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Global Agricultural Information Network

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Post-Reform European Union Sugar - Prospects for the Future

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Sugar

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Report Highlights:

With the EU on the eve of a new Common Agricultural Policy “CAP after 2013” reform and a Commission proposal to abolish the sugar quota, this report looks back at the consequences of the 2006 Sugar Reform as part of the CAP reforms of 2003 and 2008 that decoupled European farm support from production and exposed EU producers to world market signals. This report analyses the success record of the sugar reform at a time of volatile world sugar markets and the challenges that lie ahead for the EU sugar sector in the new CAP.

Executive Summary:

The European Union (EU) through its Common Agricultural Policy (CAP) has traditionally attempted to manage the markets and has been successful by and large but at a cost to consumers and taxpayers. The EU is now faced with markets that are more global and volatile than in the past and is being forced to adjust to this new reality. Sugar has traditionally been one of the more volatile commodities and presents a real challenge to the EU to moderate the price volatility while maintaining reasonable prices for producers, processors and consumers without adding to the CAP budget. This report reviews the effects of the 2006-09 policy reform on the EU sugar and sweetener industries, post-reform sugar production capacity and costs of production in the new international setting of projected higher world sugar prices.

General Information:

Sugar policy in the European Union (EU) is exercised by the European Commission through its control over the sugar and sweeteners supply-demand balance. [1] The EU Sugar Regime contains the principles under which the Commission is governed. The regime was created in 1968 and has been subject to review at 5-year intervals up through 2006. Until that time, rules governing sugar policy parameters were distinct from rules governing other commodities under the EU's Common Agricultural Policy (CAP) and the sugar rules witnessed few changes until 2006.

The 2006 reform reduced support prices to sugarbeet growers and processors, and to compensate for lost revenue, sugarbeet payments became incorporated into the EU's Single Farm Payment system. [2] Production quota reduction was achieved through buy-outs and some efficiency gains were realized as efficient producers were allowed to buy renounced quota within member states. Under this system, support payments to growers became decoupled from production, with the purpose of allowing farmers more freedom to produce to market demand. Nonetheless, certain items from the earlier regime, such as minimum sugarbeet prices and production quotas (albeit, at lower levels) were carried over into the new regime.

The Commission relies on various instruments to maintain internal EU sugar prices at or above regime-based reference levels. Although intervention purchases are no longer part of the regime, the Commission can force sugar processors to withdraw sugar from the market. Under certain conditions, the Commission can provide assistance to private storage systems. Trade policies such as providing for protection against non-preferential imports and the power to review import levels, are considered effective in managing price outcomes.

The current CAP is set to expire after the 2014/15 marketing year. There is already debate to determine which elements to change and which to retain. The Sugar Regime, now part of the mainstream CAP, is also subject to examination. Major adjustments to the new regime could include abolition of production quotas by 2015. [3]

This report reviews the differential effects of the last reform of the sugar regime across national industries within the EU to provide some context for understanding the potential timing, feasibility, and features of a second round of policy reforms. The report also examines current short- and longer run

market projections to ascertain if and how anticipated developments in global sugar markets create economic incentives for an additional round of EU reforms.

Current EU Sugar Policy under the 2006 Reform – Internal Support

The current EU Sugar Regime was authorized under Council Regulation No. 318/2006. [4] This was subsequently subsumed into Common Market Organization (CMO) Council Regulation No. 1234/2007 as of October 1, 2008. [5] The covered quota years are 2006/07 through 2014/15. The products covered by the regime include sugar, isoglucose, inulin syrup (fructose from chicory), sugarbeets, sugarcane, molasses, maple sugar and syrup, artificial honey, certain sugar syrups, and beet pulp and other waste products of sugar manufacturer.

Production quotas are defined for sugar, isoglucose, and inulin syrup. Current nation-specific volume totals are reported in table 1 for sugar (last column), and table 2 (last column) for isoglucose and inulin syrup. (As can be seen, all inulin syrup quotas were renounced during the reform transition period.)

Quotas are not tradable across member states and transferability within member states is limited as well. In contrast to the pre-reform regime, there are no intervention prices – they were replaced by reference prices around which wholesale sugar prices are meant to fluctuate. [6] The reference price for white sugar is € 404.4 per tonne, € 335.2 per tonne for raw sugar, and € 26.29 per tonne for sugarbeets. In order to reach the reference price, the Commission has the authority to require processors to withdraw sugar from the market and carry it forward to the next market year, where it counts as the first tranche of quota production in that year. The Commission also has the authority to reduce plantings but any announcement must be made by March 16, preceding the start of the planting season.

There are provisions for sugar produced over quota amounts. The sugar can be used for certain industrial purposes, can be carried forward to the next marketing year, exported without subsidy but within WTO subsidized export volume limits, or destroyed. Out-of-quota sugar not used for these purposes is subject to a Surplus Levy of € 500 per tonne.

Other measures include private storage aid. If the EU market price is lower than 85 percent of the reference price and is expected to remain below that level for two months, private storage aid may be extended to processors of quota sugar. This provision is only effective from November 1 through June 30 of the marketing year in which aid is granted. To date, no private storage aid has been made available.

The regime provides for a production charge on sugar of € 12 per tonne and € 6 per tonne for isoglucose. These charges represent a direct contribution to the general EU budget to cover the sugar regime's administrative cost. Reports of sales prices to the Commission are required for processors and sugar refiners on a monthly basis. The same requirement applies to industrial sugar users for monthly purchase prices.

Table 1 -- EU sugar production quotas: reform transition to levels in 2009/10

Countries	Initial quotas	Additional quota purchased (metric tonnes, white value)	Quota renounced	Final quotas (2009/10)
Countries renouncing all of quota:				
Bulgaria	4,752	0	4,752	0
Ireland	199,260	0	199,260	0
Latvia	66,505	0	66,505	0
Portugal	69,718	0	69,718	0
Slovenia	52,973	0	52,973	0
Total	393,208	0	393,208	0
Countries renouncing most of quota:				
Hungary	401,684	5,000	301,264	105,420
Italy	1,557,443	0	1,049,064	508,379
Greece	317,502	0	158,800	158,702
Spain	996,961	0	498,481	498,480
Slovakia	207,432	8,605	103,717	112,320
Finland	146,087	0	65,088	80,999
Total	3,627,109	13,605	2,176,414	1,464,300
Countries renouncing little of quota:				
Sweden	368,262	17,722	92,798	293,186
Belgium	819,812	62,489	206,066	676,235
Czech Republic	454,862	20,070	102,473	372,459
Germany	3,416,896	238,560	757,200	2,898,256
Poland	1,671,926	100,551	366,869	1,405,608
France	3,288,747	351,695	683,655	2,956,787
Lithuania	103,010	8,000	20,758	90,252
Denmark	420,746	31,720	80,083	372,383
Netherlands	864,560	66,875	126,547	804,888
United Kingdom	1,138,627	82,847	165,000	1,056,474
Austria	387,326	18,486	54,785	351,027
Romania	109,164	0	4,475	104,689
Total	13,043,938	999,015	2,660,709	11,382,244
Territories not renouncing quota:				
France DOM	480,245	0	0	480,245
Portugal Azores	9,953	0	0	9,953
Total	490,198	0	0	490,198
EU-27 total	17,554,453	1,012,620	5,230,331	13,336,742

1/ Quotas can be reduced temporarily, as necessary, on an annual basis to achieve market balance.

Source: CAP Monitor.

Table 2-- EU isoglucose and inulin syrup production quotas:reform transition to levels in 2009/10

Countries	Initial quotas	Additional quota purchased (metric tonnes)	Quota renounced	Final quotas 1/ (2009/10)
Isoglucose				
Countries renouncing all of quota:				
Greece	12,893	7,743	20,636	0
France	19,846	7,818	27,664	0
Netherlands	9,099	5,464	14,563	0
Romania	9,981	5,898	15,879	0
Finland	11,872	7,128	19,000	0
United Kingdom	27,237	16,355	43,592	0
Total	90,928	50,406	141,334	0
Countries renouncing most of quota:				
Spain	82,579	48,844	77,613	53,810
Portugal	9,917	5,954	3,371	12,500
Total	92,496	54,798	80,984	66,310
Countries not renouncing quota:				
Belgium	71,592	42,988	0	114,580
Bulgaria	56,063	33,135	0	89,198
Germany	35,389	21,249	0	56,638
Italy	20,302	12,191	0	32,493
Hungary	137,627	82,639	0	220,266
Poland	26,781	16,080	0	42,861
Slovakia	42,547	25,548	0	68,095
Total	390,301	233,830	0	624,131
EU-27 total	573,725	339,034	222,318	690,441
Inulin syrup				
Countries renouncing all of quota:				
Belgium	215,247	0	215,247	0
France	24,521	0	24,521	0
Netherlands	80,950	0	80,950	0
EU-27 total	320,718	0	320,718	0

1/ Quotas can be reduced temporarily, as necessary, on an annual basis to achieve market balance.

Source: CAP Monitor.

Current EU Sugar Policy – Trade Measures

The European Union charges import duties on all imports of sugar and isoglucose unless they are covered under preferential access arrangements. These duties, ranging from €339 per tonne for raw cane sugar for refining to €507 per tonne for isoglucose, are listed in table 3. These rates are those agreed to

in the Uruguay Round Agriculture Agreement and are bound in the World Trade Organization. There are additional import safeguards to cover situations when world prices are depressed.

There are two sets of preferential sugar import arrangements. In the first, sugar can be imported duty- and quota-free under the “Everything-But-Arms” (EBAs) arrangements for the least developed countries (LDCs) and under the “Economic Partnership Agreements” (EPAs) with certain countries formerly granted special trade status under the *ACP Sugar Protocol*. [7] Countries and other details are listed in table 4. As seen in the left column, certain ACP countries are among the least developed countries qualifying for duty- and quota-free entry under the EBA. The non-LDC ACP countries are covered under the EPAs. Safeguards apply to imports covered by the EPAs. These are applicable when preferential imports from LDCs exceed 3.5 million tonnes and imports from non-LDC ACPs exceed regional thresholds, listed in the right column of table 4. When the safeguards apply, the imports from the non-LDC ACPs are to be limited. The safeguard arrangement applies until 2015, when it will be replaced by another which is less restrictive. At least through 2011/12, an importer of sugar under these arrangements pledges payment for the sugar of at least 90 percent of the reference price.

The second set of preferential import arrangements is two-fold. The first is the CXL import quota that provides import access of 676,925 tonnes at a reduced duty of € 98 per tonne, less than a third of the €339 duty levied on raw cane sugar from non-EBA countries. This quota consists of pre-existing quotas that countries that became EU members through enlargement agreements had prior to EU membership (see top panel, table 5). Also included in this quota is 10,000 tonnes of sugar from India, which earlier had access under the *ACP Protocol*. The sugar from India has zero duty. All CXL sugar except that from India is raw cane sugar meant for refining in the European Union. The Balkan white sugar quota had its origin in 2000 but went through several transformations before reaching its current form in July 2005. Countries covered and quota allocations are listed in the bottom panel of table 5. The sugar enters the EU duty-free and there is no requirement for further processing or refining as with the CXL sugar. There is an additional quota being phased in for imports from Moldova. It started at 15,000 tonnes in 2008 and rises to 34,000 tonnes in 2012. These imports are also duty-free.

