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Sugar

The European Commission Publishes Warning on Sugar Quota Cut

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Report Highlights:

The European Commission has issued a statement warning sugar beet producers of the likelihood that sugar quotas will have to be cut for the 2006/07 marketing year. This cut would be a measure to prevent a serious oversupply on the internal market once strict export subsidy limits kick in from July 1, 2006 forward.

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

On February 3, 2006 the European Commission published an official announcement saying there might be temporary cuts in the sugar quotas in the forthcoming marketing year, to prevent a massive surplus on the market.

Member States (MS) are divided over the format of the cut, and some MS have pointed out that the recent political agreement on sugar reform made no mention of the need. The Commission noted that the current sugar regulation already allows for sugar to be removed from the market and that this would allow the Commission to reduce the amount of production under quota. It is still not clear whether the cuts would be linear or if only MS that will suffer a quota reduction of less than 50 percent under the new regime should suffer the one-off quota.

The communication did not mention the specific size of the cuts however the Commission is claiming an expected surplus of at least two million tons, which would imply a quota reduction of between 10- 15 percent.

In the official announcement from the Commission, it is still not clear what the specific measures might be, however the Commission does mention the disposal of C-sugar. The disposal of surplus non-quota C-sugar is an issue which is probably even more sensitive since last year's WTO panel stated that such exports should be deemed illegal after May 22, 2006. Some say that the Commission has already issued C-sugar export licenses that are valid up to and beyond this deadline. The issue is seen as particularly sensitive, as any deviation from the provisions of the WTO panel could provoke Australia, Brazil and Thailand - the complainants in last year's case - to open a new WTO trade panel against the EU.

The full text of the Commission Communication:

The Commission draws the attention of sugar beet and sugar producers to the situation on the Community sugar market as scheduled for the 2006/07 marketing year.

As a result of the stocks accumulated during the 2004/05 marketing year and the rules and limits on exports laid down by the World Trade Organization, the 2006/07 marketing year may commence with considerable quantities of sugar available in stock, but with fewer possibilities for disposal than in the past.

Under these circumstances, the reform of the common market organization for sugar and the resultant restructuring of sugar production will not be sufficiently advanced to ensure market balance in the 2006/07 marketing year.

Therefore, the possibility cannot be ruled out that the Commission may have to take special management measures for sugar beet sown for harvest in 2006/07. Such measures, to be laid down as transitional measures under the powers which the Council could confer on the Commission, may relate to the quantity of production eligible under the quotas for the 2006/07 marketing year and provisions on the disposal of C sugar produced during the 2005/06 marketing year.

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