

EU sugar sector: Facts and figures

Today, the European Commission tabled a radical overhaul of the EU sugar regime (for details on the reform proposal see [IP/04/915](#)). This note lays out how this complex sector functions.

How the current sugar system works

The common market organisation (CMO) in the sugar sector was set up in 1968 aiming to ensure a fair income to European Union (EU) producers and self supply of the EU market. Since then it has received very few modifications and it is the only sector that has so far stayed out of the 1992 Common Agriculture Policy (CAP) reform process, which essentially involves increase of competitiveness by compensating institutional price cuts with direct income payments.

At present the CMO for sugar is governed by Council Regulation (EC) No 1260/2001¹. Its essential features are price arrangements, production quotas, arrangements for trade with third countries and self-financing. Its primary provisions are applicable only up to 30 June 2006.

In the existing regime EU support for the sector is provided and income safeguarded by certain market management tools, namely “**intervention**” and “**minimum price for sugar beet**”, as well as production related instruments namely “**sugar production quotas**”, “**declassification mechanism**”, “**carry over mechanism**” and other tools relevant to sugar used in alcohol and yeast production, isoglucose quota and inuline syrup quota.

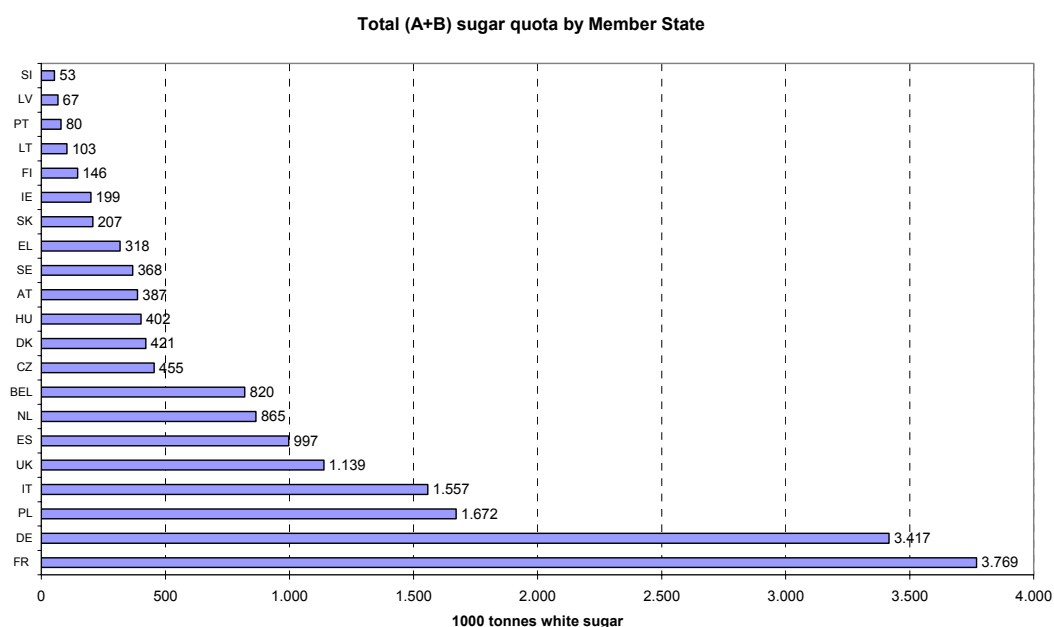
Intervention is conceived as a 'safety net' guaranteeing a minimum price for sugar and is a mechanism available to the industry all year round. The **intervention price** at which intervention agencies are obliged to buy-in eligible sugar offered to them has been frozen since 1993/94 at € 631.90 per tonne for white sugar and € 523.70 per tonne for raw sugar. Import duties and restriction of available quantities, which are the other tools of the CMO, keep market prices above the level of intervention. This tool was only used at the early years of the CMO and since then the need for its application has not risen.

The **minimum price for sugar beet** is the price at which sugar manufacturers are required to buy beet from growers. It is set by the Council at € 46.72 per tonne for the A-beet used to produce A-quota sugar and € 32.42 per tonne for the B-beet used to produce B-quota sugar. The present prices, unchanged since the 1993/94 marketing year, are in force up to the end of 2005/2006. The EU prices are guaranteed only for production within **quota**.

