

China: Sugar Policy Brief
by Rikki Stancich

China's policies affecting sugar, both at the provincial and central government level, are combining to create stable market conditions for local sugar producers.

Among the key policies influencing China's sugar production is a domestic price-support mechanism; a food safety policy that curbs the production of artificial sweeteners; export tax rebates; and a narrow tariff rate quota on imports.

Steady handed

Policies aimed at stabilizing the sugar market are taking place both at central government and provincial level. A sugar-reserve system that was established back in 1991 has enabled Chinese authorities to manage production outcomes, by purchasing sugar when the price falls and releasing stocks in tighter supply conditions to prevent prices overheating.

In addition to procuring domestically produced sugar, China imports around 450,000 million tonnes from Cuba each year, under a bilateral agreement that dates back to the 1950s. The Cuban imports are sent directly to state warehouses to provide a further price buffer, according to Beijing Orient Agribusiness Consultant (BOABC), a Chinese consulting firm.

In 2002, as part of a macro-objective to encourage greater alignment between domestic supply and demand, production planning was devolved to provincial level. At the beginning of each crushing season, the provincial government sets a procurement floor price on the basis of annual price projections. When crushing is completed, sugar mills pay farmers a percentage difference between the sugar price estimate (on which the procurement price was based) and the average market price.

"While sugar prices can still fluctuate by up to 30-40 percent, the pricing mechanism has had a stabilizing effect on the overall market relative to other crops", Sergei Gudoshnikov, chief economist at the International Sugar Organisation told SugarOnline.

Last December the government raised the ceiling on reserves for the first time since 1991. The ceiling was increased to 2.8 million metric tonnes in a bid to protect China against a widely anticipated contraction in global sugar production.

China has indicated it will spend an extra US\$10 billion this year to bulk up its commodity reserves. Analysts say the government is unlikely to release any reserves until August this year to support sugar prices and farmers.

Better safe than sweet

Demand-side policies are also shaping China's sugar market. Artificial sweeteners, particularly saccharin, have traditionally competed with sugar on China's domestic market.

However, a spate of food safety scandals in recent years prompted China's central government to adopt a range of food safety policies, one of which encourages a shift away from the use of artificial sweeteners in food products.

The government is instead advocating sugar as a natural option to chemical sweeteners. "While this may improve food quality, it also guarantees increasing demand stability for domestic sugar producers", observes Toby Cohen at sugar brokerage and analyst firm, Czarnikow.

The United States Department of Agriculture's Foreign Agricultural Service (USDA FAS) says that a curb on artificial sweeteners will stimulate domestic sugar demand. It forecasts an increase of 5 percent in demand for sugar from China's growing food processing and beverage sectors in 2009-10.

Currently there are only five companies producing saccharin, the sale of which has been

restricted in China since 2002. In 2006, the government introduced a ban on the launch of any projects to expand production of the sweetener and restricted domestic supply to 3,500 million tonnes.

Curbing production of saccharine is proving difficult. According to the UN Food and Agricultural Organization, sustained, high sugar prices means that domestic demand for artificial sweeteners remains strong, with illegal saccharine producers addressing this niche.

Demand for saccharine from export markets also remains high, particularly from non-food industries such as pharmaceuticals and cosmetic products like toothpaste. In 2008, official figures indicate that China produced a total of 12,515 million tonnes of saccharin, of which 10,904 million tonnes were exported and 2,231 million tonnes sold in China.

Protecting its interests

Another policy introduced earlier this month took the form of tax rebates on exports of raw sugar. The rebates, which form part of a series of measures to shore up China's exports, have been raised from 13 to 15 percent. Analysts, however, doubt the efficacy of a 17 percent value-added tax refund, warning that tight supply this year could result in a domestic sugar deficit.

On the flip side, China favours raw sugar imports that can be refined domestically and re-exported by its state-owned trading companies. Only 30 percent of its low tariff rate quota (TRQ), which sets a 15 percent duty on sugar imports, is available to the private sector. The remainder of this year's 1.945mn tonne low TRQ goes to China's state-owned sugar enterprises.

Sugar importers that fall outside the TRQ face import duties of up to 50 percent. As such, the limited tariff rate quota available to private companies extends protection to domestic producers by preventing the market from being flooded with relatively cheaper sugar imports.

Smashing the iron sugar bowl

The Chinese state has been loosening its hold over the sugar industry since the 1990's. Around 90 per cent of previously state-owned sugar refineries have been converted to either joint ventures with partial foreign ownership, joint stock corporations with the government as a major stockholder, and privatised companies.

According to BOABC, the three largest sugar companies in China include Yangpu Nanhua Jitan, Dongya Tangye Jitan, Guangxi Longken Jitan.

The three largest foreign-owned companies include Dongya Tang ye, Yinbo Ji Tuan, Botian Tang Ye, the latter of which forms part of a joint venture with British Sugar Overseas (BSO) and Hebei Tian Lu Sugar Group.

BSO formed the joint venture in northern China with BoTian Sugar Company Limited ("BoTian"), and Hebei Tian Lu Sugar Group ("Tian Lu") in October 2007. The venture has since taken over operation of 7 other mills across Heilongjiang Province. BSO now has majority control in four cane sugar refineries in Guangxi Province, including Shibie and Huaiyuan.

Looking forward

China's sugar production is forecast to increase nine percent for the year 2009-10, due to increased yields. Further cuts in production of artificial sweeteners and an increased limit on its sale on the domestic market are likely. Stocks held since January 2008 are expected to be released later year, which is expected to reduce the level of imports to China. The market returns and planted area will likely remain consistent with previous years', due to the preset purchase price for sugar cane.