INTERNATIONAL CONFEDERATION OF EUROPEAN BEET GROWERS

January 2011

EUROPEAN BEET GROWERS' CONTRIBUTION TO THE CONSULTATION FOR IMPACT ASSESSMENT ON THE COMMUNICATION ON THE CAP TOWARDS 2020

THE 2006 REFORMED SUGAR SECTOR FULFILS THE OBJECTIVES OF THE CAP TOWARDS 2020

CIBE, founded in 1927, represents 440 000 sugar beet growers from 16 EU sugar beet producing countries (Austria, Belgium, the Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Italy, the Netherlands, Poland, Romania, Slovakia, Sweden and the United Kingdom) plus Switzerland and Turkey.

CIBE represents and defends the interests of beet growers within the European Institutions and international organisations on fundamental issues such as:

- The EU Sugar Regulation
- The Common Agricultural Policy (see "**CIBE's First Contribution to the Debate on the CAP after 2013**" http://www.cibe-europe.eu/stats.html#Press)
- International and bilateral negotiations on free trade agreements
- Agronomic and technical beet issues
- Sugar, sugar by-products and bioenergy market issues
- Environmental issues (see **CIBE-CEFS brochure "The EU Beet and Sugar Sector – A Model of Environmental Sustainability"** http://www.cibe-europe.eu/stats.html).

CIBE delegates meet to collect and exchange information, present and discuss problems and draw up common positions.

CIBE is a permanent expert observer at the EU Committee of Professional Agricultural Organisations (COPA/COGECA), and holds a seat on the Executive Committee of the World Association of Sugar Beet and Cane Growers (WABCG). CIBE is also a non-governmental organisation recognised by the United Nations (UNCTAD, FAO, ISO).

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INTRODUCTION

1. Following its first contribution in June 2010, **CIBE would like to continue to participate in the discussions on the future of the CAP by answering the request of the Commission Services for input from interested parties to complete the diagnosis and exploration of options for reform** outlined in the Communication "Meeting the food, natural resources and territorial challenges of the future" and in the consultation document for the impact assessment.

   CIBE welcomed the Communication of the Commission and wished in particular to focus its input on questions related to market instruments. CIBE noted the cautious suggestion by the Commission as regards the sugar and isoglucose regime which is set to expire in 2014/15: "*several options for the future, including a non-disruptive end of the quotas at a date to be defined, need to be examined to bring about increased efficiency and greater competitiveness for the sector*"[1].

2. **CIBE shares the cautiousness of the EU Commission as regards the evolution of sugar and isoglucose quotas which needs to be carefully addressed. Indeed sugar and isoglucose national quotas are flexible market measures which fit with the Commission's objectives for the proposed reformed CAP as well as with the European sugar beet growers' objectives for the future**:

   A. Viable food production and the preservation of EU production capacity

   B. Improvement in the competitiveness of the agricultural sector,
   and the enhanced value of the agricultural sector in the food chain,

   C. Sustainable management of natural resources
   and balanced and dynamic territorial development

3. CIBE noted in particular the questions raised by the Commission as regards market instruments notified in the notice to Members of the Committee for Agriculture of the European Parliament[2]. Two questions are of particular relevance for CIBE. The first one deals with safety nets and other market measures like the risk management toolkit and commodity derivatives markets. The second one deals with the better functioning of the food supply chain.

4. **This contribution aims to give the input of European beet growers for achieving the objectives of the future reformed CAP, in assessing the impacts of the scenarios mentioned by the Commission and in answering the above questions related to market instruments**.

   This second CIBE contribution is more detailed than its first on the public debate on CAP post-2013 dated June 2010[3]. It aims to **analyse** the current market instruments of the sugar CMO, to **advocate** the sustainability of sugar beet growing, and to **give input** on the EU sugar CMO and on other sugar policies which exist in the main sugar-producing third countries.

   This document consists of **two parts**: the first part is CIBE's contribution and the second part includes, in annexes, a short description of the EU sugar beet sector and short reports on sugar world markets and other sugar policies in the form of basic fact sheets.

[1] Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the regions, "The CAP towards 2020: meeting the food, natural resource and territorial challenges of the future"

[2] Notice to Members, Committee for Agriculture and Rural Development, 24-11-2010, The CAP towards 2020: Working Paper on the EC Communication of 18 November 2010, http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//NONSGML+COMPARL+PE-452.848+01+DOC+PDF+V0//EN&language=EN

[3] http://www.cibe-europe.eu/Press/107-2010CIBE_Contribution_CAP_after_2013.pdf

PART I CIBE CONTRIBUTION TO THE CONSULTATION FOR IMPACT ASSESSMENT

A. A viable EU sugar beet sector

5. The European sugar beet sector has already undergone the drastic reform of the 2006 sugar CMO and has proved its ability to adapt to new economic conditions and to evolve to ensure long-term sustainability. **The current sugar CMO, valid up to 2014/15, was integrated into the 2003 CAP reform. In particular, the full decoupling of aid (the single decoupled payment scheme) has put sugar beet in line with alternative crops, mainly cereals**.

6. It should be noted that with the suspension of export refunds since 2008, there are no longer any direct expenses related to the management of the EU sugar market. **The sugar CMO is budget neutral**. Furthermore, the European sugar sector contributes to the EU General Budget and its own resources with the payment of the sugar production charge which is unique in the agricultural sector and not paid by competitors from third countries. It is therefore considered by CIBE to be an unjustified tax.

7. In addition, the fact **that the sugar CMO honours the EU enlargement process, the "Everything But Arms" arrangement with LDCs (Least Developed Countries), the Economic Partnership Agreements with the ACPs (African Caribbean and Pacific countries) as well as WTO commitments, should be highlighted**. The EU sugar market is open to imports; the EU currently produces 85% and imports 15% of its sugar consumption mainly from developing countries, which benefit from free access to the EU sugar market (75% of EU sugar imports come from ACPs and LDCs). **In 2007 the EU became one of the world's largest net sugar importers**.
   See Annex 1 and 2

8. The **extreme instability of the world sugar market** is not only accentuated by external factors which are also increasingly volatile but also by very specific factors. In particular **the dependence of the world's sugar supply on mainly two countries, Brazil (which accounts for 60% of the sugar traded) and India, enhances the risk in terms of security of supply and consequently of volatility**. Moreover, because of the seasonality of raw cane sugar production and the time lag between sugar cane crops in cane-producing countries, Brazil is in a monopolistic supply situation during our summer period. In the summer of 2010, Brazil accounted for 90% of raw sugar supply. Consequently any supply shock from Brazil due to weather issues or logistical constraints, today has a tremendous impact on the world sugar market.

   Between January 2009 and January 2010 the world market price for white sugar increased by 120%. Then in the four months from February 2010 to May 2010 it fell by 50% and jumped again by 60% between May 2010 and October 2010!
   See Annex 2

9. In the EU however, sugar production is not subject to significant annual variation in production because of the temperate climate, good agricultural practices and market management instruments. **Therefore EU production plays a part in stabilising world production and the market.**

10. **Sugar and isoglucose national quotas, whose global levels are now lower than EU sugar consumption, have so far proven to be efficient tools for ensuring security of supply and for providing a bulwark against volatility of supply and the extreme volatility of world sugar market prices**. CIBE wishes to stress that the stability of the EU market must remain a key priority in the future, to prevent harmful, unnecessary and costly crises which could jeopardise EU sugar production capacity.

11. As stated by the EU Commission in September 2010 [4] "The reform's objective of stabilizing the market and sugar prices has been met". "**The 2006 reform of the EU sugar market has successfully managed the restructuring of the sector, providing it with a long-term policy framework and considerably improving its competitiveness. The reform should ensure continuing production in the EU**".

12. Current EU trade policies which consist of using agricultural market access for concessions in other non-agricultural areas, with major negative impacts for EU agriculture, remain a big challenge for the EU sugar beet sector, which faces globalisation and integration into world markets. CIBE, in line with the European Parliament[5], wishes to point out that it is the responsibility of the EU Commission to be consistent in the short and long term about its objectives for the CAP, and the EU sugar beet sector in particular, and the bilateral and multilateral trade policies which it negotiates and implements. **CIBE considers that no less than 85% of EU consumption should be supplied by domestic production, the balance being supplied by ACPs, LDCs and other suppliers.**

13. **CIBE acknowledges that the 2006 reform has proved that the opening up of the EU sugar market to ACP and LDC suppliers is compatible with EU sugar and isoglucose quotas**. This will continue to be the case, as long as EU sugar production capacity is not threatened with downward adjustment. A further opening up of the market, consecutive to a possible future WTO agreement, could put this compatibility at risk.

14. The possibility to export whilst respecting WTO commitments gives growers and processors the conditions under which they can react to world market drivers. **This export path is essential in order to counterbalance the import flows**. It is essential that in the future some flexibility concerning exports should be maintained.

15. WTO commitments limit EU out-of-quota exports to 1.374 million tonnes. In January 2010, the European Commission took an important decision in terms of EU sugar exports: in consideration of the high world market prices, the European Commission stated that additional 500 000 t. out-of-quota exports were not to be considered as cross-subsidised and therefore were not regarded as an infringement of WTO commitments (Commission Regulation EC n°94/2010).

