

EU SUGAR PRODUCTION AFTER QUOTA ABOLITION

WHAT CAN THE MARKET EXPECT FOR THE 2017-18 CAMPAIGN?

AGRICULTURE SPECIAL REPORT

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EDITORIAL

After more than a decade insulated from many of the forces buffeting global sugar markets, the European Union is poised to reclaim its place on the world stage.

EU production quotas, export limits and the guarantee of a minimum sugar beet price for farmers will be swept away from October 1, 2017, when the market deregulates as part of reform to the EU's Common Agricultural Policy.

It is widely expected that the freedom to produce as much sugar as it likes will turn the EU into a net exporter. Before the current quota system was introduced in 2006, the EU averaged exports of around 5 million mt a year. This will be an aspirational volume. Exports of 2 million-3 million mt are more realistic in the short term, as attempts are made to expand and re-establish trade ties with customers in North Africa, the Middle East and further afield, which have been transformed by refined sugar flowing out of new destination refineries in the Indian Ocean.

Higher EU exports driven by expanded production could mean a reduction in imports — a trade-off which pits the domestic beet sector against refiners of imported cane sugar, who have failed to convince Brussels to abolish import tariffs and quotas.

The decision to scrap production quotas in the EU has ramifications which go far beyond its own shores. Trade partners in Africa, the Caribbean and Pacific — countries such as Mozambique, Fiji and Laos whose economic development was supported by preferential agreements allowing them to export sugar duty free — are also set to feel the brute force of liberalization. They will be forced to find alternative homes for their sugars.

The record crop of 19.4 million mt two seasons ago highlighted the EU's potential. But the record-low prices that followed were also a preview of the volatility which will go hand in hand with a less regulated sugar market.

Prices have recovered by almost Eur200/mt. And this current season — the last under quotas — will see production of around 16.6 million mt, up almost 2 million mt on the year, but still some 15% behind the record crop.

Plantings for next season will begin in the spring. This will provide the first firm indication of producers' intent. Then the weather gods will dictate whether the EU resumes its place on the world stage with a roar or a whimper.

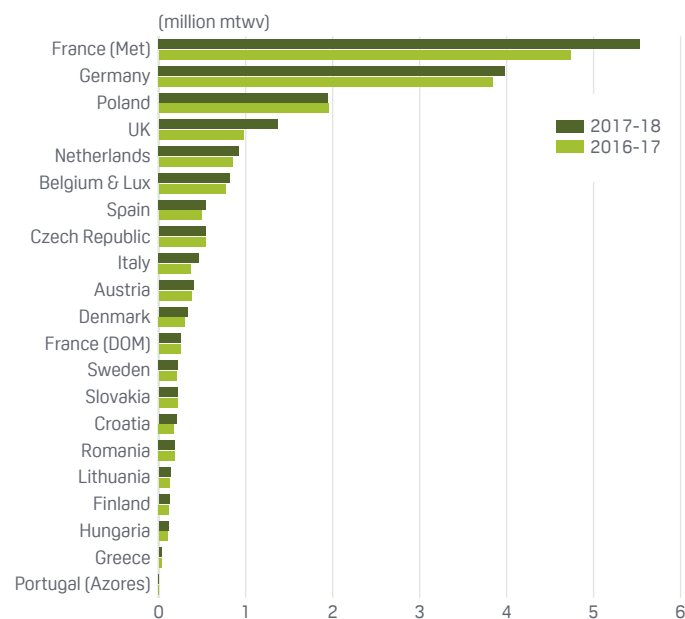
EU-28: FIRST ESTIMATES FOR THE 2017-18 CAMPAIGN

EU-28 2017-18 sugar output seen at 18.32 million mtwv, up 10% year on year

Crop year	Area ('000 ha)	Yield (mt/ha)	Sugar ('000 mtwv)
2017-18	1,575.36	11.63	18,318.37
2016-17	1,418.87	11.72	16,625.39
% Change	11.03	-0.76	10.18

- France to achieve record crop of 5.53 million mtwv on bullish expansion plans
- Rejuvenated UK beet sector to produce 1.36 million mtwv, up 40% year on year
- No uniform solution to beet supply contract leaves question marks over future growth

EU-28 SUGAR (OCTOBER-SEPTEMBER): FIRST PRODUCTION ESTIMATE POST-QUOTAS



Source: Platts

RATIONALE

Our acreage estimates take into account a range of factors, including but not confined to: the extent of plantings between 2012-13 and 2016-17; stated intentions of the producer and/or farmer stakeholders; and our own analytical judgment. A clearer picture will begin to emerge when plantings get underway in three to four months.

Our yield estimates reflect a five-year average, except for France and UK where the upper-end of a yield trend better captures the rise in performance in recent seasons.

More detail on the reasoning for individual country production estimates can be found on pages 7-13.

The EU will produce 18.32 million mtwv of sugar in the 2017-18 (October-September) season, up 10% or some 1.7 million mtwv on the current crop year.

France and the UK are at the vanguard of the surge in production in our opening estimate for the first harvest after the abolition of quotas, accounting for 70% of the overall increase. Germany, Italy, Netherlands and Spain are also expected to raise output by a combined 350,000 mtwv.

Production for Metropolitan France is estimated at 5.53 million mtwv, up 795,500 mtwv year on year, as an overwhelmingly bullish pricing environment for beet supports expansion in acreage of 15%. This would be a record volume for France, where producers have been unashamedly bullish in their plans to take full advantage of liberalization and use existing capacity to boost production and increase exports.

After reducing output in 2016-17 to draw down stocks, UK production is expected to return to more normal levels. We estimate acreage rising some 33% to around 100,000 hectares and a yield of 13.50 mt/ha. This would see production surge by almost 40% to 1.36 million mtwv.

In Germany, production is estimated at 3.98 million mtwv, up 3.6% or 138,000 mtwv on the year, reflecting a slower pace of expansion.

Collective bargaining powers enacted by the European Commission provide a basis for the EU's 145,000 beet growers to establish new contractual terms with producers, but negotiations to ensure stable production for more than 2.5 million mtwv of sugar remain fraught with difficulty.

