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Bitter Sugar

How unfair trade hurts China's sugar industry



Executive Summary

Oxfam Hong Kong believes that trade can be a powerful tool for poverty reduction and the development of poor communities and nations. However, if two parties with significant differences in endowments are made to compete in an unfair trading environment, the weaker side is liable to lose. For example, a poor country whose limited resources constrain its support for its agricultural sector cannot compete with the cheap, but heavily subsidised products of the rich countries. In such cases, the livelihoods of the poor will be affected, as well as their ability to fight poverty.

Oxfam Hong Kong commissioned the Research Centre for Rural Economy of the Ministry of Agriculture of China to conduct a study of the sugar industry in the Guangxi Autonomous Region, specifically looking at the influence of China's entry into the WTO on the region's sugarcane industry.

Situated in the southwest part of China, Guangxi is one of the country's poorest provinces. Its resources are poor, and its land limited and very dry. Some 18 million people in the region fall within the poverty line. Farmers' incomes are particularly low. But in the last ten years or so, sugarcane production has provided a way out of poverty. Since 1990, the incomes of sugarcane farmers have grown by an average of 14 per cent. Thirty-nine counties, and some 11 million people, were considered to have gone out of poverty because of sugar production.

However, the situation has been changing since China's accession to the World Trade Organization (WTO) in 2001. China's sugar market has been liberalised as part of China's commitments to the WTO. Under this regime, 1.6 million tonnes of sugar are allowed to enter China's domestic market each year. Since 2001, sugar prices in China have dropped by 35 per cent.

This steep drop in prices has brought adverse impacts to the sugarcane growers, the processors, as well as the local government of Guangxi. It is estimated that farmers have lost a total of RMB2.95 billion due to the slump in prices, or around RMB216 per person.¹ If, as declared by the government, sugarcane hectareage is reduced by 1.69 million *mu*², it is estimated that farmers' incomes will go down even further by

¹ US\$1=RMB8.28.

² 1 hectare = approximately 15 *mu*.

RMB1.29 billion, or RMB107.5 per person. Some 110,000 employment opportunities may be lost.

China's sugar processing enterprises face the prospect of low profit margins and losses that will drive them to insolvency; and most of the state-owned sugar processing enterprises will be likely to be forced to close down, stop production, merge, or shift production. In 2003, declines in prices caused sugar plants an estimated sales revenue loss of RMB7.59 billion.

In addition, local governments' revenues are mainly from the sugar industry. The decrease of both the farmers' incomes and the enterprises' earnings will result in lower tax revenues. Meanwhile, to protect the farmers and the interest of the enterprises, local governments have to cut tax rates and provide tax credits, which will make the already tight budget revenue even tighter. In 2003, the price decline caused a decrease of RMB236 million in local revenues; and the reduction in sugarcane hectareage is estimated to result in further losses of around of RMB138 million.

The sugarcane procurement price has dropped to an unreasonable level, now very close to the cost of production. If the price drops further, farmers will be growing sugarcane at a loss, and may be forced to shift to other crops. However, sugarcane is the crop most suited to the region, and farmers may lack the technical know-how and resources required to diversify. There is a risk that sugarcane farmers may fall back into poverty.

Such adverse impacts on Guangxi's sugar industry can be avoided. The low world price of sugar is a result of the European Union's (EU) policies on its sugar industry. In the EU, the cost of production of white sugar is three times the world price and two and a half times that of Guangxi's. But the EU protects its sugar sector through a package of trade-distorting policies that include export and production subsidies, and restrictions on market access. As a result, EU sugar beet farmers can produce excess amounts of sugar beet, and still earn high profits. It has been estimated that the EU's subsidies depress the world sugar price by 10-20 percent.³

This is unfair trade. The EU is dumping its sugar in the world market; and inefficient producers can continue their production without facing the pressure of adjustment,

³ A study done by the South African Sugar Association, as cited in "*The rough guide to the CAP*", Catholic Agency for Overseas Development (CAFOD).

even though they are in a much better position to change in terms of resources and investments.

The 2001 WTO Ministerial Conference in Doha was supposed to have launched the development round of trade talks, in which development will be at the centre of any further trade negotiations. As such, developing country members clearly stated that trade-distorting export and production subsidies should be phased-out in the new Agreement on Agriculture. Rich countries, have, however, blocked any progress on this; and unfair trade practices continue to hinder the development and poverty reduction opportunities of poor countries.

Therefore, Oxfam Hong Kong suggests that:

- The EU must end dumping by cutting their subsidies and tariff rates, and by increasing import quotas in order to reduce distortions in the world market.
- In the new round of WTO talks, all members, the EU and the US in particular, should adhere to the commitments made in the Doha Declaration. A timetable should be agreed to promptly and effectively abolish export subsidies and restrict domestic support which function similarly to export subsidies. Developed countries should not attempt to delay the timetable or demand developing countries to make concessions in other areas.
- The Chinese government should work with other developing countries in the WTO negotiations to fight for a quick schedule and effective way to eliminate all export distorting subsidies.

INTRODUCTION

For centuries now, sugar has been a product of great importance to Europe. Unable to grow sugar in their temperate countries, European colonialists had to import sugar from their colonies, particularly Africa, to meet their taste for sweetened coffee and tea. With technological advances, Europeans were later able to extract sugar from beetroot, thus introducing beet sugar to the continent. And now, the European Union (EU) is the world's top exporter of white sugar, accounting for 42 per cent of all white sugar exports.⁴

As the biggest exporter of white sugar, it is naturally easy to conclude that the EU is also the most efficient, producing at very low cost and exporting to all over the world at greatly competitive prices. On the contrary, the sugar production cost of the EU is almost the highest in the world, three times higher than the world price. How then is the EU able to compete in the world market? The key is: subsidies.

Massive subsidies have resulted in the production of sugar in excess of domestic demand, and the surplus has been dumped on the international market at a very low price. This has obliged EU taxpayers and consumers to subsidise such exports on the one hand, and has distorted the world sugar market on the other. Sugar producers of other countries have directly or indirectly borne the brunt of such unfair competition, including steep declines in domestic sugar prices, loss of export opportunities, and barriers to exporting sugar to the EU.