16. The further EU/WTO commitment to abolish all export subsidies by 2013 would add an additional constraint as EU out-of-quota sugar exports would no longer be possible, unless there were exceptional high world sugar prices. This further commitment should be implemented by the EU only in the event of a WTO deal! **It is therefore of great importance that the EU Commission does not anticipate a WTO deal!**

➔ **CIBE's main objective is to stabilise the EU domestic sugar market. Taking account of the specificities of world sugar markets this could be achieved through stabilised EU production supplying at least 85% of the domestic market and a consistent trade policy.**

➔ **The stabilisation of EU production is efficiently reached via supply control with national sugar quotas. A consistent trade policy consists of giving privileged access to developing countries to supply the EU sugar market (and therefore the maintenance of trade preferences with these countries) and of sufficient border protection vis-à-vis other third countries.**

[4] Reply of the Commission to the Special Report "Has the reform of the Sugar market achieved its main objective?", Brussels, 7.9.2010, SEC(2010) 1016 final

[5] European Parliament, Draft Report on EU agriculture and international Trade, rapporteur G. Papastamkos, October 2010

PART I CIBE CONTRIBUTION TO THE CONSULTATION FOR IMPACT ASSESSMENT

B. A competitive EU sugar beet sector and the enhanced value of sugar beet growers in the supply chain

17. The restructuring of sugar beet production in Europe between 2006 and 2009 led to a cut in sugar production of more than 5 million tonnes, the closure of 83 factories out of a total of 189 in the EU-27, the loss of over 16 500 direct jobs in rural areas, and the end of sugar beet cultivation for around 140 000 farmers.
See Annex 1

    The new sugar CMO implemented in 2006 brought the sugar market price closer to world and other domestic market prices within 4 years (***See Annex 2***). At the same time the production costs of third competitors (mainly Brazil) increased significantly, thereby greatly reducing the difference in terms of competitiveness with the EU. Nevertheless the structure and the sugar production standards in Europe cannot be compared with those prevailing in sugar cane producing countries like those in Latin America or in Asia which have an impressive expansion strategy. **CIBE analysis shows that today, when the price of EU sugar exports is near to the Brazilian cost of production, which is the world sugar market benchmark, exports are neither remunerative nor sustainable for average EU growers or for other growers in the world,** in particular, not for those from ACP or LDC countries. Continuous improvement in EU competitiveness in a stable context up to the implementation of the Doha Round is therefore needed.
    Moreover, because of the sugar-ethanol production model in Brazil, EU sugar exports would have to compete indirectly with Brazilian ethanol which is largely supported by Brazilian policies. In such a context **CIBE considers that the priority for the EU sugar beet sector should be to supply the EU sugar and EU ethanol markets**.

18. CIBE notes that **sugar remains a highly "political" commodity and most big producers implement sugar policies using varied and diversified instruments adapted to their specific context: domestic market controls, imports controls, various export supports, direct financial aid, indirect long-term supports, etc.**
See Annex 3

19. **CIBE considers that the objective to become more competitive with the most competitive sugar producing countries must remain. EU beet growers must continue to strive to be more competitive in view of a possible WTO deal. However, the current EU standards of production, the specificity of the sugar industry and the volatility of world sugar markets necessitate and justify the maintenance of sufficient border protection and efficient market management tools**.

20. **Sugar and isoglucose quotas are flexible tools and are not a limit to economies of scale or to improving competitiveness**. Indeed the possibility to export (without refund), to produce out-of-quota sugar, the equivalence between quota and out-of-quota, the SWAP mechanism within a European sugar company, present in several Member States, the processing under contracts, the industrial sugar outlets, all these specific tools of the sugar CMO give room for manoeuvre vis-à-vis the market, as reflected in the recent significant developments and consolidation within the EU sugar sector.

21. **The temporary allowance to sell out-of-quota sugar on the domestic food market** will be another necessary tool to manage the specific market situation of sugar quota undersupply[6]. It is important to include this tool in the new sugar CMO in order to respond to the Commission's objective to enhance food supply security in a market dependant on imports and to introduce more flexibility.

[6] Reply of the Commission to the Special Report n°6/2010 of the European Court of Auditors "Has the reform of the Sugar market achieved its main objective?", Brussels, 7.9.2010, SEC(2010) 1016 final

22. As stated by the EU Commission in September 2010[7] "**The gains in competitiveness for the EU sugar industry after the reform are incontestable, since operating companies now have to maintain profitability in a scenario of substantially lower institutional prices**."

23. To achieve a balanced sugar market and sustainable revenue for growers, sugar and isoglucose quotas are indispensable instruments. The abolition of the quotas would lead in the short and medium terms to an increasing volatility and imbalance in the EU sugar market. This will consequently lead to further beet price and income decreases and further factory closures. Sugar beet growers will be the most affected by such an evolution. This would jeopardize the sustainability of the EU sugar beet sector. **On the other hand, the quota system provides the necessary market and income stability in the short and medium terms to ensure improvement in competitiveness and sustainability.**

24. The use of sugar derivatives markets is mainly dedicated to financial operators and to those who wish to operate on world markets. **World sugar derivatives markets are not accessible to growers. There are obstacles which make such an access impossible**. Only other operators such as cooperatives, private sugar manufacturers and traders, are in a position to use world sugar derivatives markets. **In addition, derivatives markets may under certain conditions have the tendency to increase volatility, which the consumers ultimately face and which would be more costly from the macro-economic point of view than the current regime which enables visibility and stability on a medium-term basis**.

25. Only 30% of the world's sugar production is traded. The sugar derivatives markets are extremely volatile. During the last few years, the increased availability of money on commodity markets, resulting from rising capital flows from speculative investors, has increased the volatility of prices, disrupting the traditional function of agricultural commodity futures markets to hedge prices for later deliveries. As stated by the European Parliament, this instability on agricultural markets remains a crucial issue which needs to be tackled[8].

➔ **CIBE considers that it is far more efficient to prevent a market crisis than to correct it through costly risk management toolkits or the use of commodity derivatives markets. These tools would cause additional costs for growers and would only correct the negative impact of price risk and volatility without effectively preventing it or preventing market crises. CIBE considers that it would not be consistent with the objective of a stabilised sugar market to replace the market measures contained in the sugar CMO by less efficient and more expensive risk management toolkits and/or the use of commodity derivatives markets.**

➔ **Furthermore, EU growers are not traders and derivatives markets are not accessible to them.**

➔ **The sugar CMO can be further improved by introducing the "conversion" tool.**

➔ **CIBE considers that the EU beet sector must continue to improve its competitiveness and that the quota system provides the medium-term stability to do this.**

[7] Reply of the Commission to the Special Report n°6/2010 of the European Court of Auditors "Has the reform of the Sugar market achieved its main objective?", Brussels, 7.9.2010, SEC(2010) 1016 final

[8] European Parliament, Report on recognition of agriculture as a strategic sector in the context of food security (2010/2112(INI)), rapporteur D. O. Sârbu, January 2010

26. **A properly functioning supply chain is crucial for CIBE: to that end, the contract model in the beet sector is crucial**. The fragmentation of sugar beet growers on the one hand, and high industrial concentration on the other, are now of particular importance. This imbalance underlines the necessity for a strong contractual framework between growers and processors.

27. Because sugar beet is perishable and bulky, there is no sugar beet market; beet must be bought and processed within a limited period of time in sugar factories located near the fields (harvested beet cannot be stored without sugar content losses). In addition, growers have only one choice of factory where they can deliver their beet. On average, there are 1 600 growers per factory in the EU-27 and currently 168 000 growers in the EU-27 who are faced with only 7 European sugar manufacturers representing 80% of sugar production.

28. Firstly, the setting of a minimum beet price as a floor price corrects the asymmetry and fragmentation in beet supply. Secondly, compulsory interprofessional agreements, negotiated on a regular basis between growers and processors, redress the balance of power in negotiations to enable an efficient functioning of the beet and sugar supply chain.

29. **CIBE would like to point out that the current contractual framework of the sugar CMO, with a minimum beet price and interprofessional agreements, tackles the specificities of beet supply and imbalance between "fragmented" EU growers and highly concentrated manufacturers**. It gives EU growers a safety net and a framework within which they can get fair remuneration, exercise their countervailing power, deal with the sharing of the added value and react to market developments whilst avoiding extreme fluctuations.

30. This strong contractual framework accommodates the different production structures in Europe: it allows for strong producer organisations as well as cooperative structures. This is also an important point which needs to be mentioned: there are big differences between the EU Member States and it is important to maintain a common regulation which does not weaken anyone. The current contractual framework of the sugar CMO fulfils this objective.

31. Furthermore, CIBE notes that the strong decrease in the EU sugar price which followed the reform and the opening up of the European market has not been sufficiently transferred to the final consumer, as seen by the recent evolution in consumer prices in the EU and, contrary to what was forecast by the European Commission, has mainly benefited the food and drinks industry and the retail sector. **The sharing of added value along the food chain remains therefore of particular relevance in the sugar sector**.

32. Finally, the **stable and highly organised sugar beet sector gives sound perspectives to other operators, for example seed companies, breeders, engine constructors, etc. It therefore supports economic growth in rural areas and provides a favourable context for research, development and innovation**. As beet has a relatively small market share in comparison with other arable crops, a disorganised sector would make it less attractive and would endanger its dynamism.

33. It should be noted that **the issue of a balanced sharing of the added value is a constant one in all third countries where independent growers exist**. It appears that in most sugar-producing countries, growers have succeeded in organizing themselves collectively using appropriate regulatory frameworks, in order to achieve a balanced countervailing power in negotiations, a balanced sharing of the price risk and to receive a fair revenue.
See Annex 3

34. There are big differences between the other agricultural markets and the sugar beet sector (absence of a beet market, the seasonality of production, the size of production, the significant differences in the EU sugar costs of production compared to most world competitors, the high volatility of world sugar markets) which legitimate the different policies, management tools, and terms of contracts between farmers and processors.

