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Sugar Annual

EU Sugar Processors Bracing for Post-Quota with Large Production Increase

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Report Highlights:

The EU sweetener market will take a new start after the end of the 50 year old EU sugar quota production system on October 1, 2017, and will probably face a period of increased market volatility. The EU isoglucose industry will become a modest competitor for the EU sugar processing industry. The forecast expansion of EU sugar production to 18.6 million MT in MY 2017/18, up from 16.5 million MT in MY 2016/17, will come at the expense of EU sugar imports and the EU refining industry. The EU is forecast to become a net sugar exporter in MY 2017/18 after more than a decade. This report further holds updated numbers for the last two years of the EU sugar quota system.

Executive Summary:

Marketing Year (MY) 2017/18 is the first year that the EU sugar market will function without the shackles of the 50 year old EU sugar production quota regime and export limits. Production and export restrictions will be lifted as part of the Common Agricultural Policy (CAP) reform, and European sugar groups will be able to produce and export as much as they want. The isoglucose industry will also be liberated from the production restrictions of the EU quota system. For the EU sugar refining sector new market opportunities may open up, although it will continue to face the restrictions to EU sugar imports bound by high EU sugar import tariff walls, fixed import quotas, and decreasing preferential sugar import supplies. As a consequence, the EU sweetener market enters a new era with likely increased market volatility for the next few years until the different EU industries find new market equilibrium.

The EU sugar beet processing industry has publicly communicated its ambition to grab this new opportunity to grow its business aggressively again and has contracted 12 percent more sugar beet for MY 2017/18 than it did for MY 2016/17, especially in the most competitive Member States (MS) Germany, the Benelux and France. In the southern and eastern EU periphery, sugar production will remain more stable and further consolidation of the EU sugar processing industry is likely in the coming years. This should offer new market perspectives for sugar refiners and isoglucose industries, which already have a historical presence in these MS. The beet processors are aiming at lowering their cost of production for beet sugar by optimizing beet and sugar processing capacity without significant additional investments. They want to produce cheap sugar as a in the coming EU sweetener market struggle, as well as regain their former sugar exporter status after the WTO sugar export ceiling is lifted with the end of the sugar quota system. Post believes that to achieve this, EU domestic sugar prices will decrease and closely align with world market sugar prices beginning in MY 2017/18.

Post forecasts EU sugar production for MY 2017/18 at 18.6 million MT, up from an expected 16.5 million MT Raw Sugar Equivalent (RSE) in MY 2016/17, and 14.3 million MT in MY 2015/16. This increase in sugar production will likely result in lower sugar imports forecast at 2 million MT in MY 2017/18 from over 3 million MT in previous years. This decrease will be at the expense of the EU sugar refining sector, as mainly raw sugar imports from CXL quotas and preferential Everything-But-Arms (EBA) and Least Developed Countries (LDC) countries will decrease. Post forecasts EU sugar exports in MY 2017/18 to increase to 2.2 million MT from the WTO's ceiling bound 1.5 million MT in previous years and turning the EU into a sugar exporter after more than 10 years since the WTO ruled against the European Commission (EC) cross-subsidized sugar exports in the 2005 WTO sugar case with Brazil.

Post forecasts EU domestic sugar consumption to decrease slightly as isoglucose consumption is forecast to slowly gain market share while the total EU sweetener market is forecast to remain stable despite an increasing, but aging population, and decreasing sugar consumption per capita due to reformulation of products.

The above production forecast excludes beet extraction for non-sugar industrial purposes like bioethanol and biogas production, and industrial fermentation, which is expected to decrease to below 2 million MT RSE in MY 2017/18 and from 2.1 to 2.2 million MT in MY 2016/17 and MY 2015/16, mainly as bioethanol production from sugar beet is decreasing at the benefit of wheat.

Ending stocks will only exist of pipeline stocks as the EU is unlikely to set up a sugar storage program after the expiration of the sugar quota system.

While the end of the EU sugar production quota system will induce a clear break in the EU sugar balance sheet going forward, another market shock is only two years away, in theory, as the British Prime Minister, at the end of March 2017, started the clock for the two-year separation negotiation period with the EU, better known as the Brexit. Since the United Kingdom (UK) is the largest importer of EU sugar as well as overseas raw sugar, depending on the ultimate Brexit agreement, this will bring another major market reshuffling. That is without taking into account Brexit's impact to the Common Agricultural Program (CAP) post 2020 budget as the UK is the CAP's second largest contributor.

Acknowledgement.

The data in this report is based on EU sugar production information collected by FAS Agricultural Specialists in the MS. These include:

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Commodities:

Sugar, Centrifugal

Production:

Explanatory Notes to the reader:

- This report is the first to make a forecast for European Union (EU) sugar markets for Marketing Year (MY) 2017/18 after the [abolishment](#)¹ of the 50 year old EU sugar production quota regime. As a result, EU sugar market balance numbers will likely show a clear break from the past from MY 2017-18 onwards as the whole EU sugar and sweetener industry adapts to a liberalized market. This is expected to not pass without consequences for other countries involved in sugar trade with the EU.
- All sugar is in raw sugar equivalent (RSE) unless otherwise noted.
- The Production, Supply & Demand tables (PS&D) in this report only pertain to sugar as defined by Harmonized System (HS) code 1701; therefore, it excludes raw beet sugar production destined for fermentation or other industrial purposes. Because EU sugar produced under the quota system was preserved for food use only, the so-called out-of-quota sugar was used only for industrial (non-food) use. From MY 2017/18 onwards, there will be no regulated distinction between sugar for food purposes and sugar for non-food purposes. However, the EU Sugar GAIN report will continue to exclude thick juice from sugar beet for bioethanol and fermentation purposes as thick juice does not meet the HS 1701 definitions.
- The conversion factors and marketing years used in this report:
MY = marketing year; for sugar October/September
Raw cane sugar = 1.07 X Refined cane sugar
Raw beet sugar = 1.087 X White (refined) beet sugar
- Sugar imports for EU inward processing purposes are excluded from this report PS&D tables as these sugar imports are entirely re-exported as processed products. Inward processing is the EU customs program under which the import duties for dairy, sugar, and starch containing commodities for processing and subsequent re-export are waived.
- EUR/USD exchange rate



Source: Exchangerates.org.uk

¹ http://ec.europa.eu/agriculture/sites/agriculture/files/sugar/doc/sugar-faq_en.pdf

Additional Upfront Note: The EU Sugar Production Quota Regime Ends on September 30, 2017

The [2007 Sugar Reform](#)² regulated the EU sugar market, limiting total EU production quota for food purposes to 13.5 million MT of white sugar equivalent which amounts to 14.7 million MT in raw sugar equivalent (RSE). This EU sugar production quota regime expires at the end of marketing year (MY) 2016/17. Sugar production quotas were set by Member States (MS) and included a small quota for cane sugar production in overseas territories (DOM) for France and Portugal. Additional production is considered “out-of-quota.” Thus, EU sugar processors in MS had four options to market sugar produced out-of-quota:

Exports: pending availability of EU export licenses limited to the EU’s World Trade Organization (WTO) sugar export ceiling of 1.35 million MT (of refined sugar).

Disposal on the EU market for industrial purposes: for example, for fermentation by the biochemical industry or for bio-ethanol production.

Release on the EU domestic market: This option carries a levy of €500 per MT unless the EU decides to waive all or part of the levy through exceptional sugar market management measures. Under the new Common Agricultural Policy (CAP) post 2013, this system largely remains the same under the system of “temporary market management mechanism.”

Carry-over into the following production year: counts towards the quota production for that year.

All the above rules and restrictions will cease to apply at the end of the quota regime on October 1, 2017.

