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Report Highlights:

As a result of another dry growing season in 2019, European Union (EU) sugar production for marketing year (MY) 2019/20 is now forecast at 17.9 million metric tons (MT) in raw sugar equivalent (RSE). It is expected to be short of the EU consumption of 18.6 million MT for the second year in a row out of three after the end of the EU sugar quota regime. While this MY 2019/20 production forecast is 0.3 million MT above the new expected MY 2018/19 production of 17.6 million MT, it should turn the EU into a net sugar importer of half a million MT, compared to the net exports of almost 2.6 million MT in MY 2017/2018. At the same time, it should leave the EU with low MY 2019/20 ending stocks of less than 1 million MT. EU sugar consumption is seen to remain stable despite reports of a decreasing sugar appetite.

Executive Summary

As 2019 saw another dry growing season, the EU beet sugar production forecast is decreased to 17.6 million MT RSE in MY 2019/20. This is only slightly up from 17.5 million MT in MY 2018/19 in which an enduring summer drought took a significant toll on beet growth. The 2019 beet acreage is reportedly 4.7 percent below the 2018 acreage as farmers were pessimistic about the outlook for this year's beet prices. The ban on the use of seeds covered with a neonicotinoid-containing pellet in most of the member states (MS) has also negatively influenced farmers' beet plantings. The industrial sugar use for non-food purposes, including for bioethanol is forecast to slightly decrease to 2.3 million MT because of short beet sugar supplies.

EU sugar imports in MY 2019/20 are forecast to increase to 2 million MT, only slightly further up from the expected 1.9 million MT in MY 2018/19 as no new import quotas are expected to become available from newly agreed Free-Trade Agreements (FTAs) in the coming year. Updated EU sugar export forecasts for MY 2019/20 are reviewed significantly down to 1.5 million MT, well below the 1.9 million MT expected in MY 2018/19.

EU sugar consumption for MY 2019/20 is forecast to remain stable at 18.6 million MT RSE from MY 2018/19. EU domestic sugar consumption has been stagnating for the last few years as reports broke about consumers looking for healthier, lower sugar containing diets and food processors reformulating products for lower sugar content. Recent immigration at least partly compensated for this decreased consumption from an aging population.

Sugar ending stocks in the EU are forecast to fall to 1 million MT at the end of MY 2019/20, further down from MY 2018/19. Sugar ending stocks for MY 2017/18 were reviewed slightly upwards to 2 million MT.

Brexit and CAP

The exit of the United Kingdom (UK) from the EU, also known as "Brexit," is currently planned for October 31, 2019, after it was originally planned for March 29, 2019. If that materializes, it is expected to potentially have a significant impact on EU sugar markets in MY 2019/20. This impact will have a greatly different impact depending on whether the UK would stay in the customs union or exits on WTO terms without an agreement with the EU. However, because of the political impasse in the UK, the exit date is likely uncertain and it is unclear when and what the impact of Brexit will ultimately be – see policy section.

The incoming European Commission (EC) and the new European Parliament (EP) are expected to soon pick up the discussions on the new Common Agricultural Policy (CAP) post 2020 again. Expectations are that the Commission will greatly stick with the proposals from the outgoing Juncker Commission, but is less certain that such will also be the case in the new EP. The uncertainties around Brexit are also having an impact on the EU discussions for the new CAP, as the modalities of the UK leaving the EU will impact the EU budget for the CAP.

Explanatory Notes to the reader:

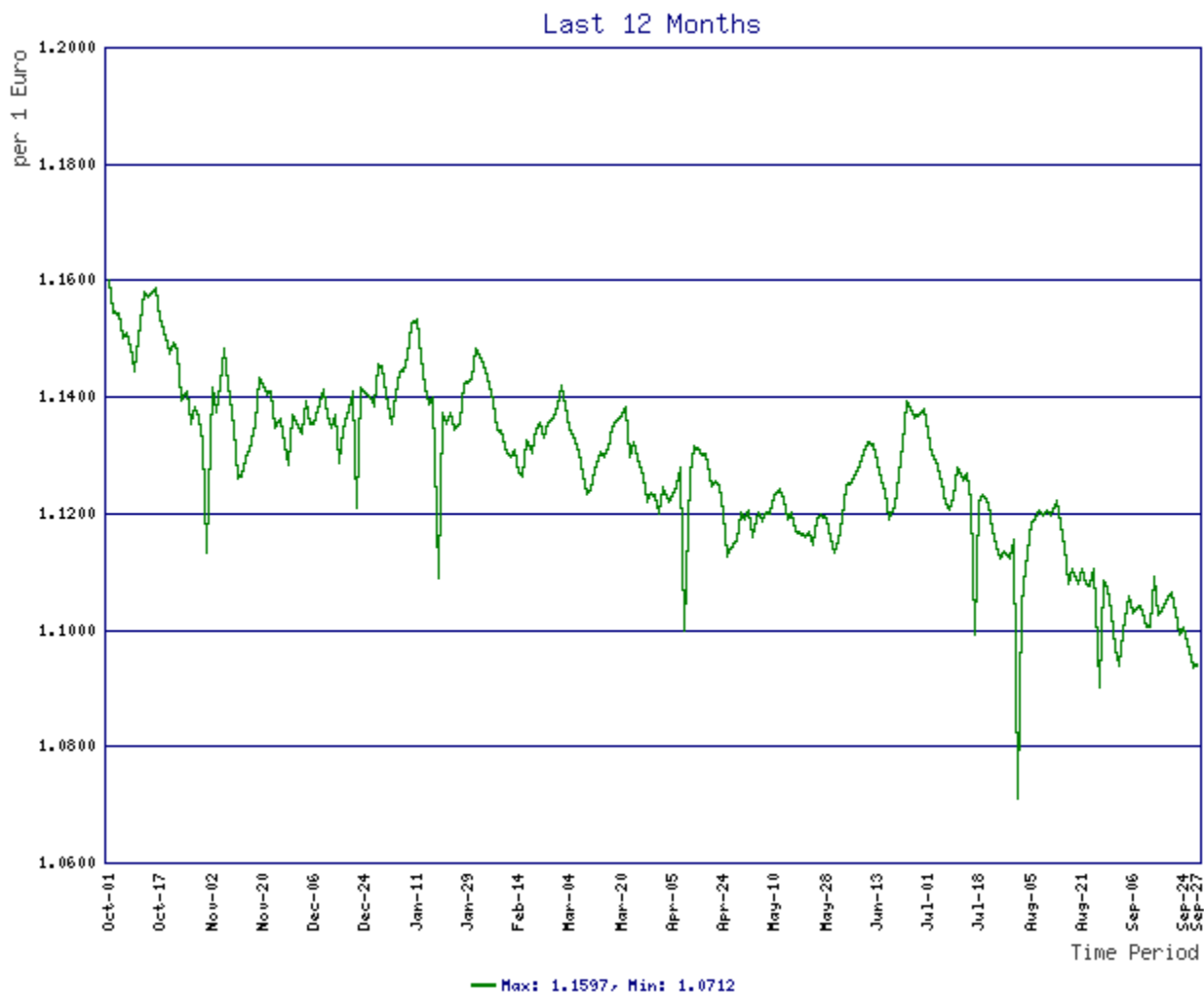
- This report covers the transition of EU sugar markets after the abolishment of the 50-year-old EU sugar production quota regime as numbers of the first MY 2017/18 after the abolishment are now final.

