

THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY
USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT
POLICY

Required Report - public distribution

Date: 4/17/2015

GAIN Report Number: E15017

EU-28

Sugar Annual

Report

Approved By:

Cynthia Guven

Prepared By:

Yvan Polet

Report Highlights:

The EU-28 production of sugar for food for MY 2014/15 is estimated to increase to 16.750 million MT in raw sugar equivalent (RSE), from 16.0 million MT in MY 2013/14, as a result of excellent beet yields throughout the EU. For MY2015/16, EU farmers are forecast to decrease beet acreage by 10 percent in response to low prices for sugar production beyond the quota, leading to a drop in sugar production for food to 15.5 million MT. Despite increasing sugar imports from FTAs with South and Central American countries, EU sugar imports for MY 2014/15 are estimated to decrease to 3.0 million MT from 3.3 million MT the previous year as importers are reluctant to pay within-quota duties. Imports for MY 2015/16 are forecast to recover as they complement dwindling EU sugar stocks. EU sugar exports remain bound by the WTO export ceiling at 1.5 million MT.

Executive Summary:

EU-28 production of sugar for food in MY 2014/15 is estimated to further increase to 16.750 million MT in raw sugar equivalent (RSE) as a result of excellent beet yields throughout the EU. Furthermore, the total MY 2014/15 crop, including sugar beet produced for industrial purposes like bio-ethanol is now estimated to have yielded the largest EU beet sugar crop since 2008 at almost 21 million MT in RSE, surpassing the MY 2011/12 record crop. As a result, some 4.2 million MT of over-quota production needs to find a destination outside the EU food market, about double the average yearly amount since the 2007 Sugar Reform.

For MY2015/16, beet production is forecast to decrease by 10 percent, which could result in a 15 percent decrease in total sugar production. This would result in sugar production for food of 15.5 million MT. Sugar processors discouraged beet farmers from planting a large 2015 crop as market opportunities for industrial sugar in MY 2014/15 are poor because of low prices, which could lead to significant end-of-year stocks that will be carried over again to count against the next MY production quota.

EU sugar consumption for food is forecast to continue its steady increase through MY 2015/16. As the price gap between EU sugar prices and world prices decreases for MY 2014/15, EU food processors use less imported sugar, especially for food exports under the EU inward processing program which waives import duties.

As a result, despite increasing sugar imports from FTAs with South and Central American countries, EU sugar imports for MY 2014/15 are estimated to decrease to 3.0 million MT from 3.3 million MT the previous year as importers are reluctant to pay within-quota duties. This is particularly true for raw sugar imports for refining in the EU. Imports for MY 2015/16 are forecast to recover as imports may need to complement dwindling EU sugar stocks for food. EU sugar exports remain bound by the WTO export ceiling at 1.5 million MT.

End-of-year-stocks for MY 2014/15 are estimated to decrease to 2.6 million MT from 3.0 million MT in MY 2013/14 due to unsold sugar surpluses. For MY 2015/16 end-of-year stocks are forecast to decrease even further to 1.0 million MT.

Commodities:

Sugar, Centrifugal

Production:

Explanatory Notes to the reader:

- 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 (RSE) 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.

- EUR/USD exchange rate



Source: Exchangerates.org.uk

Acknowledgement:

The data in this report is based on EU sugar production information collected by FAS Agricultural Specialists in the MS. These include Leif Rehder and Sabine Lieberz from FAS/Berlin, Monica Dobrescu from FAS/Bucharest, Petra Hrdlickova from FAS/Prague, Ornella Bettini from FAS/Rome, Bob Flach from FAS/The Hague, Roswitha Krautgartner from FAS/Vienna, Mira Kobuszynska from FAS/Warsaw and Andreja Misir from FAS/Zagreb.

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 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.

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.