¹ Published in the Official Journal L178 of 30 June 2001

The notion of **quota** was introduced for the first time in a CMO framework as a production related instrument. There are two types of quota: A and B. The major difference between A and B quota sugar is the level of the levies. **Production quota** (A and B) were set to distribute the production of sugar amongst the Member States (MS) and keep the overall production within certain limits. They were fixed at the level of MS and referred only to the maximum quantity of sugar eligible for price support (intervention purchases). MS were free to produce more, but that surplus production had to be sold outside the EU. Thus the purpose of the quota system was three-fold, namely: i) to limit the total quantity of sugar that could potentially be brought in the EU sugar market; ii) to limit the potential costs of intervention purchases; and iii) to guarantee each MS a certain share of the EU sugar market. **The price guarantee** applies only to specific quantities (quotas) of sugar per EU Member State.

The total quota amount is 17.4 million tonnes for EU 25 and is divided into **A-quota** (82 %) and **B-quota** (18%) set per Member State. These A and B quota correspond in principle to the demand on the internal market, and to the export of excess quota sugar with export refunds, respectively. For sugar produced outside the quota there is no support, nor can it be freely marketed within the EU. This sugar is declassified and considered **C-sugar** and must be exported without refund in the expense of the sugar industry and beet producers.



To soften up the impact of declassification, the **carry over mechanism** is available, which involves storage of the surplus production for a minimum period of 12 months, for the sugar plant that produced beyond its quota. After this period this surplus is treated as A-sugar produced by the plant as part of that year's production. The extra quantities must be 'carried over' to the next marketing year or exported as they are without refund. Additionally, quota were set for **Isoglucose** (0.5 Mio tonnes) and **inulin syrup** (0.3 Mio tonnes).

The CMO provides additional aids to the sugar industry namely '**refining aid**' which is granted to the refining industry and covers certain costs of raw sugar, and '**production refunds**' granted for sugar used by the pharmaceutical and chemical industries, allowing them to buy sugar at world market prices to which shipping costs are added.

In terms of management of external trade the current CMO provides two instruments, namely 'border protection' and 'export refunds'.

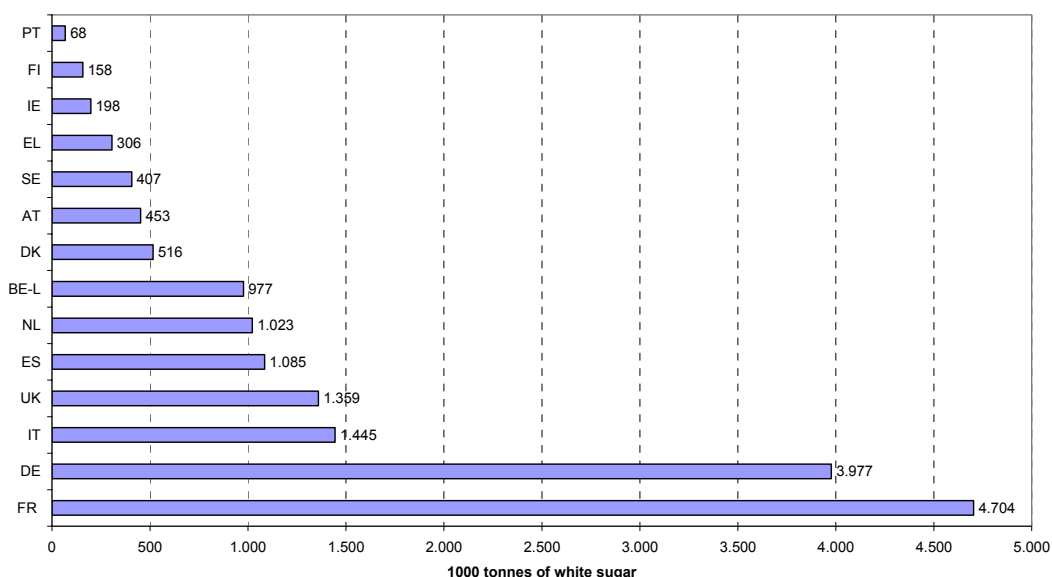
Border protection is in the form of a combination of two duties, one fixed and another resulting from the application of the special safeguard clause justified by the volatility of the world market price for sugar. Protection for sugar (CN 1701) comprises a **fixed duty** of €419 per tonne, except in the case of raw sugar for refining to which a duty of only €339 per tonne applies. On average the **additional duty** was 115 €/T in 2003 (87€/T in 2002).