As isoglucose such as High Fructose Corn Syrup (HFCS) was also governed by the production quota system, linking isoglucose for food to the sugar quota at 5 percent, it was not a competitor for sugar for food use. This limitation on isoglucose also ends with the abolition of the sugar quota regime at the end of MY2016/17

EU farmers are also protected against competition from non-preferential raw cane sugar by high tariffs and import quotas. A rigid import license system governs preferential duty-free imports from Least Developed Countries (LDCs) under the Everything-But-Arms (EBA) Agreement limiting imports to 3.5 million MT white sugar equivalents. In recent years, additional country- specific quotas have been agreed as part of EU free trade agreements (FTAs) with Peru, Colombia, Panama and Central America totaling some 260,000 MT. Ukraine has also been allocated a 20,000 MT quota. This system is not affected by the end of the sugar quota regime.

EU Sugar Production

| PSD - Sugar, Centrifugal | MY2015/16 | | MY2016/17 | | MY2017/18 | |
|--------------------------|----------------------|-----------------|----------------------|-----------------|----------------------|-----------------|
| Market Begin Year | October 2015 | | October 2016 | | October 2017 | |
| European Union | USDA Official | New post | USDA Official | New post | USDA Official | New post |

² http://ec.europa.eu/agriculture/sugar/legislation/index_en.htm

| | | | | | | |
|----------------------------------|---------------|---------------|---------------|---------------|---|---------------|
| Beginning Stocks (1000 MT) | 4,151 | 4,151 | 1,131 | 1,374 | 0 | 774 |
| Beet Sugar Production (1000 MT) | 14,000 | 14,017 | 15,920 | 16,222 | 0 | 18,320 |
| Cane Sugar Production (1000 MT) | 280 | 266 | 280 | 278 | 0 | 280 |
| Total Sugar Production (1000 MT) | 14,280 | 14,283 | 16,200 | 16,500 | 0 | 18,600 |
| Raw Imports (1000 MT) | 2,200 | 2,345 | 2,500 | 2,100 | 0 | 1,500 |
| Refined Imp.(Raw Val) (1000 MT) | 800 | 840 | 750 | 1000 | 0 | 500 |
| Total Imports (1000 MT) | 3,000 | 3,185 | 3,250 | 3,100 | 0 | 2,000 |
| Total Supply (1000 MT) | 21,431 | 21,619 | 20,581 | 20,974 | 0 | 21,374 |
| Raw Exports (1000 MT) | 7 | 5 | 5 | 5 | 0 | 5 |
| Refined Exp.(Raw Val) (1000 MT) | 1,493 | 1,540 | 1,495 | 1,495 | 0 | 2,195 |
| Total Exports (1000 MT) | 1,500 | 1,545 | 1,500 | 1,500 | 0 | 2,200 |
| Human Dom. Consumption (1000 MT) | 18,800 | 18,700 | 18,800 | 18,700 | 0 | 18,650 |
| Total Use (1000 MT) | 18,800 | 18,700 | 18,800 | 18,700 | 0 | 18,650 |
| Ending Stocks (1000 MT) | 1,131 | 1,374 | 281 | 774 | 0 | 524 |
| Total Distribution (1000 MT) | 21,431 | 21,619 | 20,581 | 20,974 | 0 | 21,374 |

This report aims at making a first forecast for a liberalized EU sugar market. As a result of the termination of the many restrictions for sugar production and use that were enshrined in the quota regime, including the lifting of the export ceiling imposed by the WTO, the MY 2017/18 forecast offers a clear break with previous marketing years. Because the EU post-quota-regime will have little to do with the past, this report will discuss the forecast year 2017/18 separately from the sugar quota era years. The many uncertainties that come into play from MY 2017/18 only allows for discussion of possible scenarios, ramifications, and consequences.

Production forecast for MY 2017/18

While many sugar processors are invoking EU competition rules for not communicating on contracted beet acreage for the 2017/2018 production year to MS authorities and industry associations, sugar experts believe that total EU beet acreage may increase more than the 11.7 percent that Post is forecasting. This conservative increase in production can easily be made by simply extending the beet slicing campaign in the autumn without any significant investments. Last year, many processors vowed to increase production by up to 50 percent, which would be possible with the existing processing capacity. A critical factor limiting processing capacity is the length of the beet slicing campaign, which in turn is limited by the winter frost period and the damage alternating frosting and defrosting does to beet and beet juice quality after extraction. In past years, beet slicing campaigns varied from 85 to 135 days depending on the processor and the MS, with the shortest slicing campaign in Germany and the

longest one in the UK. Experts believe that most EU continental processors can increase the slicing period to 110-120 days without too much risk while the UK could increase the slicing period to 150 days or more as it rarely suffers from stronger than mild frost. Spain operates the longest processing period of all as it grows beet through summer in the North and through winter in the South.

However, MY 2017/18 beet acreage is reportedly to be below processors' ambitions as beet farmers may not have followed those ambitions for technical or for economic reasons. The CAP puts limitations on what percentage of beets farmers can actually grow on their fields. Furthermore, beet harvesting machinery is expensive and processors offered beet growers much less lucrative contracts than under the quota regime.

While the EU sugar reference price of €404/MT for white sugar remains after the abolition of the quota regime, beet farmers have lost the guaranteed sugar beet price that was linked to this reference price and processors have engaged in a competition for sourcing beet that will yield the lowest cost of production for the resulting sugar. Beet growers in certain MS have long resisted at the offered beet growing contracts, but crop options are limited, especially after farmers decreased winter seeding of cereals because of the low grain market prices. While the latest CAP promotes the bundling of farmers' interests in producer organizations (POs), in reality sugar beet grower associations have lost bargaining leverage because in most areas there is only one sugar beet processor operating.

Some sugar processors have plans to increase sugar production beyond EU domestic sweetener needs (not just sugar for human consumption and/or industrial use) and become a net exporter again. Since the 2007 Sugar Reform, the EU sugar production quota system had limited EU sugar production to 85 percent of domestic food use, with the additional 15 percent of demand being filled by imports of mainly raw cane sugar by EU sugar refiners. In the case of above average yields, beet sugar production in MY 2017/18 could already meet the coming year's domestic consumption. Favorable spring weather in March has already permitted a good start for beet crops in the main beet growing areas in Northwestern Europe.

| EU sugar beet production | | | | | | | | | |
|---------------------------------|------------------------------------|---------|---------|---|---------|---------|------------------------------------|---------|---------|
| | Area, thousands of Hectares | | | Sugar beet yield in MT per Hectare | | | Sugar content in percentage | | |
| | 2015/16 | 2016/17 | 2017/18 | 2015/16 | 2016/17 | 2017/18 | 2015/16 | 2016/17 | 2017/18 |
| Austria | 45.3 | 43.5 | 46.0 | 62.6 | 80.0 | 75.0 | 17.00 | 17.65 | 17.50 |
| Belgium | 53.7 | 56.3 | 65.0 | 82.3 | 68.2 | 80.0 | 18.02 | 18.08 | 18.00 |
| Denmark | 36.0 | 33.1 | 33.0 | 66.6 | 65.0 | 65.0 | 18.00 | 18.00 | 18.00 |
| Finland | 12.5 | 12.5 | 12.0 | 32.7 | 36.8 | 35.0 | 16.50 | 16.50 | 16.50 |
| France* | 385.0 | 400.0 | 460.0 | 87.0 | 83.4 | 87.0 | 18.50 | 17.70 | 18.00 |
| Germany | 300.0 | 314.0 | 350.0 | 71.0 | 75.0 | 74.0 | 17.83 | 18.09 | 17.80 |
| Greece | 4.9 | 5.4 | 6.0 | 51.9 | 57.9 | 60.0 | 13.50 | 13.50 | 13.50 |
| Italy | 38.0 | 32.4 | 35.6 | 57.0 | 66.0 | 63.0 | 16.00 | 16.00 | 16.00 |
| Netherlands | 58.5 | 70.6 | 85.0 | 83.3 | 83.3 | 84.0 | 16.70 | 17.00 | 17.00 |
| Portugal* | 0.1 | 0.4 | 0.4 | 48.0 | 48.0 | 48.0 | 15.51 | 15.51 | 15.51 |
| Spain | 36.1 | 32.9 | 38.0 | 93.3 | 87.1 | 90.0 | 17.44 | 17.67 | 14.72 |

