Sugar

Standard Note: SN/SC/1277

Last updated: 6 July 2009

Author: Christopher Barclay

Section Science and Environment Section

This note describes the EU sugar regime and its reform starting in 2006.

Contents

1 The EU sugar regime before the 2005 reform

A European Commission document in 2000 described the workings of the EU sugar regime:

> Community support for the sector involves a minimum price for sugar beet, which sugar manufacturers must pay to Community farmers and an intervention price for sugar at which the intervention agencies buy in all sugar offered to them by Community producers. These are fixed annually by the Council on a proposal from the Commission and have been frozen since 1984/5.
>
> The rules on trade with third countries entail the application of import duties to sugar from third countries and the payment of refunds on sugar exported by the Community to third countries. This system takes account of the difference between prices on the international and Community markets, which is currently quite large.
>
> The market organisation is characterised by tight control over production, with producers benefiting from guaranteed prices by way of quotas, fixed for each country and establishment. These quotas (A and B quotas) correspond in principle to the demand on the internal market, and to the export of excess quota sugar with export refunds, respectively. Producers are allowed to produce in excess of the level of the A+B quotas, the so-called C sugar, which has to be exported without refund.[1]

The EU sugar regime allowed Community sugar beet producers to sell up to a certain quota of sugar at very favourable prices – often two to three times world prices - since import levies protected them from competition.[2] The considerable profits made from this sugar - produced under the so-called A and B quotas - allowed Community beet sugar growers and refiners to produce a further amount every year outside quota. However, the EC also had arrangements to allow traditional sugar suppliers, who grow sugar cane mainly in the Caribbean, to supply a certain quantity of sugar to the European Community duty free at a price well above the world market price.

The EU accepted the *Everything But Arms* (EBA) deal by which the 48 poorest countries in the world should be allowed duty-free, quota-free access to European markets for certain commodities, including sugar. One consequence was to make those poorest countries opponents of any reform that reduced EU sugar prices. It was proposed that the sugar market would be progressively opened up over the period 2006 to 2009.[3]

In November 2003, representatives from the world's Least Developed Countries (LDCs) protested about proposals to reform the CAP sugar regime:

> [I]f the EU went ahead with the Commission's preferred option of cutting the EU's support price for sugar to €450 per tonne, the positive effect of EBA would be entirely eroded, LDC delegates said at a roundtable discussion in Brussels.[4]

In other words, if the EU market were opened up to everybody, it might not be supplied by the poorest countries able to sell at a high price. Producers like Australia might well be able

---

1 European Commission, *Proposal for a Council Regulation on the common organisation of the markets in the sugar sector*, 4 October 2000, Com (2000) 604 final

2 British Cake Chocolate and Confectionery Association Press Release, *Sugar users welcome Commission proposals on sugar reform*, 14 July 2004

3 European Commission Press Release, EBA proposal: green light from the Council, 5 March 2001

4 "LDCs reject Fischler sugar plans", *Agra Europe*, 21 November 2003

to supply the market more cheaply. LDCs have continued to criticise EU reform proposals on those grounds.[5]

2 EU sugar reform November 2005

In November 2005 reform of the EU sugar regime was agreed:

> The guaranteed price for white sugar will be cut by 36 percent over 4 years; farmers will be compensated for, on average, 64.2 percent of the price cut through a decoupled payment - which will be linked to the respect of environmental and land management standards and added to the Single Farm Payment;
>
> countries which give up more than half of their production quota will be entitled to pay an additional coupled payment of 30 percent of the income loss for a temporary period of five years;
>
> a generous voluntary restructuring scheme will be established to provide incentives for less competitive producers to leave the sector; intervention buying of surplus production will be phased out after four years.
>
> Developing countries will continue to enjoy preferential access to the EU market at attractive prices. Those ACP countries which need it will be eligible for an assistance plan worth € 40 million for 2006, which will pave the way for further assistance.[6]

3 House of Lords Debate, March 2006

Lord Renton opened the debate, taking note of the report by the European Union Select Committee.[7] His speech noted the losses likely to be felt in poor countries as a result of the reform:

> Overall, the proposals that, as we all know, were subsequently modified from her first proposals, were all right for the European Union, but the position of the African, Caribbean and Pacific [ACP] countries and India… is more questionable. As most of your Lordships know, the price cut was originally to be 39 per cent. It was reduced to the still formidable figure of 36 per cent. The reductions were phased in slightly more gently than was suggested at the start; over four years, with the final cut in price in 2009-10.
>
> It is generally agreed that European Union producers receive a generous, ongoing compensation package of 64 per cent of the price cut for four years, with added diversification aid for those giving up more than 50 per cent of their quotas. I know that Commissioner Boel expects the EU of 25 countries to reduce production substantially over the whole period—once this is complete and in action—from about 19 million tonnes a year to 10 million or 11 million tonnes…
>
> To sum up, it is generally expected that EU producers will receive about €7 billion over the years in compensation, to cushion the impact of the price falling by 36 per cent over that period.

