



USDA Foreign Agricultural Service

# GAIN Report

Global Agriculture Information Network

Template Version 2.09

Required Report - Public distribution

**Date:** 4/10/2007

**GAIN Report Number:** E47029

## EU-27

## Sugar

## Annual

## 2007

**Approved by:**

Debra Henke

U.S. Mission to the EU

**Prepared by:**

Michael Ward, Barrie Williams, Karin Bendz

---

**Report Highlights:**

During the first year of the reformed sugar regime in MY 2006/07, the total sugar production in EU-25 declined to 17.6 million MT from 21.4 million MT in MY 2005/06. Estimates for MY 2007/08 suggest a further reduction to 16.7 million MT. Stocks are forecast to increase by around 800,000 MT in MY 2007/08, and human domestic consumption should decrease by 10 percent in MY 2007/08 over the extended (15 month) previous year.

Industrial/bioethanol use is expected to increase to 1 million MT in MY 2007/08.

---

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

**Table of Contents**

<b>Introduction.....</b>	<b>2</b>
<b>Executive Summary.....</b>	<b>3</b>
<b>PSD Table.....</b>	<b>4</b>
<b>Production.....</b>	<b>4</b>
<b>Stocks.....</b>	<b>6</b>
<b>Consumption.....</b>	<b>6</b>
<b>Bioethanol.....</b>	<b>6</b>
<b>Trade.....</b>	<b>7</b>
<b>Policy – Reform of the Sugar Regime.....</b>	<b>8</b>
<b>Appendices.....</b>	<b>11</b>

**Introduction****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.

**Accession of Bulgaria and Romania to EU**

Bulgaria and Romania acceded to the EU on 1 January 2007. Their accession implies an increase in total EU sugar production of 100,000 metric tonnes (MT) and EU human consumption of sugar of between 400,000 MT to 600,000 MT. In accordance with [Council Regulation \(EC\) No 2011/2006](#), the EU 2006/07 MY quota includes 4,752 MT for Bulgaria and 109,164 MT for Romania. The accession also results in an additional 396,288 MT to the 2006/07 MY import quota, which is scheduled to remain at this level for the 2007/08 MY as a function of the outcome of post-accession bilateral negotiations on compensation to traditional suppliers.

**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.

From MY 2007/08 PSD's are reported for EU-27 following the accession of Bulgaria and Romania on 1 January 2007. For MY's 2005/06 and 2006/07, PSD's are reported for EU-25.

## Executive Summary

Total sugar production (beet and cane) in EU-25 fell by 18 percent from 21.4 million MT in MY 2005/06 to 17.6 million MT in MY 2006/07, the first year of the reformed sugar regime. A further reduction to 16.7 million MT is forecast in MY 2007/08 for EU-27 as a result of the subsequently announced compulsory quota withdrawal.

Higher imports for MY 2006/07 (3.5 million MT) are largely accounted for by the extended 15 month period for MY 2006/07. For MY 2007/08, imports are set to increase to 3.7 million MT due to the accession of Bulgaria and Romania..

MY 2005/06 saw record export levels for refined sugar of 8.4 million MT, encouraged by high world prices. The reduction to 1.5 million MT and 1.4 million MT for MY's 2006/07 and 2007/08 respectively is a function of the WTO Panel Decision which allows the EU to subsidize a maximum of 1.3 million MT of refined sugar exports annually.

Although per capita human domestic consumption has remained fairly stable, total domestic consumption for MY's 2006/07 and 2007/08 has increased due to the extended length of MY 2006/07 and the accession of Bulgaria and Romania. The significant increase of disappearance for uses other than human consumption from MY 2006/07 is largely attributed to bioethanol plants coming on line.