| | | | | | | | | | |
|--------------------|---------------|---------------|---------------|------|------|------|-------|-------|-------|
| Sweden | 19.5 | 30.7 | 32.0 | 60.8 | 70.0 | 70.0 | 17.50 | 17.50 | 17.50 |
| United Kingdom | 90.0 | 90.0 | 105.0 | 69.5 | 70.0 | 70.0 | 17.50 | 17.50 | 17.50 |
| Czech Rep. | 53.7 | 56.0 | 56.0 | 60.9 | 65.0 | 65.0 | 18.20 | 18.00 | 17.50 |
| Hungary | 15.5 | 15.7 | 16.2 | 58.8 | 65.0 | 64.2 | 16.50 | 16.00 | 16.00 |
| Lithuania | 12.3 | 14.7 | 16.0 | 68.2 | 60.0 | 60.0 | 17.78 | 17.20 | 17.30 |
| Poland | 171.6 | 203.0 | 220.0 | 54.6 | 66.5 | 65.0 | 17.70 | 17.30 | 17.40 |
| Slovak Rep. | 21.7 | 21.4 | 21.5 | 57.2 | 71.4 | 70.0 | 16.24 | 16.38 | 16.50 |
| Romania | 26.0 | 24.3 | 26.0 | 41.0 | 42.0 | 42.0 | 16.50 | 16.50 | 16.50 |
| Croatia | 14.0 | 16.0 | 21.0 | 54.5 | 70.0 | 65.0 | 15.50 | 16.50 | 16.00 |
| Total EU-15 | 1079.6 | 1121.8 | 1268.0 | | | | | | |
| Total NMS | 314.8 | 351.1 | 376.7 | | | | | | |
| Total EU-28 | 1394.4 | 1472.9 | 1644.7 | | | | | | |

*Portuguese sugar produced on the Acores is from cane, while France also has cane sugar produced in its overseas territories.

EU-15: pre-2004 EU MS; NMS: 13 New Member States that acceded since 2004.

Source: FAS/USEU based on data from FAS offices in EU MS.

Additional Sugar Beet Production for Non-food Use

| EU Beet Sugar Production (raw value) | | | | | | | | | |
|---|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|--|
| | 2010/1 | 2011/1 | 2012/1 | 2013/1 | 2014/1 | 2015/1 | 2016/1 | 2017/1 | |
| in ,000 MT | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | |
| EU Regulated Sugar Market* | 15,699 | 17,833 | 16,655 | 16,020 | 18,449 | 14,283 | 16,500 | 18,600 | |
| Unregulated Over-Quota Production for Industrial Uses** | 1,300 | 2,727 | 2,266 | 2,284 | 2,313 | 2,126 | 2,225 | 1,970 | |
| Total EU Beet Sugar Production | 16,999 | 20,560 | 18,921 | 18,304 | 20,762 | 16,409 | 18,725 | 20,570 | |

* includes within-quota production and out-of-quota production released to the EU food market, plus out-of-quota production that is exported; for MY 2017/18 this includes all sugar defined under HS1701.

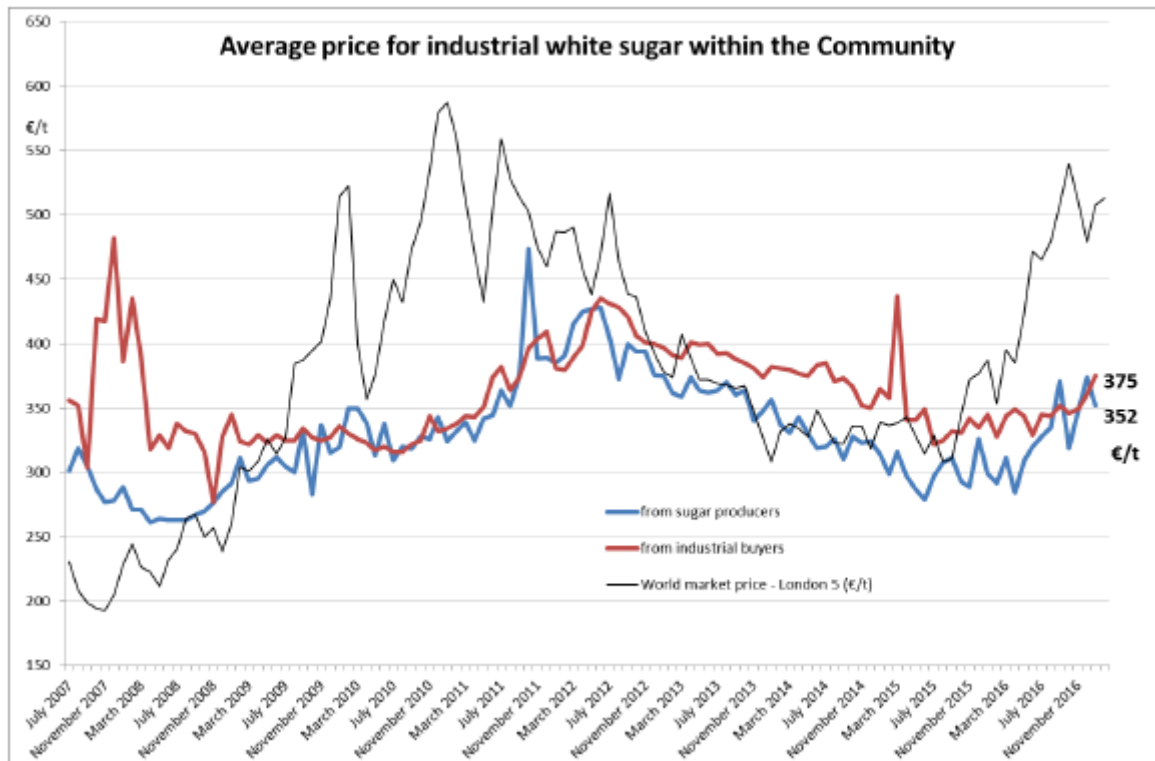
**includes total out-of quota production, minus out-of-quota production released to the EU food market and out-of-quota production that is exported; for MY 2017/18 this includes all beet juice production for non-sugar purposes.

Source: FAS/USEU calculation

After abolition of the EU sugar production quota regime at the end of MY 2016/17, sugar beet production and its juice can be freely used as a feedstock (carbon source) for all kind of non-food purposes and will compete with other feedstock like starch from corn or wheat. Three industries use sugar beet as a carbon source:

- 1) Industrial fermentation for yeast production, pharmaceutical production and enzyme production for detergents and washing products. This is a rather stable production using some 900,000 RSE per year on average.
- 2) Bioethanol production. Because this use competes directly with bioethanol produced from grain starch, production from sugar beet decreased in MY 2015/16 and expectations for MY 2016/17 are unfavorable given current high sugar prices while grain prices are low. Also, the EU lowered its requirements for MS to incorporate biofuels from crops grown on agricultural land by 2020 to 7 percent, down from the previous 10 percent.
- 3) On farm digestion for biogas production. This is a minor use in a few MS only and different crops can easily substitute for sugar beet depending on economics.

For MY 2017/18, Post forecast industrial to further decrease to below 2 million MT RSE depending on availability and as other sugar outlets are expected to yield higher returns, including sugar exports. (Under the current sugar quota system, industrial use is the outlet of last resort for surplus sugar. It is perceived as being cross-subsidized from EU sugar produced under the production quota system).



