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Sugar Semi-annual

Report

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Report Highlights:

The EU sugar production for food for MY 2015/16 is forecast at 16.1 million MT, down from 16.750 million MT in MY 2014/15. This is mainly the result of a decline in EU sugar beet acreage of about 15 percent to just under 1.4 million hectares. Total EU beet sugar production for MY 2015/16 is forecast at 16.85 million MT, down from 21.35 million MT in MY 2014/15, which was the highest since the 2007 Sugar Reform. EU domestic sugar consumption is expected to further increase slightly to 18.7 million MT in MY 2014/15 and 18.8 million MT in MY 2015/16. EU sugar imports for MY 2015/16 are forecast to recover partially after a decrease to 2.6 million MT in MY 2014/15 from 3.3 million MT in MY 2013/14. Sugar exports for MY 2015/16 are forecast at 1.5 million MT from an estimated 1.6 million MT in MY 2014/15. Ending stocks are forecast to decrease to 0.7 million MT in MY 2015/16 from 2.1 million MT in MY 2014/15 and 3.0 million MT in MY 2013/14.

Executive Summary:

EU sugar production for food for MY 2015/16 is forecast at 16.1 million MT in raw sugar equivalent (RSE). Despite an estimated decline in sugar beet acreage of about 15 percent to just under 1.4 million hectares, sugar processors in Member States (MS) are expected to fully produce their allowed sugar production quota as EU rules for “travail à façon” allow the transfer of sugar between them. EU sugar processors in most MS discouraged beet farmers from planting a large beet crop in 2015 because of low sugar prices and bleak prospects for valorizing remaining sugar surpluses from the 2014 harvest. The production estimate for MY 2014/15 is 16.750 million MT. This high production number resulted from favorable harvest conditions in 2014 in all major EU beet growing areas leading to a record crop.

Total EU beet sugar production for MY 2015/16 is forecast at 16.85 million MT. Total estimated EU beet sugar production for MY 2014/15 was further increased to 21.35 million MT, out-yielding the 2009 and 2011 record. With quota sugar production for food restricted to 14.7 million MT in RSE, over-quota production for industrial purposes reached 6.6 million MT, of which 4.6 million MT of over-quota sugar needed to find a destination outside the EU food market or double the yearly average since the 2007 Sugar Reform. Decreased market opportunities for industrial sugar in MY 2014/15 because of low prices, especially for bioethanol production, are expected to lead to significant end-of-year stocks that will be carried over to count against the MY 2015/16 production quota. Because of the significant decrease in beet acreage, EU sugar processors are starting the 2015 beet processing campaign with a two to three week delay. Remaining sugar surplus from MY 2014/15 is forecast to complement much lower MY 2015/16 over-quota sugar production to satisfy EU sugar market needs for industrial purposes.

EU domestic sugar consumption is expected to further increase slowly to 18.7 million MT in MY 2014/15 and 18.8 million MT in MY 2015/16, as it is expected to level off in the future. EU sugar imports in MY 2014/15 are further decreasing to an estimated 2.6 million MT as low EU domestic sugar prices are making sugar imports into EU GATT CXL quota carrying a €98/MT duty economically unviable. Already in MY 2013/14, 325,000 MT of Brazil’s quota had remained unused. Imports for MY 2015/16 are forecast to recover only partially. EU sugar exports, most of which are refined sugar, for MY 2014/15 are expected to reach 1.6 million MT. As EU sugar exports are limited by the EU’s WTO sugar export ceiling, exports for MY 2015/16 are forecast at 1.5 million MT. Because EU sugar production for food under the quota system is structurally below EU’s domestic consumption, shortfalls in sugar imports translate into decreases in food sugar stocks. MY 2014/15 ending stocks are estimated at 2.1 million MT, down from 3.0 million MT in MY 2013/14. For MY 2015/16, ending stocks are forecast to decrease further to 0.7 million MT.

