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Sugar Semi-annual

Report

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Report Highlights:

During MY 2011/12, the EU is forecast to experience a record sugar beet production, with sugar yields per hectare close to the record 2009 level. As a result, out-of-quota sugar production for EU non-food industrial use, including for bio-ethanol production, and exports is forecast at between 4 and 5 million MT. As a result, EU sugar exports in MY 2011/12 are forecast to reach 2.2 million MT, still leaving enough sugar on the EU market to replenish EU sugar stocks.

In MY 2010/11, the EU took a wide range of emergency measures to encourage sugar imports, as high world market demand for sugar had left the EU a less attractive export destination for traditional suppliers and local shortages in sugar supplies on the EU sugar market had been reported.

Executive Summary:

EU sugar production in MY 2011/2012 is forecast to increase by about 2 million MT to 18.5 million MT or 13 percent compared to MY 2010/11 as a result of increased acreage by 6 percent and high sugar yields. With EU sugar yields challenging the 2009 record, the MY 2011/12 sugar production will likely exceed the MY 2009/10 production, potentially leading to more than 5 million MT of out-of-quota sugar in raw sugar equivalent. This will result in a reversal of the MY 2010/11 lower sugar supplies in the EU sugar market, which was triggered by failing imports as traditional EU sugar suppliers preferred to export to more lucrative markets than to the EU. This forced the European Commission (EC) to take a series of extra-ordinary measures to secure sugar supplies to EU sugar users, particularly the specialized sugar refiners. With the debate about the EU sugar regime raging as part of the new CAP post 2013 reform, EU sugar market stakeholders are weighing their interests following the release of a draft proposal from the EC to end the EU sugar production quota regime with a one-year transition during MY 2015/16.

Commodities:

Sugar, Centrifugal

Production:

Total EU sugar production from sugar beet for MY 2011/2012 is forecast at 18.5 million MT in raw sugar equivalent (RSE). Up to 2 million MT RSE sugar beet juice is directly fermented into biofuels, mostly bio-ethanol and some biogas produced on-farm in Germany, and therefore is not represented in the above PSD. This production level is an almost 2 million MT increase over MY 2010/11 and is the result of a six percent increase in acreage and increased sugar yields per hectare, just below the harvest 2009 record levels. Farmers increased beet acreage, mainly in France and Germany, in response to measures from the European Commission (EC) to encourage production and demand from processors. Decreased winter wheat seedings in the autumn of 2010 as a result of wet soil conditions also made this increase in sugar beet acreage possible in Northwestern Europe.

The EU MY 2011/12 raw sugar production within the quota is calculated at 14.2 million MT. However, the EU could once again restore 0.5 million MT of out-of-quota sugar to within the quota, as was done in March 2011 for the MY 2010/11 sugar marketing year. As a result, EU total out of quota sugar in MY 2011/12 would amount to at least 4.3 million MT.

EU sugar beet production									
	Area, thousands of Hectares			Sugar beet yield in MT per Hectare			Sugar content in percentage		
	09/10	10/11	11/12 f	09/10	10/11	11/12 f	09/10	10/11	11/12 f
Austria	43.9	44.9	47.0	70.6	69.8	70.0	17.10	17.19	17.20
Belgium	63.5	59.5	62.0	82.7	73.2	80.0	18.40	17.14	18.00
Denmark	38.5	39.2	40.0	54.5	55.0	55.0	19.60	18.00	18.00
Finland	14.8	14.6	15.0	37.7	37.0	38.0	17.20	16.50	16.50
France	374.0	381.0	391.0	89.4	80.3	88.0	19.50	17.70	18.50
Germany	364.0	362.0	394.3	71.5	65.9	71.6	18.15	17.20	18.00
Greece	21.6	21.6	10.0	67.8	67.8	67.8	13.50	13.50	13.50
Italy	60.6	62.2	50.0	54.6	57.1	56.0	15.95	14.59	15.50
Netherlands	72.4	70.5	72.0	78.9	72.6	77.0	17.70	16.80	17.70
Portugal	0.2	0.3	0.0	40.9	40.9	40.9	14.39	14.73	14.73
Spain	46.9	45.2	45.9	80.7	71.9	73.8	17.47	17.71	17.73
Sweden	39.4	37.9	40.0	60.5	55.0	55.0	17.90	17.50	17.50
U.K.	119.3	115.0	111.0	69.9	55.5	63.6	18.00	17.50	17.70
Czech R.	53.7	57.4	58.0	60.9	59.3	59.0	16.85	16.65	16.40
Hungary	14.0	13.0	13.0	52.6	58.0	55.0	15.92	15.90	16.00
Lithuania	15.1	15.0	17.0	45.1	45.0	45.0	17.50	17.50	17.50
Poland	200.0	197.0	199.0	54.3	49.1	49.5	17.00	17.10	17.10
Slovak R.	16.0	17.7	18.0	56.3	50.9	51.0	16.89	16.89	16.90
Romania	21.3	22.0	19.0	38.3	38.8	38.5	17.40	17.50	17.10
Total EU-15	1259.0	1217.8	1296.0	72.2			18.20		
Total NMS	320.1	311.1	324.0						
Total EU-27	1579.0	1528.9	1620.0	69.4			18.20		