Export refunds are intended to cover the difference between the EU price and the world price for sugar, allowing it to be sold on the world market. The average export price for white EU sugar was € 280 per tonne for the 2001/2002 marketing year and €223 per tonne for 2002/03. Refunds are paid for sugar obtained from beet or cane harvested in the EU and sugar imported under the ACP Protocol/Agreement with India. For the marketing year 2001/02 refunds were € 443 per tonne and for 2002/03 € 485 per tonne.

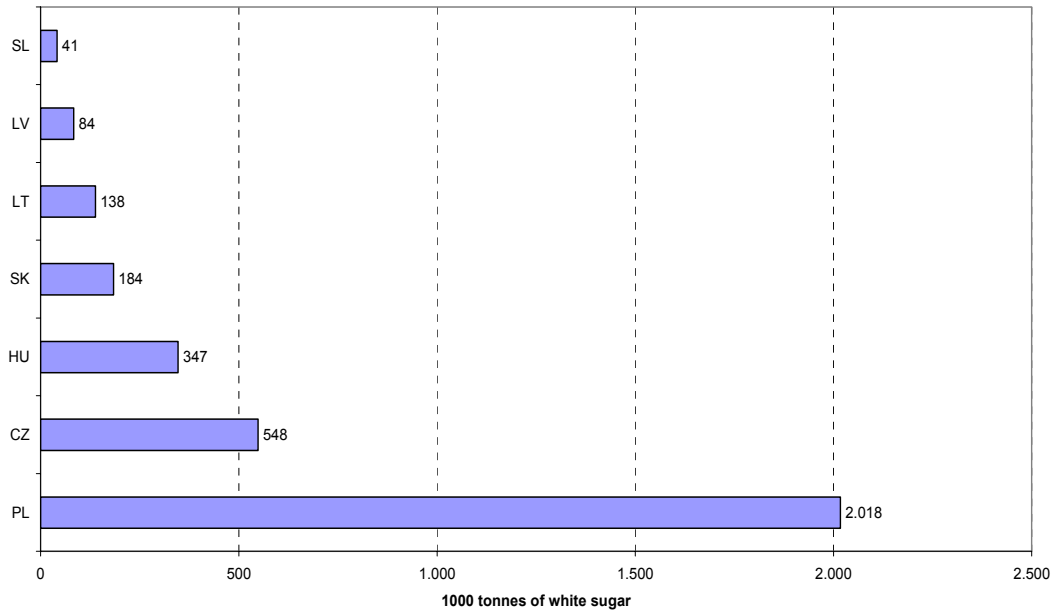
EU sugar production

The EU-25 **sugar production** fluctuates between about 19 - 20 **million tonnes**. Sugar is produced in **almost all Member States** of the EU-25 with the exception of Luxembourg, Estonia, Cyprus and Malta. However, the productivity of sugar production varies significantly across Member States. Germany and France account for half of the EU-25 sugar production, followed by Poland, Italy and the United Kingdom.

Sugar Production (Total) by Member State, EU-15, 2002-2003



Sugar Production in New MS (estimation, 2002/2003)



There are more than 230 thousand of farms growing sugar beet in the EU-15. Germany, Italy and France account for more than half of the holdings in the EU-15. In percentage terms, Germany accounts for around 21% (48.3 thousand holdings), Italy for 20% (46.4 thousand holdings) and France for 14% (31.8 holdings).

