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Sugar Semi-annual

Report

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Report Highlights:

EU sugar production for food in MY 2014/15 is forecast at 16.3 million MT, up from 16.0 million MT in MY 2013/14, but down from 16.6 million MT in MY 2012/13. EU sugar imports in MY 2013/14 remains at 3.3 million MT, as a preferential import quota for Brazil for 325,000 MT is still unused.

Forecasts for MY 2014/15 expect EU sugar imports to increase again to 3.5 million MT as new EU FTA's become operational. EU sugar exports in MY 2014/15 are WTO limited at 1.5 million MT, about the same level as MY 2013/14 exports. EU sugar consumption for food is forecast to increase to 18.5 million MT in MY 2014/15, up from 18.3 million MT in MY 2013/14, as EU prices are expected to further decrease following the decline in world prices.

Executive Summary:

EU sugar production forecast in Marketing Year (MY) 2014/15 is remains at 16.3 million MT in raw sugar equivalent (RSE) as it is restricted by the EU sugar production quota regime. This is 300,000 MT up from 16.0 million MT in MY 2013/14. However, slightly higher beet acreage and favorable growing conditions will push EU MY 2014/15 out-of-quota production for industrial purposes up to nearly 3 million MT, the second largest crop since the 2007 EU Sugar Reform and more than 1 million MT higher than in MY 2013/14.

EU sugar imports are expected to decrease to 3.3 million MT in MY 2013/14 from 3.8 million MT in MY 2012/13 despite the opening of additional import quota, mainly from countries with which the EU recently signed a Free Trade Agreement (FTA) - Columbia, Peru, Panama and Central America. A preferential import quota for Brazil for over 325,000 MT remains unused. EU sugar imports are forecast to increase again to 3.5 million MT in MY 2014/15.

EU sugar exports for MY 2014/15 are forecast at 1.5 million MT as they are limited by the EU's WTO sugar export ceiling. Exports in MY 2013/14 are expected to end at 1.45 million MT while they were slightly higher at 1.66 million MT in MY 2012/13. Almost all of the sugar destined for exports is refined sugar. High EU domestic sugar prices since MY 2011/12 have slowed down the increase in sugar consumption at 18.3 million MT in MY 2013/14, but consumption is forecast to further increase again in MY 2014/15 to 18.5 million MT if EU sugar prices further decrease.

Production:

Note 1: The EU Sugar Production Quota Regime

The EU sugar market is heavily regulated. The [2007 Sugar Reform](#) [1] limited total EU production quotas 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 is set to expire at the end of marketing year (MY) 2016/17. Sugar production quotas are set by Member States (MS) and include a small quota for cane sugar production in overseas territories (DOM) for France and Portugal. Additional production is considered "out-of-quota." As a result, EU sugar processors in MS have four options to market sugar produced out-of-quota:

Exports: pending availability of EU export licenses limited to the EU WTO sugar export ceiling of 1.35 million MT (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. This option was last used in MY 2012/13. Under the new CAP post 2013, this system will largely remain 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.

Farmers are also protected against import competition from non-preferential raw sugar cane by high tariffs and import quotas. A rigid import license system governs preferential duty-free imports from Least Developed Countries (LDC) under the Everything-But-Arms (EBA) Agreement limiting imports to 3.5 million MT white sugar equivalent.

Note 2: CAP Reform Post 2013

In December 2013, the EU concluded an agreement on the Common Agricultural Policy (CAP) reform post 2013. Because the agreement was finalized late for implementation on January 1, 2014, the new CAP started with a one-year extension under the old budgetary rules and will become fully implemented as of 2015. An [overview of the new CAP](#) [2] is available online.