➔ **CIBE considers that the current sugar contractual framework model with a minimum beet price and interprofessional agreements is an advanced and sophisticated model for ensuring a good functioning of the sugar supply chain and for creating innovation and new developments. This sugar contractual framework model does not need to be reformed and should not be allowed to become less effective but should be reinforced.**

➔ **CIBE considers that the minimum beet price and interprofessional agreements, combined with the proper management of supply, are the basic tools for a good functioning of the sugar supply chain.**

C. Balanced and dynamic territorial development of sugar beet growing respecting the environment

35. EU sugar beet is now grown in 18 EU countries. With the constant improvement in agricultural practices, soil conservation techniques and input management, **sugar beet growing is a model in terms of environmental sustainability**, as illustrated in the recent CIBE-CEFS environmental sustainability brochure (***Learn more about the ENVIRONMENTAL SUSTAINABILITY of the EU Beet and Sugar Sector!***). It should be noted that while lessening input use and environmental impacts, average yields constantly increase in the biggest European producing countries and tend to come close to around 11t sugar/ha. In some places, yields are reaching world records in terms of sugar produced per hectare.

36. In all European regions, **the agronomic value of sugar beet remains an irreplaceable strength and a necessity in diversified arable crop rotation**. Sugar beet is a highly valuable key rotational crop in most European countries with respect to environmental sustainability. Sugar beet provides many valuable co-products, such as beet pulp, which in particular release land from the production of specific feed crops.

37. The average beet area is around 10 ha per grower in the 18 European sugar-producing countries and around 12 ha per grower in the most competitive countries. This “middle-size” model of structure of production shows clearly how sugar beet growing is integrated into an arable diversified farming system while contributing to the vitality of rural areas.

38. When considering agricultural and industrial competitiveness all aspects must be taken into account. In particular, sugar transport costs from the factory to the consumer must not be overlooked, as these are an important factor when analysing the profitability, the economic performance and the sustainability of sugar production in different EU regions.

39. **This constant improvement in sugar beet efficiency over the past ten years (yield increase combined with input decrease) as well as the improvement in industrial productivity have ensured the regular supply of a high quality and sustainable product to European users and consumers at a reasonable price, as well as an increased supply of co-products and bioenergy products like bioethanol and biogas**.

40. Most future benefits of decarbonising the economy cannot be achieved without the agriculture, forestry and land use sectors. The sustainable development of bioethanol, biogas and materials such as surfactants and polymers from sugar beet, contributes to the replacement of more polluting and energy intensive products and plays a large role in the EU commitments to reduce GHG emissions. In particular, **EU bioethanol from sugar beet not only complies with strict sustainability criteria, as set by the EU Renewable Energy and Fuel Quality Directives, but is one of the most sustainable available sources of energy, both in terms of GHG savings and land use efficiency** (highest energy yield per hectare).

41. The increased use of sugar beet as a raw material plays an important part in **the developing European Bio-Economy which further plays an important role in delivering the objectives of the Europe 2020 strategy** designed to turn Europe into a smart, sustainable and socially inclusive market economy. The Bio-Economy presents new opportunities for social innovation and for improving the lives of everyone, for example, by offering rural communities the possibility to diversify their activities. It offers bioenergy and products - such as bioplastics or household cleaning bioproducts - which are biodegradable and compostable and which make our lives healthier, safer and easier.

➔ **Beet is a key rotational crop with respect to environmental sustainability and one of the most sustainable sources of energy and bioproducts.**

➔ Conclusion: the EU sugar beet sector towards 2020 – Policy options and impacts

42. The contribution of sugar beet growing to global long-term challenges (food security, environmental and climate change challenge, and territorial balance) requires particular cautiousness when addressing market instruments of this sector, which has already gone through a drastic reform.

43. The new sugar CMO implemented in 2006 has proved its ability to adapt to changing conditions and to fulfil the objectives of sustainable sugar beet growing and security of sugar supply in the EU countries. **The market management tools of the sugar CMO, such as national sugar quotas and the current contractual framework along with minimum sufficient protection from high sugar price volatility on world markets and consistent and responsible trade policies, are key elements to ensure the sustainability of sugar production in the EU and for traditional partners.**

Policy options and impacts

44. Therefore, CIBE considers that Option 3 presented by the Commission which consists of abolishing market and income measures, is not consistent with the objectives of the reformed CAP; this option would be detrimental to EU production capacity as well as to balanced and dynamic territorial development. As suggested in the other options of the Commission, **existing market instruments where appropriate could be kept where they have proven their usefulness and efficiency.**

45. Option 2, which aims to anticipate the challenges that agriculture will have to face, appears very risky as far as agricultural commodities are concerned. Indeed, to restrict the market measures to safety nets and the improvement of the farmers' position in the food chain does not take into account the issue of price volatility. **The world agricultural commodity markets, and in particular the world sugar markets, are highly volatile and it would be very risky to restrict the market measures to safety nets or to a limited improvement in the position of farmers in the supply chain**. The brief of the Commission on "the Future of CAP market measures"[9] accurately noted that despite positive price perspectives on world agricultural commodity markets and productivity increase, **farmers' income margins are being squeezed and excessive price volatility is expected to be more significant in the future**. This point was also outlined in the Commission consultation document for impact assessment[10]. **The price level is one thing, but in the end volatility and net income are the crucial issues for farmers, who need market stability and a fair income. The EU Commission should learn from the previous 2003 CAP reform, which had anticipated a WTO deal. So far, the EU has not received anything in return as this deal remains unconcluded! It would be risky to anticipate again and eliminate market tools, which have proven to be efficient and budget neutral, and replace them with less efficient and costly tools for the farmers.**

46. CIBE welcomed the focus put on the whole food chain, through the strengthening of the position of farmers. Appropriate tools already exist in the sugar CMO: **the current contractual framework, with a minimum beet price, interprofessional agreements and a proper management of supply, tackle the crucial issue of the good functioning of the sugar supply chain.**

[9] The Future of CAP market measures, Agricultural Policy Perspectives Briefs, Brief n°3, January 2011, http://ec.europa.eu/agriculture/publi/app-briefs/03_en.pdf

[10] The reform of the CAP towards 2020, Consultation document for impact assessment, page 10, http://ec.europa.eu/agriculture/cap-post-2013/consultation/consultation-document_en.pdf

47. **As far as sugar is concerned, the maintenance of the market tools of the sugar CMO appears to be the most consistent with the objectives of the envisaged reform. CIBE considers that a stable and predictable sugar CMO, managed with national quotas, is needed to fulfil the objectives of the reformed CAP, and in particular to further improve the competitiveness and the consolidation of the sector and to help it prepare for future new developments at international level.**

WTO and trade concerns

48. **European beet growers wish to contribute to the fulfilment of the EU Commission's objectives for European agriculture as well as to contribute to addressing the new global challenges.** Long-term crucial issues such as food security, climate change, renewable energy, preservation of biodiversity, excessive prices fluctuations of agricultural commodities, are new challenges which need to be addressed at international level and at the WTO. They can no longer be ignored and need appropriate and concrete answers.

49. Trade policies inject an element of uncertainty which could significantly impact the envisaged scenarios. That is why **trade policy must be handled carefully now**. WTO commitments were strong drivers of the 2003 CAP reform, of the 2006 sugar reform and of the single CMO reform. They have already had a strong impact on trade, mainly on sugar. Now is the time for the EU to refrain from making further concessions and to stop anticipating a WTO deal which remains very unlikely at this stage. It is crucial now for the EU to be extremely firm in defending EU interests so that it is able to correct previous WTO rulings that are no longer relevant since the EU reforms. The EU should request a peace clause as well as the necessary legal arrangements so that the EU is not constantly put in the position of the "Accused" (see WTO sugar panel). The EU has already applied major reforms to the CAP and has implemented disciplines during the Doha Round. The EU must now ensure that its policies are no longer open to legal challenges in the future.

50. **Furthermore, bilateral negotiations undermine the multilateral rounds. It is also crucial that bilateral negotiations take account of the WTO Doha Round. In order to avoid paying twice, first at bilateral level and then at multilateral level, the concept of a "single pocket agreement" must be supported**. In this respect, the recent bilateral agreements and current bilateral negotiations are very worrying because they call this "single pocket agreement" into question.

51. A consistent trade policy is the condition under which the EU can regain control of its domestic agricultural policy and in particular of its domestic sugar policy.

ANNEX 1

THE EU SUGAR BEET SECTOR

The Common Market Organisation in the sugar sector or CMO Sugar has stabilised beet and sugar production in the EU since the late 1960s. Within this stable context, the sector has made considerable progress. As a result of increasing yields (by about 33% since 1990), the area devoted to beet growing in the EU-15 had steadily diminished - at an annual rate of about 1.7% - (slightly more than 25%) over the 15 years preceding the reform (1990/91-2004/05). Industrial restructuring had also been ongoing: the number of sugar factories in the EU decreased from 194 in 1990 to 117 in 2004.

In 2006, the CMO was thoroughly reformed.

Before the reform, over 300 000 farmers in 21 EU Member States (out of the then 25) grew beet with an average beet area per farm of about 7 hectares. Today, around 170 000 farmers in 18 EU Member States (out of 27) grow sugar beet, with an average beet area per farm of about 10 hectares.

Virtually every country and region of the EU has been affected: in 5 countries (Bulgaria, Ireland, Latvia, Portugal and Slovenia), beet sugar production has ceased with bitter consequences for growers affected. Today, sugar production is distributed among 18 EU countries out of 27 (as opposed to 23 before the restructuring) with 70% of the production concentrated in 7 countries.