Source: European Commission

EU Sugar Consumption in MY 2017/18

Post forecasts a slight decrease in EU domestic sugar consumption for MY 2017/18. EU sugar consumption has stabilized in recent years, with still some increase in some MS being offset by decreases in other MS. This is because per capita consumption is slowly decreasing as a result consumers seeking healthier life styles and food processors reformulating products as ever more MS apply taxes on sugar containing products or are discussing their approval.

Isoglucose

The cause of the forecast decrease in sugar consumption in MY 2017/18 is a forecast increase in isoglucose consumption. Under the sugar production quota system, isoglucose production is limited to 720,441 MT of white sugar equivalent, divided over individual country quota in nine MS. As the production limit restriction is also ending for this sector, isoglucose producers have made announcements of future production increases with the aim to gain additional market share in the EU sweetener market, at the detriment of sugar use. The EU, in its latest [Medium-term Outlook Report](#)

[2016](#)³, foresees an increase in EU isoglucose production to 1 million MT for MY 2017/18 and further increasing to 2 million MT by the report's time horizon in 2026.

However, the outlook for isoglucose comes with a number of caveats. The existing production plants are outdated as the quota restrictions disincentivized any investments. This means that isoglucose production can only increase in a limited way without new investments. Such investments have already been announced in Hungary and Bulgaria, and MS like Belgium, Spain and probably France can also be expected to increase isoglucose production over time. But such capital intensive investment decisions will not be taken lightly. The switch from sugar to isoglucose in the food industry needs reformulation of products and accompanying investments, soft drinks including isoglucose instead of sugar may have a different taste and food industries in general are wary of consumer reactions vis-à-vis perceived health issues with isoglucose. Therefore, increased use of isoglucose is expected in sugar deficit MS first and will probably only expand slowly.

| EU Isoglucose Production | | | | | | |
|--------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Quota in MT white sugar | | 2013/14 | 2014/15 | 2015/16 | 2016/17e | 2017/18f |
| Belgium | 114,580 | 114,580 | 114,580 | 114,580 | 114,580 | 120,000 |
| Bulgaria | 89,198 | 103,584 | 113,980 | 112,408 | 115,000 | 120,000 |
| Germany | 56,638 | 56,638 | 56,638 | 56,638 | 56,638 | 60,000 |
| Spain | 53,810 | 53,810 | 53,810 | 53,810 | 53,810 | 60,000 |
| Italy | 32,493 | 31,579 | 29,041 | 29,712 | 32,493 | 30,000 |
| Hungary | 250,266 | 255,661 | 275,720 | 288,059 | 300,000 | 330,000 |
| Poland | 42,861 | 42,961 | 42,861 | 42,861 | 42,861 | 45,000 |
| Portugal | 12,500 | 10,562 | 9,343 | 6,438 | 6,000 | 10,000 |
| Slovak R. | 68,095 | 67,336 | 68,095 | 68,095 | 68,095 | 75,000 |
| TOTAL | 720,441 | 736,711 | 764,068 | 772,601 | 789,477 | 850,000 |

