

# Political, Economical and Cultural Barriers to Importing Sugar Cane as a BIO Product from China to EU

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## Abstract

China is the fourth largest sugarcane producer in the world. The EU is the world's largest importer of cane sugar. That is the question why Chinese influence on the EU market is only marginal and no significant change has occurred since EU quotas on sugarcane import fell in 2017. The paper investigates the reasons why imports of cane sugar from China into the EU keep stagnating despite the liberalization efforts on both markets and growing demand for unrefined brown cane sugar in Europe as a healthier alternative to white sugar from sugar beet plant in Europe. Authors identify the three main barriers to the development of China-EU sugar cane trade. These are political-economic, productive and cultural barriers. Combining all these three elements creates the current state.

*Keywords: BIO product; cane sugar; internationalization; trade China-EU*

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## 1. Introduction

There is a growing demand for brown cane sugar in the EU. Many EU consumers perceive cane sugar as an alternative to sugar beet. Until now, cane sugar has been imported into the EU from Mauritius, Latin America or India (Smolík, 2018). China, as the world's fourth largest producer of sugar cane, only marginally affected the EU market. After the end of EU sugar quotas in 2017, the question was to what extent the area would change the import and export of sugar. This paper examines the reasons why the import of cane sugar into the EU from China, as the world's fourth largest producer of sugar cane, only marginally affected the EU market. After the end of EU sugar quotas in 2017, the question was to what extent the area would change the import and export of sugar. This paper examines the reasons why the import of cane sugar into the EU from China is stagnant and even after the change of sugar policy there was no significant change. Cane sugar can be imported more easily into the EU, provided that the import duty can be reduced if the place of origin is proven. The sugar trade grows as sugar consumption increases worldwide. At the same time, there is a growing interest in sugar or sugar cane products for a certain target group of consumers, which are associated with clients' ecological perception of foodstuffs under the designation such as BIO, NATURAL or

ORGANIC food. The question is therefore why imports of such sugar from China into the EU are minimal, even in comparison with other Southeast Asian countries. There are several causes that may intersect each other, which may be caused by the political, economic, production or cultural origin, which is more strongly reinforced by the import of sugar into the EU. This paper deals with the causes of this condition. It shows possible changes in the future, when the low rate of current imports from China will experience significant changes in the future.

Economic policy factors include China's current economic policy in response to China's growing sugar consumption. This implies some Chinese State support for the import of sugar to China (from Brazil, Cuba and India), but also an effort to support its own production. The second limiting production factor stems from the fact that there is still a lower production efficiency in the harvest of Chinese sugar cane. Although this is now dynamically changing in China, because of the industrialization of Chinese cane agriculture. From a cultural point of view, a barrier can be seen in the fact that Chinese food imports are not perceived by EU end-consumers as a brand representing healthy products that are an ecological alternative to contemporary western foods.

## **2. Increasing interest for cane sugar in the EU among consumers**

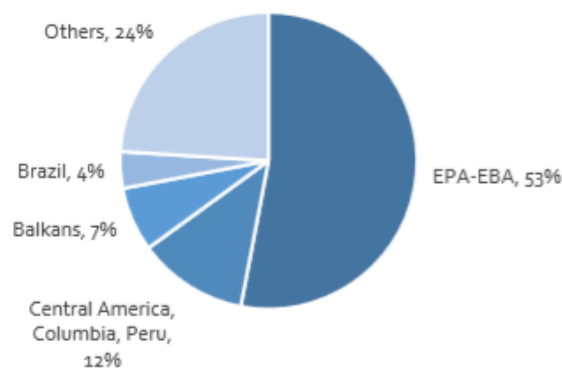
Consumption and popularity of cane sugar in the EU is increasing as consumers are increasingly interested in 'natural' food. This view applies to different types of cane sugars (unrefined muscovado or semi-refined sugars such as demerara and turbinado). It is generally stated that cane sugar does not undergo the chemical refining and bleaching process and therefore does not contain possible residual chemicals. That is why it does not lose its unique, health-promoting substances, which include, in addition to minerals (calcium, magnesium or potassium, iron) and trace elements, many vitamins, enzymes or fiber. For these reasons, cane sugar is labeled as "healthier" sugar and EU customers are getting to know various studies and consumer tests. The "sugar cane" plant itself is perceived as more environmentally friendly with other secondary possibilities of its use for organic products after the process of sugar processing outside of ethanol (added as fuel for engines) or electricity, use (such as bioplastics, biopaper, biocosmetics). The perception of sugar cane as an organic product is gaining wider support within the EU (but also in the USA, Australia, Canada) for the professional public, academic sector or non-profit organizations.

