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Sugar

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Report Highlights:

The reformed sugar regime which came into effect on July 1, 2006 results in a cut in sugar prices by 36 percent over four years with a voluntary restructuring scheme aimed at reducing production by 6 million MT over that period. Withdrawals to date amount to 4.84 million MT. Total sugar production is forecast to fall by 5.2 percent in MY 2008/09. Imports are expected to decline by 8.1 percent with exports remaining stable at the WTO agreed level of 1.3 million MT. Human consumption should remain stable in MY 2008/09 and other consumption including bioethanol is expected to reach 1.8 million MT.

Includes PSD Changes: No
Includes Trade Matrix: No
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Thanks go to all who have contributed to this Report, particularly FAS posts covering Germany, France, UK, Benelux, Austria, Bulgaria, Romania, Czech Republic, Poland, Hungary and Slovakia.

Executive Summary

Total sugar production (beet and cane) for EU-27 remained stable at around 17.7 million MT between MYs 2006/07 and MY 2007/08, and is forecast to decline by some 5.2 percent to 16.8 million MT in MY 2008/09.

Imports declined by 8.8 percent in MY 2007/08, and are expected to fall by a further 8.1 percent to reach 3.4 million MT in MY 2008/09.

Export quantities remain stable at around 1.3 million MT, reflecting the WTO Panel Decision allowing the EU to subsidize a maximum of 1.3 million MT of refined sugar annually.

Human domestic consumption declined by 13.4 percent in MY 2007/08, with forecast consumption remaining stable at that level in MY 2008/09. Other disappearance and bioethanol increased by 25 percent in MY 2007/08 to reach 1.5 million MT, and is expected to reach 1.8 million MT in MY 2008/09.

Policy background

Agreement was reached on major reform of the sugar regime in November 2005 and the new European Union sugar regime came into effect on July 1, 2006. Sugar prices in the EU are to be cut by 36 percent over four years alongside a voluntary restructuring scheme aimed at reducing production by around 6 million MT in the same period.

The restructuring scheme offered producers who would be uncompetitive at the new lower price a financial incentive to leave the sector. In the event, significantly less quota was renounced during the first two years of the scheme than anticipated. As such, changes had to be made to make the scheme more attractive.

In September 2007, EU agriculture Ministers backed changes to the restructuring scheme with the aim of reducing EU sugar production to sustainable levels. The main changes agreed were:

- the percentages of the aid given to growers and machinery contractors are fixed at 10 percent, but growers who renounce quota receive an additional payment;
- retroactive payments are foreseen to avoid penalizing those who have already given up their quotas;
- beet growers may apply directly for aid from the restructuring fund up to a certain limit;
- those companies which renounce a certain amount of their quota in MY 2008/09 will be exempted from paying the restructuring levy on the part of their quota which was subject to preventive withdrawal in MY 2007/08;
- a two step application for renouncing quota for MY 2008/09 is introduced, where the first step (deadline January 31, 2008) as a minimum has to correspond to the preventive withdrawal decided in March in order to be able to participate in the second step (deadline March 31, 2008). The European Commission informs companies after the first step to what extent they risk an uncompensated cut in 2010 if they do not participate in the second step.

The sugar sector as a whole should give up 1.16 million MT of quota in 2010. This figure is based on withdrawals made to date under the revised sugar restructuring fund. Of the targeted withdrawal of 6 million MT of sugar from the market, so far 4.84 million MT have been withdrawn.

If insufficient quota were to have been renounced by 2010, the Commission would make compulsory quota cuts with no financial compensation that would vary depending on how much quota each Member State had renounced under the restructuring scheme. The Commission recently has announced that such cuts may impact nine Member States in 2010 if producers do not make appropriate voluntary withdrawals. More specifically, the Commission announced that the largest cuts would be ordered in Romania (11.7 percent) and Bulgaria (11 percent), followed by Latvia (9.6 percent), Austria (9.5 percent), U.K. (9.5 percent), Germany (9.5 percent), Denmark (9.4 percent), France (9 percent) and Poland (9 percent).

Industry sources suggest that the entirety of the 6 million MT should be voluntarily withdrawn by 2010, and asserts that in the third year of the reform process 73 of the 183 factories will close.