For the EU sugar market, the agreement includes the expiration of the EU sugar production quota system after a two-year extension period through MY 2016/17 allowing farmers and processors to adapt to the free market. This is expected to lead to further consolidation in EU sugar production. The new Common Market Organization (CMO) for sugar includes the following measures:

- Sugar quotas disappear after a two-year extension through MY2016/17. No changes are made to existing quota levels; no new quotas are given to MS.
- Delivery contracts between beet producers and processors become mandatory, but are already general common practice. Beet producers may organize themselves in Producer Organizations (PO) and bargain collectively.
- A system of Private Storage Aid will be set up for sugar after sugar quotas end.
- The system of “exceptional measures” from the expiring Single CMO is being replaced by a system of “Temporary measures” for the remaining three quota years beginning January 1, 2014. Temporary measures are expected to continue the system of exceptional measures, but the details about the mechanism, duties etc... are still pending as the necessary delegated acts are in the approval process. It is expected to be politically difficult to deviate from the previous system.

Note 3: Croatia Accession to the EU

Upon Croatia’s accession to the EU on July 1, 2013, the European Commission (EC) allocated 192,877 MT of refined sugar production quota to Croatia, thus bringing the total EU 28 sugar production quota for refined sugar to 13.5 million MT. Furthermore, in compensation for the loss of its duty-free EU sugar import quota for 180,000 MT of sugar, from which Croatia had benefitted since the end of the Balkan wars in the 1990’s, the EC agreed to issue a new sugar quota of 40,000 MT to Croatia for three years from MY 2012/13 through MY 2014/15.

Explanatory Notes to the report:

- This report covers EU 28 sugar markets. Croatia became the 28th EU member nation as of July 1, 2013 and the changes to its sugar trade relationship with the rest of the EU are accounted for in this report.
- All sugar is in raw sugar equivalent unless otherwise noted.

- The Production, Supply & Demand tables (PS&D) in this report only pertain to sugar as defined by Harmonize 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 is preserved for food use only, so-called out-of-quota sugar is used only for industrial (non-food) use.

- The conversion factors and marketing years used in this report:

MY = marketing year; for sugar October/September.

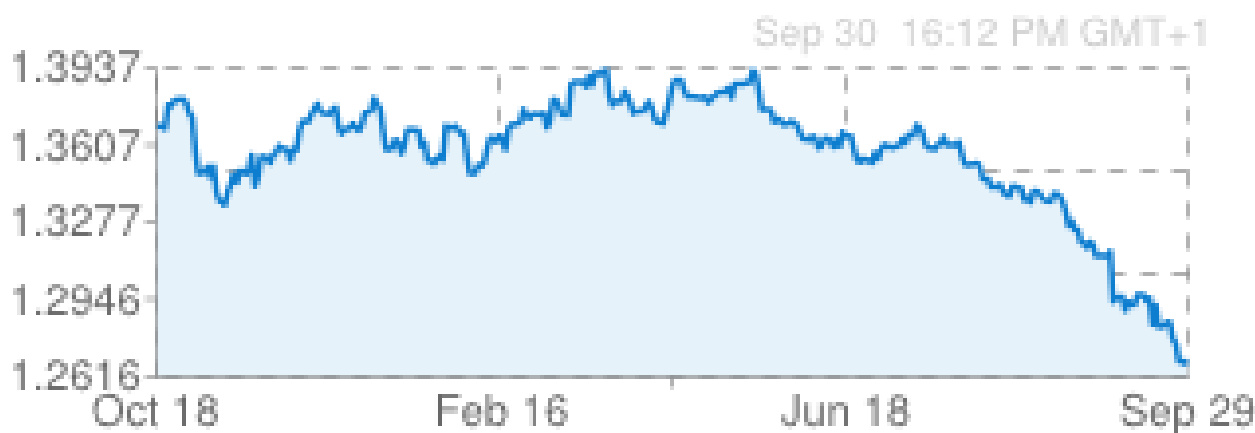
Raw cane sugar = 1.07 X Refined cane sugar

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.

- The data in this report is based on EU sugar production information collected by FAS offices in the EU Member States.

