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EU-27 SUGAR SEMI-ANNUAL

Report

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Report Highlights:

In the final MY 2009/10 of the implementation of the sugar reform, EU sugar production is forecast to increase almost 2 million MT as a result of record beet sugar yields. This will put EU processors before a dilemma as EU sugar exports are limited by its WTO export commitment limit and conversion to ethanol is expected to be uneconomical as a result of high world prices for sugar and low EU domestic cereal prices. EU sugar imports are forecast to increase minimally despite duty free, quota free market access for least developing countries under the Everything But Arms agreement. MT 2009/10 ending stocks are forecast to increase by 1 million MT. In MY 2008/09, limited EU sugar production had led to increased sugar imports and below average sugar exports, while inventories ended at pipeline lows.

Executive Summary:

Marketing year (MY) 2009/10 production increases when the European Union is making efforts to reduce sugar subsidies will create challenges to newly enacted sugar policy. MY 2009/10 ending stocks are forecast to increase by 1 million metric tons (MT). As a result, MY2009/10 EU sugar imports are forecast to increase only 8 percent despite duty free, quota free EU market access for least developed countries under the Everything But Arms agreement. Other non-EU destinations are expected to be more appealing under current high world market sugar prices. EU exports of sugar are bound by the EU WTO ceiling despite abundant availability. A slight decrease in EU domestic sugar consumption in MY 2009/10 is forecast. Ethanol production from beet sugar is expected to moderately increase only, because of competitive EU cereal prices.

MY 2008/09 was the first year that EU sugar markets operated under a fully reformed sugar policy. The reduction in the amount of sugar beet that could be processed into white sugar at subsidized prices allocated to member states resulted in a net sugar production decrease of 2 million MT. Imports increased, while MY 2008/09 sugar exports were hampered by limited supplies and the absence of export subsidies.

DISCLAIMER

The numbers in PS&D's in this report are not official USDA numbers, but they result from an FAS expert at post.

Commodities:

Sugar, Centrifugal

Production:

For marketing year (MY) 2009/10, a bumper EU sugar production is forecast of 15.5 million MT, of which 15.2 million MT from sugar beet, with the remaining from cane sugar production in the French Overseas Territories (DOM) including Guadalupe, Martinique and Reunion, as well as in the Azores. This would be 14 percent higher than the MY 2008/09 sugar crop of 13.6 million MT. The production increase results from a 3 percent increase in sugar beet acreage,

combined with a 1.5 percent increase in average beet yield per hectare and a more than 5 percent increase in beet sugar content. The largest beet and sugar yield increases are noted in the Northwestern continental Europe, while other areas seem to have more average yields. Southeastern Europe, including Hungary and Romania, are expected to have lower yields than the 2008 crop. Sugar beet acreage increased partly as farmers re-adjust farm acreage management after the large decrease in sugar beet acreage in 2008 in response to the sugar reform and partly because some increases in sugar beet contracting were concluded for ethanol production. For more details on ethanol production, see GAIN [EU27 Biofuels-Annual report 2009](#) [1]

MY 2008/09 EU sugar production decreased 2 million MT from the previous year because of reduced plantings prompted by efforts of the EU to reduce the amount of sugar processed into white sugar. In 2005, the EU adjusted its sugar policy with a goal to reduce the amount of sugar beets processed into white sugar that would be sold above a guaranteed price by 6 million MT. However by 2007, member states had only given up a total of 2.2 million MT out of the targeted 6 million MT. In February 2007, EU ministers agreed to another 2 million MT cut for the MT 2007/08, but the decision was too late to impact plantings. (See GAIN [E47014](#) [2]) In September 2007, EU Ministers agreed to further restructure its sugar policy. (See GAIN [E47087](#) [3]). This resulted in a further reduction of 3.3 million MT. Some of the beets that would have gone to sugar production instead went for ethanol production. The sugar produced above the quotas set for the member states were not subject to the guaranteed floor price. As a result of the limited supplies during MY 2008/09, imports increased and exports decreased.

