AN ASSESSMENT ON EUROPEAN SUGAR POLICY

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Özet

Avrupa Birliği Ortak Tarım Politikası içinde yer alan şeker politikası, topluluğun kurulduğu günden itibaren topluluk bütçesi için maliyetli bir politika olmuştur. Bu maliyetli şeker politikası ile oluşan yük; vergileriyle topluluk bütçesini finanse eden üye ülke vatandaşlarına yüklenirken, bu durumdan büyük çiftlik sahipleri ile göreceli olarak ACP ve Balkan ülkeleri gibi bazı az gelişmiş ülkeler fayda sağlamaktadır. Avrupa Birliğinin oluşumunun ilk yıllarında ortak bir tarım politikasına çok önem verilmiştir. Yine diğer politikalarda olduğu gibi tarım politikası oluştururken, Avrupa bütçesine yük oluşturan çeşitli finansal fonlar kullanılmaktadır. Bu makalede, şekerin tanımı, tarihi durumu, Avrupa Birliği Ortak tarım politikası içinde şeker politikasının rolünü, şeker sektörünün sorunlarını, çözüm önerilerini ve ilerideki reform seçeneklerini inceleyeceğiz. Bu çalışma Avrupa Birliği üyelik aşamasında olan Türkiye'nin,Avrupa Birliği şeker politikasından nasıl yararlanacağını görmek açısından yararlı olacaktır.

Anahtar Kelimeler: *Ortak Tarım Politikası, Şeker, Avrupa Birliği*

Abstract

Sugar policy which involved in Common Agricultural Policy of European Union, since establishing community, it has been huge burden on union budget. This burden stems from costly sugar policy is allocated among citizens of member states who pay taxes to finance union budget, however large farm owners and relatively least developed countries such as ACP, Western Balkans countries make use of sugar policy of European Union. Since the early years of European Union, more importance has been given to Common Agricultural policy. They use several financal funds which burden on European budget like other policies. In this article, we investigate definition of sugar, and its historical aspects, problems of sugar sector, solutions and future reform scenarios. Also, this study is useful to illustrate how Turkey benefit from this policy on the eve of its accession of European Union.

Keywords: *Common Agricultural Policy, Sugar, European Union*

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1. INTRODUCTION

There are some disagreements over the four decades that European sugar market is an complex market that is subjected to extensive use of production quotas, import controls, support prices, and preferential trade agreements. As a result of these protectionist policies, domestic prices in European Union have become three times greater than the world sugar price.

Recently, World Trade Organization (WTO) has made efforts to free sugar markets in the European Union because of its harmful effects on developing countries. However, these attempts did not conclude with pleasure. As a result of recurrent undesirable consequences, they recognized that current sugar policies can not be sustained. According to WTO, the remedy for efficient sugar regime, that should be abolished all trade distortions such as tariffs, export taxes, subsidies, tariff rate quotas, and state trading among countries and alleviate -finally remove- all domestic supports to producers and taxes on consumers.

In this study, we deal with European Sugar Policy. The sugar policy of European Union, since starting with the European Sugar Regime in 1968, the sugar sector remains one of the most distorted markets in European agriculture[1]. As a consequence of unfavorable situation, under the name of Common Agricultural Policy (CAP), the politicians of member countries had tried to constitute a robust regime to regulate drawbacks of sugar policy. Over the thirty years European sugar regime has known as a complicated system that affecting the allocation of the European sugar production and the volume of world trade negatively. Also, European sugar regime has impaired the production of sugar in most developing countries.

This paper suggests to analyze the current European Sugar Regime and examine its problems. Another aim is to show the relations of European Union's current sugar regime with African, Caribbean and Pacific countries (ACPs), Western Balkan countries and Least Developing Countries (LDCs).

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1 OXFAM 2004, Oxfam Briefing Paper, "Dumping on the World" pp.1

The rest of the paper is structured as follows: Section 2 gives definitions of sugar and places of sugar in the world to understand what we deal with. Section 3 suggests brief history of sugar. Fourth section describes the problems of the European sugar regime with current reforms and we ask "What should be done?" to overcome the drawbacks of the European costly sugar regime. In Section 5, we show future reforms of European Sugar Policy. Finally Section 6 gives some concluding remarks.

2. WHAT IS SUGAR?

Sugar is a nutritient which composed of carbohydrates and mainly made from two very different raw materials: sugar cane and sugar beet. Also sugar is produced from starch-based glucose and isoglucose artificially[2].

We also draw attention that sugar is a commodity which has a huge trade capacity in the world. Sugar is produced in 110 countries and consumed all over the world[3]. As a result of extensive use, sugar is caused so many conflicting and common interests for the all countries in the world.

