SUGAR REGIME OF THE EUROPEAN UNION

Mr Bart Vrolijk , Agriculture Trade Policy Analyst, Commodities and Trade Division, FAO.

Thank you Mr./Mrs. Chairperson,

For me it is a pleasure to present to you an outline of the EU sugar regime. As you said correctly, Mr./Mrs. Chairperson, I do not work for the EU, but for FAO. The person from EU was not able to come to this conference, and I have been asked to explain some of the salient features of the EU sugar regime. For specific remarks or questions about the EU-regime, I am willing to provide you with the details about how to contact the people at the EU in Brussels.

Before I start, I have to admit that I am not following the sugar market on a daily basis, as most of you probably do. My work at FAO is more closely related to the implications of the Uruguay Round Agreement on Agriculture for developing countries. It is in that connection, that FAO is providing technical assistance to developing countries in order to enhance their understanding of the Agreement and in order to enforce their negotiating capacity in the Multilateral Trade Negotiations, of which a new round was launched last week in Seattle. Nevertheless, I think I will be able to provide you with the main outline of the EU-sugar regime, and fortunately I find myself with very experienced people at this table, who might want to add something, if necessary.

In the limited time I had last week to prepare this statement, I was confronted with the complexity the EU-sugar regime. For example; the EU imports quite some sugar from third countries (over 1,3 million tonnes white sugar equivalent), while at the same time it is the second-biggest exporter of sugar in the world (after Brazil), accounting for 19% of internationally traded sugar. Part of those exports is sold with the help of export subsidies. Another point of complexity is the EU's classification of A, B, and C sugar. What is the difference? Are those different types of sugar? Is the one sweeter than the other? All those kind of questions. I will come back to that later.

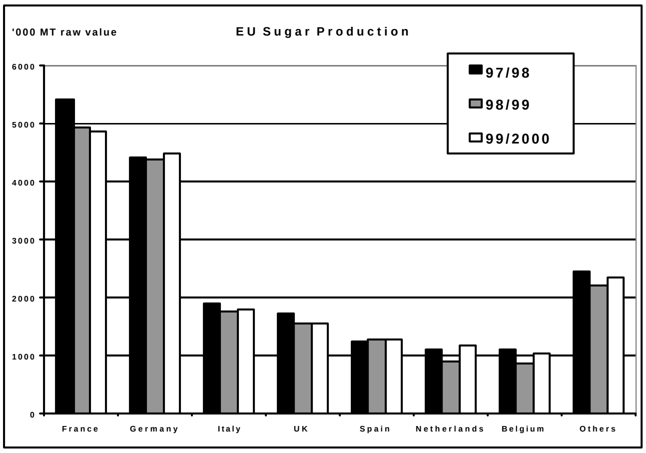
First, the context in which the EU-sugar regime takes place. As all other agricultural products, sugar is part of the Common Agricultural Policy (CAP) of the EU. The 5 objectives of the CAP, as spelled out in Article 39 of the Treaty of Rome (1960), are the following:

1. increase of agricultural productivity
2. ensure a fair standard of living for the agricultural community
3. stabilize markets
4. assure the availability of supplies
5. ensure supplies to the consumers at reasonable prices

It was not until 1st of July 1968, that the EU sugar-regime started, i.e. almost 8 years after the start of the CAP. The Community's sugar regime differs in **4** main ways from the 'normal' Community support programme:

1. Although the mechanism of **target** and **intervention prices** exist as in for example the cereals regime, intervention buying **does not apply to the farm products** (sugar beet or sugar cane), but to the **products as processed** – raw or white sugar, as sugar beet and cane are not storeable.
2. EU **support is not open-ended**, but restricted to production within quota. Only sugar production within the quota is eligible for support.
3. The principle of **"co-responsibility"** has been applied most fully to the sugar regime out of all the CAP regimes. Sugar producers (growers and processors jointly) are responsible for paying - through their producer levies - the full costs to the EU budget of disposing of surplus quota sugar
4. There is **guaranteed access** to the Community market for a significant quantity of Third Country sugar, principally form ACP countries associated with the EU by the Lomé Convention.

Before going into the policies, a very quick look at the EU- sugar production market (see graph) Total EU sugar production is around 18-19 million tonnes raw value, of which France and Germany account for about 50 %.



