# “What is the Future for Sugar”

***John Potts***

On 22nd June 2005 the European Commission published draft proposals for reforming the EU sugar sector. These proposals are now the subject of debate and negotiation in the Council of Ministers. The European Parliament must be consulted before the proposals can be formally adopted.

**European Commission’s Objectives for Reform**

- Creation of an efficient and sustainable European sugar industry, able to compete in a more de-regulated environment.

- European sugar market brought into balance –
  - Beet quotas reduced by 5 million tonnes
  - Subsidised exports phased out
  - Non-quota production reduced

- Reduction in prices to bring Europe more into balance with global sugar producers.

- Greater flexibility and competition for beet and cane supplies amongst the remaining EU processing and refining industries.

**Key Elements of the Proposals**

- Support prices for white sugar to be cut by 39% over four years (net support prices for processors to be cut by 39% over two years).

- Support prices for sugar beet to be cut by 43% over two years (25% in year 1, and a further 18% in year 2).

- Replacement of intervention by a reference price. This will be the trigger level for private storage and sets the levels of the Minimum Beet Price and guaranteed price for imports.

- Compensation to farmers at 60% of the revenue loss, to be decoupled and included in the Single Payment Scheme. Reference period to be chosen by the Member State.

- Voluntary EU Restructuring Scheme to be introduced for EU sugar factories, operating over four years and consisting of a payment to encourage factory closure and the relinquishment of quota. The scheme is to be financed by a levy on sugar processors, lasting three years.

- Up to 1 million tonnes of “new” quota can be purchased by EU processors. Our UK share is 83,000 tonnes.

- New regime to last until 2014/15 without review.

- Imports from the LDCs to be retained as under the Everything But Arms concession of February 2001.

- Introduction of a “Production Charge” of €12/tonne to be paid by the industry, although no reason for this charge has been suggested.

- Sugar beet to qualify for set-aside payments when grown as a non-food crop (e.g. bioethanol) and would be eligible for the energy crop aid of 45 euros/hectare.

**Summary of Proposals on Volume and Price**

**Volume (Million tonnes of sugar)**

| | **NOW** | **2012/13** |
|---|---|---|
| EU Production (Quotas) | 20.3 [17.4] | 12.4 [12.4] |
| EU Consumption | (16.3) | (15.7) |
| Exports | (5.9) | (0.6) |
| Imports | 1.9 | 3.9 |

**Price (Euros/tonne)**

| | **NOW** | **06/07** | **07/08** | **08/09** | **09/10** |
|---|---|---|---|---|---|
| Sugar Support “Reference Price”<br><br>> % Change | 632 | 632<br><br>- | 476<br><br>-25% | 450<br><br>-29% | 385<br><br>-39% |
| Restructuring Levy | | 126 | 91 | 65 | - |
| Sugar Price less Levy<br><br>> % Change | | 506<br><br>-20% | 385<br><br>-39% | 385<br><br>-39% | 385<br><br>-39% |

| | | | | | |
|---|---|---|---|---|---|
| Beet Price<br><br>> % Change | 44 | 33<br><br>-25% | 25<br><br>-43% | 25<br><br>-43% | 25<br><br>-43% |
| Cane Raw Price<br><br>> % Change | 524 | 497<br><br>-5% | 395<br><br>-24% | 373<br><br>-29% | 319<br><br>-39% |

## UK Beet Sugar Industry Position

The following is a summary of the joint position of the UK Beet Sugar Industry on sugar reform. For more information on the detailed position of the NFU or British Sugar, please contact us.

## Why Reform is Needed

- The UK sugar industry is among the most innovative and cost-effective in the EU25. Having already undergone a major restructuring process, it is internationally competitive and well placed to have a viable future, and to adapt to the changes brought by the reform process.

- The UK industry recognises the need for change in the European sugar sector, and supports the European Commission's objective of creating a competitive and sustainable industry for the future.
- We therefore believe the sector needs a progressive reform and support a number of elements of the Commission's proposals.

- We do however feel that reform has to be implemented in an effective and balanced way in order to encourage efficient producers like ours to flourish, and to create genuine benefits for consumers and developing countries.

- This is why we urge that the following recommendations are taken into account when reforming the sector. They are designed both to help achieve the EU's reform objectives, and to maintain the UK sugar industry's competitiveness and guarantee its viability in the long term.

**Price**

- Price reduction must be carefully balanced. The support price must be set at a level low enough to drive the restructuring scheme and help bring European supply/demand into balance, but high enough to enable beet to be grown in efficient producing areas.
- Price reductions to €385 for sugar and €25 for beet are unnecessarily severe to meet the EU's objectives, and would risk damaging even the most efficient industries in Europe, including the UK's.
- The Reference Price mechanism will not work effectively. To avoid the risk of market collapse in the initial years, while the restructuring scheme is being implemented and until the EU market restabilises, the Intervention Price should be retained.

**Beet Supplies**

- At €25/tonne, beet supplies become critical, even in the most efficient growing regions of Europe like the UK.
- Grower compensation must be consistently applied across EU, to avoid competitive distortions arising between Member States. This means that grower compensation must be mandatorily decoupled in all Member States, as stated in the Commission's proposal.