^[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

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	3,396	3,067	0	2,617
Beet Sugar Production (1000 MT)	15,737	15,741	16,025	16,461	0	15,220
Cane Sugar Production (1000 MT)	273	279	275	289	0	280
Total Sugar Production (1000 MT)	16,010	16,020	16,300	16,750	0	15,500
Raw Imports (1000 MT)	2,375	2,420	2,700	2,200	0	2,400
Refined Imp.(Raw Val) (1000 MT)	925	843	800	800	0	800
Total Imports (1000 MT)	3,300	3,263	3,500	3,000	0	3,200
Total Supply (1000 MT)	23,146	23,119	23,196	22,817	0	21,317
Raw Exports (1000 MT)	5	8	5	5	0	5
Refined Exp.(Raw Val) (1000 MT)	1,445	1,544	1,495	1,495	0	1,495
Total Exports (1000 MT)	1,450	1,552	1,500	1,500	0	1,500
Human Dom. Consumption (1000 MT)	18,300	18,500	18,500	18,700	0	18,800
Total Use (1000 MT)	18,300	18,500	18,500	18,700	0	18,800
Ending Stocks (1000 MT)	3,396	3,067	3,196	2,617	0	1,017
Total Distribution (1000 MT)	23,146	23,119	23,196	22,817	0	21,317

The estimated EU-28 production of sugar for food for MY 2014/15 is increased from the previous USDA forecast by 450,000 MT to 16.750 million MT in raw sugar equivalent (RSE). This results from favorable 2014 harvest conditions in all major EU beet growing areas leading to another record crop.

Current low sugar prices and bleak prospects for valorizing sugar surpluses in 2015 led EU sugar processors in most MS to discourage beet farmers from planting a large beet crop for MY 2015/16, leading to a forecast sugar production for food of 15.5 million MT.

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	50.7	67.6	84.0	70.0	18.05	16.00	17.80
Belgium	59.8	58.7	58.0	74.1	81.8	78.0	18.00	17.70	18.00
Denmark	38.0	36.0	35.0	60.5	52.5	60.0	18.00	18.00	18.00
Finland	12.0	13.7	13.0	38.8	38.2	38.0	16.50	16.50	16.50
France	394.0	407.0	360.0	85.7	89.0	86.0	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	7.5	67.8	67.0	67.0	13.50	13.50	13.50
Italy	40.7	52.2	45.0	51.9	66.0	55.5	15.00	16.00	16.00
Netherlands	73.0	75.1	75.0	76.0	87.4	80.0	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	38.0	84.0	84.0	84.0	17.88	17.80	17.70
Sweden	36.2	34.4	34.0	64.2	59.8	60.0	17.50	17.50	17.50
U.K.	120.9	116.0	100.0	69.7	75.0	71.0	17.60	17.65	17.50
Czech R.	62.0	63.0	50.0	63.5	85.7	67.0	17.59	16.00	17.00
Hungary	15.6	15.1	15.0	48.9	50.0	50.0	16.50	16.00	16.50
Lithuania	17.6	16.2	15.0	59.0	54.4	55.0	17.50	17.00	17.10
Poland	184.8	192.0	180.0	60.8	68.0	64.0	17.30	17.50	17.50
Slovak R.	21.0	22.0	18.0	52.0	52.3	52.0	16.50	16.00	16.50
Romania	28.1	29.2	28.0	36.6	38.7	37.0	17.00	16.50	16.50
Croatia	20.0	22.0	22.0	52.0	64.0	52.0	15.50	15.50	15.50
Total EU-15	1223.2	1266.7	1126.2						
Total NMS	349.1	359.5	328.0						
Total EU-28	1572.3	1626.2	1454.2						