**Production, Supply and Demand**

<b>EU25 Sugar, Centrifugal</b> (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]
<b>Marketing Year Begin</b>	<b>Jul-05</b>		<b>Jul-06</b>		<b>Oct-07</b>	
Beginning Stocks	5,339	5,339	3,697	4,173	0	4,005
Beet Sugar Prod.	21,559	21,104	16,561	17,320	0	16,325
Cane Sugar Prod.	288	269	275	307	0	340
<b>TOTAL Sugar Prod.</b>	<b>21,847</b>	<b>21,373</b>	<b>16,836</b>	<b>17,627</b>	<b>0</b>	<b>16,665</b>
Raw Imports	1,580	1,950	2,350	2,805	0	2,950
Refined Imports (Raw Val)	700	680	500	700	0	700
<b>TOTAL Imports</b>	<b>2,280</b>	<b>2,630</b>	<b>2,850</b>	<b>3,505</b>	<b>0</b>	<b>3,650</b>
<b>TOTAL SUPPLY</b>	<b>29,466</b>	<b>29,342</b>	<b>23,383</b>	<b>25,305</b>	<b>0</b>	<b>24,320</b>
Raw Exports	3	20	3	5	0	5
Refined Exports (Raw Val)	8,662	8,325	1,498	1,495	0	1,381
<b>TOTAL EXPORTS</b>	<b>8,665</b>	<b>8,345</b>	<b>1,501</b>	<b>1,500</b>	<b>0</b>	<b>1,386</b>
Human Dom. Consump.	17,080	16,800	17,400	18,900	0	17,165
Other Disappearance/Bioethanol	24	24	24	900		1,000
<b>Total Disappearance</b>	<b>17,104</b>	<b>16,824</b>	<b>17,424</b>	<b>19,800</b>	<b>0</b>	<b>18,165</b>
Ending Stocks	3,697	4,173	4,458	4,005	0	4,769
<b>TOTAL DISTRIBUTION</b>	<b>29,466</b>	<b>29,342</b>	<b>23,383</b>	<b>25,305</b>	<b>0</b>	<b>24,320</b>

Source: FAS

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

Note: For MY 2007/08 PSD's are reported for EU-27 following the accession of Bulgaria and Romania on 1 January 2007. For MY's 2005/06 and 2006/07, PSD's are reported for EU-25.

**Production**

The 2006/07 MY was the first year of the EU sugar reform. During that MY, total sugar production (beet and cane) in EU 25 declined to 17.6 million MT raw value from 21.4 million MT in the previous MY. The harvested area declined by 385,000 hectares in the 2006/07 MY representing a 17 percent reduction over the 2005/06 MY.

The opening year of the quota renouncement saw modest success as over 1 million MT of production was renounced by Member States. However, the average yields improved across EU-15 to 10.7 MT/ha from 9.2 MT/ha a year earlier partially offsetting the area taken out of production. Among new Member States (Central and Eastern European countries that acceded on 1 May 2004) yields fell to 7.2 MT/ha from 7.5 MT/ha the previous year.

The beet crop in France in the 2006/07 MY was mixed with average beet weight increasing from 68.9 MT per hectare last year to 69.7 MT per hectare this year but with average sugar content being lower at 17.3 percent for the 2006/07 MY as opposed to 18.9 percent in the previous MY. Total sugar production totaled 3.9 million MT in France during the 2006/07 MY, a decrease from 4.4 million MT in the previous marketing year.

The German beet crop was significantly smaller at just under 21 million MT in MY 2006/07 than in the previous two MY's averaging at 26 million MT. The resultant production of approximately 3.6 million MT of white sugar raw value during the 2006/07 MY declined from 4.0 million MT the previous year.

The 2006/07 MY beet crop in Poland decreased 250,000 MT from the previous year as harvested area declined by almost 20,000 hectares. None of this production was renounced through the restructuring plan in either MY 2005/06 or MY 2006/07.

Poland was one of the member states that voted against the sugar reform. In April 2006, the Polish government announced that it intended to introduce direct subsidies for Polish sugar beet growers to help compensate farmers for the reduced sugar beet contract price. The payment amount, based on each MT of beets contracted for the MY, takes the form of a basic payment and a supplementary payment. The supplementary payment is largely sourced from the national budget, and is aimed at reducing the difference in support levels between Poland and other EU Member States. Funding for this program is expected to increase from €99 million during the 2006/07 MY to €159.3 million in the 2009/10 MY. There are around 60,000 farmers growing sugar beet in Poland.

