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Report Highlights:

Polish farmers wait for the new EU sugar market reform with great hope and excitement. Larger farming area and greater processing scale in the country is expected. Although sugar beet producers are concerned about a decline in profitability of production, they see great opportunity for increasing the scale of production and in new opportunities for export. It is forecast that in MY 2016/17 sugar beet planting area in Poland will reach a record level of 220,000 Ha. Sugar production is likely to increase by 4.8 percent, to 2.2 MMT. Sugar production will exceed domestic consumption by 500,000 MT. In 2016, the sugar industry's production capacity was about 75 percent larger than in 2009. There is a great potential for further technological progress in agricultural holdings and growing performance in the Polish sugar processing industry from restructuring and modernization.

Please Note: This report is to be read in conjunction with the Sugar Annual EU28 Report 2017 www.fas.usda.gov/data/eu-28-sugar-annual-1 and provides further information on Polish market of sugar.

Policy

As of October 1, 2017, European Union legislation provides for complete reform of the Common Agricultural Policy regarding the EU sugar market and eliminates market management mechanisms. In 2017 the EU sugar market will be deregulated and the major change will be the abolition of production quotas and minimum procurement prices. MY 2016/2017 will be the last one according to the old rules, which have been valid for 50 years in the European Union. Poland joined the EU in 2004 and as a consequence the Polish sugar market became a part of the Common European market, regulated by the Common Agricultural Policy (CAP). Under the CAP each Member State had a fixed production quota ceiling. Production over the quota had to be sold out of the EU or used for non-food purposes.

Under the EU quota system, the sugar production limit for Poland is 1.4 million MT, while domestic consumption is 1.7 million MT. Production in 2016 reached 2.1 million MT. Although Polish sugar production exceeded demand, Poland still had to import over 200,000 MT and sell their production surplus out of the EU at the same time. The Polish farmers' perception of the end of the EU quota system generally seems to be positive. A larger farming area and greater processing scale in the country is expected. Although sugar beet producers are concerned about a decline in profitability of production, they see great opportunity for increasing their scale of production and in new opportunities for export. EU sugar producers will be able to produce and export sugar without any limits. Some of the regulations governing the conditions for sugar beet purchase will continue to apply after the quota system is over. The abolition of the quota system is part of the current trend in the European Union to reduce support instruments for agricultural markets and introduce free market rules.

After September 2017 only the best prepared agri-food companies will survive, as one of the goals of production quota abolition is to reduce the price of sugar for final consumers, but also for the food industry. Growers and sugar mills must therefore be technologically well prepared to reduce production costs while being able to run long campaigns to get as much raw material as possible. Structural changes in the Polish sugar beet and sugar mill industry are expected. Lack of production limits will mean better use of production potential, especially in countries with unused capacities. The abolition of the quotation will result in very large quantities of sugar in the Community market. The excitement over new opportunities for the sugar sector in Poland is hampered by the threat of aggressive competition within the EU seeking additional outlets. Polish sugar producers see a great chance in organizational changes of Polish sugar sector and strong and fair cooperation between Polish sugar beet growers and sugar producers.

Area and sugar beet production, production of sugar.

Marketing Year 2017/18

It is forecast that in MY 2016/17 sugar beet planting area will reach a record level of 220,000 Ha, the largest sugar beet area for the last ten years. The sugar beet harvest is forecast to rise 5.8 percent in comparison with MY 2016/17 and is expected to reach 14.3 million metric tons (MMT). Following the forecast planting area and yields expected at an average level, sugar production is likely to increase by 4.8 percent, to 2.2 MMT. Sugar production will exceed domestic consumption by 500,000 MT. This sugar volume presents great export potential. Poland's production quota (1,405,600 MT) used to be lower than the domestic demand for sugar, which is estimated at an average level of 1.7 million MT for MY 2016/17. Prices for sugar are high in Poland and this has increased farmers' interest in planting sugar beets for MY 2017/18, even more than for wheat or other crops.

The sugar beet producer organization and the sugar industry in Poland signed a framework agreement on cooperation until 2020. The main rules of cooperation are: linkage between sugar beet prices and sugar content, guarantee of contracted sugar beet collection from farmers, reimbursement for delay in sugar beet collection from farmers, and a set relation between sugar beet and refined sugar price changes. The basic conditions of cooperation are signed every year individually (either for contracted area or sugar beet prices - negotiated with the sugar beet producers organization). There is no guarantee of a minimum price.