The major cane sugar producing countries are in warm climates, such as Australia, Brazil, and Thailand. The greatest quantity of sugar is produced in Latin America and the Caribbean nations, and in the Far East. (Table 1). The Sugar beet regions are in cooler climates like North West and Eastern Europe, Northern Japan, also some areas in the United States including California[4]. In 2004, world sugar production was 140 million tonnes and world exports were 45 million tonnes. The seven biggest producers: Brazil, India, European Union, China,USA, Thailand and Australia produced 92 million tonnes, around 65 per cent of world production[5]. With the production of 19 million tonnes, the European Union is the third largest sugar producer in the world, after Brazil and India. The four biggest exporters are Brazil, Thailand, the EU and Australia exported nearly 30 million tonnes, around 65 per cent of world exports (Table 2).

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2 WSRO Sugar Outlook Day 2001: Food Based Dietary Guidance. Food Based Dietary Guidelines in Central and South America. Veronika Molina. Central American Institute for Nutrition

3 http://www.acpsugar.org/World%20Market.html

4 http://sugar.biography.ms/

5 UNCTAD (2005) "Effects of the Everything But Arms Initiative on the Sugar Industries of the Least Developed Countries" pp.15

Table 1: Sugar Production in the World

TOP TEN IN SUGAR PRODUCTION					
SUGAR BEET PRODUCERS			SUGAR CANE PRODUCERS		
NO	COUNTRY	PRODUCTION Milllion Tones	NO	COUNTRY	PRODUCTION Million Tones
1	EU-15	16,3	1	BRAZIL	26,0
2	USA	4,1	2	INDIA	21,7
3	TURKEY	2,1	3	CHINA	10,5
4	POLAND	1,9	4	THAILAND	7,7
5	RUSSIA	1,9	5	MEXICO	5,4
6	UKRAINE	1,7	6	AUSTRALIA	5,3
7	CHINA	1,0	7	PAKISTAN	4,0
8	IRAN	0,9	8	USA	3,8
9	JAPAN	0,8	9	COLOMBIA	2,6
10	CZECH REP.	0,5	10	SOUTH AFRICA	2,4

Source: International Sugar Organization (2005)

Table 2: Sugar Exports And Imports in the World

TOP TEN IN SUGAR TRADE (Acc.to Total Raw and White Sugar)					
TOP TEN IN EXPORT			TOP TEN IN IMPORT		
NO	COUNTRY	EXPORT AMOUNT Million Tones	NO	COUNTRY	IMPORT AMOUNT Million Tones
1	BRAZIL	13,4	1	RUSSIA	4,9
2	THAILAND	5,5	2	EU-15	2,1
3	EU-15	5,1	3	INDONESIA	1,9
4	AUSTRALIA	4,1	4	KOREA REP.	1,6
5	CUBA	1,8	5	JAPAN	1,5
6	INDIA	1,7	6	USA	1,5
7	COLOMBIA	1,3	7	UKRAINE	1,5
8	GUATEMALA	1,1	8	MALAYSIA	1,5
9	SOUTH AFRICA	1,1	9	CANADA	1,4
10	GULF COUNTRIES	1,0	10	GULF COUNTRIES.	1,2

Source: International Sugar Organization (2005)

3. A BRIEF HISTORY OF SUGAR

In ancient times honey and fruits were used to impart a sweet taste to food and beverages[6]. India was the first country to produce crystallized sugar (table sugar=sucrose) from sugarcane. As a result of crusades to East, the Roman Empire met sugar cane and this resulted in a trade in the market. At that time the Persians achieved to purify the cane sugar similar as cane sugar used nowadays.

> Sugar was first seen in Europe when the crusaders returned from Israel. It remained a very costly and scarce product, until Columbus in 1492 introduced sugarcane in America. Venice became the centre of European sugar trade. In the 16th century Antwerp took over that position, while a century later Amsterdam played a key role. Cane sugar from South and Central America and the Caribbean were refined in Amsterdam and sold to other European countries. At the end of the 17th century France chose to protect their own industry by restricting the importation of sugar and started refining sugarcane themselves. In the 18th century many countries followed this policy.When in 1789 slavery was abolished the production of sugarcane, which until that time depended largely on that kind of labour, became more expensive. As an alternative for sugarcane, the Berlin chemist Andreas Marggraf and his apprentice Franz Archard tried to extract sugar from sweet tasting beets native to Europe. In 1799 they succeeded to produce but the yield was not enough to make production profitable. Through plant breeding and better processing the percentage sugar extracted rose quickly. In 1808 a French chemist, Benjamin Delessert, used charcoal to achieve effective clarification of beet sugar. When in the 19th century Napoleon concurred most of continental Europe, the importation of sugarcane by Britain to Europe was blocked. This stimulated the production of sugar beets in France, Belgium, Germany and Austria. By 1880 sugar beets were grown throughout Europe and the consumption of beet sugar exceeded the consumption of cane sugar. Great Britain started growing sugar beets after it lost most of its colonies in the early years of the 20th century (van Dijken, 2001: 3).

