USDA Foreign Agricultural Service
GAIN Report
Global Agriculture Information Network

Voluntary Report - public distribution

Date: 11/30/2005

GAIN Report Number: E35225

EU-25

Sugar

EU agrees sugar reform

2005

Approved by:
Norval Francis
U.S. Mission to the EU

Prepared by:
Peter Talks

Report Highlights:
The European Agriculture Council has agreed a set of reforms to the EU sugar sector that will see an eventual 36% price cut, with beet growers compensated with direct income payments. In addition, there will be a form of quota buyback scheme, funded by those processors staying in the sugar sector paying a levy, which will fund payments to those processors leaving the sector. The net result of the sugar reform is that by 2011, EU sugar production will be reduced by between one quarter to one third from a roughly 20 MMT today (white sugar) to perhaps 13 to 15 MMT. The EU will cease to be a major exporter on world sugar markets and may even become a net sugar importer. The reforms are expected to leave the EU sugar price at roughly double world market prices compared to currently being over triple world prices.

Includes PSD Changes: No
Includes Trade Matrix: No
Brussels USEU [BE2]Unscheduled Report
[E3]

European Agriculture Council agrees radical sugar reform package

Executive Summary

The European Agriculture Council has agreed a set of reforms to the EU sugar sector that will see an eventual 36% price cut, with beet growers compensated with direct income payments. In addition, there will be a form of quota buyback scheme, funded by those processors staying in the sugar sector paying a levy, which will fund payments to those processors leaving the sector. The net result of the sugar reform is that by 2011, EU sugar production will be reduced by between one quarter to one third from roughly 20 MMT today (white sugar) to perhaps 13 to 15 MMT. The EU will cease to be a major exporter on world sugar markets and may even become a net sugar importer. The reforms are expected to leave the EU sugar price at roughly double world market prices compared to currently being over triple world prices.

During three days of negotiations in late November, the Commission and the UK Presidency reduced the scale of price cuts from 39% to 36%, as well as introduced a raft of minor measures designed to placate opposition in Member States to the reform proposals. Key changes include extending the phase in of the reform to four years, providing additional financial support to those countries likely to scale back sugar production the most, some transitional measures and partial coupling of the direct income payments for countries reducing sugar output by at least half. In the final vote, only Poland, Greece and Latvia are believed to have voted against the reform package.

The UK Minister of Agriculture, and Council President, Margaret Beckett, described the agreement as ‘ground-breaking’, claiming that it would ensure the long-term competitiveness of the EU sugar industry. Steering the reform proposals through the Council will be seen as a major success for Agriculture Commissioner Mariann Fisher Boel.

However, starting in July 2006, the new EU sugar regime will still require significant levels of border protection, with no substantial non-preferential imports of sugar into the EU expected in the near future. The reform should be neutral for the EU budget, with around €1.7 bn (USD 2 bn) allocated annually to the sugar sector; although in practice, it may lead to a marginal increase in budgetary outlays depending on market evolution.

The Commission has also kept market management tools such as intervention purchasing (although at reduced prices and for limited quantities) and the ability to use export subsidies (though within WTO limits). Over quota sugar (C sugar) can continue to be exported, though it would be counted against the EU’s export subsidy limits; so in practice the EU’s total sugar exports will not be able to exceed 1.273 MMT (In recent years they have been around 5 MMT though in 2005/06 they may reach 7 MMT).

Next Steps

The current sugar regime expires on June 30^{th} 2006, with the new regime entering into force on July 1, 2006. EU Agriculture Ministers agreed to the Presidency compromise paper at the November Agriculture Council. Initially, the Special Committee on Agriculture (SCA) in the Council will check the figures and details of the proposals, then early in the new year, probably in either February or March, a legal text of the paper will need to be produced and adopted by the Council,. It is likely that the European Parliament will formally adopt their 'Opinion' on the sugar reform at the European Parliament Plenary session on January 17[1]. Implementing rules will also be required. The Commission will draft them and discuss them through the Sugar Management Committee during the first half of 2006.