Broadly, the basic tools of the EU's sugar policy are:

1. import restrictions with limited free access for certain suppliers
2. internal support prices that ensure returns to producers for a fixed quantity of production and permit the maintenance of refining capacity, and
3. export subsidies for a quantity of domestically produced sugar

More specifically, the main instruments used in the EU sugar policy could be divided into:

A. PRICE GUARANTEES
B. IMPORT/EXPORT REGIMES
C. PRODUCTION QUOTA SYSTEM
D. STORAGE COST EQUALISATION SCHEME
E. SELF-FINANCING REGIME
F. REFINING REGIME

A. PRICE GUARANTEES

The price system for the sugar regime uses four institutional support prices. These are the **target price**, the **intervention price**, the **basic beet price**, and the **minimum beet price**. They are fixed annually and apply for a sugar marketing year (MY). A marketing year generally means October/September, except for Greece and Italy: August/July, and for Spain: July/June. The sugar marketing year for support payments is from 1 July to 30 June.

The **target price** is fixed only for white sugar of a standard quality, and is applicable to bulk sugar, ex-factory and fob purchaser's transport.

As with other CAP commodities there is a common **intervention price** at which the national intervention agencies will buy all the Union-produced sugar offered within quota. This intervention price applies for the processed product (white sugar) and is set at 95% of the target price. The common intervention price is increased in those countries which are regarded as being in deficit – Ireland, Italy, Portugal, Spain and the UK. As the intervention buying commitment applies to the manufactured product it does not, of itself, necessarily mean that growers will be helped. Consequently, the Community fixes a **basic price for beet,** which sugar beet processors are compelled, by law, to pay to beet growers (adjusted for producer levies as necessary).

From the basic beet price a minimum beet price is derived, of which the level depends on the quota in which it is produced Producers have to pay a levy: in the A quota of 2 % and in the B quota there is an additional 30 % levy. Consequently the minimum beet price for "A" is 98% of the basic beet price and for "B" 68% of the basic beet price. (on "A", "B" and "C" quota I will come back later).

Processing margin: These two prices, i.e. the **intervention price** and the **basic beet price**, which are decided annually by the Council based on a proposal from the Commission, determine the **processing margin** for the sugar industry. By fixing the beet price based on the intervention price, the EU takes into account the yield of sugar from beet, beet processors' receipts from molasses sales and costs of delivering beet to processors.

If the white sugar intervention price is not obtained on the EU market, sugar can be offered into intervention and this price represents therefore the floor price in the EU. It should be underlined that the **intervention system**, in combination with the export policy, works as a real safety net, which is only used under exceptional circumstances.

Regional premium: In deficit areas the IP and MPB are increased by regional premiums. These deficit areas are Ireland, Italy, Portugal, Spain and the UK

Prices for the previous and actual MY (source USDA Gain Report):

Official Prices in the EU-sugar sector, MY 1998/99 and MY 1999/2000 proposed

	MY 1998/99	MY1999/2000
Basic price for beet	€ 47.67/MT	€ 47.67/MT
Minimum price for A beet	€ 46.72/MT	€ 46.72/MT
Minimum price for B beet	€ 32.42/MT	€ 32.42/MT
Intervention price for white sugar	€ 63.19/100kg	€ 63.19/100kg
Target price for white sugar	€ 66.50/100kg	€ 66.50/100kg
Intervention price for raw sugar	€ 52.37/100kg	€ 52.37/100kg
Monthly reimbursement of storage costs	€ 0.38/100kg	€ 0.33/100kg

B.1 IMPORT REGIME

As part of the outcome of the Uruguay Round of GATT negotiations the EU has the obligation to:

(i) allow access to their market where imports are less than 3% (rising to 5% in 2000) of consumption; and
(ii) convert NTB into tariffs and reduce them with 20% (for sugar; average cut for agricultural products is 36%) over the implementation period.

The **objective of the import regime** within the CAP is to assure a clear Community preference. The present system operates with **tariffs**, which at present provide a high level of protection.

Although the **tariffs** are **fixed** by the Council in accordance with the EU's World Trade Organization commitments, the Commission is authorised to suspend or reduce certain tariffs, e.g. on molasses and raw sugar for refining.

