



USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.09

Required Report - Public distribution

Date: 10/4/2007

GAIN Report Number: E47097

EU-27

Sugar

Semi-Annual

2007

Approved by:

David Leishman
U.S Mission to the EU

Prepared by:

Karin Bendz

Report Highlights:

Most of the EU Member States report that they are having a high, or a very high, yield of sugar per hectare this year. The exceptions are the south-eastern part of the Union where there has been a severe summer drought and the UK where a wet summer and reduced sunlight hours have led to variable and mostly lower yields.

Total EU sugar production will continue to decrease and the EU production quota for MY 2007/08 will be reduced to 16,6 MMT.

With the very high prices for cereals, the production of bioethanol using sugar beet as feedstock is now expected to increase faster than earlier anticipated.

Includes PSD Changes: No
Includes Trade Matrix: No
Annual Report
Brussels USEU [BE2]
[E4]

This report was made with contributions from:

Dietmar Achilles, from FAS Bonn, covering Germany
Steve Knight, from FAS London covering the UK

Marketing Years

The 2005/06 Marketing Year (MY) covers the period 1 July 2005 until 30 June 2006, the 2006/07 MY covers the period 1 July 2006 until 30 September 2007, and the 2007/08 MY covers the period 1 October 2007 until 30 September 2008. The 15 month 2006/07 MY is extended to make the transition between the old and the new sugar regimes.

Technical 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 is included in production data and excluded from trade data. Sugar-containing products are excluded from trade data.

For MY 2006/07 and MY 2007/08 PSD's are reported for EU27 following the accession of Bulgaria and Romania on 1 January 2007. For MY 2005/06 PSD's are reported for EU25.

The EU sugar markets are in transition until 2009, at which time the reform of the sugar Common Market Organization (CMO) will be completed. The market situation for the short term is characterized by a high level of total stocks, the beginning of the restructuring of the sugar industry, the phasing-down of in-quota tariffs within the Everything But Arms (EBA) agreement as well as the build-up of the bioethanol industry.

The withdrawal of sugar quota of 2 MMT for 2007 will reduce some short-term market risks, most notably the high level of stocks, at a certain expense of competitive restructuring. From 2010 onwards the sugar markets are expected to reach balance between domestic production, exports and imports from the least developed countries (LDC).

In addition to the declining production quota, the main influencing factor for the size of EU domestic production over the medium to long term would be the quantity of imports realized from EBA countries. Production is forecast to remain strong in France, Germany, and the UK as well as in Poland, where cost competitiveness should be the major driver of restructuring. The main medium-term downwards risks for the European sugar industry are the slow take-up of restructuring as well as the high level of market stocks which could weigh heavily on the prospects after 2009.

EU25/EU27 Sugar, Centrifugal (1000 MT)						
	2005/06		2006/07*		2007/08	
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Marketing Year Begin	July 2005		July 2006		October 2007	
Beginning Stocks	5,339	5,339	5,088	5,088	4,377	4,005
Beet Sugar Prod.	21,104	21,104	17,450	17,450	16,325	16,260
Cane Sugar Prod.	269	269	307	307	340	340
TOTAL Sugar Prod.	21,373	21,373	17,757	17,757	16,665	16,600
Raw Imports	1,950	1,950	3,487	3,495	2,950	2,950
Refined Imp.(Raw Val)	680	680	843	843	700	700
TOTAL Imports	2,630	2,630	4,330	4,338	3,650	3,700
TOTAL SUPPLY	29,342	29,342	27,175	27,183	24,692	24,305
Raw Exports	20	20	5	5	5	5
Refined Exp.(Raw Val)	8,325	8,325	2,157	2,157	1,381	1,380
TOTAL EXPORTS	8,345	8,345	2,162	2,162	1,386	1,385
Human Dom. Consump.	16,800	16,800	19,716	19,816	17,165	17,200
Other Disapp./Bioethanol	24	24	920	1200	1,000	1,500
Total Disappearance	16,824	16,824	20,636	21,016	18,165	18,700
Ending Stocks	4,173	4,173	4,377	4,005	5,141	4,220
TOTAL DISTRIBUTION	29,342	29,342	27,175	27,183	24,692	24,305

The 2006/07 marketing year lasted 15 months in accordance with Council Regulation(EC) No 318/2006.