The 2015 beet harvest season is the second to last sugar beet crop that EU farmers have produced under the EU Sugar Production Quota Regime. When the quota regime expires at the end of MY 2016/2017, it will have been in place for half a century. Sugar beet farmers and sugar processors alike are anticipating the end of the quota era with mixed feelings. While some analysts argue that the end of EU sugar production limitations will offer good opportunities for increased EU sugar exports, sugar producers are less optimistic as sugar processing margins have come under pressure as a result of low sugar prices. Farmers also fear that sugar prices may remain subdued for longer periods when world sugar prices are low. Sugar processors reportedly have shelved investment plans, at least temporarily, as current processing margins would not allow recovering investment costs.

Commodities:

Sugar, Centrifugal

Production:

Explanatory Notes to the reader:

- This report covers the 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 (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 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.
- EUR/USD exchange rate



Source: Exchangerates.org.uk

Additional Upfront Notes

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’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.

Isoglucose is not a competitor for sugar for food use. Isoglucose such as High Fructose Corn Syrup (HFCS) is governed by its own production quotas, which are tied to sugar quotas at 5 percent.

Farmers are also protected against 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 (LDCs) under the Everything-But-Arms (EBA) Agreement limiting imports by a safeguard of 3.5 million MT white sugar equivalent. In recent years, additional country-specific quotas have been agreed as part of EU free trade agreements (FTA’s) with Peru, Columbia, Panama and Central America totaling some 260,000 MT. Ukraine has also been allocated a 20,000 MT quota.

Note 2: Common Agricultural Policy Reform Post 2013

The new CAP started on January 1, 2014, with a one-year extension under the old budgetary rules and became fully implemented as of 2015. As part of the CAP package, 10 MS out of the 19 sugar producing MS decided to retain some level of coupled payments for the production of sugar. These are Finland, Greece, Italy, Spain, Croatia, Czech Republic, Slovak Republic, Hungary, Poland and Romania. The latter six belong to the so-called new MS, which acceded to the EU in 2004 or later and did not have the farmer’s compensation for the 2007 Sugar reform included in their Single Area Payment Schemes (SAPS). An [overview of the new CAP \[2\]](#) is available online.

For the EU sugar market, the CAP includes the expiration of the EU sugar production quota system after a two-year extension period through MY 2016/17 to allow farmers and processors to adapt to the free market. The new Common Market Organization (CMO) for sugar includes the following measures:

- Sugar quotas disappear after a two-year extension through MY 2016/17. 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.

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, 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.

EU Food Sugar Production

PSD - Sugar, Centrifugal	MY2013/14		MY2014/15		MY2015/16	
Market Begin Year	October 2013		October 2014		October 2015	
European Union	USDA Official	New post	USDA Official	New post	USDA Official	New post
Beginning Stocks (1000 MT)	3,836	3,836	3,067	3,066	2,617	2,106
Beet Sugar Production (1000 MT)	15,741	15,741	16,461	16,461	15,220	15,820
Cane Sugar Production (1000 MT)	279	279	289	289	280	280
Total Sugar Production (1000 MT)	16,020	16,020	16,750	16,750	15,500	16,100
Raw Imports (1000 MT)	2,420	2,428	2,200	1,900	2,400	2,100
Refined Imp.(Raw Val) (1000 MT)	843	834	800	700	800	700
Total Imports (1000 MT)	3,263	3,262	3,000	2,600	3,200	2,800
Total Supply (1000 MT)	23,119	23,118	22,817	22,416	21,317	21,006
Raw Exports (1000 MT)	8	8	5	10	5	5
Refined Exp.(Raw Val) (1000 MT)	1,544	1,544	1,495	1,600	1,495	1,495
Total Exports (1000 MT)	1,552	1,552	1,500	1,610	1,500	1,500
Human Dom. Consumption (1000 MT)	18,500	18,500	18,700	18,700	18,800	18,800
Total Use (1000 MT)	18,500	18,500	18,700	18,700	18,800	18,800
Ending Stocks (1000 MT)	3,067	3,066	2,617	2,106	1,017	706
Total Distribution (1000 MT)	23,119	23,118	22,817	22,416	21,317	21,006