Among the many examples of such a situation is China's sugar industry. In Guangxi, one of the poorest provinces in Southwest China, the sugar industry should have provided many farmers an opportunity to get rid of poverty. Indeed, over the past decade, sugar production has contributed to some 39 counties being taken off the list of poor counties.⁵ However, since 2001, when China was admitted into the World Trade Organization (WTO), and the country's sugar market was liberalised in fulfilment of China's WTO commitments, domestic sugar prices have been on the decline, and the entire sugar industry has had to undergo significant adjustments. Many farmers have indicated that the current purchasing price is already very low, and any further decline will make it impossible to continue planting the crop. But

⁴ European Commission, 2002.

⁵ Guangxi Department of Agriculture.

sugarcane is already the most profitable crop in the area, and it is not feasible to immediately shift to other crops.

Many other developing countries are similarly affected by the subsidy policies of the EU and the US, and have been calling for reforms in the WTO's agricultural agreements. In the WTO ministerial meeting held in Doha in 2001, a declaration was issued to call for the elimination of market-distorting subsidies in the next round of agricultural talks. But owing to strong opposition from the wealthy countries, WTO members are yet to agree on a timeframe to eliminate all unfair subsidies. Unfair trade rules continue to exploit developing countries, and rob them of an opportunity to reduce poverty. This paper will cite China as an example of how a developing country is struggling for survival in the face of unfair trade.

1. Unfair Trade - The EU Story

1.1 The situation of sugar production in the EU

Sugarcane extraction techniques in China date back to 1,500 years ago. In contrast, until the 17th century, most Europeans relied on honey and fruits for sweetening, and sugar was regarded as a precious commodity available only to the nobility. With colonisation, Europe began to import massive amounts of sugar from its overseas territories, thus making sugar a more common sweetener, and also introducing it as a merchandise traded in wholesale quantities around the world. It was not until the early 19th century that the technique for extracting sugar from beet root was successfully developed. Using this temperate crop, Europe was eventually able to produce sugar domestically. With the advent of the European wars, trading of sugar was affected, and the fear of soaring sugar prices due to embargos consequently fostered the rapid development of the sugar beet industry. Thus was the important position of the industry in Europe established.⁶

For each of the last two years, the EU's sugar production averaged at 17 million tonnes; imports, 2.3 million tonnes, and domestic consumption 13 million tonnes. Including inventories in the region, the EU exported nearly 7 million tonnes of sugar in 2000/01.⁷ However, the lower sugar content of beet renders its production cost 50 per cent higher than that of sugarcane. As the EU produces mainly beet sugar,

⁶ *Sugar* (Chinese translation), Jonathon Kingsman (ed.), 中國海關出版社 (Chinese Customs Publishing Ltd.), 2003.

⁷ European Commission, 2002.

production cost in the region is higher than in many other sugar-producing areas. Table 1 compares the production cost of several major sugar-producing countries, and shows that the EU's production cost is much higher than that of other countries. To maintain its domestic production, the EU must rely on a number of policies and measures to protect its uncompetitive sugar industry, or its market will be flooded by cheaper sugar from other countries, leaving no space for the survival of domestic producers.

Table 1: Sugar production cost of the EU versus other major sugar-producing countries

Unit: RMB/tonne

Item	EU	Guangxi, China	Thailand	Brazil	US	World Average
Sugar Production Cost	5,623	2,230	1,900	1,700	3,100	4,400

Source: Guangxi Department of Agriculture, 2001

1.2 How is the EU able to export its high-cost sugar?

1.2.1 Price intervention - The EU's current support for its sugar industry began with the implementation of the Common Agricultural Policy (CAP) in 1967, which provides subsidies to the tune of US\$1.57 billion (RMB13 billion) annually to sugar farmers and producers⁸. To prevent over-production, the EU has employed quota and price intervention systems.

1.2.2 Production quota system - Firstly, the EU allocates quotas to individual countries and producers in the region, and appropriate quotas to beet farmers in contract form. Aggregate quotas in 2001 amounted to 14.25 million tonnes, equivalent to the EU's annual domestic consumption (class A quotas of 11.974 million tonnes), plus around 20 per cent of insurance surplus (class B quotas of 2.608 million tonnes). The latter ensures that in the event of widespread crop failure, the EU's sugar production will still be sufficient to meet domestic demand. In normal times, the surplus which is not absorbed by the domestic market will be exported at a subsidised price. The so-called C sugar beyond the class A and class B quotas is not supported by the price intervention system, and sale is not allowed in the EU's domestic markets. It must be exported without subsidies by 1st January of each year, or carried over to the quotas in the following year upon approval by the authorities. Despite these

⁸ *The Great EU Sugar Scam*, Oxfam International, 2002.

arrangements, many farmers are still producing more than their quotas. Overproduction is common in the region.

The sugar produced within the various quotas is protected by the intervention price set by the government. In cases where such sugar cannot be sold, the government will buy it at the set price. The government also sets the minimum beet price, at which the sugar processors are to buy beet from farmers as raw material (which generally account for 60 per cent of sugar production costs). The price reference is re-assessed every year, and the highest authority charged with setting the price is the EU Council of Agricultural Ministers. The quota and pricing mechanism essentially protects the farmers and producers from losses.

1.2.3 Import restraints - As the protected sugar price set by the EU is much higher than the international market price, the support system will not work if there are no vigorous restraints on imports. The EU import policies include import licensing, import taxing and export compensation, which aim to maintain the equilibrium of supply and demand of the domestic sugar market. The EU sugar industry is one of the most protected, with import tariffs as high as 140 per cent. Only a few developing countries in Africa, the Caribbean and the Pacific (ACP countries) are assigned import quotas, largely owing to their being former European colonies. Imports from such countries total 1.5 million tonnes.

1.2.4 Export subsidies - The excess production arising from the EU's import quota system and non-quota production constitutes the EU's subsidised exports. In 2001/02, the EU produced 17 million tonnes of sugar, and of the 7 million tonnes exported, 3.1 million tonnes were produced under quotas and given export subsidies totaling US\$1.57 billion (RMB13 billion). This is equivalent to RMB4,194 per tonne, much higher than the production cost in Guangxi.

1.3 Dumping

Those 7 million tonnes of sugar are undoubtedly dumped on other countries. According to the WTO's definition, dumping is the practice of exporting a product at a price lower than the "normal market price" at its origin. If no normal price is available, the price at which the product is exported to the other countries, or the exporting costs plus a reasonable profit may be taken as the reference. For example, the guaranteed intervention price for the EU's white sugar producers in 2002 was US\$620 (RMB5,134) per tonne, compared with the world market price of RMB1,519.