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

Source: FAS posts in EU member states

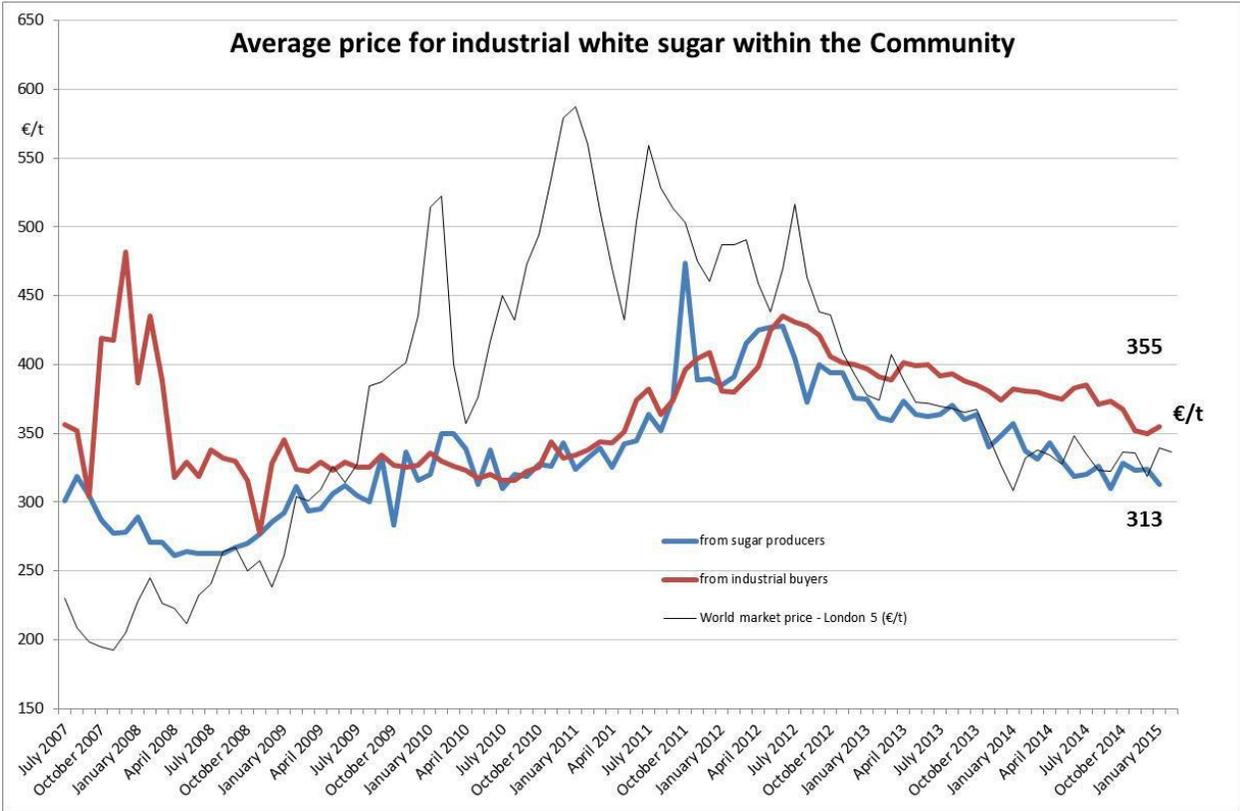
Additional Production beyond the EU Quota Regime for Non-food Use

Total estimated EU beet sugar production for MY 2014/15 increased as favorable fall weather pushed beet yields in most MS beyond previous favorable forecasts. As a result, the MY 2014/15 crop is now estimated to have yielded the largest EU beet sugar crop since 2008 at almost 21 million MT in RSE, surpassing the MY 2011/12 record crop. With quota sugar production for food restricted to 14.7 million MT in RSE, over-quota production for industrial purposes tops 6.2 million MT. After deduction of sugar exports and carry-over of sugar between quota years, this leaves some 4.2 million MT of over-quota to find a destination outside the EU food market, about double the average yearly amount since the 2007 Sugar Reform. As market opportunities for industrial sugar are rather bleak in MY 2014/15 because of low prices, especially for bio-ethanol production, this large beet sugar surplus could lead to

significant end-of-year stocks that will be carried over again to count against the next MY production quota. As a result, sugar processors discouraged beet farmers from planting a large 2015 crop. Therefore, total EU MY 2015/16 beet acreage is forecast to decrease by 10 percent while total EU sugar production could decrease by 15 percent. Nevertheless, over-quota sugar production for industrial purposes is not expected to decrease below average year levels, unless unfavorable beet growing conditions in 2015 push sugar yields below average.