The forecast for the EU marketing year (MY) 2015/16 sugar production for food is increased to 16.1 million MT in raw sugar equivalent (RSE) from the initial 15.5 million MT, as it becomes clear that sugar processors in EU member states (MS) will produce enough sugar to fully use the production quota, as EU rules for “travail à façon” allow the transfer of sugar between them, notwithstanding variable beet yields in drought-stricken MS in eastern and southern Europe. This is despite the fact that EU sugar processors in most MS discouraged beet farmers from planting a large beet crop because of low sugar prices and bleak prospects for valorizing remaining sugar surpluses from the 2014 harvest in 2015. EU beet acreage for the 2015 harvest decreased by 15 percent to just below 1.4 million hectares (see table below). The production estimate for EU production of sugar for food for MY 2014/15 is maintained at 16.750 million MT as final production numbers, including unsold sugar being carried over into MY 2015/16, will become available later. This high production number resulted from favorable 2014 harvest conditions in all major EU beet growing areas leading to a record crop.

EU sugar beet production									
	Area, thousands of Hectares			Sugar beet yield in MT per Hectare			Sugar content in percentage		
	13/14	14/15	15/16	13/14	14/15	15/16	13/14	14/15	15/16
Austria	50.8	50.7	45.6	67.6	84.0	68.5	18.05	16.00	17.80
Belgium	59.8	58.7	53.7	74.1	81.8	78.0	18.00	17.70	18.00
Denmark	38.0	36.0	24.0	60.5	52.5	61.5	18.00	18.00	18.00
Finland	12.0	13.7	12.0	38.8	38.2	36.0	16.50	16.50	16.50
France	394.0	407.0	385.0	85.7	89.0	85.0	18.50	18.50	18.50
Germany	358.0	373.0	310.0	63.6	78.0	70.0	17.84	17.87	17.80
Greece	5.8	7.5	4.7	67.8	67.0	60.0	13.50	13.50	13.50
Italy	40.7	52.2	38.3	51.9	66.0	58.0	15.00	16.00	16.00
Netherlands	73.0	75.1	60.5	76.0	87.4	81.0	16.90	16.70	17.00
Portugal	0.0	0.0	0.0	0.0	0.0	0.0	0.00	0.00	0.00
Spain	34.0	42.4	35.0	84.0	84.0	93.0	17.88	17.80	17.70
Sweden	36.2	34.4	19.3	64.2	59.8	59.0	17.50	17.50	17.50
U.K.	120.9	116.0	90.0	69.7	75.0	69.5	17.60	17.65	17.50
Czech R.	62.0	63.0	58.2	63.5	85.7	64.0	17.59	16.00	17.00
Hungary	15.6	15.1	14.7	48.9	50.0	53.0	16.50	16.00	16.50
Lithuania	17.6	16.2	15.0	59.0	54.4	50.0	17.50	17.00	17.10
Poland	184.8	197.6	171.6	60.8	68.0	51.5	17.30	17.50	17.50
Slovak R.	21.0	22.0	21.4	52.0	52.3	53.0	16.50	16.00	16.50
Romania	28.1	29.2	23.9	36.6	38.7	30.0	17.00	16.50	16.50
Croatia	20.0	26.5	16.8	52.0	64.0	45.0	15.50	15.50	15.50
Total EU-15	1223.2	1266.7	1078.1						
Total NMS	349.1	369.6	321.6						
Total EU-28	1572.3	1636.3	1399.7						