Therefore, cane sugar in retail shops often carries on the packaging the certification as organic, bio or natural in order to distinguish it from other goods. Recently, several consumer certifications have been developed, such as GreenCane, which marks consumer products with a special logo and informs customers about the origin of the product. Often these certificates may be associated with information on the non-genetically modified origin of the sugar cane. Currently, the popularity of these products is growing in the German-speaking market (eg products labeled as Naturland), the French markets (EcoCert), the Scandinavian countries and the United Kingdom (Sugarcane 2019). Certifications include eg. Bonsucro (Bonsucro, 2019), EcoCert or Greencane Ecopaper (Greencane, 2019).

In addition to these general certifications, EU-wide certifications have been extended to organic products from outside the EU. Within the EU-approved EU organic food logo, the origin of the food (and thus of the sugar cane) with the code for countries outside the EU can be indicated. In addition, Soil Association Organic Control Union Certification, Agriculture Biologique, Non GMO Certified, EU-Flower etc. are playing their role. The vast majority of sugar cane products are labeled with these products and are sold at a higher price level under the designation BIO, ECO or ORGANIC (Tayutic 2019).

Despite economic fluctuations in the global sugar market, there is a trend of increasing need for cane sugar within the EU (Business Wire 2018). This tendency is in line with the general trend of popularity of marketing promoted healthy products, which refers to organic processing and less environmental risks in production and consumption (Organic Food Market). The volume of financial turnover in this sector is growing by tens of percent each year, as is public support and government intervention in favor of organic farming (European Parliament 2018). In general, imports of sugar into the EU (whether from beet or cane) is the highest of the states with the possibility of freer open trade with the EU (so-called EPA-EBA states) whose imports in 2017 were more than 50% of the total import volume.

**Figure 1: Proportion of EU sugar imports from non-European destinations**



Source: Flint & The European Centre for International Political Economy (2018)

Although the EU is one of the largest consumers of sugar, it covers production from its own resources and the rest is imported from outside the EU. For the world sugar cane production there are not yet validated statistics for the EU and China, however, world cane production in global figures according to Eurostat is increasing, in 2006 was 1,418 and in 2016 1,891 million tons of production per year (Eurostat 2016). Sugar imports into the EU are the highest of the EPA-EBA countries (over 50%), followed by Latin America, Colombia and Peru (12%), the Balkan countries (10%) and Brazil (3%), with total sugar imports amounted to EUR 2 billion in 2017 (Eurostat 2018). Although the ratio of sugar cane to white beet sugar is minimal, the share of cane sugar increases in parallel with the increase in the volume of organic certified foodstuffs (CBI 2016) in the sales of final sugar to both retail and wholesale consumers. This development is also supported by the fact that sugar cane as a crop may record higher production efficiency in the future (higher yield in a smaller area), with global temperature rise sugar cane should be less endangered agricultural commodity. Sugar cane can be cultivate to achieve higher yields (Hussain et al. 2018). The import of Chinese cane sugar into the EU and the Czech Republic is still minimal. China as the fourth largest sugar producer in the world has its specifics why exports from this country to the EU and the Czech Republic are limited by more factors, economic, production and cultural.

### 3. Production of cane sugar in China

More than 80% of all sugar in the world is obtained from sugar cane, which is widely grown in the tropical climate and the rest comes from sugar beet, which in turn grows in northern climatic conditions. In Europe, the situation is reversed and sugar obtained from sugar cane accounts for only 15-20% of all consumers. Due to the impossibility of growing raw sugar cane in EU climatic conditions (except french overseas departments), cane has traditionally been subject to duty-free and quota-free imports from developing countries under preferential trade relations and subsequently processed by local refineries. Generally, the cost of sugar cane production is lower than that of sugar beet.

Sugar cane cultivation is historically typical of China in its southern and south-eastern parts, especially in Guangxi, Yunnan and Guangdong provinces. Unlike Brazil or India, which can be classified as a superpower beside China, China was cultivated on small private land and not on plantations until the mid-20th century. The revolution and changes to government regulations in the second half of the 20th century, along with economic reforms, also brought changes for the sugar industry and centralized sugar factories began to build and production expanded rapidly (Mazumdar 1998). In addition, the quality itself has gradually improved over the past 70 years (Zhang & Govindaraju 2017).