The new regime starts on July 1, 2006. The first marketing year will be for fifteen months running through to the end of September 2007, then in future EU sugar marketing years will be on a October-September basis. Note also that Romania and Bulgaria are scheduled to join the EU at some time in 2007. EU sugar imports from the Everything But Arms countries (EBA, the 48 least developed countries) will be fully liberalized in 2009/10.

Reaction

European Commissioner for Agriculture, Mariann Fisher Boel congratulated EU Ministers for "taking the bold decision to reform a sector that nobody has been able or willing to reform in the past. It has been tough, but common sense has prevailed". Fisher Boel was also quick to mention the WTO talks in Hong Kong in December: "If we had no proposal in the pocket, we would have nothing to defend in Hong Kong", as well as reminding that the deal also ensures that the EU is complaint with the WTO Panel on EU sugar export subsidies.

She was also clearly pleased to have seen the conclusion of her first major CAP Reform negotiation, describing it as "crucial, interesting, challenging and fantastic". Successfully steering sugar reform through the EU decision-making process will no doubt also boost her stature as Agriculture Commissioner.

The Commission and UK Presidency of the Council have hailed the reform as marking "a historic day". The British Agriculture Minister, Margaret Beckett described the agreement as 'ground-breaking', claiming that it would ensure the long-term competitiveness of the EU sugar industry.

From the perspective of beet growers, the chair of the UK National Farmers Union Sugar section, Mike Blacker, said that: "We have achieved many of our objectives. We have avoided a compulsory quota cut and decoupling has been agreed throughout Europe, with one or two regrettable exceptions. And we have obtained a lower price cut phased in over four rather than two years.

"However, the extent of the price cuts will still be extremely painful; we regret the special deals that have been done for some countries and we remain to be convinced that we will avoid the competitive distortions over which we have previously expressed concerns."

[1] Under the legislative procedure used for the sugar reform proposals, the Council cannot formally agree to the proposals until the EP has given its Opinion on them, although the Opinion is not binding and can be ignored by the Council.

However, development orientated NGOs have been quick to criticize. Luis Morago, Head of Oxfam in Brussels said "Developing countries have been sacrificed in order for Europe to reach a deal. The Commission has hurled money at its Member States to convince them to sign up but has abandoned some of the world's poorest countries to destitution."

World Wildlife Fund's Adam Harrison went further: "Many developing countries have the potential to meet Europe's demand with sugar grown to the highest environmental standards but this deal seriously undermines that potential. Unless Europe comes up with much more money to help both traditional suppliers and the Least Developed Countries to adjust, they will be condemning developing countries to a bleak future"

Commission Press Release
http://europa.eu.int/rapid/pressReleasesAction.do?reference=IP/05/1473&format=HTML&aged=0&language=EN&guiLanguage=en

USDA/FAS Europe GAIN Reports

- UK reaction to EU sugar reform deal, GAIN UK 5033
- Polish Reaction to EU Sugar Reforms, GAIN PL 5037
- Austrian Sugar Beet Farmers and Sugar Industry Fear EU Sugar Reform, GAIN AU 5028

ACP Sugar Group
http://www.acpsugar.org/docs/ACP%20press%20release%20-%20241105.pdf

Oxfam Press Release
http://www.oxfam.org/eng/pr051122_eu_sugar.htm

Committee of Industrial Users of Sugar
www.cius.org

UK National Farmers Union
http://www.nfu.org.uk/stellentdev/groups/public/documents/pressrelease/sugarreformremovess_ia43860151.hcsp

Reform Details

For further details, see the Commission Press Release, however, as final price details have not yet released, numbers in the above table are estimates based on the percentage cuts reported.

- A 36 percent price cut over four years beginning in 2006/07 to ensure sustainable market balance, -20 percent in year one, -25 percent in year two, -30 percent in year three and -36 percent in year four.
- Compensation to farmers at an average of 64.2 percent of the price cut. Inclusion of this aid in the Single Farm Payment and linking of payments to respect of environmental and land management standards.
- In those countries giving up at least 50 percent if their quota, the possibility of an additional coupled payment of 30 percent of the income loss for a maximum of five years, plus possible limited national aid.
- Validity of the new regime, including extension of the sugar quota system, until 2014/15. No review clause.
- Merging of 'A' and 'B' quota into a single production quota.