Table 3 -- EU sugar and isoglucose high-tier import tariffs and World Trade Organization export disciplines

Import tariffs

Product (HS tariff code)	Description	Bound duty
Ch. 1701 11 10	raw cane sugar for refining	€ 339/tonne
Ch. 1701 11 90	raw cane sugar not for refining	€ 419/tonne
Ch. 1701 12 10	raw beet sugar for refining	€ 339/tonne
Ch. 1701 12 90	raw beet sugar not for refining	€ 419/tonne
Ch. 1701 91 00	white sugar cont. added flavoring	€ 419/tonne
Ch. 1701 99 10	white sugar not cont. added flavoring	€ 419/tonne
Ch. 1701 99 90	white sugar not cont. added flavoring	€ 419/tonne
Ch. 1702 40 10	isoglucose - 42% fructose	€ 507/tonne, dry weight
Ch. 1702 60 10	isoglucose - 55% fructose	€ 507/tonne, dry weight

Export disciplines 1/

Export subsidies (€ millions)	513
Subsidized export volumes (1,000 tonnes)	1,374

1/ Revised after EU expanded to 25 countries

Source: CAP Monitor.

Table 4 -- Preferential exporters to the European Union: (A) less developed countries exporters and (B) former ACP countries not considered less developed

(A) Less Developed Countries (LDCs) -- included under "Everything But Arms" (EBA) Agreements

LDCs but not ACPs	LDCs that were ACPs
Bangladesh	Democratic Republic of Congo
Cambodia	Ethiopia
Laos	Madagascar
Nepal	Malawi
	Mozambique
	Senegal
	Sierra Leone
	Sudan
	Tanzania
	Togo
	Zambia

(B) Former ACP countries not less developed covered under Economic Partnership Agreements (EPAs)

Countries/regions	Regional Safeguard Thresholds 2/ (metric tonnes, white value)
Central Africa	10,186
Cote d'Ivoire	10,186
Swaziland	192,955
Kenya	14,997
Mauritius	632,851
Zimbabwe	--
Fiji	210,950
CARIFORUM NON-LDC: Barbados, Belize, Dominican Republic, Guyana, Jamaica, Trinidad & Tobago	527,876

1/ Duty-free and quota free under Reg. 828/2009.

2/ Levels for 2011/12 - 2014/15. Safeguards apply when preferential imports from LDCs exceed 3.5 million tonnes, and imports from ACP non-LDCs exceed regional thresholds listed in the table. When safeguards apply, imports from ACP non-LDCs will be reduced by a proportion. Sum of Regional Safeguards equals 1,600,000 metric tonnes, white value.

Source: CAP Monitor.

Table 5 -- European Union raw and white sugar import quotas 1/

Country	Quota (metric tonnes)	Import duty (€ per tonne)
CXL raw sugar import quotas 1/		
Australia	9,925	98
Brazil	334,054	98
Cuba	68,969	98
<i>Erga Omnes</i>	253,977	98

India 2/	10,000	-
Total	676,925	
Balkan and other import quotas for white sugar 3/		
Albania	1,000	0
Bosnia and Herzegovina	12,000	0
Croatia	180,000	0
Macedonia	7,000	0
Serbia or Kosovo	180,000	0
Total	380,000	0
Moldova 4/	34,000	0

1/ Negotiated in the World Trade Organization for existing suppliers to countries joining the European Union (e.g., Finland).

2/ Import can be either raw or refined sugar, duty is zero as a carryover from ACP Sugar Protocol.

3/ Sugar does not have to be used for refining.

4/ Provision part of European Policy Action Plan for Moldova. Quota started at 15,000 tonnes and tops out at 34,000 tonnes in 2012.

Source: CAP Monitor.

Exports

Although there exists the authority for the European Union to use export subsidies (subject to the limits listed in table 3), these subsidies have not been used for sugar since 2008/09. Also discontinued have been export subsidies for sugar-containing products. Sugar can be exported without refund, but the volume must not exceed the volume limit set under the WTO.

Effects of Reform on EU Transfers

Both sugarbeet growers that renounced quota and processors that were forced out of business by the reforms received compensation from the EU budget. From 2008-2010 over 5 billion euros were distributed to farmers renouncing quota and processors forced out of business due to lack of supply because of the reform. The EU Commission was forced to enhance the buyout amount as the first reform was insufficient to reach the lower production level anticipated by the EU. Additional funds were added and the subsequent renouncement of quota was substantial enough to reach the production level anticipated – about 1/3 less sugar produced.

Additional funds were transferred to those holding quota to compensate for the lower safety net price and these payments were incorporated into the single farm payment that had been introduced and adopted in the overall CAP reform of 2003. Market support fell dramatically from 3.5 billion euros to zero in 2010 in part because of high world prices and the dramatic drop (36 percent) in the support price. Nearly all of the previous transfers were from consumers to producers. Costs of the reform were in part mitigated by payments made by producers who bought up renounced quota.

EU Sugar Supply and Use after Reform

EU sugar reform had many aspects. Production quotas fell 24 percent to 13.3 million tonnes. The new institutional sugar price fell 36 percent to € 404.4 per tonne, and the minimum sugarbeet price fell 39.5

percent to € 26.29 per tonne. Sugar intervention buying was eliminated. As a result, the number of EU beet sugar-producing countries fell from 23 to 18 member states, and production is now more geographically concentrated, with France, Germany, Poland, and the United Kingdom accounting for 70 percent of sugar production in the 2009/2010 marketing year, compared with 50 percent in the 2005/06 marketing year. Italy, Spain, and Belgium produced significantly less sugar over the same period.

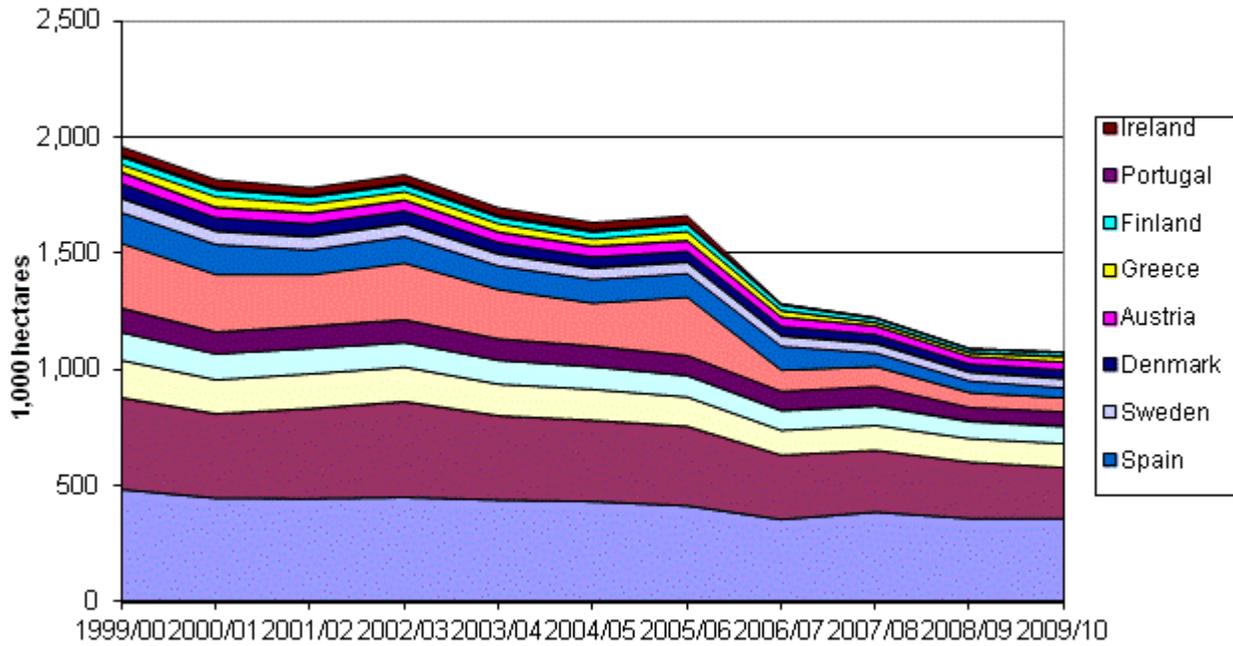
In the core EU region of 15 countries, sugarbeet harvested area fell from 1.963 million hectares in 1999/2000 to 1.075 million hectares in 2009/10, a decrease of 45 percent (Fig.1). From 1989/90 through 2005/06, aggregate sugar production in the 27 member states averaged 21.930 million tonnes – this fell 30 percent to 15.264 million tonnes averaged over 2008/09-2010/11 (Fig. 2).

Only Brazil exported more sugar than the EU prior to the reform; but since 2006, annual average exports fell from 6.528 million tonnes per year from 1989/90 through 2005/06 to 1.663 million tonnes averaged over 2008/09-2010/11 (Fig.3). As seen in figure 3, the European Union has been a consistent sugar importer but reform emanating from the WTO panel decision eliminated the EU re-export of sugar equal to that imported from the ACP countries, about 1.6 million tonnes annually because of the panel finding that re-exports should be considered as EU subsidized exports.

Immediately prior to reform, out-of-quota production constituted about 13 percent of total beet sugar production (Fig.4). Post-reform over-quota (2008/09-2009/10) increased to about 20 percent of total production. Allowed uses for this sugar include unsubsidized exports, sugar carried-forward, sugar for bio-ethanol, the fermentation industry, and on-farm use (e.g., biogas). [8] According to beet sugar production data from *Comite Europeen des Fabricants de Sucre* (CEFS), French beet sugar production averaged 4.362 million tonnes in 2008/09-2009/10, about 1.405 million tonnes over quota. For Germany, beet sugar production averaged 3.923 million tonnes, about 1.025 million tonnes over quota. EU sugar processing capacity has been much reduced during the reform period. Prior to reform there were 200 sugarbeet processing facilities and only 102 left at the end of the reform process. Table 6 and figure 5 show the pre-reform and post-reform slicing capacity distribution of processing plants. The number of low-capacity plants (slicing capacity of less than 5,000 tonnes per day) fell from 70 to 15. In Poland alone, the number of these factories decreased by 41. Factories within each size category decreased significantly, including the large capacity facilities (more than 15,000 tonnes per day) from 20 to 14.