- With the end of the EU sugar production quota regime at the end of MY 2016/17, the limitation on the production of isoglucose, such as High Fructose Corn Syrup (HFCS), also ended.
- Despite the removal of all limitations to EU sugar production, EU farmers remain protected against competition from non-preferential raw cane sugar by high tariffs and import quotas. A safeguard on preferential duty-free imports from Least Developed Countries (LDCs) under the Everything-But-Arms (EBA) Agreement, continues to limit potential imports to 3.5 million MT white sugar equivalents. In recent years, additional country- specific quotas have been agreed as part of an EU free trade agreement (FTA) with either Peru, Colombia, Panama and Central America, totaling some 260,000 MT. Ukraine was also allocated a 20,000 MT quota, while the new Southern African Development Community¹ (SADC) Economic Partnership Agreement (EPA) from October 2016 is granting South Africa duty-free quotas for 150,000 MT of sugar.
- Additional EU market access for sugar as part of new FTAs is on the horizon. In 2016, as part of the EU-Vietnam FTA, Vietnam was awarded a duty-free quota for 20,000MT of sugar. In the spring of 2018, the EU and Mexico agreed to grant a 30,000 MT quota for Mexican sugar imports at a €49/MT duty to be phased in over three years. In June 2019, the EU and Mercosur (Argentina, Brazil, Paraguay and Uruguay) reach a political agreement on an “Trade Agreement in Principle.” Under this agreement, Brazil gained no new market access for sugar, but obtained the removal of the in-quota duty on 180,000 MT of its existing WTO quota, while Paraguay was granted a new duty-free quota for 10,000 MT of sugar. The provisional implementation of the EU-Vietnam and EU-Mexico agreements is awaiting European Parliament approval. The legal procedure and translation of the EU-Mercosur agreement is expected to take two years before the European Council and European Parliament can vote on it and provisional implementation can start. Ongoing negotiations for an FTA between the EU and Australia are also widely expected to include an agreement for sugar.
- All sugar numbers are in 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. In the past, because EU sugar produced under the quota system was preserved for food use only, the so-called out-of-quota sugar was used only for industrial (non-food) use. From MY 2017/18 onwards, there is no regulated distinction between sugar for food purposes and sugar for non-food purposes. However, the EU Sugar GAIN report continues to exclude thick juice from sugar beet for bioethanol and fermentation purposes, as thick juice does not meet the HS 1701 definitions.
- 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

¹ <http://ec.europa.eu/trade/policy/countries-and-regions/regions/sadc/>

- 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 in 2019.



Source: ExchangeRate.com

Acknowledgements

The numbers in this report are not official USDA numbers, but were derived from official European Commission numbers and contributions from following Foreign Service analysts in the EU:

Xavier Audran, FAS/Paris covering France

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Gellert Golya, FAS/Budapest covering Hungary and Slovenia
Marta Guerrero, FAS/Madrid covering Spain and Portugal
Mira Kobuszynska, FAS/Warsaw covering Poland, Lithuania, Latvia, and Estonia
Steve Knight, FAS/London covering the United Kingdom and Ireland, and Brexit policy
Roswitha Krautgartner, FAS/Vienna covering Austria
Leif Rehder and Sabine Lieberz, FAS/Berlin covering Germany
Jana Mikulasova, FAS/Prague covering the Czech Republic and Slovakia
Andreja Misir, FAS/Zagreb covering Croatia
Yvan Polet, FAS/USEU/Brussels covering Belgium and EU policy

EU Sugar Production

EU28 Sugar, Centrifugal						
	2017/2018		2018/2019		2019/2020	
Market Year begin	October 2017		October 2018		October 2019	
In thousand Metric Tons	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	2,238	2,238	1,923	1,997	1,048	1,228
Beet Sugar Production	20,552	20,667	17,900	17,513	19,150	17,600
Cane Sugar Production	271	271	275	218	275	250
Total Sugar Production	20,823	20,938	18,175	17,731	19,425	17,870
Raw Imports	982	966	1,100	1,350	1,100	1,500
Refined Imp. (Raw Val)	401	375	400	550	400	500
Total Imports	1,383	1,341	1,500	1,900	1,500	2,000
Total Supply	24,444	24,517	21,598	21,628	21,973	21,078
Raw Exports	6	5	5	5	5	5
Refined Exp. (Raw Val)	3,915	3,915	1,995	1,795	2,395	1,495
Total Exports	3,921	3,920	2,000	1,800	2,400	1,500
Human Dom. Consumption	18,600	18,600	18,550	18,600	18,500	18,600
Total Use	18,600	18,600	18,550	18,600	18,500	18,600
Ending Stocks	1,923	1,997	1,048	1,228	1,073	978
Total Distribution	24,444	24,517	21,598	21,628	21,973	21,078

The EU beet acreage for MY 2019/20 is estimated to have decreased by 4.7 percent from MY 2018/19 as low sugar prices resulted in low beet prices in 2018/19 and new beet purchasing contracts for 2019 offer no better prices for this year's harvest. At the same time farmers incur higher crop risks from the ban on neonicotinoids, as well as higher production costs from using alternative insecticide applications. Decreases in beet acreage are particularly sharp in France (-7 percent) and the United Kingdom (-10 percent). Decreases of more than five percent are also reported in Belgium, Czech Republic, Denmark, Italy, The Netherlands, Spain and Sweden.

