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Sugar

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Report Highlights:
Estimates for EU sugar production for 2003/04 are reduced to 16.86 MMT. During the hot and dry summer, the outlook was poor, however, favorable conditions in September enabled somewhat of a recovery in sugar yields.
In September 2003, the European Commission announced a series of options for reforming the EU's sugar regime.
This year's total EU sugar quota was reduced by 215,000 MT to 13.44 MMT in order to meet WTO export subsidy constraints.

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
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[E2]

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Executive Summary

The hot, dry summer across Europe this year has lead to a reduction in estimated EU sugar output, though favorable weather conditions in September mean that the reduction is not as large as has been feared. Estimates of EU sugar production for 2003/04 are lowered by 300,000 MT to 16.856 MMT, raw sugar equivalent. This is an 8% reduction from the 18.4 MMT produced in the EU in 2002/03. The decline is mostly due to a 7% drop in area planted to sugar beet, down 123,000 hectares, to 1.7 m ha., with sugar yields also dropping marginally across the EU as a whole.

However, for Spain, Italy and France, output fell by 22%, 27% and 10% respectively, due to a combination of reduced area planted to sugar beet as well as poor yields particularly in Italy and Spain. In the North of Europe, yields and output were generally favorable, without being exceptional.

With a lower level of output, exports forecasts have been reduced for 2003/04 down by 0.5 MMT to 4.9 MMT. This combined with lower exports in 2002/03 of 5.6 MMT has led the Commission to reduce EU sugar quotas by only 215,000 MT for 2003/0.

In September 2003, the European Commission presented a paper outlining options for reform. It includes three scenarios: maintaining the current regime, reducing prices by 40% (dismantling the quota system and possibly providing beet growers with some form of income compensation) and fully liberalizing the sector by removing the quota system, tariffs and possibly introducing some form of income compensation.

The Commission appears to favor the option of reducing prices and removing the quota system. Notably, a scenario which maintained a fixed production quota system was left out from earlier versions of the paper. This reform scenario had been favored by the beet growers and sugar processors.

Currently, formal reform proposals are expected during the first half of 2004, however, reforming the sugar sector is certain to be the subject of much political debate which makes predicting the outcome and timing of any eventual reform rather difficult.

Production

PSD Table

Country	European Union						
Commodity	Centrifugal Sugar			(1000 MT)			
	2002	Revised	2003	Estimate	2004	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		08/2001		08/2002		08/2003	MM/YYYY
Beginning Stocks	3420	3420	2901	2717	3113	3581	(1000 MT)
Beet Sugar Production	15915	15884	18401	18412	17156	16856	(1000 MT)
Cane Sugar Production	270	269	263	263	276	276	(1000 MT)
TOTAL Sugar Production	16185	16153	18664	18675	17432	17132	(1000 MT)
Raw Imports	1767	1742	1750	1750	1750	1750	(1000 MT)
Refined Imp.(Raw Val)	320	283	350	400	400	150	(1000 MT)
TOTAL Imports	2087	2025	2100	2150	2150	1900	(1000 MT)
TOTAL SUPPLY	21692	21598	23665	23542	22695	22613	(1000 MT)
Raw Exports	3	4	3	5	3	5	(1000 MT)
Refined Exp.(Raw Val)	4456	4789	6091	5595	5400	4895	(1000 MT)
TOTAL EXPORTS	4459	4793	6094	5600	5403	4900	(1000 MT)
Human Dom. Consumption	14321	14077	14447	14350	14518	14247	(1000 MT)
Other Disappearance	11	11	11	11	11	11	(1000 MT)
Total Disappearance	14332	14088	14458	14361	14529	14358	(1000 MT)
Ending Stocks	2901	2717	3113	3581	2763	3355	(1000 MT)
TOTAL DISTRIBUTION	21692	21598	23665	23542	22695	22613	(1000 MT)

Figures in 1,000 MT of raw sugar equivalent

Notes: When converting from white to raw sugar, a conversion factor of 1.087 is used. Sugar produced in French Overseas Departments are included in production data and excluded from trade data. Sugar-containing products are excluded from trade data. Therefore, domestic consumption includes an additional 0.27 MMT to account for net trade in sugar-containing products.

Following a hot and dry summer across much of the European Union, affecting output most notably in Italy, France and Spain, combined with a reduced area planted to sugar beet (1.708 m ha. in the EU-15 in 2003/04, down 7% on 2002/03), EU sugar output for 2003/04 is projected to fall to 17.132 MMT of raw sugar, a reduction of 8%, or 1.5 MMT from 2002/03.

