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Sugar Annual

Report

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Report Highlights:

EU sugar production in MY 2014/15 is forecast to increase to 16.3 million MT, up from 16.1 million MT in MY 2013/14 as German beet growing area recovers from a decrease to eliminate high stocks.

High EU domestic sugar prices since MY 2011/12 are slowing down the increase in consumption, but consumption is forecast to accelerate again when sugar prices decrease. EU sugar imports are also slowing in MY 2013/14, despite the opening of new preferential quotas from new FTAs with Central and South America, as well as Ukraine. Forecasts are that EU sugar imports will increase again in MY 2014/15. EU sugar exports are limited by the EU's WTO export ceiling for sugar.

Executive Summary:

EU sugar production in Marketing Year (MY) 2014/15 is forecast to increase slightly to 16.3 million MT in raw sugar equivalent (RSE) from 16.1 million MT in MY 2013/14. The main reason for this increase is German sugar beet planting area recovering from a decrease in planting area in MY 2013/14 due to large German sugar stocks at the end of MY 2012/13. Sugar beet area in other Member States (MS) is forecast to be stable for MY 2014/15 in anticipation of the end of the sugar production quota system by 2017. EU sugar production in MY 2013/14 ended at 16.1 million MT, as favorable beet maturing conditions in the fall of 2013 pushed up yields despite wet harvesting conditions in some MS. As a result, EU out-of-quota sugar production for non-food use in MY 2013/14 is expected to have decreased by 0.5 million MT from the previous year and recover to 2.2 million MT again in MY 2014/15.

EU sugar imports are expected to decrease to 3.5 million MT in MY 2013/14 from 3.875 million MT in MY 2012/13 despite the opening of additional import quota, mainly from countries the EU recently signed a Free Trade Agreement (FTA) - Columbia, Peru, etc., and most recently Ukraine. A lag in preferential imports from Brazil half-way MY 2013/14 continues to keep EU sugar import prices well above world market prices, which in turn keeps EU sugar prices in the domestic market high. In contrast to previous years, in which the domestic market supply was even more precarious, for MY 2013/14 the Commission has not decided to implement “temporary measures” under the new CAP post 2013, which would have allowed additional reduced duty sugar imports and out-of-quota sugar into the EU food market. EU sugar exports for MY 2014/15 are forecast at 1.5 million MT, the same as exports in MY 2013/14. Almost all of the sugar destined for exports is refined sugar and exports are limited by the EU’s WTO sugar export ceiling. High EU domestic sugar prices since MY 2011/12 have slowed down the potential increase in sugar consumption even though the latest acceding Member States (MS) are catching up with the rest of the EU.

In the new Common Agricultural Policy (CAP) post 2013, it was agreed to extend the EU sugar production quota system for two years through MY 2016/17. With just three years ahead EU sugar processing companies are defining their market strategies for the post quota era. It is widely expected that the EU sugar market will further consolidate and the concentration of sugar beet production will occur in the most competitive MS. It is unclear how much market share isoglucose from grain starch will be able to win in the EU food processing industry after market liberalization.

Commodities:

Sugar, Centrifugal

Production:

Note: 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). 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 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 CAP post 2013, this system will largely remain 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 (LDC) under the Everything-But-Arms (EBA) Agreement limiting imports by a safeguard of 3.5 million MT white sugar equivalents.

[1] http://ec.europa.eu/agriculture/sugar/legislation/index_en.htm

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 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.
- The data in this report is based on EU sugar production information collected by FAS offices in the EU Member States.

Upon Croatia's accession to the EU, 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 of sugar, 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.

Food Use Production to Increase Moderately in MY 2014/15

EU sugar production in MY 2014/15 is forecast to increase slightly to 16.3 million MT in raw sugar equivalent (RSE). This is the result of German beet acreage recovery from a 50.000 Ha decrease in MY 2013/14 due to large German sugar stocks at the end of MY 2012/13. Other Member States (MS) are forecast to keep their sugar beet area for MY 2014/15 stable in order to prevent sugar stock building in anticipation of the end of the sugar production quota system in 2017.

