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Sugar Semi-annual

EU First Post-Quota Sugar Production Up to Pre-2007 Reform Level

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Report Highlights:
The first EU sugar production after the termination of the quota regime, MY 2017/18, is set to reach 20.1 million MT, with an additional 1.8 million MT for industrial use. This compares to a production of 16.5 million MT in MY 2016/17. With stable domestic consumption, EU sugar exports in MY 20017/18 are forecast at 2.5 million MT. EU sugar imports are forecast to decrease to 2 million MT as decreases in preferential imports are not offset by imports under new FTAs. The UK production increase allows British sugar processors to capture market share ahead of the 2019 Brexit. The EU isoglucose market, liberated from the quota limitations, is forecast to grow moderately.

Executive Summary:

Marketing Year (MY) 2017/18 is the first year that the EU sugar market will function without the 50 year old EU sugar production quota regime and export limits. Production and export restrictions was lifted on October 1, 2017 as the EU sugar production quota system comes to an end. 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 on EU sugar imports bound by high import tariffs, 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 taken this new opportunity to grow its business again after the cuts imposed by the 2007 Sugar Reform [1] by contracting 16 percent more sugar beets for MY 2017/18 than it did for MY 2016/17, especially in the most competitive Member States (MS): Germany, the Benelux, France, and the United Kingdom (UK). In the southern and eastern EU periphery, sugar production is struggling to remain competitive 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 presence in these MS. EU beet processors are aiming to optimize beet and sugar processing capacity without significant additional investments. They want to produce cheap sugar for what is expected to be an increasingly competitive EU sweetener market, as well as regain their former exporter status after the World Trade Organization's (WTO) sugar export ceiling is lifted with the end of the quota system. This can only be achieved by lowering EU domestic sugar prices to closely align with world market prices from MY 2017/18 on.

The forecast for EU sugar production for MY 2017/18 is revised up to 20.1 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 is an increase of 2.5 million MT from the original forecast because of favorable weather and slight increase of planted beet area. The forecast for sugar imports is 2 million MT in MY 2017/18, down from 2.75 million MT in MY2016/17 and 3 million MT in MY2015/16. This drop will be at the expense of the EU sugar refining sector, as mainly raw sugar imports from CXL [2] quotas and preferential imports from African, Caribbean and Pacific (ACP) and Least Developed Countries (LDC) countries under the Everything-But-Arms (EBA) agreement will decrease. Post increased its forecast of EU sugar exports in MY 2017/18 to 2.5 million MT from the previous WTO ceiling of 1.5 million MT because the end of the sugar quota regime means the end of the ceiling that resulted from the European Commission's (EC) loss to Brazil in the 2005 WTO sugar case for exporting cross-subsidized sugar.

EU domestic sugar consumption is forecast to remain stable or to decrease slightly as Free Trade Agreement- (FTA) driven new exports of sugar containing products may offset slowly increasing isoglucose consumption as it gains market share. The EU sweetener market is mature and a slowly increasing population is aging while sugar consumption per capita is decreasing due to the reformulation of products.

The above production forecast excludes beet extraction for non-sugar industrial purposes such as bio-ethanol and bio-gas production, and industrial fermentation, which is expected to decrease to 1.8 million MT RSE in MY 2017/18, down from 1.9 million MT in MY 2016/17 and 2.1 million MT in MY 2015/16. The decrease is mainly from bioethanol production from sugar beet, which is decreasing at the benefit of wheat.

Ending stocks will only consist 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 result in a clear break in the EU sugar balance sheet going forward, another market shock may only be two years away because at the end of March 2017 the British Prime Minister 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. The MY 2017/18 UK bumper beet crop is already changing the balance as it will almost halve the need for sugar imports.

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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Golya Gellert from FAS/Budapest covering Hungary,
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Yvan Polet from FAS/Brussels covering Belgium and EU issues,
Leif Rehder and Sabine Lieberz from FAS/Berlin covering Germany.

[1] http://ec.europa.eu/agriculture/sugar/legislation/index_en.htm
[2] CXL import quotas were agreed as compensation for the 1995 EU enlargement.

Commodities:
Sugar, Centrifugal

Production:

Explanatory Notes to the reader:

• This report updates the first 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 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 impact 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

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

The 2007 Sugar Reform 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". 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 ceased 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, while the new Southern African Development Community [2] (SADC) Economic Partnership Agreement (EPA) from October 2016 is granting South Africa duty-free quotas for 150,000 MT of sugar.

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**
Beginning Stocks (1000 MT)	4,151	4,151	1,374	1,241	774	241
Beet Sugar Production (1000 MT)	14,017	14,017	16,222	16,222	18,320	19,820
Cane Sugar Production (1000 MT)	266	266	278	278	280	280
Total Sugar Production (1000 MT)	14,283	14,283	16,500	16,500	18,600	20,100
Raw Imports (1000 MT)	2,345	2,251	2,100	1,900	1,500	1,500
Refined Imp.(Raw Val) (1000 MT)	840	804	1000	850	500	500
Total Imports (1000 MT)	3,185	3,055	3,100	2,750	2,000	2,000
Total Supply (1000 MT)	**21,619**	**21,489**	**20,974**	**20,491**	**21,374**	**22,341**
Raw Exports (1000 MT)	5	5	5	5	5	5
Refined Exp.(Raw Val) (1000 MT)	1,540	1,543	1,495	1,545	2,195	2,495
Total Exports (1000 MT)	1,545	1,548	1,500	1,550	2,200	2,500
Human Dom. Consumption (1000 MT)	18,700	18,700	18,700	18,700	18,650	18,700
Total Use (1000 MT)	18,700	18,700	18,700	18,700	18,650	18,700
Ending Stocks (1000 MT)	1,374	1,241	774	241	524	1,141
Total Distribution (1000 MT)	**21,619**	**21,489**	**20,974**	**20,491**	**21,374**	**22,341**

This report updates 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. While the production forecast is rapidly materializing, many uncertainties remain for MY 2017/18 that may greatly influence the disappearance side of the balance.

