copa cogeca

european farmers european agri-cooperatives

The Common Agricultural Policy post 2013

# The sugar sector

*The reaction of EU farmers and agri-cooperatives to the legislative proposals for the EU sugar sector after 2015*

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## ◆ Introduction

In order to fulfil its international obligations, the EU carried out substantial reforms to its sugar regime between 2006 and 2009. These reforms increased the competitiveness of the sector by streamlining and concentrating production methods and making substantial investments. For example, the beet processing year was extended, the cost of transporting beet to the processing plant was cut through the reduction of the soil tare level, significant investments were made to improve the energy efficiency of industrial processing, etc.

Improving the competitiveness of the beet/sugar sector in the EU is a common aim for the EU, farmers and their cooperatives and sugar manufacturers, as demonstrated by the evaluation study commissioned by DG AGRI on the CAP measures in the sugar sector[2].

In its legislative proposals for the CAP post 2013, the European Commission has proposed abolishing certain measures that are fundamental to the EU sugar regime on 30th September 2015, such as sugar/isoglucose quotas, the minimum price for beet under quota, export refunds and legislative provisions establishing terms for supply contracts and conditions for the purchase of beet in Regulation (EC) no. 952/2006. The European Commission has not proposed any concrete measures regarding producer organisations and interbranch organisations or interbranch agreements in the sugar sector except for compulsory written contracts between beet growers and manufacturers. Nonetheless, it has proposed maintaining the reference price for sugar and eligibility of sugar for private storage aid and measures against market disturbance beyond 30th September 2015.

The proposals for the abolition of quotas and the minimum price for beet under quota are totally unacceptable for Copa-Cogeca[3] because they would deprive farmers and their cooperatives of measures that would allow them to address the main issues for the CAP post 2013, especially extreme world sugar price volatility, security of supply,

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[1] The general reaction of EU farmers and agri-cooperatives to the European Commission's legislative proposals for the CAP post 2013 is available on the website www.copa-cogeca.eu

[2] http://ec.europa.eu/agriculture/eval/reports/sugar-2011/index_en.htm

[3] General reserve from CIA (Italy)

improving the competitiveness of the sector, the smooth operation of the food chain, maintaining jobs in rural areas, climate change and sustainable management of natural resources.

Instead of proposing liberalising the EU sugar regime, the European Commission should have put forward proposals allowing the sector to remain one step ahead of these challenges.

Furthermore, Copa-Cogeca reiterates its call to strengthen und update safety nets through the Single Common Market Organisation. It is vital that market management measures allow farmers to survive periods of low market prices and/or rapid increases in costs. Copa-Cogeca calls for the existing measures in the sugar sector to be maintained, including quotas and the minimum price for beet under quota, until 2020 at the earliest. Furthermore, the crisis reserve proposed by the European Commission, which would finance private storage and export refunds, should play a crucial role in the future when required by market conditions.

Regarding the food chain, it is worth noting that price decreases, particularly following the 2006 reform, have not been passed on to consumers, whereas increases routinely are. Copa-Cogeca therefore believes that price and market observatories, which already exist in some Member States, should observe markets and commercial practice in order to ensure fairness, transparency and stability in the food supply chain.

Following drastic restructuring on a scale unprecedented in the history of the CAP, which led to 5 Member States and 140,000 beet growers abandoning production with the loss of 10,000 jobs in rural areas, the beet/sugar sector needs a stable Common Market Organisation for sugar in order to improve its competitiveness.