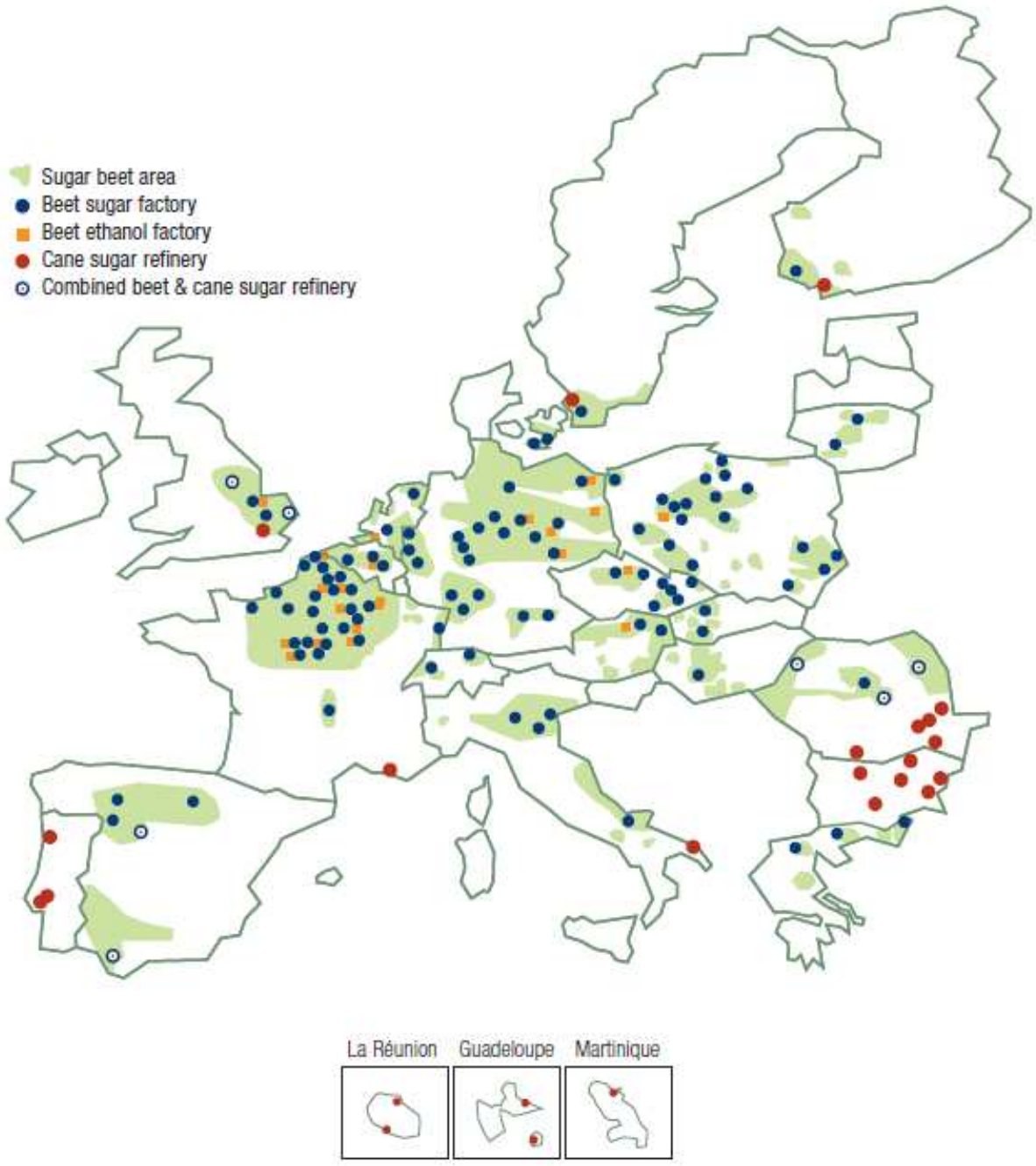
The area devoted to beet cultivation in the EU-27 decreased from over 2 million hectares before the reform to the present level of about 1.5 million hectares.

The restructuring of the EU sugar industry has been going on for years now, well before the 2006 reform of the CMO sugar. In the period 2000-2005, 68 factories (i.e. 11 per year) were closed in the EU-25. **The CMO reform has however accelerated the pace of factory closures: 83 factories were closed between 2006 and 2008** (i.e. almost 28 per year!) Overall, the **number of beet sugar factories** has been reduced by 44% since the CMO Reform was adopted in 2006 (from 189 in 2005/06 (EU-27) to 106 factories in 2009/10 (EU-27).

EU countries	Number of beet sugar factories in 2009-10	Sugar production quota in 2009-10 (in tonnes)
Austria	2	351 027.4
Belgium	3	676 235.0
Czech Republic	7	372 459.3
Denmark	2	372 383.0
Finland	1	80 999.0
France (excl. DOM)	25	2 956 786.7
Germany	20	2 898 255.7
Greece	3	158 702.0
Hungary	1	105 420.0
Italy	4	508 379.0
Lithuania	2	90 252.0
Netherlands	2	804 888.0
Poland	18	1 405 608.1
Romania	4	104 688.8
Slovakia	2	112 319.5
Spain	5	498 480.2
Sweden	1	293 186.0
United Kingdom	4	1 056 474.0
Total (Excl. Azores)	**106**	**12 846 543.7**

Source: CIBE, CEFS and European Commission

At the same time, the **average size of sugar beet factories** has continued to increase in parallel, in particular in Western European Countries (EU-15) where the bulk of EU beet sugar production (85% of the production in 2009) is concentrated.

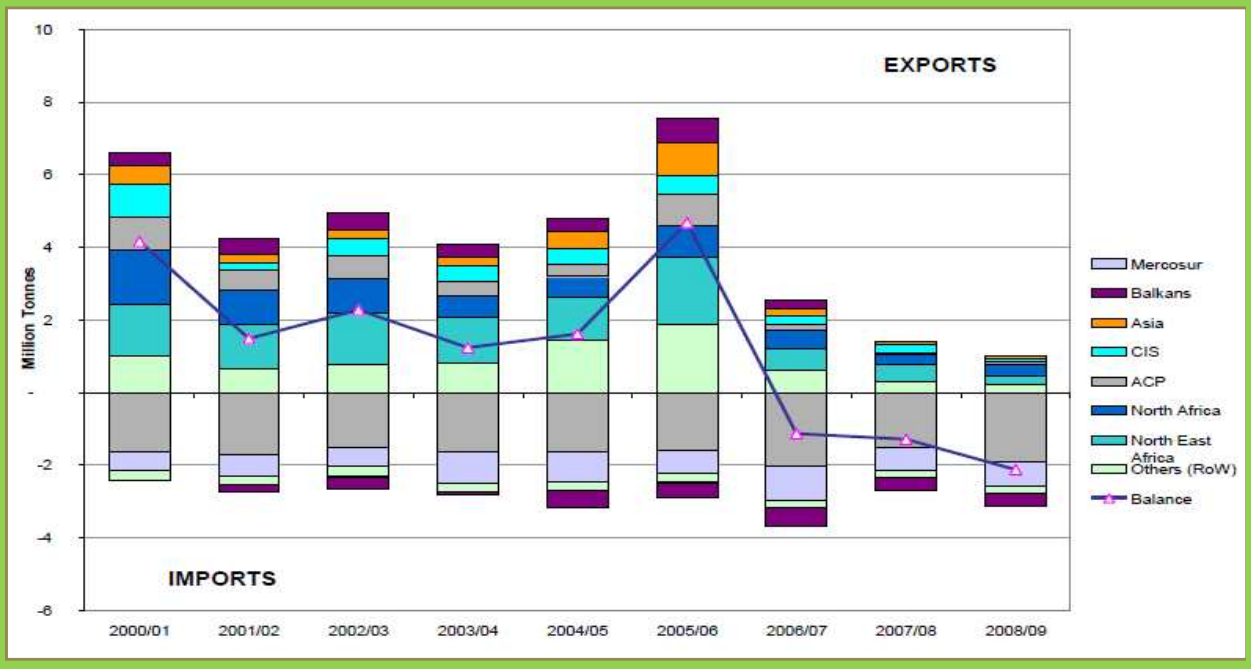


Source: CIBE-CEFS

Since 2007, the EU has been a net sugar importer and one of the largest world sugar importers:

The Economic Partnership Agreement (EPA) regulation as well as the Everything But Arms (EBA) initiative included in the GSP (Generalised System of Preference) regulation provide the framework and the arrangements for developing countries (namely ACPs and LDCs), to gain access to the European sugar market.
The African, Caribbean and Pacific group of countries (ACPs) and Least Developed Countries (LDCs) benefit from preferential access to the EU sugar market. It should be noted that **since 1st October 2009, the EU Sugar market has been totally open to sugar exports (duty-free and quota free) from LDC and ACP countries** (within global thresholds for ACPs). **This free access for developing countries is unique in the world!**

EU sugar trade balance



Source: EU Commission

PART II ANNEXES

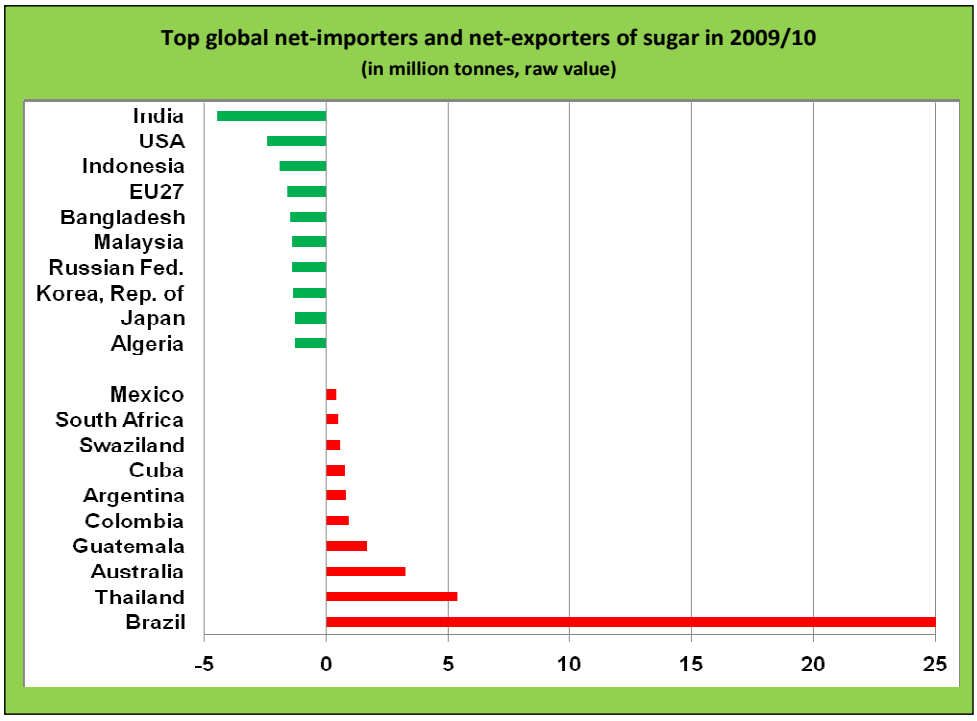
ANNEX 2

WORLD SUGAR MARKETS

World market outlook

	World Sugar production in million tonnes raw value	World Sugar consumption in million tonnes raw value	Free market net Exports	Free market net Imports	Consumption per capita Kg/year
2005	140.681	148.179	38.857	38.822	23.3
2006	152.347	154.094	39.480	39.522	23.6
2007	165.659	157.678	37.399	37.506	24.0
2008	161.571	162.671	38.070	38.150	24.5
2009	149.822	160.997	40.232	40.222	23.9