Production forecast for MY 2017/18

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	42.8	62.6	80.0	75.0	17.00	17.65	17.50
Belgium	53.7	56.3	65.0	82.3	68.2	85.0	18.02	18.08	18.00
Denmark	36.0	33.1	36.0	66.9	51.3	60.0	18.00	18.00	18.00
Finland	12.4	11.6	12.1	32.7	37.3	38.0	16.50	16.50	16.50
France*	385.0	405.2	472.0	87.0	84.5	87.0	18.50	17.90	18.00
Germany	300.0	314.0	385.0	71.0	75.0	82.0	17.83	18.09	17.80
Greece	4.9	5.4	6.4	51.9	57.9	64.0	13.50	13.50	13.50
Italy	38.0	32.4	37.2	57.0	66.0	66.0	16.00	16.00	16.00
Netherlands	58.4	70.6	85.4	83.3	77.8	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	19.4	30.6	31.0	60.8	65.0	65.0	17.50	17.50	17.50
United Kingdom	90.0	86.0	110.0	61.6	59.0	70.0	17.29	17.30	17.25
Czech Rep.	53.7	56.0	58.3	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	15.50
Poland	171.6	203.0	230.0	54.6	66.5	62.0	17.70	17.30	15.50
Slovak Rep.	21.7	21.4	21.5	57.2	71.4	53.0	16.24	16.38	16.50
Romania	26.0	24.9	26.4	41.0	40.7	42.0	16.50	16.50	16.50
Croatia	14.0	16.0	21.0	54.5	68.8	65.0	15.50	16.50	16.00
Total EU-15	1079.3	1122.0	1321.3						
Total NMS	314.8	351.7	389.4						
Total EU-28	**1394.1**	**1473.7**	**1710.7**						

*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.

The EU sugar beet acreage for the 2017/2018 production year is believed to amount to 1.7 million hectares, an increase of 16.1 percent compared to last year and the largest acreage since 2007.

Combined with above average growth conditions in the Western European growing area, the increase in total production is forecast to result in 21.9 million MT of sugar RSE, or an increase of 19 percent compared to the previous year, and 1.3 million MT above this spring's original forecast. Of this, 20.1 million MT is forecast to be processed into sugar and 1.8 million MT RSE forecasted to be fermented for industrial purposes. The projected increase in production compared to last year amounts to 20 percent in France and The Netherlands, to 30 percent in Belgium and Germany, and up to over 50 percent in the United Kingdom (UK), albeit from a below normal level of production last year. These increases in production will be made by extending the beet slicing campaign in the winter of 2017 without any significant investments. The length of the beet slicing campaign is a critical factor limiting processing capacity and is limited by the winter frost period and the damage alternating frosting and defrosting does to beet and beet juice quality after extraction. Last year, many processors had vowed to increase production by up to 50 percent with the existing processing capacity. 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. Spain has the longest processing period of all as it grows beet through summer in the North and through winter in the South.

EU sugar processors' 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 from the first post-quota year are bound to materialize given the new production forecast. 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.

Total Sugar Beet Production Including Additional Production for Non-food Use

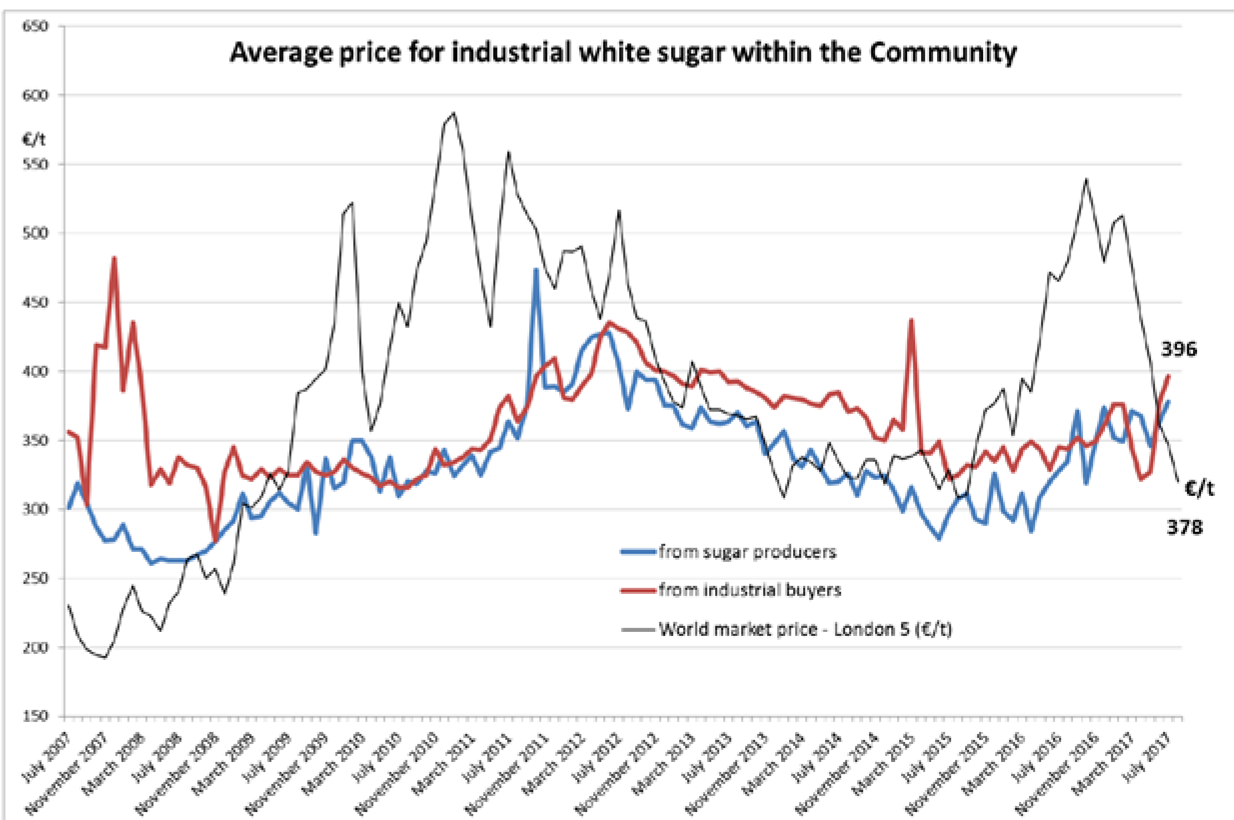
EU Beet Sugar Production (raw value)								
in ,000 MT	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
EU Regulated Sugar Market*	15,699	17,833	16,655	16,020	18,449	14,283	16,500	20,100
Unregulated Over-Quota Production for Industrial Uses**	1,300	2,727	2,266	2,284	2,313	2,107	1,891	1,800
Total EU Beet Sugar Production	**16,999**	**20,560**	**18,921**	**18,304**	**20,762**	**16,390**	**18,391**	**21,900**
* 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. Bio-ethanol production. However, as 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. This is forecast to further erode industrial use in MY 2017/18.
3. On farm digestion for bio-gas production. This is a minor use in a few MS only and different crops can easily substitute for sugar beet depending on economics.