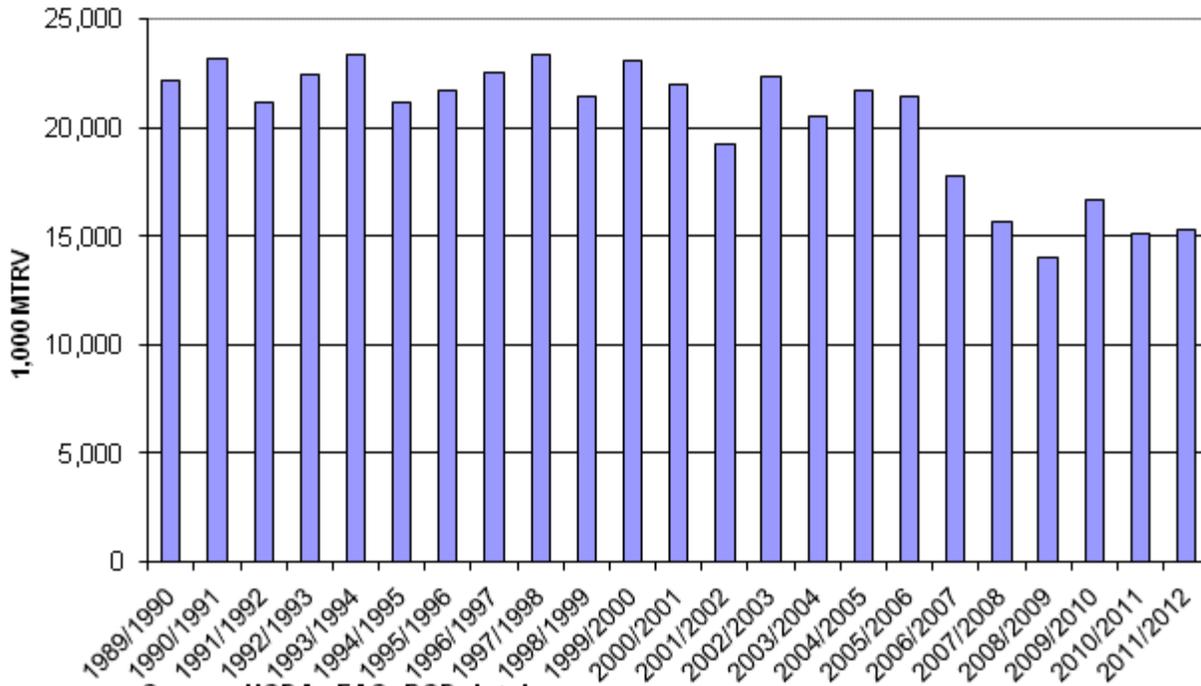
One consequence of fewer facilities is an increase in average processing campaign length (Fig. 6). In the 6 years before reform, the campaign length averaged 90 days. The post-reform average for 2008/09-2009/10 was 113 days, and 125 days for 2009/10 alone. A longer campaign length entails more risk of sugarbeet deterioration but could also signal more efficient use of factory assets, lowering overall average processing costs.

Figure 1 -- EU sugarbeet area harvested, 1999/00-2009/10



Source: CEFS Statistics 2010.

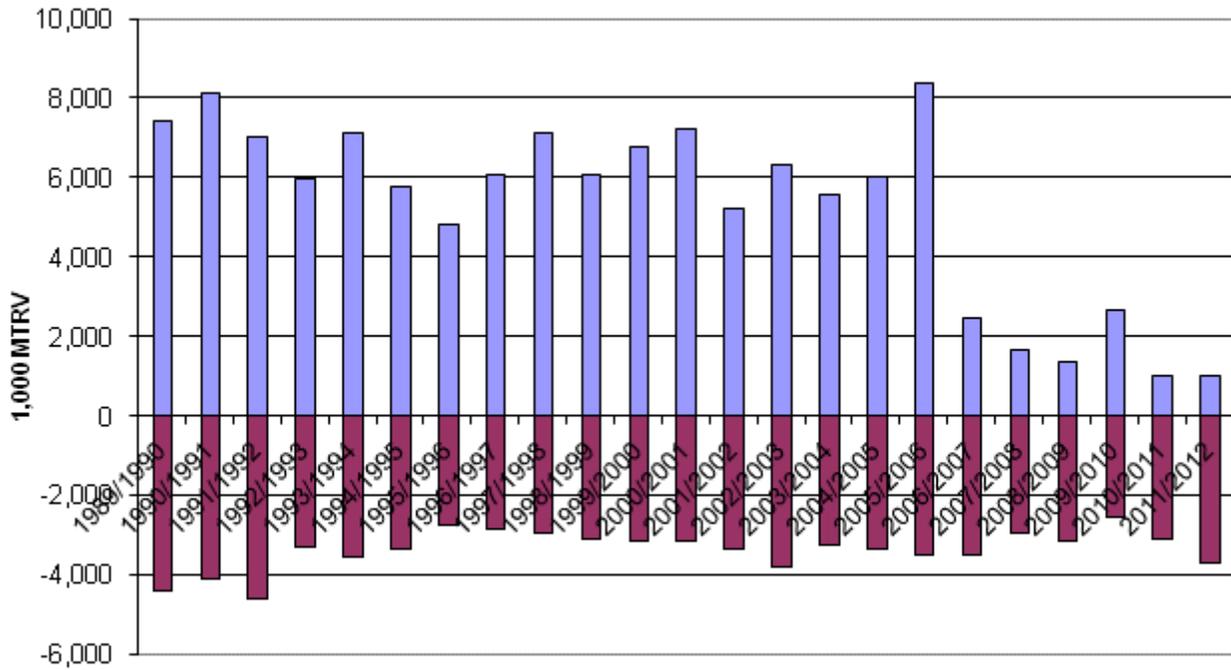
Figure 2 -- European Union sugar production 1/



Source: USDA, FAS, PSD database.

1/Total of all current EU-27 members, and excludes out-of-quota not fully processed sugar intended for industrial uses.

Figure 3 -- European Union sugar trade 1/



Source: USDA, FAS, PSD database.

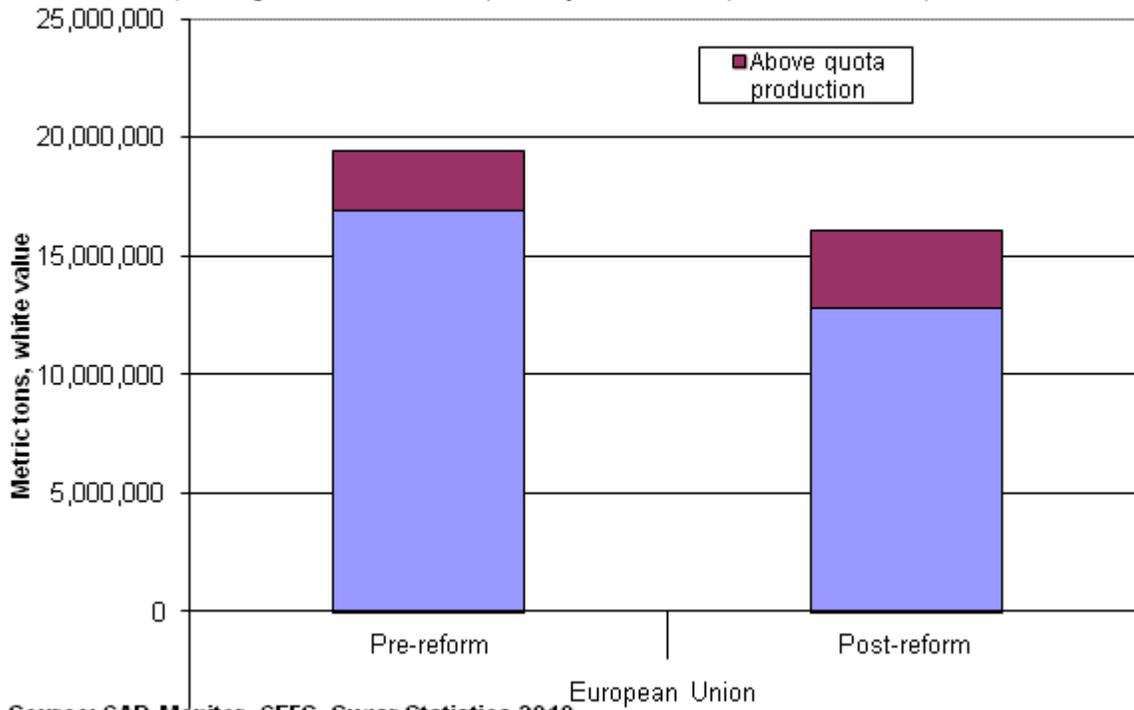
1/Total of current EU-27 members.

■ Total Exports (1000 MT) European Union ■ Total Imports (1000 MT) European Union

1/

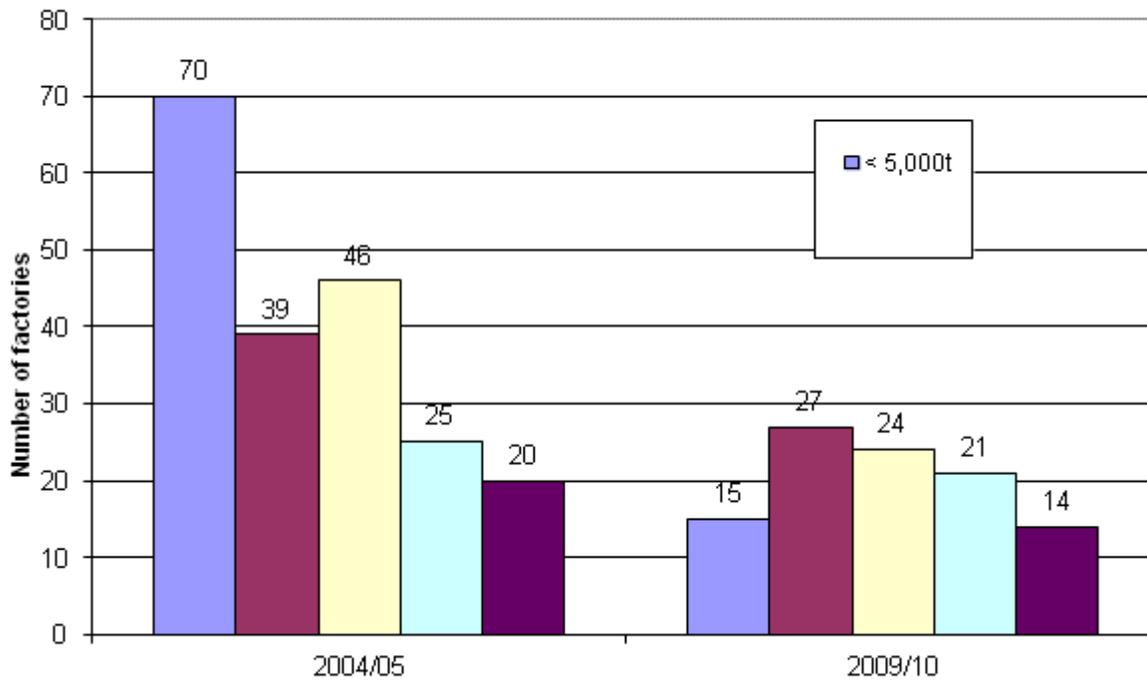
Excludes Bulgaria, Romania, and cane sugar quotas.

Figure 4 -- EU sugar quotas and above-quota production, pre-reform (average: 2003/04-2004/05) and post-reform (2008/09-2009/10) 1/



Source: CAP Monitor, CEFS Sugar Statistics 2010.

Figure 5 -- EU sugar factories, by daily slicing capacity, 2004/05 and 2009/10.