Source: Sugar Yearbook 2010, International Sugar Organisation ISO



Source: ISO

After two years of world sugar deficits, the world 2010/11 sugar market was expected to provide a substantial surplus supported by very constructive fundamentals (low world stocks and high world prices) and a substantial production increase in Brazil and India, as well as in China. However, in November 2010, ISO revised downwards its August surplus forecast (+3.2 mtrv) to less than 1.3 mtrv. Further bad weather conditions continue to hit the yields and **another deficit is now expected in 2010/11**.

Looking at the **long-term sugar market perspective**, according to ISO, **global sugar consumption will grow by around 40 mtrv between 2009/10 and 2020/21** (from around 160 to around 200 mtrv). In the medium term, the level of prices should stimulate an increase in supply, but, not many countries are able to boost their supplies sufficiently in the short term. Only Brazil, India and to a lesser extent Thailand, Australia and Russia have that potential. The EU's potential to increase its production in the short term has been reduced by the closure of numerous factories with a majority of factories already running at full capacity. In addition, there are currently obstacles and natural limits to increasing the campaign length. Further new developments and innovation are necessary to remove these obstacles and to go beyond these limits.

8 Largest World Sugar Producers in 2009	In million tonnes raw value
BRAZIL	**33.45**
EU-27	**16.63**
INDIA	**15.65**
CHINA	**13.63**
THAILAND	**7.94**
USA	**6.85**
MEXICO	**5.18**
AUSTRALIA	**4.52**

Source: Sugar Yearbook 2010, ISO

Brazil has clear potential for growth, but has entered a new phase of expansion in which the costs of expanding are higher. According to the Brazilian sugar and ethanol industry, the potential increase in Brazil's sugar output by 2020 is 12 mtrv (from 33 to 45 mtrv). However, the forecast for the expansion of Brazil's sugar output is strongly dependent on the parallel expansion of Brazil's ethanol output, and it could be underestimated by the fact that Brazil's industry at the same time forecasts a much bigger expansion in the production of Brazilian ethanol (from 25.7 to 65.3 billion litres over the same period) than in sugar.

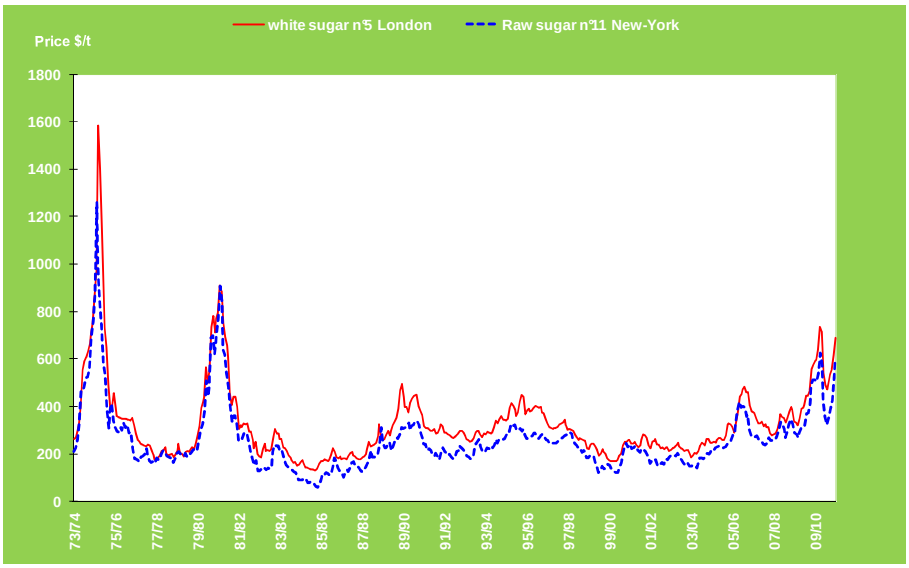
India has shown that it can be a significant exporter, but still has not succeeded in levelling out its production cycles, and a whole raft of factors, climatic, political and economic, will have to be favourable before it can return to a position of surplus and of being a reliable supplier on the world market.

Any increase in production in the African LDC countries remains uncertain in the short term and will probably be subject to major fluctuations in the medium term. Despite the high expansion potential, the level of planned new capacity in Africa (+2.5 mtrv) is not such as to make it a net world exporter in the short term (Africa's sugar deficit is currently at around 5-6 mtrv), and no forecasts are available for the long-term (2020).

Evolution of world sugar markets since 1973/74

The **extreme instability of the world sugar market** is firstly due to the inelasticity of sugar demand. Any slight variation in sugar supply has very serious consequences for sugar market prices. On the other hand, the adjustment of sugar supply to reflect changes in price is limited by the structure of its production and its capital intensive nature. World demand for sugar grows at an annual pace of around 2%, but the world supply fluctuates greatly, generating instability and high volatility on the world sugar markets, as seen by the evolution in world sugar market prices in comparison with other agricultural commodities.

This internal instability is secondly accentuated by external factors such as the weather, political and financial crises, exchange rates, oil prices, speculation (alternating periods of strong and weak activity by investment funds on the sugar commodity markets), returns on capital, freight rates, etc., whose own volatility tends also to increase, but also due to very specific factors[1].



Source: ISO, WABCG

Latest developments on world sugar markets

The highly volatile New York futures market attracted a great deal of interest from investment funds after the 2009/2010 production year. Investment funds were very active during the last quarter of 2009, when the number of open positions[2] increased significantly, but withdrew quickly from the market when the sugar markets began to slip in February 2010, thereby exacerbating already plummeting prices. Following this, the extreme weather events of the summer of 2010 led to the funds repositioning on all the agricultural commodities markets, including sugar.

Although there is no perfect correlation between the curve showing sugar prices and that measuring the number of open positions, it is quite likely that the fund may have increased the effect of the upward and downward trends on the market, playing a role in the extreme price volatility observed in 2009-2010[3].

The very tight and "bullish" world sugar market at the beginning and end of 2010 and at the beginning of 2011 reflected the dangerous supply situation that European sugar users would have to face in the event of the opening up of the EU market and the abolition of EU sugar quotas.

[1] Source: World Association of Beet and Cane Growers WABCG

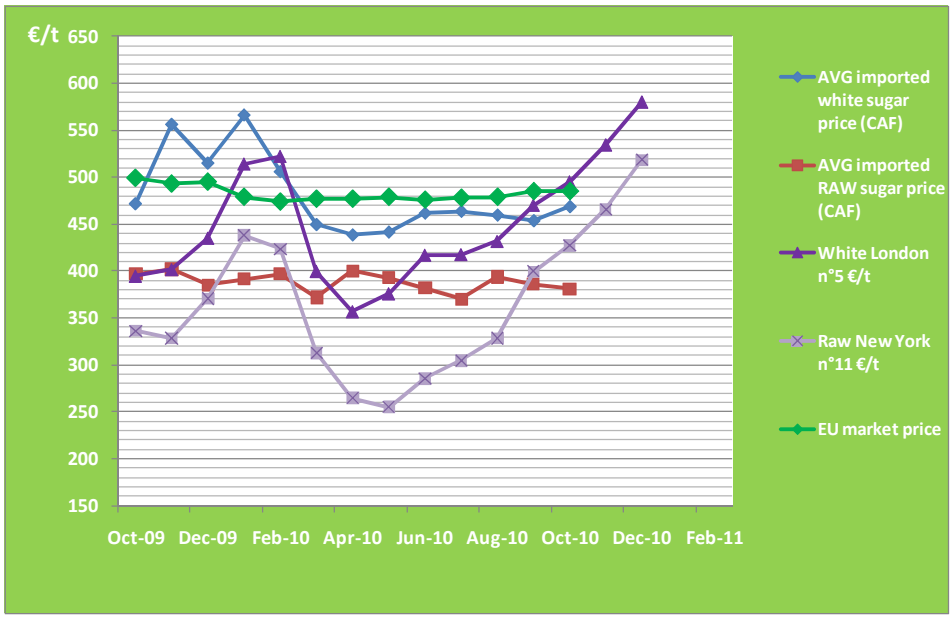
[2] The development in the number of open positions on a futures market makes it possible to measure the level of activity of the operators on this market.

[3] World Association of Beet and Cane Growers, Market Report, December 2010, http://www.wabcg.org/index.php/wabcg

Evolution of world markets since 2006/2007

Source: Sucden, WABCG

Evolution of European and world market prices since 2009



Source: EU Commission, CIBE

PART II ANNEXES

ANNEX 3

SUGAR POLICIES IN THE MAIN SUGAR-PRODUCING COUNTRIES

Sugar remains a "highly political" commodity and most big producers implement sugar policies with varied and diversified instruments adapted to their specific context: domestic market controls, import controls, various export supports, direct financial aid, indirect long-term support, etc.