EUR/USD 365 Day History



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[1] http://ec.europa.eu/agriculture/sugar/legislation/index_en.htm

[2] http://ec.europa.eu/agriculture/policy-perspectives/policy-briefs/05_en.pdf

EU Food Sugar Production

EU sugar production forecast for food for MY 2014/15 is maintained at 16.3 million MT in raw sugar equivalent (RSE) as it is governed by the EU production quota regime. For MY 2013/14, EU sugar production was slightly decreased to 16.0 million MT as some MS declared a slightly lower production under the quota regime than previously forecast. Production numbers for MY 2012/13 were unchanged.

EU sugar beet production			
	Area, thousands of	Sugar beet yield in MT	Sugar content in

	Hectares			per Ha			percentage		
	12/13	13/14	14/15	12/13	13/14	14/15	12/13	13/14	14/15
Austria	49.3	50.8	50.7	63.0	67.6	68.0	16.66	18.05	18.00
Belgium	61.2	61.8	60.0	73.7	74.1	80.0	18.00	18.00	18.00
Denmark	40.8	38.0	39.0	65.0	60.5	65.0	18.00	18.00	18.00
Finland	11.5	12.0	13.0	34.8	38.8	40.0	16.50	16.50	16.50
France	390.0	394.0	407.0	85.9	85.7	89.0	18.40	18.50	18.50
Germany	402.1	358.0	356.0	71.3	63.6	76.9	18.22	17.84	17.87
Greece	9.0	6.0	7.5	67.0	67.8	67.0	13.50	13.50	13.50
Italy	52.5	40.7	51.7	49.1	51.9	57.0	15.50	15.00	16.00
Netherlands	73.0	73.2	73.5	78.9	76.0	82.0	17.10	17.40	18.00
Portugal	0.4	0.0	0.0	0.0	0.0	0.0	0.00	0.00	0.00
Spain	36.1	34.0	42.4	85.9	84.0	84.0	17.71	17.88	17.80
Sweden	39.0	36.2	37.0	55.8	64.2	65.0	17.50	17.50	17.50
U.K.	117.3	120.9	116.0	62.5	69.7	75.0	17.02	17.60	17.65
Czech Rep.	61.3	52.7	63.0	67.2	62.8	66.0	17.00	17.60	17.00
Hungary	19.0	15.6	15.1	47.1	48.9	50.0	16.80	16.50	16.50
Lithuania	19.2	17.6	17.2	52.3	54.9	55.0	17.00	17.20	17.00
Poland	193.3	184.8	190.0	63.7	60.8	61.0	17.20	17.80	17.00
Slovak Rep.	20.0	21.0	22.0	44.8	52.0	52.3	16.50	16.50	16.50
Romania	19.6	28.0	30.0	26.4	36.8	36.0	21.20	21.00	21.00
Croatia	24.0	25.8	26.5	38.0	55.0	50.0	15.50	15.50	15.50
Total EU-15	1282.2	1225.6	1253.8						
Total NMS	356.4	345.5	363.8						
Total EU-28	1638.6	1571.1	1617.6						