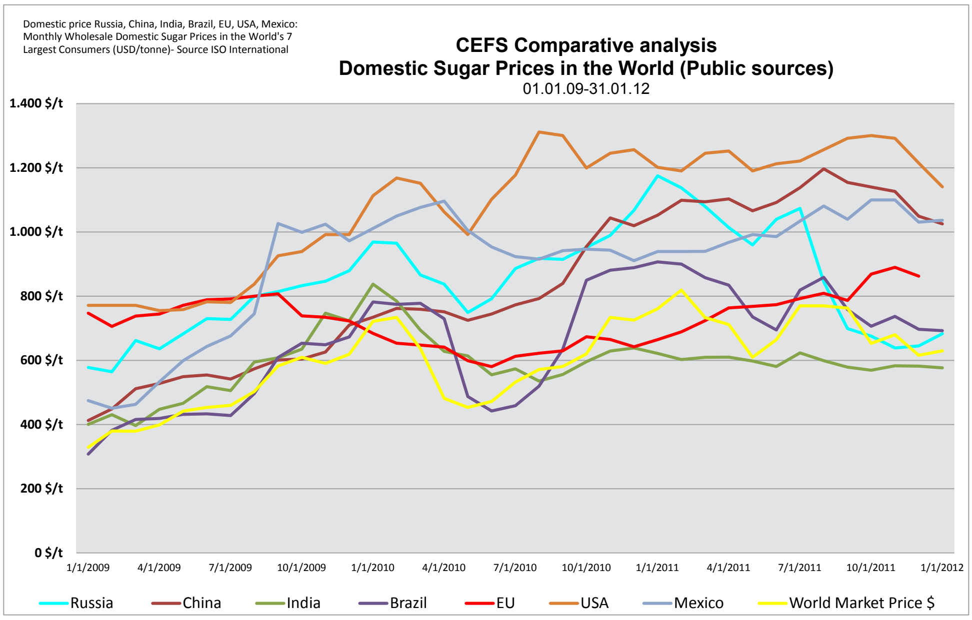
Let us examine the extent to which the various existing measures already meet the aims of the CAP post 2013 and how they might be improved.

**Questions & Answers**

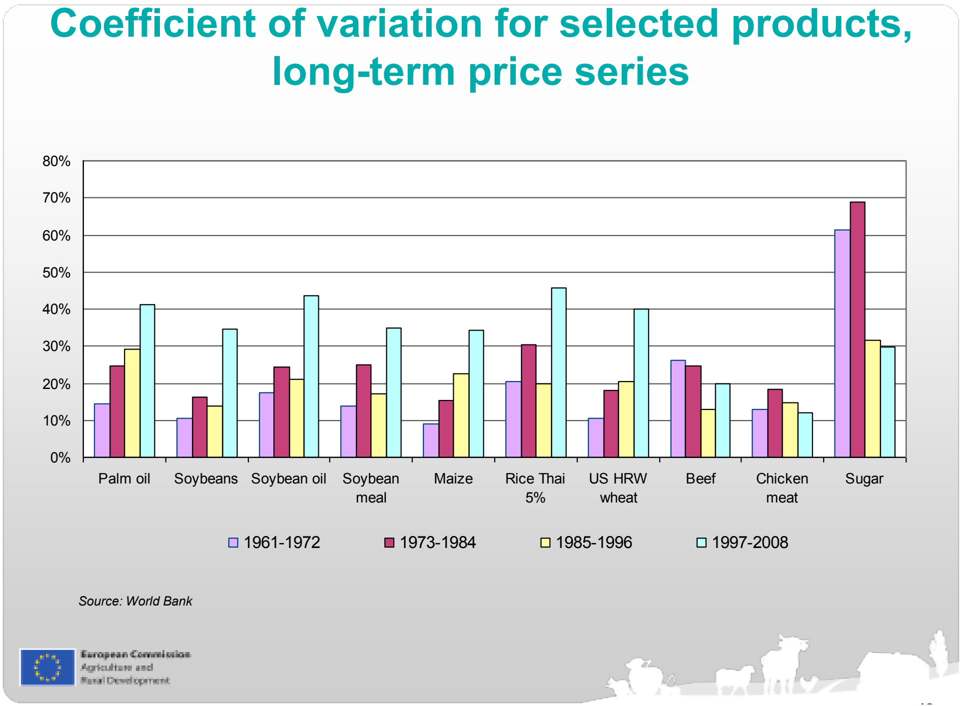
- **Will the abolition of sugar/isoglucose quotas help to stabilise sugar price volatility in the EU?**
- **Are sugar/isoglucose quotas compatible with the EU's commitments to developing countries?**
- **Is market supply from EU farmers and cooperatives restricted by sugar/isoglucose quotas?**
- **Will the abolition of sugar/isoglucose quotas allow the EU to export more?**
- **What do sugar/isoglucose quotas cost European taxpayers?**
- **Do sugar/isoglucose quotas have a positive impact on the environment and the bioeconomy?**
- **How could the EU sugar regime be improved post 2015 so that it better meets the challenges of the CAP post 2013?**
- **How can beet-growers' position in the food chain be strengthened?**

