled. However, these markets are unlikely to appeal to the larger refineries, who already have established customers. In addition, a significant portion of the trade continues to be controlled by the local Sugar Tobacco and Alcohol Inc. companies, who control retail distribution throughout much of rural China.

Stocks

Sugar stocks are divided into national (central government controlled), local (provincial government) and manufacturers (private). Total sugar stocks are forecast to drop from 1.85 MMT in MY 00 down to 1.3 MMT in MY 01 as the result of government auctions. These auctions were undertaken in an effort to keep high sugar prices from undercutting the government's reforms to the industry. By the end of February, 2001, the government had auctioned off a total of 1 MMT in ten tenders. Despite this, prices failed to moderate. Industry sources claim that speculators purchased a large percentage of this amount, effectively shifting sugar from government to commercial stocks. With tender prices below market levels and market prices expected to go up, speculators hoped to reap a windfall profit from these sales, according to industry sources. Stocks are forecast to continue dropping during MY 02.

Trade

The failure of stock sales to bring prices down has led most sources to believe that imports will be permitted to rise during MY 01. Post's forecast calls for imports to reach 1.4 MMT, nearly double the previous year's 713 TMT. Though this may seem like a sharp increase, it is comparable to levels seen in the late 1990's. Chinese sources believe that much of the increase may come from origins other than Cuba, China's primary traditional supplier. Re-exports of refined sugar are also forecast to drop during MY 01 as more of the imported sugar is diverted into domestic markets. High sugar prices have caused an increase in smuggling, however reports indicate that most of this is small-scale smuggling of sugar from Southeast Asia. Under the conditions of the current crackdown on smuggling, it is unlikely that such activity will reach the massive levels seen in the mid 1990's. For MY 02, the picture is uncertain. Although China's impending entry into the WTO will increase access for imports, the timing and administration of the TRQ that will permit those imports remain uncertain. At the same time, domestic production is forecast to rebound. As a result, imports are actually forecast to fall slightly to 1.2 MMT.