EU sugar production in MY 2013/14 is expected to have ended at 16.1 million MT, 0.1 million MT higher than previously forecasted because of favorable beet maturing conditions in the Fall of 2013 and in spite of wet harvesting conditions in some MS. On the other hand, EU out-of-quota sugar production is expected to have decreased less than anticipated. Therefore, more sugar is expected to be carried over into the next MY production quota. Final sugar production in MY 2012/13 ended only slightly higher at 16.4 million MT than previously expected.

| EU Sugar Beet Production | | | | | | | | | |
|---------------------------------|------------------------------------|---------------|---------------|---|-------|-------|------------------------------------|-------|-------|
| | Area, thousands of Hectares | | | Sugar beet yield in MT per Hectare | | | Sugar content in percentage | | |
| | 12/13 | 13/14 | 14/15 | 12/13 | 13/14 | 14/15 | 12/13 | 13/14 | 14/15 |
| Austria | 49.3 | 50.3 | 52.0 | 63.0 | 68.3 | 68.0 | 16.66 | 18.05 | 18.00 |
| Belgium | 61.2 | 59.8 | 60.0 | 78.9 | 74.1 | 80.0 | 18.00 | 18.00 | 18.00 |
| Denmark | 40.8 | 38.0 | 39.0 | 64.9 | 60.5 | 63.0 | 18.00 | 18.00 | 18.00 |
| Finland | 11.5 | 12.0 | 13.0 | 34.7 | 38.7 | 39.5 | 16.50 | 16.50 | 16.50 |
| France | 390.0 | 393.0 | 393.0 | 85.9 | 88.0 | 88.0 | 18.40 | 18.50 | 18.50 |
| Germany | 402.1 | 358.0 | 380.0 | 71.3 | 63.6 | 69.0 | 18.22 | 17.84 | 17.90 |
| Greece | 9.0 | 6.0 | 6.0 | 67.0 | 67.8 | 67.0 | 13.50 | 13.50 | 13.50 |
| Italy | 52.5 | 40.2 | 51.0 | 49.1 | 51.9 | 53.0 | 15.50 | 15.00 | 16.00 |
| Netherlands | 73.0 | 73.2 | 73.5 | 78.9 | 76.1 | 77.5 | 17.10 | 16.90 | 17.20 |
| Portugal | 0.4 | 0.0 | 0.0 | 55.0 | 0.0 | 0.0 | 15.51 | 0.00 | 0.00 |
| Spain | 36.1 | 34.0 | 42.4 | 85.9 | 84.0 | 84.0 | 17.71 | 17.88 | 17.80 |
| Sweden | 39.0 | 36.3 | 37.0 | 59.3 | 57.7 | 58.0 | 17.50 | 17.50 | 17.50 |
| U.K. | 120.1 | 121.0 | 116.0 | 60.7 | 70.0 | 64.8 | 17.02 | 17.60 | 17.65 |
| Czech R. | 61.3 | 62.9 | 64.0 | 67.2 | 67.0 | 66.0 | 17.00 | 16.90 | 16.00 |
| Hungary | 19.0 | 17.0 | 17.0 | 47.1 | 48.9 | 50.0 | 16.80 | 16.50 | 16.50 |
| Lithuania | 19.2 | 17.8 | 19.0 | 52.2 | 54.9 | 50.0 | 17.00 | 17.00 | 17.00 |
| Poland | 193.3 | 184.8 | 190.0 | 63.7 | 60.8 | 58.5 | 17.20 | 17.60 | 17.00 |
| Slovak R. | 20.0 | 21.0 | 22.0 | 44.8 | 52.0 | 52.3 | 16.50 | 16.50 | 16.50 |
| Romania | 19.6 | 28.3 | 28.5 | 26.4 | 30.0 | 28.0 | 21.20 | 21.00 | 21.00 |
| Croatia | 24.0 | 24.0 | 20.0 | 38.0 | 46.0 | 40.0 | 15.50 | 15.50 | 15.50 |
| Total EU-15 | 1285.0 | 1221.8 | 1262.9 | | | | | | |
| Total NMS | 356.4 | 355.8 | 360.5 | | | | | | |
| Total EU-28 | 1641.4 | 1577.6 | 1623.4 | | | | | | |