Across the EU as a whole, the sugar beet harvest appears to be in reasonable condition, typified by a higher than average sugar content. In September, the crop was able to make very good progress across most of the EU recuperating most of the damage due to the hot and dry summer.

In Northern Europe, conditions throughout the growing season were generally favorable, while in Italy, Spain and France, the drought impacted on sugar yields.

In Italy, estimates of sugar production for 2003/04 have declined due to a lack of rain since May resulting in low root weights for sugar beet, with sugar yields per hectare down overall, despite a high sugar content of beet.

The German sugar beet crop generally saw positive early season root development which enabled it to cope much better with the dry period during the summer and benefit from the high levels of sunshine, even if overall the yields recorded are still unexceptional. German yields are slightly higher than last year at 9.72 MT/ha compared to 9.57 MT/ha in 2002/03.

Total Sugar Production in the EU (in 1,000 MT raw value)

	2001/02	**2002/03**	**2003/04**
Austria	481	497	489
Belgium	919	1107	1038
Denmark	514	556	551
Finland	158	177	152
France - beet	3945	5119	4588
France - cane	262	257	267
Germany	4051	4373	4228
Greece	341	317	299
Ireland	223	222	225
Italy	1393	1534	1115
Netherlands	1031	1114	1177
Portugal	35	67	81
Spain - beet	1028	1311	1014
Spain - cane	7	6	9
Sweden	437	470	416
U.K.	1328	1549	1442
Total EU-15	**16153**	**18675**	**17132**

EU Sugar from beet, crop area and yields

	Area (1000's hectares)			Yield (MT raw beet sugar/hectare)		
	2001/02	**2002/03**	**2003/04**	**2001/02**	**2002/03**	**2003/04**
Austria	45	45	43	10.1	10.5	10.8
Belgium	96	98	93	9.6	11.3	11.2
Denmark	56	55	54	9.2	10.1	10.2
Finland	31	32	31	5.1	5.5	4.9
France	386	399	367	10.2	12.8	12.5
Germany	449	457	435	9.0	9.6	9.7
Greece	43	41	41	7.9	7.7	7.3
Ireland	31	31	31	7.2	7.2	7.3
Italy	220	240	205	6.3	6.4	5.4
Netherlands	109	109	107	9.5	10.2	11.0
Portugal	5	8	9	7.0	8.4	9.0
Spain	114	116	100	9.0	11.3	10.1
Sweden	54	53	52	8.1	8.9	8.0
U.K.	149	147	140	8.9	10.5	10.2
Total EU-15	**1788**	**1831**	**1708**	**9.0**	**10.2**	**10.0**

Note: Area does not include sugar cane in the DOM.(French Overseas Departments) Area does include cane area in Spain.

Trade

In May, 2003, the European Commission suspended the zero duty access to EU markets for sugar from Serbia and Montenegro, initially for three months, subsequently, extended through to early 2004. The removal of zero duty access follows suspicions of fraud 5with for example tests revealing traces of cane sugar, which is not grown in Serbia, in Serbian origin sugar, as well as a failure by the Serbian authorities to meet EU demands for stricter controls on the origins of Serbian sugar exports to the EU.

Since the suspension of Serbia's zero duty access, EU imports have virtually stopped from this source. During the first nine months of 2003, 115,333 MT of sugar was imported from Serbia, a 25% increase over the same period in 2002 when 92,556 MT were imported. In contrast, during the same period, imports from Croatia and Bosnia-Herzegovina, which also benefit from zero duty access to the EU, increased from 35,170 MT in 2002 to 96,321 MT, and 6,915 MT in 2002 to 11,545 MT respectively.

It has been reported that the three groups who own the Serbian sugar processing industry have called on the Commission to reopen Serbia's preferential access to the EU in return for a commitment to limit exports to the EU to 160,000 MT a year. The eight Serbian sugar processing plants, owned by the Serbian firm MK Commerce, Greek sugar monopoly Hellenic Sugar and the Italian group SFIR, have a capacity to process roughly 400,000 MT a year.

Export Subsidies

EU export subsidies, as at the 12th September 2003, were approximately €431/MT for raw sugar and €476/MT for white sugar.