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

Source: FAS

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

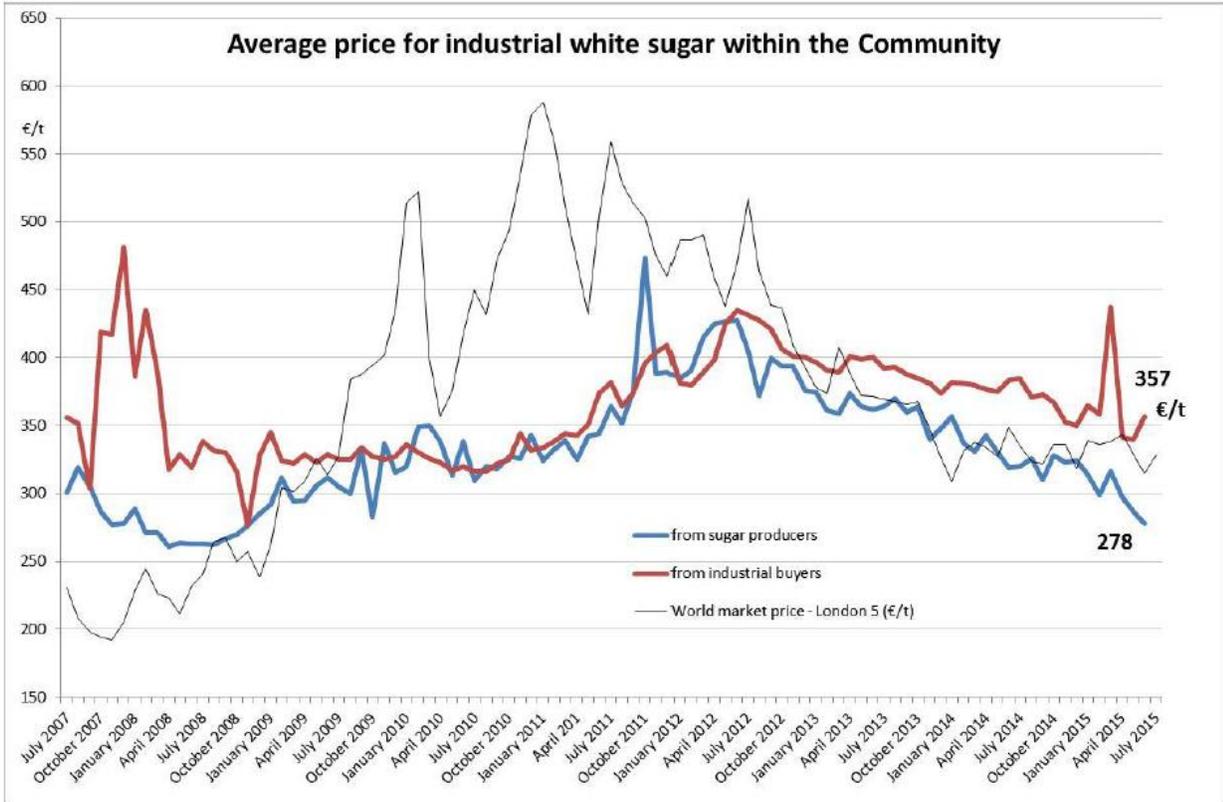
Total EU beet sugar production for MY 2015/16 is forecast at 16.85 million MT. Total estimated EU beet sugar production for MY 2014/15 was increased by another 410,000 MT to 21.35 million MT, out-yielding the 2009 and 2011 record crops and reaching the largest EU beet sugar crop since the pre-sugar-reform year 2005. With quota sugar production for food restricted to 14.7 million MT in RSE, over-quota production for industrial purposes reached 6.6 million MT. After deduction of sugar exports and carry-over of sugar between quota years, some 4.6 million MT of over-quota sugar needed to find a destination outside the EU food market, double the yearly average since the 2007 Sugar Reform. While numbers will only become available in the coming months, poor market opportunities for industrial sugar in MY 2014/15 because of low prices, especially for bioethanol production, are expected to have led to significant end-of-year stocks that will be carried over again to count against next year's

production quota. As a result, following the recommendation of sugar processors, beet farmers reduced planting area in 2015 by almost 2.4 million hectares. Because of this significant decrease in beet acreage, EU sugar processors are starting the 2015 beet processing campaign with a delay of two to three weeks, allowing them to free up storage further from the MY2014/15 sugar surplus. Nevertheless, remaining sugar surplus from MY2014/15 is forecast to complement much lower MY 2015/16 over-quota sugar production to satisfy EU sugar market needs for industrial purposes.