Under the sugar quota system industrial use was the outlet of last resort for surplus sugar as it was cross-subsidized from EU sugar produced under the production quota system. Despite this, sugar use for bio-ethanol production declined in MY 2015/16 and MY2016/17. For MY 2017/18, Post forecasts industrial use to further decrease as sugar for industrial uses must compete with other sugar outlets. EU sugar processors are reported to be actively pursuing the development of sugar exports, while industrial outlets, including for bio-ethanol, face strong competition from low grain prices.



Source: European Commission
[1] http://ec.europa.eu/agriculture/sites/agriculture/files/sugar/doc/sugar-faq_en.pdf
[2] http://ec.europa.eu/trade/policy/countries-and-regions/regions/sadc/

EU Sugar Consumption in MY 2017/18

EU domestic sugar consumption is now forecast to remain stable in MY 2017/18 as increasing exports of sugar containing products are expected to offset any decrease in domestic consumption. New FTAs that the EU recently concluded, like the Comprehensive Economic and Trade Agreement (CETA [1]) with Canada, will enhance exports of EU sugar containing products.

EU sugar consumption has stabilized in recent years, with increases in some MS being offset by decreases in other MS. This is because per capita consumption is slowly decreasing as a result of consumers seeking healthier lifestyles and food processors reformulating products as more MS apply taxes on sugar containing products or are discussing their approval.

With grain prices expected to remain low in MY 2017/18, the incentive for bio-ethanol producers to use beet juice is forecast to remain low and even further decrease in line with expected reductions in bio-ethanol blending in fuels. The European Commission in its Summer 2017 Short Term Outlook report [2] is expecting some increased production from beet based on the large crop.

Differences in sugar prices between MS in the core sugar processing area and in MS in EU periphery were limited under the quota system and mainly reflected logistical costs. These price differences are expected to increase in the post-quota era and an eventual consolidation of the EU sugar processing industry could lead to a further widening of prices within the EU. This, in turn, would offer new opportunities for sugar refiners who tend to be located in peripheral MS.

Isoglucose

Another potential cause for decreases in EU sugar consumption in MY 2017/18 is a forecast increase in isoglucose consumption. Under the sugar production quota system, isoglucose production was 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, EU isoglucose production can only increase in a limited way without new investments. The existing production plants are outdated as the quota restrictions disincentivized any investments. Investments in additional isoglucose production have been announced in Hungary and Bulgaria, and MS like Belgium, Spain and probably France can also be expected to increase isoglucose production over time. However, such capital intensive investment decisions are not 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						

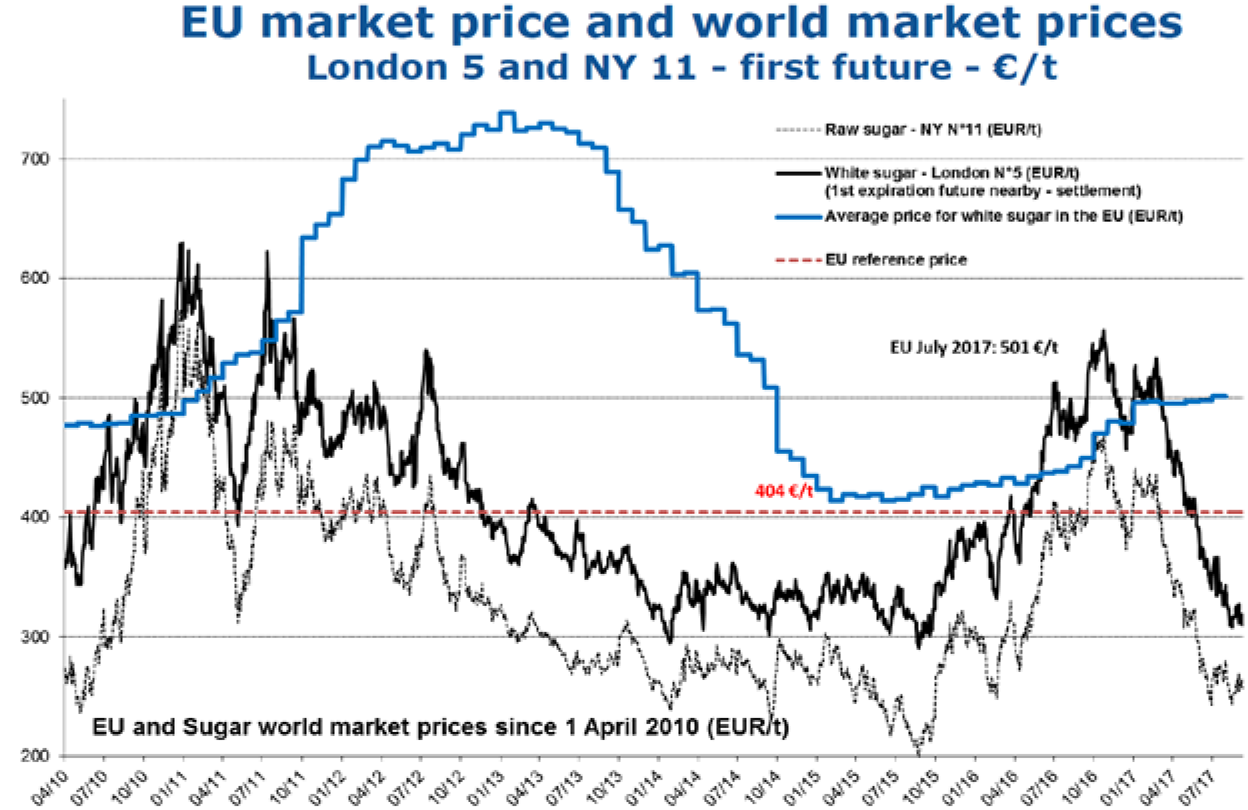
[1] http://ec.europa.eu/trade/policy/in-focus/ceta/
[2] https://ec.europa.eu/agriculture/sites/agriculture/files/markets-and-prices/short-term-outlook/current_en.pdf
[3] https://ec.europa.eu/agriculture/markets-and-prices/medium-term-outlook_en