EU Beet Sugar Production (raw value)			
in ,000 MT	2013/14	2014/15	2015/16
EU Regulated Sugar Market*	16,020	16,750	15,500
Unregulated Over-Quota Production for Industrial Uses**	2,226	4,192	2,318
Total EU Beet Sugar Production	18,246	20,942	17,818
* includes within-quota production and out-of-quota production released to the EU food market through the end-of-year carry-over, 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			

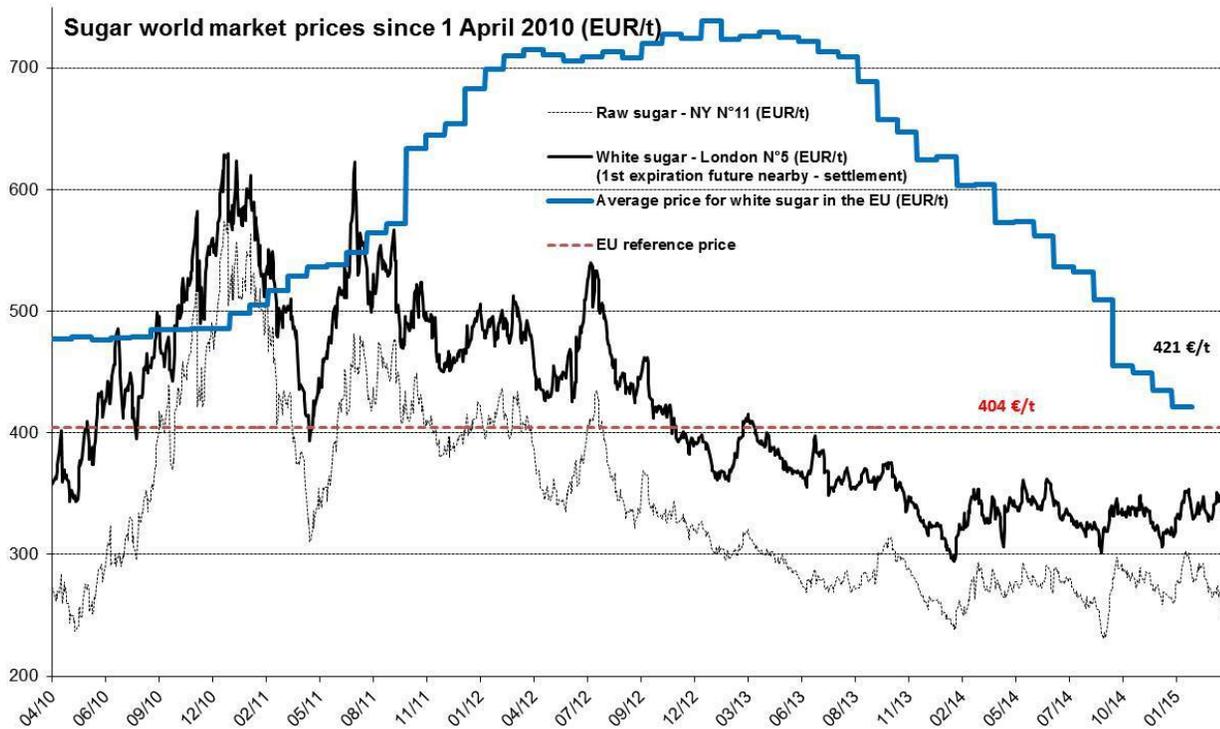
Source: FAS/USEU calculation



Source: European Commission

Consumption:

EU-28 sugar consumption continues to increase as consumption in the latest EU acceding MS is catching up with the rest of the EU. 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 continues to decrease in MY 2014/15, EU food processors use less imported sugar, especially for food exports under the EU inward processing program, which waives import duties. As a result, EU sugar consumption for food is forecast to continue its steady increase through MY 2015/16.



Source: European Commission

Trade:

Imports

EU-28 sugar imports in MY 2014/15 are expected to decrease further. EU sugar importers, especially for refining in the EU, seem reluctant to pay the €98/MT within-quota import duty for importing 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. As a result, EU sugar imports in MY 2014/15 are estimated at 3.0 million MT, of which 0.8 million as refined sugar, despite new imports from countries that the EU recently concluded FTAs with like with Peru, [Colombia \[1\]](#), Panama and [Central America \[2\]](#). This is a decrease of 250,000 MT compared to MY 2013/14. However, imports for MY 2015/16 are forecast to recover again as imports may need to supplement dwindling stocks.