---

[5] "LDCs slam EU sugar reform plans", *Agra Europe*, 1 October 2004 EP/5

[6] European Commission Press Release, *EU radically reforms its sugar sector to give producers long-term competitive future*, 24 November 2005

[7] European Union Committee, *Too much or too little? Changes to the EU Sugar Regime*, December 2005 HL 80, 2005-6

Then one comes to the more difficult part of the equation... In essence, ACP countries and India have, since 1975, been guaranteed that the EU will purchase specific quantities of cane sugar at a guaranteed price. Therefore, as the EU farmers' price for sugar beet now falls, as I have described, the ACP countries and India will get reduced prices for their 1.3 million tonnes of quota exports to Europe.

Understandably, this immediately led to cries of anguish and protest from speakers for the ACP countries. I have here a document produced by the general secretariat of the ACP, dated 15 December:

> "The ACP have justifiably argued that €500 million per year will be necessary to allow them to adapt and survive".

This was at a time when all the EU had said was that it would be €40 million for the first year…

The fact of the matter is, however, that there will definitely be a loss of export earnings for some ACP countries—such as Fiji, Saint Kitts and Jamaica—which depend on their 150-160,000 tonnes of EU exports at a favourable price. They find this an important part of their export earnings, and have made a number of protests saying that they do not know what they are going to do instead.

What is the Commission's position? It said originally that there would be €40 million for the first year, 2006. I understand that that has now changed to 2007, but that it is saying that it then hopes to make €190 million a year available for adjustment in the ACP countries—but, of course, the EU budget is not yet totally fixed for the next period. There will continue to be debate about this figure; that is obvious. At least it is a big step up from what was originally proposed.

The question still arises, however, of how this aid is to be delivered. What are to be the mechanisms for delivery? The point has been made to me that it is important that it should not just go to the multinational companies, who are important in the world sugar industry, but that there should be specific aid for farmers and smallholders, and help in seeing how new industries—compatible with the climate, environment and workforce traditions—could be started in some of these countries…

There is a real danger that this could be locking developing countries into low-value agricultural production while much of the new industrial production and access is taken over by the developed world, particularly the EU and the USA. In essence, that is the point that Oxfam wishes to make. It leads on to the thought that developing countries must be very careful about what they sign up to in any Doha development round because once a country has signed up to the WTO, it cannot unsign. It might be better to have further delay because no deal this year is better than a bad deal. Thus, the sugar regime has become a litmus test for Doha and for making reasonable deals that will help development and trade in the developing world. How can the EU and the USA help locally financed industry to grow in the developing world and then give tariff-free market access for those manufactured products to their domestic markets? If we are to succeed in this programme to help Africa, to cut its debt and improve standards of life in developing countries, those are the key questions that have to be answered. This is the most important element in fighting to reduce poverty in the developing world.[8]

[8] HL Deb 23 March 2006 cc432-6

4 Further details of compensation, September 2006

On 22 September 2006, Defra announced how support for sugar would be merged into the single farm payment scheme comprising the Common Agricultural Policy:

> Following a public consultation exercise, Food and Farming Minister Jeff Rooker today announced decisions on how almost £500 million of additional support for sugar reform will be incorporated within the Single Payment Scheme (SPS) over the next seven years. It was announced in June that in order to simplify arrangements under the 2006 SPS, the £52m earmarked for this year would be added entirely to entitlements held by sugar beet growers who met defined criteria. Those criteria are now confirmed as growers' contracted tonnage for quota sugar for the 2005/06 marketing year.
>
> It was also confirmed today that from 2007 SPS, option 2 in the consultation document has been chosen. This means that the additional support will be incorporated into the SPS on the existing flat rate / historic split, but that in the 2007-2009 period the annual increments in that support (relative to the 2006 level) will be added each year to the entitlements held, initially at least, by sugar producers…
>
> Notes for Editors.
> 1. The Single Payment Scheme was introduced in England in 2005 under the 2003 CAP reforms. Over £1.5 billion is expected to be paid out annually under the scheme to English farmers by the Rural Payments Agency (RPA), an Executive Agency of Defra. Further details on the implementation of the SPS can be found on the Defra website at: http://www.defra.gov.uk/farm/capreform/index.htm
>
> 2. Additional support arising from the November 2005 reform of the CAP sugar regime must be incorporated into the model of the SPS that Member States have adopted from the 2006 Scheme. The total sums involved amount to nearly £500 million over the period 2006-2012. Further details of that agreement can be found on the European Commission's website at:
> http://europa.eu.int/comm/agriculture/capreform/sugar/index_en.htm
>
> 3. A consultation exercise was launched in February 2006 on the detailed issues that EU Regulations leave for national discretion.
> http://defraweb/corporate/consult/sugarsps-compensation/index.htm
>
> 4. David Miliband announced in his oral statement to the House of Commons on 22 June that the total amount of the additional support to be incorporated into the SPS under the 2006 scheme would be added to value of entitlements held by sugar growers who met certain criteria. Today's announcement covers the outstanding issues arising from the consultation exercise.[9]

5 Westminster Hall Debate October 2006

> **Miss Anne McIntosh (Vale of York) (Con):** …The impact of the York British Sugar factory closure, expected to take place in February or March after this year’s sugar beet campaign, follows a number of other job losses…
>
> The Minister will tell me that the issue goes back to the decisions taken, with our support, on the “Everything but Arms” campaign, which led to a fall in the price of sugar and more imports from third countries such as Brazil, which to my knowledge were

[9] Defra Press Release, *Decisions made on incorporating sugar support into the single payment scheme*, 22 September 2006

never traditionally sugar cane producers, but are now undercutting. Another problem is that although world sugar consumption has been rising steadily in recent years, that rising consumption has been outstripped by the rise in production, giving a surplus that will continue for a considerable time.

The recent environmental impact assessment carried out by the Department for Environment, Food and Rural Affairs and non-governmental organisations shows that the growing of sugar beet has positive, beneficial effects on biodiversity and bird life. During the past 20 years, there has been a substantial reduction in all forms of chemical input to crops; in the case of insecticides, the reduction has been 95 per cent. In addition, many of the co-products of processing sugar beet are utilised in the farming industry—in animal feeds, for example…

[The Tenant Farmers Association] understands that British Sugar could have decided to avail itself of the European Union restructuring scheme, agreed as part of the November 2005 sugar reforms, set out in EU Council regulation 320 of 2006, agreed and published on 20 February this year. Given the quota associated with the York and other factory closures—Allscott, in particular—British Sugar would have been entitled to up to about £490 per tonne in restructuring aid in return for announcing the complete or partial decommissioning of the sugar processing plant. Under the regulation, at least 10 per cent. of that aid would have to be passed to affected growers and contractors.

The Tenant Farmers Association argues that that would be a minimum, but should be a lot higher, particularly given the development value of the two closed sites. I understand that growers supplying the Greencore plant in Ireland will receive an astounding 32 per cent. of the restructuring aid available under the EU scheme, following decisions to relinquish the quota associated with that factory. Perhaps the Minister could respond to that against the background that, even with transport costs being offered to growers who supply York, it does not make economic sense when beet prices are £20 a tonne or less to transport beet into Newark, let alone Bury St. Edmunds or Wissington…

The Minister may wish to address the fact that sugar beet will have to be replaced, as it is a rotation crop. It may be replaced by winter cereals or oilseed rape. I hope that the Minister will look favourably on the potential for those crops and also on the option of biofuels, which I shall come to in a moment.

Contractors have invested large amounts of money in harvesting equipment dedicated to beet. In most cases, a new machine costs in excess of £250,000. The problem for many people is that they are not eligible for compensation from British Sugar, which has no point of contact with them. They will be left completely in the lurch when the campaign season for sugar beet ends, and there will be repercussions for staff and employees of growers and contractors…

The three groups are the growers—the NFU has negotiated on their behalf and cared for them, but the Minister might like to address the remarks of the Tenant Farmers Association—and the suppliers and the contractors, who will be left in some considerable financial difficulty.