In 2001/02, just under €1.5 billion (€1.493 bn) were used to subsidize the export of 3.488 MMT of sugar at an average rate of €428/MT, averaged across all different types of product covered by the sugar CMO, including sugar, isoglucose, inulin syrup and products containing sugar, and chemical industry. For 2002/03, figures provisionally stand at 3.113 MMT of sugar exported with subsidies at an average subsidy of €467/MT to give a total subsidy expenditure of €1,463 million.

Policy

EU Sugar Policy

The current EU sugar regime is for the period 2001/02 to 2005/06 and sets out a production quota system, high (relative to the world price) guaranteed prices within the EU, substantial tariffs and export subsidies funded mainly through levies on sugar producers.

The intervention price for white sugar in the EU is €631.90/MT, fixed for the period 2001/02 to 2005/06 under current regulations. (The intervention price for raw sugar is €523.70/MT). However, for the 'deficit areas', it is set at the beginning of each marketing year. For the MY 2003/04, the following intervention prices for white sugar apply:

Spain	€648.80/MT
Ireland and the U.K.	€646.50/MT
Italy	€655.30/MT
Portugal, Finland	€646.50/MT

In practice, the market price for sugar is close to the landed price of sugar imports (i.e. the cost of imported sugar with the tariff paid). This price is around €725.

New Sugar Quotas for 2003/04

The guaranteed quantity provided by the quotas has been reduced by the European Commission by 215, 513 MT, white sugar equivalent, for the 2003/2004 Marketing Year. The total EU sugar quota (A+B) for 2003/04 is 13.44 MMT. The Commission cites the need to reduce quotas in order to stay within the EU's WTO export subsidy constraints. Initially during the summer, the Commission had estimated that the quota cut for 2003/04 would be around 500,000 MT, however, lowered production estimates due to the hot and dry summer in Europe, as well as reduced imports from Serbia and Montenegro reduced the final reduction. In comparison, the quota was reduced by 862,475 MT in 2002/03.

Total Sugar Production Quotas for 2003/04 in the EU (in 1,000 MT raw value)

	A Quota	B quota	A Isoglucose	B Isoglucose
Austria	309 344	72 204	-	-
Belgium/Lux.	665 358	142 856	55 183	15 175
Denmark	319 378	94 089	-	-
Finland	131 632	13 163	10 693	1 070
France - metro	2 492 424	739 191	15 485	4 030
Fr. – overseas	429 884	45 946	-	-
Germany	2 566 457	789 688	28 196	6 640
Greece	286 086	28 608	10 272	2 419
Ireland	179 543	17 954	-	-
Italy	1 293 858	243 333	16 176	3 809
Netherlands	673 079	177 537	7 250	1 707
Portugal	62 900	6 290	7 902	1 861
Azores	8 968	897	-	-
Spain	951 615	39 651	73 907	7 883
Sweden	331 824	33 182	-	-
U.K.	1 025 962	102 596	21 139	5 638
Total EU-15	**11728312**	**2547185**	**246203**	**50232**

	A Inulin Syrup	B Inulin Syrup
Belgium/Lux.	171 673	40 429
France - metro	19 578	4 611
Netherlands	64 630	15 221
Total EU-15	**255 881**	**60 261**

Maximum Presumed Refinery Supply Needs, 2003/04, MT white sugar

	Reduction	New Max. Needs Allocation
Finland	91	59 834
France - metro	449	296 178
Portugal	441	291 191
U.K.	1 709	1 126 871
Total EU-15	**2 692**	**1 774 074**

For 2003/04, the maximum supply needs of refineries were reduced by 2,692 MT to 1,774,074 MT, white sugar equivalent.

Reform of the EU Sugar Regime

In September 2003, the European Commission tabled a paper laying out options for reforming the EU sugar regime[1]. This paper set out three possible options for reforming the sugar regime after the end of the current regime midway through 2006.

The three options presented were:

- Status Quo – extending the present regime beyond 2006;
- Reduced EU internal price. The EU Sugar price was reduced to €450 with an eventual phase out of production quotas. Additional options within this scenario included adding sugar to the Single Farm Payment program; and
- Complete liberalization. Scrapping the price support system for sugar, as well as production quotas. Within this scenario, options to remove import tariffs and introduce income support were also investigated.

The paper lists the advantages and disadvantages of each scenario without being prescriptive in its choices. However, both the status quo and full liberalization options are described as being either politically or economically unsuitable, suggesting that the Commission is clearly thinking along the lines of price cuts, income compensation and removing the quota system.