Marketing Year 2016/17

Poland reports a record crop for MY 2016/17, with sugar beet production reaching 13.51 MMT. This is the best result since the harvest back in MY 2002/03. Planted area increased from 172,000 Ha to 203,000 Ha, 18 percent in comparison with MY 2015/16. In MY 2016/17 sugar beet producers benefited from good weather conditions both during the vegetation period and harvest time. For the harvest MY 2016/17 average yields are assessed high, at 66.5 MT per Ha. In Poland, sugar beet cultivation remains profitable and gives stable income to producers, despite the higher cost of production in comparison with other crops.

Concentration of sugar beet production has been on-going for the last ten years. During this period planted area per farmer has almost doubled, driven by more efficient technologies that generate better yields. In MY 2016/17 this process slow down significantly. The current average sugar beet plantation area amounts to 6.1 Ha. Uncertainty regarding policy decisions on the sugar quota release made farmers cautious with their investment decisions. Poland's sugar industry resource base remains dispersed in comparison with the other main EU sugar producers.

Area, yields, production of sugar beets

	Area	Yield	Total Production
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	(000) Ha	(MT/Ha)	(000) MT
2013	185	60.8	11,233
2014	198	68.3	13,500
2015	172	54.6	9,359
2016	203	66.5	13,512
2017*	220	65.0	14,300

Source: Association of Sugar Beet Producers estimate

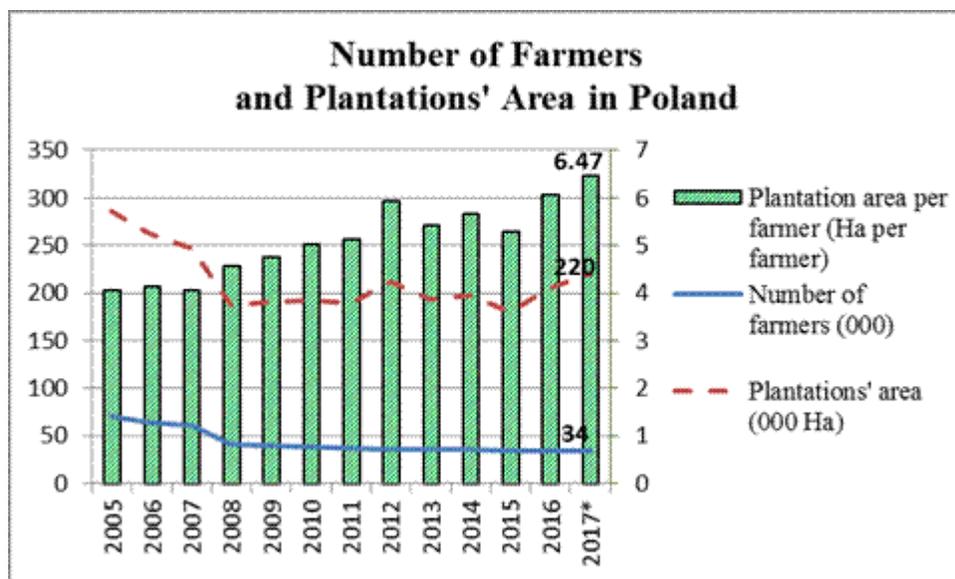
*FAS/Warsaw forecast

Technological indicators for sugar production

Poland	2013/14	2014/15	2015/16	2016/17*
Number of sugar plants	18	18	18	18
Sugar beets processed (000) MT	11,234	13,500	9,364	13,512
Sugar content (%)	17.3	17.5	17.7	17.3
Sugar production (000) MT	1,713	1,983	1,460	2,100

Source: Institute of Agricultural and Food Economics

*Association of Sugar Beet Producers estimate.



Source: Institute of Agricultural and Food Economics

Sugar beets in Poland are processed in 18 sugar plants operated by four sugar concerns: National Sugar Company, Nordzucker, Pfeifer&Langen and Südzucker. The sugar market in Poland benefits from a very good climate and soil conditions for sugar beet production. Sugar production plants operating in

Poland have great capacity and export potential. Polish domestic demand has highly exceeded quota production since Poland joined the European Union.

There is great potential for further technological progress in agricultural holdings and growing performance in the Polish sugar processing industry from restructuring and modernization. Processors do not see the need for investments related to the EU's quota system changes. Beginning in 2009, large investments have been incurred in the past years. In 2016, the sugar industry's production capacity was about 75 percent larger than in 2009. The only exception is sugar processing for non-food purposes. Diversification of sugar use to non-food uses could increase investment and would raise demand for sugar in Poland.