e:estimate; f: forecast

Source: European Commission and FAS/USEU forecast

Trade in the Post-Quota Era

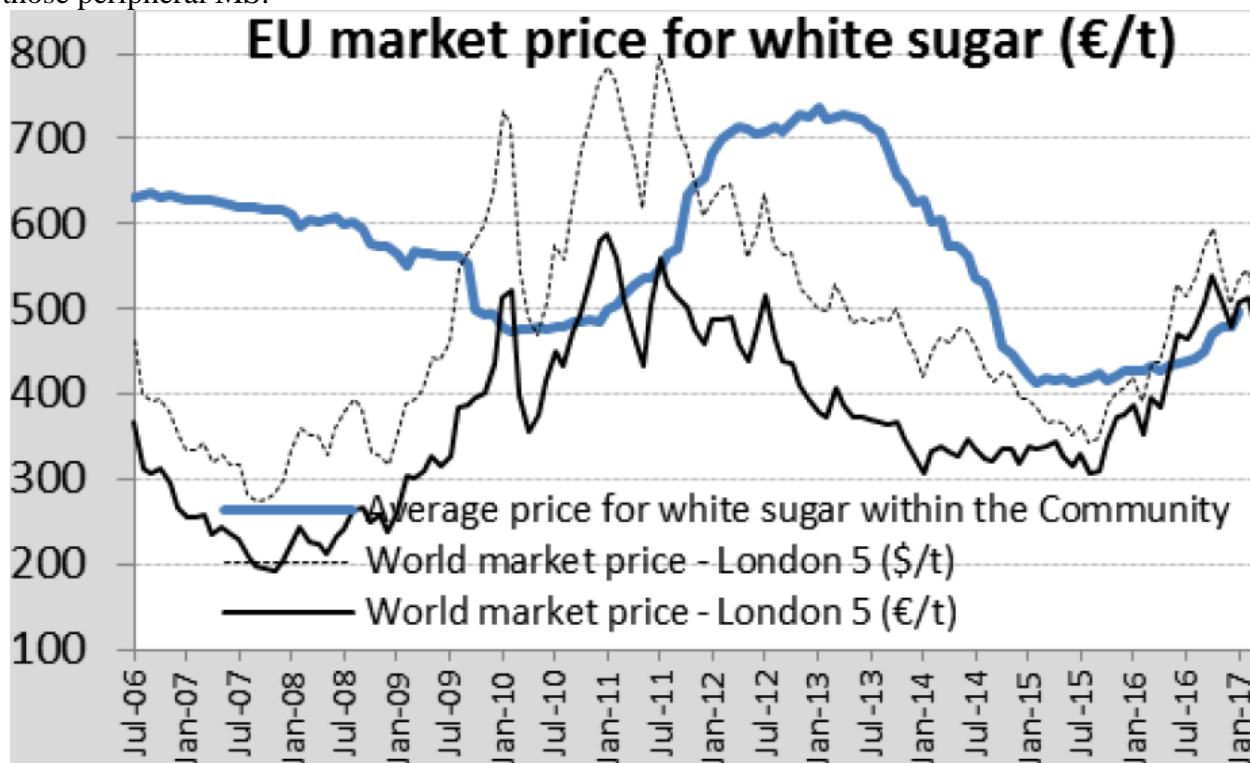
Imports in MY 2017/18

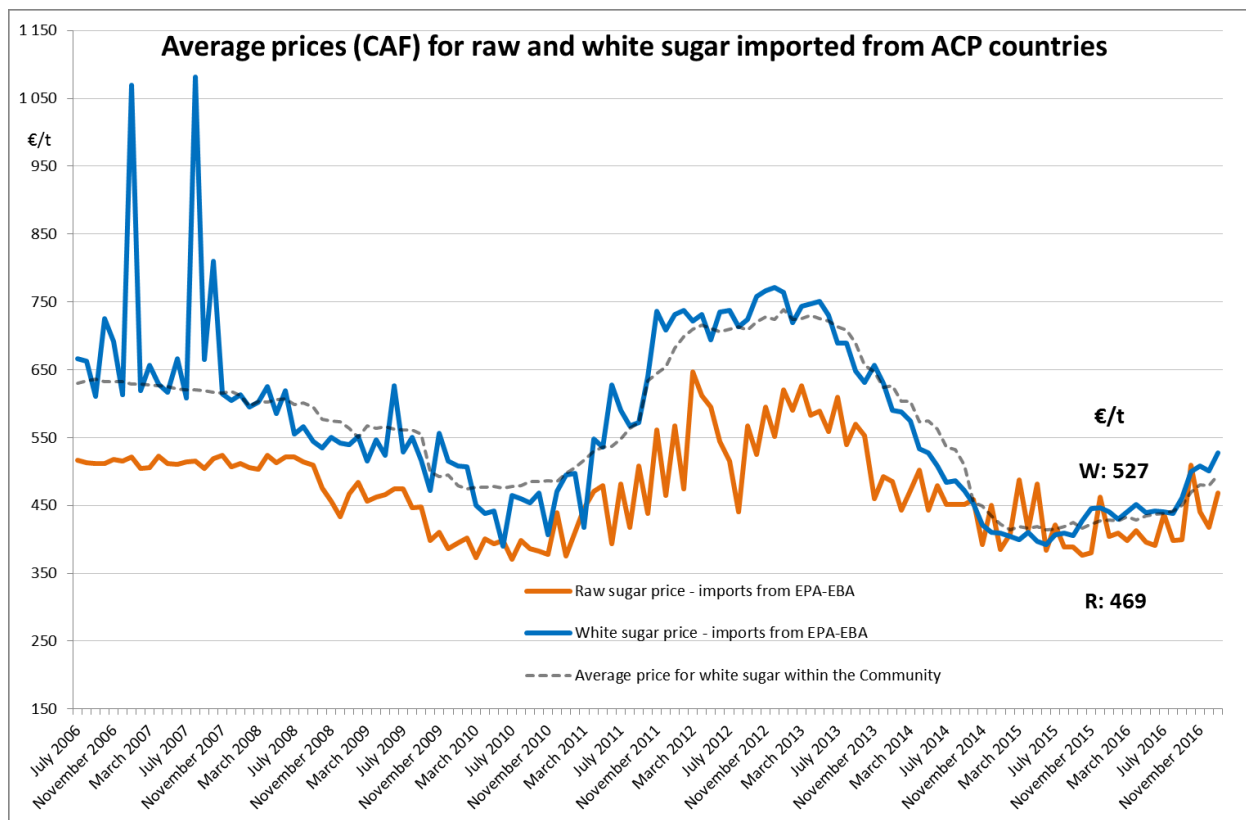
Post forecasts EU sugar imports to decrease significantly after the end of the sugar quota regime, starting in MY 2017/18. Several elements are at cause for this, but the mix of elements that will play out and their combined effect depend on a number of conditions at that time. The forecast decrease to 2 million MT down from over 3 million MT in previous years' results from the following. After each previous sugar reform, EU domestic sugar prices decreased, but were underpinned by a mandatory target or reference price. There is every reason to believe that this time will be no different, because, for the first time, the reference price is no longer binding on the beet price for farmers and hence the cost of production. EU sugar processors are already engaged in a competition to maximize market share. After the end of the system, their aim is to achieve this by increasing the output of sugar to maximum capacity of their beet processing units without additional investments, thus minimizing fixed costs of production and leading to the lowest cost of sugar.

³ https://ec.europa.eu/agriculture/markets-and-prices/medium-term-outlook_en

The race to minimize cost of production of sugar can be expected to result in further consolidation of the EU sugar processing industry. If EU sugar prices decrease, this will mostly impact the higher cost producers, to which exporters in EBA/LCP countries in the past belonged and to some extent still do. Hence, the forecast that EU sugar imports from EBA/LCP countries will further decrease. The new 25,000MT TRQs for Ecuador and the 20,000 MT TRQ for Vietnam will probably not tilt this situation and the compensation TRQ for Brazil for the accession of Croatia will likely become implemented in the following year only. If the EU domestic sugar price were to decrease to world market price levels, which would be a precedent for the past 50 years, but not impossible given the expected price competition, EU sugar imports from CXL origin and the least competitive EBA/LCP countries could grind to a halt. While this price scenario would give a boost to the EU food processing industry if it could find the necessary supplies, it would come at the detriment of the EU sugar refining industry, which depends on the availability of raw sugar imports and a EU domestic price premium over world market prices. The refining industry has already been struggling for years to operate at a profit. At the same time, such low sugar prices would likely discourage the isoglucose industry from planning any risky investment.

The eventual consolidation of the EU sugar processing industry could lead to a widening of sugar prices between MS in the core sugar processing area and in MS in EU periphery because of increasing logistical costs. This in turn would offer new opportunities for sugar refiners who tend to be located in those peripheral MS.





Source: European Commission

Exports in MY 2017/18

Post forecasts EU sugar exports to increase to 2.2 million MT and more in MY 2017/18 depending on sugar beet yields per hectare. Low EU sugar prices could make EU sugar competitive in the world market and EU sugar exports could increase to a level not seen since the EU lost in the [WTO sugar case](https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds266_e.htm)⁴ brought by Brazil in 2005. As a result, the EU is forecast to become a net sugar exporter again in MY 2017/18 for the first time since MY 2005/2006. However, if EU sugar prices decrease to the point of hampering sugar imports, this would limit the EU sugar supply, hence sugar availability for exports. EU sugar exports could face a trade off with domestic sugar sales for bioethanol production, but given the economic situation for bioethanol production, this is unlikely to be the case in MY 2017/18. The EU sugar ending stocks at the end of MY 2016/17 will be part of the equation, but are expected to be too low to play an important role.

Ending stocks for MY 2017/18

With the end of the sugar quota regime, the obligation for EU sugar processors to declare unsold sugar stocks at the end of the marketing year under the carry-over procedure is no longer required. As a result, no official numbers will be reported to the European Commission and, considering FAS sugar reporting definitions, EU sugar ending stocks should only consist of pipeline stocks in the EU food processing industry, as there will be no incentive for sugar processors to turn remaining stocks of thick beet juice

⁴ https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds266_e.htm

into sugar until the product is allocated commercially. Therefore, post only forecasts a residual stock number at the end of MY 2017/18.

Update on MY 2016/17 and MY 2015/16, the final years under the EU sugar production quota system

Sugar production

EU sugar production for MY 2016/17 is slightly increased to 16.5 million, an increase by 300,000 MT from the previous forecast. The total EU production from sugar beet for food, as well as for non-sugar industrial purposes was increased to 18.7 million MT, or an increase of 765,000 MT from the previous forecast, as a result of highly favorable beet maturing conditions from September 2016 till the end of the harvesting season after pessimistic yield outlooks from waterlogging in much of the EU's main beet growing region in Northwestern Europe. While beet yields remained well below average yields in recent years in this region, yields were good to above average in more eastern beet growing areas from Poland to Romania. This increase in out-of-quota sugar production changed a tight supply forecast for industrial use into a comfortable supply situation, explaining the virtually stable EU price evolution for industrial sugar in the above graph.

Sugar production numbers for MY2015/16 remain virtually unchanged.

Consumption

EU-28 domestic consumption of sugar was reviewed to remain stable at 18.7 million MT from MY 2015/16 onwards. The increase in demand in the new MS and for the growing immigration population is being offset by decreasing consumption by the ageing population in the EU15 and product reformulations by the food industry for lower sugar content, due to consumers' demands for healthy diets. The anticipated imposition of taxes on high sugar containing products such as soft drinks in several MS like Belgium and the UK were not implemented.

The European bioethanol industry faced difficult market conditions from 2015 onwards as decreasing crude oil prices made bioethanol blending economically unattractive. Bioethanol produced from sugar also faced tough competition from decreasing grain prices. As a result, bioethanol production from sugar beet juice has been declining.