Exports

EU sugar exports are limited by the EU's WTO sugar export ceiling. Hence, European sugar exports for MY 2014/15 and 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 2.6 million MT, down from 3.0 million MT in MY 2013/14. For MY 2015/16 end-of-year stocks are forecast to decrease to 1.0 million MT. European Commission forecasts for MY2014/15 see end-of-year stocks down to 0.9 million MT. However, the EU stock forecast does not include any anticipated carry-over of unsold sugar into the next marketing year.

Policy:

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

The EU sugar production regime was not continued in the new CAP agreement beyond its MY 2014/15 horizon set in the previous CAP. Since this decision was not anticipated, no transition program was provided for sugar, unlike the six-year "soft landing" program anticipating the expiration of the EU dairy production quota regime. MS agreed to extend the sugar quota regime for two years through MY 2016/17 to allow producers and processors alike to prepare for the liberalization of the EU sugar market. Because 2014 was a transition year towards the new CAP under the old budgetary rules, MS had more time to craft regional policies under the CAP's Pillar 1 and Pillar 2. Thus, MS could decide on maintaining some level of [direct payments \[1\]](#) coupled to specific production, as well as shift some

funding between the two pillars. As part of these MS specific programs, 10 MS out of the 19 sugar producing MS decided to maintain coupled payments for sugar production (See slide 20 of the [presentation](#) [2] [on MS implementation of the new CAP](#)). 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 as these MS fear that otherwise they could not compete with sugar processors in geographically favorable regions in Northwestern Europe. Six new MS that acceded the EU after 2004, Poland, Czech Republic, Slovak Republic, Hungary, Romania and Croatia, decided to maintain coupled payments, albeit at a lower level, in continuation of the compensation to their sugar producers. This compensation was added to their Single Area Payment Scheme (SAPS) for decreasing sugar production as a result of the 2007 Sugar Reform.

EU Sugar Industry Preparing for End of Production Quotas in 2017

With two transition years to go before the sugar production quota expires, the sugar processors' intentions remain unclear as they prepare for a liberalized EU sugar market. Some sources believe that the most competitive processors will expand production for exports to the world market as EU sugar exports presumably will not be limited by the WTO ceiling. A specific [initiative from Irish farmers](#) to start sugar production from beet again in Ireland is qualified as unrealistic by experts, at least under current EU market conditions. Considering the high investment needed for a sugar beet processing plant, current EU sugar prices cannot yield any return on investment for such a plan.

The EU sugar balance sheet in the latest [Prospects for EU agricultural markets and income 2014-2024](#) [3] suggests sugar production to remain flat in line with domestic consumption. As EU sugar prices will follow world prices in a liberalized market without production quotas, the prospects anticipate imports to decrease as the EU sugar prices decrease and raw sugar refineries in Bulgaria and France close out for business, even as new FTAs are expected to increase the amount of sugar that can be imported into duty-free TRQ's. Exports are also expected to only moderately increase as EU sugar is expected to remain uncompetitive. As the end of the sugar quota regime will also lift the production quota for isoglucose, it is also expected that isoglucose producers will expand their market share in the EU sweetener market. Some sources suggest an increase from the current 717,745 MT production quota to some 2 million MT, especially for food processors who prefer liquid sweeteners. Changing consumer preferences also would result in increasing market share taken by new [non-sugar, low calorie sweeteners](#) [4] like stevia, sucralose, in addition to existing artificial sweeteners like aspartame and saccharin.

[1] <http://eur-lex.europa.eu/legal-content/en/TXT/?uri=CELEX:32013R1307>

[2] http://ec.europa.eu/agriculture/direct-support/direct-payments/docs/implementation-ms-notifications-slides_en.pdf

[3] http://ec.europa.eu/agriculture/markets-and-prices/medium-term-outlook/2014/tables_en.pdf

[4] http://en.wikipedia.org/wiki/Sugar_substitute

Author Defined:

Related reports from FAS Post in the European Union:

Country	Title	Date
EU-28	EU Bio-Based Economy and Its Inputs Biofuels Grain and Feed Oilseeds and Products Sugar Wood Products Trade Policy Monitoring/The Hague	02/11/2015
EU-28	Sugar, Semi-Annual Report	10/06/2014
EU-28	Sugar, Annual Report	04/16/2014

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

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