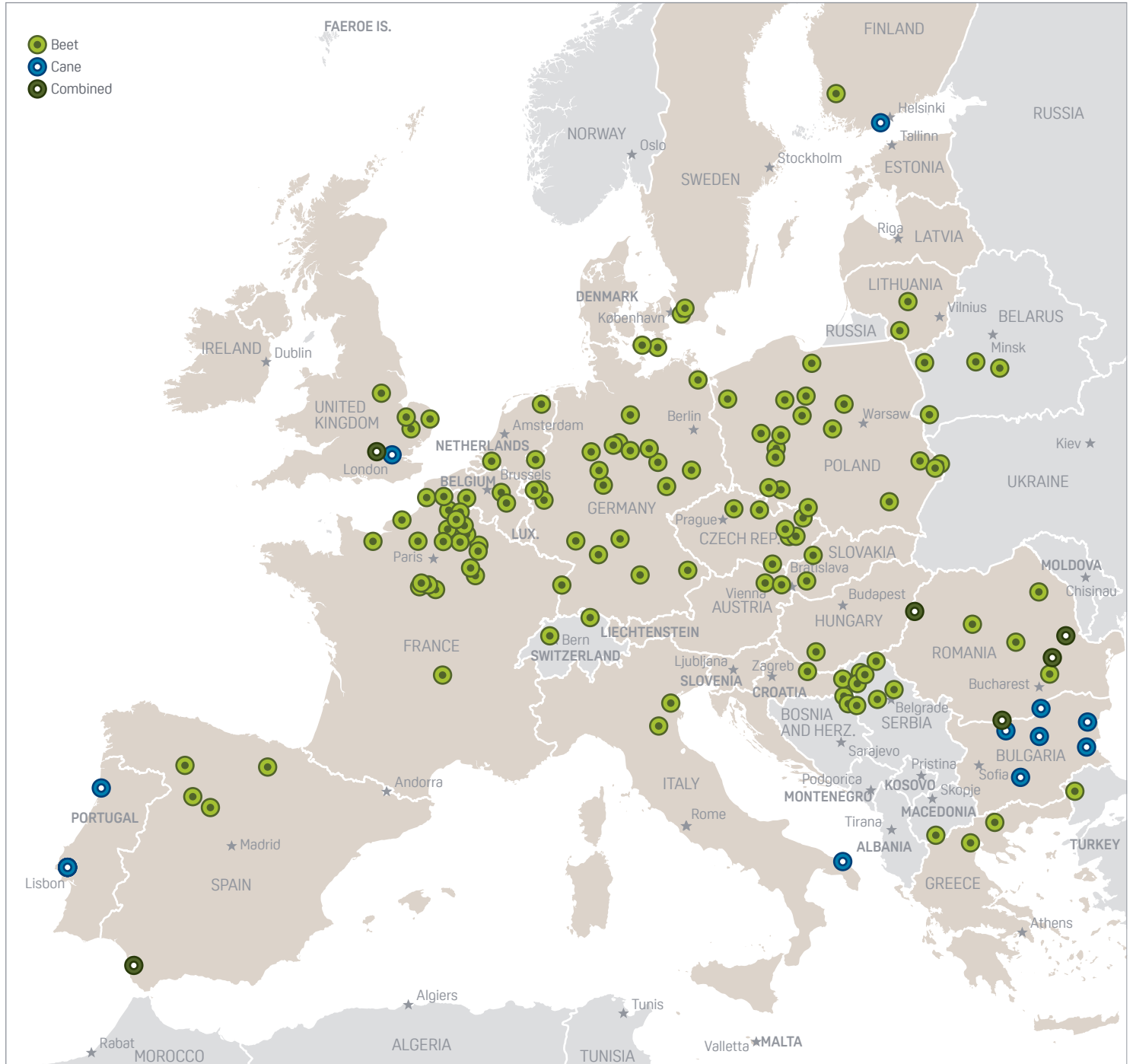
Beet supply deals agreed in France, Germany and the UK have largely been well received, enabling some 60,000 growers to join producers' expansion plans. But negotiations have reached deadlock in Poland and Belgium, leaving their aspirations to increase market share in the short term in tatters.

No longer able to rely on the contractual certainty of a guaranteed minimum, such contrasts are the new reality in the post-quota regime, senior sugar analyst David Elward said.

"It seems private owners have tended to find it harder than cooperatives to whet the appetite of growers. A one-size fits all policy in the mold of the current minimum pricing system has not been well received by all, and there is some resentment private owners are taking advantage since alternative crops offer worse returns," he added.

Planting will not begin for three to four months, so there remains time for deals to be struck. "Independent growers are flexing their muscles and holding out for a better deal. Failure to reach agreement would pose serious questions over the future viability of the beet sector in certain countries," Elward said.

EU SUGAR PRODUCTION FACILITIES



Source: Platts

Consumption

Just as the EU edges closer to the implementation of supply-side reforms motivated by lighter-touch regulation, on the demand side support is building for a more interventionist approach, e.g. the taxes on sugar proposed in Finland and the UK.

How will the debate around sugar and health or ultimately new taxes on sugar affect consumption? Market research firm Mintel thinks the impact of sugar taxes will be the top trend to shape consumer spending in 2017. Between 53% and 60% of consumers in Poland, Spain, France, Italy, Germany and UK

are already reducing their intake of sugary foods and/or plan to curtail their consumption of sugar-filled fizzy drinks if a tax pushes up prices, according to Mintel. Investments in alternative sweeteners continue apace, and persistently high refined sugar prices might also encourage food and drinks manufacturers to seek cheaper alternatives.

Against this backdrop our estimate for consumption of refined white sugar is unchanged at 16.75 million mt. Combined industrial use and sugars used in the manufacture of products for exports is unchanged at 2.205 million mt.

Isoglucose joins sugar in a post-quota world and with new plants being built there will be a steady increase in production. For the initial year, we estimate an increase of 300,000 mtwv to 1 million mtwv.

Sugar used as an ethanol feedstock is estimated lower by 300,000 mt to one million mt, as current forward pricing suggest other crops are obvious cheaper alternatives. Producers with a surplus will also seek to capitalize on higher prices for sugar in the world market.

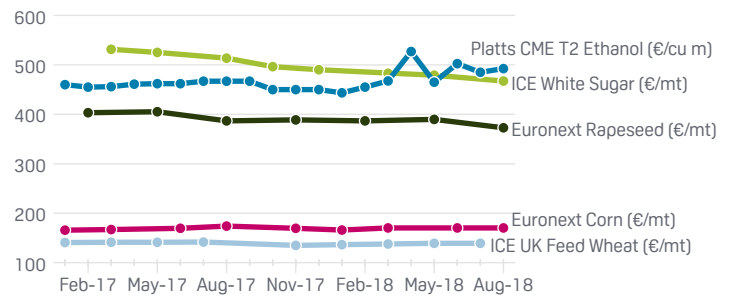
Trade flow balance

Imports will fall and exports will rise. The EU will flip to net exporter from net importer. So goes the conventional wisdom on the development of trade flows post-2017. We agree with this interpretation of events, but with two provisos: the ultimate EU sugar production number and the pricing environment both globally and domestically.

Our 2017-18 production forecast is based on eminently achievable growth of 10% — assuming normal weather. But entering next season with low stocks and some participants champing at the bit to export, we still see the region dependent on imports of as much as 3 million mtwv.

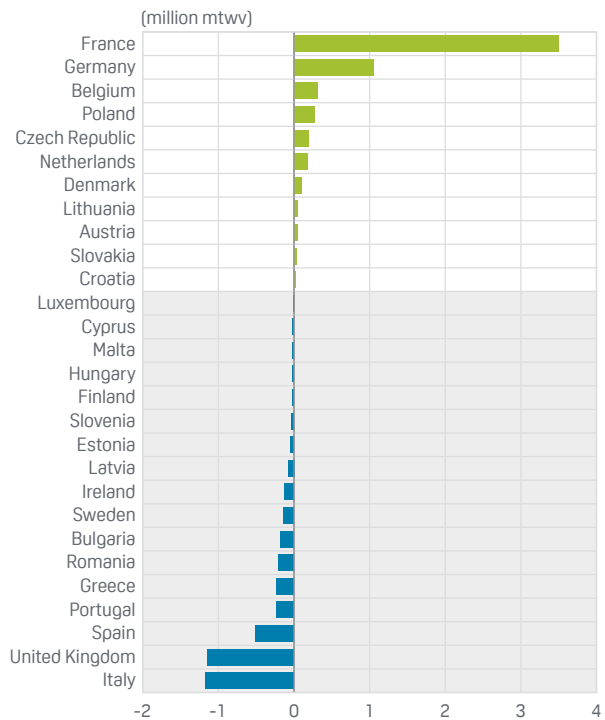
We are currently estimating exports of 2.4 million mtwv, an increase of some 1 million mtwv on the year. A range of factors will determine the export volume, which will be exposed to an already very competitive international whites market. The EU domestic price could stay above the global price to encourage imports if production does not outstrip local demand. But high logistical costs to truck sugar across the continent might be supportive of exports. This could hinder intra-EU flows from surplus to deficit regions, particularly as low container shipping costs could open arbitrage opportunities to more lucrative destinations.