6 http://www.sugar.ca/faqGen.htm

4. SUGAR POLICY OF EUROPEAN UNION

The European Union's sugar regime was introduced in 1968, as a part of the Common Agricultural Policy (CAP)[7]. This regime contained the production, processing and marketing of beet and cane sugar within member states at that time. The objective of the regime was to protect European Union's sugar producers by seperating the EU market from the world market. To fulfill this objective, it was to guarantee a decent income for Community producers and produce enough sugar to get under control of supplies to the EU.

Over the four decades, the sugar policy of the European Union is labelled as one of the most distortionary agricultural policies in the world. European Sugar policy includes some regulations, like restrictions on imports of sugar from third world countries, price guarantees for sugar produced for domestic consumption within the EU. As a consequence of protectionist approaches, intervention price is nearly three times more than the world market price for a number of years. This sugar policy damages the allocation of sugar production within the European Union and affect the volume of world trade negatively. Most importantly, European Sugar Policy prevents the production of sugar in some developing countries. Briefly, in order to protect its own sugar sector, European Union damages developing countries' agricultural policy.

European Union supports the sugar sector via several market regulatory tools such as intervention and minimum price for sugar beet and some production related instruments namely sugar production quotas.

4.1 The main features (instruments) of the EU's sugar policy

4.1.1 Price systems: The price systems are determined each year. One of them is basic sugar price, namely the minimum price for sugar beet. Sugar producers have to buy beet from growers at this price. It is set by European Council at € 46.72 per tonne for the A-beet to produce A-quota sugar and € 32.42 per tonne for the B-beet to produce B-quota sugar[8]. Also there is an other

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[7] UNCTAD (2005) "Effects of the Everything But Arms Initiative on the Sugar Industries of the Least Developed Countries" pp.6

[8] European Commission (2004) " Eu Sugar Sector: Facts and Figures" pp.1

price concept in the sugar sector. Sugar producers have to pay farmers for sugar beet is the minimum price for beet. This is the intervention price (Table 3). Intervention is known as a safety net by European Union to guarantee a minimum price for sugar. The intervention price has been frozen since 1993 at € 631.9 /tonne for white sugar and € 523.7 / tonne for raw sugar[9]. However, this fix price system had continued until 2006 (At this date, new reform was started). As a main failure of the sugar policy in the EU, these prices are two or three times higher than existing price in the world market.

4.1.2 Production quota systems: The concept of quota was started as a production related instrument. The EU imposes quotas on each member states to avoid high prices leading to overproduction[10]. Member states were able to product more, but surplus of the sugar had to be sold outside the EU. In the EU the production of sugar is regulated by the use of A and B quotas for sugar beet (Table 4). The main difference between A and B quota sugar is level of taxes. The producer taxes compensate the cost of the gap between the internal price and the world market price for exports of B sugar. Production in excess of the A and B quotas for sugar beet is sold on the world market without any support from the EU[11] (nonquota sugar, namely C sugar). The A quota matches domestic demand and the B quota quantities that may be exported with export refunds. C sugar is a level of production exceeding the total for the A and B quotas during an agricultural marketing year (currently between 2 and 3 million tonnes)[12]. C sugar cannot be sold in the European Union and has to be exported on the world market without refunds.The production quotas (A and B) were set to distribute the production of sugar among the member states and to keep the all production within certain limits.

9 European Commission Report(2005) "The European Sugar Sector" pp.6
10 http://www.aefjn.org/Documents/sugar.doc pp.8
11 http://www.enarpri.org/Publications/pbII.pdf pp.1
12 http://www.aefjn.org/Documents/sugar.doc pp.8