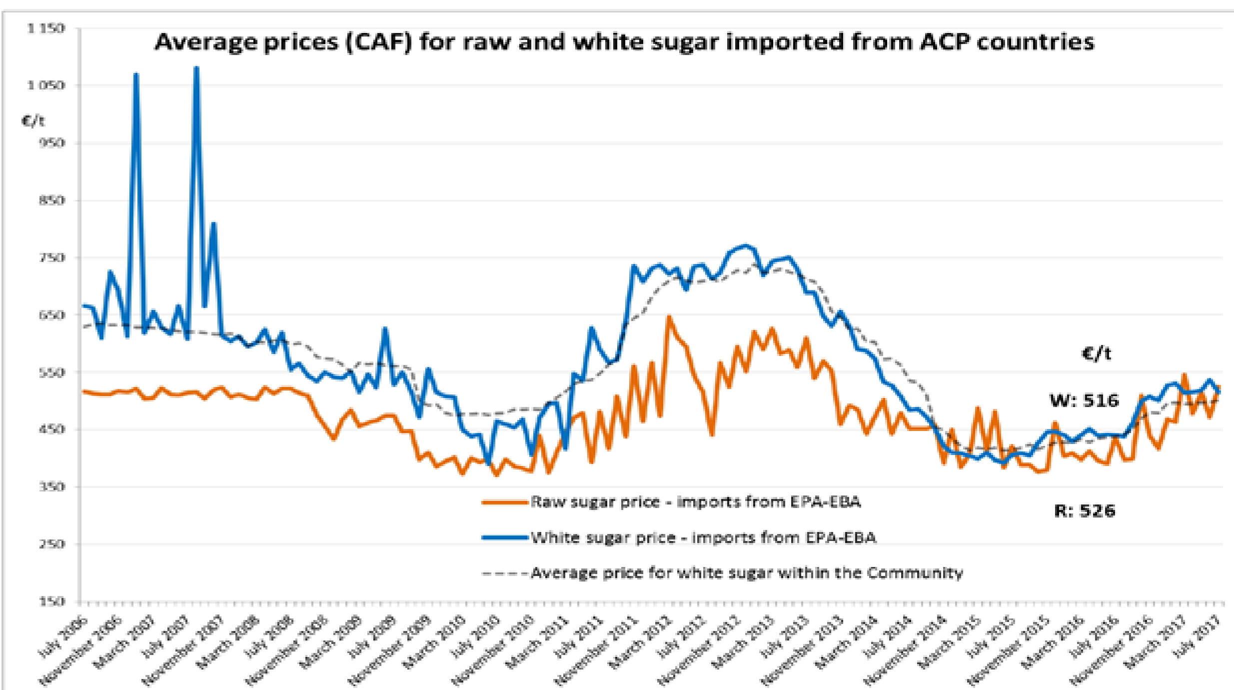
Trends for EU Sugar Trade in the Post-Quota Era

Imports in MY 2017/18

The forecast for a decrease in EU sugar imports after the end of the sugar quota regime in MY 2017/18 is being reinforced. The forecast decrease to 2 million MT down from over 3 million MT in past years results from a mix of elements and their combined effect. The large forecast EU sugar production is likely to lead to a decrease in EU domestic sugar prices. As for the first time there is no longer a guaranteed beet price, which put a floor under the cost of production for sugar, EU sugar prices can be expected to closely follow low world sugar prices. EU sugar processors are also engaged in a competition to maximize market share in the post-quota era, which may add further downward pressure on prices.

If the optimization of competitiveness among EU sugar processors leads to a decrease in EU sugar prices, 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. If the EU domestic sugar price were to decrease to world market price levels, EU sugar imports from CXL origin and the least competitive EBA/LCP countries could grind to a halt. With the sugar refining premium at a historical low, EU sugar refiners may not be able to afford paying the €98/MT import duty on CXL sugar. The refining industry has already been struggling for years to operate at a profit. The opening of additional sugar TRQs as part of new FTAs may open new import options. In MY 2017/18 a new 78,000 MT TRQ for Brazil in compensation for the accession of Croatia will become available, as well as a new 25,000MT TRQ for Ecuador [1]. The opening of 150,000 MT of new duty-free TRQ's for South Africa under the SADC EPA could also see additional sugar imports flowing into the EU. Ongoing negotiations for an upgraded agreement with Mexico and on an EU-Mercosur FTA will also likely result in additional import concessions for sugar in the future.





Source: European Commission

[1] http://ec.europa.eu/trade/policy/countries-and-regions/regions/andean-community/

Exports in MY 2017/18

Post increases its forecast EU sugar exports to 2.5 million MT in MY 2017/18 based on high sugar beet yields per hectare. To achieve this, EU sugar prices will need to decrease to make EU sugar competitive in the world market. While high-quality EU refined sugar may command a price premium over world market prices, this premium will have to be limited if the EU wants to achieve its export ambitions.

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, EU sugar ending stocks may only consist of pipeline stocks in the EU food processing industry and unsold stocks with sugar processors waiting to be allocated commercially. As the stock number at the end of MY 2017/18 will depend on the competitiveness of EU sugar exports, this number is a residual number that may widely vary.

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 maintained at 16.5 million. The total EU production from sugar beet for food, as well as for non-sugar industrial purposes was decreased to 18.4 million MT, or a decrease of 335,000 MT from the previous forecast, as a result of a downward revision of expected sugar production in France and the UK. This resulted in a decrease in out-of-quota sugar production for industrial use.

Sugar production numbers for MY2015/16 remain unchanged.