(Data are expressed in raw sugar equivalents unless otherwise mentioned)

EU27 Sugar, Centrifugal (1000 MT)						
	2006/07		2007/08		2008/09	
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Marketing Year Begins	July 2006		October 2007		October 2008	
Beginning Stocks	5,088	5,088	4,704	4,005		4,769
Beet Sugar Production	17,140	17,450	17,150	17,400		16,500
Cane Sugar Production	310	307	340	340		314
TOTAL Sugar Production	17,450	17,757	17,490	17,740	0	16,814
Raw Imports	2,000	3,495	2,220	2,950		2,710
Refined Imports (Raw Value)	740	843	700	700		644
TOTAL Imports	2,740	4,338	2,920	3,650	0	3,354
TOTAL SUPPLY	25,278	27,183	25,114	25,395		24,937
Raw Exports	5	5	5	5		5
Refined Exports (Raw Value)	1,369	2,157	1,369	1,381		1,374
TOTAL EXPORTS	1,374	2,162	1,374	1,386	0	1,379
Human Domestic Consumption	18,000	19,816	18,400	17,165		17,200
Other Disappearance/ Bioethanol	1200	1200	1,500	1,500		1,830
Total Disappearance	19,200	21,016	19,900	18,665	0	19,030
Ending Stocks	4,704	4,005	3,840	4,769		3,536
TOTAL DISTRIBUTION	25,278	27,183	25,114	24,820	0	23,945

Source: Post estimates from EU FAS posts

Market situation in the Member States

Germany

Post reports area planted to beet in MY 2008/09 is likely to decrease by some 19 percent to 330,000 ha when compared to the previous year's area of 406,000 ha. Beet should be planted in April at the same time as corn. It seems likely that more land will go to silage corn competing with sugar beet as German farmers, to their regret, invested heavily in biogas facilities in recent years. In MY 2008/09, 300,000 ha should be for sugar use with the remaining 30,000 ha for ethanol. This compares to 386,000 ha and 20,000 ha respectively for MY 2007/08. Beet agronomic yields should decline to 60.0 MT/ha in MY 2008/09 giving rise to beet production of 20.0 million MT, from 64.3 MT/ha and a production figure of 26.12 million MT in the previous year. Sugar production is forecast to decline by 22.7 percent from the MY 2007/08 figure of 4.4 million MT to reach 3.4 million MT in MY 2008/09. 3.25 million MT is destined for the food industry with 0.028 million MT being used in the chemical industry in MY 2008/09. 3.25 million MT has been used in the food sector in the previous period, with 0.028 million MT going to the chemical industry in MY 2007/08.

The German sugar quota is expected to reduce by some 700,000 MT or 19 percent to 3.0 million MT. In some regions, notably Schleswig-Holstein and parts of Mecklenburg-

Vorpommern, farmers are likely to cease planting sugar beet. This is due to the continued closure of smaller sugar mills resulting in greater transportation distances to the nearest mill.

Those farmers not giving up sugar beet production are expected to plant as much as they can to ensure that they fill their quota even if harvested yields are below average. This implies the production of out of quota sugar (ex- 'C-quota' sugar).

Enthusiasm for ethanol production from grain and other field crops has diminished during the past year. Only two major ethanol plants, Suedzucker (CropEnergies) and Nordzucker, are currently in operation, and put their hope in political initiatives favoring ecologically friendly production standards.

France

Post reports that the area planted to beet in MY 2008/09 should decrease by 7 percent to 370,000 ha compared to 394,000 ha for the previous year. Beet production in MY 2007/08 reached 32.4 million MT with resultant sugar production estimated at 4.1 million MT. An additional 0.286 million MT of cane sugar came from the French overseas territories.

In MY 2007/08, 95,000 ha were used to produce 570,000 MT or 7,125,000 HI of alcohol and ethanol. This is set to increase to 100,000 ha producing 600,000 MT or 7,500,000 HI of alcohol and ethanol in MY 2008/09. This slight increase results from significant surpluses impacting MY2008/09 alcohol and ethanol supply/demand situation despite more agreements.

Post estimates that the sugar beet area will decline from 400,000 ha before the reform of the CMO to between 350,000 ha and 370,000 ha after the reform. Income is estimated to decline by up to 50 percent.

UK

A 4.3 percent fall in the area of contracted sugar beet and an increase in yields of 6.2 percent compared to 2006 led to an increase in production of 1.7 percent to 7.5 million MT. Average sugar content for 2007 was higher at 17.2 percent. Average market prices in 2007 fell by 5.2 percent which led to a decrease in the overall value of production in 2007 of 3.6 percent. UK sugar beet area in the U.K. reached 102,000 ha in MY 2007/08 producing 1.2 million MT of sugar. Production as a percentage of total new supply for use in the U.K. fell to 63 percent, and 11 percent decrease on 2006.

It is anticipated that MY 2008/09 will see a decline in area of around 8 percent to 115,000 ha. Agronomic yield in MY 2008/09 is also expected to fall from 60.2 MT/ha to some 58.0 MT/ha resulting in a projected volume of harvested production amounting to 6.7 million MT as compared to 7.5 million MT in the previous period.

