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# European Union

# Sugar

# Annual

# 2003

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**Report Highlights:**
**In 2002/03, production rebounded 15% to 18.7 MMT following the poor 2001/02 campaign. Quotas were cut for 2002/03 due to WTO subsidized export constraints. For 2003/04, a 7% drop in planted area is the result of high levels of sugar carried over from 2002/03. Preliminary estimates of 2003/04 raw sugar production are for 17.4 MMT under reasonable weather conditions.**

Includes PSD changes: Yes
Includes Trade Matrix: No
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# Executive Summary

In 2002/2003 sugar production in the EU rebounded from the poor harvest of the previous year. Output for 2002/2003 was 18.66 MMT, a rise of 15% over 2001/2002 but almost the same quantity as the 2000/2001 crop.

Early indications for sowing in 2003/2004 are for a 6.5% drop in planted area across the EU. Reasons behind this include a cut in sugar quotas in 2002/2003 leading to increased stock carried over to the new 2003/2004 season. EU planted area is estimated at roughly 1.7m hectares. Assuming normal growing conditions production in 2003/2004 could fall to 17.4 MMT (in raw sugar equivalent).

Due to WTO limits on EU sugar export subsidies and weak world prices during most of 2002, the European Commission reduced quotas by 7% in October 2002 for the 2002/03 season. This cut of roughly 900,000 MT, known as 'declassification', came well after the 2002/03 crop had been sown.

The reduced quantity of A and B quotas therefore increased the C sugar, or quantity that must be exported outside of the EU without subsidy. Part the C sugar can also be 'blocked' or carried over to be used as part of the following campaigns A quota. 2002/03 saw high levels of 'blocking' at the end of the year, in practice the 2002/03 quota cuts are shifted to2003/04 as far as beet growers are concerned. This has lead to the reduction in the area planted to sugar beet for 2003/04.

Whilst the current sugar regime is due to continue to mid-2006, the Commission is currently preparing proposals for reform. The eventual nature and form of any reform will have to take into account the increased liberalization of trade vis-à-vis developing countries, WTO negotiations and enlargement of ten new EU member states in May 2004. Detailed proposals from the Commission are expected during the summer.

# Production

### Production Supply Demand Table

| PSD Table | | | | | | |
|---|---|---|---|---|---|---|
| Country | European Union | | | | | |
| Commodity | Centrifugal Sugar | | | | (1000 MT) | |
| | 2002 | Revised | 2003 | Estimate | 2004 | Forecast |
| | USDA Official[Old] | Post Estimate[New] | USDA Official[Old] | Post Estimate[New] | USDA Official[Old] | Post Estimate[New] |
| Market Year Begin | | 08/2001 | | 08/2002 | | 08/2003 |
| Beginning Stocks | 3420 | 3420 | 3278 | 2901 | 3065 | 3113 |
| Beet Sugar Production | 15944 | 15915 | 17501 | 18401 | 0 | 17156 |
| Cane Sugar Production | 286 | 270 | 325 | 263 | 0 | 276 |
| TOTAL Sugar Production | 16230 | 16185 | 17826 | 18664 | 0 | 17432 |
| Raw Imports | 1750 | 1767 | 1750 | 1750 | 0 | 1750 |
| Refined Imp.(Raw Val) | 268 | 320 | 272 | 350 | 0 | 400 |
| TOTAL Imports | 2018 | 2087 | 2022 | 2100 | 0 | 2150 |
| TOTAL SUPPLY | 21668 | 21692 | 23126 | 23665 | 3065 | 22695 |
| Raw Exports | 2 | 3 | 2 | 3 | 0 | 3 |
| Refined Exp.(Raw Val) | 4198 | 4456 | 5789 | 6091 | 0 | 5400 |
| TOTAL EXPORTS | 4200 | 4459 | 5791 | 6094 | 0 | 5403 |
| Human Dom. Consumption | 14179 | 14321 | 14259 | 14447 | 0 | 14518 |
| Other Disappearance | 11 | 11 | 11 | 11 | 0 | 11 |
| Total Disappearance | 14190 | 14332 | 14270 | 14458 | 0 | 14529 |
| Ending Stocks | 3278 | 2901 | 3065 | 3113 | 0 | 2763 |
| TOTAL DISTRIBUTION | 21668 | 21692 | 23126 | 23665 | 0 | 22695 |

Figures in 1,000 MT of raw sugar equivalent

Notes: When converting from white to raw sugar, a conversion factor of 1.087 is used. Sugar produced in French Overseas Departments are included in production data and excluded from trade data. Sugar-containing products are excluded from trade data. Therefore, domestic consumption includes an additional 0.27 MMT to account for net trade in sugar-containing products.

## General

Sugar beet planted area rose by 1% in 2002/03, which combined with yields returning to more typical levels after the poor harvest experienced in 2001/02, lead to a substantial increase in 2002/03 sugar output of 18.665 MMT (raw sugar equivalent) a rise of 15% from the previous year. Both the area planted and yield rises were a reversion to average levels following the reduced plantings and poor growing conditions of the previous year.

As a result of the sharp increase in production, as well as a 7% cut in A and B quotas announced in September 2002, long after the farmer's planting decisions had been made, there were substantial quantities of sugar left as C sugar supplies (any amount of sugar exceeding the A and B sugar production quotas). C-sugar must be either carried over or exported without subsidy.

Total EU sugar supplies in excess of A and B quotas is estimated at 4.168 MMT white sugar equivalent (4.53 MMT, raw sugar equivalent). Of this, 912,000 MT is to be carried over to 2003/2004 counting against next year's A quota production, (991,344 MT expressed as raw sugar). The remainder is C sugar, 3.256 MT (3,538 M MT raw sugar) is to be exported without subsidy. The C sugar exports are in addition to the 2.348 MMT (2.552 MMT raw sugar) of B quota which can be exported with subsidies.

## Outlook for 2003/04

Planting for the 2003/04 season has progressed rapidly due to mild and early spring weather. Indications are of a cut in area planted for the forthcoming season. The 2002/03 A and B sugar quota reductions were in practice shifted to 2003/04 for sugar beet growers. The holding over or 'blocking' of 2002/03 production to the following year's A quota translates into a reduction in 2003/04 area planted to beet. In effect, the build up of stocks of sugar from the previous season mean that farmers do not need to grow as much sugar beet to meet their quotas.