Consumption

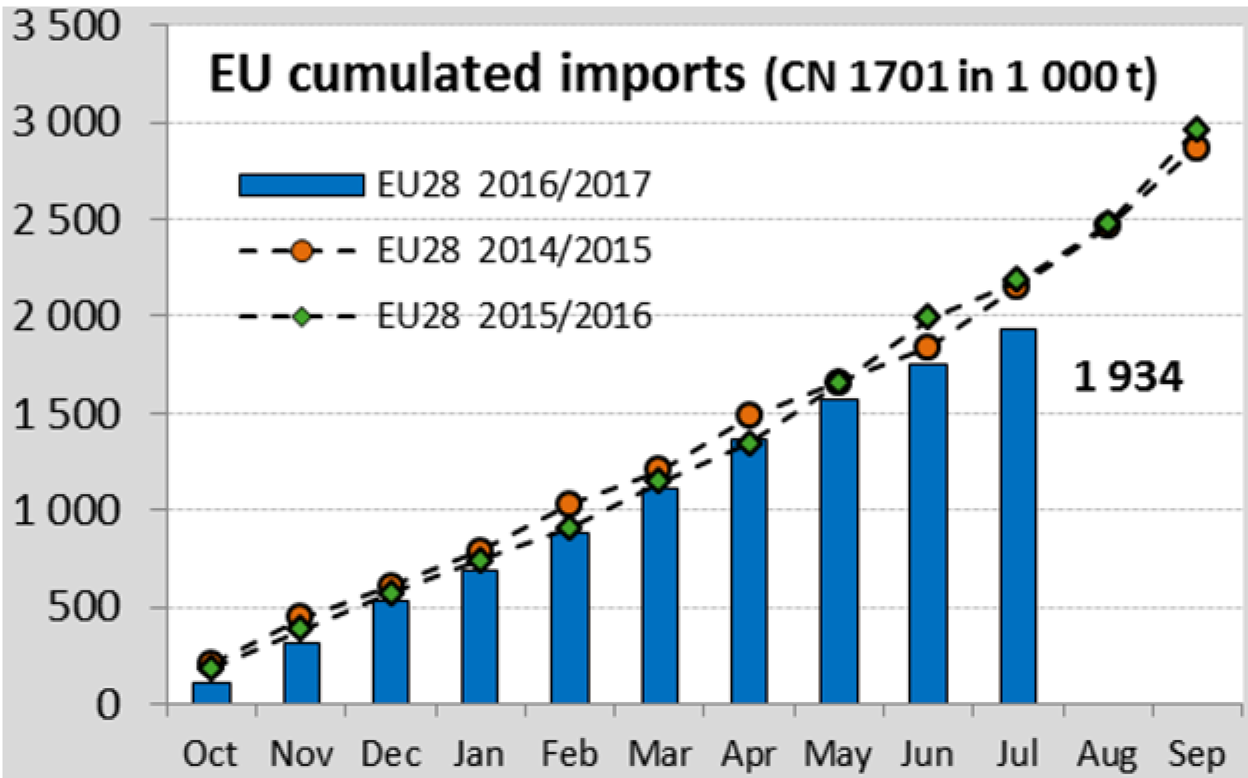
EU-28 domestic consumption of sugar was reviewed to remain stable at 18.7 million MT from MY 2015/16 onwards. The increase in demand in the new MS and for the growing immigrant population is being offset by decreasing consumption by the ageing population in the EU15 and product reformulations by the 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 bio-ethanol industry faced difficult market conditions from 2015 onwards as decreasing crude oil prices made bio-ethanol blending economically unattractive. Bio-ethanol produced from sugar also faced tough competition from decreasing grain prices. As a result, bio-ethanol production from sugar beet juice has been declining for the last couple of years.