The U.K.'s first bioethanol plant was officially opened by British sugar in September 2007. It is located alongside the world's largest beet sugar factory in Norfolk, and at full capacity will produce 70 million Lt of bioethanol annually from domestically grown out of quota sugar beet.

As a consequence of the reform of the sugar regime, there has been some consolidation of U.K. sugar production around British Sugar's most productive factories in Lincolnshire, Norfolk and Suffolk. Production at the Allscott factory in Shropshire has ceased and British Sugar announced the planned cessation of production at their York factory, although it is understood that this plan is currently under review.

Benelux

Based on available quota and sugar beet seed sales, the reform of the sugar regime is likely to the decline of Dutch and Belgian sugar production by 10 percent, and 20 percent respectively. In order to survive, the main goal of the Benelux sector is to increase efficiency and focus on quality. The Dutch company Cosun took over the quota of the other main Dutch sugar producer CSM. Cosun abandoned the idea to produce ethanol from sugar beet in the CSM plant in the North of the country, and closed the plant. At the moment only two sugar plants are operational in the Netherlands. Of the five Belgian plants two plants already stopped production in MY 2006/07. The three remaining plants are expected to continue their production. Sudzucker plans to start bioethanol production from about 400,000 MT of sugar beets as from fall 2008.

Austria

In MY 2007/08, the planted area of sugar beet in Austria accounted for 42,270 ha (an increase of 7.3 percent compared to the previous year). The Austrian beet harvest, at 2.75 million MT, exceeded last year's crop of 2.50 million MT. Due to dry weather conditions yield was below average at about 64 MT/ha. Sugar production is estimated at 435,000 MT in MY 2007/08. Austria's two remaining sugar mills are owned by AGRANA and are located in the province of Lower Austria. After a preventive quota reduction in February 2007 (by 13 percent), a sugar quota of 351,027 MT remains available.

The Austrian sugar industry announced that it will again apply for a preventive quota reduction of 13.5 percent in MY 2008/09. Planted area of sugar beet and sugar yield in MY 2008/09 is expected to remain at the level of MY 2007/08.

Austria's annual sugar consumption is about 380,000 MT. Human consumption accounts for some 320,000 MT or 39 kg per capita. In fall 2007, a new bioethanol plant was completed in Austria. Due to the high raw material prices the plant is still running as a trial operation. It is not possible to accurately predict when the plant will start running as a normal operation. Although it will mainly process wheat, sugar processing would also be possible.

Austria is a net exporter of sugar, and the majority of trade is made with other EU Member States. If the new bioethanol plant were to start working at full capacity, some of the export quantity may go to bioethanol production.

Bulgaria

Bulgaria is a small producer of sugar beet and is a net importer of raw brown sugar for processing and of refined white sugar for consumption.

Today, there are 3 major plants processing raw sugar, only one of which works with locally sourced sugar beet.

In 2005 and 2006, production was at the typical levels of 25,000 MT and 27,000 MT respectively. In 2007, sugar beet production reached 16,281 MT from 1,343 Ha because of lower agronomic yields resulting from dry climatic conditions.

Total imports of raw cane sugar in 2007 were 158,576 MT from the main suppliers Brazil (134,275 MT) and Cuba (23,999 MT). There were no exports.

Imports of refined white sugar amounted to 23,207 MT, from Greece (15,000 MT), Hungary (3,866 MT), and Austria (1,000 MT).

Exports of refined sugar reached 36,000 MT destined for Romania (22,896 MT), Greece (9,849 MT), Macedonia (2,500 MT), UK (375 MT) and Russia (428 MT).

No sugar is used for bioethanol, although a new installation with a capacity of 25,000 MT is scheduled to go into operation this year.

Domestic consumption is around 200,000 MT (down from 500,000 MT), the general decline trending more significantly for direct consumption and less so for industrial demand from the confectionary industry. Direct consumption is some 80,000 MT with the remainder going to industry. Stocks run at between 10 and 15,000 MT.

As provided by the Accession Agreement, Bulgaria has the right to produce a total of 203,500 MT of sugar of which 4,320 MT is A Quota, and 432 MT is B Quota (both from sugar beet) and 198,748 MT from cane sugar. From MY 2007/08 onwards, total quota for isoglucose is 78,153 MT. Post reports that the only producer and processor of sugar beet recently announced that it will not plant anything this year, and will not process any beet into sugar.