According to national sugar beet producers associations, by the end of March, plantings for the 2003/04 season were very advanced. In Belgium, 86% of plantings were reported, with similar figures for France, Denmark, England and South Germany. In Sweden and the North of Germany, reported seedings were still at an early stage as of March 28.

EU wide, sugar beet plantings are estimated to be down 6.5% in 2003. Substantial falls in planted area have been recorded in Italy, 17%, as well as 9% in France and 4.7% in Germany.

The forecast of 1.7m ha planted area for 2003/04 is some 15% down from the 1995-2000 average of approximately 2m ha.

Although the impact of weather on yields during the upcoming growing season and harvest period i, not known, total EU sugar output is preliminarily forecast to decrease by 6.6% in 2003/2004 to 17.1 MMT raw beet sugar, 17.4 MMT including cane sugar.

**Table 1: Total sugar production in the EU (in 1,000 MT raw value)**

| | 2001/02 | 2002/03 prelim. | 2003/04 forecast |
|---|---|---|---|
| Austria | 457 | 496 | 441 |
| Belgium | 874 | 1108 | 1071 |
| Denmark | 514 | 561 | 493 |
| Finland | 163 | 177 | 161 |
| France - beet | 4033 | 5139 | 4629 |
| France - cane | 262 | 257 | 267 |
| Germany | 4050 | 4366 | 4259 |
| Greece | 337 | 314 | 310 |
| Ireland | 223 | 215 | 223 |
| Italy | 1433 | 1532 | 1358 |
| Netherlands | 978 | 1112 | 1019 |
| Portugal | 61 | 86 | 70 |
| Spain - beet | 1095 | 1288 | 1198 |
| Spain - cane | 7 | 6 | 9 |
| Sweden | 402 | 470 | 423 |
| U.K. | 1304 | 1538 | 1486 |
| Total EU-15 | 16185 | 18664 | 17432 |

**Table 2: EU sugar crop data and yield levels**

| Member State | Area (1,000 HA) | | | Yield (MT of raw beet sugar per HA) | | |
|---|---|---|---|---|---|---|
| | 2001/02 | 2002/03 Prelim. | 2003/04 Forecast | 2001/02 | 2002/03 Prelim. | 2003/04 Forecast |
| Austria | 45 | 45 | 40 | 10.14 | 10.46 | 10.38 |
| Belgium/Lux. | 96 | 98 | 96 | 9.11 | 11.30 | 11.16 |
| Denmark | 56 | 55 | 50 | 9.19 | 10.20 | 9.86 |
| Finland | 31 | 32 | 31 | 5.26 | 5.54 | 5.21 |
| France | 386 | 399 | 362 | 11.14 | 12.88 | 12.79 |
| Germany | 449 | 457 | 435 | 9.02 | 9.51 | 9.72 |
| Greece | 43 | 42 | 40 | 7.83 | 7.57 | 7.79 |
| Ireland | 31 | 31 | 31 | 7.19 | 6.94 | 7.26 |
| Italy | 222 | 246 | 205 | 6.51 | 6.23 | 6.60 |
| Netherlands | 109 | 109 | 104 | 8.98 | 10.20 | 9.97 |
| Portugal | 5 | 10 | 9 | 6.96 | 8.59 | 9.80 |
| Spain | 114 | 114 | 120 | 9.66 | 11.30 | 9.76 |
| Sweden | 54 | 53 | 52 | 7.45 | 8.86 | 8.36 |
| U.K. | 149 | 148 | 145 | 8.75 | 10.39 | 10.25 |
| Total EU-15 | 1790 | 1839 | 1719 | 8.87 | 9.99 | 9.95 |

Note: Area does not include sugar cane in the DOM.(French Overseas Departments) Area does include cane area in Spain.

## Organic Sugar Production

The UK beet production includes 16,000 MT of organic sugar beet which is converted into sugar syrup for use in organic food preparations. This equates to less than 0.2% of UK sugar beet production. In 2001, 10,000 MT of organic sugar beet had been produced for the first time in England. However, the sugar syrup produced was accidentally mixed with ordinary sugar syrup so had to be sold as conventional (non-organic) production.

According to the French sugar beet producers association, CGB, the UK organic sugar market was around 7,000t in 2002, with demand forecast to rise to 11,000t by 2004.

In addition, in Germany, Suedzucker's Warburg factory processed some 8,000t of organic sugar beet to produce 7,915t of organic sugar. The organic beet yielded just 43.6t/ha., though with a polarization of 16.6%.

While during the marketing years 1994/95 - 2001/02, the production of isoglucose has hovered around the production quota level, inulin syrup production has increased substantially, but still has not reached the total quota level. EU total production figures for isoglucose and inulin syrup are shown in the table below.

**Isoglucose and Inulin Syrup**

**Table 3: Production of isoglucose and inulin syrup in the EU, MY 1994/95 - 2001/02**

| | Isoglucose MT of dry matter | Inulin syrup MT of dry matter |
|---|---|---|
| 1994/95 | 295,872 | 81,012 |
| 1995/96 | 302,707 | 128,246 |
| 1996/97 | 302,026 | 175,909 |
| 1997/98 | 302,722 | 217,960 |
| 1998/99 | 303,011 | 156,344 |
| 1999/00 | 304,853 | 230,046 |
| 2000/01 | 291,953 | 229,280 |
| 2001/02 | 301,000 | |

# Consumption

## General

Consumption on the EU domestic sugar market has been fairly stable and is not expected to rise significantly in the future. During the 1990s EU sugar consumption remained at a fairly static level, though in the past few years, there have been some marginal increases in total consumption. At present, per capita consumption of white sugar equals about 34 kg per year.

Although the use of isoglucose has gradually replaced a part of EU sugar use, sugar still represents about 80 percent of all sweetener consumption in the EU. A continued expansion in the use of isoglucose is made impossible through a system of isoglucose production quotas. EU inulin syrup output is also subject to production quotas, but while production has increased significantly, these annual quotas have not been filled to date as the food processing industry view it as an expensive alternative to sugar.