Trade

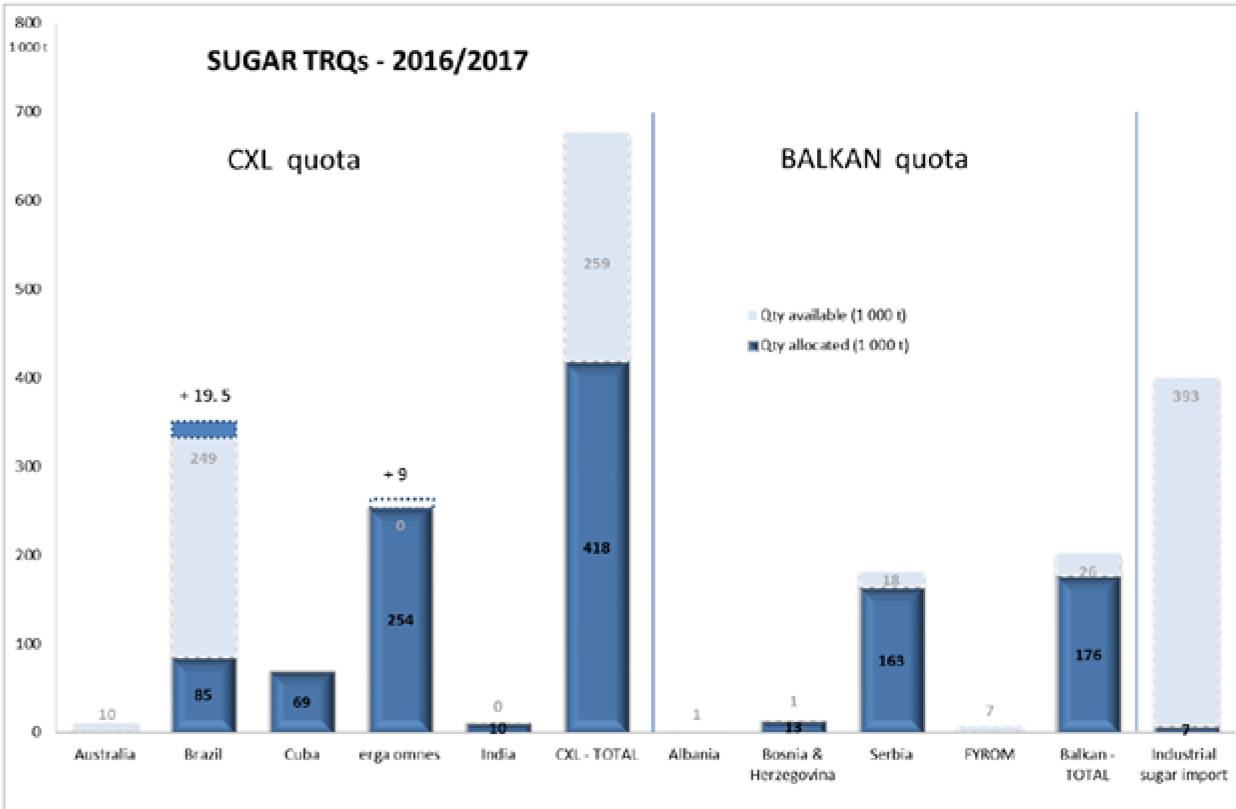
Imports

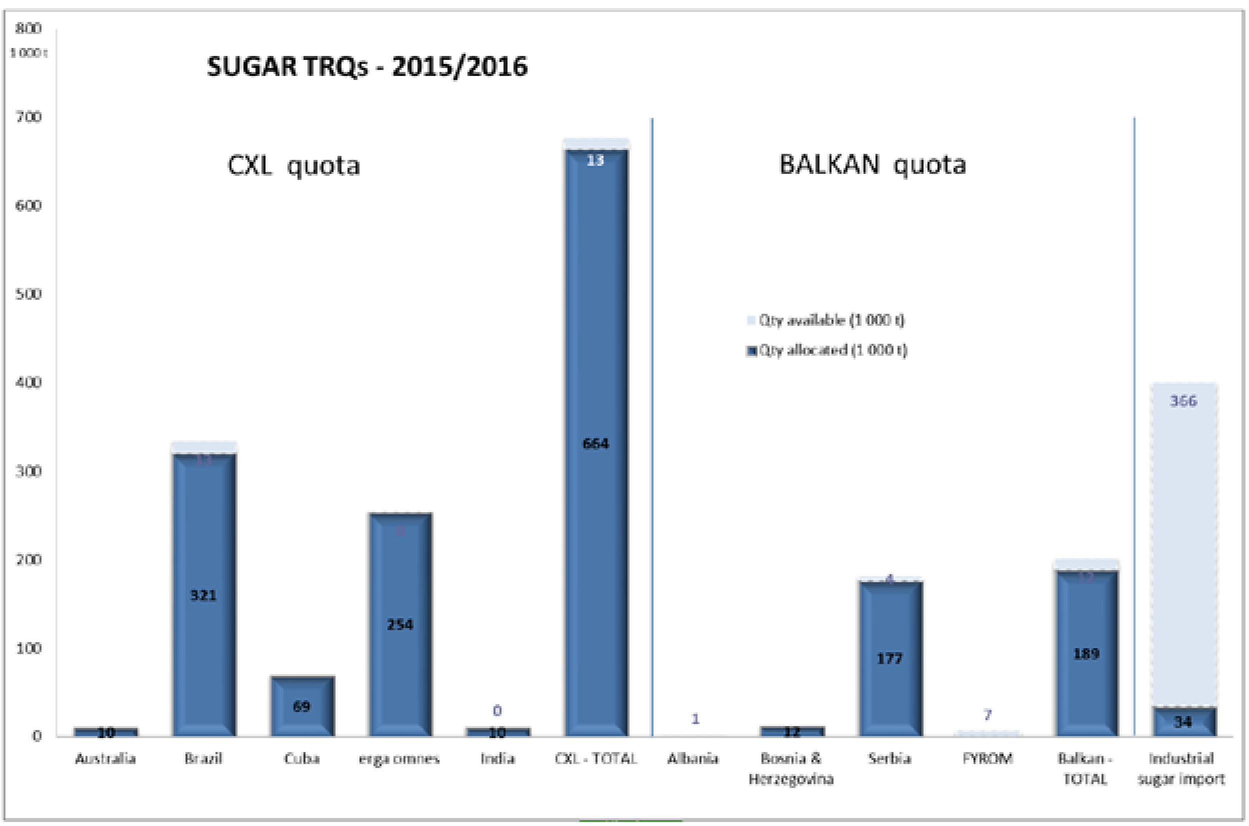
EU sugar imports have been slowing in recent years. When EU domestic sugar prices are too close to world market prices, refiners have no margin to pay the €98/MT within-quota import duty for cane sugar coming from Brazil and other destinations into the EU's CXL [1] quotas. Despite new imports from FTA countries including Peru, Colombia [2], Panama and Central America [3], imports for MY 2016/17 are decreasing and expected to end at 2.75 million MT, further down from the 3.0 million MT of imports in MY 2015/2016. In MY 2015/16, Brazil filled most of its CXL quota after failing to do so in MY 2014/15, but about 250,000 MT of its CXL quota is likely to go unused again this year.



Source: European Commission

[1] The CXL quotas result from compensation agreements for the 1995 EU enlargement.
[2] http://ec.europa.eu/trade/policy/countries-and-regions/regions/andean-community/
[3] http://ec.europa.eu/trade/policy/countries-and-regions/regions/central-america/


SUGAR TRQs - 2016/2017
CXL quota
BALKAN quota
Qty available (1 000 t)
Qty allocated (1 000 t)
1 000 t
+ 19. 5
+ 9
Australia
Brazil
Cuba
erga omnes
India
CXL - TOTAL
Albania
Bosnia & Herzegovina
Serbia
FYROM
Balkan - TOTAL
Industrial sugar import