## Will the abolition of sugar/isoglucose quotas help to stabilise sugar price volatility in the EU?

No, the abolition of sugar/isoglucose quotas would expose farmers and consumers in the EU to sugar price volatility comparable to that on the world market. From the end of the 2008-2009 marketing year, contrary to all forecasts, the world sugar price began to climb again whilst fluctuating considerably. It is worth noting that the sugar price in the EU was less volatile than in the USA and that EU internal market prices were lower than the internal market prices on most international markets.




The world sugar market is much more volatile than other agricultural commodity markets.



In a highly volatile global market, the EU beet/sugar sector guarantees regular supply to European and international markets:

- firstly, thanks to the temperate climate and EU sugar/isoglucose quotas, sugar production is more stable in the EU than in other parts of the world. The abolition of sugar/isoglucose quotas would expose the EU sugar and sweeteners sector to increased instability, as isoglucose production could vary considerably depending on the economic benefits, in turn linked to the price of cereals on the EU internal and external markets;

- secondly, the current sugar regime allows out-of-quota sugar to be placed on the EU food market. This measure should be maintained in the future given that the EU is the second-largest net importer region in the world and that imports are not always reliable;

- thirdly, the EU is able to export, thus reducing market volatility in third countries when EU sugar is available and when market conditions allow.

Finally, the proposed liberalisation of the EU sugar regime is not in line with global trends: the main sugar-producing countries have measures to protect themselves from extreme world sugar price volatility and ensure stability of supply[4]. For example, the Brazilian government intends to announce support measures amounting to 4 billion Real through a BNDES programme aiming to renew 6.4 million hectares of aging sugar cane plantations and develop 5.2 million hectares of new plantations.

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4 See http://www.cibe-europe.eu/Press/010-11CIBE_2nd_contribution_CAP_after_2013.pdf

## Are sugar/isoglucose quotas compatible with the EU's commitments to developing countries?

Yes. The EU's commitments, particularly to the ACPs[5] and LDCs[6] which are exempt from quotas and customs duties, mean that it reserves a stable and lucrative part of its sugar market for producers from developing countries.

The investments in the ACPs and LDCs that the EU has supported through accompanying measures are long-term investments, some have not yet matured.

ACP and LDC producers have stated that they could not cope with the negative consequences of a change to the CAP measures in the sugar sector after 2015, particularly the destabilisation of the European market and a further fall in sugar prices to reach the reference price for sugar (white and brown) on the European market.

Indeed, the abolition of sugar/isoglucose quotas would lead to an increase in cereal-based sweetener production like in other parts of the world where there are no isoglucose quotas. This situation would destabilise the current balance between sugar and cereal-based sweeteners on the European market. Given that the main market for isoglucose is the food sweetener market in the EU, largely due to technical obstacles to long-distance transport of this liquid substance, new export markets would have to be found for the excess European sugar. However, exporting more sugar to the global market is not a realistic alternative. With a world price that usually fluctuates around the Brazilian production cost, which acts as a global reference price, exporting European sugar is not profitable for European beet growers given the current average level of competitiveness of the EU and will be no more profitable in 2015. As a result, the abolition of sugar/isoglucose quotas would lead to additional restructuring of the industry, which in turn would lead to sugar factories closing and the loss of jobs in rural areas. Finally, the EU would become even more dependent on the global market for its supply and would be more exposed to volatile world sugar prices.

In conclusion, the abolition of sugar/isoglucose quotas would be detrimental both to the beet/sugar sector in the EU and to sugar producers in the ACPs and LDCs.