EU ETHANOL vs FEEDSTOCK FOWARD CURVE PRICES



Source: Platts, ICE, Euronext, CME

EU-28 SUGAR DEFICIT vs SURPLUS



Source: Platts

WEATHER

Europe is a region where long-term forecasts are particularly difficult, given it is rarely influenced by the predominant El Niño/La Niña weather events. Other teleconnections such as the North Atlantic Oscillation can be used to produce a forecast.

Much of the region should be generally mild for the spring, with wetter conditions expected in Southern and Eastern Europe and drier conditions focused mainly on the UK. Late spring heading into summer appears to have a cool and wet bias in most areas.

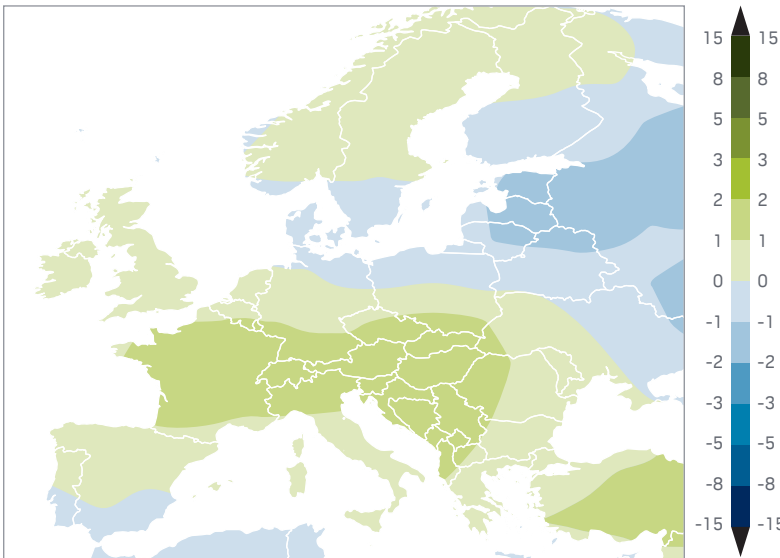
These MDA forecasts use teleconnection patterns for Europe that draw on similar skill to current and recent (past 60 days) weather trends across the region. The teleconnection analog year set has historical data going back to 1950.

Donald Keeney, Senior Agricultural Meteorologist at MDA Information Systems.

We thank MDA Weather Services for permission to reproduce its weather map forecasts. You can find more information about its services online: <https://weather.mdaus.com/home>.

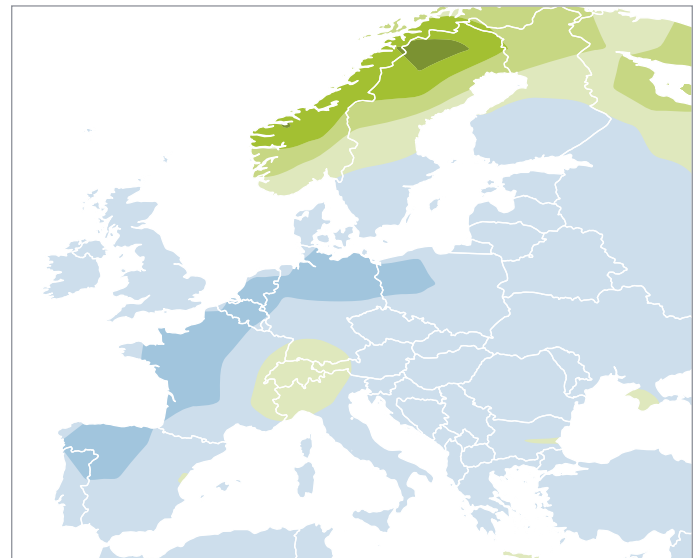
EUROPEAN AVERAGE TEMPERATURE DEPARTURE (°F)

February 1 to April 30



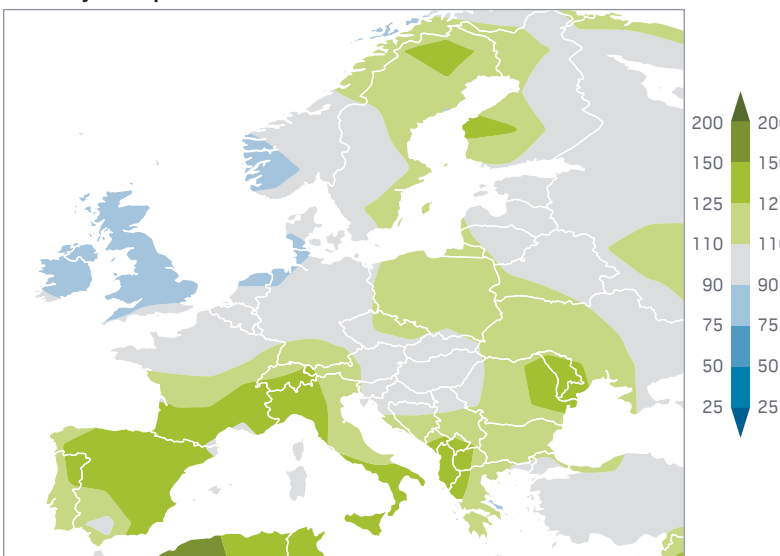
Source: MDA Weather Services

May 1 to July 31



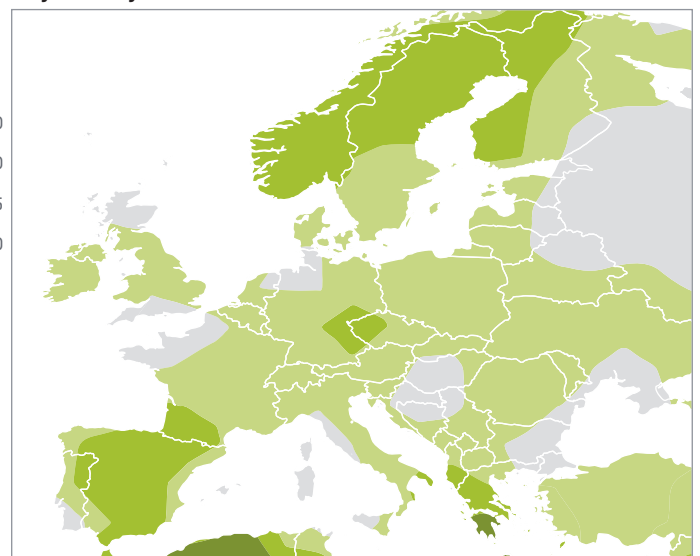
EUROPEAN PRECIPITATION DEPARTURE (% of normal)

February 1 to April 30



Source: MDA Weather Services

May 1 to July 31



PRODUCTION ESTIMATE RATIONALES

BELGIUM

- Sixth-largest sugar producer in EU to see output rise 6.5% on expanded acreage
- Growers' dissatisfaction over beet contracts could cap any rises

Based on an increase of last year's planted acreage, Belgian sugar beet growers are forecast to increase their 2017-18 acreage by 10%. After yields jumped over the last three seasons to above 14 mtwv a hectare from 12.7 mtwv/ha, we forecast a five-year average yield of 13.6 mtwv/ha.

A study conducted earlier this year by the Price Observatory of the FPS Economy found that the only two sugar producers in Belgium, Iscal and Tirlémont, were optimistic that the lifting of the EU sugar quotas would push European sugar prices down and enable them to be more competitive on the global market. This has caused negotiation deadlocks with farmers and concern among politicians with Belgian agriculture minister Willy Borsus calling on the EU to find a balanced and fair price for sugar beet farmers.

CZECH REPUBLIC

- Czech Republic output little changed at just under 540,000 mt on steady acreage, yields
- Limited scope to expand without breaching maximum eligible area for coupled support

The Czech Republic is one of the EU's top 10 sugar producers and among its higher cost producers. Beet is one of the country's most important crops and this current season has been grown in 11 of its 14 regions, spanning everywhere but the far west of the country. Plantings have been steady for the past five seasons at around 60,000-65,000 ha. We expect a similarly steady transition into next season, given unchanged acreage and yields at the five-year average. This keeps the area within the maximum eligible to receive voluntary coupled support.