In general, holdings with sugar beet are larger than average and they achieve a better income. In the EU-15, there are 135 sugar processing plants and 6 refineries. With enlargement around 100 more sugar processing plants (notably around 70 in Poland and 30 in the other 6 sugar producing NMS) have been added to the EU sugar sector. Among the ten NMS, seven are manufacturing sugar for a total of about 3 million tonnes and have a quota of 2.95 Mio tonnes. Poland alone with more than 100 000 beet producers accounts for 1.65Mio tonnes (56% of the NMS sugar quota.) With accession to the EU the agricultural sectors of the NMS are going through a restructuring phase and the figures are subject to change in the near future.

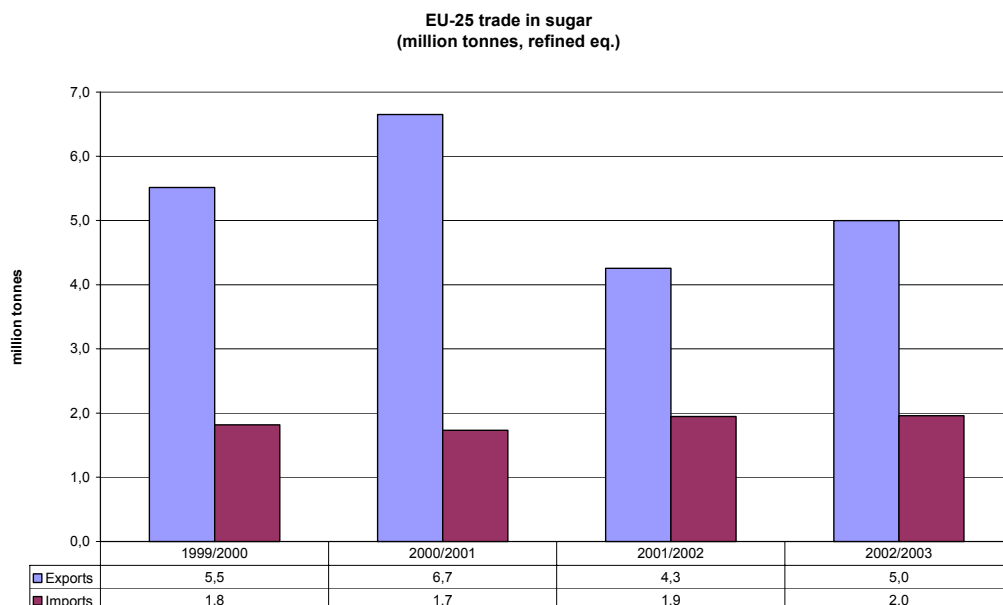
Employment in the sector

In the EU-15 a trend towards rationalisation and job reduction in the sugar sector can be detected over the last years. This is the result of our increased productivity in sugar beet production and processing. For instance, there were 374 sugar mills in the EU-15 in 1968/69, around 240 in 1990 and just 135 in 2001. Similarly for jobs: in the ten years from 1992/93 to 2001/02 job numbers have fallen from 37 161 to 20 559. And the prospects for the future are not exactly rosy. Even if the sugar regime remained unchanged, it is estimated that there would be around 15 000 fewer jobs by 2012, a loss of more than 75%.

Imports and Exports

The EU-25 both imports and exports sugar, but in **net** terms it is an **exporter**. On average for the marketing years 2000/01 to 2002/03, exports amounted to 5.3 million tonnes versus 1.9 million tonnes for imports. The EU is a key player on world sugar markets but remains far behind Brazil which now dominates exports.