Domestic sugar consumption was driven by developments in the sweet confectionary, bakery and beverages industries. In MY 2016/2017 sugar production is estimated at 2.1 MMT, up from 1.46 MMT in MY 2015/16.

Consumption

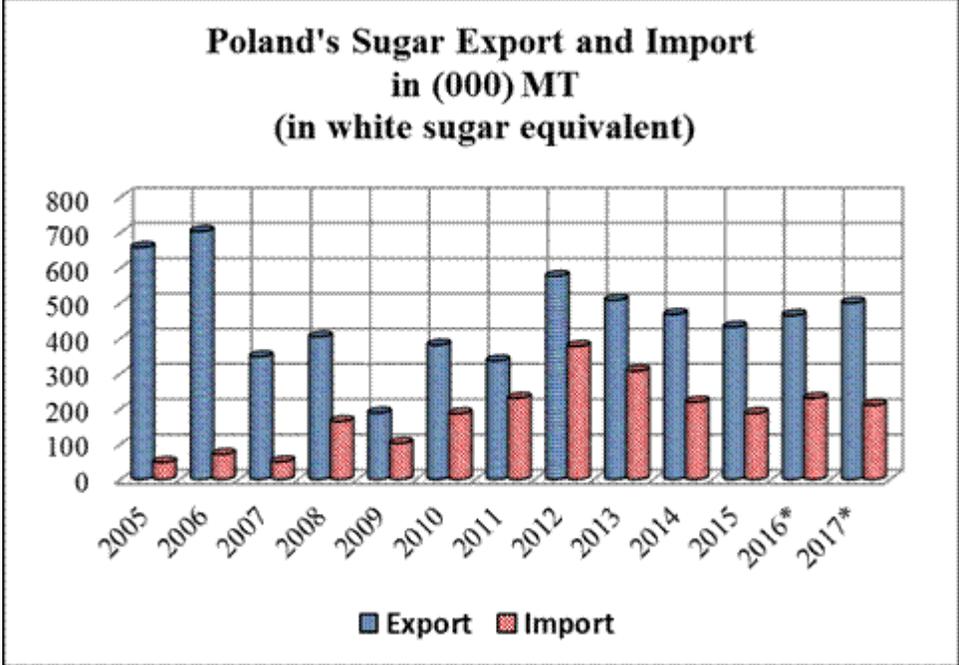
Sugar consumption has grown year by year for the last ten years in Poland. For MY 2016/17 it is estimated that domestic sugar consumption will stay at last year's record level of 1.7 million MT. Sugar consumption per citizen increased from 40.5 kilograms in 2015 to a forecast 41.5 kilograms in 2016, and up to 42.5 for 2017 due to the high growth rate of the sugar processing industry. Production of chocolates, candies, sweetened beverages and sweetened fruit juices are leading sugar demand.

Expanding demand from the domestic food processing industry (bakery, confectionary industry) is the main driver behind the sugar processing industry developments in Poland. In 2016, the increase in sugar demand from the food industry was offset by a decline in consumption by households. In 2016, high retail prices diminished households' demand for raw sugar. According to the Institute of Agriculture in Warsaw, in December 2016 the average sales price of bagged sugar was over 21 percent higher than at the same time in 2015.

Trade

According to Polish official statistical information, January-November 2016 sugar exports from Poland amounted to 418,000 MT, of which 62 percent was destined for other EU markets. The biggest sales in the EU market were destined for Germany (109,000 MT), Lithuania (27,000 MT), Italy (2,000 MT), Latvia (10,000 MT), and Greece and Hungary (16,000 MT). The main non EU buyers of Polish sugar were Israel (45,000 MT), Georgia and Russia (17,000 MT), and Kazakhstan (14,000 MT). In January-November 2016 sugar imports to Poland amounted to 222,000 MT. Imports doubled in comparison with the same period of the previous year. Refined sugar was imported mostly from Zimbabwe, Mozambique and Sudan. Poland's sugar plant production capacities are estimated at over 2 million MT per year. As a consequence, although production exceeds domestic market needs, Poland needs to import sugar in order to serve both domestic industry and consumer demands due to policy regulations. In 2017 the EU

sugar market will be deregulated and the major change will be the abolition of production quotas and minimum procurement prices. The reform will strongly affect sugar trade. Producers will be allowed to sell sugar in larger amounts, limited only by international agreements, without sugar quota barriers.



Source: Institute of Agricultural and Food Economics

End of Report.