A severe contraction in the local industry over the past 25 years has caused the number of sugar mills to fall to the seven left operational from almost 60. Consolidation has gone hand in hand with external investment from Agrana and Tereos. The latter holds more than 50% of the national quota under the current system, and efforts over the past decade have brought local crop yields much closer to those of France, one of the highest in the EU.

DENMARK

- Middle-tier EU producer with cautious approach to output growth
- Steady yield, 10% area expansion puts production at 332,000 mtwv

Danish area is forecast at 27,500 ha, below the five-year average of 32,680 ha and a 10% increase on 2016-17's. Acreage dropped significantly over the last two seasons as the market rebalanced and ate its way through large stocks. Our forecast reflects the market's potential to reclaim acreage at a steady pace and not flood the market with sugar. The yield is based on the five-year average, which is also in line with the current season's 12.1 mtwv/ha.

Nordzucker, the only sugar beet processor in Denmark, has said its primary focus leading up to post-quota liberalization in October 2017 will be on the market and any production growth will be driven by sales rather than an immediate need to increase market share. Citing the dairy industry deregulation of 2015, Nordzucker is aware of prices falling if production is boosted without demand keeping pace.

GERMANY

- EU's second-largest sugar producer to add 38,000 ha, output to rise 138,000 mtwv

Plantings, production and yields have fluctuated widely over the past five seasons. After the high of over 400,000 ha in 2012-13, acreage was cut back to some 250,000 ha by 2015-16. Our estimate assumes a 12% year-on-year expansion to 352,800 ha and a yield at the five-year average of 11.28 mt/ha. If a similar yield to the 12.6 mt/ha during the record harvest in 2014-15 is achieved 400,000 mtwv could be added and push German output toward 4.5 million mtwv.

GERMAN BEET PRODUCTION FACILITIES



Source: Platts

Home to Europe's biggest sugar producer, Suedzucker, Germany also boasts two of the region's other leading producers in Nordzucker and Pfeifer & Langen. Some 20 beet factories process the country's crop provided by around 30,000 growers who hold shares in the companies. Executives at Nordzucker have voiced skepticism about plans elsewhere in the EU to add to existing capacity and have said they will proceed cautiously.

GREECE

- Output stagnates as question marks linger over future of Greek sugar sector

Greek sugar production is run by domestic company Hellenic Sugar which has three operations. Its plant at Plati is capable of handling 8,000 mt a day of beet and producing 80,000 mt a year of sugar; at Serres it can handle 5,000 mt/day of beet and produce 60,000 mt/year of sugar, and at Orestias the capacity is 5,400 mt/day of beet and 60,000 mt/year of white sugar. Structural issues have meant output in Greece is significantly lower than this because beet production and cultivation has tailed off markedly in the years since the EU's previous sugar market reforms in 2006. A high of over 40,000 ha of harvested area was hit in 2005, while current cultivation is around 5,000 ha. This reflects the troubles Hellenic Sugar currently finds itself in, under government ownership as it attempts to restructure its debt and in the process of disposing of assets in Serbia to raise capital.

SPAIN

- Production forecast to grow as planted area rises on incentives to growers
- Increased sugar extraction capacity by beet processor Azucarera.

Azucarera and Tereos have been actively recruiting additional growers to increase beet plantings. We therefore estimate a 10% increase in acreage on the year to 39,300 ha, and yields are forecast at the five-year average of 13.9 mtw/ha.

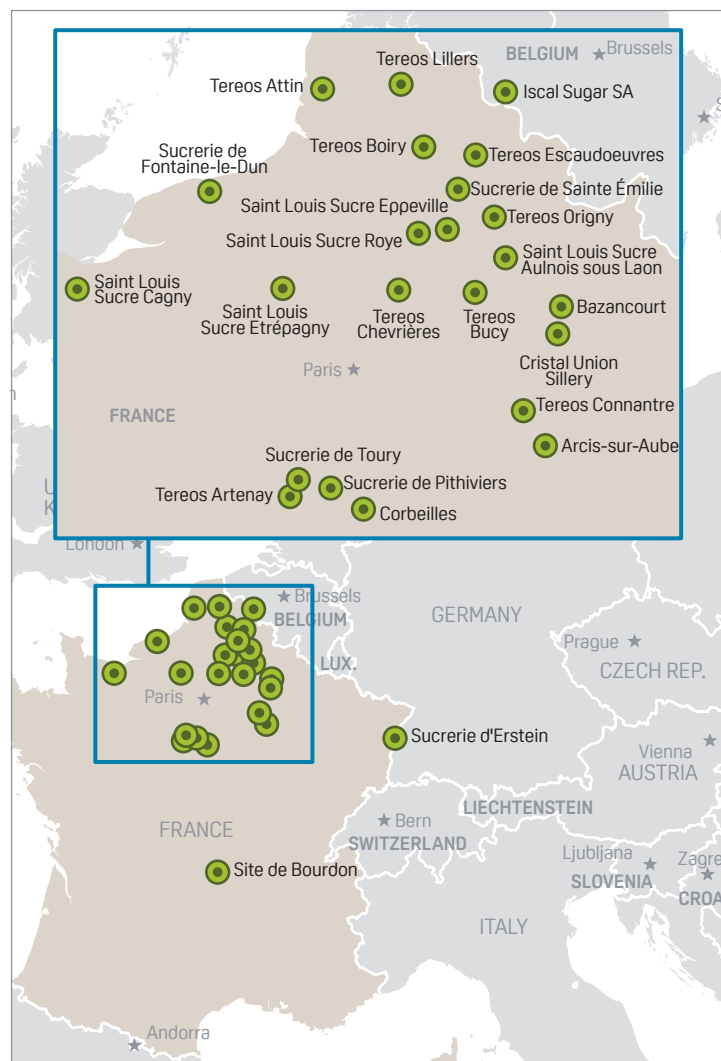
Growth is forecast for Spain as major beet factories announce plans to increase production over the next three seasons. Azucarera have announced plans to increase their production aggressively to 650,000 mt by 2020 from just over 400,000 mt now, increasing sugar extraction capacity at their sites in Andalusia, Leon and Castile so that overall capacity will reach 800,000 mt/year. Partnering with Acor Sugar Beet Cooperative in Spain, Tereos is aiming to increase its overall EU beet production to 18 million from 15 million mt offering a guaranteed minimum price for growers of Eur25/mt.

FRANCE (MET)

- Bullish plans to expand using existing capacity allow France to lead EU export revival

Reaching 5.532 million mtw would be the largest volume of sugar produced since quotas were originally introduced in 2006.

FRENCH BEET PRODUCTION FACILITIES



Source: Platts

Average acreage expansion of 15% or an additional 55,500 ha reflects producers' intentions to deploy unutilized capacity and an overwhelmingly bullish pricing environment for beet. Our yield assessment of 13 mt/ha is slightly higher than the five-year average to reflect stellar past yield performance above 13.5-14 mt/ha. If these levels were achieved production could edge toward 6 million mt.

World market prices for white sugar are still at the upper end of the five-year range despite the recent dip while alternative cereal crop options such as wheat are languishing at low prices. Contracts have been agreed for virtually all, around 24,000 growers, which will enable cooperatives Tereos and Cristal Union to expand production by some 20%. Expansion plans of competitor Saint Louis Sucre, part of the Suedzucker family, are more likely to reach 15%.