f: forecast

Consumption:

Until 2008, EU domestic sugar consumption for food purposes has always been restricted to within-quota sugar from domestic production and imported sugar shipped under import quotas at higher guaranteed EU sugar prices. EU food processors relied on the predictable prices for their production planning for EU markets. In addition, the system allowed EU food processors to secure export subsidies, also called export refunds or restitutions, when non-EU food processors could source lower priced sugar on the world market. Since the 2007 EU sugar reform, prices have decreased, but have remained well above the new EU internal reference price for white sugar, which is no longer guaranteed (see the above chart).

EU sugar consumption has steadily increased to 17.5 million MT in MY 2010/11, despite record high import prices. Because EU industrial sugar users in the food industry secure their sugar from EU sugar processors under long term contracts at the beginning of the marketing year, hence securing adequate sugar volumes and largely escaping the price volatility from the world sugar market, they paid less than the world market price for most of MY 2009/10 and MY 2010/11. There is hence speculation that EU sugar processors will try to negotiate higher prices for the MY2011/12 sugar supply contracts in contrast

with price developments on the world market, where sugar prices are expected to decrease again.

Because the system of export restitutions was ended in the sugar reform, this could impact the competitiveness of EU sugar containing food exports.

EU industrial sugar consumption for non-food purposes has also been steadily increasing, especially with the arrival of bio-ethanol production. However, this increase has stagnated in MY 2010/11 as a result of decreased EU out-of-quota sugar availability and high world market prices. Despite the abolition of the in-quota duty on the EU 400,000 MT sugar import quota for industrial purposes, less than 55,000 MT will be imported in the MY 2010/11 quota year. Fermentation industries, including for bio-ethanol production can switch to other carbon sources than sugar, such as wheat, corn and other starch products, but this has been difficult as prices for these products were also high.

During MY 2011/12, it is forecast that large out-of-quota sugar supplies will put downward pressure on EU prices for out-of-quota sugar and therefore provide better sourcing options for the non-food industrial sugar users. However, non-food industrial sugar users can also source inputs from grains, so some trade-off may be seen based on the development of grain prices versus sugar prices during MY 2011/12.

EU sugar production quota in MT white sugar		Out-of-quota sugar			
		2008/09	2009/10	2010/11 e	2011/12 f
Belgium	676,235	54,897	213,901	76,430	153,200
Czech R.	372,459	50,128	109,615	90,560	127,200
Denmark	372,383	24,713	74,063	86,300	81,000
Germany	2,898,256	818,665	1,425,578	773,600	1,620,000
Greece	158,702	0	13,085	0	0
Spain	498,480	16	108,594	42,460	16,300
France*	3,004,811	1,160,198	1,554,533	1,276,700	1,544,000
French overseas territories	432,220	0	19,291	0	0
Italy	508,379	0	16,359	62,500	0
Lithuania	90,252	55	15,337	10,325	31,800
Hungary	105,420	1,308	2,170	15,080	10,000
Netherlands	804,888	114,351	188,878	88,240	161,000
Austria	351,027	66,370	36,348	93,550	42,100
Poland	1,405,608	20,731	241,408	26,920	237,000
Romania	104,689	6,790	42,524	22,100	27,800
Slovak R.	112,320	819	52,641	17,600	62,000
Finland	80,999	12	7,165	4,825	1,400
Sweden	293,186	42,846	117,561	11,400	97,200
U.K.	1,056,474	135,189	401,783	84,500	304,500
TOTAL	13,336,741	2,497,088	4,640,834	2,783,090	4,516,500
Carry forward to next year quota		413,000	564,400	0	0
Out-of-quota sugar exported		728,000	2,115,000	650,000	2,115,000
Imports of industrial sugar		179,474	7,660	54,226	5,000
Net available out-of-quota		1,535,562	1,969,094	2,187,316	2,406,500

e=estimate; f=forecast

*Some sugar beet production under private contracts for bio-ethanol production in France is not included in this table.