It is obvious the export price of EU white sugar was far lower than the “normal” price in domestic markets, thus fitting the WTO’s definition of dumping. At the same time, the EU has been taking strong measures to protect its home markets, exposing the double standard it applies to trade rules.

Though EU farmers and producers in the sugar industry are uncompetitive, they have been able to dominate the world market. Being wealthy farmers and businessmen, they are likely to be well-resourced and technologically-equipped to handle adjustments. In contrast, some of the more competitive sugar producers who are unable to deal with such distortions in the market are under extreme stress.

1.4 The impacts of EU sugar policy on developing countries

The EU’s sugar policy affects developing countries in four aspects:

1.4.1 World sugar prices are depressed and more volatile. The EU subsidises sugar exports to cover the gap between its excessively high price and the relatively low world market price. Even if the world market price plummets to all-time lows, the EU is able to bridge the price gap by means of subsidies, effectively forcing down world sugar prices. A report by the South African Sugar Association observes that world sugar prices have been forced down by as much as 10 – 20 per cent as a result of EU subsidies.⁹ In addition, the ever-fluctuating non-quota export of EU sugar has actually increased the volatility of world market prices. According to a report commissioned by the Global Sugar Alliances, should developed countries remove such high tariffs, world sugar prices will rally by as much as 63 per cent.¹⁰

1.4.2 Market access is limited. Since countries like the EU members maintain high selling prices in the domestic sugar market, they have to put up a variety of barriers to block cheaper sugar imports from other countries, who suffer in terms of lost agricultural income, employment, and foreign exchange earnings as a result.

⁹ As cited in “*The rough guide to the CAP*”, CAFOD.

¹⁰ Jenvey, Nicola. Bitter Battle Unfolds Over Sugar Price in SA, Business Day, Posted on the web November 14, 2002 (Johannesburg) <http://allafrica.com/sustainable/stories/200211140351.html>

- 1.4.3 Less opportunities to export to third countries. The EU has been dumping significant volumes of surplus sugar on overseas markets, forcing out other exporters in third country markets. More efficient sugar-producing countries are being deprived of the international market share they deserve.
- 1.4.4 Negative impacts on the sugar processing industry of developing countries. Though some of the developing countries can export cane sugar to the EU under quotas at higher prices, exports are limited to raw sugar to be processed by the EU, thus deterring the development of their own sugar processing industry, and losing opportunities to add value and improve employment.

2. Unfair Trade - The China Story...Bitter Sugar

China's high-profile admission into the WTO in 2001 was the result of 16 years of negotiations and China's last-minute generous concessions in agricultural trade. China made numerous commitments for its WTO membership, including tariff rate quota management on major agricultural products, drastic reductions of in-quota tariff, and significant tariff cuts. China's agricultural market is now highly open to foreign products.

Sugar is among the products under tariff rate quota - its quota in the first year of WTO entry was 1.6 million tonnes, or around 20 percent of the country's total output. The in-quota tariff rate was 20 per cent for raw sugar, and 30 per cent for white sugar, while the out-quota rate was 76 per cent. Such terms have made China's sugar industry more vulnerable to the impacts of the EU's sugar policy.

The EU's sugar policy has influenced China's sugar industry in five areas: 1) suppressing the market price of sugar; 2) preventing sugarcane farmers from expanding their farming area, resulting in lower income and loss of job opportunities; 3) causing lower profit margins and even losses for China's sugar processing companies, some of which have had to stop operations, merge or shift to other businesses; 4) reducing the income of local governments and consequently hindering community development; and 5) hindering the formulation of effective sugar policy and thus limiting the possibilities of developing the sugar industry and exporting sugar.

2.1 The significance of the sugar industry in Guangxi

2.1.1 Natural resources and sugarcane production in Guangxi¹¹

Guangxi is bestowed with abundant land resources, albeit dry. Due to inadequate irrigation facilities, these lands are only rainfed, thus the local term “*wangtian* fields”, or fields relying on rainwater. But such *wangtian* fields happen to be ideal for growing sugarcane. Located in the mid-subtropical zone and the South Asian tropical region, Guangxi is characterised by higher temperatures, abundant rainfall, long frost-free periods, relatively warm winters, and a large daytime-nighttime temperature difference. The seasonal changes of temperature are consistent with the heat energy requirements of sugarcane in the different stages of its growth. The period from the intermittently cold and warm spring to the hot summer is suitable for the sugarcane to grow roots, produce buds and extend, while the cool, dry autumn, the moderate winter and the large daytime-nighttime temperature difference make the sugarcane grow and accumulate sugar content.

2.1.2 There are few substitutes for sugarcane as a profitable crop in Guangxi

As a cash crop, sugarcane is almost irreplaceable in Guangxi for two reasons: firstly, of all crops offering relatively higher economic benefits, sugarcane boasts the steadiest revenue; secondly, sugarcane is the crop that can take advantage of the dry land of Guangxi most efficiently. There are three profitable crops in Guangxi: sugarcane, flue-cured tobacco and silkworm cocoon. The revenue per *mu* from silkworm cocoon cultivation could reach RMB868, followed by sugarcane at RMB636, and flue-cured tobacco at RMB514. However, revenue from flue-cured tobacco fluctuates heavily, while silkworm cocoon cultivation requires a higher level of technology and management skill. In comparison, sugarcane requires lower input and management, while providing steady economic benefits - ideal for farmers who have little capital and live in relatively poor conditions.

¹¹ 《廣西通志 糖業志》，廣西人民出版社，1998.