All products covered by the Common Organization of the Market in the sugar sector are subject to the rates of import duty listed in the Common Customs Tariff. It should be noted that additional import duties may be set in order to prevent or counteract adverse effects on he EU market.

Import tariffs are actually 353/MT for raw sugar for refining and 437/MT for other raw sugar and refined sugar.

	Base duty (based on average 1986-1988)	Bound (2000)
Raw sugar for refining	424/MT	339/MT
Other raw sugar and refined sugar	524/MT	419/MT

The majority of third country sugar shipped to the EU is, however, imported under special import quota: **"preferential sugar"** can be imported at zero duty. "Preferential sugar" is the term used to describe cane sugar (raw or white) imported under the provisions of Protocol 8 the Lomé Convention from the African, Caribbean and Pacific States (ACP) and the Agreement with India. The total duty-free amounts to 1,304,700 tons (white sugar equivalent), of which 10,000 tons for cane sugar originating from India and the rest for cane sugar originating in the countries listed as beneficiaries of Protocol 8 of the Lomé Convention (Barbados, Belize, The Republic of Congo, Fiji, Guyana, Ivory Coast, Jamaica, Kenya, Madagascar, Malawi, Mauritius, Suriname, St. Christopher & Nevis, Swaziland, Tanzania, Trinidad & Tobago, Uganda, Zambia and Zimbabwe).

For preferential sugar the Community "undertakes for an indefinite period to purchase and import at guaranteed prices, specific quantities". The commitment for an 'indefinite' period means that even if the rest of the Lomé Convention should be allowed to lapse, the sugar provision will be maintained.

There is not only the preferential sugar, but also the so-called special preferential sugar imports (SPS). I will come back to that in the part on the refining regime (F; page 10)

In addition to preferential and special preferential imports, the Commission also sets an annual tariff quota called "MFN quota" for the supply of raw sugar cane to Community refineries at 98/MT.

B.2. EXPORT REGIME

Refunds/restitutions: When the price level in the EU is higher than the world market price, EU sugar can be granted a refund (or restitution) in order to make it competitive on the external markets. These refunds apply not only to the main products covered by the sugar regime, but also to the export of processed products containing sugar. The export restitutions cover the difference between the Community Domestic market prices and the world prices.

When the price level in the EU is lower than the world market EU sugar can/shall be subject to an export levy in order to ensure adequate supplies to the internal market.

Weekly tenders: There is a series of weekly tenders each season where traders bid for the minimum level of restitution they need in order to be able to compete on the world market. This system of weekly tenders ensures that refunds or levies are in line with current world market prices.

Lower rates of refunds or levies are available to exporters who cannot participate in the weekly tender.

Balance sheet approach: The export program is established on a marketing year basis and managed by help of a forward balance sheet, which is updated very frequently.

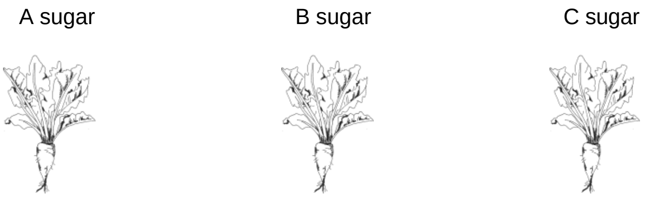
The export policy is managed by the Commission assisted by the **Management Committee for Sugar.**

EU sugar exports to third countries consist of both subsidised and non-subsidised exports. Although subsidised exports have increased in 1997/1998, about three quarters of the 1.1 million tonnes increase in total sugar exports (raw value equivalent) has been on account of a growth in unsubsidised sugar exports.

Since marketing year 1995/96, subsidised exports of sugar to third countries are limited, in volume and in value, under the WTO AoA. (see table 12 GAIN Report). Note: The EU did NOT make an export subsidy commitment on its subsidised exports of a quantity of sugar equal to its preferential imports; the cost and volume of those export subsidies are not included in the table.