Trade:

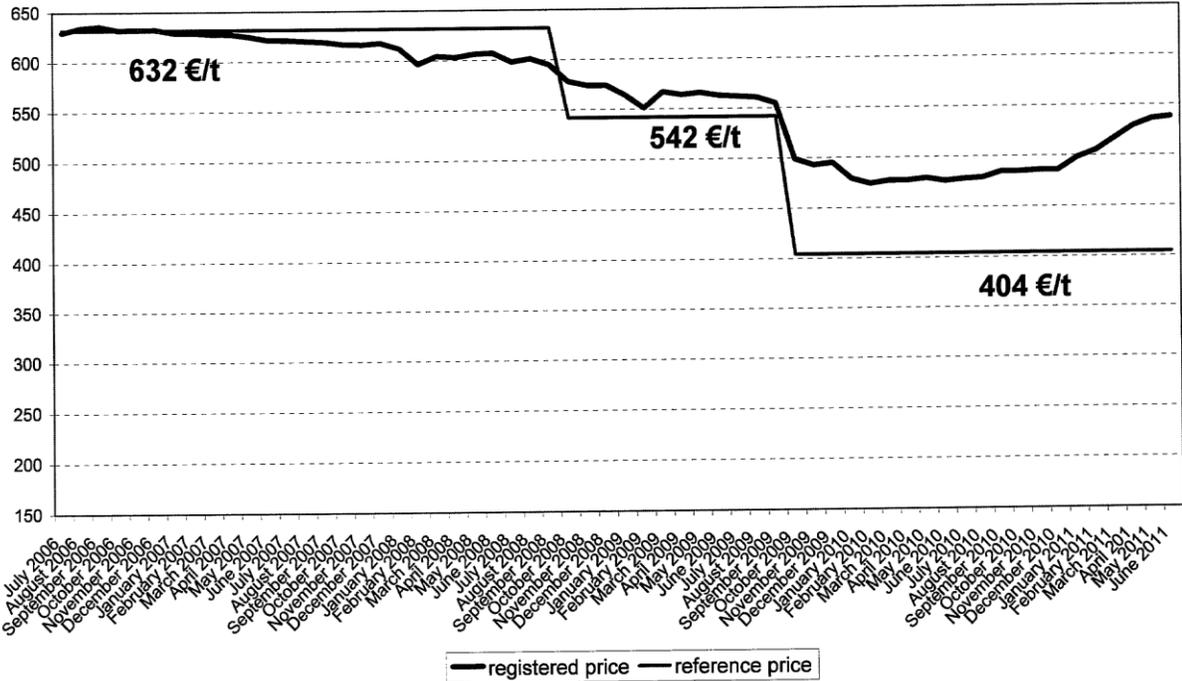
Imports

EU MY 2010/11 sugar imports, especially from the traditional ACP and EBA [1] exporting countries remained well below quota through the winter, despite an early EC decision for a temporary lifting of the import duty. This occurred as high world demand and high market prices for sugar made the EU less attractive for sugar exporters. In March 2011, the EU began taking additional emergency measures to ease the EU’s low sugar supplies situation, especially in non-sugar producing Member States (MS), and to allow EU specialized sugar refiners to source raw sugar for refining. In April 2011, the EU opened a 300,000 MT additional duty-free import quota, which was highly oversubscribed, yielding an allocation coefficient of only 1.8 percent. On May 26, 2011, the EU Management Committee decided to open an additional duty-free import quota of 200,000 MT, as well as creating the possibility for further sugar imports through five reduced-duty tenders. By mid September, the first four tenders allowed for additional sugar imports of 342,500 MT of raw sugar and 52,900 MT of white sugar at tendered import duties of about half the full duty tariff, or over double the normal in-quota duty of €98/MT. At a certain point this raised the real cost for sugar imports well above €800/MT.

