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Sugar Annual

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Report Highlights:
The preliminary EU-25 sugar production forecast for 2006/07 is 19.015 million MT, a 13 percent decrease from the 2005/06 estimate. No significant changes to consumption are forecast. As the EU complies with last year's WTO panel ruling, no new export licenses for "C" sugar will be issued after May 22, 2006. Intense price competition in the internal market, coupled by a strong Euro, is expected to fuel imports under ACP and EBA preferential access. EU Intervention stocks will need to absorb a lot of the sugar that had previously been subsidized for export, presenting a dilemma for managing potential oversupply.

Includes PSD Changes: Yes
Includes Trade Matrix: No
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[E3]

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Notes

All figures are given in raw sugar equivalents unless otherwise mentioned. When converting from white to raw sugar, a conversion factor of 1.087 is used. Sugar produced in French Overseas Departments are included in production data and excluded from trade data. Sugar-containing products are excluded from trade data.

This report provides PSD data and information for the EU-25 for marketing years (MY) 2004/05, 2005/06 and 2006/07. From MY 2004/05, FAS sugar PSDs are reported for the full EU-25 following the enlargement of May 2004.

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Executive Summary

The preliminary EU-25 sugar production forecast for 2006/07 is 19.015 million MT, a 13 percent decrease from the 2005/06 estimate. This decrease is largely due to expected changes resulting from the EU sugar policy reforms, which were formally adopted by the EU Council (Agriculture and Fisheries) on February 20, 2006 (for further details, see EU Sugar Policy section in this report, and also FAS GAIN Report E35225).

Sugar beet plantings were generally off to a slow start this year, due to adverse weather conditions. In France, planting was on average completed by April 8th, 8 days later than 2005. However, at this stage, a one or two week delay probably does not mean too much, particularly when such measures do not really take into account regional variability. In 2005/06, Germany's sugar extraction rates were exceptionally good. Assuming the trend continues, small declines in planted area will have no adverse effect on total German production.

No significant changes to consumption are forecast for MY 2006/07. EU-25 sugar consumption estimated at 17.79 million MT, a 1 percent increase from 2005/06.

As sugar production levels will only begin to decline in 2006/07, EU intervention stocks will have to absorb a lot of the sugar that had previously been subsidized for export. Last year's WTO panel ruling enforces a 1.3 million MT cap on exports. After May 22, 2006, no new export licenses for "C" sugar will be issued. Moreover, the last shipments of "C" sugar will need to clear customs by July 1st, 2006. Meanwhile, sugar is already pouring into intervention stocks (899,748 MT from 2004/05 and 823,929 from 2005/06), pressuring the Commission to find a viable solution to the surplus problem. The decision to cut the 2006/07 production quota by 14 percent will help slow sales into intervention – but some wonder if this will be enough.

The consolidation of the industry will have an immediate effect on internal EU-25 trade, as surviving sugar refiners are expected to broaden their distribution. External trade will likewise evolve through economies of size.

Turbulence in the domestic market is unlikely to slow the growth in imports, which are projected to increase by 20 percent in 2006/07. Under intense price competition, the continuing strength in the Euro exchange rate will likely encourage EU buyers to exercise the freedom to import sugar from ACP and EBA countries.

PSD Table – EU-25: 2004/05 – 2006/07

EU-25						
Sugar, Centrifugal			(1000 MT)			
	04/05		05/06 Estimate		06/07 Forecast	
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin	7/2004		7/2005		7/2006	
Beginning Stocks	4699	**4699**	5773	**5339**	0	**6500**
Beet Sugar Production	21525	**21348**	20945	**21559**	0	**18735**
Cane Sugar Production	300	**300**	288	**288**	0	**280**
TOTAL Sugar Production	21825	**21648**	21233	**21847**	0	**19015**
Raw Imports	1757	**1807**	1757	**1700**	0	**2300**
Refined Imp(Raw Val)	500	**742**	500	**700**	0	**600**
TOTAL Imports	2257	**2549**	2257	**2400**	0	**2900**
TOTAL SUPPLY	28781	**28896**	29263	**29586**	0	**28415**
Raw Exports	3	**3**	3	**5**	0	**5**
Refined Exp.(Raw Val)	5379	**6025**	7127	**5495**	0	**2195**
TOTAL EXPORTS	5382	**6028**	7130	**5500**	0	**2200**
Human Dom. Consumption	17601	**17505**	17501	**17562**	0	**17790**
Other Disappearance	25	**24**	24	**24**	0	**25**
Total Disappearance	17626	**17529**	17525	**17586**	0	**17815**
Ending Stocks	5773	**5339**	4608	**6500**	0	**8400**
TOTAL DISTRIBUTION	28781	**28896**	29263	**29586**	0	**28415**

Figures in 1,000 MT of raw sugar equivalent

EU-25 Sugar Production

The preliminary EU-25 sugar production forecast for 2006/07 is 19.015 million MT, a 13 percent decrease from the 2005/06 estimate.