Factors of EU27 Sugar Beet Production												
	Area, thousands of Hectares				Sugar beet yield in MT per Hectare				Sugar content in percentage			
	06/07	07/08	08/09	09/10	06/07	07/08	08/09	09/10*	06/07	07/08	08/09	09/10*
Austria	39.4	42.3	43.0	43.9	63.3	62.1	71.8	67.5	17.85	16.60	16.96	17.00
Belgium	82.9	82.7	64.0	63.8	66.2	68.3	68.6	77.1	16.73	17.00	17.82	19.00
Denmark	41.4	39.4	36.3	38.5	56.7	57.3	64.2		16.70	17.80	17.80	
Finland	23.9	16.0	13.6	16.5	40.0	41.9	34.6		15.49	16.80	16.48	
France	379.3	393.5	350.0	371.2	71.3	70.4	71.7	76.5	17.30	18.50	18.80	19.50
Germany	357.6	402.7	369.3	379.6	57.7	64.2	61.8	67.6	17.64	17.50	18.04	17.95
Greece	26.9	13.6	13.8	0.0	61.3	56.7	62.0		13.15	13.40	14.00	
Ireland	0.0	0.0	0.0	0.0								
Italy	91.2	85.6	62.7	61.7	52.4	59.0	56.2		15.30	16.60	15.48	
Netherlands	82.0	82.1	72.2	73.0	66.9	66.6	71.6		16.31	17.40	17.21	
Portugal	4.3	3.0	0.3	0.3	65.1	66.7			16.00	16.10		
Spain - beet	85.5	73.9	52.3	45.0	74.3	75.8	77.9		16.80	17.60	17.01	
Sweden	44.2	40.7	36.8	39.0	49.6	52.5	53.5		15.50	17.70	17.40	
U.K.	131.0	125.0	120.0	117.0	67.2	63.0	75.0		16.67	18.00	17.66	
Czech R.	61.0	54.3	51.0	53.0	53.6	54.7	57.2		18.76	17.10	18.04	
Estonia	0.0	0.0	0.0	0.0								
Cyprus	0.0	0.0	0.0	0.0								
Latvia	12.7	0.0	0.0	0.0	38.0	37.0			17.60	15.60		
Lithuania	18.5	16.9	8.7	15.1	42.0	47.3	39.0		15.52	17.50	18.13	

Hungary	46.8	41.2	6.5	13.7	48.5	45.8	59.7		16.86	15.90	17.14	
Malta	0.0	0.0	0.0	0.0								
Poland	262.0	247.4	170.0	180.0	48.6	46.6	46.5		16.60	17.10	17.20	
Slovenia	6.7	0.0	0.0	0.0	39.2				15.52	15.60		
Slovak R.	27.7	18.9	11.0	15.0	48.1	47.5	61.0		17.16	16.20	17.21	
Bulgaria	0.0	0.0	0.0	0.0								
Romania	39.8	28.7	17.8	19.6	31.3	29.4	34.6		15.90	15.10	16.50	
Total EU-15	1389.6	1400.5	1234.3	1249.5	61.3	65.0	67.5		16.26	17.60		
Total NMS	475.2	407.4	265.0	296.4								
Total EU-27	1864.8	1807.9	1499.3	1545.9	53.9	60.9	63.8		16.35	17.50	17.70	

Note: EU sugar production statistics include numbers for thick juice further processed into ethanol and other fermentation products.

Sources: Beet area: EU census numbers on Eurostat;

Sugar beet yields and sugar content: estimates based EC and EU sugar industry data

* Harvest 2009 estimates based on beet test sampling results

EU Guaranteed Sugar Prices July 2006-September 2010

	Pre-reform	2006/07 (july-sept)	2007/08 (oct-sept)	2008/09 (oct-sept)	2009/10 (oct-sept)
Reference Price for white sugar (€/MT)	632	505	458	428	404
Reference Price raw sugar (€/MT)	524	497	497	449	335
Restructuring Aid (€/MT of renounced quota)	730	730	625	520	-
Quota renounced (Cumulative) (MT)	-	1,469,612.5	2,178,379.6	5,512,174.2	n.a.
Production of sugar and isoglucose (Yearly) (MT)	-	17,658,000	14,913,000	13,675,000	n.a.