In initial versions of the paper, a fourth option had been outlined – fixed quotas – however, this was removed from the final paper, reportedly due to the influence of the Commission's Directorate General for Trade.

[1] "Accomplishing a sustainable agricultural model for Europe through the reformed CAP - the tobacco, olive oil, cotton and sugar sectors" COM(2003) 554 final. http://europa.eu.int/comm/agriculture/capreform/com554/554_en.pdf

The absence of the fixed quota option has been severely criticized by both CIBE, the European Beet Growers Association and by CEFS, who represent European sugar processors.

Overview of the main results for the proposed reform options for the EU-25

	Production (MMT)		**Imports** (MMT)	**Exports** (MMT)		**EU Market Price**
	Quota	Total		With subsidies	Total	€/MT, White Sugar
Present	17.5	20.0	1.9	2.8	5.3	725
Status Quo (2010-2015	13.5	16.0	4.0	1.5	4.0	600
Fixed Quotas (2010-2015)	14.0	16.0	3.5	1.5	4.0	600
Price Fall (2012-2015)	0.0	14.0	2.5	0.0	1.5	450
Liberalization (2010-2015)	0.0	6.0	10.0	0.0	0.0	350

Source: European Commission

The first two reform scenarios presented in the above table would entail a 36% reduction in the EU sugar tariff, with the price cut to €450/MT scenario leading to a 60% tariff reduction. Under the full liberalization scenario there would be no tariff.

The paper also sets out estimated net EU budget costs, which vary from a current €1 to 2 bn to €0.6 to €0.8 bn for the status quo and fixed quota scenarios, €0.8 to €1.0 bn for the price fall scenario and €1 to €1.25 bn for the full liberalization scenario.

As reasons for reforming the Sugar regime, the Commission paper cites the increasing market orientation of the CAP following June's CAP Reform Agreement, the potential market imbalances created by the Least Developed Countries tariff free access for sugar from 2009, as well as the potential outcome of WTO challenges to the EU Sugar regime and the eventual outcome of any WTO Agreement.

The Commission also tabled a paper on the possible effect of the different reforms – the Impact Assessment Paper[2], as well as two further papers outlining the operation of the sugar regime[3] and putting the EU sugar regime in an international context[4]. The fixed quota option is included in the Impact assessment Paper.

Timetable

The timeframe for formal proposals and their eventual adoption and entry into force is still unclear. Member States will have the first opportunity to comment on the Commission's proposals at the November Agriculture Council.

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[2] "Reforming the European Union's sugar policy - summary of impact assessment", http://europa.eu.int/comm/agriculture/publi/reports/sugar/fullrep_en.pdf
[3] "Common organisation of the sugar market - Description", http://europa.eu.int/comm/agriculture/markets/sugar/reports/descri_en.pdf
[4] Sugar: International analysis - production structures within the EU, http://europa.eu.int/comm/agriculture/markets/sugar/reports/rep_en.pdf

This should help to gauge reaction and indicate the pace of future discussions. It is felt unlikely that any formal proposals will be made during the remainder of 2003. Fischler has committed to publishing these before the end of the current Commission (November 2004), with June 2004 currently reported as a likely date for tabling the formal reform proposals.

However, due to the need to have an Opinion on the proposals from the European Parliament, where there are elections in Summer 2004, it is unlikely that any reform package can be finalized and approved before the end of 2004. French Agriculture Minister, Hervé Gaymard, is reported to have said at the informal Agricultural Council in Italy in September that no decision on sugar should be taken during 2003 or 2004.

This would suggest that the new Sugar regime, should agreement be reached, is likely to enter into force in 2006, assuming that the new European Parliament, the new Agriculture Commissioner who will replace Fischler in 2005 as well as the ten new Member State governments, are all amenable. The current regime is due to run out midway through 2006.

WTO case

In August 2003, the WTO case, against the EU's sugar regime, moved forward to when the WTO accepted the establishment of a dispute panel. Brazil, Australia and Thailand are pursuing a complaint against aspects of the EU sugar regime in particular, the re-export with subsidies of sugar imported into the EU from ACP countries, as well as the 'C' sugar quotas, which the complainants argue are effectively cross subsidized by support given to 'A' and 'B' quota sugar production.

Several countries have reserved third party rights, including the U.S., as well as Barbados, Canada, China, Colombia, Jamaica, Mauritius, New Zealand and Trinidad & Tobago. The panel should reach a conclusion during 2004.

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