Table 3: Community Sugar and Beet Prices

Marketing year	Intervention price for white sugar	Minimum price for beet	
		A	B
1968/69	212.30	17.00	10.00
1960/70	212.30	17.00	10.00
1970/71	212.30	17.00	10.00
1971/72	226.10	17.00	10.00
1972/73	233.40	17.68	10.40
1973/74	235.70	17.86	10.50
1974/75	264.80	19.78	11.63
1975/76	304.50	22.75	22.75
1976/77	331.40	24.57	17.20
1977/78	328.30	25.43	17.80
1978/79	334.90	25.94	18.16
1979/80	410.90	31.83	22.28
1980/81	432.70	33.10	23.17
1981/82	469.50	35.19	24.42
1982/83	514.10	38.53	23.79
1983/84	534.70	40.07	24.74
1984/85	534.70	40.07	24.74
1985/86	541.80	40.07	24.74
1986/87	541.80	40.07	24.74
1987/88	541.80	40.07	24.74
1988/89	541.80	40.07	24.74
1989/90	531.10	39.27	30.30
1990/91	531.10	39.20	24.20
1991/92	531.10	39.20	27.15
1992/93	531.10	39.20	24.20
1993/94	523.30	38.69	26.85
1994/95	523.30	38.69	26.85
1995/96	631.90	46.72	32.42
1996/97	631.90	46.72	32.42
1997/98	631.90	46.72	32.42
1998/99	631.90	46.72	32.42
1999/2000	631.90	46.72	32.42
2000/01	631.90	46.72	32.42
2001/02	631.90	46.72	32.42
2002/03	631.90	46.72	32.42
2003/04	631.90	46.72	32.42

• Price per tonne in unit of account from 1968 to 1979, en ecus from 1979 to 1998 and in euro since 1999

Table 4: EU's Production Quotas

(tonnes of white sugar) Regions	sugar A quota	sugar B quota	TOTAL
Czech Republic	441.209,0	13.653,0	454.862,0
Denmark	325.000,0	95.745,5	420.745,5
Germany	2.612.913,3	803.982,2	3.416.895,5
Greece	288.638,0	28.863,8	317.501,8
Spain	957.082,4	39.878,5	996.960,9
France (continental)	2.536.487,4	752.259,5	3.288.746,9
France overseas departments	433.872,0	46.372,5	480.244,5
Ireland	181.145,2	18.114,5	199.259,7
Italy	1.310.903,9	246.539,3	1.557.443,2
Latvia	66.400,0	105,0	66.505,0
Lithuania	103.454,0	0,0	103.010,0
Hungary	400.454,0	1.230,0	401.684,0
Netherlands	684.112,4	180.447,1	864.559,5
Austria	314.028,9	73.297,5	387.326,4
Poland	1.580.000,0	91.926,0	1.671.926,0
Portugal (mainland)	63.380,2	6.338,0	69.718,2
Autonomous region of the Azores	9.048,2	904,8	9.953,3
Slovakia	189.760,0	17.672,0	207.432,0
Slovenia	48.157,0	4.816,0	52.973,0
Finland	132.806,3	13.280,4	146.086,7
Sweden	334.784,2	33.478,0	368.262,2
BLEU	674.905,5	144.906,1	819.811,6
United Kingdom	1.035.115,4	103.511,5	1.138.626,9
TOTAL EU-25	14.723.213,3	2.717.321,2	17.440.534,5

In tonnes of dry matter. Regions	isoglucose A quota	isoglucose B quota	TOTAL
Germany	28.643,3	6.745,5	35.388,8
Greece	10.435,0	2.457,5	12.892,5
Spain	74.619,6	7.959,4	82.579,0
France (continental)	15.747,1	4.098,6	19.845,7
Italy	16.432,1	3.869,8	20.301,0
Hungary	127.627,0	10.000,0	137.627,0
Netherlands	7.364,6	1.734,5	9.099,1
Poland	24.911,0	1.870,0	26.781,0
Portugal (mainland)	8.027,0	1.890,3	9.917,3
Slovakia	37.522,0	5.025,0	42.547,0
Finland	10.792,0	1.079,7	11.871,7
BLEU	56.150,6	15.441,0	71.591,6
United Kingdom	21.502,0	5.735,3	27.237,3
TOTAL EU-25	439.773,3	67.906,6	507.679,9

Regions	inulin syrup (*) A quota	inulin syrup (*) B quota	TOTAL
France (continental)	19.847,1	4.674,2	24.521,3
Netherlands	65.519,4	15.430,2	80.949,9
BLEU	174.218,6	41.028,2	215.246,8
TOTAL EU-25	259.585,1	61.132,9	320.718,0

(**) in tonnes of dry matter – white sugar/isoglucose equivalent

	sugar + isoglucose + inulin syrup A quota	sugar + isoglucose + inulin syrup B quota	TOTAL
TOTAL EU-25	15.422.517,7	2.846.360,7	18.268.932,4

Quotas are allocated in an attempt to limit production levels, country by country. These quotas (A, B, and C) are allocated among the EU member states roughly in proportion to their domestic market size, and sugar beet guaranteed price are set EU wide to enable even the least efficient countries to continue production[13] .