When Saint Louis Sucre closed its sugar refinery in Marseilles last year it brought to an end the last vestiges of the production of refined cane sugar in Metropolitan France. It is now an exclusively beet affair. French sugar giant Tereos has been the most vocal cheerleader for the opportunities

available in the post-2017 era. It has prepared by establishing a trading arm in Geneva and through a mixture of acquisitions and partnerships along the EU supply chain. A combination of extending the harvest period to 130 days and utilizing existing unused production capacity in France underpin the production growth plans. Low cost of production and enthusiasm for the cooperative grower/producer model also support the bullish outlook.

FRANCE (DOM)

- Stable cane plantings in Antilles, Réunion keeps sugar output at 250,000 mtwv

France's overseas departments, or *département d'outre-mer*, comprise some 13 regions or territories, but for sugar we are concerned with just three: Réunion and the French Antilles of Guadeloupe and Martinique. France AgriMer data shows cane sugar production has been stable at around 250,000 mtwv since the 2013-14 season. The Antilles provides around 25% and Réunion 75%. The French (DOM) quota of 432,200 mt has allowed some beet sugar grown on mainland France to be redeployed under the so-called *travail à façon* policy. According to a report by the French parliament in 2014, ending EU support for sugar would damage a crucial sector for these departments. Our production estimate assumes a steady initial transition in the post-quota environment.

CROATIA

- Higher capacity pre-EU accession, external investors points way to future growth
- Area up 15%, yields at five-year average pushes output up 26,000 mtwv

The EU's newest member state, Croatia has arrived at the party just in time to see the old order thrown out. Since accession in 2013, sugar production has been curtailed significantly as it adjusted production to meet its EU quota requirements — dropping off some 80% in terms of beet production between 2010 and 2015. Sugar yields have picked up modestly over the same period, increasing in both terms of average sugar content in beets and the area yield. It has three sugar factories, all of which are part of the publicly listed Viro Group. The Sladorana operation in Županja has the capacity to process some 6,000 mt of beet/day during the campaign, while the Viro-branded operations in Vitrovitica and Osijek can process 4,000 and 7,000 mt/day, respectively. In July, French producer Cristal Union acquired a 17% stake in the group.

ITALY

- Relaunch of Eridana beet factory supports return to normal acreage

After a volatile 2016-17 planted acres in Italy are forecast to return to a more average level in 2017-18 at 40,500 ha as production at Eridana site San Quirico will resume. The 2016

campaign at the Eridana San Quirico site was suspended due to heavy financial losses during 2014-15 and a lack of interest by farmers in growing beet.

There are wider concerns in the local market about the long-term security of the sector after the bankruptcy of sugar manufacturer Nuovo Zuccherificio del Molise in August, with ongoing hearings in October aimed to find a resolution to the closure.

The overall competitiveness of the Italian industry post-quota liberalization is being called into question, especially when the coupled support expires at the end of 2019-20.

LITHUANIA

- Acreage rises 1,500 ha, yield at 5-year average nudges output up 10,500 mtwv

Beet is the sole feedstock, with two factories currently open: Nordzucker's Nordic Sugar brand which operates the 116,000 mt/year factory at Kėdainiai, while the locally owned Arvi Cukrus which produces around 26,000 mt/year of sugar. Two additional factories were previously open. However, they subsequently closed in the fallout following the 2006 reform of the EU sugar market. Even so, investment and innovation in beet growing has seen yields increase over the course of the 12 years since its accession to the union, with sugar content typically above that of other Baltic sugar producers.

HUNGARY

- Output up 10,000 mtwv rests on sole-surviving beet factory; 10% area gain, steady yield

As is the case in much of Central and Eastern Europe, Hungarian sugar factories took a hit in the aftermath of 2006's sugar market reforms. Where five factories had previously operated, only one — Suedzucker's Agrar-run Magyar Cukor in Kaposvár — is in operation, producing around 110,000 mt/year of sugar. Hungary also grants voluntary coupled support for sugar beet growers on up 20,200 ha of land.

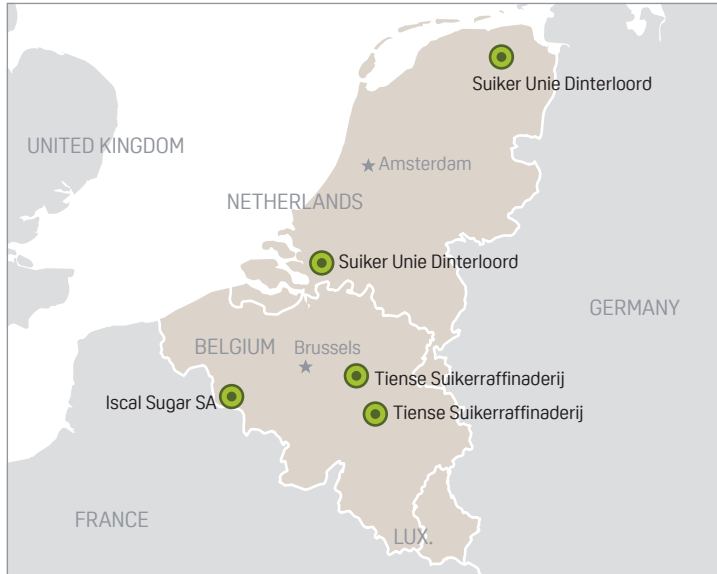
NETHERLANDS

- EU's fifth-largest sugar producer to expand acreage 10%; yields at five-year average

Dutch production has moved within an 800,000 mtwv-1.1 million mtwv range over the past five seasons. This proven potential coupled with relatively stable relations between the 10,000 growers and the country's sole producer provides room for optimism about future growth. In the initial post-quota year, our estimate for area of expansion of 10% continues the rebuilding since the sharp cut back in 2015-16 after the previous year's record harvest.

Since its acquisition of CSM in 2007, the cooperative Royal Cosun runs the Netherlands' two sugar factories under its

BENELUX BEET PRODUCTION FACILITIES



Source: Platts

Suiker Unie name. Acreage has fallen from almost 100,000 ha a decade ago, but technological innovation and investment has continued to drive up yield performance. The latest data from the Netherlands suggests that production is on course to be high again this year, with average sugar content of about 17.1%, largely in line with previous years despite fears over the quality of the crop as a result of dry weather.

AUSTRIA

- Cautious approach to expansion pushes output toward 400,000 mtwv

Austria's sugar production is the domain of food company Agrana, a unit of Suedzucker. Its operations extend to seven sugar beet plants and two raw sugar refineries in Central and Eastern Europe. Austria is home to two of those beet factories, where the crop is grown by some 7,500 farmers. Our estimate reflects acreage returning to the upper end of plantings and average yields over the past five years. Yields have scope to rise. If previously proven levels around 10 mt/ha are achieved production could reach 480,000-500,000 mtwv.

POLAND

- Third largest producer of sugar beet in the EU with 34,000 growers, covering 200,000 ha
- No minimum price or cooperative bargaining power leaves farmers in risky position

Sugar quota reforms in 2006-10 were not viewed as favorable to the Polish industry. Polish quotas dropped by almost 400,000 mt and Polish producers ended paying higher fees than they received in aid from the restructure as their production continued to exceed their quota limit in the last 11 of 13 seasons. Post-quota production can increase as

POLISH BEET PRODUCTION FACILITIES



Source: Platts

we have seen in previous seasons and despite an overall decrease in acreage. Yields in Poland have risen steadily since the mid-1990s.

The European Commission took note of a request from Poland to present forecasts of the situation and the available instruments for EU market stabilization following the abolition of the quota system. Comparisons were drawn to the EU dairy sector where there were significant production increases after deregulation in April 2015.

According to a post-quota paper released by the European Parliament in July, the cost of production of sugar beet in Poland was the lowest in the EU at Eur22/mt. A more recent study completed in 2011-13 by the Institute of Agricultural and Food Economics – National Research Institute in Warsaw puts cost of production slightly higher but still below other major producers at Eur23.80-Eur26.60/mt.