SUGAR TRQs - 2015/2016
CXL quota
BALKAN quota
Qty available (1 000 t)
Qty allocated (1 000 t)
1 000 t
Australia
Brazil
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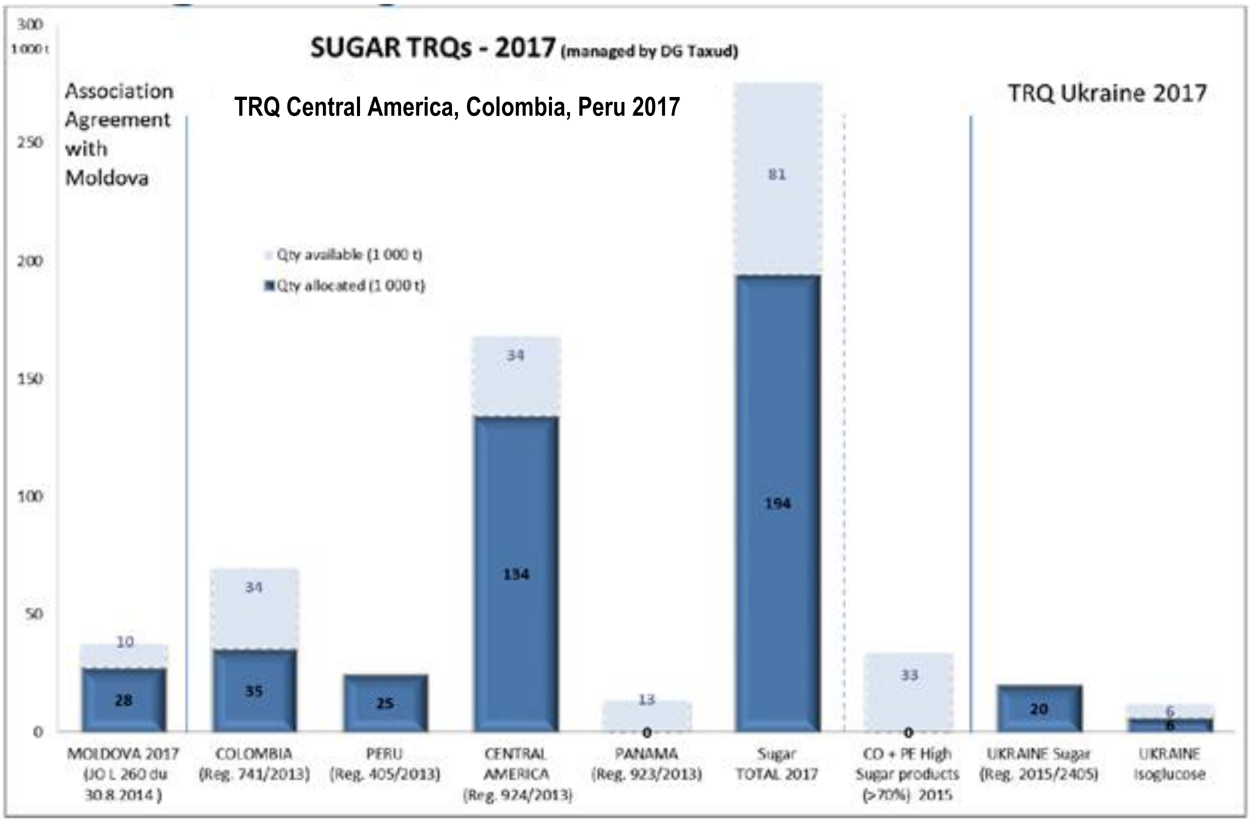
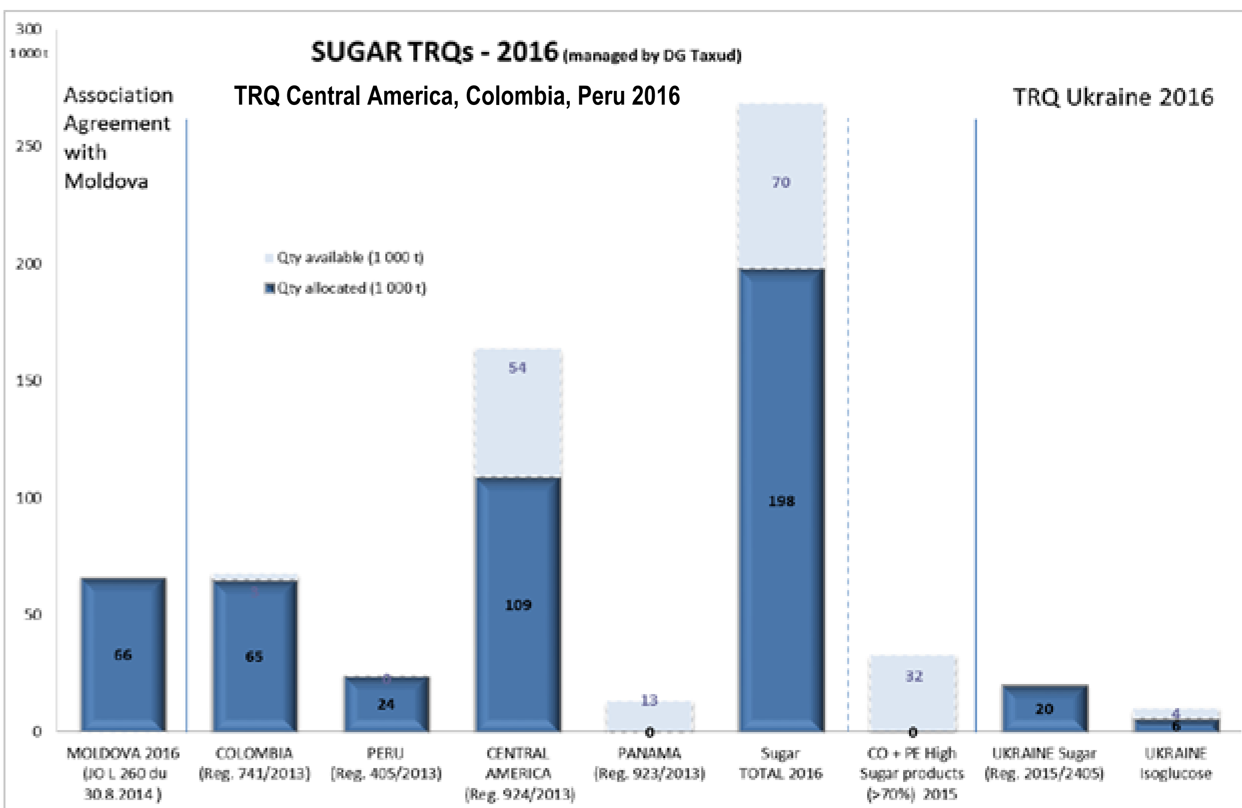
India
CXL - TOTAL
Albania
Bosnia & Herzegovina
Serbia
FYROM
Balkan - TOTAL
Industrial sugar import