As 2019 has again seen a dry growing season in much of the European beet growing area, the EU beet sugar production forecast for MY 2019/20 is lowered to 17.6 million MT RSE. The sugar production for MY 2018/19 is further decreased from previous forecasts, as the impact of the 2018 summer drought was more severe than previously estimated. Record-high sugar contents in beet could not compensate for the low beet yields. As a result, MY 2019/20 will be the second year in a row out of three since the end of the EU sugar quota regime that EU domestic sugar production will fail to meet domestic consumption. The final review of the MY 2017/2018 sugar production resulted in a minor upward adjustment of previous expectations.

Updated production expectation for MY 2018/19 and forecast for MY 2019/20

EU sugar beet production									
	Area, thousands of Hectares			Sugar beet yield in MT per Hectare			Sugar content in percentage		
	17/18	18/19	19/20	17/18	18/19	19/20	17/18	18/19	19/20
Austria	42.8	32.0	30.0	68.0	68.7	70.0	17.20	16.00	17.00
Belgium	64.7	62.7	59.1	90.0	82.8	82.5	18.00	18.50	18.50
Denmark	34.4	34.3	30.0	71.4	61.5	68.0	16.20	18.10	16.50
Finland	11.8	9.8	10.8	36.6	36.3	36.5	21.10	15.50	17.50
France	486.0	485.2	450.7	95.1	80.0	76.0	18.00	19.00	18.00
Germany	407.0	413.9	414.3	84.0	63.0	70.0	17.90	19.10	18.00
Greece	6.5	5.0	1.4	64.0	59.0	59.7	13.50	13.50	13.50
Italy	38.0	34.3	30.4	64.6	56.4	56.5	15.30	13.50	15.30
Netherlands	85.4	85.2	79.8	93.3	76.4	82.5	16.65	17.40	17.00
Portugal	0.1	0.0	0.0	0.0	0.0	0.0	0.00	0.00	0.00
Spain	36.8	35.4	31.3	90.7	79.5	95.5	18.33	18.17	17.80
Sweden	31.0	30.7	27.3	63.2	55.3	62.0	15.70	15.30	16.00
United Kingdom	107.0	109.8	99.6	83.0	66.5	73.5	17.82	17.93	17.50
Czech Republic	66.5	66.3	62.8	73.9	56.9	72.0	17.50	18.30	18.00
Hungary	18.6	16.3	16.0	63.0	61.2	63.1	16.50	15.50	16.00
Lithuania	16.8	15.5	15.0	60.0	59.0	64.0	16.00	16.60	17.20
Poland	230.8	239.4	240.0	68.1	59.7	62.0	16.49	17.75	16.50
Slovakia	22.2	22.4	22.0	55.0	59.7	65.0	16.50	15.43	16.20
Romania	28.1	25.7	24.0	41.8	38.1	39.0	17.00	16.50	16.50
Croatia	20.0	14.1	12.5	65.0	55.0	60.0	16.00	16.00	16.00
Total EU-15	1351.5	1338.3	1264.7						
Total NMS	403.0	399.7	392.3						
Total EU-28	1754.5	1738.0	1657.0						

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

Source: FAS/USEU based on data from Foreign Service analysts in EU MS.

Total Sugar Beet Production Including Additional Production for Non-food Industrial Use

EU Beet Sugar Production (raw value)				
	in thousand MT	2017/18	2018/19	2019/20
EU Sugar Production		20,667	17,513	17,600
Industrial Use		2,340	2,320	2,300
Total EU Beet Sugar Production		23,007	19,833	19,900

Source : FAS/USEU calculation based FAS EU contributions.

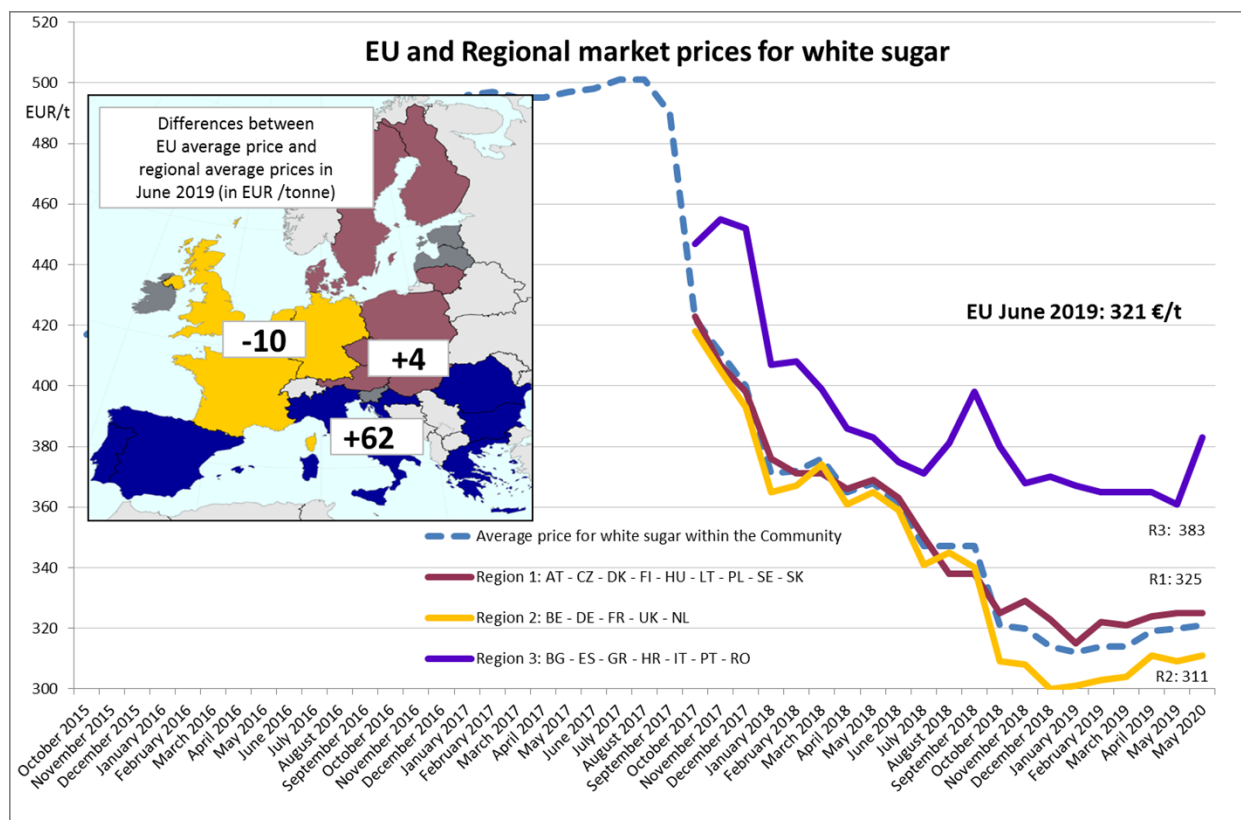
Total EU sugar beet sugar production for MY 2019/20, including for industrial use, is now forecast at 19.9 million MT RSE, down from the initial 21.5 million MT forecast. This is a minor increase compared to MY 2018/19 despite the lower acreage; however, it must be said that this forecast is still based on pre-harvest yield