- Abolition of the intervention system after a four-year phase-out period and the replacement of the intervention price by a reference price.
- Introduction of a private storage system as a safety net in case the market price falls below the reference price.
- Voluntary restructuring scheme lasting 4 years for EU sugar factories, and isoglucose and inulin syrup producers, consisting of a payment to encourage factory closure and the renunciation of quota as well as to cope with the social and environmental impact of the restructuring process.
- This payment will be 730 euros per MT in years one and two, falling to 625 in year three, and 520 in the final year.
- The possibility to use some of this fund to compensate beet producers affected by the closure of factories.
- An additional diversification fund for Member States where quota is reduced by a minimum amount, which increases the more quota is renounced.
- Both these payments will be financed by a levy on holders of quota, lasting three years.
- Sugar beet should qualify for set-aside payments when grown as a non-food crop and also be eligible for the energy crop aid of 45 euros/hectare.
- To maintain a certain production in the current "C" sugar producing countries, an additional amount of 1.1 million MT will be made available against a one-off payment corresponding to the amount of restructuring aid per MT in the first year.
- Sugar for the chemical and pharmaceutical industries and for the production of bio-ethanol will be excluded from production quotas.
- Increase of Isoglucose quota of 300,000 MT for the existing producer companies phased in over three years with an increase of 100,000 MT each year.
- Possibility to purchase extra isoglocose quota in Italy (60,000 MT, Sweden 35,000t and Lithuania 8,000t) at the restructuring aid price.

Source: European Commission[2]

Price cuts and support levels

€/MT	**Today**	**06/07**	**07/08**	**08/09**	**09/10**
Reference Price, White Sugar	631.9	631.9	631.9	524	404.4
Cumulative reduction, %		0%	0%	-17.1%	-36%
Restructuring Levy		126.4	173.8	113.3	0
Ref. Px, White Sugar, net of levy		505.5	458.1	410.7	404.4
Cumulative reduction, %		-20%	-27.5%	-35%	-36%
Ref. Price, Raw Sugar	523.7	496.8	496.8	434.1	335.2
Cumulative reduction, %		-5%	-5%	-17.1%	-36%
Restructuring Aid, € m		730	730	625	520
Regional Diversification, € m		109.5	109.5	93.8	78.0
Direct Aid Envelope, € m		857	1,071	1,285	1,542

Notes: Producers who stay in sugar production must pay the restructuring levy, which effectively reduces the price they receive. In the first two years of the reform (06/07 and 07/08) when there is no reduction in institutional support prices, the levy will reduce the amount received by processors by 20% and 25% respectively. The raw sugar price, which is also the minimum price received for most of the ACP and LDC exports to the EU will only be

2 http://europa.eu.int/rapid/pressReleasesAction.do?reference=IP/05/1473&format=HTML&aged=0&language=EN&guiLanguage=en

cut over four years, instead of the two years in the original proposals. The Commission argues that this will give additional time to the ACP countries to prepare and restructure their sugar industries for lower prices.

Impact of the Reform

Napier Brown's EU-25 Production, Trade and Consumption Estimates

MMT	05-06	06/07	07/08	08/09	09/10	10/11
Production	18.7	15.3	14.7	13.7	12.9	12.9
Carry-Over	0.7	0.7	0.7	0.7	0.7	0.7
Quota	15.5	15.1	14.0	13.0	12.2	12.2
C Sugar	3.2	0.2	0.7	0.7	0.7	0.7
Imports	1.9	1.9	2.2	2.3	3.1	3.1
Total Available	**19.6**	**17.7**	**16.9**	**16.0**	**16.0**	**16.0**
Subsidised Exports	2.8	1.3	1.3	0.0	0.0	0.0
Consumption	15.6	15.6	15.6	16.0	16.0	16.0
Balance	4.4	1.0	0.7	0.7	0.7	0.7
Carry-over	0.7	0.7	0.7	0.7	0.7	0.7
C exports	3.7	0.3	0	0	0	0
Imports						
ACP Protocol	1.3	1.3	1.3	1.3	1.3	1.3
ACP (SPS)	0.1	0.1	0.1	0.1	0.1	0.0
LDC	0.1	0.1	0.4	0.5	1.4	1.5
MFN	0.1	0.1	0.1	0.1	0.1	0.1
Balkans	0.3	0.3	0.3	0.3	0.3	0.3
Total Imports	0.9	1.9	2.2	2.3	3.1	3.1

Source: Napier Brown
Notes: All figures in white sugar equivalents.

