SUGAR REGIMES IN MAJOR PRODUCING AND CONSUMING COUNTRIES IN EUROPE OTHER THAN THE EU AND AFRICA

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In this brief presentation I will first discuss the sugar economies of the two important FSU countries – Russia and Ukraine – then the three former Soviet Bloc countries, Poland, Hungary and Czech Republic, preparing for accession the EU, and, finally, I will give a brief overview of Africa. In a sense my task is made easier by the title I have been given, since almost none of the countries operate a "regime" in the sense of the watertight system operated by the EU. Each struggles to survive in a post-WTO world of low prices.

Since the break-up of the Soviet Union in 1991, sugar consumption in **Russia** has fallen from more 50 kg per head to 37 kg. Under the Soviet System both production and consumption were heavily subsidized. With varying degrees of success, free market policies have been introduced, and the sugar sector is no exception.

Production of sugar has also declined significantly since the demise of the Soviet Union. In Soviet times Russian production exceeded 2 mln tonnes whereas production in the current year is expected to be 1.3 mln tonnes. Production levels suffered from the shift from state planning to commercial decision-making. Factory managers and farmers no longer had goals set under a five-year plan and no longer received state allocations of inputs such as fuel, fertilizers and machinery. These now have to be purchased or bartered for, always assuming sources can be found. Production is no longer taken off by the state distribution system but has to be marketed at real prices which fluctuate, often reflecting the low cost of imported sugar. The adjustment to commercial conditions put severe strain on prefinancing the crops so that over a succession of years output has contracted.

Russia has 23 beet growing areas with 95 mills with a total capacity of 276,000 tonnes of beet processing per day – enough to produce 3 mln tonnes of sugar in a season. Every mill has been privatised. The main share holding among the owners of the privatised factories varies from plant to plant, some belong to the state represented by the regional administration (a minority), some are owned either by the factories' employees, or sugar beet producers, or commercial firms and companies. As far as beet producers are concerned, the former state farms (the "soukhoz") and the collective forms (the "kolkhoz"), have been transformed on a voluntary basis into joint stock companies, with a certain share of their land and property allocated to every person involved in production or social services. Russian sugar factories find it very difficult to survive in current conditions without refining raw sugar during the off-season.

With these changes since the break-up of the Soviet Union, Russia has no production regime. Russian producers receive the domestic market price for sugar which is a pure market price set by the supply and demand for sugar, including imported sugar. It is therefore strongly related to the world price plus tariffs, internal taxes and internal freight. The tariff protection is the only remnant of a "regime" and stands at 5 per cent for raw sugar and 30 per cent for white sugar, with higher seasonal duties from August to December to protect domestic production during the production season.

The story of **Ukraine** since the break-up of the Soviet Union is a sad one. A once great beet sugar producer with ideal soils for beet cultivation, which in Soviet days often exceeded 6 mln tonnes of production, is this year reduced to being a net importer, producing only 1.6 mln tonnes of sugar when consumption is 1.8 mln tonnes.

The course of events has been very similar to that in Russia, only worse. Lack of inputs and pre-financing reduced area and productivity. A system of bartering sugar for inputs grew up replacing the previous state controlled system, and meant that sugar was effectively changing hands at dumping prices. Lack of progress in privatisation and land reform deterred foreign investors who otherwise would have been attracted to a country with such ideal growing conditions and a large natural market next door (Russia). Finally, lack of coherent sugar policy at the government level not only made it difficult for sugar producers but also further deterred foreign investors who wanted to operate within a coherent legal policy framework.

In 1997/1998 steps were at last taken to rectify the situation and consolidate the industry. A law was passed setting up a quota to cover domestic consumption backed by a guaranteed price. The idea was to consolidate Ukrainian production at 4 mln tonnes, roughly half for domestic consumption and half for export (to Russia and other eastern FSU countries). However, the regime was never implemented due to opposition by the IMF and the World Bank who claimed it was a protectionist measure against the interest of the consumer. However, when it is recalled that at its peak the sugar industry of the Ukraine employed 600,000 people, many of whom are now out of work and dependent on the state, the long-term logic of these outside institutions can be questioned.