estimates. The industrial use of raw sugar juice for fermentation and bio-ethanol production is forecast to slightly decrease as processors favor sugar production over bioethanol production and farmers could again use any surplus beets to supplement fodder shortages as happened in 2018.

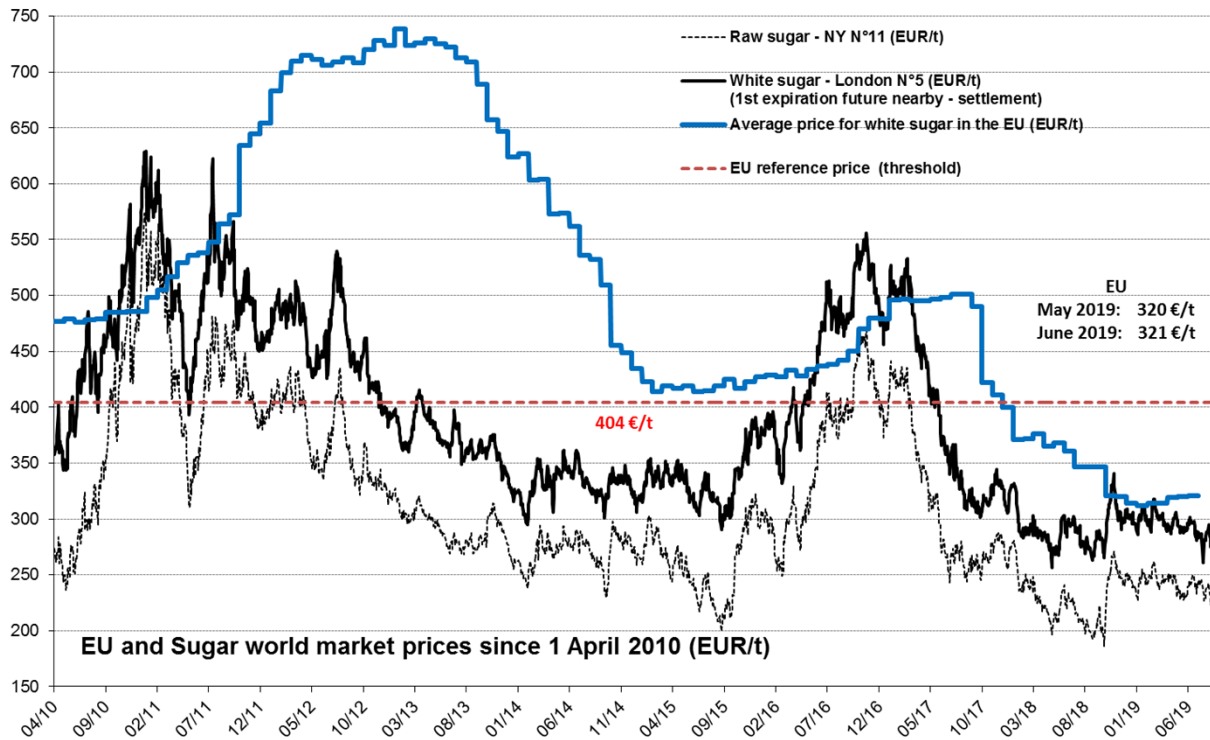
Consumption

Increases in EU sugar consumption have come to a halt in recent years. Some analysts still report slight increases in sugar consumption, as abundant supplies in MY 2017/18 seemed to have sustained consumption, but the trend for lower sugar consumption is strengthening. Food processors are responding to consumer and health authorities' pressure to reduce sugar content in food through reformulating products. The EU sugar consumption forecast for MY 2019/20 has decreased to 18.55 million MT from its peak consumption of 18.75 million MT just three years ago.

The difference in sugar availability in the EU market between the core producing MS (Region 2: Belgium, France, Germany, Netherlands and United Kingdom) and EU MS in the periphery (Region 3: Bulgaria, Romania, Greece, Croatia, Italy, Spain and Portugal) leads to price differentiation as evidenced in the below EU price reporting slide by region (see price reporting regions in below price graph). While this price reporting is dominated by contractual sales, including from long-term contracts, and therefore does not reflect spot prices, it still indicates market dynamics. This price difference allows EU sugar refiners, as well as less efficient beet sugar processors in this area to generate a larger margin.



EU market price and world market prices



Source: European Commission

Trade

Imports

EU sugar imports in MY 2019/20 are now forecast at 2.0 million MT, slightly above the MY 2018/19 level. Unless world sugar prices significantly increase again in MY 2019/20, allowing imports into the EU's World Trade Organization (WTO) CXL quota², which carry a €98/MT duty, imports will come from EPA/EBA³ countries and countries with which the EU has FTA agreements. No new FTAs are expected to come online in 2020. While EU sugar stocks from MY 2017/18 could still compensate for the short MY 2018/19 production, this second short production in MY2019/20 will turn the EU into a net importer again.