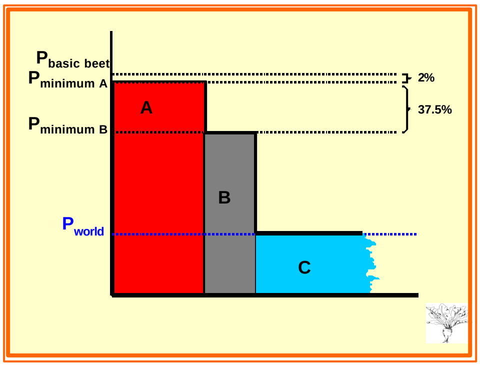
C. PRODUCTION QUOTA SYSTEM

EU's A, B and C sugar. What is the difference?



The production quota system was introduced at the beginning of the EU regime, 1st of July 1968, as a counterpart to the relatively high price level, which was established as a compromise between the high prices in the less efficient producer countries and the much lower level in the more efficient areas.

Quota allocation: EU member states allocate an "A quota" and a "B quota" to each sugar producing operation, each isoglucose-producing operation and each inulin syrup-producing operation established in their territory. A-sugar is sugar which is produced within the "A quota", i.e. sugar for which producers pay a maximum levy of 2 % of the basic beet price. B-sugar is sugar which is produced within the "B quota", i.e. sugar for which producers pay additional to the a levy of maximum 2 % a levy of 30% of the basic beet price. Hence, the quoted minimum beet price for "B sugar" is 68% of the basic beet price. There is however provision for an additional 7,5% levy on "B" beet, so that the maximum 'normal' production levy on "B" quota sugar is 39,5%.



"C-sugar", "C-isoglucose" and "C-inulin syrup" refer to any quantity of sugar, isoglucose or inulin syrup which is produced outside the sum of total A and B quotas. According to EU-legislation, "C sugar" must be sold on the world market without export subsidies or carried over to the following marketing year. To ensure that the "C" production is exported, a time limit is applied. It has to be sold on world markets "before January 1 following the end of the marketing year" in which it was produced. Exception: processors are allowed to carry over a quantity of sugar, up to a maximum equal to 20% of their "A" quota into the following production year.

Limited time: In principle, the Community's beet sugar production quota's are reviewed once every five years. In practice however, the reviews have not kept absolutely to this regular pattern. The sugar regime was introduced 1st July 1968, the first set of quotas applied for 7 years, the second for 6, the third for 5 the fourth for (2+3), the fifth for (2+1+1). The present (sixth) production quota levels apply for six years (1995/1996 to 2000/2001) and are a continuation of those in force since they were last reviewed. It will expire 30.06.2001.

Interprofessional agreements One contrasting feature of the sugar regime, for example with the dairy regime, is that the production quotas apply for the processed products. They do not apply for the farm-gate products, as sugar beet and cane are not storeable. Consequently there have to be elaborate provisions to ensure the benefits of the quotas for the processors are passed back to farmers, in terms of their sugar beet supply contracts to fill the quotas. This is done through the requirement for the negotiation of an **Interprofessional Agreement** in each country between the sugar processors and the recognised representatives of the sugar beet growers (normally a specific beet growers association).

Coming back to the question I asked in the introduction: What is the difference between A, B and C sugar? Is the one sweeter than the other? I think one can easily say that **yes** there is a difference:

"A-sugar" is sweeter for the income of European farmers and processors.

D. STORAGE COST EQUALISATION SCHEME

The equalisation scheme for storage costs ensures the regular marketing of sugar on the internal market all year round at a stable price.

It contributes as well to an adequate rhythm of export and to avoiding the regular use of intervention.

All A quota and B quota sugar in store in factories or in agreed traders stores receive a monthly storage reimbursement fixed for each marketing year by the Council in the price review. Carry-over sugar also receives reimbursement.

Reimbursement fixed by Council at level necessary to cover stock financing costs, insurance and rent.

It is completely self-financed by a storage levy paid on monthly basis by sugar manufacturer on first sale; The levy is fixed by the Commission at a level which ensures budget neutrality. For this purpose accounts are maintained for each marketing year showing quantities concerned and corresponding amounts in EURO.

In spite of difference in storage time, interest rates and storage costs in different regions the reimbursement and the levy are fixed on a uniform basis, which assures full financial solidarity.

Reimbursement and levy are fixed in EUR and converted into national currencies using appropriate conversion rates.

System is administered by Member States on monthly basis in accordance with precise rules and conditions.