As a comparison, Commission forecasts of future EU sugar balances for 2012/13, based on a 39% price cut, are for 16 MTM consumption, 3.9 MMT imports, of which EBA accounts for 2.2 MMT. EU production was estimated at 12.2 MMT. The Commission's forecasts are available from: http://europa.eu.int/comm/agriculture/capreform/sugar/impact_en.pdf

Developing Countries

ACP

The African Caribbean and Pacific (ACP) group of former European colonies benefit from preferential access to EU markets. The 18 Sugar Protocol countries, including Jamaica, Mauritius and Barbados, are able to export at least 1.3 MMT of sugar[3] to the EU at a guaranteed minimum price of €523.7/MT. As this price is substantially above the world price, it acts to transfer resources from the EU to the ACP countries. Following sugar reform, the guaranteed price for ACP exporters will fall eventually to just €335. At this price, some exporters, such as St Kitts and Nevis, will no longer be competitive and will exit from sugar production. Others will struggle to remain profitable. However, the price cut will not start to

[3] 1,304,700 MT of cane sugar expressed in white sugar equivalent, but typically imported as raw sugar.

kick in until 2008/09, which at least gives the ACP Sugar producers two further marketing years to prepare for the lower prices.

The ACP countries have waged a vocal campaign against the reforms arguing that they have received second class treatment. The Commission has tabled that, in 2006, around €40 m be provided to aid the sugar protocol countries with their transition either in improving competitiveness or in exiting from sugar production. Further amounts would be available in subsequent years. The issue of compensation for the ACPs is not dealt with directly by the sugar reform proposals, as this is the responsibility of the Directorate General for Development.

The ACP sugar protocol countries are unlikely to stop their opposition to the reform proposals and will likely continue to raise this issue during the WTO Hong Kong Ministerial meeting in December.

For more details on the impact on ACP countries, see Sugar and the European Union: Implication of WTO Findings and Reform, 2004 from FAS/HTTP and FAS/USEU. The ACP Sugar countries website is available at http://www.acpsugar.org/ Details of the Commission's Action Plan for ACP Sugar Protocol Countries is available at http://register.consilium.eu.int/pdf/en/05/st05/st05611.en05.pdf

Least Developed Countries (LDCs)

In 2001, the Everything but Arms Regulation (EBA) liberalized tariffs for all EU imports from the 48 Least Developed Countries (LDCs, defined as small, low income countries dependant on a limited number of export commodities), except for armaments, sugar, rice and bananas. The three later products will be fully liberalized by 2009. The LDCs currently have a small TRQ for sugar exports to the EU, though with a guaranteed price of €497/MT[4]. This will also be lowered post reform, and at the new lower price, the ability of the LDCs to export will be greatly reduced.

Further, the new sugar reforms introduce a measure to 'review' EBA sugar exports to the EU should they increase by more than 25% year on year. A review would enable the EU to impose restrictions or even withdraw the EBA import concessions for sugar, although the Commission continues to be careful in its language on this issue as there is unlikely to be much political support at the moment for restricting LDC export opportunities to the EU. In practice, this is likely to mean that there are not substantial exports of sugar flow from the LDCs to the EU. GAIN report E23149 sets out some of the reasons why the EBA agreement provides impediments to the LDCs being able to expand exports to the EU.

See the Annex to this report for the schedule of EBA quotas and EBA sugar tariff liberalizations. Note that in 2008/09, the quota for EBA imports is 197,335 MT (wse), so from 2009/10, when EBA countries can export unlimited quantities of sugar duty free to the EU, if exports exceed 247,000 MT then the Commission would have to 'review' the EBA sugar import preferences.

