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EU-27

Agricultural Situation

Sugar Semi-annual Report

2008

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Report Highlights:
The EU's white sugar production quotas have been reduced by some 5.7 million MT since the reform came into effect in 2006, which is approaching the 6 million MT cut target. EU in-quota sugar production will decline to 14.2 million MT (raw value) in MY 2008/09, or 16.6 million MT including out-of-quota sugar. Imports are expected to increase to 4.0 million MT taking into account Romania and Bulgaria, with exports up to 1.7 million MT (reflecting the recently opened TRQ for exporting out-of-quota refined sugar without refund of 0.6 million MT within the framework of the WTO agreed level of 1.3 million MT, and the traditional 0.9 million MT of sugar in processed products). Human consumption should remain at current levels, with industrial and bioethanol use stable at significantly higher levels than those obtaining in MY 2006/07.

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

Thanks go to all FAS posts in Europe who have contributed to this Report.

Reform of the EU Sugar Regime

The European Commission is of the view that some 6 million MT of white sugar production quotas will have to be renounced by the end of MY 2009/10 in order to balance supply and demand. In MY 2007/08, the second year of the four year implementation period associated with the Sugar Reform, only 709,000 MT were given up, representing less than 50 percent of the 1.47 million MT that were sold back in the previous MY. The impact was exacerbated by good climatic conditions that increased agronomic yields in several Member States that year. As such, production did not decrease in the second year of the reform. Within this framework, the European Commission introduced technical changes to the legislation governing the reform, the effects of which were 3.33 million MT of quota (or 20.5 percent of the total quota allocation for that year) being rescinded for MY 2008/09. The closing down of Spain's Ebro Puleva sugar factory in Penafiel resulted in a further 130,000 MT already having been renounced for MY 2009/10. As such, the EU's white sugar production quotas have been reduced by some 5.7 million MT since the reform came into effect in 2006, which is approaching the 6 million MT cut target.

(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	5,105	4,005	4,809	4,769
Beet Sugar Production	17,450	17,450	17,400	17,400	16,500	17,456*
Cane Sugar Production	307	307	340	340	314	314
TOTAL Sugar Production	**17,757**	**17,757**	**17,740**	**17,740**	**16,814**	**17,770**
Raw Imports	3,495	3,495	2,950	2,950	2,710	3,350
Refined Imports (Raw Value)	843	843	700	700	644	644
TOTAL Imports	**4,338**	**4,338**	**3,650**	**3,650**	**3,354**	**3,994**
TOTAL SUPPLY	**27,183**	**27,183**	**26,495**	**25,395**	**24,977**	**26,533**
Raw Exports	5	5	5	5	5	5
Refined Exports (Raw Value)	2,157	2,157	1,381	1,381	1,374	1,685
TOTAL EXPORTS	**2,162**	**2,162**	**1,386**	**1,386**	**1,379**	**1,690**
Human Domestic Consumption	18,716	19,816	18,800	17,740	18,900	18,800
Other Disappearance/Bioethanol	1200	1200	1,500	1,500	1,500	1,500
Total Disappearance	**19,916**	**21,016**	**20,300**	**19,240**	**20,400**	**20,300**
Ending Stocks	5,105	4,005	4,809	4,769	3,198	4,543
TOTAL DISTRIBUTION	**27,183**	**27,183**	**26,495**	**25,395**	**24,977**	**26,533**

Source: EU FAS estimates

* This figure includes 870,000 MT (raw value) isoglucose production

Market situation

Good weather conditions in MY 2007/08 lead to increased agronomic yields in several Member States, yielding a broadly similar production figure as for the previous year.

EU in-quota sugar production will decline to 14.2 million MT (raw value) in MY 2008/09 as a function of the decline in area sown to beet in producing Member States coupled with average weather conditions so far. Out-of-quota production should reach 2.7 million MT (raw value), with isoglucose production at 870,000 MT (raw value).

More specifically, sugar beet sowings in Benelux for the 2008 harvest reduced by 18 percent with sugar beet test results indicating lower beet and sugar yields. Sugar output may reach around 1.5 million MT as compared to almost 1.8 million MT last year.

Farmers in France sowed some 12 percent less sugar beet than last year. The impact on sugar production was more significant as an increasing share of the total beet crop is destined for ethanol production. Beet tests suggest results in line with last year when yields were high. It is anticipated that total sugar output may decline to some 3.4 million MT compared to 4 million MT in MY 2007/08.