There are three objectives of the production quota system in the EU:

1) to limit the total amount of sugar in European sugar market.
2) to limit the potential costs of intervention
3) to guarantee for each member states a certain share of the European sugar Market (European Commission Report, 2004:1)

These quotas apply to the finished product (white sugar) rather than the unrefined agricultural product (beet and cane). The total production quota in European Union is 17.4 million tonnes for 25 member countries and is divided into A quota (82%) and B quota (18%) per member state[14]. Difference between A and B quotas was 12.60 million tonnes in 2003/04 (Table 2).

> The EU-25 sugar production changes between 19-20 million tonnes. Sugar is produced in almost all member states with the exception Luxembourg, Estonia, Cyprus and Malta. However, the productivity of sugar production varies significantly across member states. Germany and France account for half of the EU-25 sugar production, followed by Poland, Italy and United Kingdom. The level of sugar production is more than consumption in all the member states except for Spain, Finland and Sweden (European Commission, 2004:3) (Table 5).

Finally, we want to summarize the European Union Sugar Sector, as below:

- 1.6 to 1.8% of overall farm production
- 10% of farmland
- 230,000 agricultural undertakings
- 3.5% of EU exports of agri-foodstuffs

13 OXFAM (2002), Oxfam Briefing Paper "The Great EU Sugar Scam" pp.16
14 European Commission (2004) " Eu Sugar Sector: Facts and Figures" pp.2

- 13% of world production and 12% of world consumption
- 15% of all exports and 5% of world imports
- Its production varies between 15 and 18 million tonnes of refined sugar equivalent
- Its exports total about 5.3 million tonnes
- Its imports total some 1.8 million tonnes (European Commission Report, 2003).

Table 5: Sugar Production in EU (sugar beet)

1000 Tonnes, White Sugar

COUNTRY	2000/01	2001/02	2002/03	2003/04	2004/05	2005/2006*
AUSTRIA	387	400	433	383	448	438
BELGIUM	942	840	1 019	1 034	946	950
CZECH REP.	451	482	546	565	450	504
DENMARK	533	501	516	490	434	453
ESTONIA	0	0	0	0	0	0
FINLAND	154	146	163	136	136	155
FRANCE	4 235	3 640	4 691	3 964	4 150	4 012
GERMANY	4 363	3 703	4 006	3 747	4 290	3 932
GREECE	368	314	296	220	260	256
HUNGARY	309	434	347	278	460	442
IRELAND	219	207	198	242	210	226
ITALY	1 551	1 269	1 410	882	899	976
LETONIA	63	56	84	95	66	88
LATVIA	137	118	150	143	125	119
NETHERLANDS	1 060	953	1 023	1 145	1 020	1 022
POLAND	2 104	1 626	2 041	2 114	1 849	2 085
PORTUGAL	56	55	77	68	81	79
SLOVAKIA	140	177	199	196	208	222
SLOVENIA	44	50	45	55	61	42
SPAIN	1 097	941	1 198	913	1 040	1 050
SWEDEN	412	402	433	419	342	360
ENGLAND	1 325	1 223	1 430	1 411	1 349	1 389
TOTAL	**19 951**	**17 537**	**20 303**	**18 499**	**18 824**	**18 800**

(*) Estimated
Source : LMC Sugar & Sweetener Quarterly Report, Q1 2005

market[20]. Among 50 LDCs, 35 are net sugar importers with either a small or non-existent sugar sector.

In the case of sugar customs duties were reduced by 20% in practice by July 2006 and will be dropped completely by 2009[21]. Only after 2009 will sugar from the least developed countries enjoy duty-free and quota-free access. Shortly, The EBA aggrement is a unilateral non-reciprocal trade concession offering tariff and quota free access to the EU market to all least developing countries (LDCs).

Under the Balkans initiative[22] import duties were abolished in 2001 for products imported from the Western Balkans (Albania, Bosnia-Herzegovina, Croatia, FYR of Macedonia and Serbia and Montenegro). Sugar imports from the Balkans were previously zero, reached 300000 tonnes in the 2002/2003 marketing year; the average price was €650 per tonne (Table 7).