Generally, the EU domestic sugar market can be characterized as a saturated market, as human consumption of white sugar remains very stable at about 34 kg per capita. It should be noted that these calculations of sugar consumption include industrial consumption, i.e., sugar use by the food industry, without taking account of intra-EU exports of sugar-containing products.

The French sugar research institute, CEDUS, estimate that per capita sugar consumption in France for 2002 was 35.7 kg. This figure has remained stable over the past thirty years. It can be further broken down as 20.8% direct consumption, 76.7% indirect consumption (used in the food industry and out of home consumption such as restaurants), with a further 3.14% used in the chemical and pharmaceutical industries.

**Table 4: Sugar consumption in the EU-15, 1,000 MT of raw sugar**

| Member state | 2001/02. | 2002/03 estim. |
|---|---:|---:|
| Denmark | 273 | 275 |
| Germany | 3025 | 3052 |
| Greece | 341 | 344 |
| Spain | 1349 | 1361 |
| France | 2278 | 2299 |
| Ireland | 184 | 185 |

| | | |
|---|---|---|
| Italy | 1557 | 1571 |
| Netherlands | 727 | 734 |
| Austria | 321 | 324 |
| Portugal | 360 | 363 |
| Finland | 226 | 228 |
| Sweden | 424 | 428 |
| Belgium/Lux. | 592 | 598 |
| U.K. | 2394 | 2415 |
| Total EU-15 | 14,051 | 14,177 |
| + net trade in sugar-containing products | 270 | 270 |
| **Total domestic consumption** | **14,458** | **14,518** |

**Consumption of sugar by the chemical industry**

The EU grants production refunds for products (raw sugar, unprocessed isoglucose, and sucrose syrups) which are used in the manufacture of certain products of the chemical industry. Some examples of chemical products are: glycerol, pharmaceutical products, glues, enzymes, plastic materials, cellulose esters, and ethers. Effective April 1, 2003 the production refund granted to the chemical industry in the EU for using high-cost EU sugar was set at EUR 40.754/100 kg of white sugar.

The chemical industry obtains these production refunds as a compensation for the competition it faces from duty-free imports of chemical products from producers which are able to source raw materials at the world market price.

**Use of sugar in processed products**

Sugar is one of the five basic products used as a raw material in the manufacture of second-stage processed foods, such as chocolate, cookies and ice cream. Because the Common Market Organization (CMO) for sugar leads to higher sugar prices and therefore higher input costs for second-stage processors, export refunds are available to help make these products competitive on world markets. The level of refund is calculated based on the amount of sugar used in the final product and the difference between the world market price for sugar and the EU intervention price. EU food processors contend that the refunds do not fully compensate for the higher cost of EU sugar because the market price for white sugar purchased by processors is 8-20% higher than the intervention price.

Thus processors are not compensated for all of the difference between EU and world prices.

**Biofuels**

The Agriculture Council of Ministers adopted a Directive on biofuels on April 8, 2003. Initially, it was proposed that mandatory targets of 2% biofuel use in fuel by 2005 and 5.75% by 2010 be set. These targets have, however, been watered down to become non compulsory 'reference targets'.

The Commission had originally proposed mandatory targets and whilst this idea had been approved by the European Parliament on the first reading of the Directive, the Council rejected this approach. The legislation requires that Member States will have to inform the Commission of progress made towards achieving these targets, in addition, in March 2003 the Parliament voted through an amendment requiring Member States to provide an explanation should they fail to meet these targets. See Attache Reports E21099 and E23040 for more details.

Increasing biofuels use could impact on the sugar market, although its significance for sugar is still unknown. However, future expansion of biofuel is seen as more likely to be occurring from oilseeds. Ethanol is available on the world market at a price that EU production from sugar beet could not match.

# Trade

**Imports**

Sugar imports into the EU during the period October 1, 2001 - September 30, 2002 are listed in Annex I. In comparison with the same period in 2001/2002, imports increased by approximately ten percent to 2.087 MMT raw sugar equivalent. The five main countries of origin in 2001/2002 were: Mauritius 580,775 MT, Guyana 185,6565 MT, Swaziland 153,519 MT, Fiji 147,900 MT, and Serbia and Montenegro 139,442 MT. Combined, these five countries represented 58% of EU imports of sugar in 2001/2002.

Given the high level of the Common Customs Tariff, imports of sugar into the EU consist mostly of preferential imports, either duty-free or reduced-duty (see Policy - Import Policy). Apart from guaranteeing sufficient raw material supplies to EU sugar refineries, the preferential trade links between the EU and certain African, Caribbean and Pacific (ACP) countries provide the ACP countries with a steady income. As the EU is a surplus producer of sugar (even during poor production years) and the fact that imports are highly regulated, wide variations in imports from year to year are not usually observed.

However, the EU's 2001 decision to allow the countries of the Western Balkans (Albania, Croatia, Serbia and Montenegro, Bosnia, Kosovo and Macedonia) duty free access to the EU for almost all products, including sugar, has lead to significant increases in EU imports of sugar from these countries. Due to the massive differential between the world and EU sugar prices, these countries have an incentive to ship their entire production to the EU and replace it with imports from the world market. See the section Policy - Import Policy for more details.

EU Sugar imports from Serbia and Montenegro (formerly Yugoslavia) increased from 4,518 MT in 2000/01 to 139,442 MT in 2001/02. Similarly, Croatian exports of sugar also jumped from 23,245 MT to 77,059 MT over the same periods. Most of these imports are refined sugar. EU refined sugar imports increased from 118,470 MT in 2000/01 to 294,509 MT in 2001/02.

In 2001/02, the first imports into the EU of sugar from the least developed countries (LDCs) under the Everything But Arms program started. Currently these imports will have no effect on overall EU imports as they are counted against the Special Preferential Imports (see Policy - Import Policy), however by 2009, sugar imports from these countries will have been completely liberalized. Annex II lists which countries are part of the EBA Agreement, as well as their current production levels and whether they are part of the current ACP sugar import system.

**Exports**

EU sugar exports to third countries consist of both subsidized and unsubsidized sugar. In 2001/2002, total sugar exports decreased by approximately one third, as less C sugar was exported compared to the previous year, mainly due to the lower sugar production in 2001/02. Of the EU's 4.46 MMT sugar exports (raw equivalents), the top destinations were : Algeria, 614,000 MT; Syria, 527,000 MT; Israel, 497,000 MT; Switzerland, 223,000 MT and the United Arab Emirates, 134,000 MT.