The German sugar beet area decreased by 5.2 percent to 371,000 ha.. It is estimated that some 40,000 ha to 50,000 ha of beet will be used for ethanol production. Reduced root weight is compensated to some extent by higher sugar content, and due to optimal conditions in the Fall, later harvested beets are both larger and higher in sugar content. Total sugar production may reach 4.1 million MT compared to 4.3 million MT in MY 2007/08.

Italy has given up approaching 70 percent of its production quota. Average yields should increase as beet areas are expected to be reduced even further and the less efficient producers leave the sector. Production could decline in MY 2008/07 to 500,000 MT from MY 2007/08's 730,000 MT. This compares with around 2 million MT in MY 2005/06.

Drought and recent heavy rainfall in Poland have not compromised beet production but rather increased sugar content and yield prospects. MY 2008 witnessed a decline of area sown to beet to 170,000 ha as compared to 220,000 ha the previous year. Production in MY 2008/09 could reach 1.4 million MT, representing a decrease of 700,000 MT in MY 2007/08.

Poor weather conditions in the United Kingdom during March this year resulted in drilling delays despite the fact that drilling began early. Total sugar production is therefore expected to reach no more than 1.2 million MT, which is approaching the U.K.'s national quota.

Bulgaria, Ireland, Latvia, Portugal and Slovenia have ceased to produce sugar from domestic crops.

Bioethanol

The estimation of sugar or molasses as feedstock for bioethanol is complicated by the following:

- some companies have switched feedstock due to high grain prices (eg CropEnergy, Verbio);
- some ethanol plants dedicated to sugar beet use as feedstock have come on stream (eg Danisco and Nordzucker in Germany).

Prices

In July 2008, although the impact on commodities of the significantly higher crude oil prices led to higher production costs it also resulted in increased demand for biofuels. Continued depreciation of the $US similarly contributed to upward pressure on commodity prices expressed in €.

The Harmonized Indices of Consumer Prices[1] (HICPs) food index for EU 27 demonstrates an increase of 5.1 percent over the period September 2008 – October 2007. By way of comparison, the HICP all items index increased by 3.7 percent over the same period.

Demand for sugar (for human consumption) tends to be inelastic as the sweetener is an inexpensive dietary component. Given the reduced supply, it is anticipated that the market will be bullish. Available historical price data for sugar are set out below:

Average price for white sugar within the Community
Ex-work prices for homogeneous granulated crystal, standard quality, in bulk or bags

Prices communicated by EU sugar producers and refiners (€/MT)

	Selling Prices	
	Sugar	**Industrial sugar**
	Average weighted by quantities	Average weighted by quantities
2006		
July	630	284
August	634	288
September	636	287
October	632	286
November	633	294
December	632	294
2007		
January	629	284
February	629	288
March	628	283
April	627	298
May	625	293
June	622	297
July	621	301
August	620	319
September	619	305
October	617	287
November	616	277
December	618	278
2008		
January	612	289
February	596	271
March	604	271

Source: European Commission

[1] Harmonized Indices of Consumer Prices (HICPs) are used in the assessment of inflation convergence as required under Article 121 of the Treaty of Amsterdam. They are compiled on the basis of a legislated methodology, binding for all EU Member States.

Reference price for white sugar
(€/MT)

July 1, 2006 to September 30, 2008:	631.9
October 1, 2008 to September 30, 2009	541.5
From October 1, 2009	404.0

Average price for industrial white sugar within the Community
Prices at destination for homogeneous granulated crystal, standard quality, in bulk or bags

Prices communicated by EU yeast and chemical industry (€/MT)

	Purchase Prices Average weighted by quantities
2007	
July	356
August	352
September	304
October	419
November	417
December	482
2008	
January	386
February	435
March	388

Source: European Commission

Related reports from USEU Brussels:

Report Number	Title	Date Released
E47029	**Sugar Annual**	04/10/2007
E47087	EU Agriculture Council Backs Changes in Sugar Restructuring Scheme	09/27/2007
E47097	Sugar Semi-Annual	10/04/2007
E48042	Sugar Annual	04/10/2008
E48063	Biofuels Annual	05/30/2008

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