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5 African, Caribbean and Pacific states

6 Least Developed Countries

- **Is market supply from EU farmers and cooperatives restricted by sugar/isoglucose quotas?**

No. On the one hand, the production of sugar under quota stabilises the supply of sugar for consumption in the EU, whilst on the other hand, out-of-quota sugar production secures supplies for non-food markets (bioethanol, pharmaceuticals, fermentation, chemicals) as well as for export markets. It can also be kept back and counted as sugar under quota in the next marketing year (carry-forward). The amount of out-of-quota sugar produced varies from one year to the next, particularly depending on weather conditions, which have a substantial effect on beet production.

In order to guarantee supply, the chemical industry benefits from a zero-duty import quota of 400,000 tonnes, which has mostly been underused to date, demonstrating the competitiveness of EU industrial sugar.

If the market situation requires, the EU can allow out-of-quota sugar to be placed back on the EU food market in order to ensure supply and protect European consumers from the extreme volatility of world prices. Out-of-quota sugar production therefore provides a safety net that helps to stabilise the market.

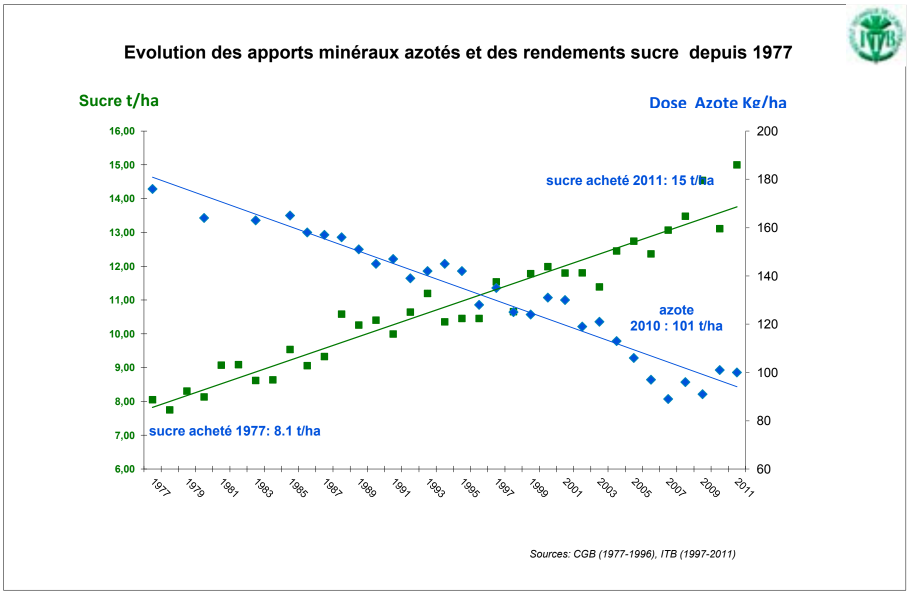
- **Will the abolition of sugar/isoglucose quotas allow the EU to export more sugar and isoglucose?**

No. The idea that the abolition of sugar/isoglucose quotas would allow the EU to return to the sugar export levels of 5 to 7 million tonnes seen before the 2006 reform is an illusion, due to the permanent closure of 83 sugar factories causing production capacity to fall by almost 6 million tonnes of storage in the EU. The abolition of sugar/isoglucose quotas would not create the stable market conditions required to encourage investment in the processing industry and allow production of over 19 million tonnes of sugar in total. Furthermore, for agronomic and economic reasons, the beet processing year could not be extended in the majority of Member States. Unlike sugar, no out-of-quota isoglucose is produced in the EU. EU isoglucose is no more competitive than sugar on the global market. Furthermore, the export quota for out-of-quota isoglucose has not been fulfilled since 2008.

Yet differences in competitiveness remain between the EU and other producer countries around the world. There are certainly opportunities for improving the competitiveness of the EU beet/sugar sector on international markets after 2020, particularly by increasing beet yields through varietal selection, but this will only happen in around ten years' time and only if more effort is put into research and optimising industrial tools.