#### Production quota

Member States	2007/08 Production Quota	Withdrawal Commitment
Belgium	862,077	116,380
Bulgaria	4,752	642
Czech Republic	367,938	26,823
Denmark	420,746	56,801
Germany	3,655,456	493,486
Greece	158,702	-
Spain	887,164	93,418
France (metropolitan)	3,640,442	491,460
French overseas departments	480,245	64,833
Ireland	-	-
Italy	753,845	-
Latvia	-	-
Lithuania	103,010	13,906
Hungary	293,591	18,543
Netherlands	876,560	118,336
Austria	405,812	54,785
Poland	1,772,477	239,284
Portugal (mainland)	15,000	-
The Azores	9,953	1,344
Romania	109,164	14,737
Slovakia	140,031	6,049
Slovenia	-	-
Finland	90,000	2,916
Sweden	325,700	33,417
United Kingdom	1,221,474	164,899
<b>Total</b>	<b>16,594,139</b>	<b>2,012,059</b>

Source: European Commission

A new production quota for MY 2007/08 was agreed at the European Commission's Sugar Management Committee of 22 February 2007. The quota represents almost 16.6 million MT, a 12 percent cut from the base quota. Production in excess of the quota must be counted towards the next MY's production quota, or sold as sugar for industrial/biofuels use.

Producers who voluntarily reduce their production by 13.5 percent are exempt from the mandatory production withdrawal, implying that beet growers who sow 86.5 percent of their quota are not subject to the withdrawal. Additionally, Member States that have already reduced their quota by 50 percent during the course of the reform are not subject to the mandatory cut and may produce their full quota.

Member States that have not reduced their quota by 50 percent will have their previous reduction commitments recognized by proportionally reducing the amount of the cut for the 2007/08 MY in reference to the previous commitments.

### **Stocks**

Ending stocks continue to be a major concern for the European Commission, which views them as a gauge to the effectiveness of the sugar reform. Stocks are forecast to increase by approaching 800,000 MT at the end of the 2007/08 MY. Taking into account the compulsory production cut, ending stocks for MY 2007/08 are forecast to be around 5 million MT. Without the compulsory cut, ending stocks for MY 2007/08 would be close to 7 million MT.

### **Intervention Stocks**

<b>Member State</b>	<b>Quantities held by the intervention agencies and available for sale for export (MT)</b>
Belgium	28,648
Czech Republic	35,903
Spain	43,084
Ireland	12,000
Italy	492,792
Hungary	138,593
Poland	8,623
Slovakia	34,000
Sweden	59,038
<b>Total</b>	<b>852,681</b>

Source: Commission Regulation (EC) No 38/2007

In MY 2005/06, the EU intervened in the sugar market to stabilize prices for the first time in 20 years. Intervention stocks reached 1.3 million MT in July 2006, and with effect from January 2007 852,681 MT have been offered for sale by intervention agencies by standing invitation to tender for export to all destinations excluding Albania, Croatia, Bosnia and Herzegovina, the former Yugoslav Republic of Macedonia, Serbia, Kosovo and Montenegro. The intervention mechanism is scheduled to be phased out by MY 2009/10.

### **Consumption**

Human domestic consumption is estimated to approach 17.2 million MT in MY 2007/08, declining by almost 10 percent from the estimated figure of 19 million MT in MY 2006/07. The 15 month duration of MY 2006/07 largely explains the increased consumption during that MY. Use of sugar for industrial outlets and bioethanol is expected to increase to 1 million MT in MY 2007/08.

### **Bioethanol**

Unlike in the U.S. where bioethanol is the dominant biofuel, the most significant biofuel in the EU is biodiesel. Bioethanol represents some 20 percent of the biofuel used in EU road transportation. Grains, principally wheat and some rye currently represent the major feedstock. Although sugar beet is used only to a limited degree as a bioethanol feedstock in the EU, the reform of the sugar regime and the availability of Carbon Credits for the production of sugar beet are likely to encourage greater use. Sugar beet and molasses have not been used to a greater extent to date because of the relative expense of the former and the practice of buying the latter under long-term contracts. However, the fact that sugar beet has a higher agronomic yield (implying that one hectare of beet produces on average 30 hectoliters more ethanol than wheat) could make sugar beet a potentially interesting feedstock for ethanol.