Finally, through the Minister, I would like to explore with the Government the opportunities for developing biofuels…

The Parliamentary Under-Secretary of State for Environment, Food and Rural Affairs (Barry Gardiner): …I do not want to rehearse all the arguments for change, but it was estimated that the old regime cost EU consumers and taxpayers nearly £5 billion a year, less than half of which was transferred as benefits to beet growers and processors. The result was a welfare loss to the EU economy of around £3 billion a year. In the UK alone, the net annual economic cost was estimated at more than £500 million.

The old sugar regime was also the single most distorting and protectionist element of the whole common agricultural policy. Negotiating reform was complex and difficult, but it was clear to all that an EU sugar price of more than three times world levels simply was not sustainable.

It is worth while briefly to recap the three fundamental aspects of the reform package. First, sugar prices are to be cut by one third over the next four years. The sugar-using industries have been crying out for price cuts for many years... The unsustainable system of high sugar prices may have been good news to sugar beet growers and processors while it lasted, but it damaged our food and drink industry. The price cuts seek to reverse that damage in part—I say “in part” because, of course, only one third has been cut from prices that were three times world prices.

Secondly, a substantial compensation package for sugar beet growers has been announced. I shall say a little more about that aspect of the reforms in a moment. The third element is a restructuring scheme to help those member states with inefficient sugar production sectors close down their industries. One of the many problems of the former regime was the over-production encouraged by high prices and the quota management system. It was necessary to provide a financial incentive to persuade inefficient producers to quit production. As there has been confusion—indeed, the hon. Lady alluded to tenant farmers and their understanding of the situation, which perhaps added to it—I must stress that British Sugar’s planned factory closures are not part of the restructuring scheme. Far from it. Instead, it plans to remain in the business of producing sugar in the UK.

Difficult and controversial though the reform process was, the final outcome was accepted as a tough but necessary deal by all sides of the UK industry, including the National Farmers Union on behalf of sugar growers. In the course of negotiations, the Government published a full regulatory impact assessment on the effect of the reforms on various sectors of the sugar industry including, of course, the effect on sugar beet growers in Yorkshire and elsewhere in England. That was submitted to Parliament.

It is clear that there will be significant implications for UK beet growers. It is quite possible that the industry will not continue at the current level. The hon. Lady’s remarks have given us a feel for those implications. Farmers who receive the single farm payment, decoupled from production, may choose not to continue to grow sugar beet at all if other crops appear more profitable, but that would be a rational response to market signals allowing resources to be used to the best effect.

It was also open to British Sugar to participate in the restructuring scheme. I want to address this point in particular, as the hon. Lady dwelt on it and there is clearly confusion. British Sugar could have given up its production quota, exited from sugar production and received EU compensation. It chose not to take that course.

British Sugar plans to close factories at York and Allscott next year as part of its commitment to the future of sugar production in the UK. Rather than pulling out, it has signalled its intention to maintain and possibly even increase levels of quota for beet in the UK. In order to be fully competitive, it intends to do that at a smaller number of factories…

Finally, I want to refer to the potential for biofuel production in the UK, which the hon. Lady raised. The Government are keen to support agricultural diversification and the development of new market opportunities as appropriate, and biofuels are an important growth area, including bioethanol obtained from sugar beet. Road transport accounts for a quarter of the UK's total carbon emissions and low carbon transport fuels will almost certainly be required if the Government's 2050 target is to be met.[10]

6 The reformed regime in 2009

Agra Europe gave a lukewarm assessment of the reformed regime:

> While modest liberalisation and rationalisation of the domestic market control system has reduced surplus production and benefited some exporters to the European market, prices to sugar users and consumers do not reflect the significant reduction in producer support prices. The operation of high import tariffs, the maintenance of the oligopolistic nature of the sugar processing industry and the restrictions on inward processing arrangements continue to keep prices high.
>
> Despite the fact that the Reference Price for EU sugar producers has been cut to €428 a tonne in the current marketing year (and is set to fall to €404/t as from October), the average EU white sugar price is still over €560/tonne, against a world price of only about €320 a tonne.
>
> Sugar users and consumer organisations fear that the EU will continue to maintain high prices through continuing production controls and a high import tariff. It is inevitable that it will list sugar as a "sensitive product" in any forthcoming agreement on farm trade liberalisation in the Doha round. This will ensure that sugar will be subject to significantly less than the planned 70% cut in the highest EU agricultural product tariffs.[11]

[10] HC Deb 10 October 2006 cc54-60WH

[11] "New EU sugar regime does not benefit consumers – or ACP states", *Agra Europe*, 3 July 2009