Source: FAS EU offices

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

Out-of-quota sugar production available for industrial uses in MY 2013/14 is expected to reach 1.7 million MT as a result of higher than expected sugar yields and sugar processors “carrying over” 0.7 million MT of unsold sugar from MY 2012/13 for food use. This is only 0.5 million MT lower than in MY 2012/13 despite total EU28 sugar production for MY 2013/14 decreasing almost 1.0 million MT from the 18.9 million MT RSE in MY 2012/13. Prices for industrial sugar in the EU have been decreasing, trending down with world prices for raw sugar, but they remain well above 2009/10 prices. For this reason, expectations for higher beet sugar use for bio-ethanol production are slim as the European bio-ethanol market is already saturated and corn prices have plummeted. As a result, Post expects that carry-over of unsold out-of-quota sugar at the end of MY 2013/14 will remain high into MY 2014/15. As beet planting area for MY 2014/15 is forecast to recover, barring unfavorable growing conditions in 2014, total EU production is forecast at 18.5 million MT RSE with out-of-quota sugar production destined for industrial use in MY 2014/15 to increase again to 2.2 million MT.

| EU Beet Sugar Production (raw value) | | | |
|---|---------------|---------------|---------------|
| in ,000 MT | 2012/13 | 2013/14 | 2014/15 |
| EU Regulated Sugar Market* | 16,655 | 16,100 | 16,300 |
| Unregulated Over-Quota Production for Industrial Uses** | 2,213 | 1,736 | 2,229 |
| Total EU Beet Sugar Production | 18,868 | 17,836 | 18,529 |
| * includes within-quota production and out-of-quota production released to the EU food market, 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 | | | |

Consumption:

EU 28 sugar consumption continues to increase due to increasing population growth, but also because consumption in the latest EU acceding MS is catching up with the rest of Community. However, increases in sugar consumption in the food industry, which accounts for 70 percent of EU food sugar consumption, are hampered in MY 2013/14 by the wide gap between EU domestic sugar prices for food use and world sugar prices. This makes the use of imported sugar through the inward processing program, which waves the high EU sugar import duties for food processing for re-export, highly attractive. This gap between EU and world sugar prices has widened from MY 2012/13 as world sugar prices declined much faster than EU food sugar prices. Post believes that EU domestic food sugar prices eventually will decrease in MY 2014/15, resulting in an increase in EU sugar consumption for food use to 18.5 million MT.

Trade:

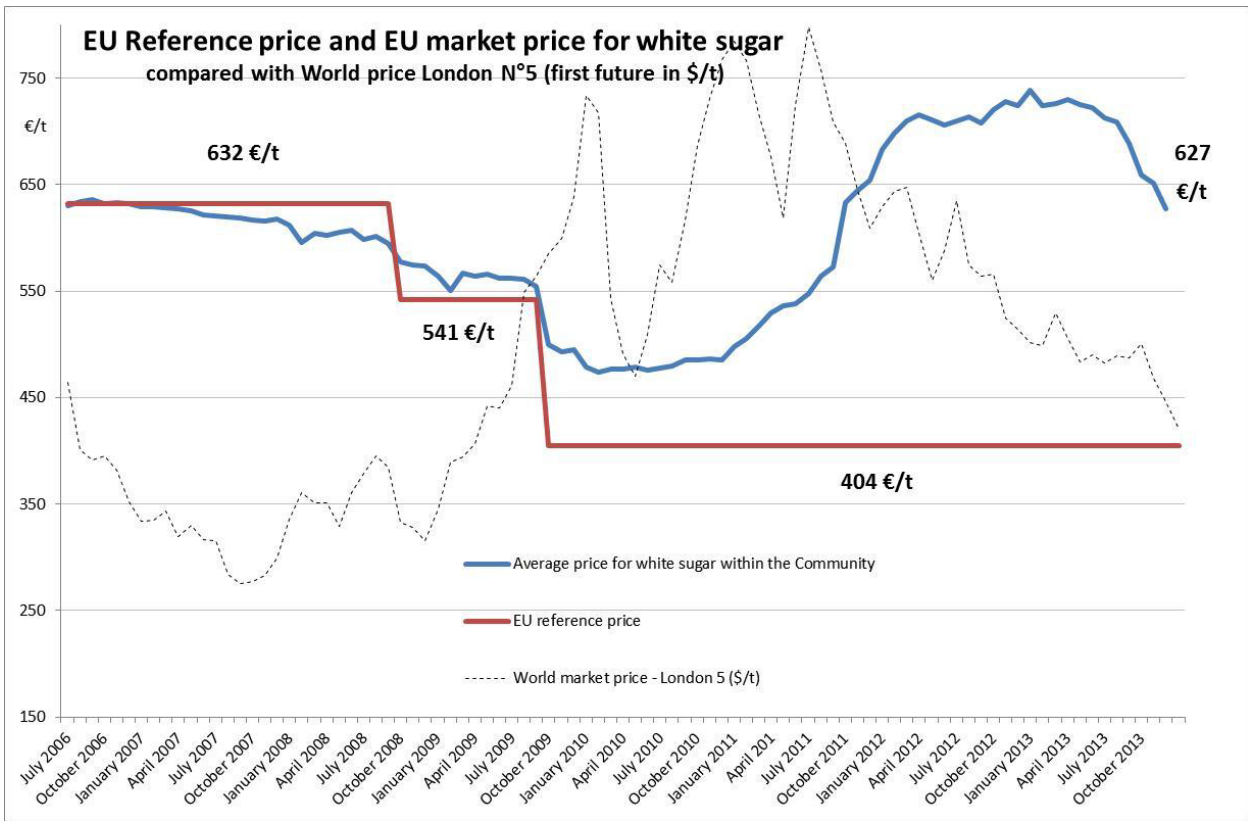
Imports

EU sugar imports in MY 2013/14 are expected to decrease to 3.5 million MT, of which 1 million MT of refined sugar from 3.875 million MT in MY 2012/13. For MY 2013/14, the EC has not decided to implement “temporary measures”-formerly called exceptional measures-allowing additional reduced duty sugar imports and out-of-quota sugar into the EU food market under the new CAP post 2013. EU sugar processors claim that there is no need for additional sugar because there is plenty of sugar available in the EU while food processors argue that the high EU sugar prices provide evidence that the EU food sugar market is undersupplied because of lower than expected preferential sugar imports. They also point to the preferential import quota for Brazil, which is still unfilled for MY 2013/14 despite the high EU sugar prices. EU full-time sugar refiners want the EU to specifically allow more raw sugar imports at reduced import tariffs, as increased preferential imports of refined sugar have eaten away at raw sugar supplies even more. EU sugar imports for MY 2014/15 are forecast to increase again to 3.75 million MT as new sugar import concessions become fully operational from recent EU Free Trade Agreements (FTA) with Peru, [Colombia](http://ec.europa.eu/trade/policy/countries-and-regions/regions/andean-community/) [1] , Panama and [Central America](http://ec.europa.eu/trade/policy/countries-and-regions/regions/central-america/) [2] . In response to the political situation in Ukraine, the EU has decided to implement a recently negotiated free trade agreement in an anticipated way, which may open free market access to the EU for 20,000 MT of Ukrainian sugar as of June 2014.