Trade

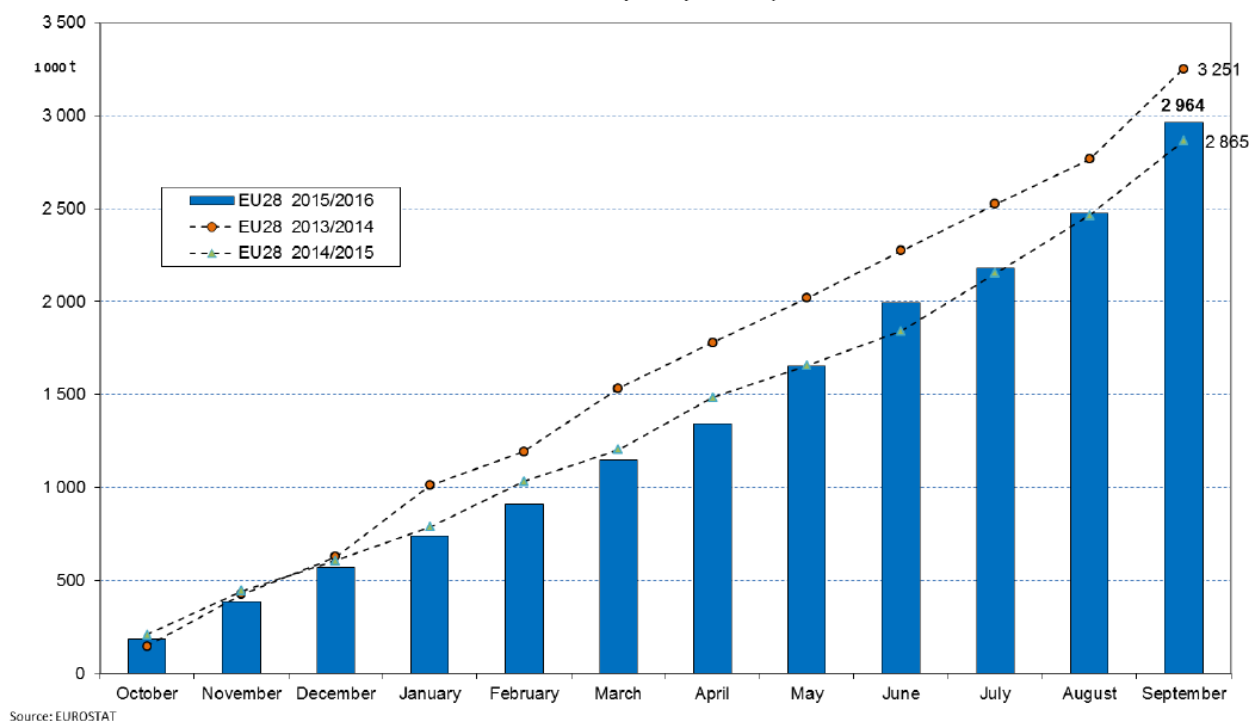
Imports

EU sugar imports have been slowing in recent years. When EU domestic sugar prices are too close to world market prices, refiners have no margin to pay the €98/MT within-quota import duty for cane sugar coming from Brazil and other destinations into the EU's CXL⁵ quotas. Despite new imports from FTA

⁵ The CXL quota result from compensation agreements for the 1995 EU enlargement.

countries including Peru, [Colombia](#)⁶, Panama and [Central America](#)⁷, imports for MY 2016/17 are expected to end at 3.1 million MT, further down from the 3.2 million MT of imports in MY 2015/2016. In MY 2015/16, Brazil filled most of its CXL quota again after failing to do so in MY 2014/15, but, unless world prices decrease further, its CXL quota may go unused again this year. The fact that the EU is reflecting about exceptional measures to ease the expected tight supply in the last months of the year is not an incentive to use the Brazil CXL quota if that same sugar from Brazil could be imported at a lower duty under such measures.

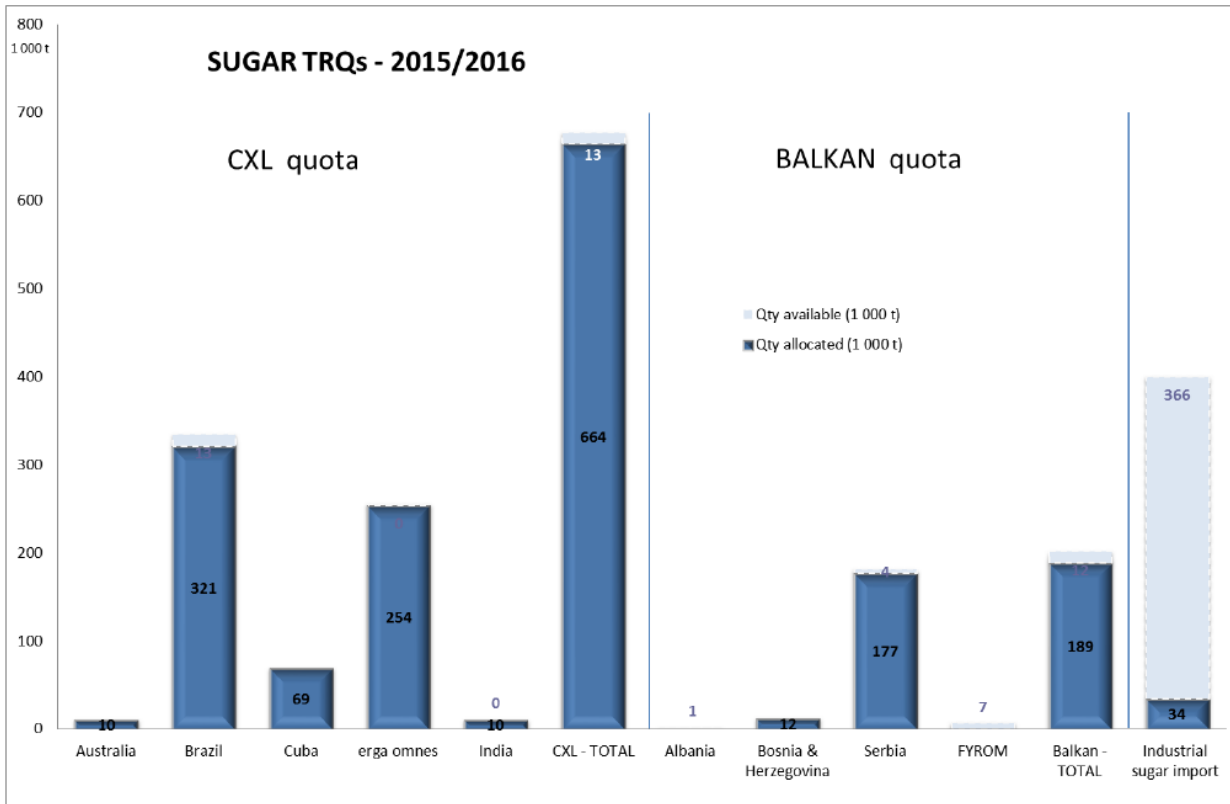
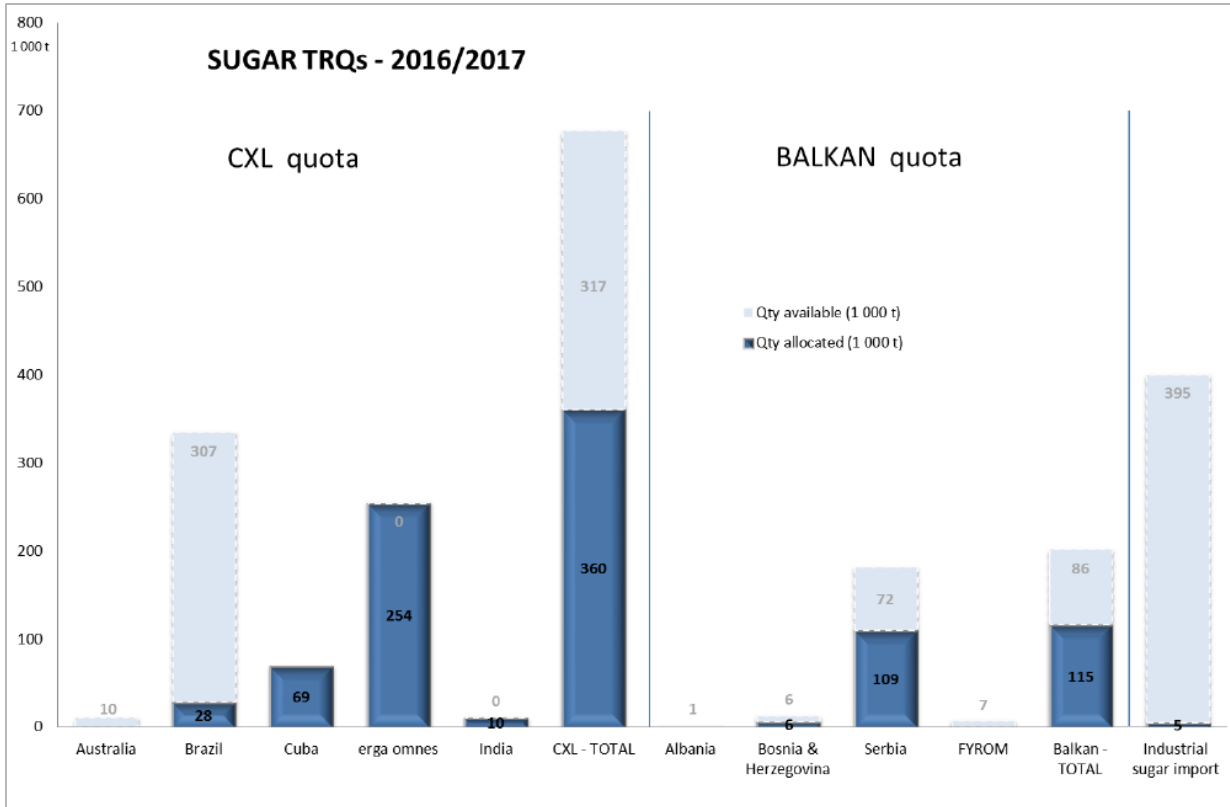
EU cumulated imports (CN 1701)