Note: For MY 2006/07 and 2007/08 PSD's are reported for EU27 following the accession of Bulgaria and Romania on January 2007.

Due to the inclusion of Romania and Bulgaria, beginning stocks in 2006/07 are larger than ending stocks in 2005/06.

Production

Most of the EU Member States report that they are having a high, or very high, yield of sugar per hectare this year. The exceptions are in the south-eastern part of the Union where the summer drought has had negative effects on many crops and the UK where a wet summer and reduced sunlight hours have led to variable and mostly lower yields.

The 2006/07 MY was the first year of the sugar reform. During that MY the total EU production of sugar declined to 17,757 MMT compared to MY 2006/07 when the production was 21,373 MMT. Production is expected to continue to decline to 16,260 MMT in MY 2007/08 triggered by the changes to the restructuring scheme. The European Commission has confirmed that the EU sugar production quota for MY 2007/08 will be limited to 16,6 MMT which is 2 MMT tons below the nominal levels.

In **Germany** the sugar beet area is increased by 50,404 ha, from 355,806 ha in 2006 to 406,210 ha in 2007. The beet yield per hectare was 59.2 tons in 2006 and is 64.6 tons in 2007. The total German beet harvest is 26,34 MMT this MY compared to 21,0 MMT last MY. The German sugar milling industry estimates that in MY 2007 965 MMT of sugar will be used for industrial/non food/feed purposes. This includes about 40-50 MMT traditional industrial use and about 920 MMT for ethanol production.

In **France** sugar beet production will reach 32.3 MMT in 2007/08, up by 8.2 percent on the year according to the French Ministry of Agriculture. This is 4.6 percent higher than the previous 5-year average. It was added that first liftings pointed to a sugar yield of 13 MT per ha on average, a level never seen before. Beet yields are expected to reach an average 85 MT per ha.

In the **UK** just one company, British Sugar, holds the entire UK sugar beet quota. UK sugar beet is grown mainly in East Anglia and the West Midlands. The crop is sown in March/April and harvested from September to December. In 2006, there were 7,200 growers in the UK, growing 9 MMT of beet on 150,000 hectares of land but these numbers are certainly in decline. Additionally, 2007 saw extreme weather conditions during the summer with localized flooding and reduced sunlight hours. This has led to variable and mostly lower yields.

In addition to British Sugar, the other main player in the UK sugar market is Tate & Lyle. Their Thames (Silvertown) refinery is now the only sugar refinery in the UK. It refines the largest amount of cane sugar in the world, processing over 1 MMT of raw cane sugar annually at up to 160 MT per hour. When the UK joined the EU it secured an agreement allowing the continued importation of raw cane sugar from traditional suppliers in developing African, Caribbean and Pacific Group of States (ACP) Commonwealth countries. The agreement allows 1.3 MT of sugar (of which 90 percent goes to Tate & Lyle for refining) to be imported into the EU each year at guaranteed minimum prices and free of any EU levy. Tate & Lyle supply roughly 40 percent of the UK domestic market and are major exporters of white sugar.

Trade

With a decreasing internal EU production and an expected increase in use for bio-ethanol the imports of sugar are expected to increase from 2,630 MMT in MY 2005/06 to 4,338 MMT in 2006/07 and 3,650 in 2007/08. Most of these imports are anticipated to come from ACP, EBA and Balkan countries as well as from the import quota given after the accession of Bulgaria and Romania.

Exports are anticipated to continue decreasing. In MY 2005/09 total EU exports were 8,345 MMT and in MY 2006/07 they are estimated to be down to 2,162 MMT. With the WTO case

and the lower domestic production together with the expected increase in demand for bioethanol, EU exports are expected to continue to decrease in 2007/08.

Sugar Reform

The EU restructuring scheme of the 2006 reform of the Common Market Organization (CMO) has not had the desired effect and much less quota was renounced during the first two years of the scheme than was anticipated.

At the September 26 Council meeting, the European Union Agriculture Ministers backed changes to the sugar restructuring scheme. The aim is to make it more effective and consequently reduce the EU sugar production to sustainable levels. The Commission believes that these changes should allow the renunciation of about 3.8 MMT of sugar quota by 2010 in addition to the 2.2 MMT given up so far.