**Imports**

- Imports should be managed as effectively as possible, assuming that EBA quotas will not be introduced.

  - Automatic and quantified “safeguard measures” should be introduced to prevent imports flooding the market.
  - Robust rules of origin should be implemented to prevent fraud.
  - Swaps bring little development benefit for developing countries and should not be allowed.

**Exports**

- When implementing the WTO Sugar Panel ruling, the EU should keep the option of exporting quota and non-quota sugar, up to the level of the EU’s WTO volume ceiling of 1.4 million tonnes, to allow for climatic fluctuations when growing the crop.

**ACP/Refiners**

- Measures introduced for refiners should be fair and balanced relative to the beet sector, and should not provide special treatment which places them at a competitive advantage.

**Production Charge**

- The Production Charge is not justified and should be scrapped.

*Question:  Andrew Pollard, Hull*

*My understanding, which is very limited, of the whole issue about the regime changes was that it was there to help the underdeveloped world and it appeared from my interpretation of what you were saying that actually the LDC’s as you described them will be selling less cane and less of their product.  Is that right or have I misunderstood?*

Answer:  This is a very pertinent question and I going to disperse my answer with personal opinion, not necessarily British Sugar opinion.  There are two types of less developed nation, there's the ACP's, the old colonies, who traditionally supply Tate & Lyle and then there's the LDC's and I think it's the LDC's that's the least developed countries, of the specific areas of the globe you are asking about.  Now these LDC's, when you are a politician sat in Brussels or indeed if your name is Bob Geldorf it's quite easy to get emotional about all the dying people in Africa.  You've got to help these guys out, it's just not right and you've got to give them new markets etc.  When you go to Africa and you actually see what's going on the place is completely governed by the power of the politics over there and the big industry.  The simple fact is when you are sat in Europe it's quite easy to assume that the Sudan have sugar at the same price as the world price, it's not true.  Cartels are illegal; in Africa they are alive and kicking.  These guys stitch up their markets, they're selling sugar for $800 a tonne in the Sudan which is nearly three times the world price and all the farmers, unlike the farmers in Europe, all the farmers are getting completely and utterly screwed into the ground and not making any money at all.  In order for these countries to get sugar into Europe in the future they will have to worry about a number of things.  Number one the actual ability for them to achieve it, because at the moment its primarily a lot of raw sugar, which if you go into deep Mozambique you've got to get this sugar from the mill, you've got to turn it into a quality which is acceptable to a beautiful iced cake in Europe, you've got to get it to the port and ship it all the way up the east coast of Africa through the Suez Canal, around the Mediterranean and into Europe into a format which is acceptable, and then the rules which enable them to do that are based on something called 'Swaps', and what that means is its all to do with the rule of origin and the limitations which have been imposed on the volume which these least developed countries can bring into Europe.  These 'Swaps' are basically taking sugar that the African sugar producers currently sell on to the world market, equating it to the volume which their countries in Africa actually consume and then taking the equivalent amount of sugar and then bringing that into Europe.  The reason that is relevant is for a 'Swap' to work the opportunity, cost of the 'Swap' is that of the world market price.  In other words if the world market price is reasonably low 'Swaps' will look attractive, investments will be made for them to produce white sugar, put down the rail and infrastructure to get the sugar from the mills in deepest Africa to the ports and then into Europe.   However the latest thinking for those that are real buffs on this is that the world price of sugar in the future will continue to go up and the reason for that is Brazil, who are the biggest sugar producer in the world, have another opportunity, bio ethanol.  You can take a sugar refinery and you can switch between sugar and bio ethanol quite easily and the opportunity for bio ethanol for the Brazilians is huge going forward.  It will push up the price for sugar and make these ‘Swaps’ less attractive for the least developed countries.  So the net effect of all of that is complete uncertainty in my mind.  The politicians in Brussels say ‘no problem’ 3M tonnes of sugar will come from LDC’s in a couple of year’s time the market will be filled and everything will be fine.  My personal prediction is there will be, depending on how many people leave the market through the renunciation scheme, that there could actually be a deficit of sugar in Europe and I think that is something to be concerned about.

## Sessional Chairman

## Jonathan Price

Many thanks Joe for handling the first three sessions and we now come onto our fourth session having handled the European sugar situation, we are now moving continents and we are moving over to the United States of America just to show what a truly global presentation we are able to put together today.  My job and my pleasure is to welcome back here Thom Kuk who is the President and Chief Executive of the American Society of Baking.  I met Thom briefly earlier and I understand this is his third visit to us here at the British Society of Baking and he has many other trips to the UK.  I briefly looked up Thom on Google before I came and well Thom, you’ve got about 7 or 8, or 9 or 10 pages there.  Amongst them I know you are a member of the Kansas State University Department of Science, you are a public speaker on Creating your Own Success, you are the editor of Baking in America which is the history of American baking and no doubt many others.  It is a pleasure to ask me to introduce the subject you are going to do which is an update on the American baking situation.  Its of particular interest to me because of the 25/26 years I was involved in baking I had at least three little adventures into America, two of them bringing American ideas over here and one of them to take UK products over there and I must say I never really understood the American baking market.  So we look forward to your talk and understanding what’s going on there now.  Ladies and gentlemen - Thom Kuk.