Only two plants located in France use sugar beet as a bioethanol feedstock. One plant has been operational since late 2006 and the other is scheduled to start production in mid-2007. Two new facilities using sugar beet as feedstock exist in Germany, one of which is planning to use 130,000 MT sugar syrup to produce 60,000 MT of ethanol, the other plant that is coming on stream will be using 1.3 million MT of sugar beet to produce 130,000 MT of ethanol annually. The European Commission forecasts that 2.2 million MT of sugar beet will be used for energy by 2013.

## **Trade**

### **Imports**

For the 2007/08 MY, it is anticipated that the Everything But Arms (EBA) quota and imports will increase by a similar amount to previous years. EBA import tariffs will be reduced from 80 percent in MY 2006/07, to 50 percent in MY 2007/08, to 20 percent in MY 2008/09, and eliminated for Least Developed Countries (LDC's) by MY 2009/10. The most significant increase in EU-25 sugar imports will probably occur in 2009 when the EU plans to open its market (duty free/quota free) for imports from the 49 poorest countries of the world.

African, Caribbean and Pacific countries (ACP) have been given until the end of 2007 to negotiate Economic Partnership Agreements (EPA) with the EU, following the World Trade Organization (WTO) decision that EU trade preferences with ACP countries would continue to be legal until the end of 2008. The EU is pursuing Partnership Agreements to extend the preferential market access granted to ACP countries beyond 2008. Recently, leaders of ACP countries have criticized these agreements asserting that they are one-sided as they require ACP countries to lower market access restrictions in their country for minimal preferential EU market access concessions.

The first compensatory payments between the EU and ACP countries were agreed in 2007. Payments totaling €40 million are to be paid in the first half of 2007. These payments come from a fund of €1.244 billion set aside by the EU to mitigate the effects of EU price cuts on ACP countries with preferential access to the EU sugar market. ACP countries have criticized the EU plan for its implementation delay.

The quota for raw sugar for countries with raw sugar refining capabilities was adjusted by the same amount as the production quota was in MY 2007/08. This quota supplies 2.1 million MT of raw sugar for refining, a decrease from 2.5 million MT in MY 2006/07.

Other import quotas are expected to remain at their MY 2006/07 levels for the MY 2007/08.

Total imports are expected to increase to 3.7 million MT in MY 2007/08 from the extended 2006/07 MY level of 3.5 million MT.

Sugar imports continue to be covered by licenses. For the first three years, through MY 2008/09, import licenses will only be granted to traditional raw sugar refiners. By MY 2009/10, as the EBA agreement reduces tariffs for sugar originating in LDC's to zero, licenses will be more widely distributed.

### Exports

MY 2006/07 is the first year of post-sugar reform exports. During this MY, total sugar exports to countries outside EU-25 stand at around 1.5 million MT. Exports from EU-27 are forecast to run at around 8 percent below that figure in MY 2007/08 at 1.4 million MT. After the [WTO Panel Decision](#), the EU is permitted to subsidize 1.3 million MT of refined sugar exports annually. For MY 2006/07, the EU has reportedly budgeted for 0.7 million MT although it is understood that this amount may be adjusted. Sugar export restitutions should be eliminated in 2008.

Exports are also covered by licenses. While the recent WTO ruling on EU sugar will significantly limit EU sugar exports, some subsidized exports will nevertheless continue, particularly with surplus production.

### **Policy – Reform of the Sugar Regime**

#### Background and key points

The Commission's success in winning support for the sugar reform proposal hinged on a number of factors including:

- financial considerations linked to the EU budget and the enlargement process;
- the WTO ruling on EU sugar;
- the ongoing Doha Development Agenda negotiations, and,
- the broader need to "rationalize" and "re-align" the sugar common market organization structure with other elements of the reformed CAP.