Romania

The area planted with sugar beet in 2007 declined by 44 percent, from 40,000 Ha to 22,300 Ha, as a result of sugar quota implementation. The output decreased only by 30 percent reaching 809,000 MT of sugar beet, due to better yields. The area is expected to slightly increase to 25,000 Ha for MY 2008/09 from 22,300 Ha in the previous year.

The production cost of sugar beet is 30 to 40 percent higher than that of sugar cane, resulting in significant pressure on profitability for sugar beet processors.

Romania obtained a quota of 452,713 MT, broken down as follows:

- white sugar obtained from sugar beet: 109,164 MT
(reduced for MY 2007/08 by 13.5 percent, to 94,426 MT)
- white sugar obtained from raw sugar: 329,636 MT
- isoglucose: 13,913 MT

The first quota was distributed between 4 processing plants (two of which exclusively use sugar beet), while the second was distributed between 7 processing plants. The isoglucose quota is shared by 2 plants.

Total domestic sugar consumption is estimated at 550,000 MT, not entirely covered by quota. As there are no bioethanol plants in Romania that use sugar as feedstock, production goes exclusively for food purpose.

Raw sugar cane is almost exclusively imported from Brazil. Imports reached 278,000 MT during 2007 (eleven months for CY), 36 percent lower than the previous year. Raw sugar beet imports are insignificant (2,135 MT from Hungary).

White sugar imports increased last year (eleven months) by 24 percent reaching 83,000 MT mainly coming from Hungary (48,157 MT), Bulgaria (18,888 MT), Serbia, Czech Republic and Austria.

Romania exported a smaller amount of white sugar (4,916 MT) last year compared to the year before (21,275 MT) according to eleven months trade data.

During MY 2007/08, farmers received a subsidy of around 8 Euro/MT (state aid) of sugar beet delivered to processors. In the same MY, growers will receive 320 Euro/Ha, 50.55 Euro/Ha of which is direct support, 192.08 Euro/Ha is national payment and 77.20 Euro/Ha sugar beet scheme. Payment is scheduled to begin in April 2008.

Czech Republic

After Eastern Sugar Czech Republic decided to leave the Czech Republic in 2006 and close down its three refineries, Czech Republic's sugar quota decreased in MY 2007/08 by 102,473 MT to 372,459 MT.

While total beet production has been declining from 3.5 million MT in 2004/05 to around 3 million MT in 2006/07 and 2007/08, agronomic yield has been increasing from 50 MT/ha to 55 MT/ha. Beet production for sugar is declining (lower quota) while beet production for ethanol is rising. MY 2007/08 harvest was negatively influenced by dry weather.

Of 54 sugar refineries that were in the Czech Republic in 1989, only 7 refineries remain. The largest remaining refinery is "Cukrovary a lihovary TTD", which has half of the national sugar quota production and is the only producer of ethanol.

At the time of writing, the Ministry of Agriculture is not providing estimates for MY 2008/09 as contracts are being signed.

The Czech Republic did not agree with the EU's sugar reform, particularly the proposal concerning producers' rights to return quota.

80% of total beet production is used for sugar with the remaining 20% destined for used for ethanol. Czech Republic's annual sugar consumption is between 400,000 and 450,000 MT.

The Czech Republic is a net sugar exporter, but sugar imports are rising as a result of lower quota. In MY 2006/07 the Czech Republic imported 93,000 MT of sugar, from which 87% originated in the EU, mainly from Slovakia. Import of sugar in products was three times higher than import of sugar in state and reached over 270,000 MT.

In MY 2006/07 the Czech Republic exported 171,000 MT of sugar, almost all of which went to the EU market, most again to Slovakia. 500 MT was exported to Switzerland. Around 140,000 MT of sugar was exported in products in MY 2006/07.

Poland

Despite a 5.6 percent sugar beet acreage reduction in 2007, beet production was almost 13 percent higher than one year ago due to favorable growing conditions and record beet agronomic yields. Assuming lower sugar content in beets, estimated MY 2007/08 sugar production is 1.96 million MT of raw value sugar, which equates to around 325,000 MT over Poland's production limit for MY 2007/08. That over-production will be used partly for non-food use and a significant portion will be counted against the MY 2008/09 quota production. The industry will consequently have to contract less sugar beet for MY 2008/09.

Based on information from the Sugar Beet Producers Association, sugar beet supplies for MY 2008/09 will be reduced by some 20 percent as a function of low beet prices for the new season. Agricultural Market Agency information indicates that all sugar producers in Poland applied for appropriate quota reductions until the end of January 2008, 11 of which referred to the quota reduction and no machinery liquidation, with 6 referring to quota reduction and machinery liquidation. Total industry applications for quota reduction (with compensation

from the restructuring fund) were in excess of over 260,000 MT raw sugar (240,000 MT white sugar).