Sugar imports from EPA/EBA countries in MY 2018/19 almost doubled again compared to MY 2017/18, after they were less than half the MY 2016/17 volume. Duty-free imports from EBA/EPA countries, made up about half of MY 2018/19 imports, with the other half mainly originating from duty-free quotas agreed through recent

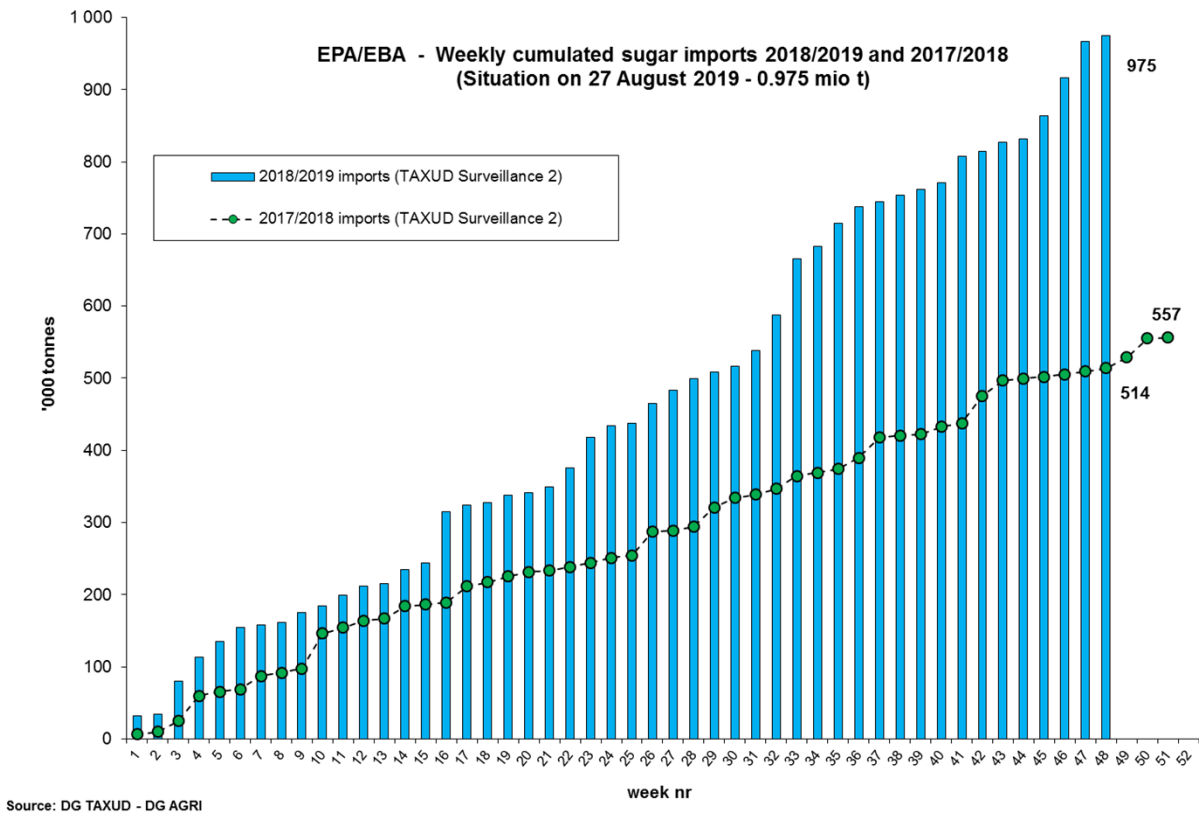
² EU CXL import quota were agreed as part of the EU's market access concessions in the GATT trade negotiations.

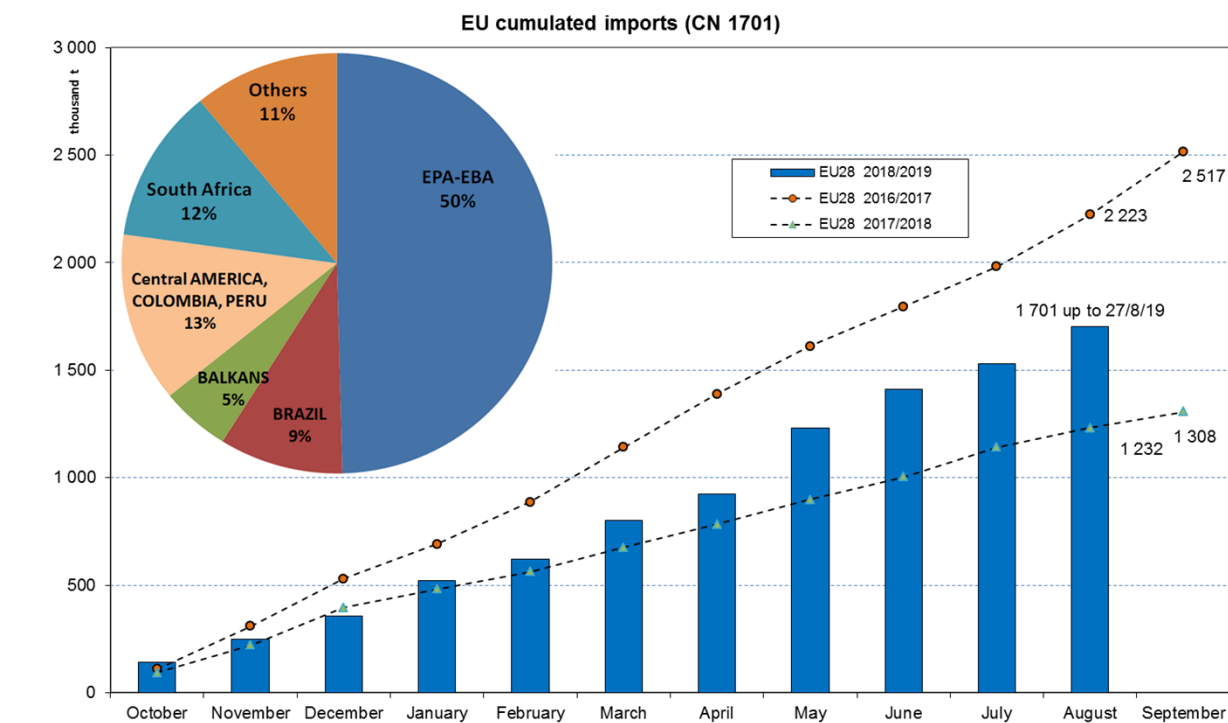
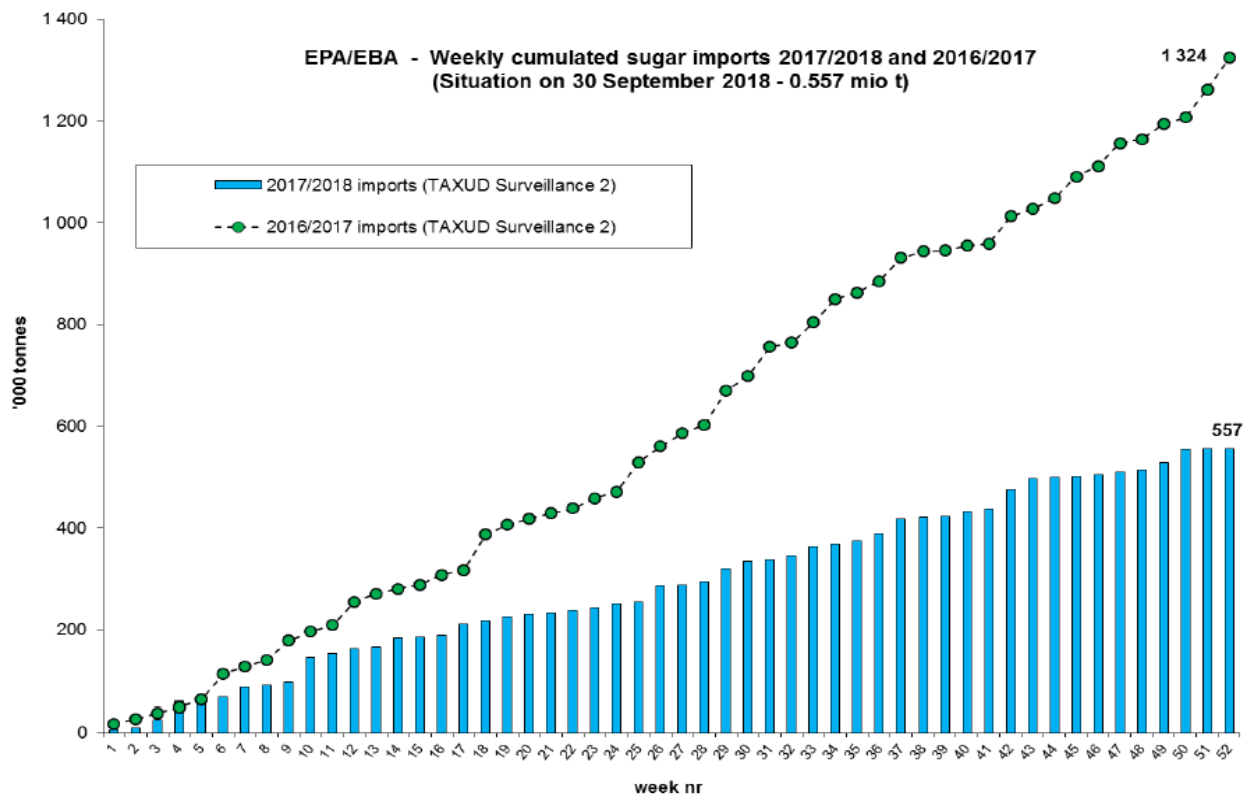
³ EPA/EBA: Economic Partnership Agreements and Everything-But-Arms Agreement

