



European Commission

THE EUROPEAN SUGAR SECTOR

A long-term
competitive future

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September 2006

Preface



I was delighted when in November 2005 European Union agriculture ministers approved my proposals for a radical overhaul of the EU's sugar market.

The reforms bring a system which has remained largely unchanged for almost 40 years into line with the rest of the reformed Common Agricultural Policy.

Failure to act would have been inexcusable. But it was nevertheless a brave decision to agree changes that will mean significant cuts in EU sugar production.

We faced a situation where our previous regime was simply untenable.

Our sugar price was three times world market levels. Our export system had been ruled contrary to international trade rules. And we had promised to open our market completely to imports from the world's 49 poorest countries.

The historic agreement, which came after months of preparation and a long night of intensive negotiations between ministers, meets these challenges and provides the conditions for a long-term sustainable future for sugar production in the EU.

It will enhance the competitiveness and market-orientation of the sector, and also strengthen the EU's negotiating position in the current round of talks in the World Trade Organisation.

By acting now, we have the funds available to ease the painful restructuring of the sector that is an absolute must, and to compensate farmers.

The deal offers the sector long-term certainty. And it will not cost a single cent extra in public money.

The key to the reform is a deep – 36 percent – cut in the guaranteed minimum sugar price, generous compensation for farmers and, crucially, a Restructuring Fund as a carrot to encourage uncompetitive sugar producers to leave the industry.

We believe that EU production will fall by between 6 and 7 million tonnes. This will bring it down to a sustainable level – at a sustainable price – allowing domestic needs to be met from European production and imports from our African Caribbean and Pacific partner countries and the Least Developed Countries.

Our exports will fall dramatically, allowing us to respect our WTO commitments.

Sugar will continue to be produced where it makes the most sense, with farmers generously compensated for the income loss caused by the price cut. Their direct payments will be linked to the fulfilment of strict environmental and land management criteria.

In the less competitive areas, there will be a financial incentive to close down sugar factories, convert them to other uses and retrain workers. Farmers will be able to diversify to other products.

Additional aid has been built in for those countries which will reduce their output by more than half, or even phase out sugar production completely.

The reforms will also affect sugar producers in the developing world who have traditionally benefited from the inflated EU price.

But we will remain an attractive market for many developing country exporters. For those who will struggle in the new environment, we will provide financial assistance to help them modernise, adjust or diversify.

So, please read on and discover more about this long-awaited reform...

A handwritten signature in black ink, appearing to read 'Mariann Fischer Boel'.

**Mariann Fischer Boel,
Commissioner for Agriculture
and Rural Development**



The different uses for sugar

Sugar is not a staple food, yet it has seized the imagination of politicians and people around the world. It caused a sensation when European explorers first brought it home from their overseas adventures during the early modern era. It was then prominent in many governments' foreign policies during the age of empire – until Europeans went to great lengths to start producing it at home at the beginning of the nineteenth century, initially in northern France.

Sugar beet growing was introduced in order to break dependence on sugar cane from the colonies, the sole source of sugar at the time, and was therefore a rare and precious commodity. The crop gradually spread throughout Europe. From the 1920s on, with the development of maritime transport, sugar beet production faced competition from cane sugar and has survived largely as the result of tariff protection.

1. What is sugar?

Sugar (the proper term is sucrose, which breaks down into two components – glucose and fructose), is the most plentiful and economic sweetener. Sucrose can be found in many natural foods (e.g. fruits and vegetables) but can only be extracted economically from sugar beet and sugar cane. Sucrose is an important source of energy.

More to sugar than meets the eye

Sugar is often thought of as a single product – a granulated foodstuff to sweeten tea and coffee. Of course, most people realise that sugar is present in many other foods, in several different forms, but many overlook just how diverse the uses of sugar can be. Furthermore, there are other sweeteners in everyday use in our lives, and not just in foods. Several of these alternative products are covered by the EU sugar regime.