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

Source: FAS posts in EU member states

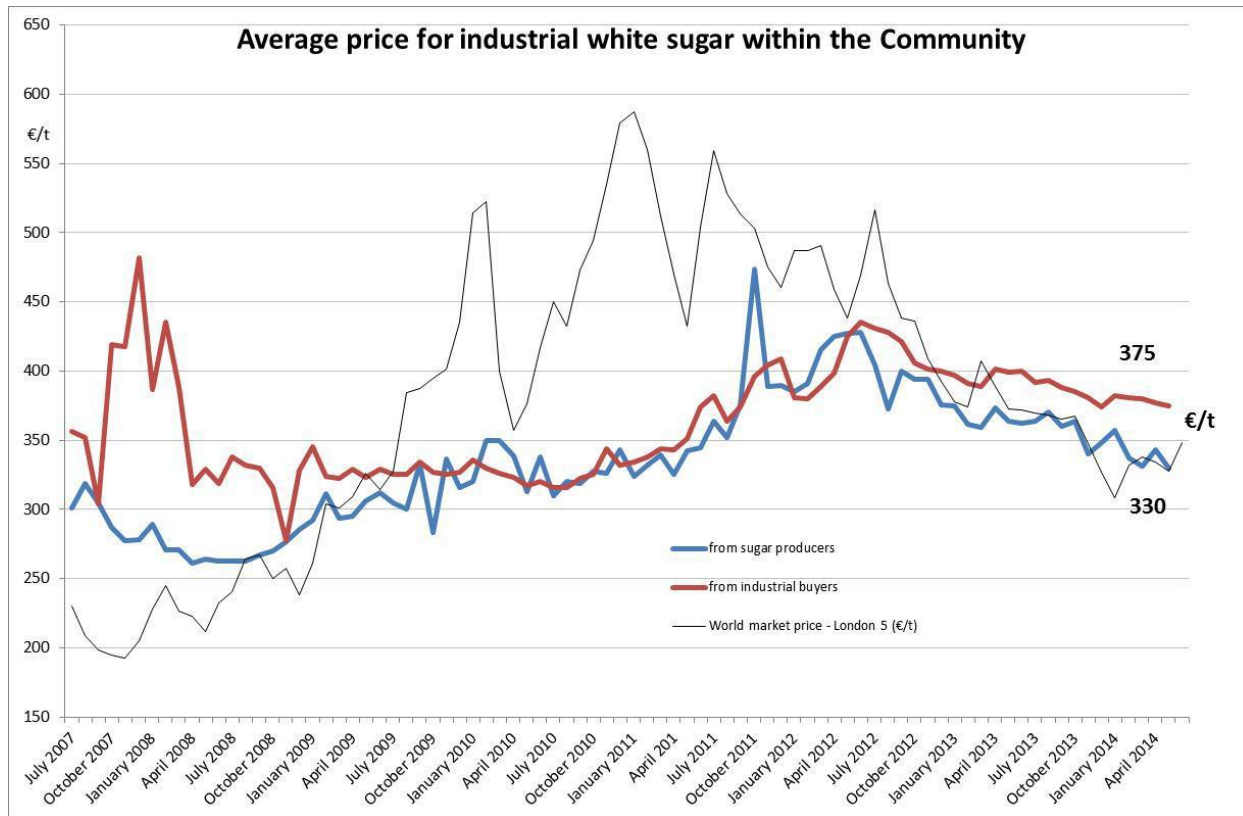
Additional Production beyond the EU Quota Regime for Non-food Use

Total EU beet sugar production for MY 2014/15 is forecast 700,000 MT higher than previously anticipated as a result of favorable beet growing conditions and despite a slightly downward revised beet acreage. Favorable conditions in October 2014 could enhance this production forecast even further. As a result, the 2014/15 crop is forecast to yield the second largest over-quota production of EU sugar for industrial purposes in six years at almost 3 million MT, less than the 2011/12 record crop, but more than the 2009/2010 crop. Depending on market opportunities in MY 2014/15, especially for bio-ethanol production, this large beet sugar surplus could lead to significant end-of-year stocks that will be carried over to count against the next MY production quota. Much will depend on the EU industrial sugar price compared to EU grain prices as a raw material for fermentation. However, EU wheat and corn prices are already low as a result of wheat quality problems and large corn supplies.

