Sugar Reform status

CIUS assessment and recommendations

1st Draft 14 May 2007

On April 4th 2007, CIUS met to assess how the reform of the EU sugar regime has gone to date and to consider what we believe is needed to ensure success in the future.

From the point of view of CIUS member companies, EU sugar reform will have succeeded when it provides the regulatory framework which best enables:

1. Security of sugar supply at reasonable prices
2. Competitiveness in global markets
3. High quality and safety standards

We share the Commission's belief that this can only be achieved by:

1. bringing real competition into the sugar market
2. phasing out market distorting measures such as quotas and price intervention. Such measures disrupt the operation of market signals in determining supply and demand, and prevent optimal achievement of the three success factors above.

As per previous statements, we recognize the need for temporary measures to enable this process of change to take place in such a way that the actors concerned adjust to more competitive sugar production or change to more economically and ecologically suitable activities, without undue difficulty. We have therefore supported the concept of a restructuring fund for EU actors and an ACP action plan for ACP actors. We were however disappointed that the final decisions on reform prolonged artificially high sugar prices and delayed the phasing out of market management measures. As a result, the much needed restructuring of sugar production in Europe is not occurring as it should.

On the one hand we welcome the Commission's recent initiatives to make some adjustments in the operation of the restructuring funds and programmes with a view to inciting greater take up of the very generous assistance for restructuring, which is available. (NB: In most sectors, no such assistance is available when change occurs)

On the other hand, we maintain that the most important driver of restructuring is competition. We are very concerned about certain recent developments which could be interpreted as attempts to reconstruct a regime which would enable tacit collusion to continue. We remind of the vital importance of phasing out market-distorting measures as fast as possible.

In order to achieve the overarching goals of sustainable, competitive sugar production, and removal of policy measures that distort markets and discriminate between actors, CIUS would draw attention to the following:

1. If linear quota cuts are introduced, this would defeat a key objective of the reform, which is to restructure EU sugar production so as to make EU sugar production more competitive. Rather than resorting to quota cuts, it is essential that on the one hand there is sufficient competition in the market to provide the price pressure needed for farmers and factory managers to review the future competitiveness of their plants and take the necessary action, and that on the other hand the restructuring assistance is accessible such that decisions to change crops or close down do not result in undue harm to the actors concerned. We are quite confident that the majority of sugar that remains in production will be competitive, and by definition of competitive - profitable, in the freer market envisaged by the reform.

2. In order to allow competition to develop within the transition quota system, and thus provide the necessary incentive to restructure, it is essential that quotas are sufficiently large to allow market forces to operate. As indicated by several studies about Commodity market behaviour: if stock levels fall below 25% of expected annual consumption, then prices tend to rise. Given that downward pressure on prices is the only effective way of inciting the necessary restructuring of the market, we believe that stocks of at least 30% are essential. We therefore believe that quotas for sugar for food/drinks use need to be set at levels allowing for production for food/drinks use to exceed expected consumption by 30%. (This 30% includes stocks. It does not include sugar for export and industrial use, which is in addition to this.) It should not be forgotten that the objective of the reform and the restructuring fund is to pave the way for removal of quotas altogether.

3. In order to ensure that imports from LDC and ACP countries are able to compete with EU sugar, it is not acceptable to introduce safeguard measures and price mechanisms that effectively prevent them from taking advantage of the new market access provided through tariff and quota free provisions. The previous ACP quota system was extremely discriminatory, favouring a few small countries and refiners at the expense of many others. Tariff free, quota free imports from LDC's was touted as the one sure way of ensuring competition within the EU. This promise must be kept – both in the interests of those LDC producers which can expand sugar production competitively, and in the interests of securing the competitiveness of EU sugar using industries. (For further comments on the external dimension of sugar reform, please refer to our paper of March 2006 attached.)

4. Finally, we would like to register our growing concern about measures that favour the competitiveness of other sugar using industries over that of the food and drinks industry. We are witnessing what amounts to the development of a system which results effectively in the food and drinks industry being forced to cross-subsidize other industries. This cannot continue beyond a short transition period. There is no reason why the food and drinks industry should be forced to pay higher prices for sugar because it is restricted within quotas, while the pharmaceutical and chemical industries have access to world market price sugar (including the incentivised use of sugar beet for biofuels, which has questionable economic and ecological grounding). This is not acceptable under the principles of fair competition and market economics which guide

EU policy making. Policy measures should not result in discrimination according to the use of sugar.

If the regulatory framework does not provide for true competition, then the restructuring needed to make the sugar industry competitive and sustainable will not occur. And the competitiveness of our sector will suffer.

It is quite inconceivable that money be put into restructuring without the return on this investment of competitive sugar production in Europe – the key indicator of which would be convergence between EU and world market prices.

It is not by restricting EU production and imports from ACP countries that sustainable development and competitiveness will be achieved.

We therefore urge the Commission and Member States to ensure that all measures taken represent further steps towards achieving real competition in the sugar market.