EU Beet Sugar Production (raw value)				
	in ,000 MT	2013/14	2014/15	2015/16
EU Regulated Sugar Market*		16,020	16,750	16,100
Unregulated Over-Quota Production for Industrial Uses**		2,238	4,603	754
Total EU Beet Sugar Production		18,258	21,353	16,854

*includes within-quota production and out-of-quota production released to the EU food market, 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 and out-of-quota production that is exported



Source: European Commission

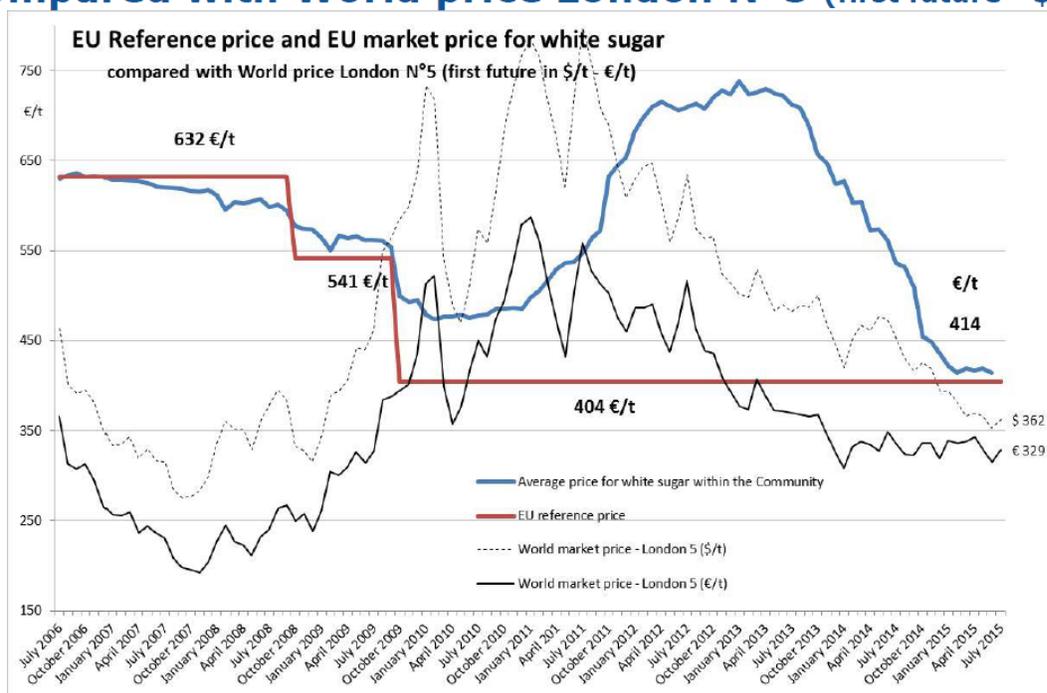
[1] http://ec.europa.eu/agriculture/sugar/legislation/index_en.htm

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

Consumption:

EU domestic sugar consumption is expected to increase gradually further to 18.7 million MT in MY 2014/15 and 18.8 million MT in MY 2015/16 as consumption in the latest EU acceding MS is catching up with the rest of the EU but is expected to level off in the future. However, in MY 2013/14, the increase in sugar consumption in the food industry, which accounts for 70 percent of EU food sugar consumption, was hampered by the wide gap between EU domestic sugar prices for food use and world sugar prices. As the price gap between EU sugar prices and world prices decreased in MY 2014/15, EU food processors used less imported sugar, especially for food exports under the EU inward processing program, which waives import duties.