At present, sugar cane cultivation is also directed to areas with a subtropical climate, in particular to the provinces of Guangxi, Hainan, Yunnan, Guangdong and Fujian. Due to the fact that sugar beet yields are on average not high enough to outperform the profitability of fruits, vegetables, cereals and others, sugar cane cultivation is gradually being pushed to the western regions where is less competition from alternative crops. The position of each province within China is shown in Figure 2 below.

**Figure 2: China's major Sugar Cane production provinces (Guangxi, Yunnan, Guangdong, Hainan)**



Source: Own proceedings (Zhang & Govindaraju 2017)

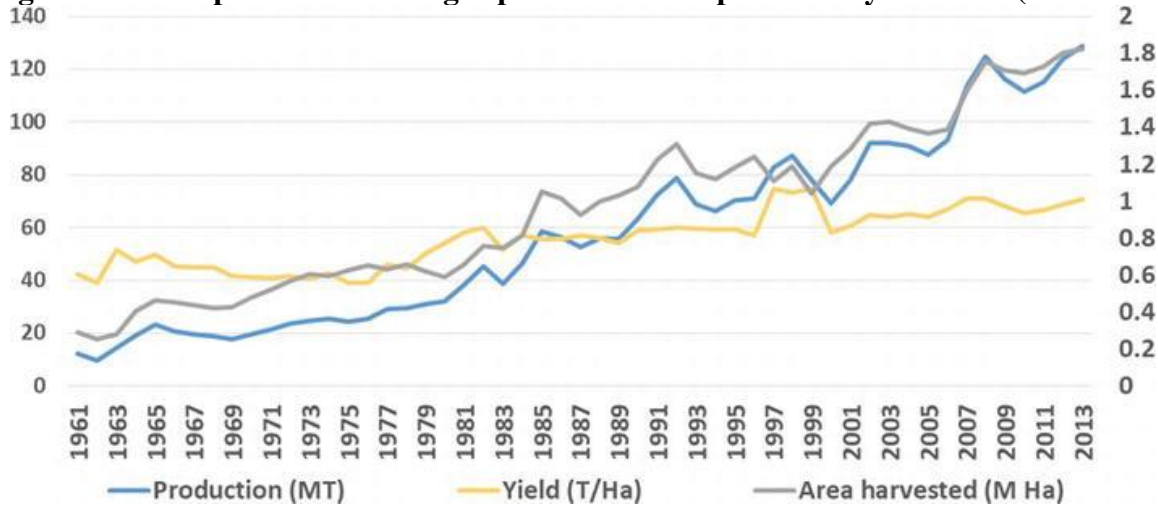
By the 1980s, Guangdong and Fujian had been the main areas of sugar cane production, since then production has moved more to the southwest, and more than 60% of China's total sugar production currently originates in Guangxi Province (Zhang & Govindaraju 2017). Similarly, the phenomenon of small-scale producers in China has persisted and prevails to this day, alongside state farms and foreign corporations. For example, the leading British company

Tate & Lyle Sugars, which began importing and processing cane sugar as early as 1859, owns shares in two Chinese sugar factories.

About 70% of the sugar in China is destined for further processing in the production of food products. Sugar consumption varies across China; in the north of the country is generally lower due to the preference of salty meals. In southern regions, on the other hand, consumption is 20% higher than the national average (Gain Report 2018).

The trend of increasing the harvest area in China can also be seen from historical data since the 1960s (Fig. 3). In this context, it is also possible to monitor the growth of cane sugar production in order to satisfy demand growth.

**Figure 3 Development of cane sugar production and profitability in China (1961-2013)**



Source: Zhang and Govindaraju (2017)

According to OECD data, sugar cane production in China will grow for the second consecutive year. Higher sugar prices have a positive effect on the return of farmers, as the trend of labor migration from agriculturally oriented areas to Chinese cities is a factor that in the past has affected the decline in cane production. One of the objectives of China's current five-year plan for 2016-2020 is to support sugar production. Specifically, the annual production should reach 15 MMt, with the expected consumption in 2020 being 18 MMt. At the same time, the government is trying to gradually reduce sugar imports. One means is to provide financial support and subsidies to growers to expand agricultural areas. For example, Guangxi Province provides \$ 5625 per hectare for seeds, agricultural machinery and fertilizers (Zhang & Govindaraju 2017).