It is estimated that EU sugar imports will reach 3.8 million MT RSE in MY 2010/11. This level of imports will actually leave the EU sugar market with higher ending stocks than at the end of MY 2009/10. As a result, EU sugar producers are lobbying the EC to halt sugar import tendering since the MY 2011/12 sugar processing campaign started in early September.

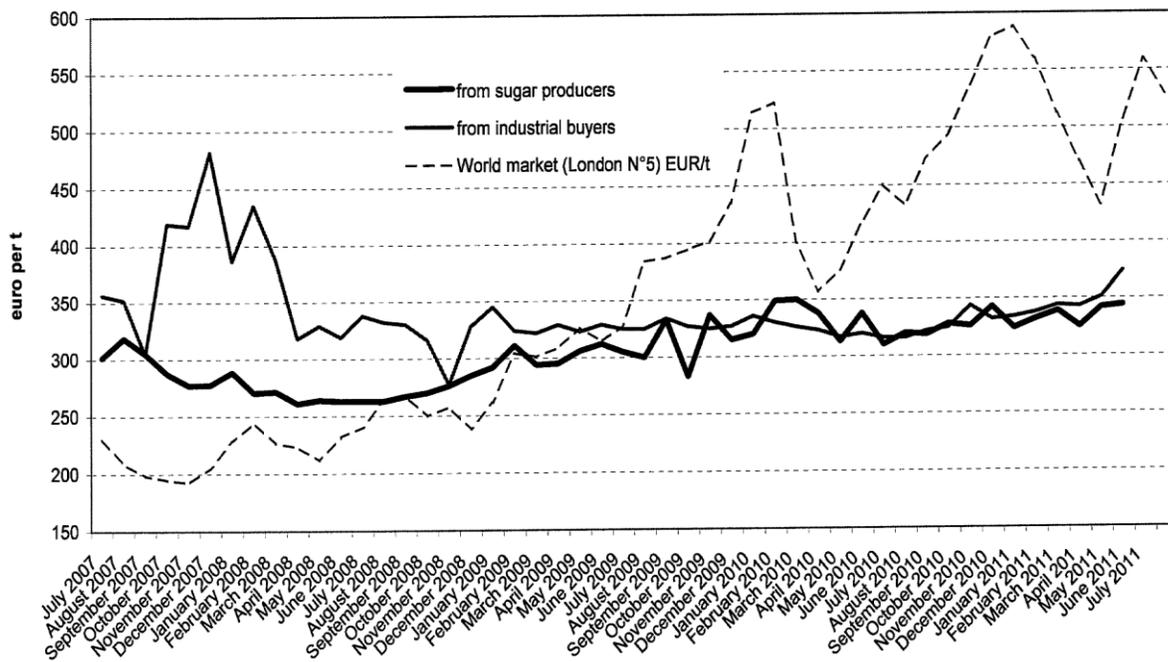
Given the near record MY 2011/12 EU sugar production, imports in the coming season are forecast to decrease again to more historical levels, especially if world sugar prices remain at high levels. This will further result in a large supply of out-of-quota sugar that must find an outlet on the EU market or for exports.

Reference price and market price for white sugar prices on the EU market



Source: European Commission

White sugar PRICES on the EU market for industrial purposes



Source: European Commission as reported by sugar producers and industrial buyers, compared to the world market.

Exports

EU sugar exports in MY 2010/11 will barely exceed 1 million MT, almost all of it for refined sugar exports to its traditional markets in the Middle East, following the EC decision in the autumn of 2010 to limit the export quota to 650,000 MT of out-of-sugar quota.

For MY 2011/12, EU sugar exports are forecast at 2.2 million MT, since the EC opened a 700,000 MT export quota in May 2011 for exports in the first quarter of MY 2011/12 from the 2011 sugar beet harvest. The EC further opened an export quota of 650,000 MT for the new quota year. It is widely expected that the EU will open up a remaining 700,000 MT export quota before the end of the 2011 sugar beet processing campaign in December or early January of 2012. The EU made a similar move for the record 2009 sugar crop

^[1] ACP: former colonies from Africa and the Caribbean Pacific.

EBA: Everything-But-Arms agreement, giving least-developed countries duty free and quota free access to the EU.