EU Reference price and EU market price for white sugar compared with World price London N°5 (first future - \$/t - €/t)

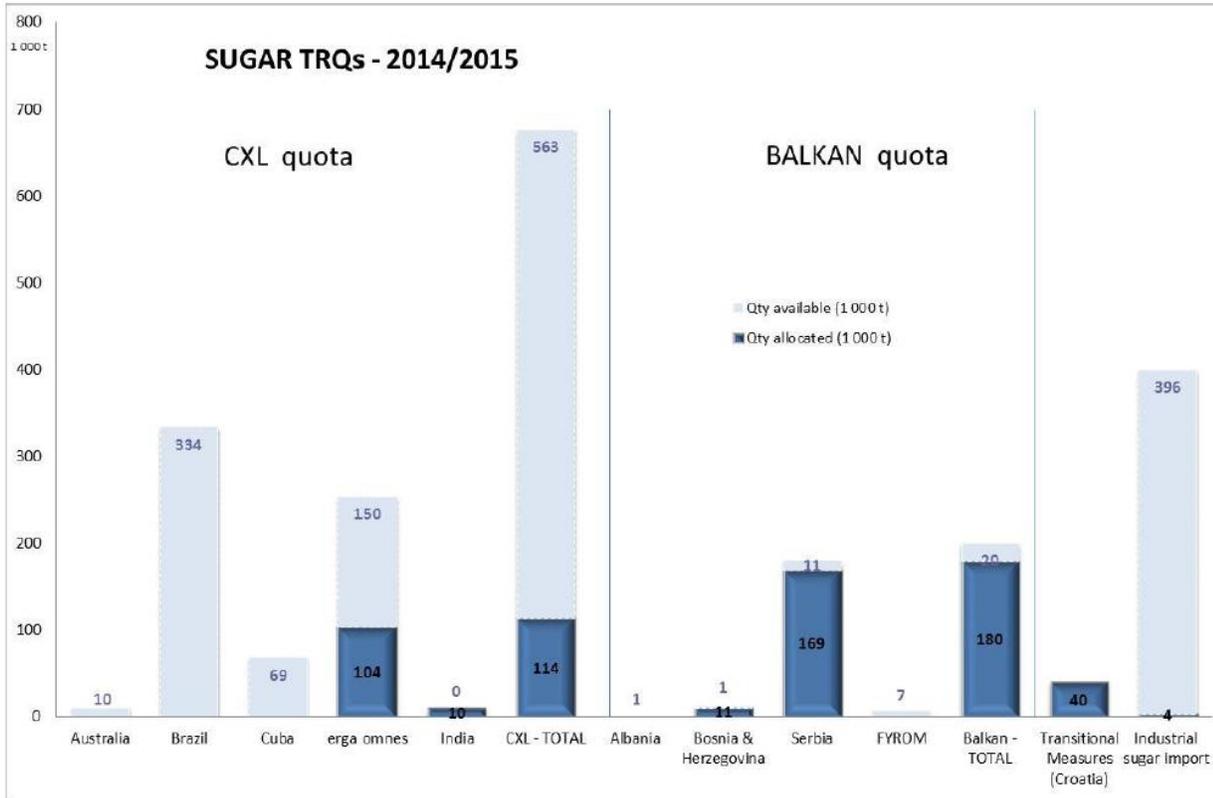


Source: European Commission

Trade:

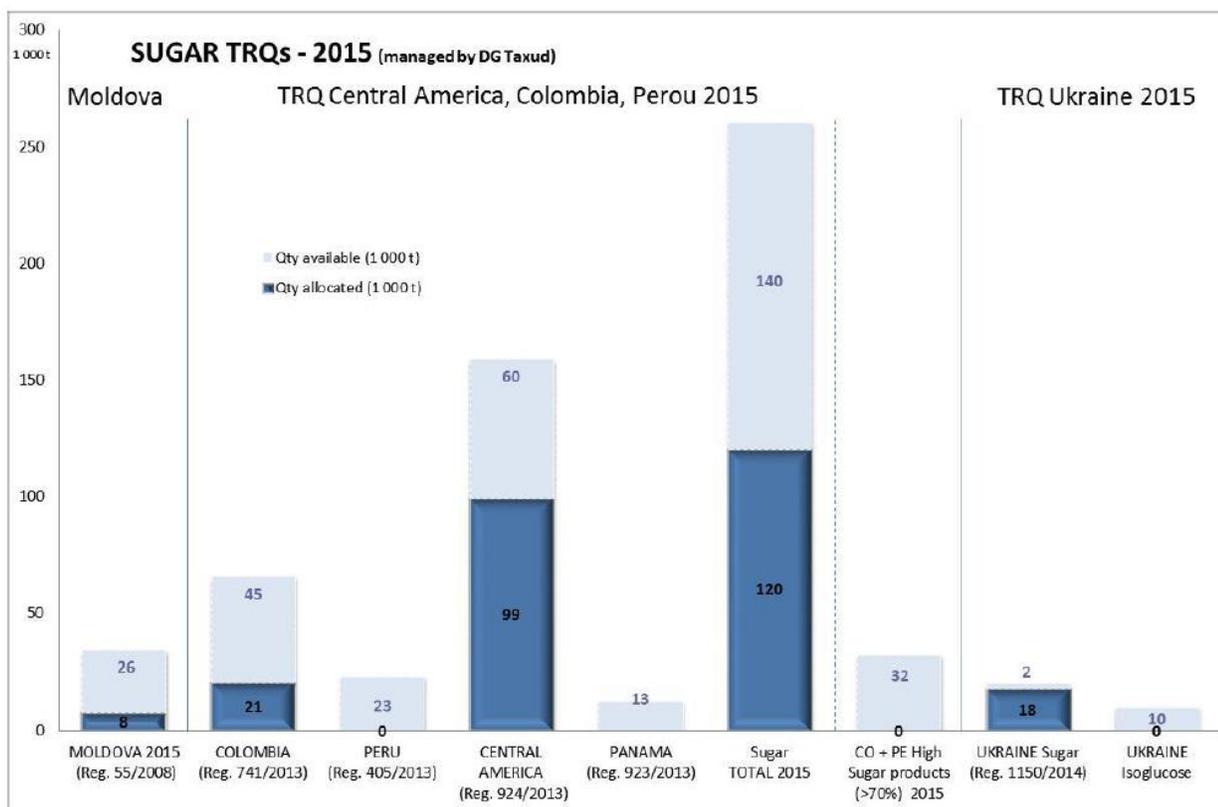
Imports

As expected, EU sugar imports in MY 2014/15 are decreasing to an estimated 2.6 million MT, of which 0.8 million as refined sugar. Low EU domestic sugar prices are making sugar imports into EU GATT CXL quota, carrying a €98/MT duty, economically unviable, making EU sugar importers especially for refining in the EU reluctant to import sugar from Brazil and other destinations into the EU's CXL quota. Already in MY 2013/14, 325,000 MT of the Brazil quota had remained unused.



Source: European Commission

It remains to be seen whether new sugar import quota for countries that the EU recently concluded FTAs with like with Peru, [Colombia \[1\]](#), Panama and [Central America \[2\]](#), which are managed on a calendar year basis, will be used. As a result, EU MY 2014/15 sugar imports are expected to have decreased by more than 660,000 MT compared to MY 2013/14. Imports for MY 2015/16 are forecast to recover only partially again, unless EU sugar prices were to see a significant upswing and despite the need for imports to supplement dwindling stocks.