FTA agreements with sugar producing countries in the Americas and South-Africa. At the same time, the EU's WTO CXL quota went virtually unused. See graphs below.

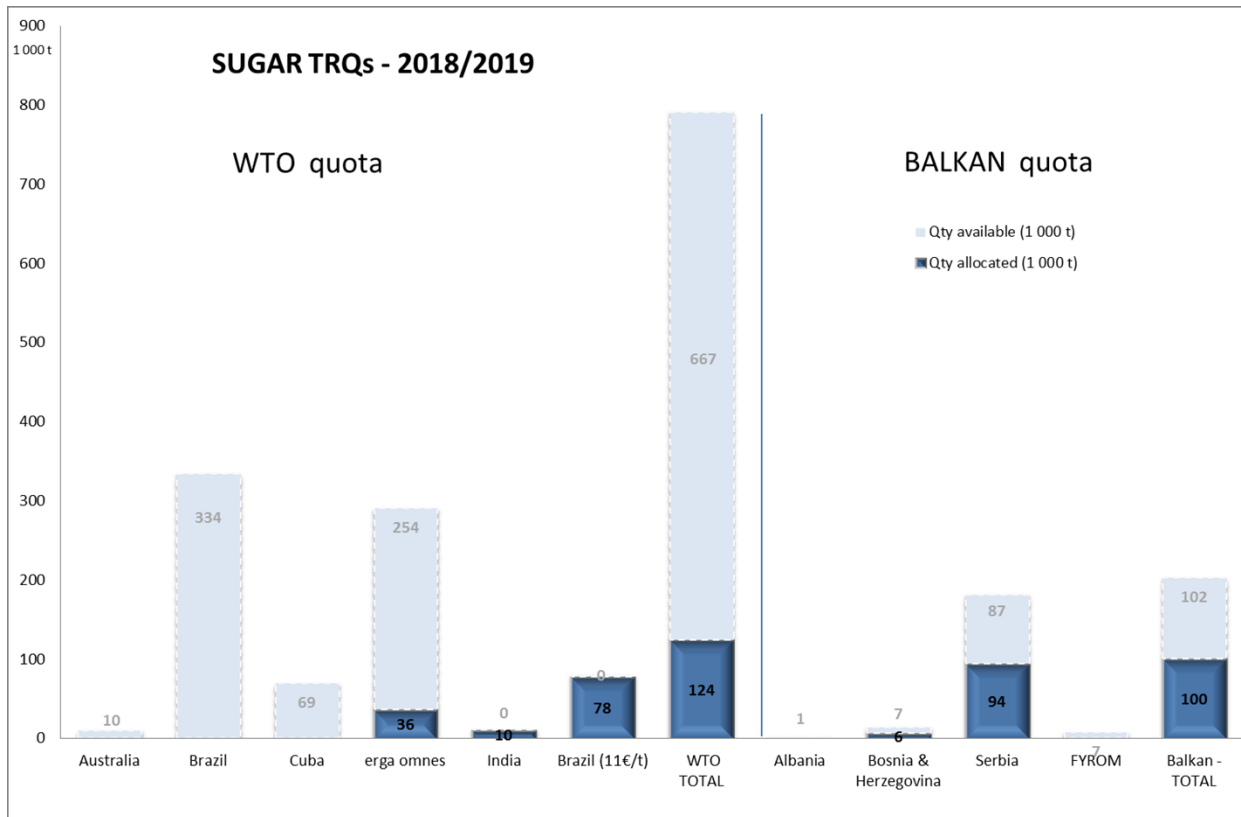
For MY 2017/18, final EU raw sugar imports ended just under 1 million MT, a record low, while refined sugar imports reached 375,000 MT.