## ■ Do sugar/isoglucose quotas have a positive impact on the environment and the bioeconomy?

Yes. Beet is a model crop when it comes to environmental sustainability[7]. Thanks to its pivoting root, beet improves the structure of the soil and reduces soil compaction and erosion. Mini-dosing techniques are mostly used for the application of fertilisers and pesticides. In significant producer countries, the use of fertilisers and certain pesticides has fallen considerably over the last 20 years, whilst yield has progressed at a regular rate.




Unlike cereals, beet requires crop rotation. The area under beet in the EU fell from 2.2 million hectares to 1.6 million hectares following the restructuring of the sector between 2006 and 2009. Nonetheless, today, the surface area of out-of-quota beet to be used for energy generation (bioethanol, biogas) is estimated at 150,000 hectares – this is not in competition with food uses. The energy balance of beet is very positive, with beet producing 15-16 times more energy than is required to produce it. Beet is playing a more significant role in the bioeconomy than before 2006 and is contributing to the aims of the Europe 2020 strategy.

The sugar quota, allocated to beet growers through delivery rights, gives farmers an opportunity for stable diversification of rotation crops. Copa-Cogeca therefore believes that the abolition of sugar/isoglucose quotas runs contrary to the environmental aims of the CAP post 2013.

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[7] See http://www.cibe-europe.eu/Press/Brochure%20CIBE-CEFS%20Final_05.05.2010.pdf

## What do sugar/isoglucose quotas cost European taxpayers?

Nothing. The EU sugar regime has no impact on the CAP budget. Market management measures for sugar and isoglucose were already abolished during the previous reform, without being replaced. Export refunds have not been paid for many years following the suspension of export refunds in September 2008.

The beet/sugar sector even contributes to the EU budget and pays a tax on the sugar quota (€12/tonne), the isoglucose quota and inulin syrup. This tax must be abandoned as it is discriminatory and unjust. No other industrial sector contributes directly to the EU budget and third country competitors do not pay the tax.

## How could the EU sugar regime be improved post 2015 so that it better meets the challenges of the CAP post 2013?

For the reasons explained above, Copa-Cogeca requests that

- the EU maintain the sugar regime including sugar/isoglucose quotas and the minimum price for beet under quota until 2020 at the earliest[8] as well as all the existing market management measures such as reference prices, eligibility for private storage, carry-forward, withdrawal and export refunds. The export refund mechanism, in particular, must be maintained as long as there is no WTO agreement on phasing out equivalent mechanisms in all countries at the same time;

- a clear and precise legal basis be created for deficits on the EU market. The EC should be able to take a decision before the start of each marketing year, based on a market analysis, on whether to allow out-of-quota sugar to be placed on the EU food market with compulsory payment of the minimum price for beet and no levy («reverse withdrawal»). In addition, eligibility of sugar for exceptional measures against market disturbance must be maintained as proposed by the Commission;

- the EU's trade policy and the sugar regime be made more consistent. Market stability and production capacity must be preserved through the refusal of any new, additional concessions for access to the EU sugar market and the markets for products with a high sugar content, including molasses, and ethanol. Preferential access for ACPs and LDCs must be preserved through the refusal of any new concessions in bilateral agreements between the EU and third countries (Mercosur, South Africa, India, Canada, ASEAN, Mediterranean countries, Ukraine, etc.). In addition, the EU must ensure that origin rules are strictly adhered to in the future.

## How can beet-growers' position in the food chain be strengthened?

The sugar quota goes hand in hand with the minimum price for beet under quota. The minimum price for beet under quota redresses the balance in negotiations between beet-growers and manufacturers, especially given that farmers cannot choose their factory as they need to deliver their beet, which is perishable and for which there is no other market, to the nearest factory as quickly as possible.