With higher production in 2002/03, reduced B quotas available for subsidized export, even taking into account 'blocked' sugar held over for 2003/04 of roughly 1 MMT, there will need to be a higher level of exports from the EU in order to avoid the build up of stocks.

Based on a B quota of 2.348 MMT and a C sugar supply of 3.256 MMT, 2002/03 EU sugar exports are tentatively forecast at 5.6 MMT (6.1 MMT raw equivalent). However, the C sugar for 2002/03 does not have to be exported until the end of December 2003 so in a situation of low world prices, or any expected improvement in world prices later in the year, then some of this sugar could be exported in the next marketing year, 2003/04.

# Stocks

Sugar stocks in the EU consist of free (unregulated) stocks and C-sugar supplies which are carried forward to the following marketing year. The minimum stocks system which had been in place since 1974 was abolished in 2001/02, along with the storage cost reimbursement scheme under the current sugar regime which came into effect in the 2001/2002 marketing year.

In order to prevent a substantial build up of stocks in eastern Europe prior to their joining the EU in May 2004 (to take advantage of higher EU prices), it is possible that the European Commission will announce some type of measure to control this. It is not yet known when or even if this will take place, but could include a census of stocks in candidate countries, with those stocks deemed being beyond domestic consumption requirements being classified as C sugar upon accession (thus required to be exported without subsidies and not sold on EU markets).

# Policy

## General

The principles of the EU’s sugar policy have remained largely unchanged over the past 30 years, given a powerful beet growers and sugar producers lobby successfully resisting all attempts at reform. However, there are pressures for reform due to WTO subsidized constraints and the Everything But Arms program fully liberalizing sugar imports from the 49 least developed countries by 2009. In addition to EU enlargement exacerbating structural surplus in the EU. The Commission is currently preparing proposals for reforming the sugar regime, although full details are not known at this point. See Policy - future developments for more detail.

The basic tools of the EU's sugar policy are: 1) import restrictions with limited free access for certain suppliers; 2) internal support prices that ensure returns to producers for a fixed quantity of production and permit the maintenance of refining capacity; and 3) export subsidies for a quantity of domestically produced (as well as imported) sugar.

There has been little change in this policy over the past year, except for the reduction of A and B quotas in September 2002 for the 2002/03 marketing year, in order to keep the EU within it’s WTO subsidized export commitments.

The current regime is mandated through to the Summer of 2006.

## Production Policy

The current EU sugar regime entered into force on July 1, 2001 and will apply through the 2005/2006 marketing year.

Council Regulation 1260/2001 set quotas for the production of "A" and "B" sugar from marketing years 2001/2002 through 2005/2006. EU member states allocate their shares of the A and B quotas among the sugar, isoglucose and inulin syrup-producing operations on their territories. The applicable quota levels per product and per member state are shown in the tables below. These quotas are subject to annual review to ensure that the EU stays within its WTO limits for export subsidies for sugar. The lowering of quotas according to the annual review takes into account Commission forecasts of production, imports, consumption, storage, carryover, exportable balance and average loss likely to be borne under the self-financing scheme.

**Table 5: EU sugar production quotas for MY 2001/02 - 2005/06**

| Member state or region | A sugar quota (MT white sugar) | B sugar quota (MT white sugar) |
|---|---|---|
| Belgium/Luxembourg | 674,905.5 | 144,906.1 |
| Denmark | 325,000 | 95,745.5 |
| Germany | 2,612,913.3 | 803,982.2 |
| Greece | 288,638 | 28,863.8 |
| Spain | 957,082.4 | 39,878.5 |
| France (metropolitan) | 2,506,487.4 | 752,259.5 |
| France (overseas departments) | 463,872 | 46,372.5 |
| Ireland | 181,145.2 | 18,114.5 |
| Italy | 1,310,903.9 | 246,539.3 |
| Netherlands | 684,112.4 | 180,447.1 |
| Austria | 314,028.9 | 73,297.5 |
| Portugal (continental) | 63,380.2 | 6,338 |
| Portugal (Açores) | 9,048.2 | 904.8 |
| Finland | 132,806.3 | 13,280.4 |
| Sweden | 334,784.2 | 33,478 |
| United Kingdom | 1,035,115.4 | 103,511.5 |
| Total | 11,894,223.3 | 2,587,919.2 |

Source: Council Regulation 1260/2001 of June 19, 2001, Official Journal L 178

**Table 6: EU Isoglucose and Inulin syrup production quotas for MY 2001/02 - 2005/06**

| Member state or region | A isoglucose quota (MT dry matter) | B isoglucose quota (MT dry matter) | Member state or region | A inulin syrup quota (MT dry matter) | B inulin syrup quota (MT dry matter) |
|---|---|---|---|---|---|
| Belgium/ Luxembourg | 56150.6 | 15441 | Belgium / Luxembourg | 174,218.6 | 41,028.2 |
| Denmark | 0 | 0 | France (metro) | 19847.1 | 4674.2 |
| Germany | 28643.3 | 6745.5 | Netherlands | 65519.4 | 15430.5 |
| Greece | 10453 | 2457.5 | **Total** | **259585.1** | **61132.9** |
| Spain | 74619.6 | 7959.4 | | | |
| France (metropolitan) | 15747.1 | 4098.6 | | | |
| France (o'seas departments) | 0 | 0 | | | |
| Ireland | 0 | 0 | | | |
| Italy | 16432.1 | 3869.8 | | | |
| Netherlands | 7364,6 | 1734,5 | | | |
| Austria | 0 | 0 | | | |
| Portugal (continental) | 8027 | 1890,3 | | | |
| Portugal (Açores) | 0.0 | 0.0 | | | |
| Finland | 10792 | 1,079.7 | | | |
| Sweden | 0.0 | 0.0 | | | |
| United Kingdom | 21,502 | 5,735.3 | | | |
| **Total** | **249,731.3** | **51,011.6** | | | |

| | | | | | |
|---|---|---|---|---|---|

Official prices were also set by Council Regulation 1260/2001 and are listed in the table below. The "minimum price" refers to the price sugar manufacturers are obliged to pay for the purchase of beet for processing into sugar.