The main changes agreed are that the percentage of the aid given to growers and machinery contractors will be fixed at 10 percent. Growers who renounce quota will get an additional payment, and retroactive payments are foreseen to avoid penalizing those who have already given up their quotas.

One new element is that beet growers may apply directly for aid from the restructuring fund, up to a certain limit. As an additional incentive for companies to participate, those which renounce a certain amount of their quota in 2008/09 will be exempted from paying the restructuring levy on the part of their quota which was subject to preventive withdrawal in the 2007/08 marketing year. A two step application for renouncing quota for 2008/09 is introduced. The first step (deadline 1/31/08) as a minimum has to correspond to the preventive withdrawal decided in March this year in order to be able to participate in the second step (deadline 3/31/08). The Commission will let companies know after the first step to what extent they risk an uncompensated cut in 2010 if they do not participate in the second step.

If insufficient quota has been renounced by 2010, the Commission will make compulsory quota cuts. The level of these cuts will vary depending on how much quota each Member State had renounced under the restructuring scheme.

EU-ACP Sugar Protocol

In July 2007 the EU proposed to end the EU-ACP Sugar Protocol. The Sugar protocol is the agreement that sets guaranteed import prices and import levels between the countries that signed up to it, and the EU.

In September 2007, the Council adopted decisions terminating the sugar protocol to the ACP Cotonou agreement together with a similar agreement concerning sugar imports from India, with effect from October 1, 2009.

The ACP Committee of Ambassadors considers the denouncing of the EU-ACP protocol as being unwelcome and unwarranted especially at a time when the ACP regions are negotiating in good faith the Economic Partnership Agreements. The Committee says the Sugar Protocol is a trade agreement with a strong development dimension, and as such the EU's decision cannot be understood and is totally unacceptable.

The Commission says the current negotiations for an economic partnership agreement with ACP states are intended to create conditions for ACPs to put trade at the service of development, with financial support. This alternative to the previous trade preferences of the Cotonou agreement is a legal necessity because the preferences are not WTO compatible. They were accepted only under a temporary waiver, which expires on December 31, 2007.

In the context of the EPAs, the EU has offered full duty and quota free access to the EU for all ACP countries. In the event of an agreement this would be applied in stages, one of which would take place in October 2009. Whereas the sugar protocol provided preferential access for 1,3 MMT annually, the EPA market access would offer a larger volume in an initial phase, leading to unlimited quantities at a later state.

Bioethanol

The use of sugar for the production of bioethanol is expected to increase. The increase is triggered by the high cereal prices and by the Sugar Reform that limits the sugar production under quota. The production of bioethanol from sugar production has until now mainly taken place in France. However, in October 2007 an ethanol plant using sugar beet as feedstock went on line in the U.K. Run by British Sugar, each year it is expected to use 550 MT of sugar beet and produce 55 MT (70 M liters) of bioethanol.

There are two companies converting sugar or beet juice into ethanol in Germany, namely CropEnergies and Nordzucker. Nordzucker is going to be operational in November 2007. CropEnergies, which is a subsidiary of Südzucker is replacing the expensive grains with beet juice at their facility in Zeitz. The German sugar milling industry estimates that in MY 2007/08 965.000 MT of sugar will be used for industrial/non-food/non-feed purposes. This includes about 40-50 MMT traditional industrial use and about 920 MMT for ethanol production.

The expected strong expansion of bioethanol production from sugar beet is anticipated to contribute to a stabilization of the total sugar beet area, particularly in the most competitive sugar production regions. With a growing out of quota production, fuel-ethanol will be the main outlet to balance the market now that the sugar exports are massively reduced.

Visit our website: our website <http://useu.usmission.gov/agri/> provides a broad range of useful information on EU import rules and food laws and allows easy access to USEU reports, trade information and other practical information.

E-mail: AgUSEUBrussels@usda.gov

Related reports from USEU Brussels:

Report Number	Title	Date Released
E47014	EU Agrees to Mandatory 2007/08 Sugar Production Cut	02/26/2007
E47029	EU-27 Sugar Annual	04/17/2007
E47087	EU Agriculture Council Backs Changes in Sugar Restructuring Scheme	09/27/2007

These reports can be accessed through our website <http://useu.usmission.gov/agri/> or through the FAS website <http://www.fas.usda.gov/scripts/attacherep/default.asp>.