Stocks: It is forecast that MY 2011/12 EU sugar ending stocks will increase beyond the MY 2010/11 level. This will especially be the case if towards the end of MY 2011/12 processors have been unable to sufficiently market out-of-quota sugar domestically or through exports and must carry over larger amounts of sugar to the MY 2012/12 quota year. In MY 2010/11, EU ending sugar stocks in MY 201/11 increased to more comfortable levels compared to MY 2009/10 as a result of the large duty-free and tendered sugar imports.

Policy:

EU sugar markets in the CAP post 2013

While the 2007 EU sugar reform was not fully implemented until MY 2009/10, the current EU sugar production quota regime is set to expire at the end of MY 2014/15 as provided in the Single Common Market Organization (CMO) Regulation No 1234/2007. The European Commission is planning to release its proposals for the next Common Agricultural Policy (CAP) post 2013 in October 2011, but early versions of the proposal have been made available to stakeholders. For the sugar CMO, unsurprisingly, the EC is suggesting the end of the sugar production regime with a one-year transition during MY 2015-16. EU sugar beet farmers, through a [press release](#) [1] by the European association CIBE, have begun lobbying for the continuation of the quota regime, while the EU sugar processor's organization CEFS provided their [position](#) [2] against ending the quota regime.

The EC proposal is in draft form, but it is clear that European sugar users have been unhappy with the EU sugar quota regime, especially since the 2007 sugar reform led to high sugar price volatility and unsecure supplies. The 2007 sugar reform turned the EU from a major net sugar exporter into a large net sugar importer. The main interest of EU sugar users is the secured availability of sugar supplies at reasonable and stable prices. It is probably by these criteria that the EU sugar using sectors will decide whether to support upcoming EC proposals for future EU sugar markets.

An upfront impact assessment study by the EC would suggest that EU sugar prices, as a result of the abolition of EU sugar quota, would further decrease 20 percent by 2020 compared to MY 2009/10, while EU sugar production would increase by only 2 percent during this time period. Some EU MS are already arguing that the end to the sugar production quota will lead to the end of sugar production in their MS altogether and that a further geographical concentration of EU sugar production can only lead to more problems than the ones experienced, particularly in the most Eastern- and Southern-most MS, during MY 2009/10 and MY 2010/11.

^[1] <http://www.cibe-europe.eu/Press/179-11%20CIBE%20Press%20Release%207%20September%202011.pdf>

^[2] <http://www.cefs.org/>

Production, Supply and Demand Data Statistics:

EU27 Sugar, Centrifugal (1000 MT)						
	2009/2010		2010/2011		2011/2012	
Market Year begin	October 2009		October 2010		October 2011	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	2,232	2,232	1,447	1,433	1,128	1,814
Beet Sugar Production	16,400	16,400	14,800	14,800	15,000	16,450
Cane Sugar Production	287	287	291	290	300	290
Total Sugar Production	16,687	16,687	15,091	15,090	15,300	16,740
Raw Imports	1,940	1,924	2,200	2,900	3,000	2,500

Refined Imp.(Raw Val)	635	637	900	900	700	650
Total Imports	2,575	2,561	3,100	3,800	3,700	3,150
Total Supply	21,494	21,480	19,638	20,323	20,128	21,704
Raw Exports	7	7	10	9	10	10
Refined Exp.(Raw Val)	2,640	2,640	1,000	1,000	1,000	2,200
Total Exports	2,647	2,647	1,010	1,009	1,010	2,210
Human Dom. Consumption	17,400	17,400	17,500	17,500	17,500	17,600
Other Disappearance	0	0	0	0	0	0
Total Use	17,400	17,400	17,500	17,500	17,500	17,600
Ending Stocks	1,447	1,433	1,128	1,814	1,618	1,894
Total Distribution	21,494	21,480	19,638	20,323	20,128	21,704

Author Defined:

Notes to the reader:

- In this report, all sugar is in raw sugar equivalent unless otherwise noted.
- The PSD in this report only pertains to sugar as defined by HS 1701. It hence excludes sugar beet production destined for fermentation or other industrial purposes.
- Conversion factors and methods 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's PSD as they are entirely re-exported as processed products. Inward processing is the EU program under which the import duties for dairy, sugar, and starch containing commodities for processing and subsequent re-export are suspended when world market prices are lower than EU commodity prices.

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