Only Greece, Poland and Latvia maintained opposition to the reform.

Council Regulations (EC) [No 318/2006](#), [No 319/2006](#) and [No 320/2006](#) provide the legal basis for the reform. The main elements include:

- a reduction in EU sugar reference prices, phased-in over 4 years. For MY's 2006/07 and 2007/08, the white sugar reference price remains €631.9/MT, while the raw sugar reference price is set at €496.8/MT. In MY 2008/09, the reference prices are to be reduced to €541.5/MT and €448.8/MT respectively. By MY 2009/10, the white sugar reference price will be €404.4/MT or 36 percent below its 2006/07 level. The 2009/10 MY raw sugar reference price will be €335.2/MT;
- sugar beet prices to be reduced from €46.72/MT in MY 2005/06 to €26.29/MT in MY 2009/10;
- a four-year (2006/07–2009/10) voluntary sector restructuring scheme to provide incentives for least efficient producers to cease production (EC 320/2006);
- starting 1 July, 2006, out-of-quota "C" sugar production is limited to EU internal market uses (i.e. for industrial and bioethanol purposes), or will need to be carried over into the following marketing year (Council Regulation (EC) No 318/2006, Article 12);



- abolition of intervention agencies after a four-year transition period ending in MY 2009/10. Intervention agencies, which until last year had been rarely utilized by the sugar sector, will be replaced by a system of private storage. Currently there is approximately 800,000 MT in intervention stocks.

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

### Reform Progress

During the first two years of the reform, some Member States have embraced the reform and the required quota renouncement while others have avoided ratcheting down production levels. For the first year of the reform (MY 2006/07) Member States renounced approximately 1.5 million MT of sugar. Renouncements for MY 2007/08 were less than 700,000 MT. Taken together the renouncements for the last two marketing years sum to just under 2.2 million MT, well short of the halfway mark of 3 million MT from the 6 million MT goal over the four year course of the restructuring. The European Commission hoped that taking 6 million MT out of production would balance the EU sugar market given WTO obligations.

During the spring of 2006 it became apparent that the EU would incur a massive surplus during the 2006/07 MY, and began exporting large quantities of sugar before implementation of the WTO imposed export limit. A record EU export level for refined sugar of over 8.3 million MT raw value resulted for the 2005/06 MY. However, that failed to balance the market and the European Commission therefore proposed a compulsory quota withdrawal for the 2007/08 MY.

The 2007/08 MY renouncement marks the final year at the €730/MT buy-out rate. The rate decreases to €625/MT for MY 2008/09 and then to €520/MT in MY 2009/10. In early 2007, Agriculture Commissioner Mariann Fischer Boel announced the need to renounce an additional 2 million MT for the 2007/08 MY to avert a potential surplus which would derail the reform.

The Commission also noted that it was necessary to amend the restructuring payment scheme to make it more attractive for less competitive operators. It seems possible that some profitability margins may have been miscalculated to the effect that there has been sufficient margin to continue production. However, no proposals have been offered at the time of writing. The Commission will evaluate the situation again at the end of October 2007 and could impose an additional reduction equal to the percentage of the mandatory cut if it is observed that member states have not reduced sugar production by 13.5 percent. This additional reduction is not linked to the quantity of quota Member States have already renounced but is a temporary reduction of a one-year duration.

**Visit our website:** our website [www.useu.be/agri/usda.html](http://www.useu.be/agri/usda.html) provides a broad range of useful information on EU import rules and agricultural policy and allows easy access to USEU reports, trade and other practical information.