E. SELF-FINANCING REGIME

The self-financing systems ensure that farmers and manufacturers bear the cost of marketing their production. They are a unique example of co-responsibility, which assures budget neutrality for the production within the quotas.

They have probably saved the sugar regime from radical changes during the turmoil within the CAP over the last decade, when budget crises led to severe measures – including substantial price reductions – for other crops than sugar beet.

Amounts of levies are fixed by Commission Regulation after examination in Management Committee for Sugar.

All amounts are fixed in EUROs on a common basis and converted into national currencies using the appropriate conversion rates.

In addition to the revenue from production and storage levies, the EU budget benefits from the penalties charged to producers if the C production, carry-over and minimum stock rules are not respected, as well as from the income from the customs duties and additional duties charged on imports of sugar sector products under normal or reduced duty conditions.

Production levies are charged as a means of recouping for the Community Budget the entire cost refunds on sugar exports to the world market (the basic regulation refers to this as the ‘self-financing-scheme’).

The cost of exporting the quantity of sugar equivalent Lomé Convention imports is held to be aid and is therefore charged to taxpayers and not included in the producer levy calculation).

The “exportable surplus”, the disposal of which producers are responsible for funding, is defined as the difference between “A” and “B” quota sugar, isoglucose **production**, inulin syrup production and total domestic sugar, isoglucose and inulin syrup **consumption** for the year in question.

F. REFINING REGIME

Maximum supply needs : quotas set for each of the 4 Members; they represent their annual requirements

When the common sugar market policy was developed in the ‘60s the emphasis was on locally produced beet sugar, and consequently many port refineries within the EC of 6 were closed.

Under impact from successive enlargements this part of the Sugar Regime developed in a very pragmatic way :

- The UK CSA (Commonwealth Sugar Agreement) developed to become the ACP Sugar Protocol and an Agreement with India
- The traditional supply from ACP countries and world market to developed in to “reduced levy”-imports (a total of 1,8 million tonnes white sugar equivalent.
- Price differences for cane raw supplies to EU refineries triggered off special FOD measures
- Increases in processing margin for beet highlighted needs for aid schemes for cane refining
- SF GATT engagements lead to MFN tariff quota

Review had to be linked to general review within CAP reform

The Commission services prepared already in 1992 a complete review of the policy for supply of raw sugar for refining, but due to the fundamental questions involved, it was decided to deal with these in connection with the planned reform of the entire sugar regime.

The main question was raised, if the EU should refine raw sugar beyond the quantities produced in the FOD and the supplies delivered under the ACP Protocol and India Agreements.

The positive answer secures the refining regime for the same period as the quota regime. All the EU refiners are now assured a predetermined level of supply of raw sugar, but possible increases in Direct Consumption will not be replaced by increased import.

This policy change formed the basis for an agreement with ACP states and India on delivery of raw cane sugar to cover the shortfall = missing quantities within the annual balance sheet.

As I mentioned in the part under the import regime, the EU has also undertaken to open up on annual basis a special tariff quota for the imports of raw sugar cane for refining which originates in the same ACP countries (see above) or India. These imports are often referred to as **"special preferential imports"** A special reduced rate of duty applying to these imports is fixed o an annual basis. (54.10/MT). Only 4 countries are authorised to import under the quota: Finland, France, Portugal and UK. This extra raw sugar is NOT part of the 'normal' ACP preferential sugar.

The SPS should be seen as an important **supplement** to the Sugar protocol as only Protocol States are covered, but conditions are different in the sense, that only raw cane sugar for refining can be delivered, and that the supplies are fixed on a yearly basis. The supply guarantee is collective and there is a fixed duty, to be paid. Furthermore the agreement is limited in time, whereas the Protocol is of indefinite duration.

The SPS agreement secures ACP suppliers a price around 85 % of the Protocol sugar price, but this is well above other preferential outlet like US market and for the time being more than the double of the world market price.

Common to both arrangements is the principle, that they provide for a stable revenue to the ACP suppliers.

III. FUTURE DEVELOPMENTS

A. DEADLINES

- Current production quota and refining regimes expire on 30.06.2001
- Council must decide before 31.12.2000

B. CHALLENGES

1. EVALUATION OF THE SUGAR REGIME
2. AGENDA 2000
3. NEXT ROUND OF WTO NEGOTIATIONS
4. ENLARGEMENT