Despite having one of the, if not the lowest cost of production in the EU, Polish farmers and the local sugar beet association are concerned about their lack of bargaining power. Current negotiations with the three sugar companies operating in Poland are not being seen as beneficial to the local growers with contract prices being offered at below the current minimum price and below the current market price, leaving negotiations at an impasse.

PORTUGAL (AZORES)

- EU's smallest beet producer's output stable on mid-Atlantic archipelago

Sugar beet is no longer cultivated on the Portuguese mainland, with the only beet production of note taking place in the mid-Atlantic on a mere 350 ha on the Azores. Despite this, Portugal still operates three raw sugar refineries,

importing enough to satisfy domestic demand by importing over 450,000 mt/year of raws. Under negotiations with the EC, Portugal previously relinquished its access to sugar beet quota volumes in return for compensation in 2006. As the post-quota world of October 2017 approaches, previous politically driven talk of a return to production of sugar beet and conversion of capacity to handle both feedstocks, particularly at Coruche, it may return to the fold.

Of the three sugar refineries in Portugal, only two remain in operation at present. ASR's Sidul Açúcares in Lisbon produces some 300,000 mt of whites, and RAR Açúcar's Porto operation produces 240,000 mt of whites. The third, located at Coruche and part of Sociedade de Desenvolvimento Agro-Industrial, has the capacity to produce some 70,000 mt of whites although it is currently out of operation. In addition, there is the Sinaga factory, at São Miguel on the Azores and currently under local government ownership following a cash flow shortfall.

ROMANIA

- Incremental growth in sugar output on 10% acreage expansion, 5-year average yield

More so than in the rest of the EU, Romania has a number of factories able to handle both beet and raw cane sugar for processing. Eight sugar producers were identified as operating. Four belong to Suedzucker's part-owned Agrana subsidiary — one in Roman handling both beet and raw cane sugar, and three raw cane sugar refineries at Burzau, Liești, and Urziceni. In addition, Tereos-owned Luduș produces sugar from beets, the locally-owned Zahar Bod — currently insolvent and undergoing restructuring — produces from both beet and raw cane sugar, and Diamant — an operation in Oradea between Pfeifer & Langen and Cristal Union — that can also use cane and beet, and the independent cane sugar refiner Zaharul Corabia.

Despite one of the lowest per capita sugar consumptions in the EU, as a deficit country with significant room for expansion and investment as well as mixed refining and production capacity, Romania has persistently produced well above its current quota allocation of 100,164 mt. Measures in place to provide coupled support for sugar beets grown on 29,300 ha agricultural land have not been a hindrance to such output.

SLOVAKIA

- Stable output around 213,000 mtwv driven by yield gains on foreign investment

There are now just two sugar factories operating in Slovakia — Slovenské Cukrovary in Trnava, belonging to Suedzucker's part-owned Agrana subsidiary, and Považský Cukror in Trenčianska Teplá, which belongs to Nordzucker. Slovenské Cukrovary has a beet processing capacity of around 3,800 mt/day, while Považský Cukror can handle an estimated 5,800 mt/day. Of an annual EU quota allocation of 112,320 mt of white sugar, some 68,478 mt is allocated to Považský Cukror while the remaining 43,841 mt goes to Slovenské Cukrovary.

As with the number of producers, the number of beet growers has also dwindled, dropping from a high of 418 in 2004-05 to 213 by 2014-15. Despite a smaller number of producers, consolidation of the sugar industry in the hands of two major foreign producers and increased investment pushed up harvested area, yields and white sugar output. While its quota allocation has remained flat over the same period, beet exports to the neighboring Czech Republic are a notable portion of total production. According to the National Agricultural and Food Center, during the 2014-15 campaign Slovakia exported some 97,806 mt of beet to the Czech Republic.

FINLAND

- Looming sugar tax provides bearish demand backdrop for marginal gain in output

Finland approaches quota abolition as political support builds for a new tax on sugary foods and drinks. Production costs in the beet sector are high and some Eur1 million are paid to support the sector. For one of the EU's smallest sugar producers, this backdrop provides little incentive to the country's sole domestic producer, Nordic Sugar, to expand output.

The country's sole factory at Säskylä processes around 600,000 mt of sugar beet supplied by some 900 growers. Additional sugar to plug the domestic supply gap is provided by a cane refinery at Porkkala (Kantvik).

SWEDEN

- Output up 16,000 mtw on five-year average yield, 10% acreage expansion

Despite a significant decrease in planted area over the last two seasons investment by Nordic Sugar indicates commitment and a desire to be competitive in the post-quota world. Like other EU states Sweden decreased planted acres during the 2015-16 and 2016-17 seasons.

Significant investment has been pumped into the site at Ortofta, with greater energy efficiency and a new 80,000 mt sugar silo. With the overall aim to become more efficient in production, logistics and energy consumption recent investments should put Nordic Sugar in a favorable position to compete after October 2017.

UNITED KINGDOM

- UK acres to rebound to 2014-15 levels
- Low grain prices, rapeseed pest problems open up acres for sugar beet

In the last two seasons British Sugar, the UK's only beet processing company, has pushed back on planted acreage in an attempt to reduce large stocks weighing on the market. We estimate planted acres will return to pre-2015-16 levels of 100,940 ha in 2017-18.

The campaign by British Sugar and the NFU to sign up growers to one and three-year contracts has been successful, with sources saying over 30% of the crop is signed up to the three-year contract. The 2017-18 contracts guarantee a minimum beet price of Eur22/mt with a bonus structure attached. British Sugar will continue to underwrite the price received by growers, but they will have more access and exposure to the overall EU sugar price.

Long-term trade remains largely unknown for the UK because of the Brexit vote. Any changes to the current free movement of commodities will need to be balanced and reciprocated for any long-term relationship to be developed and sustained.

Beet used for ethanol will be limited in growth in the current market, and the UK is seeing more demand from anaerobic digesters.

UNITED KINGDOM SUGAR PRODUCTION FACILITIES



Source: Platts

CONCLUSION

Production could ultimately be higher than 18.32 million mtwv if higher yields are realized or expansion plans larger than expected. One train of thought might say when production is unrestricted why would producers not expand to fully utilize existing capacity — particularly when white sugar is pricing at such hefty premiums to alternative crops?

France's overall strategy to expand by up to 20% is predicated on existing unused capacity being deployed at a minimum of extra cost to maximize the opportunities

presented by the abolition of quotas. Tereos is able to be more bullish because it benefits from the protection of a multifaceted global supply chain/business model. On the other hand, Nordzucker, which is highly exposed to the EU market, would be more risk averse on ratcheting up production to levels that would leave it very vulnerable to a slump in prices.

Where producers are on the risk spectrum will be a key determining factor.