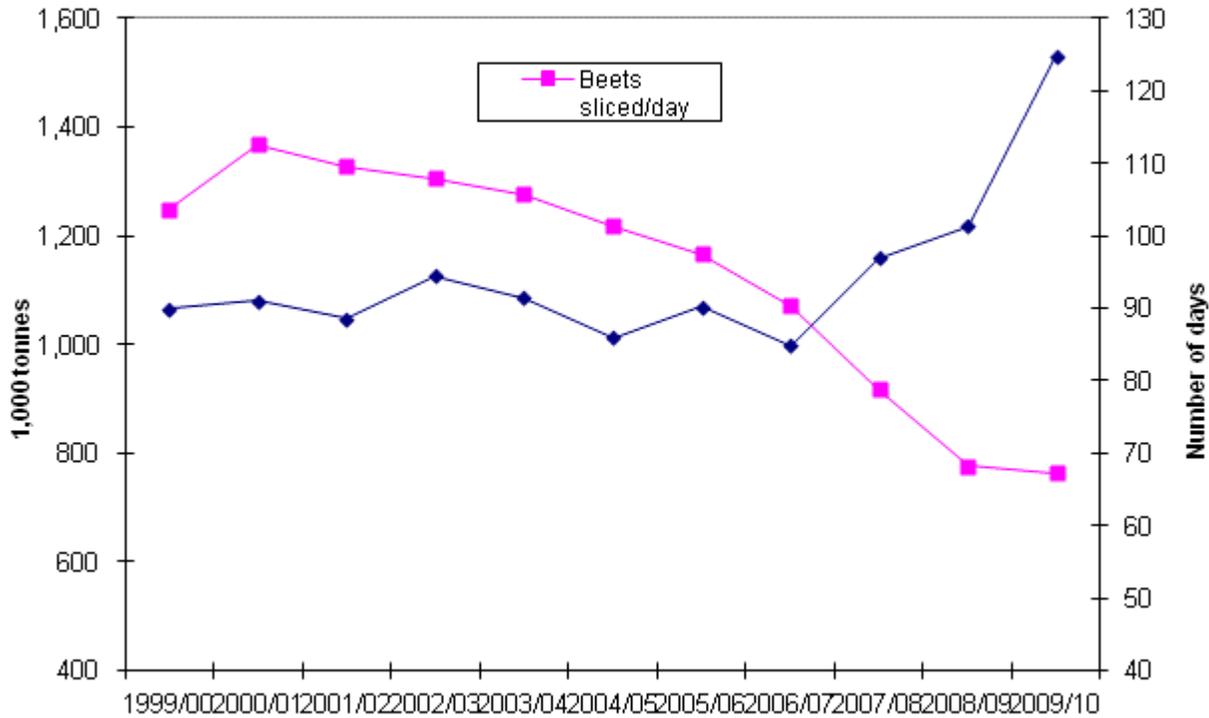
Source: CEFS Statistics 2010.

Table 6 -- EU sugar factories in countries, by daily slicing capacity, 2004/05 and 2009/10

Country	< 5,000t		5,000t<8,000t		8,000<12,000t		12,000t<15,000t		>15,000t		Total	
	2004/05	2009/10	2004/05	2009/10	2004/05	2009/10	2004/05	2009/10	2004/05	2009/10	2004/05	2009/10
EU-15												
Austria	0	0	0	0	0	0	3	2	0	0	3	2
Belgium	0	0	2	0	3	1	0	2	1	0	6	3
Denmark	0	0	0	0	2	2	1	0	0	0	3	2
Finland	0	0	2	1	0	0	0	0	0	0	2	1
France	1	1	4	4	11	9	4	5	10	6	30	25
Germany	1	1	6	4	9	6	5	5	5	4	26	20
Greece	1	1	4	2	0	0	0	0	0	0	5	3
Ireland	0	0	2	0	0	0	0	0	0	0	2	0
Italy	0	0	1	0	7	0	9	4	0	0	17	4
Netherlands	0	0	0	0	1	0	2	0	2	2	5	2
Portugal	0	0	1	0	0	0	0	0	0	0	1	0
Spain	2	0	1	1	8	4	0	0	0	0	11	5
Sweden	0	0	0	0	1	0	0	0	1	1	2	1
United Kingdom	1	0	1	0	2	2	1	1	1	1	6	4
Total	6	3	24	12	44	24	25	19	20	14	119	72
EU-10												
Czech Republic	9	5	1	1	1	0	0	1	0	0	11	7
Hungary	0	0	4	1	1	0	0	0	0	0	5	1
Latvia	0	0	0	0	0	0	0	0	0	0	0	0
Lithuania	4	1	0	1	0	0	0	0	0	0	4	2
Poland	47	6	9	11	0	0	0	1	0	0	56	18
Slovakia	4	1	1	1	0	0	0	0	0	0	5	2
Slovenia	0	0	0	0	0	0	0	0	0	0	0	0
Total	64	13	15	15	2	0	0	2	0	0	81	30
Bulgaria	1	0	0	0	0	0	0	0	0	0	1	0
Romania	5	4	0	0	0	0	0	0	0	0	5	4
EU-27	76	20	39	27	46	24	25	21	20	14	206	106

Source: CEFS
Statistics 2010.

Figure 6 -- EU-15 beet sugar slicing capacity and average processing campaign length



Source: CEFS 2010 Statistics.

Sugar Production Costs after Reform

The 2006 sugar reform was intended to restructure EU sugar industries, leading to significant reductions of unprofitable production capacity. Reducing about 6.0 million tonnes of inefficient production was supposed to improve the competitiveness of the EU sugar industry. Although small capacity sugar factories were eliminated and production in certain high-cost areas was completely abandoned (Bulgaria, Ireland, Latvia, Portugal, and Slovenia), it is not clear how efficient the remaining producers and processors are.

An audit of the reform process found that quota abandonment occurred across all productivity categories. [9] Many processors in France, Germany, and Poland indicated the main reason for quota renunciation was the risk of facing a final uncompensated quota cut. The auditors estimated that 2.4 million tonnes of sugar quota renunciation occurred in regions considered by the European Commission to be the most competitive. The lack of targeting in the 2007 measures was considered to have been crucial for the failure to retire more quota by the less productive processors. Political concerns about domestic sugar supplies and the loss of labor in some member states also prevented further cutbacks by these less productive processors.

One way to measure the effect of reform on current EU sugar productivity and efficiency is examine costs of sugar production before and after reform. LMC International provides estimates of world sugar and high fructose syrup (HFS) costs of production. [10] The data go back to 1979/80 and extend through 2009/10, with a preliminary forecast for 2010/11. Field, factory, and administrative costs are

detailed for 35 beet producing countries and for 61 cane producing countries. HFS production costs are presented for 18 countries. Included in the set of data are estimates for most members of the European Union.

Table 7 shows a beet sugar cost of production ranking of EU member states. The lowest cost areas are in The Netherlands and the United Kingdom – under \$525 per tonne. The three largest producing countries of France, Germany, and Poland are in the intermediate cost set with costs between \$525 and \$625. Those EU countries where processors renounced all of their quotas were either high cost (\$625 - \$850 per tonne) or very high cost (over \$850 per tonne).

Figure 7 shows EU sugar production across cost categories at the beginning and end of the reform period. The sum of production in countries having “high cost” and “very high cost” shares of production decreased from 25.1 percent of total production at the beginning of the reform period to 15.9 percent at the end. Average production in those countries fell from 4.8 million tonnes to 2.4 million tonnes, about a 49 percent reduction. Low cost countries increased their share of production from 12.2 percent to 13.2 percent. Likewise, medium cost countries increased their share from 62.7 percent to 70.9 percent. Even so, the low and medium cost countries were producing 1.4 million tonnes less sugar at the end of the reform period than at the beginning, about a 10 percent decrease.

Figure 8 shows beet sugar production costs in the European Union and in the United States relative to the world weighted-average cane sugar production costs. EU costs are higher than those in the United States but costs in both regions have been declining since 2003/04 relative to cane sugar production costs. Although the most significant EU cost declines started after the reform began, U.S. costs were declining as well.

Figure 9 shows two weighted-average comparisons of EU and U.S. production costs. The first comparison weights costs by each year’s individual member states share of total annual production. This is termed “EU-Flexible.” The second uses a fixed weighting by averaging shares over the pre-reform 2000/01-2004/05 period (“EU-Fixed”). The difference in the weighting schemes becomes noticeable after reform with the flexible cost line lying below the fixed cost line. The difference is attributable to a greater proportion of production occurring in more cost-efficient countries after the reform. There is not much difference in the pre-reform period because of reduced production variability in all sets of cost categories prior to quota renunciation. A calculation of average reduced production costs over 2007/08-2009/10 attributable to the production shift to less costly producers as a result of the reform is about \$35 per tonne, or a reduction of overall costs of about 5 percent.

Figure 10 shows EU member states’ total and cash costs of sugar production, averaged over 2008/09-2010/11. The cost lines are drawn such that each member state’s sugar production is represented on the horizontal axis. The country ordering is from low cost states to progressively higher cost states. The costs are represented as proportions of the EU reference price. As can be seen, the EU reference price

exceeds the cash costs of production across most of the European Union. Total costs that include land rent and depreciation are above the reference price for all but about 3 million tonnes of production. This would indicate that over the longer term, producers may face some cost-cutting as part of their strategy to stay competitive. Most total costs and practically all cash costs would have been covered under the old intervention price.

Table 7 -- European Union sugar producing countries, ranking by costs of production

Low cost: under \$525 per metric ton 1/

Netherlands, United Kingdom

Medium cost: \$525 - \$625 per metric ton

Austria, Belgium, Denmark, France, Germany, Poland

High cost: \$625 - \$850 per metric ton

Czech Republic, Hungary, Ireland, Latvia, Lithuania, Slovakia, Spain, Sweden

Very high cost: over \$850 per metric ton

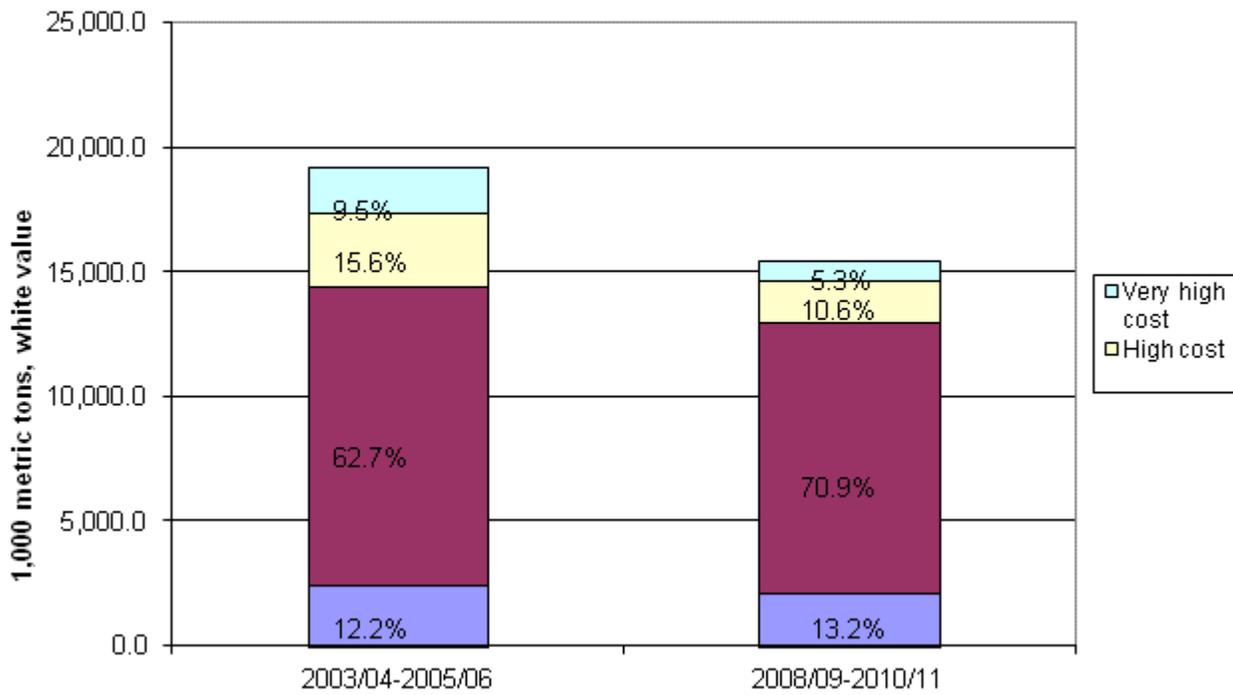
Bulgaria, Finland, Greece, Italy, Portugal, Romania

1/ white value, Olympic average (excludes highest and lowest cost years):

2005/06-2010/11.