[1] <http://ec.europa.eu/trade/policy/countries-and-regions/regions/andean-community/>

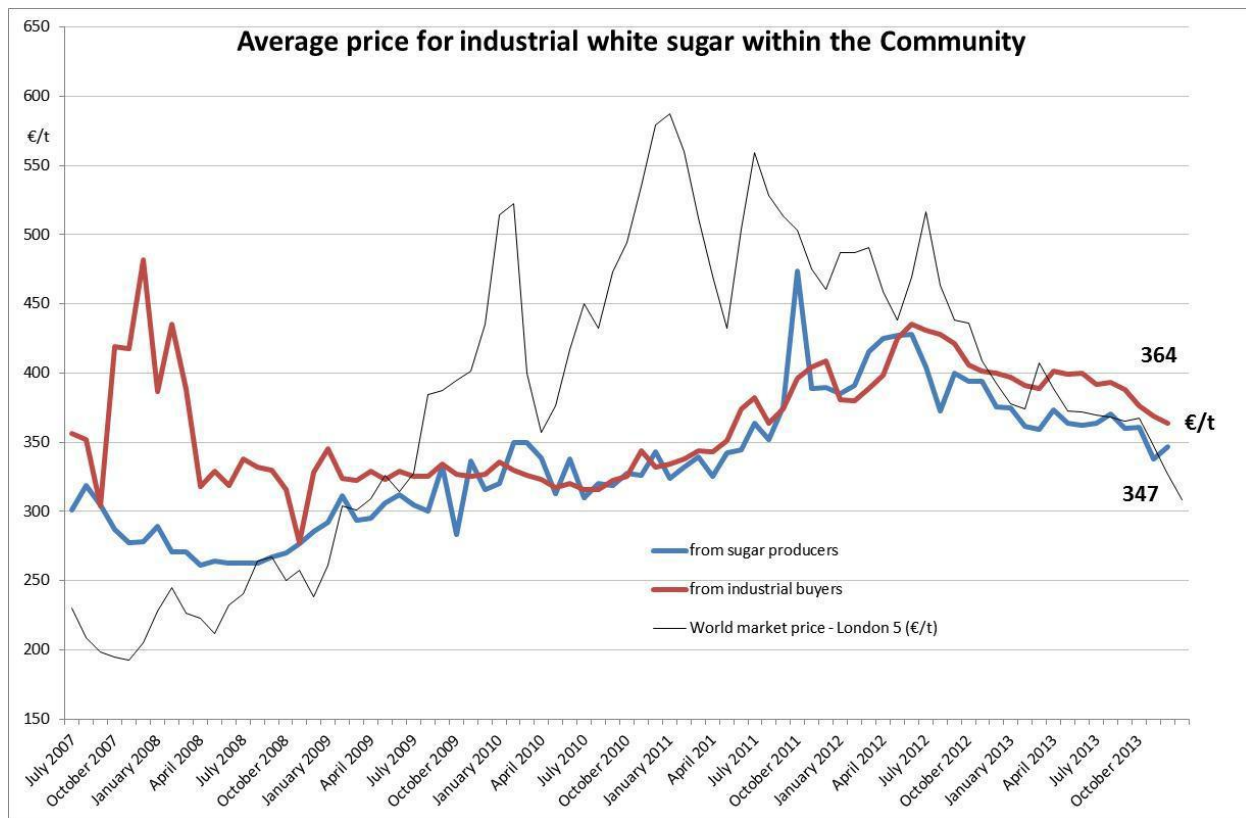
[2] <http://ec.europa.eu/trade/policy/countries-and-regions/regions/central-america/>

Import Prices



Source: European Commission

In recent months, EU prices for sugar for food purposes have declined, but remain well above the world price, which has decreased to €350/MT in recent weeks.



Source: European Commission

EU prices for sugar for industrial use have decreased more in line with the world price level, with which it directly competes.

Exports

Since sugar exports are limited by the EU's WTO sugar export ceiling, European sugar exports for MY 2014/15 are forecast at 1.5 million MT, almost all of it as refined sugar. The same level of exports is expected for MY 2013/14 due to the export ceiling. EU sugar exports for MY 2012/13 ended slightly higher at 1.66 million MT.

Stocks:

EU sugar stocks for MY 2013/14 are expected to end at 3.8 million MT, 0.2 million MT lower than at the end of MY 2012/13. For MY 2014/15, EU sugar ending stocks are forecast to remain stable from MY 2013/14.