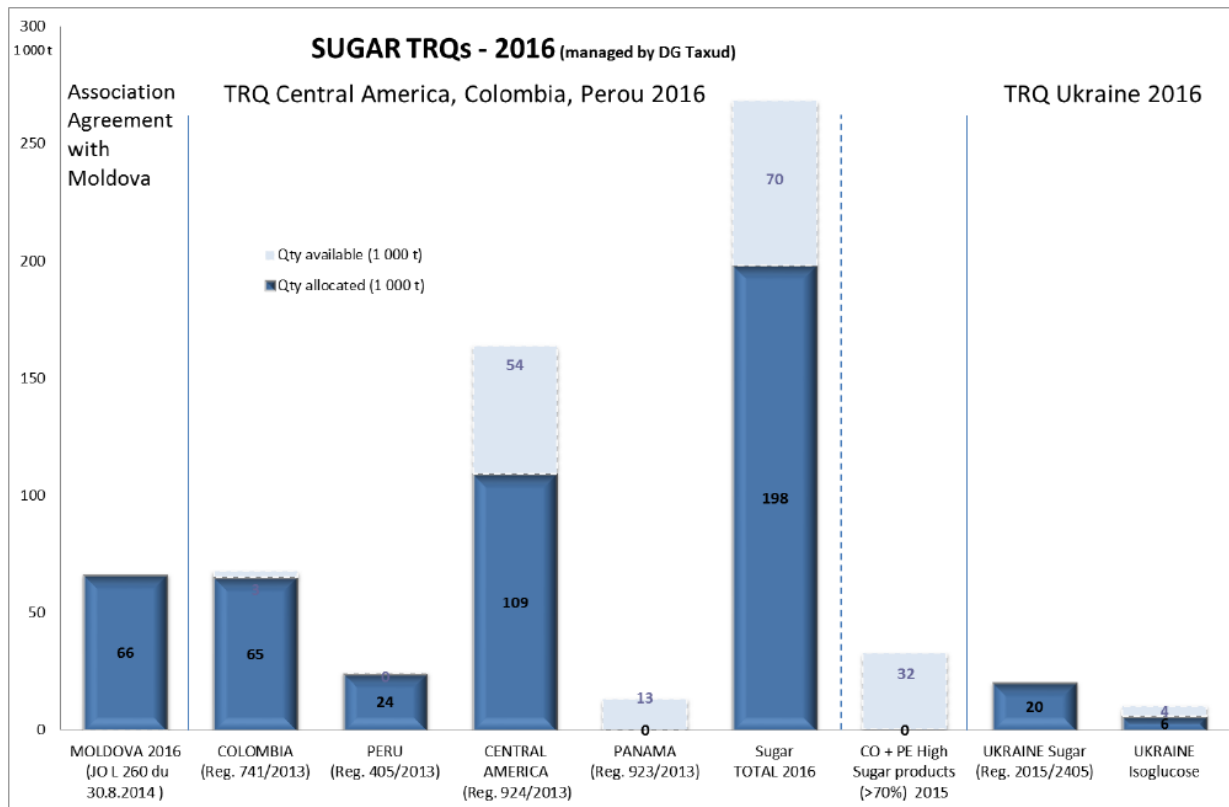


Source: EUROSTAT

⁶ <http://ec.europa.eu/trade/policy/countries-and-regions/regions/andean-community/>

⁷ <http://ec.europa.eu/trade/policy/countries-and-regions/regions/central-america/>





Source

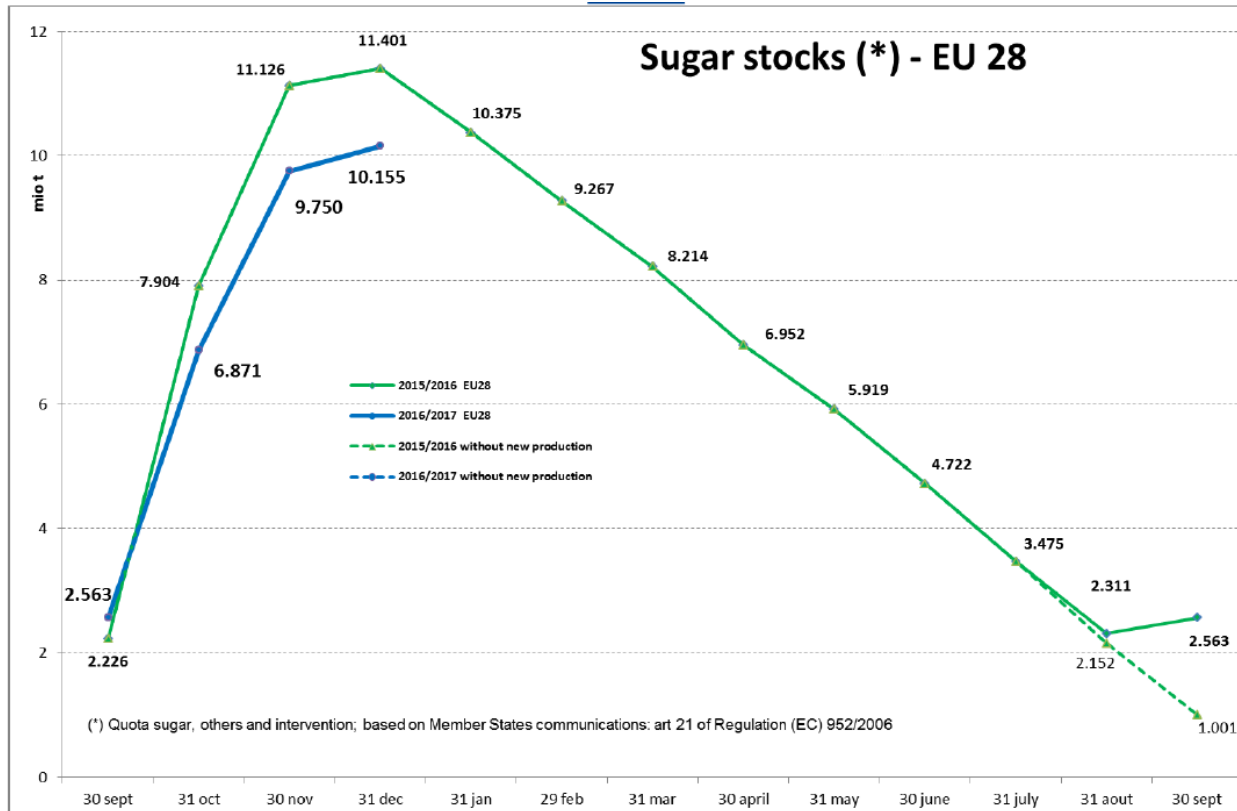
: European Commission

Exports

For MY 2015/16 and MY 2016/17, exports are estimated to stay at 1.5 million MT, in line with the EU's WTO export ceiling for sugar, mostly to traditional destinations in the Middle-East and Northern Africa.