EU Sugar Imports from EBA/EPA Countries and from FTAs





Source: EUROSTAT

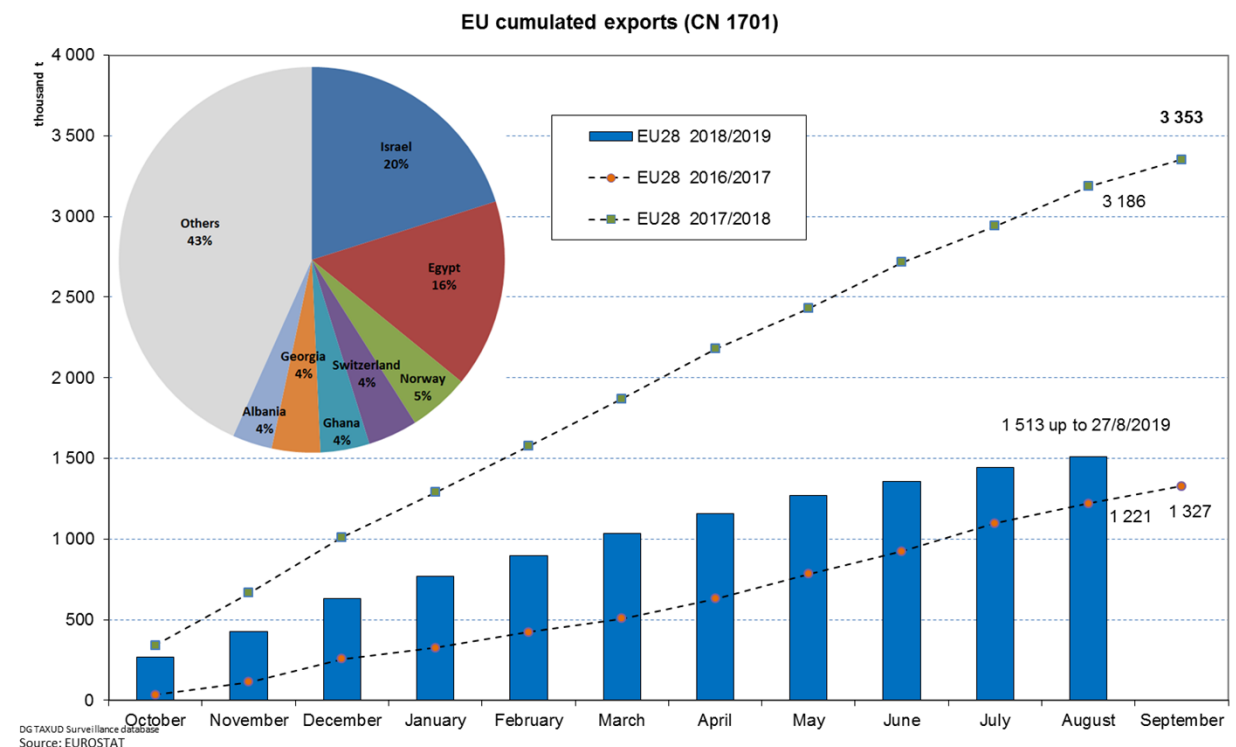


Source: European Commission

Exports

The new forecast for EU sugar exports in MY 2019/20, almost exclusively refined sugar, is now 1.5 million MT RSE because of short supplies, down from the original forecast of 2.4 million MT and 20 percent below the MY 2018/19 level. The expected sugar export for MY 2018/19 was adjusted further down to 1.8 million MT, as a result of short supplies and unprofitable export prices. EU sugar exports are traditionally to North-African and Middle Eastern countries.

The final export number for MY 2017/18 ended above 3.9 million MT RSE.



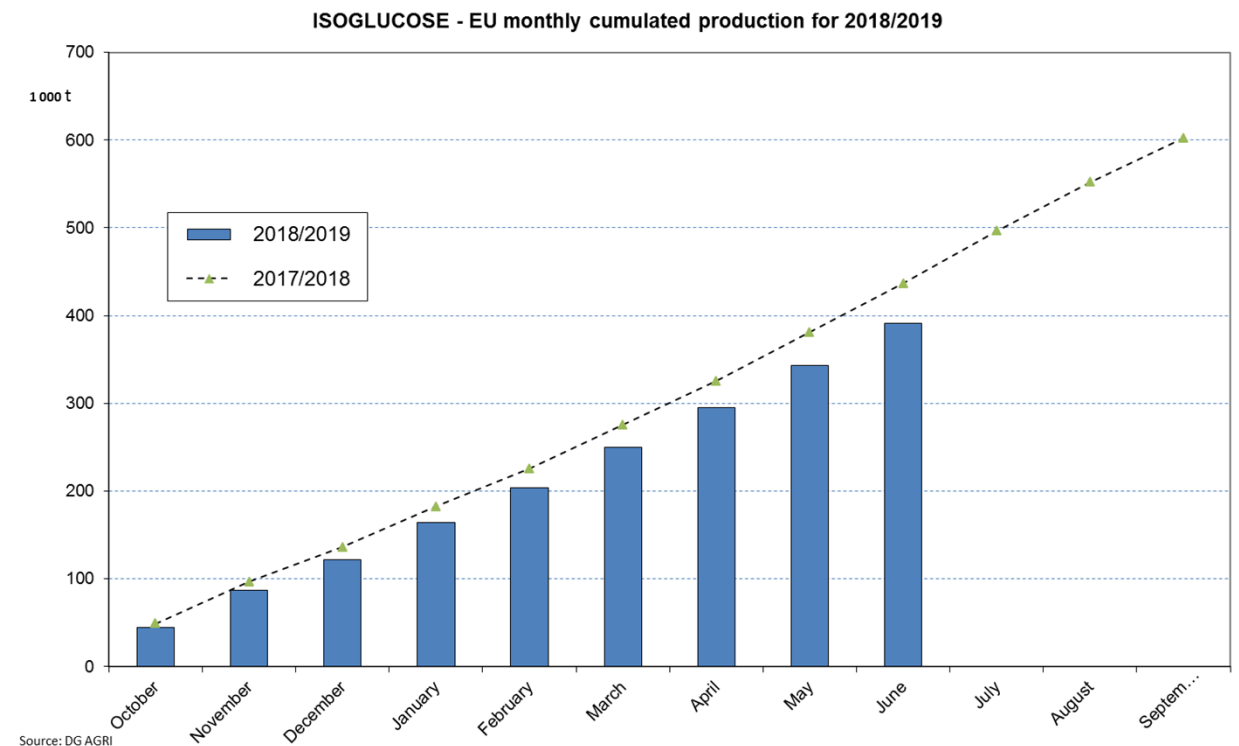
Source: European Commission

Stocks

EU sugar stocks at the end of MY 2019/20 are forecast to be below 1 million MT RSE, a further reduction from the low MY 2018/19 level. This is less than half the stock level at the end of MY 17/18. This level will leave some sugar users scrambling for supplies after just one year of abundant supplies, even as it is unclear what it will mean for EU sugar prices.