Data collected from Agra Informa CAP Monitor and DG Agriculture

Prices for out-of-quota sugar move with world market prices. The price processors pay for the sugar beet used to produce sugar over the quota allocated a member state is based on a weighted average of sugar export prices during the marketing year. An exception to this is for sugar beet produced under private delivery contracts for ethanol production.

^[1] http://gain.fas.usda.gov/Recent%20GAIN%20Publications/General%20Report_The%20Hague_Netherlands-Germany%20EU-27_6-15-2009.pdf

^[2] <http://www.fas.usda.gov/gainfiles/200702/146280286.pdf>

^[3] <http://www.fas.usda.gov/gainfiles/200709/146292554.pdf>

Consumption:

EU human domestic sugar consumption for MY 2009/10 is forecast to decrease to its MY 2007/08 level, after increasing 1 percent in MY 2008/09 and a reduction in sugar needed for exported products due to the economic crisis and a high euro exchange rate. Ethanol production from beet sugar is forecast to increase less than 10 percent because world sugar

prices are high while EU domestic cereal prices are low and cereals therefore are currently the most economic feedstock for ethanol production.

In MY 2007/08 and MY2008/09 several new ethanol processing plants came online after sugar refineries converted to ethanol processing in response to the reform of EU sugar policy. As a result, plant capacity for conversion of beet sugar to ethanol is estimated to have increased by 50 percent.

EU Ethanol Production

	Beet/Molasses	Starch	Wine alc.	Other	Total
1998	7.170	2.500	2.190	1.130	12.990
1999	6.730	2.910	2.050	1.150	12.840
2000	6.880	3.740	2.670	0.800	14.090
2001	7.720	4.240	2.870	0.310	15.140
2002	7.170	5.220	2.940	0.320	15.650
2003	7.620	6.100	2.020	0.420	16.160
2004	6.900	9.290	1.860	0.530	18.580
2005	7.800	10.185	3.227	0.547	21.759
2006	8.764	14.468	3.247	0.582	27.061
2007	12.792	14.250	3.470	0.640	31.152
2008	13.5	18.3	3.4	0.6	35.8

Source: European Union of Ethanol Producers (UEPA) -

http://www.uepa.be/attachments/module_news/40_TRADE13-09.doc

Trade:

Imports

EU sugar imports in MY 2009/2010 are expected to increase compared to MY 2008/09. This mainly because of the implementation of the Everything But Arms agreement, which guarantees quota free and duty free access to the EU sugar market for least developed countries. Also, the [enlargement compensation agreement](#) [1] with Brazil, following the 2007 EU accession of Bulgaria and Romania, increases the amount of sugar that can be exported to the EU at a reduced tariff rates with an additional 550,000 MT, of which 300,000MT is dedicated to Brazil. In addition, new full-time refiners in Bulgaria, Italy, Romania, and Slovenia allowed in Article 153 of [Council Regulation \(EC\) No 1234/2007](#) [2], will encourage an increase in imports. The EU decreased the reference sugar price to €404/ MT for white sugar and €335/MT for raw sugar in MY 2009/10. The increase in imports will therefore be limited because of the small difference between EU guaranteed prices and world market prices. Record high world market sugar prices may make EU sugar markets less appealing. The situation prompted refiners in Portugal to lobby the EC to lower in-quota import duties, despite the expected abundance of EU out-of-quota supplies. Portugal abandoned sugar beet production as a result of the Sugar Reform and

has been given a preferential allotment for sugar imports to help refiners meet sugar demand in the local market.

EU sugar imports increased in MY 2008/09 compared to MY2007/08. MY2007/08 imports had decreased below previous levels as the result of consecutive cuts in EU guaranteed reference prices for sugar from pre-reform levels of €632/MT for white sugar and €524/MT for raw sugar with unchanged import duties, as well as the expiration on December 31, 2007 of privileged EU market access for the African, Caribbean, and Pacific countries under the 2000 Cotonou Agreement (See GAIN [E49042](#) [3]). Also in MY2008/09, some exporters regained the Bulgarian and Romanian markets lost immediately after accession.