Source: European Commission

Exports

EU sugar exports for MY 2014/15 are expected to reach 1.6 million MT, all but 10,000 MT of which is refined sugar. As EU sugar exports are limited by the EU's WTO sugar export ceiling, exports for MY 2015/16 are forecast at 1.5 million MT, almost all of it as refined sugar. For MY 2013/14 sugar exports ended slightly higher at 1.55 million MT, mostly to traditional destinations in the Middle East and Northern Africa.

[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/>

Stocks:

Because EU sugar production for food under the quota system is structurally below EU domestic consumption, shortfalls in sugar imports translate into decreases in food sugar stocks. Unsold sugar surpluses at the end of MY 2014/15 are estimated to keep end-of-year stocks at 2.1 million MT, despite decreased imports, but down from 3.0 million MT in MY 2013/14. For MY 2015/16 end-of-year EU sugar stocks are forecast to decrease to 0.7 million MT, unless the European Commission (EC) were to withhold sugar exports below the usual WTO export ceiling. EC forecasts for MY 2014/15 see end-of-year sugar stocks for food down to about 1.0 million MT, with MY 2015/16 stocks further decreasing to

0.75 million MT. However, the EU stock forecast does not include any anticipated carry-over of unsold sugar into the next marketing year.

Policy:

Preparing for the End of the EU Sugar Production Quota Regime in 2017

The imminent 2015 beet harvest season is the second to last sugar beet crop that EU farmers will have produced under the EU Sugar Production Quota Regime. When the quota regime expires at the end of MY2016/17 as foreseen by the CAP Post 2013, it will have been in place for half a century since its introduction in 1968. However, sugar beet farmers and sugar processors alike are anticipating the end of the quota era with mixed feelings. Some analysts have argued for years that the end to EU sugar production limitations will offer good opportunities for increased EU sugar exports after WTO restrictions on EU exports disappear, but recent price developments have rendered sugar producers less optimistic as sugar processing margins have come under pressure. Farmers also fear that sugar prices may remain subdued for longer periods when world sugar prices are low. Many sugar processors have reportedly already developed advanced investment plans for increasing processing capacity, which they have now shelved, at least temporarily, as current processing margins would not allow recovering investment costs.

Similarly to hard-pressed dairy and pork farmers and processors, the EU sugar sector, led by its association Comité Européen des Fabricants de Sucre (CEFS), in spring 2015 called upon the EC to prepare measures to cushion the transition to a post-quota EU sugar market [1] .

[1] <http://www.comitesucre.org/site/european-sugar-social-partners-call-on-the-european-commission-to-take-action-to-alleviate-the-current-sugar-market-crisis-and-allow-the-sector-to-prepare-for-the-end-of-the-quota-system-in-2017/>

Production, Supply and Demand Data Statistics:

Sugar, Centrifugal	2013/2014		2014/2015		2015/2016	
Market Begin Year	Oct 2013		Oct 2014		Oct 2015	
European Union	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	3836	3836	3067	3066	2617	2106
Beet Sugar Production	15741	15741	16461	16461	15220	15820
Cane Sugar Production	279	279	289	289	280	280
Total Sugar Production	16020	16020	16750	16750	15500	16100
Raw Imports	2420	2428	2200	1900	2400	2100
Refined Imp.(Raw Val)	843	834	800	700	800	700

Total Imports	3263	3262	3000	2600	3200	2800
Total Supply	23119	23118	22817	22416	21317	21006
Raw Exports	8	8	5	10	5	5
Refined Exp.(Raw Val)	1544	1544	1495	1600	1495	1495
Total Exports	1552	1552	1500	1610	1500	1500
Human Dom. Consumption	18500	18500	18700	18700	18800	18800
Other Disappearance	0	0	0	0	0	0
Total Use	18500	18500	18700	18700	18800	18800
Ending Stocks	3067	3066	2617	2106	1017	706
Total Distribution	23119	23118	22817	22416	21317	21006
(1000 MT)						

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