EU Beet Sugar Production (raw value)			
in ,000 MT	2012/13	2013/14	2014/15

EU Regulated Sugar Market*	16,655	16,010	16,300
Unregulated Over-Quota Production for Industrial Uses**	2,126	1,866	2,942
Total EU Beet Sugar Production	18,781	17,876	19,242
* includes within-quota production and out-of-quota production released to the EU food market in 2012/13, plus out-of-quota production that is exported			
**includes total out-of quota production, minus out-of-quota production released to the EU food market in 2012/13 and out-of-quota production that is exported			

Source: FAS/USEU calculation

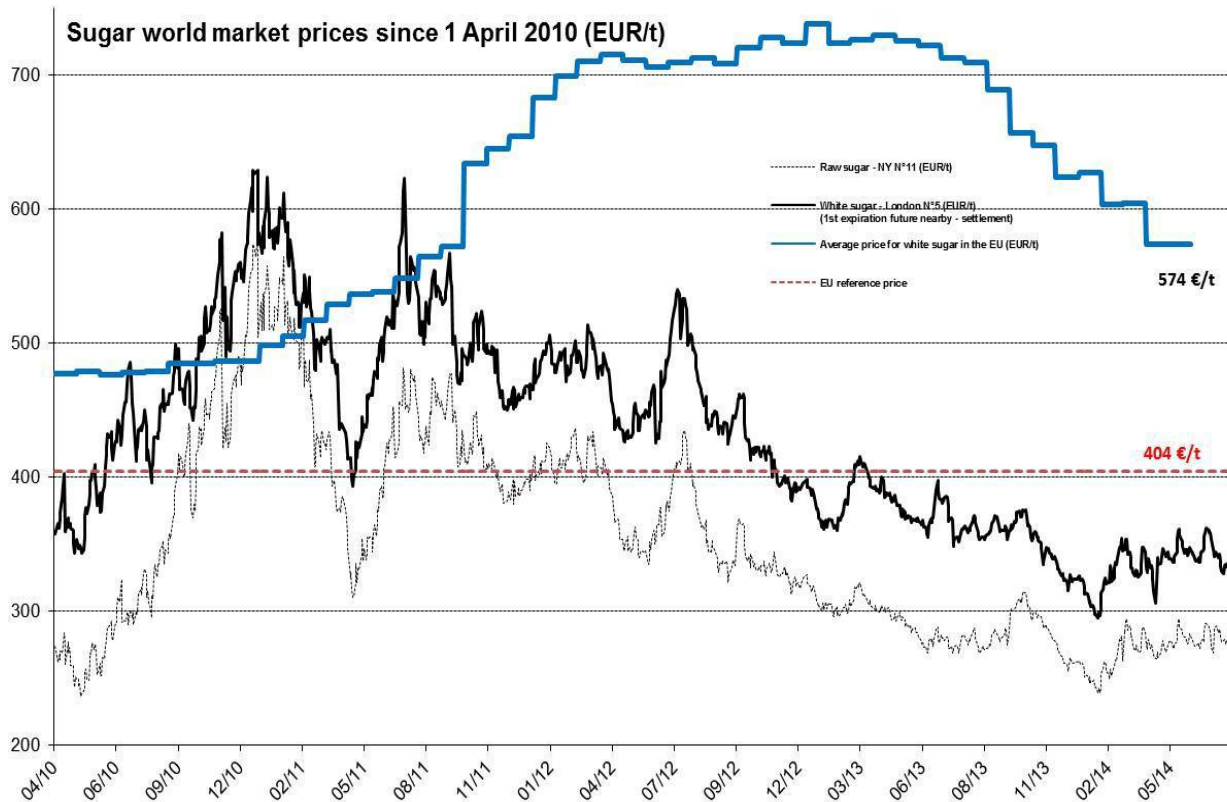


Source: European Commission

Consumption:

EU 28 sugar consumption continues to increase as consumption in the newest MS is catching up with the rest of the EU. However, increases in sugar consumption in the food industry, which accounts for 70 percent of EU food sugar consumption, are hampered in MY 2013/14 by the wide gap between EU domestic sugar prices for food use and world sugar prices. This makes the use of imported sugar through the inward processing program, which waives the high EU sugar import duties for food processing for re-export highly attractive. This mechanism allows EU food processors producing for export markets to compete with their non-EU counterparts, who have access to sugar at world market prices. This gap between EU and world sugar prices has widened from MY 2012/13 as world sugar prices declined much faster than EU food sugar prices. EU domestic food sugar prices eventually

decreased in the second half of MY 2013/14, but the price gap with world sugar prices largely persisted. As EU food sugar prices are expected to further decline in MY 2014/15, an increase in EU sugar consumption for food use to 18.5 million MT is anticipated.