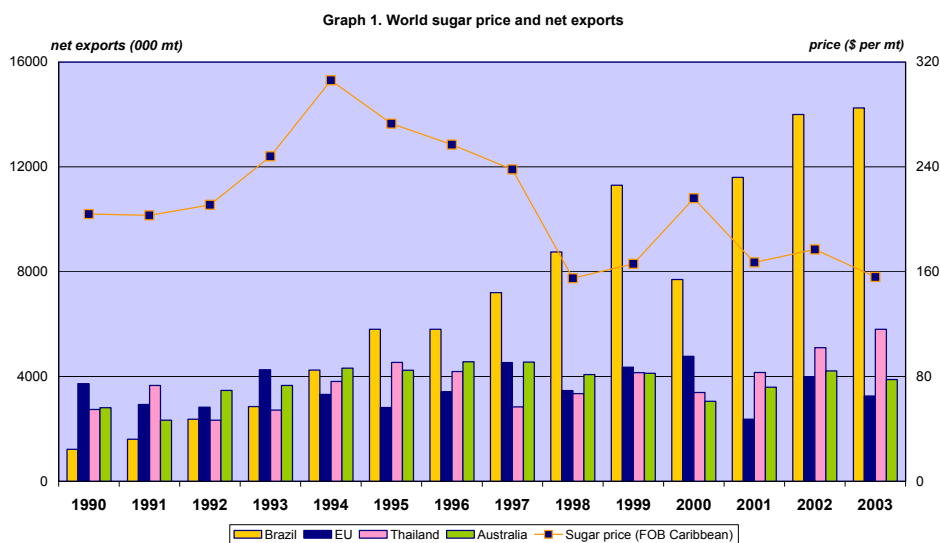
The EU-25's share of the world market amounts to: 14 % for production, 13 % for consumption, 12 % for exports and 5 % for imports. Its share in world production, consumption and exports has declined, whereas Southern Hemisphere countries have steadily gained importance. International prices for sugar are of significant importance and are extremely volatile, following an erratic path. Since 1995, prices have been on a downward trend mainly attributed to an overall excess of production over consumption.



Sugar and the world markets

The EU sugar regime has often been singled out as the major culprit for depressed world market prices and negative effects on developing countries. While the Commission acknowledges that the trade distorting effects of EU export refunds have to be tackled in this reform, the reality is more complex.

Next graph shows that in sugar the dramatic increase of the exportable surplus in Brazil almost exclusively explains the decline in world market prices.



The EU is not alone with its artificially high domestic sugar prices. In fact, almost all exporters except Brazil, from Australia to the US and Sudan are selling sugar at world market prices and hence at a lower price than their domestic prices.

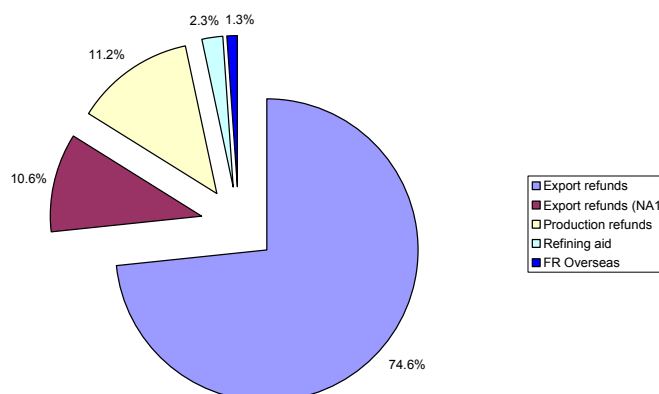
Budget expenditure

For the budgetary year 2004, the budget foreseen for the sugar sector is € 1 721 million.

This budget is distributed as follows:

- export refunds (75% of the total): €1 285 million, including €802 million for the equivalent of 1.6 million tonnes of ACP sugar
- production refunds (chemical industry): €194 million
- refining aid (cane sugar): €41 million
- export refunds for non-Annex I products : €183 million
- aid for the disposal of raw sugar (overseas department sugar): €18 million

Breakdown of expenditure in the sugar sector (2004 budget)



Since 2000, the EU expenditure in the sugar sector was:

- 2000: € 2 100.6
- 2001: € 1 676.9
- 2002: € 1 585.9
- 2003: € 1 436.9

Relation between production and industry

Since it began the CMO has incorporated framework provisions on contractual relationships between beet growers and sugar manufacturers aimed at ensuring an equitable balance between the two sets of partners and encouraging inter-trade agreements of benefit to the entire sector and the competitiveness of EU production. Thus the basic Regulation defines standard sugar and beet qualities and sets purchase terms for beet and rules on quota transfers between enterprises.

Further information

Further information on the common market organisation for sugar, studies on the sector and other information is available on the internet at:

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

Statistical information on the sugar sector is available on the internet at:

http://europa.eu.int/comm/agriculture/agrista/2003/table_en/en43.htm