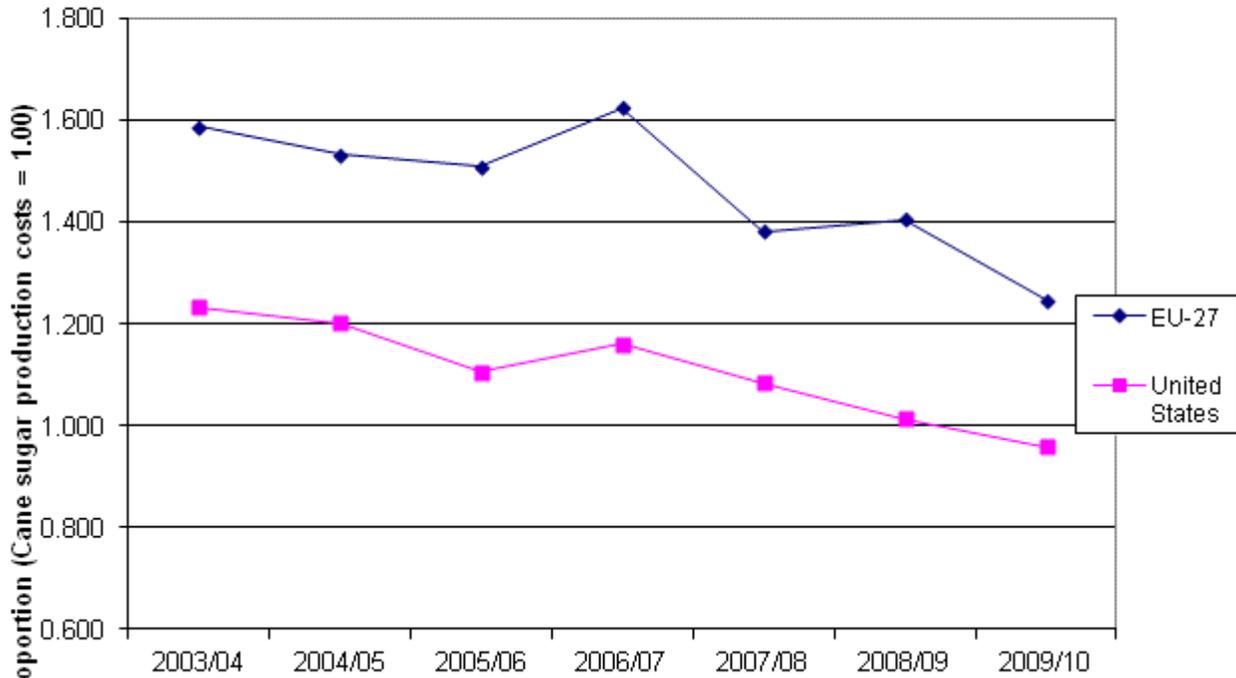
Source: LMC International.

Figure 7 -- Distribution of EU sugar production by cost category, at beginning and end of EU reform period



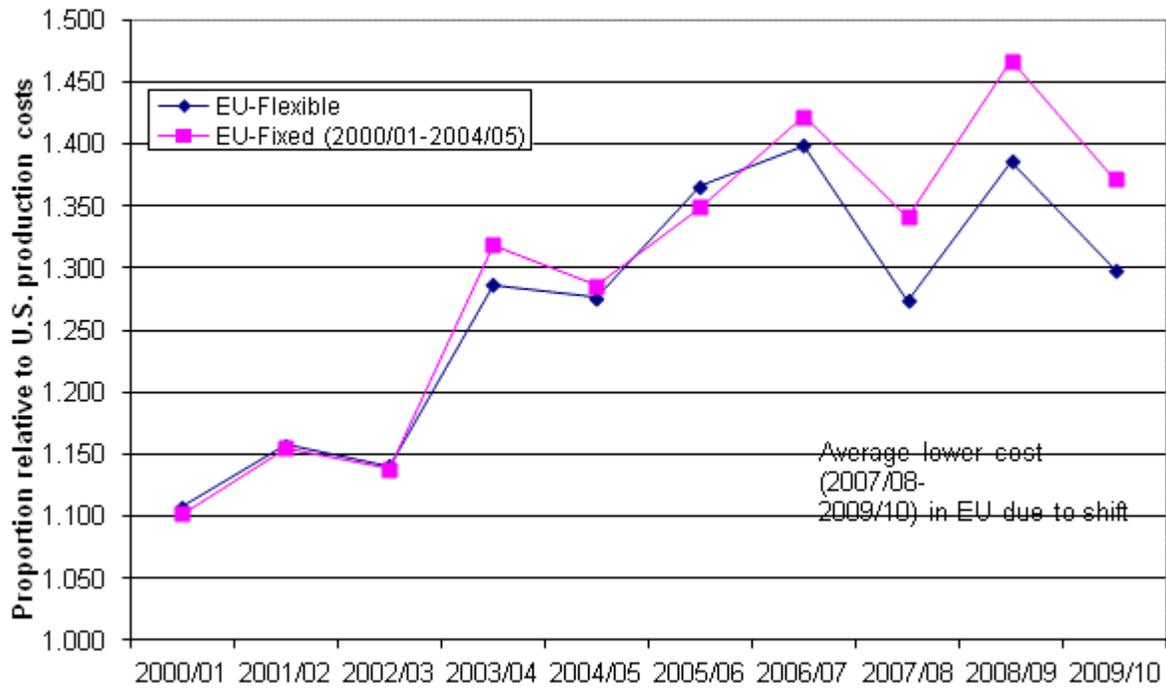
Source: LMC International.

Figure 8 -- Beet sugar production costs in the European Union and United States as a proportion of average world cane sugar production costs, white sugar basis



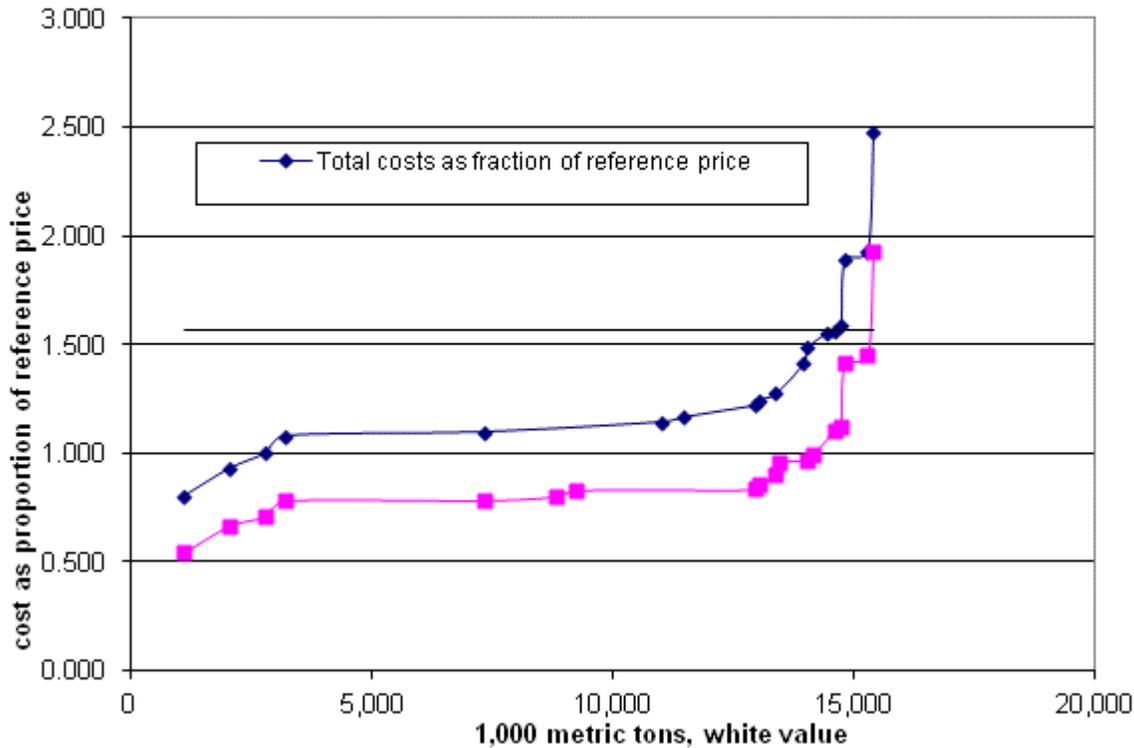
Source: LMC International.

Figure 9 -- EU beet sugar production costs as a proportion of corresponding U.S. beet sugar costs: fixed pre-reform production weights vs flexible, annually adjusted production weights



Source: LMC International.

Figure 10 -- Cumulative costs of EU-27 beet sugar production, averaged for 2008/09-2010/11



Prospects for the Future

In 2010/11 the European Union faced sugar supply shortages due to the low level of imports from the EBA and EPA countries that export to the EU under preferential agreements. World sugar prices during this period were strong, actually above reference levels for most of 2010 and the first half of 2011. These higher world prices were a signal to EBA and EPA countries to divert their exports away from the European Union to more profitable export destinations. Unlike the situation in the United States during this time period, EU prices were flat and uncorrelated with world prices. [11] ^[12] With price stability being a highly regarded goal in the European Union, most sugar users had followed custom by negotiating long term sugar pricing contracts with their suppliers. This arrangement leads to very little sugar available for spot purchases at higher prices.