Sugar food consumption in Poland has been fairly stable in recent years and no significant changes are predicted. Although there was significant speculation on ethanol production from extra sugar produced, to date no facility has been reported.

Hungary

Hungary's raw sugar production in MY 2007/08 is estimated at 260,000 MT. The low production is a combined result of the decreased beet area (returned quotas), and the drought. The volume has been produced by four sugar mills.

By the start of MY 2008/09 all but one sugar factory will be closed and the corresponding quotas have been given back. At the time of writing, when the sugar beet planting season is beginning, it is unclear whether or not the single remaining mill, (Kaposvar, Magyar Cukor - Agrana) will contract and purchase sufficient beet for its 105,000 MT sugar quota. Post's (raw) sugar production estimate for MY 2008/09 is 100,000 MT.

Hungary's annual sugar consumption is around 330,000 MT. Bioethanol use is negligible as only one distillery (some 37,000 MT alcohol capacity) uses molasses as opposed to sugar.

In MY 2006/07, Hungary remained a net exporter of sugar (38,000 MT export surplus) and intervention stocks were 100,000 MT in January 2008.

Poor crop and reduced production potential in MY 2007/08 lead to an import surplus of around 70,000 MT (typically from the EU) in 2008. Import requirements are likely to increase to 220,000 MT in MY 2008/09 as a function of low domestic production which is the outcome of the reform. More specifically, the impact of the reform in Hungary is characterized as follows:

- For many beet producers the reduced minimum price is too low coupled with climatic conditions in Hungary, production cost levels and an overvalued national currency.
- At the same time, income levels (per hectare) of alternative crops (oilseeds, corn) are much higher.
- The bonuses for returned quotas and ceased beet production are appealing for both the beet producers and the sugar industry.

Slovakia

In MY 2006/07, sugar beet had been processed in three factories, namely Trencianska Teplá, Sered and Dunajská Streda. Their total daily output was 14,444 MT of sugar beet (Trencianska Teplá 5 400 MT, Dunajská Streda 5 744 MT and Sered 3 300 MT). During this period, the number of producers decreased by 33 growers or 8.5 percent to 354.

The Statistical Office of the Slovak Republic reports that 1.37 million MT of beet was produced from 27,700 Ha with an average yield of 49.46 MT/Ha. Slovak Sugar Union data reports a production figure of 1.34 MT of beet with a sugar content of 17.2 percent from 27,604 Ha.

Total sugar production reached 205,151 MT. Production of polarization and white sugar reached 8,32 MT/Ha and 7,43 MT/Ha respectively. Article 5 of Council Regulation (EC) No 318/2006 from 20 February 2006 provides, for MY 2006/07 the minimal sugar beet price was

established at the level of 32,86 Euro/MT with the standard quality and sugar beet content of 16 percent.

In MY 2006/07, the European Commission established the measure on preventive withdrawal of sugar from the market. Pursuant to Regulation (EC) No 493/2006, the withdrawal coefficient (0,8833) out of sugar basic quota (207,432 MT) was determined for the Slovak Republic. Additionally, the guaranteed volume within the scope of quota was decreased to 183,224.7 MT.

As Slovenské cukrovary Ltd. purchased an additional quota of 2,732 MT, the amount was increased to 185,957 MT of white sugar. In October 2006, Eastern Sugar Slovakia, Inc. used the possibility to complete its production from MY 2007/08 within the framework of the restructuring program. This decision decreases the Slovakian domestic quota by 70,133 MT from MY 2007/08.

In 2007, two companies (Považský cukor, Inc. and Slovenské cukrovary, Ltd.) requested allocation of the rest of additional quota (7,268 MT) from MY 2007/08. Consequently, the sugar quota was settled at 147, 299 MT from that period.

The Statistical Office of the Slovak Republic reports per capita sugar consumption in 2005 to be the highest since 1998, and had increased by 12.6 percent to 34.0 Kg in comparison with the previous year. In 2006, a decrease of sugar consumption by 6.8 percent is expected. Apart from 'total patisseries', consumption of all observed products with sugar content has increased.

Additionally, consumption of bee honey (that has remained at the level of 0,4 to 0,5 Kg for over 10 years) has increased to 0,7 Kg.

There was a positive balance in Slovak foreign trade in the sugar sector in MY 2006/07. However, value decreased by almost 25 percent. Sugar imports increased by 81.5 percent in comparison with the previous year. Slovakia imported 84,000 MT of sugar and exports decreased by 21, percent to 173,000 MT.

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