This decrease is largely due to expected changes resulting from the EU sugar policy reforms, which were formally adopted by the EU Council (Agriculture and Fisheries) on February 20, 2006 (for further details, see EU Sugar Policy section in this report, and also FAS GAIN Report E35225).

The phased-in reductions to the EU support price, and the implementation of the voluntary restructuring scheme, are expected to help narrow the gap between EU-25 production and consumption. The new policies have already spurred a series of sugar refinery closures, persuading a number of sugar beet farmers to consider alternative crops. In 2006/07, sugar production will cease in Ireland and Slovenia. Greencore Plc recently announced the closure of Mallow, Ireland's last sugar factory, noting that it could not financially operate the plant for another year. Despite complaints from Irish sugar beet growers, Greencore could receive up to 90 percent of the 146 million EUR from the Restructuring Fund.

Starting in 2007, Slovenia's only sugar factory, Tovarna Sladkorja Ormoz, will transition from sugar to bioethanol production. Slovenian farmers are expected to shift from sugar beet to corn and wheat production. Elsewhere in the EU, the least efficient sugar refining operations are also likely to shut down. Italy will be particularly affected in 2006/07, with the announced closure of 13 of its 19 sugar factories (5 Eridania Sadam facilities, 3 SFIR facilities, 4 Italia Zuccheri facilities and 1 COPRO B facility). Accordingly, the Italian sugar beet area is forecast to fall by 64 percent in 2006/07, to 90,000 hectares. Over the longer term, as sugar stocks fall, Italian imports particularly from the Balkans are likely to increase.

Spain and Greece have each announced a plant closure (the Azucarera Ebro Ciudad Real facility and the EBZ Xanthi facility), and further closures may be forthcoming. In the case of Greece, the future of the remaining 4 production facilities belonging to the Hellenic Sugar Industry monopoly (EBZ) may largely depend on a continued political commitment to prevent further closures.

Sugar refineries that definitively cease operations in 2006/07 or 2007/08 will receive a 730 EUR / MT payment. With the restructuring incentive, many companies in the sector appear motivated to improve efficiency through consolidation. Several of the larger northern European sugar producers aim to scale back or even phase-out "C" sugar production. Nordzucker AG has already announced the closure of the Wierthe facility in Germany, thus ending its "C" sugar production. Danisco will also be closing some facilities in Denmark, Finland and Sweden, and will be shifting its production quota to other plants. Higher energy costs may further encourage movement toward greater efficiency. Average raw beet sugar per hectare yields are also expected to increase as lesser efficient sugar beet growers discontinue production.

The impact of sugar reform will be less significant in 2005/06. EU-25 sugar production for 2005/06 is estimated to be about 1 percent above the 2004/05 level. Although restructuring could have perhaps been accelerated during the first half of 2006 (i.e. if, for example, the restructuring payment of 730 EUR / MT had not been extended into 2007/08), the political negotiations on the transitional arrangements favored a longer-term time frame. Only one million MT of the EU production quota was scheduled to be given-up in 2006. As WTO disciplines impose stricter limits on EU sugar exports, current sugar production levels present a fairly significant oversupply problem. This has prompted the European Commission to cut production quotas for 2006/07 by 14 percent, from 17.4 million MT to about 15.1 million MT. The quota reductions, which are weighted across member states, will reduce production proportionately more for countries that have had higher quotas used for export. On March 2, 2006, EU member states also agreed that the first year of the new sugar regime should last 15 months. In future, the EU marketing year for sugar will be October 1st through September 30th.

Sugar beet plantings were generally off to a slow start this year, due to adverse weather conditions. In France, planting was on average completed by April 8th, 8 days later than 2005. However, at this stage, a one or two week delay probably does not mean too much, particularly when such measures do not really take into account regional variability. In 2005/06, Germany's sugar extraction rates were exceptionally good. Assuming the trend continues, small declines in planted area will have no adverse effect on total German production.