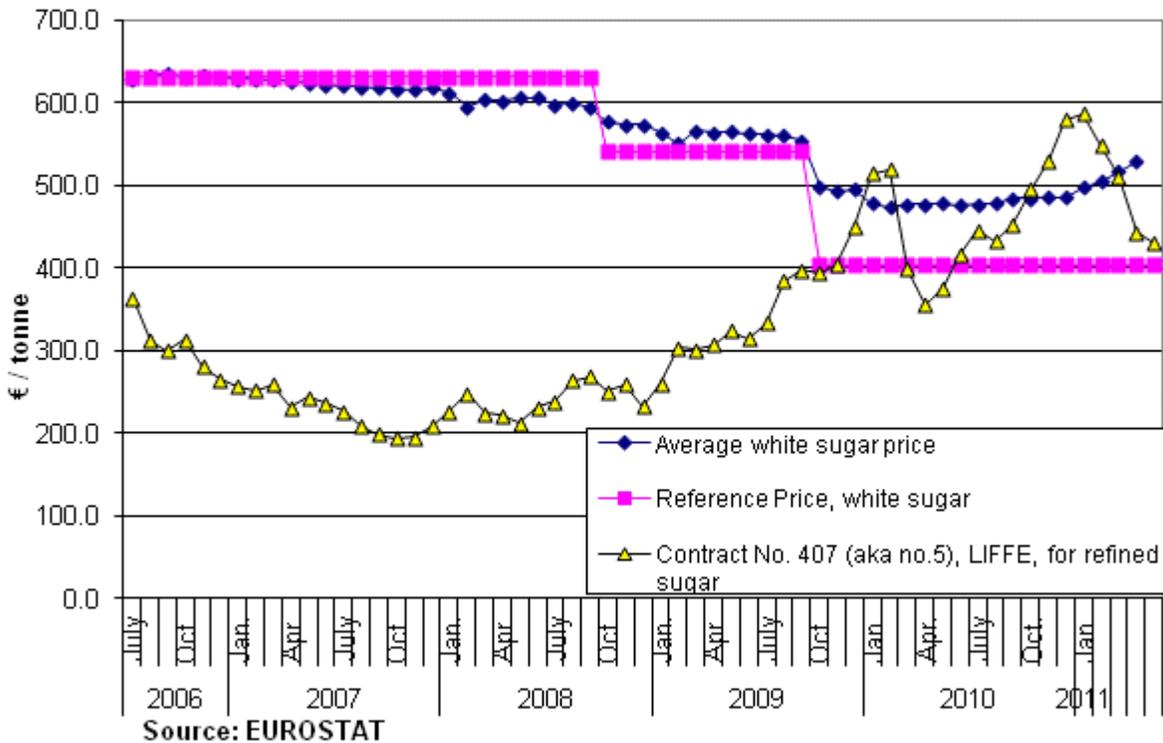
The European Commission had to gradually step up measures to counter sugar shortages, from temporarily eliminating CXL quota import duties in November 2010 to agreeing on further emergency measures as of March 2011. These measures included an additional 300,000 tonnes increase in reduced-tariff imports, and a release for food of 500,000 tonnes of out-of-quota production originally meant for industrial uses. An additional 200,000 tonnes of reduced-duty imports were approved in May 2011. Finally, through reduced-duty tenders over 400,000 tonnes of additional sugar were imported.

Because ending year stocks were expected to be very low in spite of these measures, the Commission attempted to stimulate increased sugarbeet planting for harvest in 2011/12 and expand imports in an

attempt to bring domestic prices down. ^[13]

As examined below, it is likely that world sugar prices will remain higher than in the past when the original reform measures were being considered. Short-term measures such as those made in response to the 2010/11 high-price are probably too *ad hoc* to serve as a model for EU policy planning over the long term. Several perspectives about the factors affecting sugar policy and possible reform are examined below.

Figure 11 -- Average price for white sugar in the European Union, Reference Price, and world refined price



Implications of the OECD/FAO Sugar Baseline Projections for the EU

The Organization for Economic Co-operation and Development (OECD), in partnership with the Food and Agriculture Organization (FAO), produces world sugar projections of supply and use for major producing and consuming countries, and prices through 2021. [14] The OECD forecasts a 30 percent growth in world sugar production, about 48 million tonnes, through 2020/21. The sugarcane crop in Brazil is forecast to grow to 1.0 billion tonnes in 2020/21 but with an increasing share being allocated to ethanol production at the expense of sugar. World sugar consumption is projected to grow at an average 2.2 percent annual rate through 2020/21. Government policies that intervene in sugar markets are assumed to continue. The Indian production cycle and government policies are the main source contributing to an expected continuation of world sugar price variability. The world stocks-to-use ratio

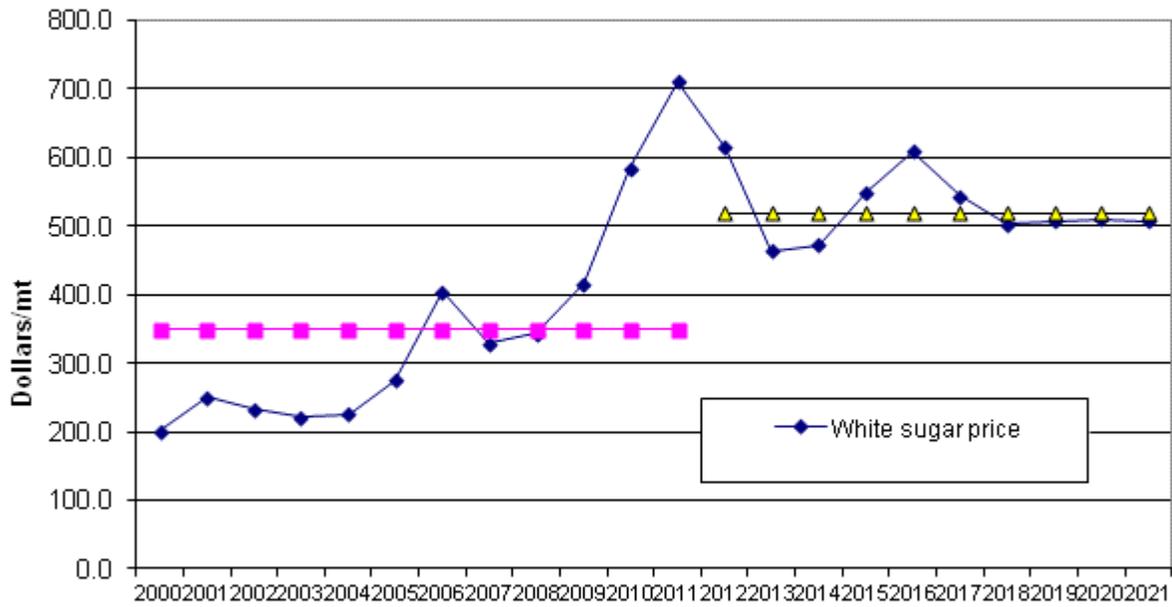
is expected to average lower through 2020/21 than in the previous decade. The lower ratio supports higher real sugar prices through 2020/21 than seen in the previous decade.

Figure 12 shows world sugar prices (contract 407, LIFFE, Oct/Sept nearby averages) from 2000 through the first half of 2011, and also shows the OECD projections from 2011/12 through 2020/21. The average OECD projected price is \$518.5 per tonne, 48 percent higher than the \$349.5 per tonne average from the earlier period. The figure shows future price volatility, with a low of \$464.1 per tonne in 2012/13 and a high of \$608.7 per tonne in 2015/16.

Figure 13 draws some implications for the European Union at different euro-dollar exchange rates. The figure charts the OECD world price against reference price levels denominated in dollars. The OECD assumed a constant rate of \$1.39 per euro. The figure shows the dollar reference price for a 10 percent euro appreciation (top line = \$617.8 per tonne) and for a 10 percent depreciation (bottom line = \$505.5 per tonne). Low prices are expected in 2012/13 and 2013/14 that make a case for retaining the quota system during the period in which quota is being debated. Higher-than-average prices are forecast for the following three years, probably producing a situation like that in 2010/11 where imports are hard to attract. An appreciated euro relative to the dollar would ease the potential supply-use imbalance. A steady-state world price of \$507 per tonne is forecast for the last 4 years of the projection period, about the same reference price level for 10-percent relative-to-the-base depreciated euro.

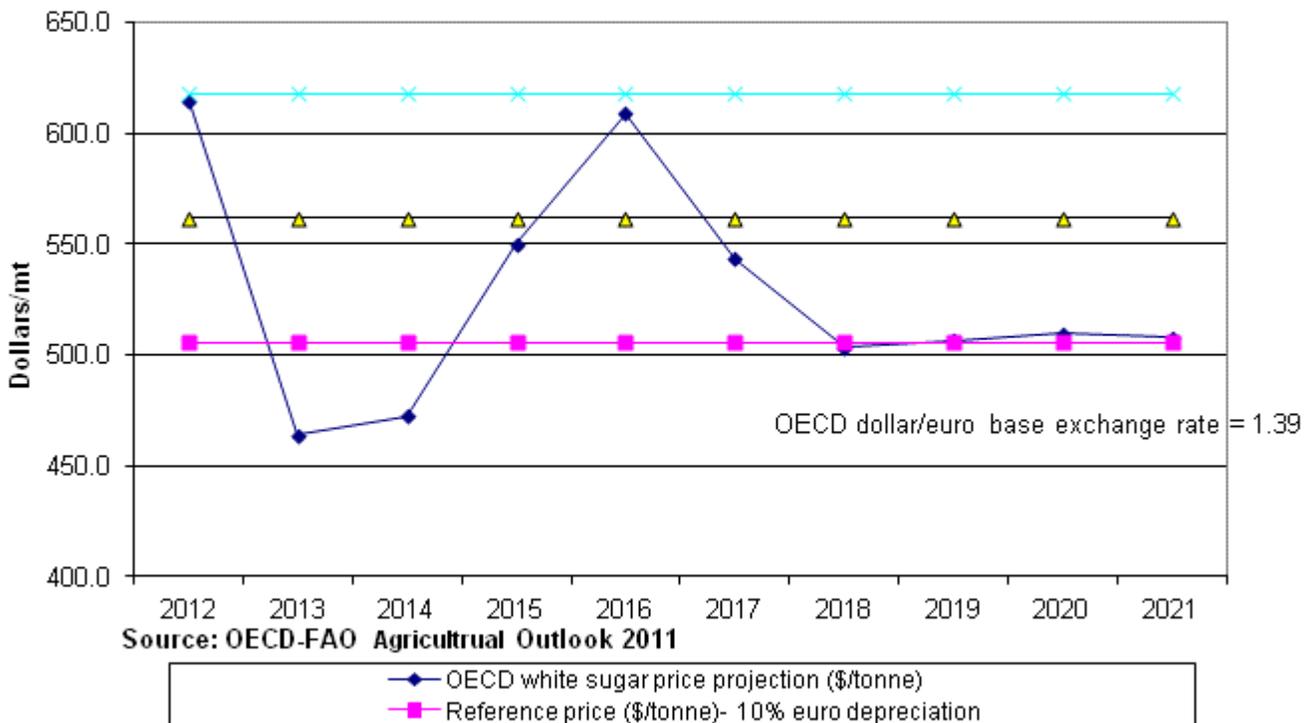
Another implication of the OECD projections is that sugar consumption in Sub-Saharan Africa, where most EBA and EPA countries are located, is expected to grow at 3.63 percent against Sub-Saharan production growth of 2.99 percent. EU exports to the world market in 2020/21 that are projected at 3.006 million tonnes are far below their imports projected at 6.895 million tonnes. The European Union would be in strong competition for the Sub-Saharan African exports unless the euro appreciates above projected levels. The suggestion is that nimble changes in additional reduced-tariff imports may be increasingly called upon to keep available supply close to EU demand.

Figure 12 -- White sugar price, annual average, actual and projected by OECD, Oct/Sept, 1999/00-2020/21.



Source: Data - Contract No. 407, LIFFE, Oct/Sept nearby average; projection: OECD-FAO Agricultural Outlook 2011.