Source: European Commission

Trade:

Imports

EU sugar imports in MY 2013/14 are expected to decrease to 3.3 million MT, of which 925,000 MT of refined sugar, from 3.8 million MT in MY 2012/13. The decrease occurs as 325,000 MT of a preferential import quota for Brazil remains unused, because of quota allocation issues in Brazil, despite the high EU sugar prices. For MY 2013/14, the EC has not implemented “temporary measures” - formerly called “exceptional measures” - allowing additional reduced duty sugar imports and out-of-quota sugar into the EU food market under the new CAP post 2013. EU sugar processors claim that there is no need for additional sugar because there is plenty of sugar available in the EU while food processors see high EU sugar prices as evidence that the EU food sugar market is undersupplied due to lower than expected preferential sugar imports. EU sugar imports for MY 2014/15 are forecast to increase again to 3.5 million MT as new sugar import concessions become fully operational from recent EU Free Trade Agreements (FTA) with Peru, [Colombia](http://ec.europa.eu/trade/policy/countries-and-regions/regions/andean-community/) [1], Panama and [Central America](http://ec.europa.eu/trade/policy/countries-and-regions/regions/central-america/) [2].

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

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

Exports

EU sugar exports are limited by the EU's WTO sugar export ceiling. Hence, European sugar exports for MY 2014/15 are forecast at 1.5 million MT, almost all of it as refined sugar. EU export markets are mainly in the Middle East and Northern Africa. EU sugar exports for MY 2013/14 are expected to end at 1.45 million MT. EU sugar exports for MY 2012/13 ended slightly higher at 1.66 million MT.

Stocks:

EU sugar stocks for MY 2013/14 are expected to end at 3.4 million MT, some 450,000 MT lower than at the end of MY 2012/13. For MY 2014/15, EU sugar ending stocks are forecast to decrease by another 200,000 to 3.2 million MT from MY 2013/14.

Production, Supply and Demand Data Statistics:

EU Sugar PSD Attribute	MY2012/13		MY2013/14		MY2014/15	
	EU28 Old	EU28 New	EU28 Old	EU28 New	EU28 Old	EU28 New
Beginning Stocks (1000 MT)	3,303	3,303	3,981	3,836	3,781	3,396
Beet Sugar Production (1000 MT)	16,364	16,380	15,800	15,737	16,000	16,025
Cane Sugar Production (1000 MT)	291	275	300	273	300	275
Total Sugar Production (1000 MT)	16,655	16,655	16,100	16,010	16,300	16,300
Raw Imports (1000 MT)	2,983	2,839	2,500	2,375	2,750	2,700
Refined Imp.(Raw Val) (1000 MT)	952	951	1,000	925	1,000	800
Total Imports (1000 MT)	3,935	3,790	3,500	3,300	3,750	3,500
Total Supply (1000 MT)	23,893	23,748	23,581	23,146	23,831	23,196
Raw Exports (1000 MT)	8	8	5	5	5	5
Refined Exp.(Raw Val) (1000 MT)	1,654	1,654	1,495	1,445	1,495	1,495
Total Exports (1000 MT)	1,662	1,662	1,500	1,450	1,500	1,500
Human Dom. Consumption (1000 MT)	18,250	18,250	18,300	18,300	18,500	18,500
Total Use (1000 MT)	18,250	18,250	18,300	18,300	18,500	18,500
Ending Stocks (1000 MT)	3,981	3,836	3,781	3,396	3,831	3,196
Total Distribution (1000 MT)	23,893	23,748	23,581	23,146	23,831	23,196

Author Defined:

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