The intervention price is increased for the areas of the EU considered to produce less sugar than their consumption needs, in order to encourage beet production in those areas. For the deficit areas of the EU, the derived intervention prices for white sugar under regulation 1260/2001 are: EUR 64.65/100 kg for Ireland, the UK, Portugal and Finland and EUR 64.88/100 kg for Spain.

In addition the system of national aids,( as described in GAIN Report E22037 enable the Italian, Finnish and Spanish governments to grant some adjustment aids, as well as for the French government in the overseas departments of Martinique, Guadeloupe and Reunion.

**Table 7: Official prices in the EU sugar sector for MY 2001/2002 - 2005/2006**

| | |
|---|---|
| White sugar intervention price | 63.19 EUR/100 kg |
| Raw sugar intervention price | 52.37 EUR/100 kg |
| Basic price for beet | 47.67 EUR/MT |
| Minimum price for "A" beet | 46.72 EUR/MT |
| Minimum price for "B" beet | 32.42 EUR/MT |

Since 1986/87 EU producers have born the full financial responsibility for disposal of their production which exceeds internal consumption on an annual basis. Production levies are charged to recoup for the Community budget the cost of export subsidies for quota sugar exports to the world market. Producers pay, to the competent EU member state authorities, a basic production levy of 2 percent of the intervention price (white sugar) on their A and B sugar volume. If this basic amount is not sufficient to cover the costs, there is an additional levy on B quota volumes of up to 37.5 percent can be imposed. When the B quota levy is increased, the minimum price for B beets is decreased. Supplementary levies may also be set if these are not sufficient to dispose of surpluses.

Whilst producer levies ensure that the EU sugar system is self-financing to a large extent, export subsidies for the quantity of sugar equal to the EU's "preferential imports" are paid for from the EU budget (see Import Policy).

**Table 8: C-sugar supplies by EU member state, 2001/2002 & 2002/03**

| | 2001/02 | 2002/03 |
|---|---|---|
| Denmark | 87 | 135 |
| Germany | 416 | 846 |
| Greece | 57 | 0 |

| | | |
|---|---|---|
| Spain | 98 | 110 |
| France | 658 | 1544 |
| Ireland | 26 | 7 |
| Italy | 98 | 0 |
| Netherlands | 97 | 233 |
| Austria | 73 | 96 |
| Portugal | 0 | 0 |
| Finland | 22 | 18 |
| Sweden | 64 | 57 |
| Belgium/Lux. | 74 | 222 |
| U.K. | 132 | 273 |
| Total | 1900 | 3538 |

Any quantity of sugar, which is produced outside the sum of total "A" and "B" quotas is called "C-sugar". According to EU legislation, "C-sugar" must be sold on the world market without export subsidies or carried over to the following marketing year. Penalties apply in cases where C sugar is disposed of contrary to the regulations in force.

**Import Policy**

All products covered by the common organization of the markets in the sugar sector are subject to the rates of import duty listed in the Common Customs Tariff. Common Customs import tariffs are EUR 33.9/100 kg for raw sugar for refining and EUR 41.9/100 kg for other raw sugar and refined sugar. It should be noted, however, that additional import duties may be set in order to prevent or counteract adverse effects on the EU market. Since July 1, 1995, a system of additional duties increasing in line with the difference between the world import price and the trigger price has been in place. The trigger prices, below which an additional duty may be imposed, are notified by the EU to the WTO. Additional duties currently (effective March 14, 2003) applicable to imports of sugar are EUR 6.99/100 kg for raw cane sugar for refining, EUR 6.80/100 kg for raw beet sugar for refining and EUR 9.80/100 kg for white sugar. The Commission also periodically sets representative prices and associated additional import duties for molasses. As of March 28, 2003, the additional duty is set at zero.

The majority of third country sugar shipped to the EU is, however, imported under special import quotas. "Preferential sugar" is imported at zero duty. The total duty-free import quota amounts to 1,304,700 tons (white sugar equivalent), of which 10,000 tons for cane sugar originating in India and 1,294,700 tons for cane sugar originating in the countries covered by the ACP-EU Partnership Agreement, signed in Cotonou in June 2000 (see Annex II listing ACP sugar producers). The purchase price for Preferential Sugar is negotiated annually between the EU and the ACP states. In practice, this price has been equivalent to the derived intervention price for raw sugar in the U.K. Preferential imports provide a guaranteed income to ACP states, the EU being committed to buy at the guaranteed price through the Intervention Agencies in case no other buyer can be found. Buying through intervention agencies has not occurred to date.

Under the new sugar regime, for the 2001/2002 through 2005/2006 marketing years, adjustment aid is granted as an intervention measure to the industry refining preferential raw cane sugar (only for quantities refined into white sugar). The aid is EUR 0.10 per 100 kg white sugar equivalent. An additional basic aid of EUR 0.10 per 100 kg shall be granted for refineries refining raw cane sugar produced in the French Overseas Departments.

There are also special import arrangements for agricultural products, including sugar, produced in Balkan countries (Albania, Bosnia and Herzegovina, Croatia, the Former Yugoslav Republic of Macedonia and the Federal Republic of Yugoslavia). Since 2001, tariffs and quantitative restrictions were removed for all sugar products produced in these countries. Access to the preferential arrangements is subject to these countries' continued participation in the European Union's Stabilization and Association process and compliance with EU definitions of "originating products." There is no limit to the amount of sugar which may be exported by these countries under these arrangements, other than their capacity to produce sugar. There is no set minimum purchase price.

In addition to preferential imports, the Commission also sets an annual tariff quota, called the "mfn quota" for the supply of raw cane sugar to Community refineries. Following the accession of Finland, the EU has undertaken to import, as from January 1, 1996, 85,463 MT of raw cane sugar from third countries intended for refining at a reduced duty of EUR 98/MT. The quota allocation by country of origin is as follows: Cuba 58,969 MT, Brazil 23,930 MT, other third countries 2,564 MT.

Annual maximum supply needs (MSN) for EU refineries have been established through Council Regulation 1260/2001 as 1,776,766 MT white sugar equivalent. This is broken down as 59,925 MT for Finland, 296,627 MT for continental France, 291,633 MT for mainland Portugal, and 1,128,581 MT for the U.K. The MSNs are to be met by imports from the French overseas departments, the Preferential Imports, and imports under the mfn quota.