Figure 13 -- OECD white sugar price projection and EU sugar reference price with alternative exchange rate projections



External Factors Affecting EU Sugar

Price volatility deeply concerns EU policy makers as the current CAP has no risk management policies analogous to those in other developed countries, such as the Average Crop Revenue Election (ACRE) Program in the United States. Given that the dispersion of world prices for agricultural commodities, including sugar, has increased significantly in recent years, the next CAP Reform [15] will likely address the price volatility issue as its domestic markets are less insulated from international price movements than under the more restrictive policy regimes of the past. [16]

Although many factors directly affect world sugar price volatility, EU policymakers focus on volatility emanating from hard-to-predict oil prices. Petroleum prices affect the EU directly through domestic ethanol production derived from sugarbeets and through their effect on world sugar price levels and price volatility. In the EU sugar is processed into ethanol to help meet the EU's Renewable Energy Directive (RED). The RED mandates that 10 percent of transport fuel (in energy terms) must be comprised of renewable fuel by 2020. It has been estimated that 250,000 acres of sugarbeets are dedicated to sugar production outside of the sugar quota regime for industrial use producing ethanol. Returns from sugarbeet production become more variable through oil prices affecting incentives to produce ethanol.

Oil price changes affect world sugar prices by influencing trade-offs in producing either sugar or ethanol in Brazil. Brazil is the largest sugar producer and exporter in the world as well as the second

largest ethanol producer. Both products are derived from sugarcane. When the world price of oil is high, Brazil has more incentive to produce ethanol and less sugar. Reduced sugar exports contribute to higher world sugar prices. Conversely, when world oil prices drop, less ethanol is produced and more sugar is available to the world, thereby lowering the world price.

Added uncertainty comes from the uncompleted Doha Round of WTO trade negotiations. The Doha Round was intended to focus on market access, either through increased third-country direct access to the EU market or through lower over-quota tariff rates. If the EU were to declare sugar a “sensitive product,” then more flexibility in market access could be allowed through negotiation of a TRQ. If because of such an action, current sugar exporters to the EU under preferential terms were hurt by a new Doha Round agreement through lower export quantities or prices (“preference erosion”), the EU could possibly be required to compensate them for their losses.

Internal Factors Affecting EU Sugar: Industry Perspectives

The principal industry stakeholders in future reform of the EU sugar sector are the beet growers, food processors, confectioners, and industrial processors. The economic interests of each industry segment are likely to be affected by future reforms; with some favoring the status quo and others seeking changes that could further affect industry structure in the EU, as well as opportunities for trading partners.

The beet growers’ association has stated that the 2006 sugar reform led to the closure of a large number of processing factories, the loss of over 140,000 sugarbeet farmers who ceased cultivating beets, and the loss of 16,500 jobs in rural areas. [17] The structure of the industry has changed dramatically as there are now only seven sugar manufacturers that control 80 percent of sugar production in the EU. There are currently about 168,000 growers in 18 EU member states with an average of 1,600 growers per factory. The seven manufacturers have also built or invested in sugar factories in countries with preferential trade agreements in sugar with the EU and are thus assured of a supply to their factories.

EU sugar beet growers and processors agree that the 2006 sugar reform has been successful in increasing the efficiency of EU sugar production and improving the competitiveness of the EU sugar industry [18] , [19] . However, they also point out that a stable EU domestic sugar market is a major objective and that supply control remains important in this respect. They insist on keeping the tools to manage the EU’s sugar import needs, but at the same time they want to maintain access to exports in cases where a good crop and favorable world market conditions offer potential for profitable EU sugar exports, especially for out-of-quota sugar. More importantly, the growers are aware that much of the EU sugar exports are in the form of confectioner’s exports that contain a high percentage of sugar and must compete on world markets and could require export subsidies to compete, albeit within WTO restrictions. They point out that sugar has traditionally been subject to above-average price volatility and that Brazil’s sugar or ethanol choice could destabilize markets quickly. They state that they are in favor of maintaining the sugar quota at current levels as a prudent way to stabilize prices.

Confectioners and other sugar users would benefit if the price of EU sugar goes down substantially as the EU sugar price has traditionally been higher than world prices and would certainly favor abolishing

the sugar quota and allow production to go to the least cost producers. [20] They must compete in world markets where low-cost producers provide difficult competition if export subsidies are not available. Hence, their stated preference is that the EU sugar price decline to world price levels. Industrial sugar users benefitted from the EU quota system through access to lower-priced out-of-quota sugar and it's expected they would benefit by retaining the current quota system.

Internal Factors Affecting EU Sugar: European Parliament and Budget

In previous CAP reforms the principal EU institutions that determined the outcome were the EU Commission, appointed by the EU heads of state, and the Council of Agriculture Ministers, appointed by the member states. When the Lisbon Treaty entered into force in 2009, the members of the European Parliament (EP) were granted co-decision powers with the Council of Ministers on agricultural matters, including the CAP. The inclusion of the EP in a co-decision role with the Council is intended to help bridge the “democratic deficit” in the EU.

Whether the change in the EU governance structure for agricultural policy makes further reform more or less likely remains to be seen. However, the 18 member States that produce sugar have a clear majority of votes in the Parliament (647 votes of a total of 736) as well as in the Council of Ministers (239 of 345 total votes).

For the first time in the history of the CAP, a decline in CAP spending in real terms has been proposed by the EU Commission. This was done with the background of financial crisis in many member states that has resulted in severe austerity measures imposed by several governments, even those such as Germany that is not under fiscal duress. It is estimated that the 2014-2020 CAP would amount to €371.72 billion compared to the current 2007-2013 amount of €416 billion. [21] Any reform that would incur high compensation costs, buy-outs, export subsidies, storage costs, and the costs associated with the likely enlargement of the EU to include Croatia and Serbia [22] would incur careful scrutiny. While the CAP would remain a priority in the EU and the only policy carried out and paid for in common by all 27 member states, the EU budget itself will have less agriculture than ever before despite being the largest single budget item. Justification of the CAP to EU taxpayers in difficult financial times will be an issue in the discussion on the CAP reform of 2013, including for the future sugar regime, with or without the continuation of the sugar quota system.

Concluding Thoughts

The 2006 EU sugar reform produced many changes. Production declined significantly and the EU became a major net sugar importer, reversing its status of being one of the largest net exporters. Out-of-quota sugar production gained new importance, especially for bio-ethanol and fermentation industries. Much sugarbeet processing capacity was reduced and completely eliminated in certain member states. Nonetheless, reduced production quota occurred across all productivity categories with aggregate EU sugar production costs decreasing only about 5 percent more than what would have occurred otherwise. Although remaining trade restrictions unaffected by the reform provide protection to EU sugar producers, internal EU prices could not attract preferential imports to meet demand when world sugar prices became high. A stable set of domestic prices much favored by EU sugar users do not seem now

compatible with an increased reliance on imports. Looking ahead, the value of the Euro and increased demand from emerging market economies will likely have strong effects on EU sugar markets that policymakers cannot afford to ignore.

On October 12, 2011, the European Commission published its proposals [23] for the CAP reform scheduled for implementation from January 1, 2014. The proposals are subject to approval by both the Council of Ministers and the European Parliament. Initial analysis of the proposals suggests that the reform would largely imply a refinement of the measures introduced by the 2008 CAP Health Check rather than a radical departure from the current arrangements. The major focus of the up-coming CAP reform will be on justifying what agriculture is contributing to EU citizens through mitigation of green house gasses, enhancing the environment, provision of healthy food at reasonable prices, and creation of jobs in rural areas. Sugar used to produce ethanol will be useful in this endeavor since green house gasses can be reduced significantly using sugar converted into ethanol. However, the budgetary restrictions over the 2014-2020 period will limit what can be paid out to the various factions within EU agriculture and this will define what can be reformed and to what degree. The proposed abolition of the milk quotas in 2015 is a major undertaking and is another indication that the EU is looking to be more competitive in world markets.

The Commission's proposals are already being criticized for not offering sufficient tools for addressing price volatility and sugar will be highlighted in this debate as its price is among the most volatile of EU crops. Because the EU's sugar reform has caused supply shortages and increased price volatility, EU analysts are warning other countries not to rely on the global market for a dependable supply. [24] Other EU and world crops have also faced unusual and historic price volatility the last few years that calls for risk insurance have become more frequent in the EU. This could entail additional costs to the budget in some form of risk insurance within the CAP.

As mentioned, the sugar reform of 2006-2009 did not always transfer quota to the least cost producers and this issue will likely be addressed in the context of the 2014 reform. The EU Commission's proposal, which includes abolishing all sugar quotas in 2015, will clearly address this, even if some mitigating measures may be decided in the final reform agreement. This liberalization proposal for the sugar regime is likely acceptable to processors, exporters, and consumers as long as supply is sufficient and prices are less volatile. The EU Commission has proposed that higher storage provisions would be part of a package to address the sugar shortages that occurred in the 2009/10 marketing year. The major sugar manufacturers that have invested in the countries that have preferential treatment in the EU market would be able to provide a sufficient supply of sugar to the EU's internal market both domestically and with raw sugar from abroad.

Another consideration that could affect the EU's sugar market in the long run is the likely enlargement of the EU to include Croatia and Serbia. While neither are large sugar beet producers -- Serbia around three million tons and Croatia about two million tons -- both are net sugar importers. However, they have been granted loans to improve their sugar infrastructure and could become more efficient producers that could add to greater self sufficiency in EU sugar production in an EU of 30 member states [25] .

Internationally, the role of Brazil will have to be carefully monitored in both sugar and ethanol exports as it is the major producer and exporter of sugar in the world and a major producer and exporter of ethanol made from sugar cane. The EU's approach to the sugar regime also takes into account the current WTO restrictions on support, export subsidies, and market access as well as the most likely future disciplines imposed by a possible agreement in the multilateral negotiations in the Doha Round. In the final analysis it is most likely that the EU will produce more sugar domestically and increase storage levels in part to reduce price volatility and ensure a consistent supply of sugar to the domestic market. The additional sugar produced will most likely be produced in least cost regions of the EU which would allow the EU to reduce its safety net price. The ability of the EBA countries to supply sugar at the lower EU price could also expand as the seven EU manufacturers of EU sugar continue their expansion into the EBA countries and reduce costs with new facilities that produce raw sugar. Reform of the sugar program along these lines would thus be compatible with the Commission's announced budget restrictions and vision for a more competitive sector; congruent with the European Parliament's interest in maintaining the capacity for production of sugar for food and energy uses and sugar-containing products in the EU; and consistent with current and potential WTO rules. The EU could then become a contributor to slightly more sugar price stability as it produces more sugar by shifting the quotas from higher cost to lower cost producers and allowing high cost producers to exit the industry and encouraging low cost producers to increase production by abolishing quotas. Higher storage payments would also allow producers to hold more stocks until market conditions improve (higher prices) domestically or on the global market. Effective risk insurance policies against production losses and low prices is another policy instrument that is being advocated by growers and processors alike and would be another means to ameliorate farm income losses and provide additional security to growers.

Appendix -- 2006 EU Sugar and Sweetener Policy Reform

The principal factors underlying the reform of the sugar program in 2006 were threefold. First, the CAP reforms of 2003/04 (that left sugar as the only major commodity unreformed) provided a mechanism to compensate farmers for income losses due to reform measures. The CAP reforms were designed to move support from the main EU commodities directly to farmers through direct payments. The core reform concept was the Single Payment Scheme that provided for payments to farmers independent of the level of production. The idea was to make farmers' production decisions more responsive to market signals instead of policy interventions. [26] Although there were provisions for exceptions, payments were to be made without requirements for the production of any specific crop, only a minimum requirement to maintain the land in good agricultural condition. The level of direct support was tied to commodity-based payments made in 2000-02.