The question of a balanced sharing of the added value is a constant issue in all countries where independent growers exist. It appears that in most sugar-producing countries, growers have succeeded in organising themselves using appropriate regulatory frameworks, in order to achieve balanced countervailing power in negotiations and to receive a fair revenue.

The following fact sheets summarise the main elements of the sugar policy and the modalities of cane and beet payment to growers in Brazil, India, Thailand, the US and Australia.

FACT SHEET 1: BRAZIL

The huge Brazilian ethanol programme, built on government support, on state control of oil prices and the expansion of Brazilian sugar exports has governed the world sugar market since the 1990s.

Brazil controls on average 60% of the world's sugar trade and 90% at certain times of the year.

Indirect support (preferential loan rates, currency devaluations) have largely helped the expansion of Brazil's cane industry during the past 25 years.

Independent growers negotiate collectively with the industry; a balanced sharing of the added value is becoming a central point of their relationship.

In 1975, **the Brazilian government launched its National Alcohol Program,** known as "Proálcool", which diversified the output of the sugar industry. Significant investments have been made, **with various support mechanisms from the Brazilian government**, to enable the expansion of areas for the cultivation of sugar cane and the introduction of ethanol distilleries.

The increase in the use of anhydrous ethanol mixed with gasoline, thanks to the expansion of Brazil's light flex-fuel vehicle fleet was made possible by the **introduction of a mandatory blend of 25% of ethanol made from sugar cane with gasoline (which could be adapted according to the ethanol output and availability of supply) and by the implementation of a specific tax regime for ethanol**.
At that time, 25 years ago, the large scale use of ethanol was a unprecedented development in the world.

The Brazilian sugar cane industry has benefited from strong national support to develop its business. Today the investment in infrastructure to expand and develop the logistics of sugar and ethanol exports is supported by both private and state support. The BNDES (the state owned Brazilian Development Bank) grants loans for investments to the Brazilian sugar cane industry. The total amount of these loans to the sugar cane industry (at interest rates between 7 and 11%) during the last five years reached a total of $8 billion.

Sugar market in Brazil

Brazil is by far the biggest world sugar producer with 31 million tonnes raw value (mtrv) produced in 2008/2009 and the biggest world sugar exporter.
Brazilian sugar exports in 2008/2009 amounted to 20.8 mtrv, i.e. 60% of the sugar traded in the world.
The expansion of the sugar cane industry over the last decade in Brazil is impressive and huge: from 16.25 mtrv in 2000/01 to 31.05 mtrv in 2008/09.
Brazilian sugar exports have increased by 200% over the last decade!
Moreover, Brazil, as the world pioneer in the production of ethanol, is the second largest producer of ethanol in the world and remains the largest exporter, with 4.7 billion litres exported in 2008/09 [1] to more than 40 countries, although the exports are still concentrated in two markets: the US and the EU.
Source: Brazilian Sugar Cane Industry Association UNICA

The strong increase in mergers and acquisitions in the sugar/ethanol sector with giant oil companies (Petrobras, BP, Shell) investing in the sector and the objective to develop pipelines, cannot only be considered as private support but also as state support as the oil company Petrobras is a state-controlled company. The gasoline price in Brazil is fixed and controlled by the government and Petrobas: this allows the Brazilian government to support the development of ethanol and flex-fuel vehicles.

The **specific programme supported by the government to help ethanol producers stock their production** (PASS programme of the BNDES), in particular to reduce the impact of price volatility, for an amount of around 5 billion litres, is another illustration of public support measures.

The Brazilian Export and Investment Promotion Agency, known as APEX-Brazil, financially supports the Brazilian sugar cane industry association, known as UNICA, to a large extent. Both publicly announced on 25th February 2008 that their strategy was to promote the image of Brazil's sugar-cane ethanol abroad. According to UNICA the project, to be carried out by Apex-Brazil and UNICA, is comprised of sensitisation, to enable the supply of Brazilian ethanol, combined with business intelligence studies, and especially business and image promotion actions. The target markets are countries in North America, Europe and Asia. This state support also targets UNICA's active participation in the formulation of governmental policies for the industry and the discussion of themes such as sugar and ethanol market access, as well as biofuel certification.

Main factors for Brazilian agricultural super power

Brazil has emerged as a key player in global agricultural markets thanks to several factors which have encouraged the large investments in agriculture of which domestic and world food demand, the availability of land, labour costs, the research & development programmes, the government credit programmes and the exchange rate.

Domestic support for Brazilian agriculture is often underestimated or ignored. Indeed, since the 1990s the Brazilian credit system has provided financial resources at subsidised low-interest rates, investment programmes and programmes for financing agri-business at low market rates. Long-term loan programmes have supported agricultural production and farm income, and debt-relief programmes have reduced pressure on producers. The impact of all these programmes varies by crops, regions, and farm sizes.

The impact of currency exchange rates on the Brazilian agricultural and food sector is particularly significant. The devaluations of the national currency, the real (reais), against the dollar reached such peaks in the past decade (217% between 1999 and mid-2002, 82% in 2005) that its positive effect on commodities' exports largely offset the decline in commodities' prices or tariff duties and had a positive impact on returns on investments and arable area expansion. Since the financial crisis of 2007, the appreciation of the real against the US dollar has made Brazilian agricultural and food products more costly to produce, more expensive for importers and finally has slowed down the expansion of cultivated areas.

These kinds of financial support made the opening of the industry's (UNICA) first representation office in Washington, DC (United States) possible, which is considered a strategic location for working with the US government and opinion leaders. The second one is located in Brussels, Belgium. And the third office will be situated in an East Asian country.

These provide **substantial support for the advertisement of ethanol production from sugar cane and for networking opportunities in order to expand the association's interaction with policymakers and international market representatives. Their aim is to influence the image of Brazilian ethanol among the world's major opinion leaders —governments and the media, as well as trading companies, potential investors and importers, NGOs and consumers**.

According to UNICA "not only will the project directly benefit the more than 100 UNICA member companies and other sugar and ethanol industries throughout the country, it will also favour the sugar cane ethanol supply chain, which includes research into biotechnology for new sugar-cane varieties, input and equipment suppliers, sugar-cane growers, trading companies, industrial businesses, logistics and a variety of service providers".

Sharing of added value and cane payment:

Brazilian sugar cane area increased from 7.4 million ha in 2009/10 to **8 million ha** in 2010/11, of which 86% in the Centre-South region and 66% in the Nord-East region[4].

Orplana is the main **independent cane growers' association of Brazil's Centre-South and represents around 20% of the cane supply** in this region [5] which is the biggest and most dynamic one in terms of sugar and ethanol production. Independent growers who harvest a sugar cane area higher than 400 ha deliver more than 50% of the cane production. **The industry is supplying around 80% of the cane: around 10% of the cane from its own land and 90% of the cane from leased land**. The largest private landowner in Brazil is the sugar producer COSAN with 250 000 acres (101 170 ha)[6].

In 1997 Orplana and UNICA (the Centre-South sugar and ethanol industry association) started discussions to develop a new system of relationships between growers and industry, aiming to agree on a cane payment system. As for beet there is no market for sugar cane. These associations have founded an **interprofessional organisation together, called the Council of Sugar Cane, Ethanol and Sugar Producers (CONSECANA) with the mission to ensure, coordinate and discipline the relationship between the sugar cane growers and the industry and to split the price risk through a specific sugar cane payment system (CSPS)**.

The sugar cane price is determined by means of a formula using sugar and ethanol reference prices in domestic and international markets. During the harvest most growers receive 80% of the estimated basic price, the adjustment being made at the end of the season. The sharing of revenue has slightly evolved since 1998 to reach an average of 60.8% for growers in 2010. This payment scheme has been adopted in other growing regions (Minas Gerais, Goias, Mato Grosso and Mato Grosso del Sul)[7].

However, despite collective bargaining and price formulas the remuneration of growers has followed the remuneration of mills and has been extremely volatile over the last 10 years, from around $12/t in 2001/02 to $27/t in 2009/10[8] and sometimes this remuneration did not cover their costs according to growers.

An additional challenge today for independent Brazilian sugar cane growers is the sharing of the added value of the "bagasse" (cane fibre residue) which is increasingly valorised through the cogeneration process to generate energy (electricity). The issue for these growers is to tackle the monopsony power of millers who have no incentive to pay for the additional value of fibre. **According to sugar analysts, as growers will have very few chances, if any, to progress on this issue, the only option for them would be through government intervention**[9].

[4] Companhia Nacional de Abastecimento – CONAB, January 2011
[5] M.C. Pacheco, "Brazilian sugarcane payment system", Orplana, Organização de Plantadores de Cana da Região Centro-Sul do Brasil, WABCG Congress 2010
[6] M. Marinho Lutz, COSAN, ISO Conference 2010
[7] Orplana, 2010
[8] P. Nastari, "Consequence of the crisis on the organisation of the sugar and ethanol industry in Brazil", Datagro, Ethanol and Sugar Consultancy, Brazil, WABCG-ISO Seminar 2009
[9] M. Todd, "Use of bagasse overview and prospects", LMC International, WABCG-ISO Seminar 2009

FACT SHEET 2: INDIA

The sugar cane sector is highly regulated by the Indian government with the objective of protecting both sugar cane growers and consumers.

A fixed price (of which a minimum sugar cane price), control of domestic supplies, import tariffs, transport subsidies for export are among the tools used to monitor the market.

Sugar is the only agricultural product in India whose distribution is still controlled by the government. Regulations cover the entire chain from sugar cane production, to cane pricing and sugar retailing, including import and export.