Any balance remaining after these imports, must be met by a "Special Preferential Imports" quota opened on an annual basis in two tranches for the imports of raw cane sugar for refining which originates in ACP states and India. A special reduced rate of duty applying to these imports is fixed on an annual basis. From July 2002 through February 2002, the reduced rate of duty is set at zero and the quota level is set at 183,200 tons white sugar equivalent. 173,200 tons must be of ACP origin, with the remaining 10,000 coming from India. Finland and mainland Portugal are authorized to import under the quota, with allocations of 35,000 and 125,000 tons respectively, as well as 20,200 tons for the UK and 3,000 tons for mainland France. The quantity from March 1 to June 30, 2003 is set at 42,448 tons from ACP countries at 0 duty, broken down as follows: Finland – 10,713 tons, metropolitan France – 5,126 tons, mainland Portugal – 13,082 tons, UK – 4,876 tons. EU refiners participating in this special reduced duty system must pay a minimum purchase price to the countries of origin of EUR 49.68/100 kg of standard quality raw sugar.

At the end of February 2001, the EU General Affairs Council adopted the "Everything but Arms (EBA) proposal". Quotas and duties are eliminated on all products except arms from the 48 poorest countries in the world (LDC).

The EBA program is laid out in Council Regulation 416/2001. It provides for free access for sugar through a process of progressive tariff elimination starting in 2006, when the current EU financial guidelines expire, and leads to full liberalization in 2009. Common Customs Tariff duties on the products of tariff heading 1701 (i.e., cane or beet sugar and chemically pure sucrose, in solid form) will be reduced by 20 percent on July 1, 2006, by 50 percent on July 1, 2007, and by 80 percent on July 1, 2008. They will be entirely suspended as from July 1, 2009. From July 1, 2001 till July 1, 2009, the EU Commission will open zero-duty tariff quotas for raw cane sugar for refining, initially amounting to 74,185 MT white sugar equivalent and increasing by 15 percent in each subsequent marketing year (July-June). Initial quota amounts are based on best export levels of LDC to the EU in the recent past.

**Table 9: EBA Quota levels 2001/02 - 2008/09**

| Marketing year | Quantity in tons (white sugar) |
|---|---|
| 2001/2002 | 74,185<br>(80,642 in raw sugar) |
| 2002/2003 | 85,313 |
| 2003/2004 | 98,110 |
| 2004/2005 | 112,826 |
| 2005/2006 | 129,750 |
| 2006/2007 | 149,213 |
| 2007/2008 | 171,595 |
| 2008/2009 | 197,335 |

There is a safeguard clause in the regulation stating that preferences may be suspended if imports cause serious disturbance to the Community markets and their regulatory mechanisms. There is also a "temporary withdrawal clause", which would reintroduce common customs tariff duties in case of fraud or failure to provide administrative cooperation as required for the verification of certificates of origin, or massive imports into the EU from LDC in relation to their usual levels of production and export capacity.

In practice, EBA is not expected to have any appreciable effect on the sugar market over the next couple of years because the additional imports under the EBA quota will be offset by reduced Special Preferential Sugar imports. LDC's are not the lowest cost producers on the world market and therefore would find it difficult to compete if EU prices are lowered as a result of sugar reform, a new WTO agreement or further liberalization through the EU-ACP Partnership agreement.

A study by the International Sugar Organization argues that under even the most conservative assumptions that the EU will be importing in excess of one million tons of raw sugar equivalent from the EBA countries in 2009. This figure could rise as high as 2.4 to 2.9 MMT, although this would require expensive infrastructure investments to occur in these countries.

**Table 10: EBA Sugar Exports to the EU, 2001/02**

| | Raw Sugar, MT |
|---|---|
| Congo Brazzaville | 7,689 |
| Ethiopia | 15,542 |
| Malawi | 11,307 |
| Mozambique | 9,056 |
| Sudan | 17,671 |
| Tanzania | 9,854 |
| Zambia | 9,520 |
| Total | 80,639 |

**Export Policy**

EU subsidized exports of sugar to third countries are limited, to 1.273.5 MMT in volume and EUR 499.1m in value, under the GATT Uruguay Round Commitments of the EU. However, the Community did not make an export subsidy commitment on its subsidized exports of a quantity of sugar equal to its preferential imports; the cost and volume of those export subsidies (on average 1.6 MMT) are not included in the table. There are also special measures for exports to EU outlying regions, such as the Canary Islands. These outlying regions have three options for sourcing sugar: they may import from the world market, import C sugar from the EU (at world market prices) or import quota sugar from EU with an aid equivalent to the export subsidy. Of the approximately 70,000 MT imported by these regions, 60,000 MT is C sugar from the EU.

In March, the European Commission suspended the use of export subsidies for sugar or sugar containing products to the countries of the western Balkans. This was a move aimed at preventing so called carousel trade. This is where sugar would be exported to the Balkans with a subsidy then promptly re-exported back to the EU at zero duties where it could be sold at the higher EU price.

In October 2002, both Brazil and Australialaunched cases at the WTO against the EU sugar regime. They argue that the EU regime causes "cross-subsidization" of C-sugar (which must be exported, without subsidy), through support of the A and B quota sugar. They would also challenge the fact that the EU exports, with subsidy, an amount of refined sugar equivalent to the raw sugar imported from ACP and other countries under preferences, but does not count it against EU export subsidy reduction commitments. However, these preferential imports are counted against the EU’s market access commitments. To date, no formal action has been taken, but a WTO case remains "under consideration."

Neither case has moved forward to the panel phase yet, with Brazil preferring to prioritize a case versus the USA over cotton. In March 2003, Thailand has started procedures under Article XXIII of GATT for a similar case to those of Brazil and Australia.

**Enlargement**

On May 1, 2004, the EU will welcome 10 ten members: Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia. Accession negotiations were completed at the Copenhagen Summit in December, 2002.

The accession treaty will be signed on April 16, 2003 in Athens and will then need to be ratified. From this date until formal accession in May 2004, the new member states (NMS) will have observer status at EU level meetings, including the Agriculture Council, where NMS delegates may speak, but not vote.