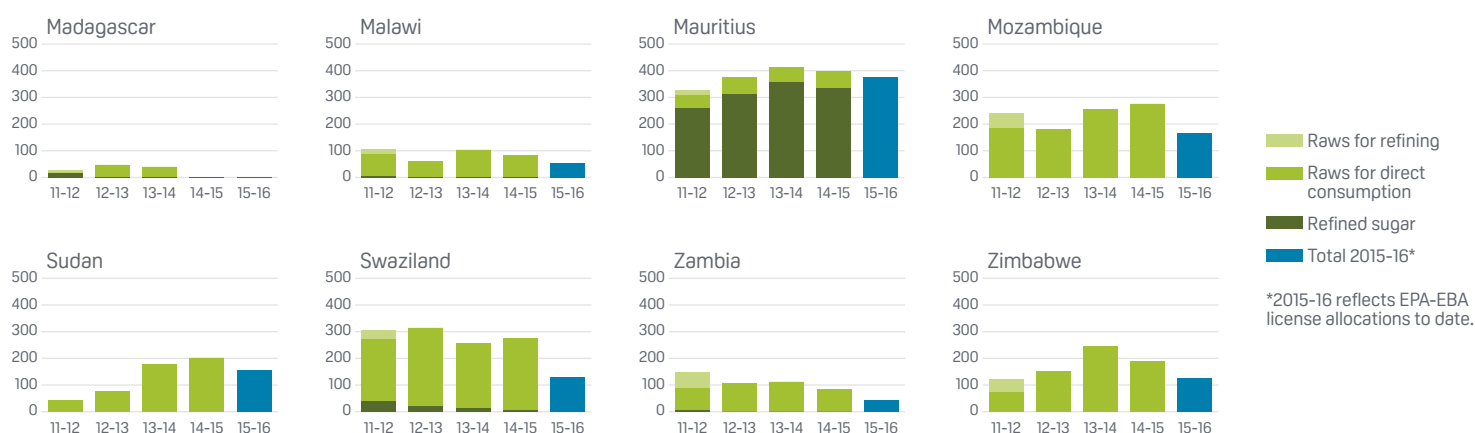
CASE STUDY: LIFE AFTER EU QUOTAS FOR AFRICA

The new quota-free regime will bring about a sea change in the bloc's sugar trading relationship with Africa. Eight countries in Southern and East Africa currently export some 25% of their output to the EU under duty-free quota restricted access granted under various guises for more than 40 years. However, released from the constraints of production quotas, the EU's reliance on these volumes could diminish, and producers such as Mauritius and Sudan will have to find alternative markets. Price volatility and the unpredictable nature of the weather, which has blighted crops for a second consecutive season and caused exports to the EU fall to a five-year low, is encouraging investment in ethanol and cogeneration to mitigate such risks.

Over the past five years, Mauritius, Mozambique, Sudan, Swaziland, Zimbabwe, Malawi, Zambia and Madagascar have

exported an average of 1.358 million mttq to the EU each season under the EPA-EBA agreements. For 2015-16, the volume is expected to be down 22.3% at 1.055 million mttq, as price convergence between Europe and the world market has made the arbitrage harder to work, with available supply also already reduced due to poor harvests. African origins have been integral to meet demand in the EU, accounting for two-thirds of the EPA-EBA imports and around one-third of overall imports this season. It is a trend we expect to continue into 2016-17. In the medium term higher EU production could result in a reduction in imports. For 2017-18 reliance on these origins for a range of sugars will continue, but interest in certain origins and qualities, such as Mauritian whites, could fade. Further ahead, the UK could remain a destination for raws for refining, specialty sugar and refined sugar, depending on the trade agreements that emerge after Brexit.

EU SUGAR IMPORTS FROM AFRICA, OCT-SEP BASIS ('000 mttq)



Source: Eurostat

EU SUGAR AND SUGAR PRODUCTS IMPORTS UNDER EPA-EBA AGREEMENTS (mttq)

	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17*
Non-ACP-LDC origins								
Cambodia	9,850	22,000	15,000	58,371	52,664	3,383	16,514	284
Laos	38,450	41,380	41,530	43,125	0	82,843	81,470	0
ACP-LDC origins								
Madagascar	26,756	690	25,891	47,439	39,570	386	140	0
Malawi	49,062	50,007	101,914	66,825	94,440	81,943	54,429	6,309
Mozambique	89,528	126,680	238,265	207,099	217,158	280,452	166,292	25,200
Sudan	20,000	20,000	40,910	101,151	175,572	198,490	155,382	0
Zambia	93,026	149,580	122,432	113,204	102,186	83,119	44,949	6,185
ACP-Non-LDC origins								
Swaziland	299,110	263,930	361,685	317,523	264,044	295,608	129,954	100
Mauritius	352,332	418,691	335,875	379,664	403,891	384,153	376,840	100
Zimbabwe	69,405	158,742	145,771	149,154	242,405	185,538	126,537	64,500
Fiji	100,300	136,600	100,978	139,300	150,725	223,545	160,304	70,080
Barbados	23,500	21,623	21,750	404	14,492	5,607	375	60,309
Belize	65,612	72,038	95,388	102,887	94,910	67,060	133,730	101,474
Guyana	138,644	175,102	114,629	125,952	158,092	171,835	137,158	0
Jamaica	76,800	91,534	99,884	80,337	75,149	62,100	23,893	0
Total	1,452,375	1,748,597	1,861,902	1,932,435	2,085,298	2,126,062	1,607,967	334,541

*Volumes allocated to date

Source: European Commission

Some African producers have started to seek alternative homes — often not only in preparation for the loss of EU customers after 2017. In Malawi, for example, it was low EU domestic prices caused by the record harvest in 2014-15 that led Ilovo to target the US market, where it found higher prices and greater demand. The pivot to the US saw volumes sent to the EU fall by almost 50%. While that is also partly due to a decrease in production — Ilovo said in a recent report that output for 2015-16 (April-March) was 269,000 mt, down 5% year on year — a flexible sales strategy will be vital to ensure commercial viability.

Conversion of production capacity in Mauritius to refined whites from raws for direct consumption was logical to meet customer needs in the EU, and the efficiency of operations there is likely to allow it to pivot to alternative destinations with relative ease. However, wholesale investment in capacity to supply only high-quality whites might not be the only nor best solution, as significant local demand remains for the cheaper, low-quality whites or DC raws.

Trade partners in Africa whose economic development was supported by preferential agreements allowing them to export sugar duty free are set to feel the brute force of liberalization. However, rapid demand growth for sugar at home provides ample opportunity not only to divert existing supplies but also to support further expansion. There will still be opportunities to sell into the EU going forward, as the region will not be immune from the impact of weather, competition from other crops, and pressures to remain economically viable when producers do not enjoy high prices. Existing businesses in Africa provide examples of potential pathways to success. A diverse business portfolio built around cane and/or beet feedstocks could be a sustainable model. There is also huge potential for transportation demand to also drive the biofuels sector, but it will require governments to adopt and enforce alternative fuel mandates. To compete on the global stage, policy support must also be matched by infrastructure investments, with economic, institutional and transportation developments some of the chief areas of concern to achieve greater levels of competitiveness.

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EU 2017: HOW DO YOU GET A CLEARER VIEW OF THE WORLD AHEAD

Every commodity market experiences change. Whether it's the day-on-day price volatility born of fundamentals or FOREX fluctuations, or the slower pace of change that may stem from regulation, legislation, innovation or simply the changing tastes of consumers, change is part and parcel of modern markets.

Occasionally change is seismic, but rarely does a market undergo the sort of change that fundamentally rewrites it overnight.

Yet that's what Europe's sugar sector faces from October 1, 2017.

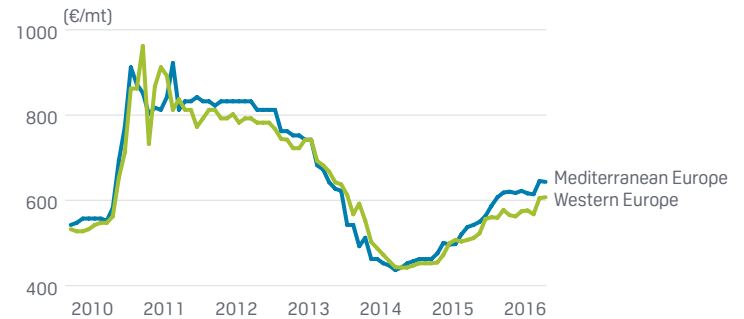
The current approach to the market, regulated through committees, production limits and guaranteed prices, is swept away in favor of a less regulated, more liberalized approach. For the first time in a decade, farmers will have flexibility to pursue plantings on the basis of which crop is likely to bring them the greatest return.