#### 4. Political-economic and production barriers

If we examine the current development of the import of cane sugar into the Czech Republic from China, in 2017-2018 it is a marginal volume in amount of several hundred thousand Czech crowns (Czech Statistical Office 2019). According to the EU import trends from China in 2013-2017 according to HS standardization (HS chapters), the volume increased from EUR 58 million to EUR 71 million. Although there is an increasing trend in this trade, this is a marginal aspect compared to the economic volume of other crops (European

Commission, 2018). Import of cane sugar to the Czech Republic is even higher from other Asian countries such as Vietnam, Indonesia, Cambodia. Where are the main causes of barriers to cane sugar imports from China in terms of economy and production?

The most significant limit is China's economic policy itself. In China, imports of agricultural products exceed roughly double exports, for example equivalent to 49 billion EUR in agricultural commodities in 2017 and 103 billion EUR in imports in the same year, while in the same year the EU exported 138 billion EUR in agricultural products and imported 117 billion EUR (European Commission 2017). Therefore Chinese side generally supports a priority food security policy for its own citizens, ahead of the economically and politically risky steps to support the export of strategic raw materials to which cane sugar belongs. In addition, to support its own sugar industry, China uses a system of import quotas beyond which special tariffs are imposed on imported food.

On the other hand, the EU is the world's largest importer of cane sugar imported from EPA-EBA, Mauritius (where the UK is the largest importer), Fiji, Swaziland, Belize, Guyana. The import quotas set by the EU and the WTO thus restrict the economic development of the import of cane sugar into the EU. Traditionally, the greatest interest in cane sugar is in Great Britain, Spain, Portugal, Italy, Sweden (European Commission 2019). The system of import quotas and tariff barriers is a variable variable depending on the current situation. Despite this current (and changing every year) situation in the area of cane sugar export from China to the EU, there are long-term tendencies, which can be described as economic-political or production barriers.

The restriction results from the limits of Chinese sugar production on its domestic market. Compared to other countries, the cost of sugar production in China is disproportionately high (twice as high as in Thailand and 30% higher than in India). Labor costs also account for a large share, particularly in relation to the harvest of sugar cane, which may account for more than 1/3 of the selling price. The difference in production and, consequently, sales prices has an impact on increasing sugar imports and sugar cane imports from neighboring countries in Myanmar and Laos (Gain Report 2018).

High costs and general inefficiency are the causes of China's sugar industry's lack of competitiveness over other countries. At the same time, it is also one of the reasons for the demand of the sugar industry for the Chinese government to research on ensuring food sovereignty for the period 2017-2020. However, the situation is complicated by the fact that in the past sugar cane fields were planted with fruit trees and eucalyptus, which have a significantly longer production cycle, making these areas difficult to recover for sugar cane production. The level of mechanization of sugar cane processing is also lower in China, and hilly terrain makes it difficult to harvest in many areas (Zhang & Govindaraju 2017). In addition to the political-economic barriers, the Chinese government has launched a long-term breeding program strategy, i.e. creating new varieties of cane sugar, striving for greater industrialization and mechanization of production so as to secure as many of its people as possible sugar production.

## **5. Cultural barriers**

Cultural barriers are another factor that does not contribute to the development of sugar cane imports from China into the EU. As mentioned above, more sugar is imported from China into the EU market than from other East Asian countries such as Vietnam, Cambodia and Indonesia. This difference in import volumes also results from a different perception of Chinese culture in the EU.

China is one of the fastest growing economies in the world and has undergone enormous social and economic changes over the past decades as a result of globalization, penetrating internationalization and the desire to participate in world trade. The intercultural differences between China and European countries are due to different historical developments. Moreover, the perception of the quality of Chinese products in the EU, especially of food quality, cannot be underestimated. Quality perception is one of the most sensitive issues for European consumers, mainly with regard to the required quality of BIO, ECO or ORGANIC.