Recently, in the summer, a new law was passed setting up a similar regime (quotas backed by guarantied prices for beet) but it may be that the industry has deteriorated too much to be saved, even if the IMF and the World Bank do not object this time.

Now I want to discuss the regimes in the three countries which are candidates for accession to the EU – Poland, Hungary and Czech Republic. In general these countries are in the process of harmonizing their sugar policy with the EU sugar regime so as to ease the transition process.

Poland has set up a regime almost identical to the EU, with A and B quotas and "C" sugar production. The A quota is set at the level of domestic consumption, around 1.65 mln tonnes. The B quota is set at the allowable level of subsidized exports

under the WTO agreement, and which has been reducing from 1995 to 2000. In 1997, the B quota was set at 118.3 thousand tonnes. “C” sugar is not controlled, and in recent years Poland has been producing 2 – 2.2 mln tonnes of sugar per year i.e. 250-450 thousand tonnes of “C” sugar. Some has been exported, at a loss, but large stocks remain and this is an ongoing problem for the Polish sugar economy. The regime is underpinned by WTO bound tariffs of 120 per cent reducing to 96 per cent in 2000. At this level of protection Poland has found it difficult to control imports, due to low world prices, and quantities of imported sugar have exacerbated the surplus situation on the Polish sugar market and depressed prices.

The introduction of a EU-like regime was designed to stabilize the sugar situation in Poland, provide a reasonable income for the many small growers, and prepare Poland for integration into the EU sugar regime. Since 1980, the Polish industry has undergone a far-reaching process of privatisation, rationalization and consolidation. The number of factories has been reduced, all are privatised and foreign firms have taken a substantial share of the ownership. However, over production remains a problem. Recently, EU Agricultural Commissioner, Fishchler accused Poland of attempting to obtain a higher EU quota by over producing. Absorption of the Polish sugar economy into the EU regime will not be an easy process.

Hungary, as yet, has no formal sugar regime. When the Law on Agricultural Market Regulation was set up in 1993 (and amended in 1995) 35 product councils were set up to regulate markets. Direct regulation, involving production quotas and indicative prices, was reserved for five agricultural products (maize, wheat, milk, beef and pork). Sugar was in a second group to be indirectly regulated. In this group available instruments for market regulation are very limited, so neither a guaranteed minimum price for beet or a sugar intervention price has been set. The only protection that the sugar economy gets in the 74 per cent tariff allowed under the WTO agreement. With low world prices this has not proved enough to deter imports and domestic prices have recently been depressed.

The Hungarian Sugar Council, clearly unhappy about the situation, is in the process of drafting regulations on sugar which it hopes my become law in 2000. Under this system there would be A and B quotas; the A quota covering domestic consumption and the B quota being a “strategic reserve” to cover shortfalls in production due to weather etc. The proposed legislation is in the final stages of drafting and it is hoped to put it before the government in 2000. It is designed to ease the transition into the EU regime when Hungary accedes.

Like Poland, Hungary underwent a far-reaching process of privatisation, with the introduction of foreign ownership, and rationalization, with a reduction in the number of factories.

Like Hungary, the **Czech Republic** has no formal regime for sugar, but unlike Hungary none is proposed. The Czech Republic has traditionally been a surplus producer of sugar, with exports averaging around 100,000 tonnes since 1993 when it split form Slovakia. They will be hoping to maintain this level of exports on accession to the EU. The only protection in place is the bound tariff under the WTO agreement, initially set it 70 per cent and reducing to 59.5 per cent in 2000. With low world prices this has not been enough to prevent imports and the consequent depression of domestic prices. Like Poland and Hungary, the Czech Republic has undergone a profound process of rationalization and privatisation since 1989. Half the sugar factories were closed and the majority remaining have foreign owners. Arrangements for acceding to the EU are under active discussion and one option being considered is the introduction, in advance of accession, of a tight regulating system such as Hungary is considering or Poland has in place. These discussions continue.