The European Parliament has the right to assent or dissent to the accession treaty as a whole (they may not propose amendments) and member states as well as accession candidates must also ratify the treaty according to their procedures.

Bulgaria and Romania will not join the EU in 2004, with the EU maintaining a target of 2007 for their eventual accession. Turkey must wait until December 2004, when the EU will evaluate its readiness for accession, which could lead to accession negotiations being opened. In the meantime, Croatia has also applied for EU membership.

The NMS will immediately participate in the EU's sugar regime. Upon accession all aspects of the sugar regime will be directly and fully applicable in the new member countries when they accede. The Commission did not propose a transition period for phasing in intervention prices or official EU prices.

In the last minute horse trading over the accession package during the Copenhagen Summit last December, the EU agreed to shift some 6,000t of Poland's sugar quota to isoglucose.

The quotas that the NMS will receive are expected to increase the structural surplus in the EU sugar regime, as they will enable a level of production that exceeds consumption in these countries. This effect will be stronger, if consumption falls in the NMS due to domestic sugar prices rising perhaps 30 to 50% with the adoption of the sugar regime and EU tariffs.

**Table 11: Sugar Quotas by New Member State**

| Country | A Sugar | B Sugar | Sugar A+B | Isoglucose A | Isoglucose B | Isoglucose A+B |
|---|---|---|---|---|---|---|
| Estonia | 0 | 0 | 0 | 0 | 0 | 0 |
| Hungary | 400454 | 1230 | 401684 | 127627 | 10000 | 137627 |
| Latvia | 66400 | 105 | 66505 | 0 | 0 | 0 |
| Lithuania | 103010 | 0 | 103010 | 0 | 0 | 0 |
| Poland | 1580000 | 91926 | 1671926 | 24911 | 1870 | 26781 |
| Czech R. | 441209 | 13653 | 454862 | 0 | 0 | 0 |
| Slovakia | 189760 | 17672 | 207432 | 37522 | 5025 | 42547 |
| Slovenia | 48157 | 4816 | 52973 | 0 | 0 | 0 |
| Total | 2829080 | 129402 | 2958482 | | | 206955 |

**Table 12: Production, area and yield estimates for the New Member States, 2002/03**

| | Sugar Production estimates, MT | Sugar beet area, ha. | Growers | Yield, t/ha. | Quota offered, t |
|---|---|---|---|---|---|
| Poland | 2,065,000 | 310,000 | 110,000 | 6.7 | 1,674,000 |
| Czech R. | 533,000 | 70,000 | 950 | 6.7 | 454,900 |
| Hungary | 348,000 | 56,000 | 750 co-ops | 6.2 | 401,700 |
| Slovakia | 185,000 | 33,000 | 600 co-ops | 5.6 | 207,400 |
| Lithuania | 133,000 | 27,000 | 6 co-ops | 4.9 | 103,000 |

| | | | | | |
|---|---|---|---|---|---|
| Latvia | 55,000 | 15,000 | 2 co-ops | 3.7 | 66,500 |
| Slovenia | 43,000 | 8,000 | 3,000 | 5.2 | 52,977 |
| Total | 3,362,000 | 519,000 | | | 2,960,477 |

Source: CGB

**Future Developments**

With the combined pressures of EU enlargement, WTO (including the on going Doha Round, legal challenges from Australia, Brazil and Thailand to the EU regime and the current constraints on subsidized exports) and the progressive liberalization of sugar imports under the Everything But Arms package, the reform of the EU's sugar reform is in the spotlight.

As part of the new sugar regime in 2001/2002, the Commission ordered studies of the sugar sector to aid the EU in devising a post 2005/2006 regime. The first of these studies has been delivered to the European Commission, the next two are expected in the Spring. The first study from EUROCARE, the consulting arm of a German University models the impact of different changes to the current sugar regime from full liberalization, reduced support prices and quotas to leaving the regime as it is currently.

The reform options considered were quota reductions, cuts in support prices, various combinations of both with compensation payable to farmers, along the same lines has previously been implemented in the grains sector, and full liberalisation of the sugar regime.
The two remaining studies focus on market concentration and price transmission.

The Commission has launched an 'inter-service' group, representing the different branches of the European Commission, in order to evaluate the criteria to be used for selecting reform options. It is hoped that the Commission will submit reform proposals during the summer.

It should also be noted that reform of the sugar reform is not part of the mid-term review of the Common Agricultural Policy launched last July and currently subject of detailed discussions. However, as the two processes are running concurrently, it is possible that they may become linked through trade-offs between the Member States and the Commission as they try to reach agreement.

Agriculture Commissioner, Franz Fischler, has said that options to be reviewed include reducing quotas and reducing beet support prices. However, he is also careful to stress that the sugar processing industry should also bear a large part of the financial burden of any eventual reform. A detailed report from the Swedish Competition (anti-trust) authority was critical of the sugar regime, particularly sugar processors, who are largely protected from anti-trust actions under EU legislation.

Any reform is likely to reduce the massive differential between world prices and internal EU prices, which would require a reduction in the price supported for sugar beet and sugar. In other CAP sectors, such as grains, reforms have run along the general lines of reducing intervention prices and compensating producers for lost revenue through direct payments. As the EU sugar regime is largely self financing (but also consumer subsidized), the obvious conclusion for this approach is an increase in

EU budget costs of any reform, even if sugar beet producers are not fully compensated for reduced prices.

The Commission in considering how to reform the sugar regime will need to weigh carefully the impact of different factors, including:

- As the EU prepares for enlargement next May, the EU budget is expected to come under increasing pressure. From 2006, a small (relative to the total CAP budget) margin has been built in to the CAP spending plans, though this would quickly evaporate should an unforeseen problem arise within the CAP over the coming years. Therefore, the Commission will be aware of budgetary restraints when proposing sugar reform options, a restraint that could restrict it's choice of reform.

- In preparing their reform proposals, the Commission also has the problem of trying to second guess the timing and nature of any possible agricultural trade liberalization agreed at the WTO.