Table 2: Comparison of revenue from major crops in Guangxi in 1991-2000

Unit: RMB/mu

Year	Sugar-cane	Early non-glutinous long grain rice	Late non-glutinous long grain rice	Maize	Peanut	Flue-cured tobacco	Cassava tuber flake	Silk-worm cocoon
1991	305.38	27.04	10.34	-35.28	50.59	219.07	36.82	38.71
1992	144.14	51.91	39.19	33.09	64.39	229.68	29.38	-9.38
1993	308.86	96.15	168.38	52.9	71.87	217.6	91.62	236.24
1994	343.54	198.86	151.81	10.34	110.8	-190.05	157.78	845.48
1995	636.65	285.94	208.45	162.04	193.93	222.88	214.27	362.73
1996	510.20	210.28	160.34	70.17	152.63	513.89	109.63	336.83
1997	553.63	105.27	38.18	18.57	135.56	127.54	33.84	794.04
1998	128.33	90.17	154.55	-11.03	63.47	-160.01	-	584.78
1999	7.48	51.70	58.27	43.17	120.89	99.74	-	214.17
2000	212.73	17.25	58.21	-41.36	125.12	173.47	-	868.86
Avg	315.09	113.46	104.77	30.26	108.93	145.38	96.19	427.25

Source: Guangxi Department of Agriculture

During the period 1991-2000, sugarcane was consistently among Guangxi's top three income earners. Years of cultivation had proven that sugarcane can adapt to Guangxi's soil conditions and generate relatively higher revenues. Farmers no longer considered other crops because of poor adaptability and low economic benefits. According to a survey of three sugarcane-growing counties in Guangxi, even if the purchasing price of sugarcane declines from RMB190 to RMB170 per tonne, around 98 per cent of the farmers will still maintain the current sugarcane acreage; in the event the price declines to RMB150 per tonne, 84 per cent of the farmers will still maintain the current acreage. Indeed, the procurement price of RMB150 is already close to the cost of production. That the farmers still choose to grow sugarcane at such a low price level is because there are no other crops which can grow on the drylands without irrigation. If sugarcane is not grown, the majority of the drylands may be reduced to barren hills. This is why sugarcane is irreplaceable as an economic crop in Guangxi.

2.1.3 Sugar processing is the leading industry in Guangxi

As the leading industry in Guangxi, sugar processing also drives the development of other industries. At present, there are 96 sugar plants in Guangxi, processing 270,000 tonnes of sugarcane daily. In recent years, the annual output of the region's sugar industry reached RMB11 billion, accounting for 12 per cent of the aggregate industrial output, and 28 per cent of the light industry output. The sugar industry

provides employment for 100,000 people. During the 9th Five-Year Plan period, the sugar industry of the region contributed a total of RMB6.6 billion in taxes to the central government, and accounted for over 50 per cent of the budget revenue of some counties and cities in the region. There are over 40 industries in the region that owe their growth, or even existence, to the sugar industry, including chemical fertilisers, paper-making, animal feed, alcohol, construction, machinery, packaging, food and beverage, transportation, trade and commerce, finance and information.

2.1.4 The importance of the sugar industry to development and poverty reduction in Guangxi

Guangxi is one of the poorer regions of China. By the end of 2002, 34.6 million, or 70 per cent of its population of 48 million, were living in rural areas. Forty-nine of its 90 counties were considered poor counties, and people living in poverty were estimated at 18 million.

The sugar industry operates mainly in the central western part of Guangxi. Sugarcane-growing areas are mostly also poor areas; sugarcane is, in fact, labeled the ‘poor people’s crop’. In more economically developed areas, sugarcane hectareage has generally started shrinking, and sugar refineries have been shifting to other businesses. At present, sugarcane growing and processing operations are distributed over 56 counties and towns and engage 26 million people, or around 60 per cent of the region’s total population. Of the 49 poor counties, 36 grow sugarcane, involving some 11 million poor people.

The sugar industry is the basis of development of Guangxi’s rural communities, helping to maintain their stability and strengthen their economy. Infrastructure projects in the rural areas, including the construction of houses, schools, and roads are supported mainly by the income from sugarcane cultivation. Since the 8th Five-Year Plan, annual income from sugarcane has been growing at an average of 14 per cent.¹²

A survey of the net income of 450 farming families in three sugarcane growing counties shows that 74 per cent of per capita net income was from sugarcane. The highest percentage, at 91 per cent, was seen in Chongzuo county. Assuming cultivation of sugarcane is stopped, per capita net income will drop from RMB2,367 to only RMB616, and specifically in the case of Chongzuo, the figure will drop from

¹² Guangxi Department of Agriculture

2,438 to only RMB214 (see table 3). Such an income is far below the poverty line defined by the State.

Table 3: Survey on Net Income of Farming Families in Three Guangxi counties

Item	Unit	Aggregate	Rongshui	Fusui	Chongzuo
Proportion of net income from growing sugarcane in total net income	%	73.97	55.63	69.77	91.22
Per capita net income	RMB	2368.34	1903.23	2668.46	2438.4
Per capita net income from growing sugarcane	RMB	1751.86	1058.77	1861.78	2224.31
Per capita net income without sugarcane earnings	RMB	616.48	844.46	806.68	214.09

Source: From "The impact study on farmer's income and the sugar sector upon WTO accession", 2003.

Thirty-nine counties were taken off the list of poor counties of Guangxi, largely due to their sugar production. Take, for instance, Fusui, which saw incomes rise from RMB408 in 1988 to RMB1,856 in 2002.

2.1.5. The sugar industry is the major source of Guangxi's local revenues

The sugar processing industry accounts for 10 per cent of the region's total industrial output, while sugarcane farming accounts for over 8 per cent of total agricultural output. Every year, the sugar industry pays taxes that are equivalent to over 10 per cent of the entire region's revenues. In over 50 counties and towns throughout the region, taxes from the industry constitute as much as 20 – 70 per cent of their income. Of the more than 90 plus counties and towns in the region, those in better financial condition are mostly those capable of producing sugar products. Indeed, many of the poor counties have sugar as their sole industry. Guangxi effectively relies on the sugar industry to foster industrialisation and development.

To sum up, the sugar industry is of utmost importance to Guangxi's economic development and poverty reduction efforts. Moreover, considering the region's conditions, such as its climate, soil, and rainfall, sugarcane is an ideal and almost irreplaceable choice. Unfortunately, the viability of Guangxi's sugar industry is being threatened by conditions arising from China's entry into the WTO.

3. The Impacts of China's Accession to the WTO

3.1 China's accession to the WTO and changes in sugar prices

Before China's accession to the WTO, sugar imports were determined by the government according to demand. With entry into the WTO, the Chinese government had promised to provide tariff rate quotas for 1.6 million tonnes of sugar imports, equivalent to 20 per cent of domestic production, with the quota amount to be raised by 5 per cent annually over a 5-year period. By 2004, China's sugar import quota will reach 1.9 million tonnes; the tariff rate quota will play a key role in import control.

Five years before accession to the WTO, world sugar prices were about half of China's (see table 4). The price gap narrowed after WTO accession.