Africa is a deficit continent. In 1998 net imports by Africa were 2.3 mln tonnes. In this brief overview of the “regimes” it is convenient to divide Africa into three parts: Southern Africa, a surplus region exporting about 2.5 mln tonnes, Central Africa, a deficit region with low per capita consumption and many poor economies, and Northern Africa, which is characterized by some larger industries (e.g. Egypt and Morocco) and a generally higher level of per capita consumption.

Southern Africa is a net exporter of sugar. South Africa, Swaziland, Mauritius, Malawi, Zambia and Zimbabwe are all net exporters, exporting in 1998 a total of 2.38 mln tonnes. Malawi, Mauritius, Swaziland and Zimbabwe have Lomé quotas, which allow exports at preferential prices which is particularly important for Mauritius and Swaziland. In general, revenues from preferential and world markets are pooled, with producers sharing in the benefits from preferential prices. The Southern Africa region is a low cost production region which can operate satisfactorily even at current world prices. The region contains no sugar “regimes” as such; the region operates at the world price plus border protection from tariffs which are currently, given the low world prices, set at the maximum level allowable under the WTO agreement. Given that Southern Africa consists of mainly surplus countries, per capita consumption levels are higher than the continental average. For example, South Africa in 1998 had a per capita consumption level of 32.3 kg, and Zimbabwe 24.6 kg, compared to a continental average of 14.7 kg.

Central Africa is characterized by many small importing countries with low incomes and low per capita consumption. Apart from Kenya there is little production of any significance. Kenya has an average production 450 thousand tonnes, and with consumption of around 700 thousand tonnes is a net importer of around 250 thousand tonnes. The domestic industry is protected by a tariff of 95 per cent, the WTO maximum. The other major player in Central Africa is Nigeria, where imports in 1998 reached 981 thousand tonnes. Nigeria has a small production of around 50 thousand tonnes, but has not used its bound rate under the WTO of 150 per cent to protect its industry. In spite of the high level of imports, Nigeria’s per capita consumption is only 7.4 kg/hd, compared with the continental average of 14.7 kg.

North Africa is characterized by higher levels of production and generally higher levels of per capita consumption, and imports. In 1998 Egypt produced 1.15 mln tonnes of sugar, imported 1.16 mln tonnes and consumed 2.2 mln tonnes, at a per capita rate of 35.5 kg (compared to the African average of 14.7 kg). The only protection afforded the domestic industry was a tariff rate of 20 per cent, not enough to prevent a flood of imports and depressed prices, severely affecting the domestic

industry. Morocco in 1998 produced 533 thousand tonnes of sugar, imported 590 thousand tonnes and consumed 1.05 mln tonnes, at a per capita rate of 37.8 kg. Morocco protected its domestic industry with a bound WTO tariff of 168 per cent. In 1998 Algeria imported 910 thousand tonnes of sugar and consumed 800 thousand tonnes at a per capita consumption level of 25.2 kg. Algeria does not have a domestic production of sugar and is not a party to the WTO agreement.

In reviewing the sugar regimes of non-EU Europe and Africa it can be seen that apart from Poland, and possibly in the future Hungary, none of the other countries have sugar regimes comparable to the EU. This puts beet producers, particularly, at a disadvantage given the low level of world prices. With the exception of the EU and Poland, the other countries rely solely on the WTO bound tariffs to protect their domestic industries, and are effectively operating at the world prices plus the tariff. In most cases, these countries find the WTO protection inadequate to protect their domestic industries, and even in the case of Southern Africa, low cost producers, tariffs must be set at their maximum levels.