Table 7: Balkan Countries Exports and Imports

Year	Imports		Exports	
	tonnes	€ a tonne	tonnes	€ a tonne
1999	1	700	207.635	215
2000	618	706	237.313	229
2001	70.171	649	353.114	284
2002	240.593	635	298.598	304
2003	271.515	659	363.946	218

Interestingly, EU sugar exports to the Balkans have developed to supply local consumption. This sugar is sold to the Balkans at a price two or three

[20] There are 50 LDCs on the United Nations list; 41 are ACP countries. The ACP LDCs are: Angola, Benin, Burkina Faso, Burundi, Cape Verde, Central African Republic, Chad, Comoros, Democratic Republic of Congo, Djibouti, Timor Leste, Equatorial Guinea, Ethiopia, Eritrea, Gambia, Guinea, Guinea-Bissau, Haiti, Kiribati, Liberia, Lesotho, Madagascar, Malawi, Mali, Mauritania, Mozambique, Niger, Rwanda, Samoa, Sao Tomé and Principe, Senegal, Sierra Leone, Solomon Islands, Somalia, Sudan, Zambia, Tanzania, Togo, Tuvalu, Uganda and Vanuatu. The nine non-ACP LDCs are: Afghanistan, Bangladesh, Bhutan, Cambodia, Laos, Maldives, Myanmar, Nepal and Yemen.

[21] http://www.aefjn.org/Documents/sugar.doc pp.10

[22] Commission Regulation (EC) 1159/2003, OJ L 162.

times lower than the sugar bought from them.This event shows that, European Sugar regime costly for European Union.

4.2 WHAT ARE THE PROBLEMS OF CURRENT SUGAR REGIME ?

Sugar is one of the most heavily subsidized agricultural commodities in Europe, with negative effects on the world sugar market. Europe's farmers and processors are the world's biggest recipients of sugar subsidies. Since 1995, the EU has spent approximately 1.25 billion Euro per year to subsidy sugar exports. Europe's sugar prices are maintained at almost three times more than world market levels protected by tariffs that reach 140 percent[23]. This is highly damaging to sugar producers in the vast majority of sugar producing developing countries and European taxpayers.

Owing to the high cost of the EU sugar regime, European Union suffers from a chronic problem of over-production and dumping. The quota system has failed to prevent over-production. In 2001, production reached 17 million tones, of which almost 7 million had to be exported[24]. These exports are a form of dumping, as the gap between the high EU guaranteed price and the low world market price is a tool using subsidies for quota exports. These subsidies are funded by taxes which collected from farmers and processors on all quota production. However, the cost of these taxes is ultimately paid for by EU consumers in the form of high prices for the sugar and sugar products that they buy. This sugar regime mainly damages the consumers and taxpayers of the European Union.

Additional export subsidies are given to re-export cane sugar imported from the ACP countries. These subsidies are paid for directly out of the CAP budget, which is funded by the European taxpayers. In other words, European taxpayers face an annual bill of €1.6 billion to help these overseas countries.EU

23 OXFAM, 2002. The Great EU Sugar Scam http://www.oxfam.org.uk/policy/papers/27sugar/27sugar.htm

24 OXFAM, 2002. The Great EU Sugar Scam http://www.oxfam.org.uk/policy/papers/27sugar/27sugar.htm

sugar reform should stop the dumping of cheap subsidized European sugar on global markets. Actually, the European Union sugar regime is desperately need of reform.

These policies keep the price in the internal market high (around 650 Euro per ton), and they disrupt the world market price when compare to competitive countries like Brazil, Colombia, Malawi, Guatemala and Zambia[25]. European Union penetrates the international market with cheap sugar, so that developing countries can not compete with it.

Briefly speaking, the EU sugar policy is useful for sugar producers (big farmers) and processors in Europe, as well as a few selected developing countries by means of the ACP aggrement. However, it penalizes the European taxpayer, and damages the sugarcane farmers and processors in many developing countries.

4.3 WHAT IS THE SOLUTION?

> The EU is under pressure to reform its sugar regime. Following the Uruguay Round Agreement on Agriculture, the EU is bound to reduce border protection and to limit the quantity of supported exports of sugar. In addition, the prospective enlargements of the EU will greatly increase the potentials for surplus production of sugar in the EU, and make it difficult to comply with the commitments of the GATT (Huan-Niemi, 2001).

Solving the problems of costly sugar regime of European Union, the European Commission reviewed the sugar regime and suggested four options:

a. A price reduction following the Agenda 2000 model combined with compensation to the producers for the loss of income,
b. A progressive reduction in prices over a number of years,
c. A continuation of the present price level and minor adjustments of the quota level.
d. Full liberalization (European Commission, 2000a):

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[25] NEI, 2000 'Evaluation of the Common Organization of the Markets in the Sugar Sector' NEI, Rotterdam.

Because of the failures in the market, EU is under pressure to reform its sugar regime[26]. Following the Uruguay Round Agreement on Agriculture (URAA), the EU is required to reduce its border protections and to limit the quantities of subsidised sugar export. In addition, the enlargements of the EU (2005) increased the potentials for surplus production of sugar in the EU, and made it difficult to comply with the commitments of the URAA.