The second factor was the World Trade Organization (WTO) Panel ruling that found the EU sugar regime in violation of WTO export commitments. The Panel held that the EU's re-exporting of 1.6 million tonnes of sugar imported from the African, Caribbean, and Pacific (ACP) countries must be counted against the EU's export subsidy commitments made as part of the Uruguay Round Agreement on Agriculture (URAA). The WTO Panel also ruled that the EU's export of over-quota sugar production (or C-sugar) was cross-subsidized by the high guaranteed prices for A- and B-quota sugar and therefore should be counted in the URAA export subsidy commitments. At the time of the ruling, these commitments limited annual EU subsidized sugar export sales to the lesser of a volume binding of 1.254 million tonnes or a value binding of €499 million. (With EU enlargement, these bindings were increased to 1.374 million tonnes (volume) and € 513 million (value).) Without a substantial reduction in support pricing, foregone exports forced back onto the domestic market would undermine sugar program operations.

The third factor was the "Everything But Arms" (EBA) agreement, in which the EU agreed to phase out tariffs by 2009 on imported raw sugar from 48 of the least developed countries (LDC). The EBA agreement provided for the duty free entry of raw sugar imports into the EU by 2009. Without reform, high guaranteed sugar prices in the EU would likely attract very large quantities of duty-free EBA imports that would cause the high-price EU sugar regime to be undermined. By reducing EU support prices by 36 percent, there would be fewer EBA imports in the EU internal market and this would allow EU producers to be more competitive.

These factors led to the EU Commission's June 2005 proposal to drastically reform the sugar regime. Intra-EU discussions led to a revised set of proposals in November 2005. The legislative proposals were designed to incorporate the new sugar regime with the recent reforms of the CAP and to meet its international obligations. The basic features of the proposal were:

- Sugar support price to be reduced by 36 percent from €631.9 to €404.4 per tonne over a 4-year phase-in period beginning in 2006/07.
- Minimum sugarbeet price to be reduced by 39.5 percent to €26.3/tonne over the phase-in period.
- Sugar production quotas not to be reduced except through a voluntary 4-year restructuring program where quota could be sold and retired.
- Member states allowed to buy some additional quota. The intention was to move some production from inefficient producers to efficient producers.
- Restructuring to be financed by quota levies on producers and processors who do not sell quota.
- Compensation to be made available to farmers at an average of 64.2 percent of the revenue lost due to the price cuts. The aid is included in the Single Farm Payment and is linked to payments for compliance with environmental and land management standards.
- Establishment of a prohibitive super levy to be applied to unallocated over-quota production.

Other features essential to the proposed reform included phasing out of sugar intervention; merging A and B quotas and eliminating over-quota sugar exports; elimination of re-exports of sugar imported under preferential terms; institution of storage and carryover schemes; provision of compensatory funds

to assist high-cost developing countries with diversification or reconversion aid for loss of sugar export revenue; and an increase in the EU isoglucose quota. [27]

The phasing-in of reform did not initially meet its intended goal of reducing the sugar quota, leading EU policymakers to rework the reform for the next year. [28] Nonetheless, final quotas in 2009/10 were much lower than at the start of the reform. Table 1 shows the EU production quota transition for sugar and table 2 shows the transition for isoglucose and inulin syrup. The transition is marked by substantial quota renunciation and also by additional quota purchased, especially by those countries where proportionally fewer quotas were renounced. Sugar quotas decrease 24 percent from initial levels to 13.337 million tonnes (figure A-1); isoglucose quotas expanded 20.3 percent to 690,441 tonnes; and inulin quotas fell to zero.

The EU sugar reform, with its much lower support prices, had a significant impact on the relationship between the European Union and the African, Caribbean, and Pacific (ACP) countries under the *ACP Sugar Protocol*. [29] Under this agreement dating back to 1975, 77 ACP countries had preferential access into the EU market at guaranteed prices much higher than world prices. Within the framework, ACP countries exported about 1.3 million tonnes of sugar to the European Union annually on an individual quota basis. Many ACP sugar producers would become uncompetitive at the new EU reference price for sugar.

The European Union withdrew from the Protocol in September 2007. The framework's guaranteed prices and quantities were now inconsistent with new sugar reforms and intervention buying from ACP countries was being phased out as an integral part of the reform. [30] Also, WTO special exemption waivers that permitted the discriminatory access of ACP sugar into the European Union were to expire at the end of 2007.

The ACP Protocol arrangement is being replaced by WTO compatible Economic Partnership Agreements (EPAs). [31] These EPAs are regional trade agreements meant to integrate ACP countries into the world economy. Although not all EPAs have been fully negotiated, interim EPAs have been established to cover sugar access into the European Union. There is a three-step transition period. The first step covered January 1, 2008 through September 30, 2009 that guaranteed prices and allowed for quotas. The second period lasts from October 1, 2009 through September 30, 2015. During this period, ACP countries have duty free access but with an automatic volume safeguard clause (discussed earlier in this report – meant to guard against import surges into the EU). The third stage will be initiated on October 1, 2015, at which time all imports are duty- and quota-free, with a weaker safeguard provision.

[1] The EU's decision-making process involves three institutions: the European Parliament, the Council of the European Union, and the European Commission. The Commission drafts proposals for new laws and manages day-to-day business of implementing EU policies. There are 27 Commissioners from each of the 27 Member States. For additional information, see: http://europa.eu/about-eu/institutions-bodies/index_en.htm.

[2] The Single Payment Scheme was the central element of the June 2003 CAP reform. See: http://ec.europa.eu/agriculture/capreform/infosheets/pay_en.pdf

^[3] The proposals for the CAP after 2013 are at http://ec.europa.eu/agriculture/cap-post-2013/legal-proposals/index_en.htm

^[4] <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2006:058:0001:0031:EN:PDF>

^[5] <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CONSLEG:2007R1234:20110101:EN:PDF>

^[6] Previously processors could sell a standard quality sugar to national intervention agencies at the intervention price. This measure provided a minimum wholesale sugar price in the European Union.

^[7] See Appendix I for a discussion of the 2006 sugar reform and its effect on preferential access to African, Caribbean, and Pacific (ACP) countries defined under the *Protocol*.

^[8] See FAS GAIN report E60026 “Industrial uses of sugar from sugar beet increasing in the EU,” April 2011, http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Industrial%20uses%20of%20sugar%20from%20sugar%20beet%20increasing%20in%20the%20EU%20%20_Brussels%20USEU_EU-27_4-21-2011.pdf

^[9] European Court of Auditors. *Has the Reform of the Sugar Market Achieved Its Main Objectives?* Special Report No. 6, 2010. www.eca.europa.eu

^[10] www.lmc.co.uk, See also: “World Sugar and High Fructose Syrup Production Costs: 2000/01-2009/10,” in *Sugar and Sweetener Outlook*, April 2011.

^[11] The margin between U.S. and world prices has been variable, depending on expectations of supply to meet consumption requirements. In 2009/10, the United States imported more than 188,000 tonnes of sugar at the high-tier tariff to satisfy domestic needs.

^[12] Figure 11 shows the evolution of EU sugar prices since the reform process started. During the phase-in period, EU prices were close to reference levels. Although the average EU white sugar price showed some downward movement when the reference price fell to € 404.4 per tonne, prices have since remained above the reference price by about 20 percent – averaging € 484.1 per tonne through January 2011. These higher prices, however, were insufficiently high to attract the needed imports.

^[13] On March 24, 2011, the EU set out measures which would provide a predictable framework for the EU sugar sector in the 2011/12 season. The package includes: a quantitative limit for exports of out-of-quota sugar (650,000 tonnes) and isoglucose (50,000 tonnes), with export certificates valid 1 year from January 2012; the opening of an import quota of 400,000 tonnes for industrial sugar; and a provision for expansion of the foregoing quantities once more precise estimates of production and available supply are known.

^[14] The OECD-FAO Agricultural Outlook, 2011-2020 (June 2011) and OECD-FAO Agricultural Outlook: Sugar Market Outlook (April 2011).

^[15] The proposals for the CAP after 2013 are at http://ec.europa.eu/agriculture/cap-post-2013/legal-proposals/index_en.htm

^[16] For more on factors affecting world sugar price variability, see: www.ers.usda.gov/AmberWaves/September10/Features/WorldSugarPrice.htm. This article concludes that Brazilian sugar costs of production measured in U.S. dollars and production cycles in Asia most directly affect world sugar pricing and volatility. In turn, changes in Brazilian production costs are associated mostly with changes in the Brazilian *real* – U.S. Dollar exchange rate.

^[17] CIBE.- http://www.cibe-europe.eu/Press/107-2010CIBE_Contribution_CAP_after_2013.pdf

^[18] CIBE.- http://www.cibe-europe.eu/Press/010-11CIBE_2nd_contribution_CAP_after_2013.pdf

^[19] CEFS - <http://www.comitesucre.org/userfiles/CEFS%20position%20on%20the%20EU%20sugar%20regime%20after%202014-2015.pdf>

^[20] CIUS - [CIUS Position Statement on the Sugar Regime post-2015 \(July 2010\)](#).

^[21] A Budget for Europe 2020 - http://europa.eu/press_room/pdf/a_budget_for_europe_2020_en.pdf

^[22] Currently, Serbia has not yet secured EU candidate status.

^[23] The proposals for the CAP after 2013 are at http://ec.europa.eu/agriculture/cap-post-2013/legal-proposals/index_en.htm

[proposals/index_en.htm](#)

^[24] “Analysts: Europe’s sugar reform program leads to sugar shakeup” by Jerry Hagstrom, *Special to Agweek* August 16, 2011.

^[25] As of 2011, Croatia, Iceland, The Former Yugoslav Republic Of Macedonia, Montenegro and Turkey have received EU candidate status. The remaining countries of the former Yugoslav Republic, including Serbia, and Albania have potential candidate status.

^[26] See: Kelch, David and Mary Anne Normile, *CAP Reform of 2003-04*. Electronic Outlook Report, Economic Research Service, WRS-04-07, August 2004,

http://usda.mannlib.cornell.edu/usda/ers/WRS/2000s/2004/WRS-08-26-2004_Special_Report.pdf

^[27] Isoglucose is the EU term for High Fructose Syrup.

^[28] The EU sugar reform is contained in Regs 318/2006, 319/2006 and 320/2006. Sugar sector restructuring rules were changed in the next year after too few quotas were renounced in the first year (Council Reg 1261/2007 and Commission Reg 1264/2007). This change included a possibility for farmers to give up quota directly through more lucrative buy-outs than before and also introduced the possibility that the Commission would unilaterally cut quota across-the-board in 2010 if not enough quotas had been renounced. See: <http://www.fas.usda.gov/gainfiles/200709/146292554.pdf> and “EU Sugar Reform” in <http://www.ers.usda.gov/Publications/SSS/2008/SSS251.pdf>

^[29] See: FAS GAIN E49042 report entitled “Impact of the EU sugar reform on sugar exporters from ACP and LDCs,” at <http://www.fas.usda.gov/gainfiles/200905/146347799.pdf>

^[30] The sugar reform had a compensation chapter worth €1.2 billion for ACP countries under ‘Accompanying measures’.

^[31] See: <http://ec.europa.eu/trade/creating-opportunities/bilateral-relations/regions/africa-caribbean-pacific/>