E-mail: [aguseubrussels@usda.gov](mailto:aguseubrussels@usda.gov)

#### USEU Related Reports

Report Number	Title	Date Released
E36141	<a href="#">Sugar Semi-Annual</a>	11/17/2006
E36073	<a href="#">Sugar Annual</a>	5/8/2006
E36044	<a href="#">EU Agrees a One-Year Cut in Sugar Quota</a>	3/10/2006
E36019	<a href="#">The European Commission Publishes Warning on Sugar Quota Cut</a>	2/6/2006
E35225	<a href="#">EU agrees sugar reform</a>	11/30/2005
E35143	<a href="#">EU proposes radical sugar reform</a>	7/15/2005
These reports can be accessed through our website <a href="http://useu.usmission.gov/agri/">http://useu.usmission.gov/agri/</a> or through the FAS website <a href="http://www.fas.usda.gov/scriptsw/attacherep/default.asp">http://www.fas.usda.gov/scriptsw/attacherep/default.asp</a> .		

**Appendix A: EU-27 Marketing Year 2007/08 Production Trend**

	2005/06	2006/07	2007/08
Austria	489	442	410
Belgium	923	930	880
Bulgaria	5	3	5
Czech R.	559	505	370
Denmark	475	408	421
Finland	179	141	90
France - beet	4,500	3,906	3,800
France - overseas	269	307	480
Germany	4,404	3,573	3,700
Greece	310	184	170
Hungary	493	379	295
Ireland	190	0	-
Italy	1,774	717	700
Latvia	71	49	-
Lithuania	125	102	103
Netherlands	976	978	880
Poland	2,047	1,793	1,780
Portugal	76	40	15
Romania	93	127	110
Slovenia	60	50	-
Slovak R.	264	223	145
Spain - beet	1,075	1,168	900
Sweden	406	341	330
UK	1,341	1,261	1,221
<b>Total EU-15</b>	<b>17,387</b>	<b>14,396</b>	<b>13,997</b>
<b>Total NMS-12 *</b>	<b>3,619</b>	<b>3,101</b>	<b>2,693</b>
<b>Total EU-27</b>	<b>21,104</b>	<b>17,627</b>	<b>16,805</b>

Source: European Commission and FAS

\*NMS represents EU-10 and Bulgaria and Romania

**Appendix B: EU-27 MY 2007/08 Harvested Area and Yield Trends**

	Area (1000's hectares)			Yield (MT raw beet sugar/hectare)		
	2005/06	2006/07	2007/08	2005/06	2006/07	2007/08
Austria	44	40	37	11.11	11.05	11.08
Belgium	87	83	81	10.61	11.20	10.91
Bulgaria	1	1	1	5.00	3.00	5.00
Czech R.	69	50	44	8.10	8.6	8.35
Denmark	50	45	45	9.50	9.07	9.28
Finland	31	25	16	5.77	5.64	5.71
France	340	300	289	13.24	13.02	13.13
Germany	420	361	359	10.47	9.83	10.5
Greece	43	20	21	7.21	9.20	8.20
Hungary	61	48	36	8.08	8.3	8.19
Ireland	31	0	0	6.13	0.00	0.00
Italy	252	90	93	7.04	7.97	7.50
Latvia	14	12	0	5.22	6.42	0.00
Lithuania	21	19	20	6.86	6.32	5.09
Netherlands	94	86	81	10.38	11.37	10.88
Poland	286	262	246	7.85	7.13	7.23
Portugal	8	6	2	9.50	6.67	8.08
Romania	11	16	14	8.34	7.78	8.06
Slovak R.	33	35	20	8.00	6.37	7.19
Slovenia	8	7	0	7.50	7.14	0.00
Spain	104	100	82	10.34	11.68	11.01
Sweden	48	46	42	8.46	7.41	7.94
U.K.	148	131	113	10.81	10.11	10.85
<b>Total EU-15</b>	<b>1,686</b>	<b>1,377</b>	<b>1,295</b>	<b>10.31</b>	<b>10.45</b>	<b>10.70</b>
<b>Total NMS-12 *</b>	<b>496</b>	<b>430</b>	<b>382</b>	<b>7.29</b>	<b>7.21</b>	<b>7.06</b>
<b>Total EU-27</b>	<b>2,182</b>	<b>1,807</b>	<b>1,677</b>	<b>9.67</b>	<b>9.75</b>	<b>9.94</b>

\*NMS represents EU-10 and Bulgaria and Romania.

Source: European Commission and FAS