To overcome these problems, the European Commission was making revision of the sugar regime. Two strategies could be followed, namely production quotas and price cuts (Figure 1). It is proved that a price cut strategy is a more efficient instrument to achieve the all objectives of the reform than a reduction of quotas. It is also found that reducing prices in the EU will enhance production substantially in several developing countries. Briefly, everything depends on prices. Provided that, policy of price is regulated, sugar regime is survived.

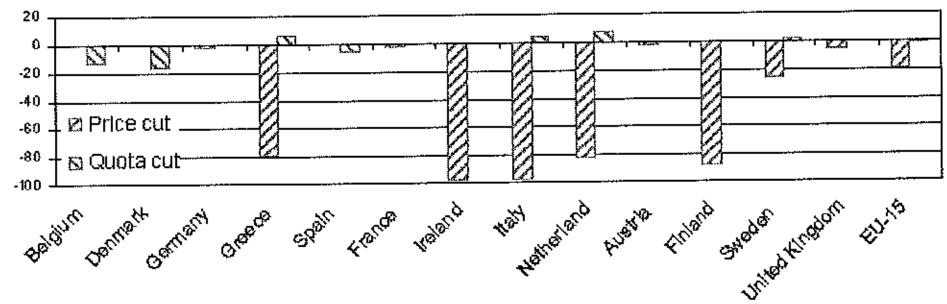

Figure 1: Change in Eu Sugar Production, Per Cent

The cost of the sugar regime is therefore shared between consumers in the EU, who pay a high price for the product, and producers in countries outside the EU, who face lower world market prices due to the subsidised exports of sugar from the EU.

[26] Council Regulation 2501/2001, OJ L 346

5. FUTURE SUGAR REFORMS OF EUROPEAN UNION

In 24 th November 2005, European Union countries' agricultural ministers reached an aggrement to reform European sugar regime. If thinking about that, there is no remarkable change for four decades, this reform initiative would be very assertive. It aims to enhance the competitiveness of the European sugar sector and market orientation of the European Union sugar sector. Also the politician of the Community wants to regulate the relations with the EU's international agreements, particularly the EBA initiative providing the world's poorest countries free access to export sugar to EU markets from 2009. In the long perspective, EU give its producers competitive future in the market. The new sugar regime started from 1st July 2006 and continue until 30th September 2015.

At below, we give some details of the aggrement, also two tables (Table 8 and Table 9) suggests the price in the Europe after the reform.

Table 8: Possible EU Production & Import Levels

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
EU-25 Sugar Production Estimates	18.7	15.3	14.7	13.7	12.9	12.9
Carried-over from previous year	0.7	0.7	0.7	0.7	0.7	0.7
EU-25 Sugar quota	15.5	15.1	14.0	13.0	12.2	12.2
EU-25 C sugar	3.2	0.2	0.7	0.7	0.7	0.7
EU-25 Imports	1.9	1.9	2.2	2.3	3.1	3.1
TOTAL SUGAR QUOTA AVAILABILITY EU-25	19.6	17.7	16.9	16.0	16.0	16.0
Exports (Subsidised)	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
carryover?	0.7	0.7	0.7	0.7	0.7	0.7
unsubsidised exports?	3.7	0.3	0.0	0.0	0.0	0.0
EU-25 Imports						
ACP (Protocol)	1.3	1.3	1.3	1.3	1.3	1.3
ACP (SPS for refining only)	0.1	0.1	0.1	0.1	0.1	0.1
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
	1.9	1.9	2.2	2.3	3.1	3.1

Source: EU Commission and NBF estimates

Table 9: Proposed Institutional Prices

€ / tonne	2005-06	2006-07	2007-08	2008-09	2009-2010	2010-11
EU Reference Price	631.90	631.90	631.90	524.00	404.40	404.40
EU Minimum Beet Price	43.63	32.86	29.80	26.70	26.30	26.30
Guaranteed ACP / LDC Raw Sugar Price	523.70	496.80	496.80	434.10	335.00	335.00
Producers Restructuring Charge		126.40	173.80	113.30		
EU Reference Price Net of Restructuring Charge	631.90	505.50	458.10	410.70	404.40	404.40
Restructuring Payment to exit production		730.00	730.00	625.00	520.00	
Anticipated reduction in production (million tonnes)		3.48	4.48	5.42	6.28	

5.1 Details of Aggrement[27]

- A 36 % price cut for four years beginning in 2006/07 to ensure sustainable market balance, for the first year 20%, for second year 27.5 %, for third year 35 % and 36 % in fourth year.
- Compensation to farmers at an average of 64.2 percent based on the final(fourth year) price cut of 36%. This aid includes Single Farm Payment and linking of payments to respect of environmental and land management standards.
- No change to EBA(Everything But Arms) /LDC (Least Developing Countries) arrangements.
- LDC zero-tariff imports, under the "Everything But Arms" (EBA) initiative as from 2009/10, are not renegotiable. These countries should benefit from the same guaranteed prices as those provided in the ACP sugar protocol.
- 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.
- Internal market reference prices remain unchanged until 1st October 2008.