Exports

EU sugar exports for MY 2009/10 are forecast close to the EU WTO export volume commitment limit of 1.374 million MT white sugar equivalents. [Commission Regulation \(EC\) No 1045/2009](#) [4] sets the ceiling for MY 2009/10 out-of-quota exports of white sugar at 1.35 million MT (refined value).

EU sugar exports in MY2008/09 were at a record low, with combined exports to Israel and Switzerland only half the MY 2007/08 level. Exports to Russia and central Europe were also hampered by the strong euro exchange rate and decreased sales due to the economic crisis. In September 2008, the EC set the limit for MY 2008/09 exports of white sugar produced over the quotas set for the member states at 650,000 MT. The EU did not use export subsidies for sugar exports during MY 2008/2009 because of decreased production. EU sugar exports in MY 2007/08 significantly decreased from former export levels, as the EU sought to conform to the WTO sugar panel decision against EU sugar subsidies, a driver for the EU sugar reform (See GAIN E34087 [5]).

[1] <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2009:254:0106:0107:EN:PDF>

[2] <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CONSLEG:2007R1234:20090701:EN:PDF>

[3] <http://www.fas.usda.gov/gainfiles/200905/146347799.pdf>

[4] <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2009:289:0006:0006:EN:PDF>

[5] <http://www.fas.usda.gov/gainfiles/200411/146118041.pdf>

Stocks:

EU sugar stocks are forecast to increase to over 3 million MT in MY 2009/10 creating a dilemma for processors. Given high world market prices, it would not be economically viable for the EU processors to sell sugar into intervention storage. However, if they allow this sugar surplus to largely inflate carry-over into MY 2010/11, this sugar becomes the first quota sugar, thus lowering the remaining production quota. This would hurt future sugar processing margins, especially if the EC were to decide to cut sugar at the member state level again.

EU sugar stocks at the end of MY 2008/09 are believed to be limited to pipeline stocks, only at 1-1.5 month consumption level. End of MY 2007/08 sugar stocks still included 319,000 MT of white sugar in intervention, all of which was used for EU internal food aid.

Policy:

Sugar reform almost meets quota reduction goal, but not entirely.

MY2009/10 is the last year of the Sugar Reform, which was first agreed in 2005 (See GAIN [E35225](#) [1]) and adjusted in 2007 (See GAIN [E47087](#) [2]). For MY 2009/10 and onwards, the total EU quota for sugar production decreased further, when Spain agreed to reduce production another 132,000 MT in 2008, bringing the total to 13.3 million MT (Annex VI of [Council Regulation \(EC\) No 1234/2007](#) [3]). As a result of the EU Sugar Reform, EU member states agreed to limit the amount of sugar processed into white sugar by 5.7 million MT, compared to the 6 million reduction envisioned by the European Commission. The EU made 1.1 million MT of new quota available to the most competitive processors resulting in a net reduction of only 4.6 million MT refined sugar value. It remains to be seen whether the European Commission will cut quotas further.

Side effect from sugar reform contributes to lower prices for field crops.

The reduction in quota reflects the equivalent of nearly 1 million hectares of arable land. The largest cut in sugar quota occurred in the same crop year as the end of the set-aside. Since both decisions were finalized after the winter cereal seeding season, many farmers planted increased planting of several spring crops in 2008. This in turn led to an increase in supplies and significant price decreases for some field crops, particularly corn, potatoes and various field vegetable crop.

Intra-EU market imbalances distort EU sugar market management

Several EU member states significantly reduced or abandoned sugar production altogether in the sugar reform process. Although seemingly not included in the original sugar reform proposals, the EU allowed the creation of new “full-time refiner” actors in several member states to supply local markets. To supply these new actors, Article 153 of [Council Regulation \(EC\) No 1234/2007](#) [4] set aside a 2,424,735 MT white sugar import preference mechanism by member state to supply these full-time refiners as follows:

198,748 MT	Bulgaria;
296,627 MT	France;
100,000 MT	Italy;
291,633 MT	Portugal;
329,636 MT	Romania;
19,585 MT	Slovenia;

59,925 MT	Finland;
1,128,581 MT	United Kingdom

These provisions give full-time refiners access to preferential sugar imports, be it import TRQ's or duty free imports under the Everything But Arms agreement. Nevertheless, the current high world market prices for sugar have made sugar imports under the reduced duty quota or out-of-quota economically unviable, with the biggest impact on imports from Brazil.