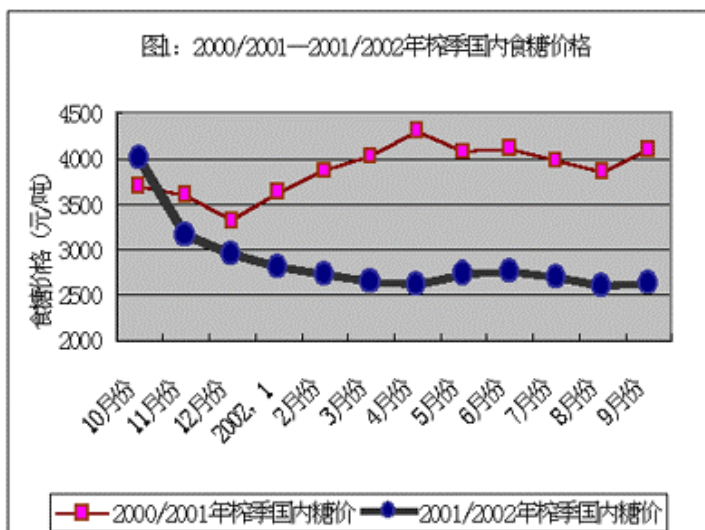
Table 4: China's Sugar Price versus World Sugar Price 1997-2003 Unit: RMB

RMB Year	World Sugar Price	China's Sugar Price	Difference (China-World)	% Difference (China)
1997	2,610	3,890	1,280	49
1998	2,111	3,480	1,369	65
1999	1,658	2,502	844	51
2000	1,816	3,045	1,229	68
2001	2,075	3,611	1,536	77
2002	1,519	2,663	1,144	43
2003 (As to Aug)	1,712	2,229	517	23

Source: Guangxi sugar net (<http://www.gsmn.com.cn/>)

It is apparent that even before its entry into the WTO, China's domestic sugar prices were already being affected by the trend in world sugar prices; after accession, the influx of cheap sugar due to the opening of the market made China's sugar prices more open to the influence of international prices, thus gradually closing the price gap. In October 2001, domestic sugar prices started to plummet; by April 2002, the price had dropped by 35 per cent- all in the space of seven months. (Figure 2)

Figure 2. Sugar price change for the sugar season 2000/2001 and 2001/2002



Source: Ministry of Agriculture

3.2 Impacts of China's accession to the WTO on sugar producers

China's entry into the WTO has, thus far, affected Guangxi's sugarcane farmers in three ways: 1) declining sugarcane prices and sales revenues; 2) shrinking hectareage of sugarcane fields; and 3) lower income and less job opportunities due to limited diversification choices.

3.2.1 Influence of sugarcane prices on farmers' incomes

Sugarcane is the major source of the farmers' cash income. According to a sample survey of 450 farming families in Guangxi, over 74 per cent of their total net income is from selling sugarcane; in one county, the figure is as high as 91 per cent. Household expenses are largely met by income from sugarcane, without which the farmers will be quickly reduced to poverty.

a. The drop in the price of sugarcane has caused a substantial decrease in farmers' incomes.

The decline in the price of sugarcane is caused by a number of factors, of which the supply-demand relationship is a major one. Considering the special pricing mechanisms for sugarcane in Guangxi, it can be argued that the decline is a direct consequence of China's entry into the WTO. After accession to the WTO, China's sugar industry suggested three measures in response: 1) lower the sugarcane price; 2) enhance the integrated processing capacity of sugar plants; and 3) reduce tax rates. Of the sugar production cost in China, raw sugarcane accounts for 73 per cent. Therefore,

the best and easiest way to cut production cost is to lower the purchasing price of sugarcane; and as a result, the farmers' revenue from growing sugarcane has decreased substantially. With the decrease in purchasing price in 2003, farmers are estimated to have lost incomes amounting to a total of RMB2.95 billion, or RMB216 per person.¹³

b. Farmers continue to grow sugarcane despite the declining price due to the lack of alternative crops.

The results of the household survey show that the production cost (including taxation) of sugarcane in Guangxi was RMB138 per tonne in 2001. If the price declines further to RMB150, the farmers' net income will decrease to just RMB12 a tonne. This constitutes a serious deterioration in the cash income of farming families. The initiative of the farmers to grow sugarcane will be muted accordingly. Their first response will be to cut costs in inputs, such as chemical fertilisers and quality seeds. The farming acreage will not shrink too much however, as sugarcane grows chiefly on dry lands and no substitute crops are readily available. Moreover, fruits requiring high inputs, or crops requiring new skills and know-how are beyond the capability of the farmers. Therefore it is possible that a large number of farmers will be thrown back into poverty.

3.2.2 Impact of shrinking hectareage on farmers' incomes

Reduced sugarcane hectareage means lower incomes for the farmers; and the absence of substitute industries means less job opportunities. But in consideration of the supply and demand situation in the domestic market since China's admission into WTO, the government has made a reluctant decision to reduce sugarcane acreage. According to the government's policy, an 8 million *mu* cap was put on sugarcane hectareage, which will lead to a total reduction of around 1.69 million *mu* of sugarcane. A total reduction of RMB1.29 billion in farm income, or RMB107.5 per person is estimated to result from such.

Shrinking hectareage will certainly cause a significant decline in farmers' incomes. And, as mentioned earlier, it would be difficult to find a substitute crop suitable to Guangxi's dry land that would also have a comparably high economic benefit. Moreover, replacing sugarcane with other crops is by no means a simple matter for

¹³ Based on figures from the Southern Sugar Group.

the sugarcane farmers, as it involves a set of complex issues, such as crop selection, technical training, market identification, and capital investment.

Any industry adjustment is necessarily a time-consuming process that can span several years, or even a decade. Even in the economically developed province of Guangdong, the reduction of farming areas from 4.53 million *mu* to 2-2.5 million *mu* took eight years. The development of Guangxi's sugarcane industry was, in fact, originally meant to replace the cultivation of jute and ambary Hemp, maize, and peanut. Most of the sugarcane fields can only be shifted to other dry crops such as mulberry, cassava, bamboo shoot and ginger as well as fodder grass and fast-growing eucalyptus. But cassava is a low-value crop, and is not worth massive development. The techniques of mulberry growing and silkworm cultivation, on the other hand, require two to three years for a typical farmer to master. The markets for fodder grass, ginger and yam are so volatile that their benefits are difficult to predict. Fast-growing eucalyptus can only provide returns after five years.

3.2.3 Decreased employment opportunities

Farmers retired from sugarcane production have few job opportunities, and the few opportunities offered by substitute crops can hardly meet their needs in the short-term. Sugarcane farming is a land and labour-intensive industry, and is also a highly correlative industry, which can drive the development of other industries.