Sugar (beet, cane and molasses) Production in the EU (in 1,000 MT raw value)

	2004/05	2005/06	2006/07
Austria	498	532	430
Belgium	1,077	1,003	960
Denmark	513	516	460
Finland	162	195	165
France - beet	4,503	4,707	4,000
Germany	4,711	4,393	4,600
Greece	283	337	220
Ireland	232	207	0
Italy	1,259	1,928	1,170
Netherlands	1,126	1,061	940
Portugal	80	83	70
Spain - beet	1,153	1,169	1,080
Sweden	404	441	400
UK	1,511	1,458	1,200
Total EU-15	**17,512**	**18,030**	**15,695**
	2004/05	**2005/06**	**2006/07**
Czech R.	607	608	430
Estonia	0	0	0
Cyprus	0	0	0
Latvia	73	77	70
Lithuania	145	136	90
Hungary	542	536	400
Malta	0	0	0
Poland	2,175	2,225	1,850
Slovenia	41	65	0
Slovak R.	253	287	200
Total NMS-10	**3,836**	**3,529**	**3,040**
Total EU-25	**21,348**	**21,559**	**18,735**

EU Sugar from beet, crop area and yields

	Area (1000's hectares)			Yield (MT raw beet sugar/hectare)		
	2004/05	**2005/06**	**2006/07**	**2004/05**	**2005/06**	**2006/07**
Austria	45	44	40	10.24	10.55	10.8
Belgium	91	86	83	10.87	10.69	11.6
Denmark	48	50	45	9.81	9.58	10.2
Finland	31	31	25	4.79	5.87	6.6
France	347	340	300	11.94	12.74	13.3
Germany	441	428	422	9.83	9.42	10.9
Greece	33	43	20	7.91	7.30	11.0
Ireland	31	31	0	6.88	6.13	-
Italy	180	252	90	6.43	7.04	13
Netherlands	99	94	86	10.47	10.38	10.9
Portugal	8	8	6	8.83	9.37	11.6
Spain	110	104	100	9.64	10.29	10.8
Sweden	47	48	46	7.91	8.47	8.7
U.K.	136	126	114	10.22	10.65	10.5
Total EU-15	**1644**	**1681**	**1377**	**8.98**	**9.18**	**10.7**
	2004/05	**2005/06**	**2006/07**	**2004/05**	**2005/06**	**2006/07**
Czech R.	70	69	50	8.02	8.10	8.6
Latvia	14	14	10	4.94	5.24	7.0
Lithuania	23	22	20	5.68	5.80	4.5
Hungary	67	61	48	7.47	8.11	8.3
Poland	298	278	260	6.72	7.36	7.1
Slovenia	6	8	0	6.23	7.64	-
Slovak R.	35	33	35	6.75	8.05	5.7
Total NMS-10	**515**	**485**	**423**	**6.54**	**7.19**	**6.8**
Total EU-25	**2159**	**2166**	**1800**	**8.17**	**8.51**	**9.5**

Note: Area does not include sugar beet grown for distillery supply. However, this production is included in the Sugar Beet PSD.

Consumption

No significant changes to consumption are forecast for MY 2006/07. EU-25 sugar consumption estimated at 17.79 million MT, a 1 percent increase from 2005/06.

Stocks

Under current political and financial constraints, the EU-25 sugar surplus situation is a significant dilemma. Sugar production levels will only begin to decline in 2006/07, so EU intervention stocks will have to absorb a lot of the sugar that had previously been subsidized for export. Last year's WTO panel ruling enforces a 1.3 million MT cap on exports. After May 22, 2006, no new export licenses for "C" sugar will be issued. Moreover, the last shipments of "C" sugar will need to clear customs by July 1st, 2006. Allowing for 60 days for physical transport, the last "C" sugar exports should reach their final destination by the end of August 2006. Meanwhile, sugar is already pouring into intervention stocks (899,748 MT from 2004/05 and 823,929 from 2005/06), pressuring the Commission to find a viable solution to the surplus problem. The decision to cut the 2006/07 production quota by 14 percent will help slow sales into intervention – but some wonder if this will be enough.

Sugar Accepted into Intervention for 2005/06 (823,929 MT as of March 24, 2006)

	France	Poland	Italy	Belgium	Germany	Czech Rep	Slovenia	Hungary
Volume Rejected	42,200	40,925	76,981	0	0	0	0	0
Volume Accepted	0	113,090	468,866	10,000	40,000	60,161	10,000	121,812

Source: DG Agriculture, European Commission. Quantities are in MT of white sugar

Sugar intervention stocks currently stand at over 1.6 million MT. Tenders have been opened to re-sell this sugar on the EU domestic market, but so far, there seems to be little interest. As of the end of March, 2006, a little over 232,000 MT have been sold from intervention (156,340 MT from France and 76,261 MT from Belgium). To better manage future intervention, the European Commission has introduced some technical changes that should better define the eligibility criteria. National intervention agencies in the member states have been given more discretion to approve warehouses for public storage. The new rules are expected to help restrain sugar intervention offers, bringing the system more in line with the general CMO rules that already govern the cereal and dairy sectors. Sugar will only be accepted into intervention if it has been stored in approved warehouses that have not been recently used for the storage of other products. This will preclude the use of facilities, like grain silos, where there can be excess storage capacity. In addition, only sugar manufacturers that already have an allocated production quota will be eligible to store intervention sugar. Sugar traders may also qualify, as long as they have authorization from the country where they operate.