27 http://europa.eu.int/comm/agriculture/capreform/sugar/index_en.htm

- To be funded by a levy on all sweetener quota production over 3 years 2006/07 to 2008/09
- Validity of the new regime, including extension of the sugar quota system, until 2014/15.
- 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 tonne in years one and two, falling to 625 in year three, and 520 in the final year.
- Transitional aid of €150 million will go to help full time raw cane refiners subject to a suitable business plan.
- 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 1.1million tonnes will be made available against a one off payment corresponding to the amount of restructuring aid per tonne in the first year.
- Sugar for the chemical and pharmaceutical industries and for the production of bioethanol will be excluded from production quotas.

- Increase of isoglucose quota of 300,000 tonnes for the existing producer companies phased in over three years with an increase of 100,000 tonnes each year.
- Possibility to purchase extra isoglocose quota in Italy (60,000 tonnes, Sweden 35,000t and Lithuania 8,000t) at the restructuring aid price.

5.2 REFORM TIMETABLE[28]

- 2005 - November 24th: EU agreement on Sugar Reform
- 2006 - January 17th: EU Parliament voted on sugar reform.
- 2006 - Late January/February: Final Council text.
- 2006 - Late February/March 2006: Final Council vote.
- 2006 - March - June 2006: Implementation/transitional regulations agreed in Management Committee meetings.
- 2006 July 1st: Implementation - effective until 30th September 2015
- 2006 July 1st: End of current regime, start of EBA (Everything But Arms) duty cuts
- 2007 - Anticipated date for Bulgaria and Romania to join
- 2008 - Possible start of new WTO agreement
- 2008 - Last year of quota restrictions for EBA imports
- 2009 - EBA imports all duty free

6. CONCLUSION

Sugar is an important commodity which can be produced nearly 100 countries from sugar beet and cane sugar and recently as HFCS (High Fructose Corn Syrup) artifically and consumed every country in the world. The Europen Union pays attention to sugar more than other agricultural products under the Common Agricultural Policy (CAP). In order to ensure stable price and secure enough sugar supply, it supports to farmers with more incentives.As a result of this, asserting that sugar regimes encourages the production of huge quantity of sugar in the EU at non-competitive prices. High price support in the current regime allows to producers located in the less competitive regions of the EU.

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28 Evans. T.(2005), "EU Sugar Regime 2006-2015" pp.2 http://www.whitworths-sugars.com/

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In this study, we want to present a framework of the European Union's sugar policy and investigate fourty years changes of it. For four decades this sugar regime has been almost unchanged and is subjected to criticism so that causes lack of competition and distortions in the market. In addition, as a result of high prices (more than three times in the world market) the CAP sugar regime imposes high costs on European taxpayers and consumers. On the other hand, it generates large benefits for the processing industry and big farmers and some developing countries because of cheap sugar.

It affects the world market, especially developing countries for the sake of protecting its sugar sector. Part of the mission has been achieved. Protection has been extremely effective in insulating EU farmers and processors from low prices and the fluctuations of the world market. But the domestic gains have been unequally shared and the external costs have been high for the European Union.

As a result of this study, we infer that the European Union is a net sugar exporter and a key player on the world sugar markets.However, it needs to reform sugar policy to prevent harmful effects.

We observed that, the Common Agricultural Policy of Europen Union (CAP) has been in reform process aimed at increasing competitiveness of the European Sugar Policy. The European Commissiom believes that the current regime carefully reviewed and new reform of sugar regime started mid-2006 (1st July 2006) and it could be remedy for recurrent illnesses. The main objective is to provide sustainable and long term EU sugar policy.

This study shows that sugar holds a special place in the politics and economics of agricultural policy in the European Union and there have been several attempts to change the sugar regime since its inception in 1968. However, mostly ends without success.As a consequence of intensive pressures from the World Trade Organization (WTO),wider reform of the CAP, and enlargement of the EU (2005) were all oblige to European Union to reform its regime. Latest reform suggests that, European Union will find a stable path to overcome sugar policy.

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