It is estimated that growing a *mu* of sugarcane requires 23-24 person-days, over two times more than that required in growing rice and maize. The annual production of 5 million tonnes of sugarcane raw material requires 5 million person-days and 28,000 six-month job opportunities. The Fengshan Sugar Industry Group in Liuzhou, for example, grows 1 million *mu* of sugarcane every year, which requires 23 million person-days and provides 65,714 job opportunities (assuming every worker works 350 days a year). In the event that sugarcane output is cut by 18 - 22 million tonnes annually, assuming 0.6 tonne of sugarcane is harvested every person-day, 30-37 million work days will be lost, equivalent to 86,000-106,000 full time jobs.

Sugar also drives the development of other industries such as chemical fertilisers, transportation and light industry.

In addition, sugar plays an important role in providing supplementary income. For example, during the six-month extraction period, the sugar mills require a large

number of temporary workers. For example, the Liucheng and Fengshan sugarmills group employed 3,464 temporary workers to meet their transport and handling needs during the 2002-2003 extraction season; and the number of transport vehicles required amounted to over 600. Therefore, the development of the sugar industry can ensure the full employment of local farmers and absorb a large number of labourers from other communities as well.

3.2.4 Impacts of shrinking hectareage on farm workers' employment

The household survey estimates that 24 working days are needed to plant 1 *mu* of land, 13 days of which are attributed to female labour. On average, three days of farm workers' labour are necessary, costing an average of RMB20/day. If 1.69 million *mu* of sugarcane field were taken out of production, some 13,800 jobs for farm workers will be lost; and it is worth noting that farm workers generally come from poorer areas.

3.3 Impact of China's entry into the WTO on the sugar processing industry

China's entry into the WTO has not affected the processing industry as much as the farmers because the enterprises are able to shift part of their burden to the farmers by lowering the purchasing price of sugarcane. However, the impact of China's entry into the WTO on the sugar processing industry can still be noted in the highly volatile market prices, company losses, and low profit margins. The sugar factories and sugar farmers have an interdependent relationship. The price of sugarcane could not decline indefinitely as factories must ensure that a certain amount of sugarcane is purchased in order to reach a certain production efficiency. The government must also ensure that farmers can earn a minimum income from sugarcane production. Therefore, the factories are bound to bear some of the impact of the sugar price cut.

In the US, the sugar processing industry makes a total profit of over US\$2 billion annually, while its Chinese counterpart, which produced a similar amount of, or even more sugar in 2002, earned a profit of only RMB1.8 billion (US\$217 million) - over ten times less. Owing to the EU's protective pricing, the EU's sugar processing industry also enjoys high and stable profits. For example, the profit margin of British Sugar was as high as 21 per cent in 2001¹⁴.

¹⁴ *The Great EU Sugar Scam*, Oxfam International, 2002.

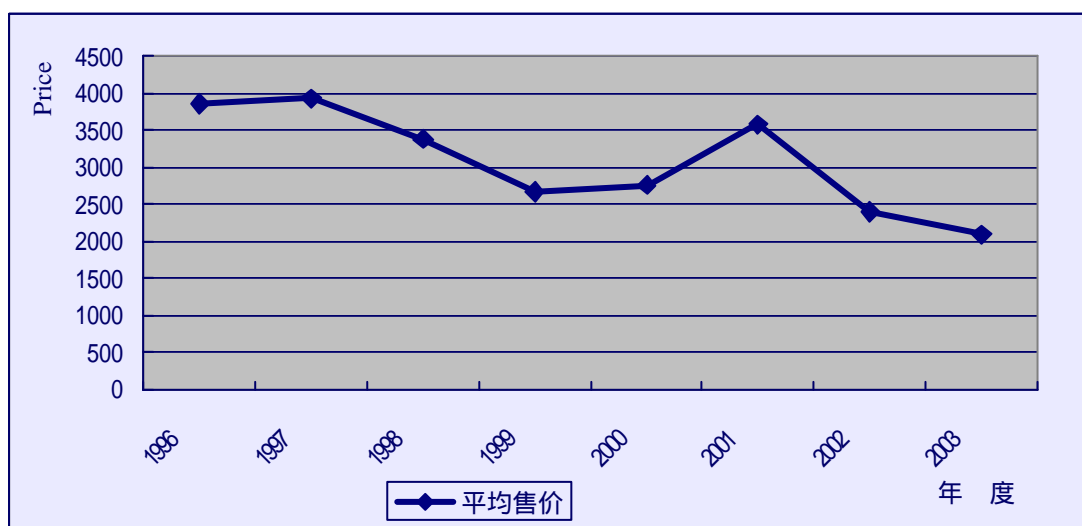
Enterprises in China have been growing rapidly after the 1980s, with most of them having relied on bank loans for expansion. As profit margins are cut due to the slump in the sugar price, the ability of the company to repay loans is severely hampered. Enterprises faced with insolvency crisis then merge with one another, or shift to other businesses.

It must also be noted that enterprises within China's sugar processing industry are not provided any subsidies. Inefficient enterprises are thus most likely headed for closure.

3.3.1 The impact of declining market prices

With the fluctuation and overall decline of market prices of sugar, enterprises have been suffering decreasing and unstable returns. Since the mid-1990s, the influence of international prices on China's domestic market price has been increasing; upon accession to the WTO, the influence is more obvious, as manifested in: 1) the downtrend of domestic sugar price (as shown in chart 1); and 2) price volatility. In 1997, the average sugar price in Guangxi was RMB3,927 a tonne; in 2003, the price had dropped to RMB2,229, a decrease of 38 per cent. The entire Guangxi region produced 5.6 million tonnes of sugar in 2003, but suffered a decrease in price at RMB1,698 per tonne. A total of RMB8,316 million was lost in sales owing to lower prices.

Chart 1 Trends in Average Sugar Price in Guangxi 1996-2003



3.3.2 The Impact of Shrinking Hectarage

Guangxi's government has decided to reduce sugarcane hectarage by 1.69 million *mu*, reducing sugar output by 860,000 tonnes, and pushing sales down by RMB1,978 billion.

In areas where sugarcane production is reduced or halted, sugar mill capacity will then be underutilised, resulting in lower revenues. Some of the sugar mills will have to lay off workers, close down, or even file for bankruptcy. The large company groups may still be able to survive due to better production efficiency; but the survival of the small ones will be extremely threatened by the reduction of sugarcane input. The sugar production may not be able to support the running costs of the factories.