Trade

The consolidation of the industry will have an immediate effect on internal EU-25 trade, as surviving sugar refiners are expected to broaden their distribution. External trade will likewise evolve through economies of size. Nordzucker AG of Germany, Cristal Union of France and E.D.& F. Man of the UK recently announced the formation of Eurosugar, a new jointly owned trading company that will be based in Paris. The new company will be the second largest distributor in the EU, handling an estimated 2.5 million MT of sugar a year (importing from ACP and EBA countries). The European Commission is currently reviewing the proposed merger.

Turbulence in the domestic market is unlikely to slow the growth in imports, which are projected to increase by 20 percent in 2006/07. Under intense price competition, the continuing strength in the Euro exchange rate will likely encourage EU buyers to exercise the freedom to import sugar from ACP and EBA countries. Mauritius remains the largest raw sugar supplier to the EU, accounting for about 30 percent of total EU imports (1.7 million MT in 2005/06). However, Mauritius, and other ACP countries like Guyana, Fiji and Swaziland, will have to overcome the difficulties arising from the politics of the EU sugar reform. The cuts in the EU sugar price directly affect foreign exchange earnings, revenue streams and GDP. To remain competitive, the ACP countries need investment to modernize a centuries-old industry. For 2006, the EU has committed 40 million EUR to be distributed across the 18 ACP sugar-producing countries. Mauritius will get 15 percent of those funds.

Policy

Reform of the Sugar Regime

The Commission's success in winning support for the sugar reform proposal hinged on a number of factors including – financial considerations tied to the EU budget and the enlargement process, the WTO ruling on EU sugar, the ongoing Doha Development Agenda negotiations, and also the broader need to "rationalize" and "re-align" the sugar common market organization structure with other elements of the reformed CAP. In the end, only Greece, Poland and Latvia were left in opposition to the reform. Unwilling to fully surrender, the new Polish government recently announced that it intends to introduce direct subsidies for Polish sugar beet growers. Draft legislation, accepted by the government on March 28th, will provide a subsidy to sugar beet growers who sign contracts for 2006/07.

The legal basis of the EU sugar reform is set by Council Regulations EC No 318/2006, No 319/2006 and No 320/2006. Some of the basic elements include:

- A reduction in EU sugar reference prices, phased-in over 4 years. For 2006/07 and 2007/08, the white sugar reference price remains 631.9 EUR/MT, while the raw sugar reference price is set at 496.8 EUR/MT. In 2008/09, the reference prices are reduced to 541.5 EUR/MT and 448.8 EUR/MT respectively. By 2009/10, the white sugar reference price will be 404.4 EUR/MT or 36 percent below its 2006/07 level. The 2009/10 raw sugar reference price will be 335.2 EUR/MT.

- Compensation for farmer direct payment revenue loss - up to a ceiling established for each EU member state (Annex Table 1 in EC 319/2006). Aid is decoupled from production. However, for member states where sugar production quota is reduced by more than 50 percent, there is a temporary provision for coupled aid through MY 2013/14. There are several additional transitional measures specifically intended to assist refiners, and producers in specific member states.

- A four-year (2006/07–2009/10) voluntary sector restructuring scheme to provide incentives for least efficient producers to cease production (EC 320/2006).

- A simplified quota system, merging the "A" and "B" quotas into a single quota. Starting July 1, 2006, out-of-quota "C" sugar production will be limited to EU internal market uses (i.e. for industrial purposes), or will need to be carried over into the following marketing year (Chapter 3, EC 318/2006).

- Abolition of intervention agencies after a four-year transition period ending in 2009/10. Intervention agencies, which until this year had been rarely utilized by the sugar sector, will be replaced by a system of private storage. Producers utilizing this scheme will receive private storage aid.

- Sugar imports will be covered by licenses. For the first three years, through 2008/09, import licenses will only granted to traditional raw sugar refiners. By 2009/10, under the "Everything But Arms" (EBA) agreement, licenses will be more widely distributed.

- Exports will also covered by license. While the recent WTO ruling on EU sugar will significantly limit EU "C" sugar exports, some subsidized exports will nevertheless continue especially with surplus production and storage.

- The reform is operational through the 2014/15 marketing year, with no plans for a mid-term review.