Supply is regulated through the Monthly Release Mechanism, a system through which the Central Government decides, per month[10]:

- the volume of sugar that every sugar factory has to make available for subsidised sales through the Levy Sugar System, a public welfare programme under which sugar factories are obliged to deliver a certain quantity of sugar (currently 10% of their production) as "levy sugar" to the Public Distribution System (PDS), a policy in operation since 1967/68
- the volume of sugar that every sugar factory is allowed to sell on the domestic market under the so-called **Free Sale Quota** (FSQ).

In addition, the Central Government decides **a minimum sugar cane price** every year, the so-called Fair and Remunerative Price (FRP) for the payment of sugar cane by the sugar industry to the growers. In addition each state can fix a higher sugar cane price. For the crop season 2010/11, this minimum price is fixed at 1 391.2 INR (1 $ = 45.543 INR) per tonne of cane. In the case of scarcity of supply, the actual cane price paid by the industry can be much higher than the minimum price (e.g. in 2009/10 the industry paid a price double the FRP minimum level).

Sugar market in India

India has the highest consumption in the world (in 2009/10, 24.13 million tonnes in raw value - mtrv).
India is also one of the main world sugar producers from sugar cane, but its sugar output is subject to a cyclical trend of around 5 years (2-3 years of high production followed by 2-3 years of low production), caused mainly by the structure of production (**millions of Indian sugar cane growers grow around 0.5 ha of cane**), the changes in weather patterns, investments, and the diversion of cane from sugar to *jaggery* production (traditional unrefined sugar).
In fact, Indian sugar production went from 29.09 mtrv in 2007/08 (2nd world producer) to 15.65 mtrv in 2009/10 (3rd world producer), and is now back to its cyclical upward trend with an expected output of around 23 mtrv in 2010/11.
The same trend therefore affects the Indian net sugar trade: + 4.23 mtrv in 2008/09 (3rd world net-exporter), - 4.47 in 2009/10 (1st world net- importer).

[10] N. Sanyal, "India's Sugar Economy 2010-11", India Ministry of Consumer Affairs, Food & Public Distribution, ISO Conference 2009 and "Dump Market Players - Foreign Sugar Subsidy Handbook", American Sugar Alliance, February 2006

The Indian sugar sector recently proposed the removal of the Monthly Release Mechanism and for the price of sugar cane to be fixed on the basis of returns from sales of sugar and co-products (molasses, bagasse, press mud, etc.), with 62% of the total going to sugar cane growers and the remainder to cane sugar factories.

Sugar imports are subject to the payment of a duty of 100% ad valorem, with an applied rate of 60%, which is however reduced in periods of sugar shortages (e.g. during the 2009/10 crop season). Sugar exports are free upon a release approval from the Ministry of Food.

Molasses from sugar cane production are used in India for the production of ethanol for the fuel, potable alcohol and chemical industries, with a current production capacity of around 3 billion litres. In 2010/11 the sugar cane industry is expected to produce 1.05 billion litres of fuel ethanol. For the first year sugar juice will also probably be used, in addition to molasses, to meet the growing fuel ethanol demand. The Indian Central Government fixes the fuel ethanol procurement price (e.g. at 27 INR per litre for 2010/11, up from 21.5 INR in 2009/10) to support the **mandatory ethanol blending programme**[11].

[11] V. Saraogi, "India – what next?", President, Indian Sugar Mills Association, India, ISO Conference 2010

FACT SHEET 3: THAILAND

The Thai sugar cane sector is highly regulated by a government-controlled Cane and Sugar Board.

The Thai sugar policy regulates cane payment, domestic sales at a fixed price and exports (but without any limit fixed at WTO).

The regulatory framework as contained in the Cane Sugar Act of 1984 is geared for exports and only allows exports of an annual surplus of production over domestic requirement. Hence, the export availability depends on how fast and by how much output exceeds consumption.

Sugar market in Thailand

Thai sugar production has been recovering steadily; after production dropped to below 5 million tonnes raw value (mtrv) in 2005 (for the first time since 1998), annual sugar production exceeded 7 mtrv in the crop years 2007 to 2009.
Domestic consumption has been just below the threshold of 2.5 mtrv for the past 6 years, while net sugar trade is more or less well established around the 5 mtrv mark.

The three main features of the Cane Sugar Act (1984) include:

1. The **determination of the annual export quota by the Cane and Sugar Board**[12], by deducting annual consumption from total production. However, as exports are measured in calendar years (January-December) while production is by crop year (October - September) there is usually a difference between the export quota and actual shipment volumes.

2. The **revenue sharing system** (70% growers /30% industry).

3. The Cane and Sugar Board divides annual sugar output into 3 quotas namely quota A for domestic sales, quota B for exports under industry's long term contracts and quota C for exports under the individual export contracts.

   - ***Quota A - domestic***
     This quota, all refined sugar, is allocated to mills by the Government at the start of each season on the basis of production capacity. The sugar is sold to approved wholesalers at a fixed price in order to cover the domestic demand.
     This quota A is due to increase in 2010/11.

   - ***Quota B - long-term contracts***

[12] The Office of the Cane and Sugar Board (OCSB) is under the jurisdiction of the Ministry of Industry of Thailand. OCSB performs its duties and responsibilities as derived from Article 61 (1) – (11) of the Cane and Sugar Act of 1984, briefly as follows:
- Perform all administrative works for the Cane and Sugar Board.
- Formulate policies and plans for the development of the cane and sugar industry.
- Monitor the cane and sugar production and distribution complying with rules and regulations under the Cane and Sugar Act.
- Coordinate technical cooperation with regard to the promotion and development of the industry between local and international organisations.
- Promote research and development of cane varieties, sugar products and by-products as well as technology development to enhance the competitiveness of the industry.

This contract, all raw sugar, is held by several trade houses. They sell **on behalf of the Thailand Cane and Sugar Corporation (TCSC) which has overall responsibility for pricing and selling raw sugar under this quota**. Half of the amount is allocated to international sugar brokers and the other half is sold to local millers for export.

- ***Quota C - exportable surplus***
  The mills undertake their own pricing of this sugar, **but must pay growers at least the Quota B sales price achieved by the TCSC**. These sales must be made by licensed exporting companies. New quota tonnages are annually allocated to mill groups with the largest C Quota production to encourage mills to crush as much cane as possible. Mills must meet production targets for Quotas A and B, before exporting under Quota C.
  Quota C (export) sales are usually concluded 6 months prior to the start of the crushing season in November by seven authorised exporting companies: The Thai Sugar Trading Corp., Ltd. (TSTC), Thailand Sugar Corp., Ltd. (TSC), Siam Sugar Export Corp., Ltd. (SSEC), the Sugar Industry Trading Co., Ltd. (SITCO), K.S.L. Export Trading (KSL), Pacific Sugar Corp., Ltd. (PSC) and TISS Co., Ltd. which belong to the Thai Identity Sugar Group of Companies which started exporting sugar in 1995.

Sugar Cane payment

The sugar cane payment is determined by:

i) adding up all the gross sugar proceeds from domestic sales (quota A) and exports (quota B + quota C);

ii) gross expenditure is then deducted from gross proceeds; and

iii) a 70 : 30 allocation of the proceeds (70% to the grower).

Upon delivery of cane to mills, growers receive an initial payment calculated on a base price negotiated by the government. This advance payment must not be less than 80 percent of the share expected at the end of the season. If the actual "seasonal average-price" is lower than the base price, the difference is adjusted the following season.

Since 1999, actual sugar cane prices have fluctuated between 478 and 847 baht/t (11.9 and 16.9 €). Domestic wholesale and retail sugar prices have almost doubled in the past 10 years.

FACT SHEET 4: USA

A US sugar policy has existed since the 1930s. The support is characterised by two efficient instruments: the loan rate and allotment quantities with a "quota" of 85% of domestic consumption reserved to US producers.

The management of the domestic market is furthermore controlled by import management and import quotas adjusted to domestic consumption.

There are three distinct periods in US sugar policy:

- From 1934 to 1974 (1st Sugar Bill), the government controlled the sugar sector with production quotas and import quotas
- From 1974 to 1976: the drastic surge in world market sugar prices did not necessitate government intervention
- From 1976: the drastic drop in world market sugar prices and their very low level led to government support being included in 1977 in the Farm Bill which was renewed in 1981, 1985, 1990, 1996, 2002 and 2008.

Sugar market in the USA

The United States is among the world's largest sugar producers. Unlike most other producing countries, the United States has both large and well-developed sugar cane and sugar beet industries. Since the mid-1990s, sugar cane has accounted for about 45 percent of total sugar produced domestically, and sugar beet for about 55 percent of production. U.S. sugar production expanded to an average of 7.5 million tonnes raw value (mtrv) in the 2000s. US sugar consumption increased from around 9 mtrv to 9.4 mtrv from 2007 onwards, mainly because of a decrease in other sweeteners and the substitution of other sweeteners (isoglucose) by sugar. The production increases are due to substantial investment in new processing equipment, the adoption of new technologies, the use of improved crop varieties (of which GM "Round-up Ready" sugar beet), and acreage expansion (because of higher prices for sugar relative to alternative crops). In the 2009/10 crop year, GM varieties accounted for about 95 percent of sugar beet planted area, up from about 60 percent in 2008/09.

The number of farms growing sugar cane and sugar beet declined from 2002 to 2007, but the average area harvested per farm increased. The number of farms growing sugar beet declined from 5,027 to 4,022, while **average area harvested per farm rose from 272 acres (110 hectares) in 2002 to 312 acres (126 hectares) in 2009.**

Source : United States Department of Agriculture (USDA)

The key elements of U.S. sugar policy in the 2008 Farm Bill can be summarised as follows[13]:

1. Management approach: the United States Department of Agriculture (USDA) balances sugar supply and demand to avoid sugar loan forfeitures and government cost by:

- Controlling domestic sugar sales: When U.S. production exceeds USDA's determination of allowable sales, U.S. sugar producers store surplus at their own expense ("blocked stocks")
- Controlling imports with Tariff-Rate Quotas (TRQs). Forty exporting countries retain guaranteed preferential access to the U.S. market under WTO and FTA rules and Mexico's access is unlimited under the NAFTA (North America Free Trade Agreement)

2. Minimum Overall Allotment Quantity (OAQ): U.S. producers' allowable sales are quota reserved for US producers. It allows USDA to control the marketing of sugar.