Isoglucose

The forecast for isoglucose production in the EU for MY 2019/20 is decreased to 700,000 MT from the previous forecast of 900,000 MT, despite a new Hungarian plant increasing capacity (see graph below). Despite this new production capacity coming online, it is unlikely that isoglucose production will increase soon, at least not for as long as EU sugar prices remain depressed. EU isoglucose production decreased to below 700,000 MT in MY 2017/18 after the end of the sugar quota system that also regulated isoglucose production and is even slipping in MY 2018/19.



Source: European Commission

Policy

EU-Mercosur Trade “Agreement in Principle”

On June 28, 2019, the EU reached a trade “Agreement in Principle” with the four member countries of Mercosur (Argentina, Brazil, Paraguay and Uruguay). While this FTA will likely take several more years before it will become operational, probably on a provisional basis, it is worth noticing that the agreement provides for a new 10,000 MT duty-free import quota for Paraguay, while Brazil would see the in-quota duty eliminated on 180,000 MT of its WTO quota.

Brexit

At the time of writing, the UK remains a member of the EU and it is not clear if, when or in what form it will leave. The two-year period for the UK to leave the EU - after then Prime Minister (PM) Theresa May triggered Article 50 of the European Treaties - passed on March 29, 2019 but has been extended twice.

While current PM Boris Johnson engages the EU to renegotiate the [Withdrawal Agreement](#)⁴ his predecessor agreed with the EU in late 2018 but has failed to pass in the UK Parliament three times, it will probably remain the basis for the UK’s departure. A short extension to Article 50 agreed in late March was further extended on April 11, when PM May and her EU27 counterparts agreed to October 31, 2019 as the new end date. The [Withdrawal Agreement provides](#) a transition period until December 31, 2020, during which the EU and the UK

⁴ [http://europa.eu/rapid/press-release MEMO-18-6422 en.htm](http://europa.eu/rapid/press-release_MEMO-18-6422_en.htm)

should conclude an FTA. During this transition time, the UK would continue to belong to the EU Customs Union and apply all EU legislation.

If the October 31 deadline is reached without ratification of the Withdrawal Agreement, without an agreed (third) Article 50 extension or the UK does not withdraw its Article 50 notification, it will leave under a 'no deal' scenario. This will see WTO rules apply for the relationship between the former partners. On March 13, 2019 the UK Department of International Trade published the Most Favored Nation (MF) tariff schedule and import quota that would apply in that scenario. Raw sugar for direct use would face an import duty of €419/MT, while raw sugar for refining would carry a €339/MT duty. However, the UK provides a duty-free Tariff Rate Quota (TRQ) of 260,000MT annually. Refined sugar carries a €150/MT duty. The UK also published the full [list](#)⁵ and details of the TRQs that it will operate as agreed with the EU on splitting EU quotas.

Update on Discussions for the Next Common Agricultural Policy (CAP) After 2020

On June 1, 2018, Commissioner for Agriculture Hogan presented Commission [proposals for the next CAP](#).⁶ The proposals center around nine objectives:

- To ensure a fair income to farmers;
- To increase competitiveness;
- To rebalance the power in the food chain;
- Climate change action;
- Environmental care;
- To preserve landscapes and biodiversity;
- To support generational renewal;
- Vibrant rural areas; and,
- To protect food and health quality.

The Commission foresaw a decrease in funding for the new CAP of 5 percent, with an average decrease in direct payments of some 15 percent. The Commission set high ambitions on environmental and climate action through the rural development or second pillar and intended to increase "subsidiarity" towards MS.

On April 9, the EP's Agricultural Committee voted on the draft report prepared by rapporteur Eric Andrieu with amendments on the proposal for the new Common Market Organization (CMO) Regulation. The proposal was submitted to the EP Plenary and the EU Council, but the Council and EP decided to leave the vote to the new EP after elections were held in May 2019. The new Commission, which takes office in November of 2019, is expected to continue the work of the existing proposals, albeit with maybe some minor tweaks. The intentions of the new EP are less clear as the balance of power has changed. Furthermore, these proposals depend on the EU's next Financial Framework, which has yet to be set and which is likely to be heavily impacted by the UK decision to leave the EU. As a result, an extension of the current CAP with at least one or two years is expected to be decided before the new Commission and EP are able to finalize the new CAP.

⁵ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/785571/TRQ_-_Ref_Doc.pdf

⁶ <https://ec.europa.eu/info/food-farming-fisheries/key-policies/common-agricultural-policy/future-cap>

Related reports from FAS Post in the European Union:

Country	Title	Date
EU28	Sugar Annual, Centrifugal Report	4/30/2019

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

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

Sugar Centrifugal Market Begin Year European Union	2017/2018		2018/2019		2019/2020	
	Oct 2017		Oct 2018		Oct 2019	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	2238	2238	1923	1997	1048	1228
Beet Sugar Production	20552	20667	17900	17513	19150	17600
Cane Sugar Production	271	271	275	218	275	250
Total Sugar Production	20823	20938	18175	17731	19425	17850
Raw Imports	982	966	1100	1350	1100	1500
Refined Imp.(Raw Val)	401	375	400	550	400	500
Total Imports	1383	1341	1500	1900	1500	2000
Total Supply	24444	24517	21598	21628	21973	21078
Raw Exports	6	5	5	5	5	5
Refined Exp.(Raw Val)	3915	3915	1995	1795	2395	1495
Total Exports	3921	3920	2000	1800	2400	1500
Human Dom. Consumption	18600	18600	18550	18600	18500	18600
Other Disappearance	0	0	0	0	0	0
Total Use	18600	18600	18550	18600	18500	18600
Ending Stocks	1923	1997	1048	1228	1073	978
Total Distribution	24444	24517	21598	21628	21973	21078
(1000 MT)						

Attachments:

No Attachments