Policy:

Update on the Common Agricultural Policy (CAP) Reform

In June 2013, EU member states concluded a political agreement on the Common Agricultural Policy (CAP) reform post 2014. Because the EU Multi-Annual Financial Framework (MFF) for the period 2014-2020 was finalized too late, the new CAP started on January 1, 2014 under a one-year extension under the old budgetary rules and will become fully implemented as of 2015. An [overview of the new CAP](#) [1] is available online.

For the EU sugar market, the agreement includes the expiration of the EU sugar production quota system after a two-year extension period through MY 2016/17 allowing 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. Temporary measures are expected to continue the system of exceptional measures, but the details about the mechanism, duties etc... are still pending as the necessary delegated acts are in the approval process. It is expected to be politically difficult to deviate from the previous system.

Post understands that the end of the production quota system will lead to further consolidation of sugar production as production in uncompetitive areas will shift to the best performing regions. Some speculations about increased EU sugar production after 2017 rely on the assumption that the EU cost of production of sugar from beet will further decrease as a result of improved beet genetics and economies of scale at the farm as well as the processing level.

The end of the sugar production quota system at the end of MY 2016/17 will also liberate the EU isoglucose market and some reports suggest that isoglucose could capture up to 20 percent of the EU sweetener market. However, Post believes this is far from true as grain prices remain high and undermine the competitiveness of isoglucose in Europe. For EU food processing industries returns on investment are low, thus making industries hesitant to make investments on changes in processing that would be practically irreversible and therefore, they are not expected to switch to isoglucose unless guaranteed to be profitable on the long term.

[1] http://ec.europa.eu/agriculture/policy-perspectives/policy-briefs/05_en.pdf

Production, Supply and Demand Data Statistics:

| Sugar, Centrifugal European Union | 2012/2013 | | 2013/2014 | | 2014/2015 | |
|--|--|---------------------|--|---------------------|--|---------------------|
| | Market Year Begin: Oct 2012 | | Market Year Begin: Oct 2013 | | Market Year Begin: Oct 2014 | |
| | USDA Official | New Post | USDA Official | New Post | USDA Official | New Post |
| Beginning Stocks | 3,303 | 3,303 | 4,044 | 3,981 | | 3,781 |
| Beet Sugar Production | 16,300 | 16,364 | 15,700 | 15,800 | | 16,000 |
| Cane Sugar Production | 291 | 291 | 300 | 300 | | 300 |
| Total Sugar Production | 16,591 | 16,655 | 16,000 | 16,100 | | 16,300 |
| Raw Imports | 3,000 | 2,983 | 2,900 | 2,500 | | 2,750 |
| Refined Imp.(Raw Val) | 900 | 952 | 750 | 1,000 | | 1,000 |
| Total Imports | 3,900 | 3,935 | 3,650 | 3,500 | | 3,750 |
| Total Supply | 23,794 | 23,893 | 23,694 | 23,581 | | 23,831 |
| Raw Exports | 5 | 8 | 5 | 5 | | 5 |
| Refined Exp.(Raw Val) | 1,495 | 1,654 | 1,495 | 1,495 | | 1,495 |
| Total Exports | 1,500 | 1,662 | 1,500 | 1,500 | | 1,500 |
| Human Dom. Consumption | 18,250 | 18,250 | 18,300 | 18,300 | | 18,500 |
| Other Disappearance | 0 | 0 | 0 | 0 | | 0 |
| Total Use | 18,250 | 18,250 | 18,300 | 18,300 | | 18,500 |
| Ending Stocks | 4,044 | 3,981 | 3,894 | 3,781 | | 3,831 |
| Total Distribution | 23,794 | 23,893 | 23,694 | 23,581 | | 23,831 |
| | | | | | | |
| 1000 MT | | | | | | |

Author Defined:

Related reports from FAS Post in the European Union:

| Country | Title | Date |
|----------------|---|-------------|
| Poland | Poland's sugar production lower | 12/27/2013 |
| EU27 | Sugar, Centrifugal Report | 10/18/2013 |

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

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