The situation on the Chinese side is difficult for European consumers to understand. Many aspects of the Chinese market and culture are still centrally managed, while the private sector is being strengthened, and some industrial and regional areas are increasingly decentralized. The business environment also varies from region to region. Some provinces are dominated by large state-owned companies, in other areas, such as Zhejiang province, the state's participation is smaller, while a stronger provincial, entrepreneurial spirit prevails. Cultural differences across China, whether in terms of consumer lifestyle or successful business communication, only reinforce the need to know local cultural specifics. Cultural differences can also be observed on the example of sugar cane itself. Not only is it a basic selling item in smaller or larger stores in China, but its processing and consumption patterns (eg in the form of favorite drinks) are a common part of scenes unknown to European consumers.

The perception of China by EU Member States differs due to the internal diversity of the Union. It follows not only from the current political-economic situation or the quality of agricultural production, but also from the historical experience of individual European states and from cultural issues as well.

In recent years, the EU has provided financial assistance to support the restructuring or diversification of total 18 countries that traditionally supply raw sugar to the EU, thereby indicating that it intends to continue to import primary from these traditional countries, except for China. The view of the quality of Chinese goods and especially of food products is generally not perceived positively in the EU. Scandals with falsification of BIO certifications, which according to reports from non-profit organizations happen quite regularly in China, have not contributed to the positive perception. Therefore, food products made in China, such as cane sugar, do not have a reputation in Europe as potential clients such as ORGANIC and BIO. At the same time, Chinese cuisine as such is seen as a healthier alternative to Western cuisine. In addition, sugar is used more generally in ready meals, along with spices compared to European cuisine, but in smaller quantities. Although the Chinese style of cuisine is perceived positively, the individual ingredients produced in China tend to be the opposite, and so there has not been demand for this type of sugar on the European side. Cane sugar is perceived positively on the European market only in a very narrow segment of the sugar industry. Brown unrefined sugar on the Asian market is called "black sugar" and with various additions of spices and flavors is used as so-called therapeutic sugar (Liang 2016). It has its customers in the EU in specialized shops but it is a very marginal market.

EU food safety legislation is particularly stringent in the case of sugar cane. Concerns about the health of Chinese food are related to its less cultivated land than in other countries. Thus, Chinese farmers have often used more fertilizers and pesticides to maintain field yields. Improving this situation and restoring the confidence of Chinese and foreign consumers in the "Made in China" label has been one of the government's priorities in recent years. On the other hand, there may be some bias, since according to Dutch studies there is no specific difference in the quality of raw cane sugar from China or from Brazil (CBI 2016).

## 6. Conclusion

In this paper, the authors analyze the reasons for the low volume of sugar cane imports from China to the EU. Sugar cane is becoming more popular sweetener in European households, often associated with a greener and healthier food that meets the requirements of ethical food certification such as BIO, ORGANIC or NATURAL. For this reason, the volume of the EU market surveyed is increasing year by year. The EU cannot produce this rising demand from its own production, so cane sugar is imported from outside Europe. On the other hand, China, as the world's fourth largest sugar producer, predominantly sugar cane, has a negative trade balance with the EU in sugar trade. This occurs when EU customers are asking for more and more sugar cane. Therefore, the question arises as to why the import of sugar cane from China into the EU is minimal? At least three major causes of this condition can be observed. On one hand, political and economic reasons can be observed, mainly on the Chinese side. The concept of China's government strategy of food sovereignty does not fit the export of its own sugar, on the contrary. The Chinese government supports its own production, which can therefore meet rising domestic consumption demand. This is related to the production limits of the current Chinese sugar industry. Within the limited mechanization of sugar harvesting in China there are also production limits. China's agriculture and sugar industry is not as profitable and efficient as neighboring Asian countries, at a higher cost. Therefore, the Chinese government has launched a program to industrialize the harvest, processing and production of cane sugar. However, at present, Chinese agriculture does not have the capacity to expand its exports to the EU while sugar imports predominate over exports. The third limiting factor can be described as a cultural factor. It results from a long-term perception of lower quality Chinese goods (and food) among European customers. With the exception of a few specific commodities (black therapeutic sugar), there has been no demand for Chinese sugar in the EU. In addition, information about how the Chinese side misused BIO or NATURAL for food products was recently made public. For such reports, and for sensitive consumers of perceived certified goods, demand is falling and there is little interest in Chinese sugar cane compared to other producers. The long-term low import volume of sugar cane from China into the EU is therefore due to the three barriers presented - political, economic, production and cultural.

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