Stocks

EU sugar ending stock numbers for MY 2016/17 are estimated at 0.8 million MT as a result of the larger than previously forecast carry-over of unsold out-of-quota sugar. Ending stocks for MY 2015/16 were revised at 1.4 million MT. No further carry-over of unsold stocks is foreseen with the end of the EU sugar quota system.



Source: European Commission

Policy:

The Common Agricultural Policy after 2013 and the End of the EU Sugar Quota Regime

Under the previous CAP, the EU sugar production regime was meant to end on September 30, 2015, but in the CAP after 2013 agreement, it was extended for two years through MY 2016/17 to allow producers and processors to prepare for the liberalization of the EU sugar market.

As part of regional policies under the CAP's Pillar 1 and Pillar 2, 10 MS out of the 19 sugar producing MS maintained [coupled payments for sugar production](#). From the old EU-15 MS, Finland, Greece, Italy and Spain maintained coupled payments for sugar production in order to secure national sugar production after the end of the quota system. These MS feared that they could not compete with sugar processors in Northwestern Europe. Six of the new MS that acceded the EU after 2004, Poland, Czech Republic, Slovak Republic, Hungary, Romania and Croatia, also decided to maintain coupled payments. The level of coupled payments for sugar production varies widely between the 10 MS with payments amounting from around €67/ha in Finland to over €600/ha in Romania. These coupled supports will continue after the expiration of the sugar quota system through the end of the current CAP in 2020.

EU Sugar and Sweetener Industry Preparing for End of Production Quotas in 2017

In some MS, sugar production has already been declining, which seems the case in Finland, Sweden, where sugar production stayed below their production quota in MY 2015/2016, while Greece and Italy have been producing below quota for many years. Post sources in Greece reported that processors in

Greece are virtually bankrupt and it can be doubted if these processors can be viable in the post-quota era. For other MS, like Croatia, Hungary, Italy, Romania, Slovak Republic and Spain, the viability of sugar production is being called into question if the coupled support expires at the end of the current CAP in 2019/2020.

The most competitive processors from Germany, Benelux and France want to expand production as WTO limitations on EU sugar exports also end with the sugar quota system. Their goal is to produce more sugar at marginal cost without significant investments by optimizing production capacity. Another way of lowering the overall cost of sugar production in the EU could occur by closing uncompetitive plants and consolidate production in the most productive areas.

With the end of the sugar quota system also ends the limitations on isoglucose production and can the competition with sugar for the EU sweetener market start again. The European Commission, in its [Prospects for EU agricultural markets and income 2016-2026](#)⁸, suggests that isoglucose could eventually gain a market share of 2 million MT, or about 10 percent of the EU sweetener market by 2025. To achieve this, the industry will need to invest in new isoglucose production capacity, tripling the current (and outdated) production capacity under the quota system.

The European sugar refining industry could also benefit from a consolidation in the beet processing industry. Sugar refineries are the main source for sugar supplies in several MS in the southern and the eastern periphery of the EU. Their geographical location gives them a logistical advantage as the local sugar suppliers if they can source the necessary raw sugar. However, sugar refiners found it increasingly difficult to secure raw sugar imports when the gap between EU domestic sugar prices and world prices shrank under the new CAP. Duty-free imports from ACP and EBA countries have decreased after the 2007 EU Sugar Reform in response to lower EU sugar prices and increased domestic demand. Another decrease in the EU sugar price after the end of the quota system may lead to a further decrease in imports, which will not be compensated by new duty-free imports from EU FTAs. The EU sugar market will continue to be shielded by high tariff walls.

Nevertheless, the abolition of the EU sugar production quota system is expected to lead to increased competition between the different sweeteners industries, which industry experts believe could result in increased market volatility in the short term before sweetener markets find a new equilibrium.

Brexit and the Next CAP 2020

On March 29, 2017, the exit of the United Kingdom (UK) from the European Union became a political reality when UK Prime Minister Theresa May triggered Article 50 of the EU Lisbon Treaty, starting a 2-year break-up negotiation period. Depending on the outcome of the separation settlement, Brexit will have a double impact on the EU and global sugar markets.

In recent years, the UK produced slightly over 1 million MT of sugar annually, roughly half of its domestic sugar demand, while it imported the other half. About 40 percent of imports are white sugar imported from other EU countries, with France as the main supplier while the other 60 percent is imported as raw sugar and refined in the UK. As a result, Brexit threatens a major export destination for

⁸ <https://ec.europa.eu/agriculture/sites/agriculture/files/markets-and-prices/medium-term-outlook/2016/2016-tables.pdf>

continental EU sugar exports while at the same time becoming a major and privileged competitor for raw sugar imports from EBA and ACP countries, many of which are former UK colonies.

The UK is the second largest net contributor to the EU budget. As such, Brexit is expected to have a major impact on the EU budget and more particularly for the EU CAP budget. The next CAP 2020 will be concluded in the recent aftermath of Brexit and therefore the recently started debate about the next CAP is already taking the Brexit reality on board in the discussion.

However, at this stage it is too early to speculate on what the impact of Brexit will mean for EU sugar production and markets.

Related reports from FAS Post in the European Union:

| Country | Title | Date |
|--------------|---|-----------|
| BrusselsUSEU | EU Sugar Semi-Annual 2016 | 9/30/2016 |

The GAIN Reports can be downloaded from the following FAS website:

<http://gain.fas.usda.gov/Pages/Default.aspx>

Production, Supply and Demand Data Statistics:

| Sugar, Centrifugal | 2015/2016 | | 2016/2017 | | 2017/2018 | |
|-------------------------------|----------------------|-----------------|----------------------|-----------------|----------------------|-----------------|
| Market Begin Year | Oct 2015 | | Oct 2016 | | Oct 2017 | |
| European Union | USDA Official | New Post | USDA Official | New Post | USDA Official | New Post |
| Beginning Stocks | 4151 | 4151 | 1131 | 1374 | 0 | 774 |
| Beet Sugar Production | 14000 | 14017 | 15920 | 16222 | 0 | 18320 |
| Cane Sugar Production | 280 | 266 | 280 | 278 | 0 | 280 |
| Total Sugar Production | 14280 | 14283 | 16200 | 16500 | 0 | 18600 |
| Raw Imports | 2200 | 2345 | 2500 | 2100 | 0 | 1500 |
| Refined Imp.(Raw Val) | 800 | 840 | 750 | 1000 | 0 | 500 |
| Total Imports | 3000 | 3185 | 3250 | 3100 | 0 | 2000 |
| Total Supply | 21431 | 21619 | 20581 | 20974 | 0 | 21374 |
| Raw Exports | 7 | 5 | 5 | 5 | 0 | 5 |
| Refined Exp.(Raw Val) | 1493 | 1540 | 1495 | 1495 | 0 | 2195 |
| Total Exports | 1500 | 1545 | 1500 | 1500 | 0 | 2200 |
| Human Dom. Consumption | 18800 | 18700 | 18800 | 18700 | 0 | 18650 |
| Other Disappearance | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Use | 18800 | 18700 | 18800 | 18700 | 0 | 18650 |
| Ending Stocks | 1131 | 1374 | 281 | 774 | 0 | 524 |
| Total Distribution | 21431 | 21619 | 20581 | 20974 | 0 | 21374 |
| | | | | | | |

(1000 MT)