- Set at **no less than 85% of domestic consumption**, **i.e. allotments are no longer triggered by an import surge**. Consistent with an 86% share during the six years of the 2002 Farm Bill
- Production in excess of OAQ: Still to be stored at producers' expense

3. New market balancing mechanism: Limited sucrose-ethanol programme

- To be used only when imports oversupply the domestic market
- Not to be used to clear domestically-produced blocked stocks
  - USDA estimates the amount of import oversupply and invites bids from sugar producers to supply sugar and from ethanol producers to buy sugar; bid basis maximises efficiency, as the lowest bidding sugar producers and highest bidding ethanol producers participate
  - Deals with uncertainty of Mexican imports – may not be needed in some years
  - Helps to reduce U.S. dependence on foreign oil

4. Import management

- Sets initial TRQ at trade-agreement-mandated-minimum (WTO + CAFTA + Peru); TRQ increase before April 1 (Oct-Sep crop year) only in case of crop emergency
  - Increases TRQ on April 1 if domestic production, plus initial TRQ, plus Mexican imports inadequate to meet domestic demand
  - TRQ can still rise if needed; only timing of added imports affected

5. Loan rate increase

It allows sugar cane and beet growers to benefit from a loan with a nine month term; ¾ of a cent per pound, raw value, phased in over four years – no change for 2008 crop; ¼ cent increases in crop years 2009-11

- Raw cane loan rate rose gradually from 18.00 cents/lb in 2008 (22.9cents/lb for white sugar) to 18.75 cents in 2011 (= 4.2% increase); proportionate increase for refined beet sugar loan rate.
  It is the price at which sugar is valorised when the manufacturer commits its sugar to USDA. At the end of the loan, the borrower may either repay and recover sugar to sell it (which is advantageous if the market price is higher than the loan rate plus interest and transport costs) or sell it at an equivalent of a selling intervention ("crop loan forfeiture") that is to give the USDA the sugar pledged and keep the loan. The Farm Act 2002, which confirmed the non-recoverable ("non-recourse") aspect of the loan, prevents the government from opposing the decision of a manufacturer to abandon its sugar and deletes the penalty (1ct/lb for sugar cane and 1.7 ct / lb for sugar beet) imposed during this operation.

[13] American Sugar Alliance, 2008

FACT SHEET 5: AUSTRALIA

The Australian sugar policy is mainly dedicated towards exports and characterised by a quasi-monopolistic control of sugar sales and exports. Queensland Sugar Limited is a marketing desk which buys and sells the country's sugar production through a single desk, allowing control over the domestic market as well as over export markets in the Asian/Pacific region.

The sharing of the price risk between growers and industry is managed through collectively negotiated contractual arrangements and futures offers pricing on derivative markets with specific modalities such as cover price commitments for up to 3 years' production.

High shipping costs to Australia prevent imports without the need to implement sugar import tariffs.

The Queensland sugar industry was regulated by the Sugar Acquisition Act and the Regulation of Sugar Prices Act enacted in 1915 until 1991 when a new Sugar Industry Bill was introduced. The Sugar Industry Act of 1991 introduced significant regulatory reforms, which were reviewed once more in 1995 putting in place policies aimed at developing the industry over the next decade according to the aspirations of the cane-growing and milling sections. This review came to be known as "Vision 2000."A Sugar Industry Review Working Party (SIRWP) which included representatives of Commonwealth and Queensland governments, growers, millers, the Queensland Sugar Corporation (QSC) and users, commenced operation in October 1995. The QSC has continued to be the statutory body responsible for the domestic marketing of Queensland raw sugar.

Sugar market in Australia

Australia's sugar production grew by over 50% in the 1990s (from 3.6 million tonnes raw value (mtrv) in 1990 to 5.5 mtrv in 1999, peaking at almost 5.9 mtrv in 1997). After dropping below 5 mtrv in 2000 and 2001, annual production stayed at 5.3 to 5.6 mtrv from 2002 to 2005. From 2006 onwards, production has stayed on the right side, i.e. above 4.5 mtrv, but remains below 5 mtrv. Exports have followed a similar trend, with 6 consecutive years of more than 4 mtrv net exports in the 1990s and 4-5 mtrv more from 2003 to 2007. In 2008 and 2009, net exports were well short of the 3.5 mtrv mark. Domestic consumption is relatively stable at 1.1 to 1.2 mtrv.

Queensland Sugar Limited and the marketing of sugar

Queensland Sugar Limited (QSL) is a marketing and logistics company owned by growers and millers. QSL acquires all raw sugar produced in Queensland under state legislation. **QSL undertakes the marketing of the bulk of Australian sugar production and the export marketing activity for over 90% of all raw sugar exported from Australia**. The marketing function involves a wide range of activities including sugar quality management, storage and handling (the management and operation of the industry's seven bulk sugar terminals), financial risk management, price risk management, raw sugar sales, shipping and payment of funds.

The sugar is marketed on behalf of the state's cane growers and mill owners (eight milling companies out of eleven) through a **single desk selling structure**, with all net revenues being returned to producers. QSL is responsible for almost all Australian raw sugar exports. The operation of QSL is funded entirely by the state's raw sugar producers through a charge against proceeds from sales. The Corporation does not receive any government funding.

Proceeds from the sale of Queensland raw sugar are pooled for payment purposes. QSL acquires all raw sugar produced in the state and sells it to domestic refineries and to export markets. The Corporation is required to sell to domestic refiners at export parity prices. The revenue from these marketing arrangements is distributed back to mills and growers after being adjusted for marketing costs incurred by QSL. With the **pooling of sales proceeds**, producers receive an average of prices received from sales during the course of the year.

A recent supported restructuring process

Since 1999, Australia's sugar industry has been severely affected by low prices, disease outbreaks, and extreme weather conditions such as cyclones, floods, and droughts. Low grower returns prompted the Australian Government to commission a report into the Australian sugar industry entitled the "Independent Assessment of the Sugar Industry" in February 2002. The report was published in June 2002 and made a number of recommendations and focused on areas such as access to export markets, diversification, the environment, research, and assisting producers to exit the industry.

In response to the report, the Australian Government offered a sugar industry assistance package totalling A$150 million over a 4-year period, with around A$100 million to be raised by a levy on domestic sugar sales and the balance to be provided by the Australian Government and the Queensland state government. **The package offers a range of measures including income support, interest rate subsidies on new loans, regional projects, and an exit assistance package for producers wishing to leave the industry** (estimated at A$45,000 per farmer). The package relies on cooperation between the federal government and the Queensland state government in amending legislation that currently prohibits industry from adopting structural changes. The relief programme was approved by parliament in December 2002. Reportedly it will be funded by a 3 cent per pound levy over the next 5 years. As emphasised by the Australian Government, no levies would be applied to export sales; rather, the levy will apply to an estimated 939,000 tons of domestic sugar, including imports but exempting raw sugar used for refined exports.

The sugar cane area decreased by around 20% and the number of cane growers decreased by more than a third between 2000 and 2009, to reach around **4000 growers which represent 80% of the production**[14]. The remaining 20% comes from sugar cane area managed by the industry itself.

A sugarcane payment adapted to Australian sugar exports:

The contractual framework is based on a **regulatory intervention which imposes: written formal contracts signed by individual growers and millers, with provision for collective negotiations within regions**. The core content of the contracts contains: delivery responsibilities and conditions, maintenance obligations, quality parameters, penalties and bonuses, transportation and responsibilities, harvesting modalities. In 2000 the reform introduced the possibility for a grower to "roam" between mills. The duration of the contract is between 1 and 5 years (average 3 years), 90% are collectively negotiated.

Sugar cane pricing is based on sugar price and a risk-sharing principle. The scheme implemented aims to manage the risk and moderate the uncertainties of the export market**. Mills and individual growers have the capacity to manage their price exposure 4 years forward** (Bank OTC/ New York n°11) with the following tools[15]:

[14] I. Ballantyne, "Change, challenge and contract conditions", Australian Sugar Cane Growers Association, CANEGROWERS, WABCG Congress 2010

[15] N. Taylor, "Price risk management and export marketing", Queensland Sugar Limited, ISO Conference 2010, http://www.queenslandsugar.com/

•Cane supply contracts to cover pricing commitments (3 –5 years)

Supply is guaranteed by mills for up to 5 seasons under contractual arrangements (i.e. example up to June 2016). **Cane supply and processing arrangements give cane growers the right to negotiate collectively with mill-owners, while also enabling the negotiation of individual agreements.**

•Management of currency and price exposure

Over 90% of raw sugar marketed by Queensland Sugar Limited has its price determined against the ICE Futures U.S. No. 11 contract for raw sugar. The ICE Trading Platform is a fully electronic trade execution platform developed and operated by the International Commodity Exchange (ICE), trading for around 14 hours each business day. **The ICE Futures U.S. No. 11 contract offers pricing, for up to 3 years' production in advance**. Participants in the ICE Futures U.S. No. 11 contracts may be sugar producers, trade houses, end users, index traders or speculators.

•Individual mill/grower commitments whose price is fixed in advance are generally limited to:

- 70% production for following year,
- 50% two years forward,
- 30% three years forward.

This capacity for growers to manage their price exposure is feasible because of the specific structural Australian context. Firstly, the QSL manages only one product, the raw sugar, which is the reference on world sugar derivatives markets. Secondly, there is a price formula linking the cane price with the raw sugar price. This means that there are neither structural nor technical difficulties preventing Australian cane growers from having access to the derivatives markets.