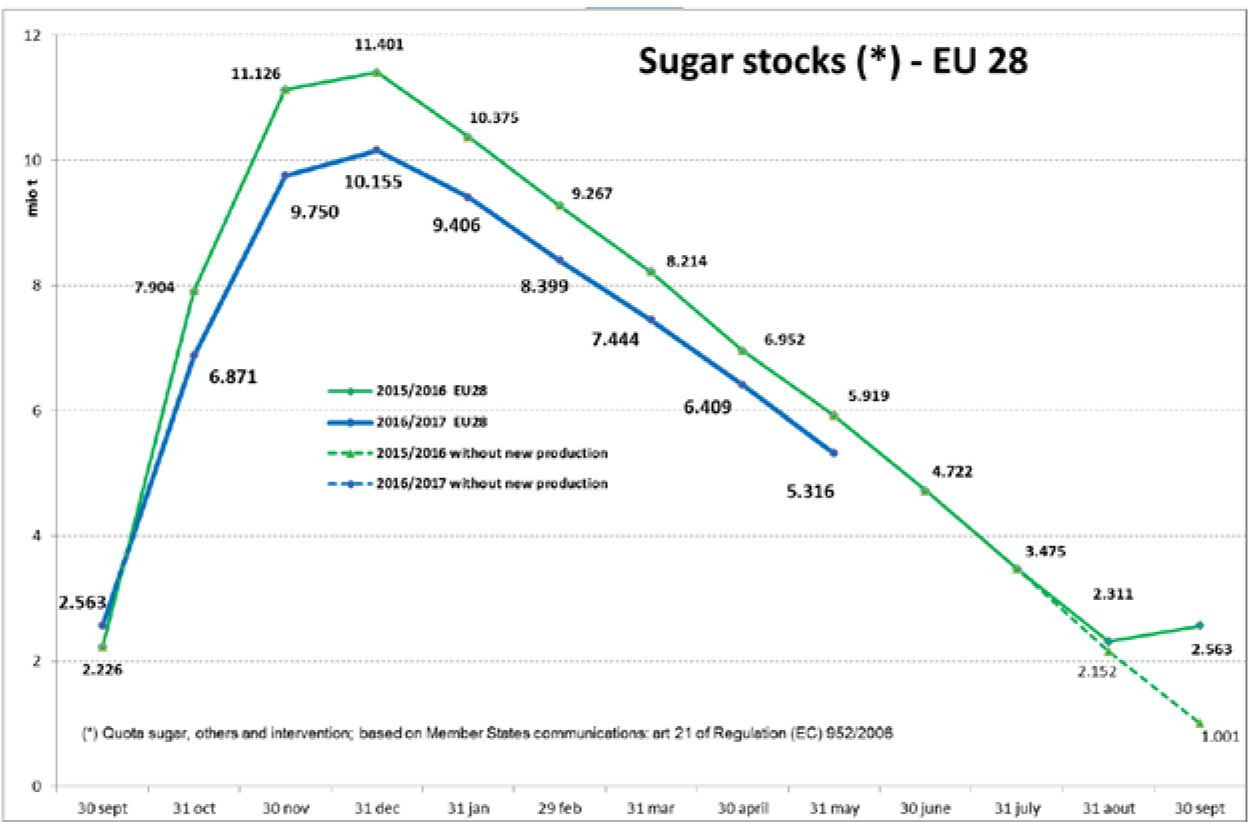
Source: European Commission

Exports

For MY 2015/16 and MY 2016/17, exports remain 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 for food under the quota system are now estimated at 0.24 million MT as a result of lower imports than previously expected. Because the carry-over system of unsold over-quota stocks is ending with the end of the EU sugar quota system, some additional amount of unsold thick juice for industrial purposes may need to be accounted for after the end of MY2016/17. However, it is still unclear what the fate will be of this additional stock that the European Commission estimates at 0.75 million MT. Ending stocks for MY 2015/16 were revised to 1.2 million MT.



Source: European Commission

Policy:

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

Under the CAP after 2013 agreement, the EU sugar production regime ended on September 30, 2017, after it was extended for two years through MY 2016/17 from its original expiration date 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 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

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.

This could lead to a new round of consolidation in EU sugar processing as processors in several MS had already been struggling to remain profitable. Sugar production has already been declining 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. In 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 were to expire at the end of the current CAP in 2019/2020.

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 [1], 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.

[1] https://ec.europa.eu/agriculture/sites/agriculture/files/markets-and-prices/medium-term-outlook/2016/2016-tables.pdf

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. With the price premium for refining having decreased significantly, refiners have to forgo imports into the CXL quotas, which carry a €98/MT duty, well above the current white sugar price premium. New duty-free imports from EU FTAs cannot compensate for this loss for the foreseeable time. The EU sugar market will continue to be shielded by high tariff walls.

Brexit Already Impacting EU Sugar Market

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 demands, 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.

For MY 2017/18, UK the sugar beet processing industry already contracted 30 percent more acreage. With announced record yields, this year's UK sugar production is forecast to increase by almost 50 percent, wiping out almost half of the import needs. As a result, much of the anticipated market adjustment from Brexit will already materialize well before the EU and the UK conclude a Brexit agreement.

Related reports from FAS Post in the European Union:

Country	Title	Date
Warsaw	Sugar Agricultural Situation Policy and Program Announcements	5/1/2017
BrusselsUSEU	EU Sugar Processors Bracing for Post-Quota with Large Production Increase	4/24/2017

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	1374	1241	774	241
Beet Sugar Production	14017	14017	16222	16222	18320	19820
Cane Sugar Production	266	266	278	278	280	280
Total Sugar Production	14283	14283	16500	16500	18600	20100
Raw Imports	2345	2251	2100	1900	1500	1500
Refined Imp.(Raw Val)	840	804	1000	850	500	500
Total Imports	3185	3055	3100	2750	2000	2000
Total Supply	21619	21489	20974	20491	21374	22341
Raw Exports	5	5	5	5	5	5
Refined Exp.(Raw Val)	1540	1543	1495	1545	2195	2495
Total Exports	1545	1548	1500	1550	2200	2500
Human Dom. Consumption	18700	18700	18700	18700	18650	18700
Other Disappearance	0	0	0	0	0	0
Total Use	18700	18700	18700	18700	18650	18700
Ending Stocks	1374	1241	774	241	524	1141
Total Distribution	21619	21489	20974	20491	21374	22341
(1000 MT)						