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[8] Reserve from IFA, ICOS (Ireland)

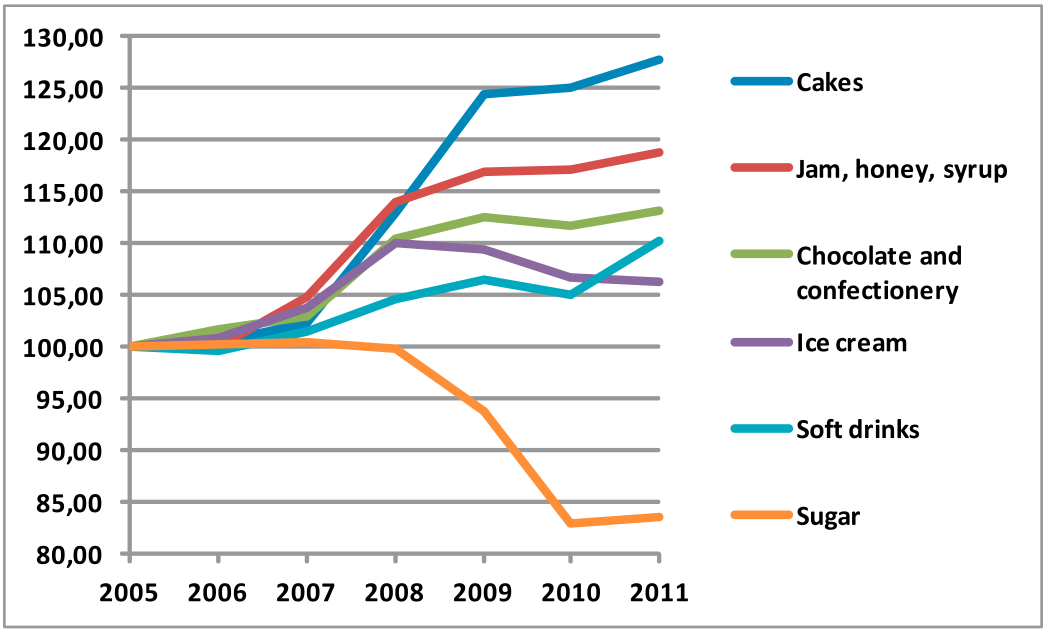
The sugar quota and the minimum price for beet under quota form the basis of beet-growers' economic organisations. Producer organisations are a prerequisite for the negotiation of interbranch agreements.

The proposed abolition of the sugar quota and thus the minimum price for beet under quota and the introduction of the requirement for written contracts run entirely contrary to the aim of strengthening the position of farmers in the food chain, as they call into question the ability to conduct credible negotiations on any issues relating to the conditions for the purchase and delivery of beet, including the price. Furthermore, rather than being strengthened, the sector's contractual model would be weakened to the extent that the balance of rights and obligations between manufacturers and growers would no longer be guaranteed – to the detriment of thousands of beet-growers[9].

The existing contractualisation practices in the sector are satisfactory. It is therefore vital that interbranch agreements, pre-sowing supply contracts and all minimum conditions for the purchase of beet laid down in EU legislation, especially Article 16 and Annex II of Regulation (EC) 952/2006, be re-established in the Regulation of the Council and the European Parliament on the Single Common Market Organisation. Regulation 952/2006 should also be improved and strengthened, particularly regarding the compulsory equal division of added value i.e. splitting the difference between the reference price and the actual selling price for sugar.

Furthermore, the sugar quota and the minimum price for beet under quota give farmers a predictable and stable income.

Finally, in order to ensure a transparent market, all the measures featured in Articles 13, 14 and 15 of Regulation (EC) no. 952/2006 regarding the creation of average prices, information on prices and the compulsory release of price data, which would be abandoned as a result of the Commission's proposal to abolish the sugar quota, must be maintained.




***Evolution of sugar and sugar processed products Prices in Germany (source: Statistisches Bundesamt, 2012)***

[9] 106 sugar factories run by 24 companies compared to 255,000 sugar beet-producing farms according to the evaluation of the CAP measures in the sugar sector, Agrosynergie, p. 26, December 2011.

COPA AND COGECA:

THE VOICE OF EUROPEAN FARMERS AND EUROPEAN AGRI-COOPERATIVES

**Copa-Cogeca** is the united voice of farmers and agri-cooperatives in the EU. Together, they ensure that EU agriculture is sustainable, innovative and competitive, guaranteeing food security to half a billion people throughout Europe. Copa represents over 13 million farmers and their families whilst Cogeca represents the interests of 38,000 agricultural cooperatives. They have 70 member organisations from the EU member states.

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