3.4 Impact of China's entry into the WTO on the local economy of sugar producing areas

3.4.1 Government under pressure to cut taxes after WTO entry

As a poor region with an undeveloped industrial sector, Guangxi's revenue source is largely limited to agriculture. Taxes are used mainly on service delivery and local development, such as paying schoolteachers.

Since taxes account for as high as 22 per cent of production costs in the sugar industry, reducing taxes is regarded as a necessary measure to improve the industry's competitiveness. Since WTO accession, the government has been under growing pressure to cut taxes on the industry, but this will cause a decrease in local revenues.

3.4.2 Impact of declining sugar prices on local government revenues

Some Guangxi counties have provided value-added tax credits and have also planned to cut the excise tax on agricultural and forest products by three percentage points. It is the latter that affects local finances more obviously. The excise tax on sugarcane production in Guangxi is levied at the rate of 8 per cent of the revenue. Based on the sugar price of RMB170 a tonne in 2003, the tax is assessed at around RMB13.6 a tonne. Therefore, RMB606 million in taxes should be collected from the 44.57 million tonne sugarcane output in 2003. A 300 basis point cut will reduce the figure to RMB370 million, a decrease of RMB236 million in local revenues.

In Fusui county, the development of the sugar industry has played an important role in supporting local finance. Table 5 shows that since 2001, the county government has received over 60 per cent of its revenues from the sugar industry, with the figure reaching 63 per cent in 2003. The situation of the sugar industry will thus affect the county's financial condition. Declining revenues from the industry will translate into less administrative capacity. Teacher salaries, which account for 70 per cent of local government expenditure, will be threatened. In 2002, RMB35 million of the revenue of Fusui county came from the excise tax on agricultural and forest products. A 300 basis point cut on this tax will cause a loss of RMB13.35 million in revenue, or 5.8 per cent of total revenue, which is by no means insignificant to a county.

Table 5: Sources and Composition of Budget Revenue of Fusui County, Guangxi
Unit: RMB' 0000

Year	Budget Revenue	Revenue from Sugar Industry	% in Total	Breakdown		
				Excise Tax	Value-Added Tax	Other Taxes
1997	12775	6288	49.22	1123	4058	1107
1998	14817	8629	58.24	3281	4182	1166
1999	16415	8692	52.95	1513	4162	3017
2000	15957	8881	55.66	1649	3849	3383
2001	18008	10930	60.70	1267	3964	5699
2002	22853	14419	63.09	3561	6830	4028

Source: Fusui county survey by the research team, from "The impact study on farmer's income and the sugar sector upon WTO accession", 2003.

3.4.3 Impact of reduced hectarage on local government revenues

Reduced sugarcane hectarage will also cause a substantial decrease in local revenues since it is difficult to locate quick alternative income sources. A reduction of sugarcane fields by 1.69 million *mu* will cause a decrease of 860,000 tonnes in sugar output and RMB138 million in value-added tax revenues. For example, in Longan county, where sugarcane farming is developed to a medium level, sugarcane taxes make up half of the revenues, and thus play an indispensable role. Assuming that raw sugarcane output will be reduced by 100,000 tonnes, and the excise tax collected on every tonne is RMB12.8, the loss every year will amount to RMB1.28 million; and assuming RMB35 of value-added tax and income tax can be collected on every tonne of white sugar processed from raw sugarcane, the loss thus caused will amount to RMB3.5 million. The annual loss of RMB4.78 million in the three taxes makes up

around 4.2 per cent of the county's total revenues. If no big enterprises are established in the county in the next two to three years, it becomes almost impossible to locate new income sources to make up for the millions in tax losses. It will be exceptionally difficult for those townships and towns that rely mainly on sugarcane production to develop new tax sources.

3.5 Entry into the WTO hinders the development of effective domestic sugar policy and restrains sugar exports

Current world sugar prices have led policymakers to conclude that Guangxi's sugar industry is not competitive, and that production should then be reduced. But this policy does not reflect the actual situation, and will have serious negative impacts on farmers' livelihoods as well as on the development of the sugar industry.

3.5.1 Analysis of the international competitiveness of Guangxi's sugar industry

Table 6 indicates that China's sugar price is less competitive than the world price. However, the gap between China's sugar price and the international price has been narrowing since 1999. Had the international market not been distorted and forced down to an unreasonably low price level by subsidies of the developed countries, China's sugar price should have been close to the international level, making it possible for China to export sugar. In consideration of the effects of China's domestic policy (taxes and fees too high), Chinese sugar should have the condition to compete in the international market.

Table 6: China's White Sugar Price versus World Price 1991-2001

Unit: RMB/tonne

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
China	2846	4200	3970	3890	3480	2502	3045	3611	2663	2229
World	2853	3277	3031	2610	2111	1658	1816	2075	1519	1712
Price Gap	-7	923	939	1280	1369	844	1229	1536	1144	517
%	-0.2	28	31	49	65	51	68	74	42	23

Source: Guangxi sugar net (<http://www.gsmn.com.cn/>)

3.5.2 Analysis of competitiveness of Guangxi's sugar industry in terms of production cost

Since the world market price is not determined by production cost, it cannot serve as an accurate measure of the competitiveness of China's sugar industry. The true

picture can only be reflected in production cost, which is far lower in Guangxi than in the EU and US, and the world average. Guangxi's sugar industry is actually competitive. In the 2000/2001 extraction season, Guangxi's sugar production cost per tonne was RMB2,230.44, and the figure for 55 enterprises in a sample survey was RMB2,440.9 (see table 7). Compared with the US, the EU and the world average, Guangxi's production cost was far lower, by 38.9 per cent against the US, 60.32 per cent against the EU, and 97.27 per cent against the world average. China should thus be considered a competitive country in terms of white sugar export.