- An additional complication in the sugar sector is the role the ACP countries will play. They currently benefit from the sugar protocol will play. At the moment, they are guaranteed access to EU markets at prices very much above world market prices. Annex II lists the countries in the ACP who do not benefit from the EBA program. Their sugar cane production may face severe challenges if faced with world market prices for all their exports. The Cotonou agreement foresees eventual regional free trade agreements between the EU and the ACP's. ACP's have the capacity to produce significantly more sugar than LDC's but may not push for full liberalization as they would then lose their guaranteed high price in the EU market.

- If quotas are reduced, the average cost of production of sugar could rise, as economies of scale are lost. This is because beet lose sugar content as they are transported long distances meaning that it would be difficult to reduce the current number of beet processing factories.

- The Commission needs to propose a set of reforms that can achieve a political consensus amongst national governments. How the NMS governments will act following May 2004 is a relatively unknown quantity and the subject of much discussion in Brussels. It could be that achieving consensus amongst 25 governments could be that much harder than 15 that this encourages the EU to move more swiftly on sugar reform to try and agree proposals before May 2004.

## Annex One: EU-15 Imports and Exports of Sugar, 2001/2

1/ Source: EUROSTAT
2/ All figures in MT of raw sugar equivalent.
3/ Period: October 1, 2001-September 30, 2002.
4/ Effective January 1, 1997, EUROSTAT considers trade with Canary Islands and French Overseas Departments (Reunion, Martinique, Guadeloupe, French Guyana) as intra-EU trade. Therefore, trade data in these tables does not contain trade with Canary Islands, nor with French Overseas Departments.

### TOTAL SUGAR IMPORTS INTO THE EU-15, 2001/2002

| EU Exports | 00 - 01 | 01 - 02 | EU Imports | 00 - 01 | 01 - 02 |
|---|---|---|---|---|---|
| Total | 6628190 | 4459499 | Total | 1897713 | 2087120 |
| Algeria | 839062 | 614408 | Mauritius | 550954 | 580775 |
| Syria | 457224 | 526675 | Guyana | 196735 | 185656 |
| Israel | 404198 | 497061 | Swaziland | 169162 | 153519 |
| Switzerland | 169994 | 222507 | Fiji | 242467 | 147900 |
| United Arab Emirates | 288675 | 134027 | Yugoslavia | 4518 | 139442 |
| Libya | 159275 | 128119 | Jamaica | 165097 | 126543 |
| Iraq | 228242 | 104867 | Cuba | 59119 | 91617 |
| Lebanon | 106512 | 103168 | Croatia | 23245 | 77059 |
| Egypt | 296652 | 102385 | Brazil | 45325 | 63719 |
| Estonia | 70953 | 90147 | Belize | 45190 | 53825 |
| Bosnia & Herzegovina | 90564 | 89673 | Trinidad & Tobago | 59623 | 53744 |
| Mauritania | 145295 | 81830 | Zimbabwe | 65859 | 44116 |
| Yugoslavia | 145034 | 71577 | India | 21090 | 43525 |
| Guinea | 76950 | 70720 | Malawi | 37996 | 41213 |
| Jordan | 167523 | 67316 | Barbados | 48923 | 39878 |
| Albania | 66042 | 66785 | Zambia | 14514 | 23985 |
| Kuwait | 67003 | 59580 | Tanzania | 13247 | 22075 |
| Poland | 47075 | 55145 | Cote d Ivoire | 28343 | 21995 |
| Senegal | 59828 | 51056 | St. Kitts & Nevis | 21610 | 20452 |
| Czech Republic | 41082 | 48995 | Sudan | 0 | 16801 |
| Croatia | 37550 | 44678 | Ethiopia | 0 | 14555 |

# Annex Two: Sugar Production in ACP and EBA Countries

The following table presents the average annual raw sugar production for 1998/9 to 2000/01 in ACP and EBA countries, divided up into sections depending on whether they currently benefit from the ACP sugar protocol and EBA.

| | | | |
|---|---|---|---|
| **Members of ACP sugar protocol, non EBA** | | **ACP countries, not in either sugar protocol or EBA** | |
| Maurice | 583 | Dominican Republic | 476 |
| Zimbabwe | 581 | Cameroon | 65 |
| Swaziland | 564 | Nigeria | 19 |
| Kenya | 483 | Gabon | 17 |
| Fiji | 3149 | | 577 |
| Guyana | 301 | **ACP countries not in sugar protocol but are EBA members** | |
| Jamaica | 206 | Sudan | 715 |
| Zambia | 203 | Ethiopia | 275 |
| Côte d'Ivoire | 148 | Uganda | 150 |
| Belize | 116 | Senegal | 96 |
| Trinidad & Tobago | 102 | Dem. Rep of Congo | 67 |
| Barbados | 54 | Mozambique | 43 |
| Congo | 47 | Burkina Faso | 33 |
| St Kitts & Nevis | 21 | Chad | 33 |
| | 3 773 | Mali | 32 |
| **Members of ACP sugar protocol and EBA** | | Guinea | 24 |
| Malawi | 214 | Burundi | 22 |
| Tanzania | 130 | Somalia | 21 |
| Madagascar | 77 | Haïti | 10 |
| | 421 | Niger | 10 |
| **EBA members not in the ACP** | | Sierra Leone | 5 |
| Bangladesh | 136 | Togo | 5 |
| Myanmar | 62 | | 1 541 |
| Nepal | 47 | | |
| | 245 | | |

All figures in 1'000's of tons
Source: CGB

### List of Least Developed Countries

There are 48 LDCs on the UN list, 39 of them are ACP countries.

The ACP LDCs are: Sudan, Mauritania, Mali, Burkina Faso, Niger, Chad, Cape Verde, Gambia, Guinea-Bissau, Guinea, Sierra Leone, Liberia, Togo, Benin, Central African Republic, Equatorial Guinea, Sao Tomé and Principe, Democratic Republic of Congo, Rwanda, Burundi, Angola, Ethiopia, Eritrea, Djibouti, Somalia, Uganda, Tanzania, Mozambique, Madagascar, Comoros, Zambia, Malawi, Lesotho, Haiti, Solomon Islands, Tuvalu, Kiribati, Vanuatu and Samoa.

The non-ACP LDCs are: Yemen, Afghanistan, Bangladesh, Maldives, Nepal, Bhutan, Myanmar, Laos, and Cambodia.

However, all GSP preferences for Myanmar have been suspended, and this also applies to EBA preferences.