Beet will have to take its place amongst corn, wheat and other crops, producers will face an entirely new world, and beet factories will face new opportunities around sugar or ethanol production. For cane refiners, the change brings fundamental concerns over parity in the marketplace. Everyone is touched in different ways and everyone faces uncertainty.

More than ever, analysis will play a critical role in understanding the complexities and nuances of the EU's outlook, and inform the strategies that enable market participants to operate in the space. As the market deregulates, the question of price too will come to the fore.

Independent, impartial price reporting, founded in physical price indications, helps build certainty for those in the sector. Providing a reference point for physical negotiations is just the start. Effective price reporting can help build index-linked term contracts, enable audit trails, support compliance and regulatory initiatives and even power a new generation of

REGIONAL EU SPOT DELIVERED REFINED SUGAR PRICES



financially settled derivative instruments such as swaps or even exchange-listed futures contracts.

Together, pricing and analysis delivers a full, rounded perspective of the EU sugar market, enabling participants to efficiently manage today's challenges, and effectively prepare for tomorrow's.

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Through its weekly and monthly reports, [Platts Kingsman EU Sugar Package](#) provides you with EU price assessments, supporting commentary, news and analysis that bring the clarity you need to make confident business decisions.

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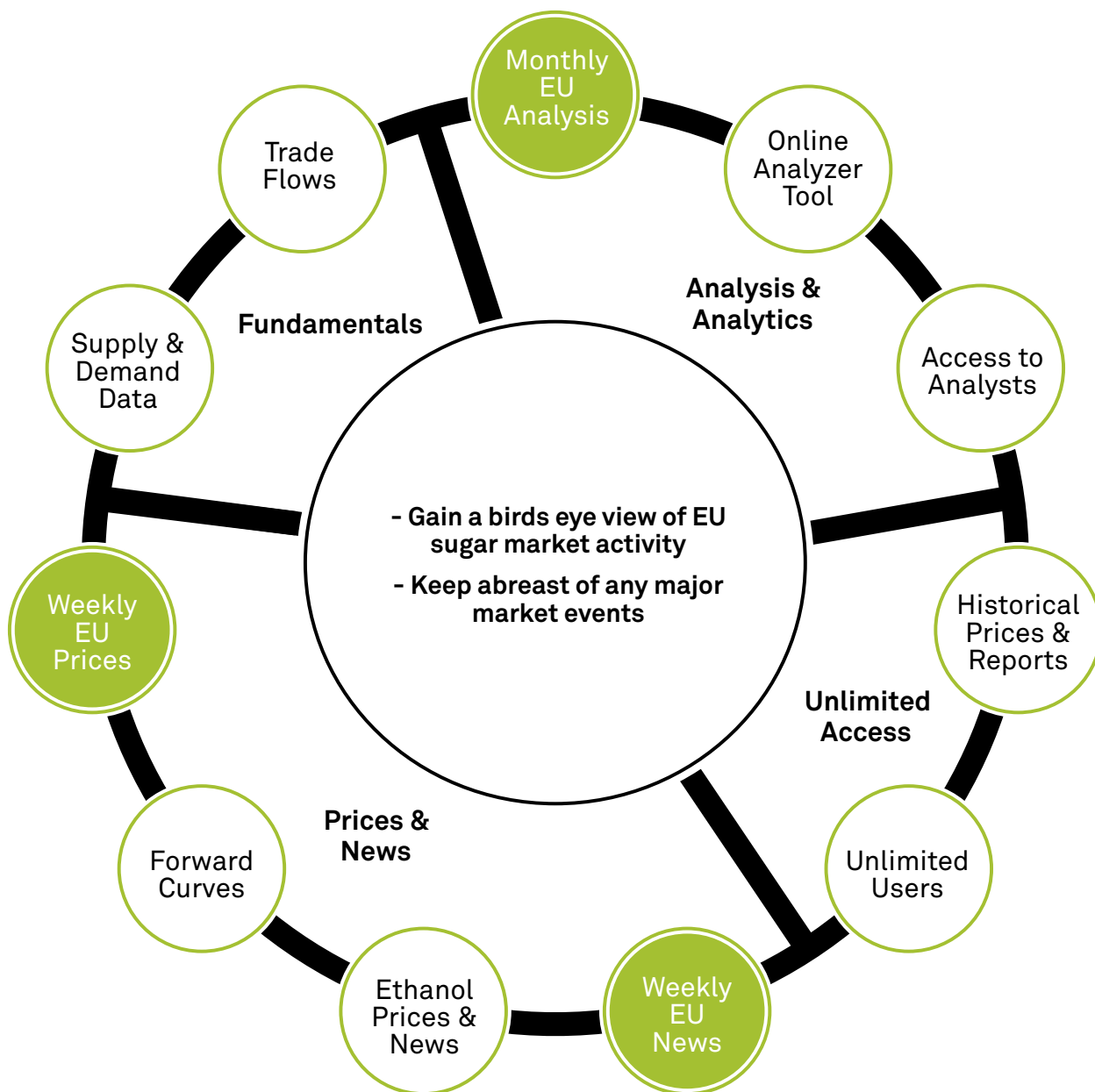
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	Report/service	Frequency	Report/feature explained
Fundamentals	Platts Kingsman Sugar S&D Data + Update	Monthly	Monthly excel containing production and consumption data for easy integration into your proprietary models. Also supported by monthly commentary reviewing any revisions and taking acreage, yields and weather into account
	Platts Kingsman Sugar Trade Flows	Monthly	Excel spreadsheet of import and export estimates for raw, low & high quality white sugar in and out of the world's major sugar-trading regions. The spreadsheet, updated by quarter, is supported by monthly commentary reviewing any revisions
Prices / News / Analysis	Platts Kingsman Daily Sugar Market Report	Daily	Daily physical spot, premium and discount prices for all the major sugar-trading regions supported by 'assessment rationales' and thought-provoking analysis
	Platts Kingsman Indian-Asia Sugar Market Analysis	Monthly	Homes in on the factors affecting the import and export market with special attention paid to weather, yield and the latest information on government trade policies
	Platts Kingsman Global Sugar Market Report	Weekly	Summarizes the previous week's activity in the sugar market with a look forward to the week ahead. Includes any weather, production, consumption, imports, futures prices or policy updates that may affect the sugar balance in any country
	Platts Kingsman EU Sugar Market Report	Weekly	An in depth insight and forward thinking assessment of the latest developments in the EU Containers export, Western and Mediterranean Delivered sugar markets. This includes the latest pricing elements, market news, crop conditions and wider fundamentals that play a key role in daily trading decisions
	Platts Kingsman EU Sugar Market Analysis	Monthly	A more analytical take on the latest developments in the EU sugar market as a whole in the previous month, and how those developments could change the evolution of the market going forward. This is particularly key as producers, trade houses and the wider market edge closer toward 2017, and implement new strategies to tackle the changes ahead
	Platts Kingsman Sugar Market Outlook	Monthly	Looks globally at the factors affecting the price of sugar over the previous month with a look forward to what lies ahead. Crucial information on yields, weather, production and consumption figures is featured in this report
	Platts Kingsman Sugar Editorial	Weekly	Based on a specific event, country or 'hot' topic, decided by our analysts, at the time of writing
	Platts Kingsman Global Ethanol Report	Weekly	A summary of the latest ethanol market activities. Divided regionally, analysts look at the developments in the spot market with a focus on any fundamental events that have taken place
	Platts Kingsman Daily Sugar News	Daily	A daily summary of the latest news from around the globe. Designed for quick and easy access on your mobile/smartphone – the headlines are displayed at the top of the email with the option to anchor down to the full story
Online Analytics	Platts Agriculture Analyzer	Updated daily & weekly	Online portal where you can view, chart and download all Platts prices and S&D data as well as full histories

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