[1] <http://www.fas.usda.gov/gainfiles/200512/146131717.pdf>

[2] <http://www.fas.usda.gov/gainfiles/200709/146292554.pdf>

[3] <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CONSLEG:2007R1234:20090701:EN:PDF>

[4] <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CONSLEG:2007R1234:20090701:EN:PDF>

Production, Supply and Demand Data Statistics:

EU27 Sugar, Centrifugal									
	2007/2008			2008/2009			2009/2010		
Market Year begin	October 2007			October 2008			October 2009		
	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post
Beginning Stocks	4,005	4,005	2,720	4,769	4,769	3,130	3,668	3,668	2,175
Beet Sugar Production	17,400	17,400	15,350	16,586	16,586	13,320	16,686	16,686	15,200
Cane Sugar Production	340	340	264	314	314	250	314	314	285
Total Sugar Production	17,740	17,740	15,614	16,900	16,900	13,570	17,000	17,000	15,485
Raw Imports	2,950	2,950	2,451	3,350	3,350	2,665	3,856	3,856	2,900
Refined Imp.(Raw Val)	700	700	597	644	644	585	644	644	600
Total Imports	3,650	3,650	2,948	3,994	3,994	3,250	4,500	4,500	3,500
Total Supply	25,395	25,395	21,282	25,663	25,663	19,950	25,168	25,168	21,160
Raw Exports	5	5	11	5	5	5	5	5	5
Refined Exp.(Raw Val)	1,381	1,381	1,645	1,690	1,690	1,100	1,500	1,500	1,470
Total Exports	1,386	1,386	1,656	1,695	1,695	1,105	1,505	1,505	1,475
Human Dom. Consumption	17,740	17,740	16,496	18,800	18,800	16,670	18,800	18,800	16,500
Other Disappearance	1,500	1,500	0	1,500	1,500	0	1,500	1,500	0
Total Use	19,240	19,240	16,496	20,300	20,300	16,670	20,300	20,300	16,500
Ending Stocks	4,769	4,769	3,130	3,668	3,668	2,175	3,363	3,363	3,185
Total Distribution	25,395	25,395	21,282	25,663	25,663	19,950	25,168	25,168	21,160

Author Defined:

EU Sugar Prices for Quota and Industrial Sugar

Average price for white sugar within the Community

Ex-work prices for homogeneous granulated crystal, standard quality, in bulk or big bags

Prices communicated by EU sugar producers and refiners

	SELLING PRICES			
	sugar		industrial sugar (1)	
	average (2)	standard dev (3)	average (2)	standard dev (3)
July 2006	630	20	284	31
August 2006	634	22	288	30
September 2006	636	21	287	37
October 2006	632	17	286	43
November 2006	633	17	294	88
December 2006	632	17	294	98
January 2007	629	18	284	58
February 2007	629	18	288	68
March 2007	628	18	283	78
April 2007	627	19	298	81
May 2007	625	20	293	77
June 2007	622	18	297	78
July 2007	621	22	301	76
August 2007	620	25	319	76
September 2007	619	26	305	78
October 2007	617	23	287	70
November 2007	616	25	277	55
December 2007	618	20	278	42
January 2008	612	20	289	71
February 2008	596	26	271	43
March 2008	604	25	271	51
April 2008	603	26	261	36
May 2008	606	23	264	38
June 2008	607	20	263	42
July 2008	598	30	263	47
August 2008	601	25	263	41
September 2008	595	28	267	48
October 2008	578	32	270	48
November 2008	574	32	276	68
December 2008	574	36	285	55
January 2009	564	30	292	64
February 2009	551	32	311	46
March 2009	567	21	291	44

(1) As referred to in Article 62 of Regulation (EC) No 1234/2007

(2) Average weighted by quantities

(3) Standard deviation weighted by quantities

Reference price for white sugar	
631,9 €/t	1 July 2006/ 30 Sept.2008
541,5 €/t	1 Oct.2008/30 Sept. 2009
404,4 €/t	from 1 Oct. 2009