Among the developed countries, the EU's sugar production cost is far higher than that of China. Yet the EU is able to export 7 million tonnes of sugar annually, owing completely to its export subsidy policy. It is estimated that in the absence of such high subsidies, the EU will have to import 5 million tonnes of sugar every year.¹⁵

Table 7: Sugar Production Cost per Tonne of Guangxi versus Other Countries (2000/01) **Unit: RMB/tonne**

Item	Guangxi	Thailand	Brazil	EU	US	World Avg
Sugar Production Cost per Tonne	2230.44	1900	1700	5623	3100	4400
Guangxi Less by		330.44	530.44	-3392.56	-869.56	-2169.56

Source: Research Centre for Economics, Guangxi government

Besides production cost, researchers have used other data to analyse the competitiveness of Guangxi's sugar industry, including the comparison of white sugar's cost, insurance, and freight (or CIF, which is essentially cost of imported products at port) versus domestic sugar price, and the comparison of raw materials for sugar production, manufacturing cost and taxes on the sugar industry. These show that Guangxi's sugar is highly competitive in both the developed country markets and the domestic market, but not in developing countries with rich natural resources. The sugar industry can be even more competitive if the high sugar taxes are lowered.

3.5.3 Government measures to cut production

In the face of the highly distorted international market, the government has been forced to resort to a series of measures to reduce production, so as to prevent a supply glut which will further depress sugar prices. As mentioned earlier, the government has demanded the whole Guangxi region to cut sugar output by 860,000 tonnes and

¹⁵ *The Great EU Sugar Scam*, Oxfam International, 2002

reduce growing areas by 1.69 million *mu*.

Guangxi's natural resources make sugarcane the region's most profitable crop. But the widely held view now is that Guangxi's sugar industry is uncompetitive, which has led to the policy decision to reduce farming acreage in the region, which will certainly have severe impacts on all the industry's stakeholders. But as shown above, Guangxi's sugar industry is actually competitive in the international market; its production cost is higher compared with some countries but far lower than the world average. Provided the distorted market condition caused by the developed countries can be corrected so that all countries can compete fairly in the international market, Guangxi may even have the option to increase sugarcane output for export.

3.6 Summary of impacts of China's WTO entry on the sugar industry

China's entry into the WTO has had great impacts on the sugar industry. On the one hand, the high subsidy policy implemented by developed countries such as the EU has seriously distorted the world sugar market, while the Chinese government on the other has levied heavy taxes and fees on sugarcane farmers and on the sugar processing industry, effectively a "negative support", which is rarely seen in other parts of the world, and has put the sugar industry in an extremely difficult situation.

In summary, China's entry into the WTO has had the following impacts:

3.6.1 On farmers. Farmers are the most vulnerable group.

- Declining prices have led to substantial decreases in farmers' incomes. It is estimated that the three-year decline in sugarcane prices has cost farmers RMB2.95 billion, or RMB113 per capita. Reduced hectareage will cost the farmers RMB1.29 billion or RMB107.5 per capita.
- Farmers have little capacity and options to diversify crops. A reduction of sugarcane hectareage in Guangxi by 1.69 million *mu* is estimated to cause a loss of 2.36 million jobs, of which 1,063,700 are filled by women and 240,000 are filled by employed farm workers.

3.6.2 On sugar processing enterprises. China's sugar processing enterprises tend to transfer to the farmers part of the burden caused by declining sugar price, but ultimately, they will be unable to absorb more losses. Low profit margins and losses will drive the enterprises to insolvency, and most of the state-owned sugar processing enterprises will be forced to stop production, merge, or shift production.

- In 2003, price declines caused losses for the sugar mills in the amount of RMB7.593 billion
- Reduction of sugarcane hectarage will cause further losses estimated at RMB1.978 billion
- Some of the sugar plants have been forced to stop or shift production, or merge.

3.6.3 On local finance. Local revenues in Guangxi are mainly from the sugar industry. The decline in both farmers' incomes and the enterprises' earnings will result in lower tax revenues. Meanwhile, to protect the farmers and the interest of the enterprises, local governments have to cut tax rates and provide tax credits, which will make already strained budgets even tighter and result in a significant weakening of the governments' administrative capacity.

- In 2003, price declines caused a decrease of RMB236 million in local revenues.
- Reduction of sugarcane acreage will cause a further loss estimated at RMB138 million

4. Stop Unfair Trade

China's entry into the WTO and the Chinese market's convergence with the world market will ostensibly provide opportunities for efficient industries to achieve further development and participate in the world market, while inefficient industries unable to survive in the market will have to withdraw. For supporters of free trade arguments, this is but a logical process. But the global trading environment is neither free nor fair.

Sugarcane farmers in China's poor rural areas have invested considerable time, effort, and resources in sugarcane cultivation, developing its production and making it a key element in poverty reduction. With the improving profitability of the sugar industry, Guangxi should have had excellent chances to develop into a highly efficient sugar production base, and even to export in the long term. Yet the unreasonably low world sugar price has caused dramatic impacts on the region's sugar industry. The potential for farmers to raise income has been lost, and some have had to deal with the consequences of reduced sugarcane hectarage.

In contrast, the EU sugar industry, though operating at a production cost three times higher than the world average, does not have to deal with adjustment pressures,

thanks to various protective measures, including production and export subsidies, import barriers, which allow the EU farmers to produce a massive surplus of sugar beet and the sugar companies to enjoy high profits. Compared with farmers in China, the EU farmers and enterprises are much better equipped to adjust to new market conditions, but owing to government subsidies, they have no need to think about prospects such as shifting production.

5. Recommendations

At the Fourth WTO Ministerial meeting held in Doha in 2001, a declaration containing the “Doha Development Agenda” was issued to make development the main theme of the new round of WTO talks. It called for the elimination of market distorting export and production subsidies in the new round of agricultural talks. But owing to opposition from the wealthy countries, WTO members have yet to agree on a timeframe to promptly eliminate all unfair subsidies. In a recent development, the EU and the US, in a bid to muffle the voices of the developing countries, jointly proposed to allow such subsidies to remain intact for more than ten years.

5.1 Calling on the EU to further cut subsidies and tariff rates. Countries such as the EU members must cut their subsidies and tariff rates and increase import quotas in order to reduce distortions in the world market. The EU should immediately stop dumping sugar on the world market.

5.2 In the new round of WTO talks, all members, the EU and the US in particular, should adhere to the commitments made in the Doha Declaration. The agricultural talks should focus on the development theme. A timetable should be agreed to promptly and effectively abolish export subsidies and restrict domestic support which function similarly to export subsidies. Developed countries should not attempt to delay the timetable or demand developing countries to make concessions in other areas.

5.3 The Chinese government should work with other developing countries in the WTO negotiations to fight for a quick schedule and effective way to eliminate all export distorting subsidies.

Note: This English version is a translation from the original Chinese document – The meaning borned by the Chinese Version takes precedence over the English one.