[4] In addition, these quotas have not lead to any additional EU sugar imports. In practice, due to an annual balance sheet exercise of sugar supply needs, known as 'Special Preferential Sugar' TRQ quantities which previously had been allocated to the ACP Protocol countries have since in practice been allocated to the EBAs.

Visit our website: our website **www.useu.be/agri/usda.html** provides a broad range of useful information on EU import rules, food laws, agriculture and trade policy. It enables easy access to USEU reports, trade and other practical information.
E-mail: AgUSEUBrussels@usda.gov
Related reports from USEU Brussels, EU Member State and Candidate Country posts:

Report Number	Post	Title	Date Released
AU5028	Vienna	Austrian Sugar Beet Farmers and Sugar Industry Fear EU Sugar Reform	December 2005
PL5037	Warsaw	Polish Reaction to EU Sugar Reforms	December 2005
UK5053	London	UK reaction to EU sugar reform dea	December 2005
E35138	USEU	EU sugar exports could rise by 60% in MY 05/06	July 2005
E35143	USEU	EU proposes radical sugar refom	July 2005
E35082	USEU	EU loses appeal in WTO EU Sugar Export Subsidies Panel	April 05
E35080	USEU	EU Sugar Annual	April 05
E35032	USEU	EU sugar intervention used for first time in 20 years	February 05
GM5010	Bonn	German Position on EU Reform Proposal for Sugar Market Regime	February 05
These reports can be accessed through our website www.useu.be/agri or through the FAS website http://www.fas.usda.gov/scriptsw/attacherep/default.asp.			

Annex: EU Sugar Import Quotas

EU Sugar Import Quotas

	Quota	Beneficiary	Volume	Tariff	Min Price?
WTO Minimum Access Quotas					
	MFN	Cuba 58,969; Brazil, 23,950; 2,564, Other Third Countries.	85463	EUR 98/MT raw sugar	No
	ACP Sugar Protocol	ACP Sugar countries (1,294,700 and India (10k) values in wse	1304700	0	EUR 523.7 raw cane,
Others					
	Special Preferential Sugar	ACP Sugar Protocol countries, first 75k to Ivory Coast, Swaziland, Malawi, Zimbabwe	Variable	0	EUR 496.8, raw sugar
	EBA	EBA	Variable	0	EUR 496.8, raw sugar
	Western Balkans	Croatia (TBD), Serbia 180k, Bosnia 12k, Albania 1k,	See Left	0	No
	Overseas Countries and Territories	Aruba, Netherlands Antilles	28,000	Zero, but quota to be phased out from 2007.	
	Overseas Countries and Territories	Aruba, Netherlands Antilles	3,000	0	ACP sugar treated in t

Refiner's presumed maximum supply needs (MSN), 2000/01 to 2005/06

	MT wse
Finland	59,925
Metro France	296,627
Mainland Portugal	291,633
Slovenia	19,585
UK	1,128,581
EU-25	**1,796,351**

Quantities are reviewed annualy on Oct 1 and can be reduced in line with declassification

Raw Sugar Balance to determine import needs

'000 MT

EU Requirements	**03/04**	**04/05**
DOM domestic consumption	52	52
Maxiumum supply needs	1774	1797
Direct Consumption Sugar	114	114
Total	1940	1963

Guaranteed Supplies

DOM production	272	297
ACP Preferential Quotas	1305	1305
MFN Quota	82	82
EBA Quota	98	113
Total	1757	1797

Balance to be imported as Special Preferential Sugar (Requirements minus Guaranteed Supplies)

	183	**166**

EBA Quotas and Tariffs		EBA Import Duty Cuts	
01/02	74,185	06/07	-20%
02/03	85,313	07/08	-50%
03/04	98,100	08/09	-80%
04/05	112,827	09/10 onwards	-100%
05/06	129,751		
06/07	149,213		
07/08	171,595		
08/09	197,335		

Volume in WSE but sugar to
be imported as raw sugar for refining