Different types of sugar

There are many different types of sugar, for example:

- **granulated** standard white sugar for domestic use
- **caster sugar** produced by screening fine white crystals and used in special applications, such as cake mixtures, puddings and powdered drink bases
- **manufacturers' sugar** for use in the food industry
- **cube sugar** mainly for table use
- **icing sugar** for cakes and confectionery
- **brown sugar** the colour derives from sugar cane molasses. Brown sugar is used to add special flavour to food preparations
- **jam sugar** contains special elements to aid setting processes
- **golden syrup/treacle** syrups with the flavour of molasses, for use in baking, prepared foods and domestically
- **organic sugar** produced from organically-grown sugar beet/cane

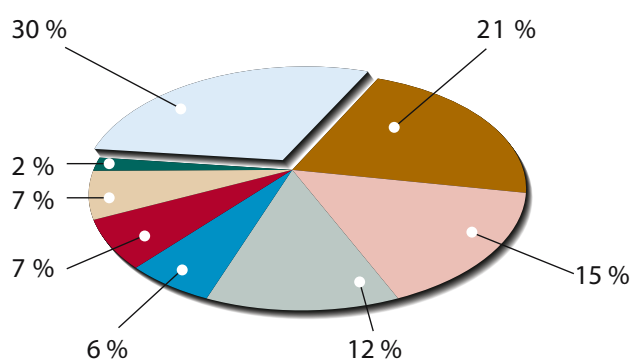
2. Different uses for sugar

Sugar as sugar

The different uses for sugar as sugar can be summarized as:

- a sweetener
- a preservative
- a flavour enhancer
- a bulking agent in other foods
- a food for yeast to aid fermentation in baking and brewing
- a means to raise boiling or lower freezing points (e.g. in ice cream)
- an enhancer of the texture and shelf-life of certain foods (sugar absorbs moisture and provides a 'crunchy' feel)

Use of sugar – % market share in EU-15



- direct consumption
- drinks
- confectionery
- biscuits
- dairy products
- various preparations
- other foodstuffs
- non-food

Source: European Commission, DG Agriculture and Rural Development

Sugar in other walks of life

Sugar can be used in a variety of ways in medicine. For example, it can be used to assist in healing certain wounds; and chemical manufacturers use it to grow penicillin.

Sugar can be processed into alcohol, including fuel ethanol or rum; it can also be used to produce yeasts, amino acids and proteins (for example lysine).

Sugar can be added to concrete to aid the setting process. It helps prolong the longevity of cut flowers. It has even been used in the film industry as a substitute for glass in on-screen stunts.

By-products of sugar

The leftovers from sugar production, molasses and sugar beet pulp, can be used for such diverse purposes as: animal feed, paper, yeast and amino acid production, generation of alcohol including ethanol, and as a soil conditioner.

3. Sugar as a biofuel

Of particular interest is the potential use of sugar as a fuel, not just as a supplementary fuel at sugar processing factories but as a real alternative to simple fossil fuels.

Sugar from beet and cane can be fermented to make alcohol. This is then combined with petrol and may be used as a transport fuel. In several European cities buses run on fuel derived from wheat and sugar beet. The practice is more widespread in Brazil where cars run on fuel originating from fermented cane.

The problem with fuel derived from sugar is that the production process is still relatively expensive. On the other hand, this type of fuel tends to create less air pollution than pure diesel or petrol. Another spin-off benefit is that the use of sugar as fuel can help farmers to find new and profitable outlets for their crops.

4. EU support for biofuels

The EU has initiated several schemes to stimulate the production of more biofuels. Tax incentives are the prerogative of Member States but targets have been set at EU level for the desired percentage of Member States' fuel needs that should be met by biofuels.

There are incentives for biofuel production within the specific context of EU agricultural policy. The 2003 CAP reform offers farmers two systems to encourage the production of energy crops: via new aid packages for such crops; and, through the set-aside scheme (allowing the growth of crops on set-aside land for many non-food uses, one of which is energy production).

Aid of EUR 45 per hectare is already available to farmers who produce energy crops (applicable on a maximum guaranteed area in the whole EU, of 1 500 000 hectares). Sugar beet will now qualify for this assistance (as well as set-aside payments) following the sugar reform adopted formally on 20 February 2006. The energy crops aid is additional to the direct payments received by farmers following the 2003 CAP reform.

Farmers may process crops receiving energy aid themselves. They may use their crops:

- as fuel for heating their agricultural holding
- for the production on the holding of power or biofuels
- to process into biogas on their holdings

By 31 December 2006, the Commission must submit a report to the Council on the implementation of the energy crops aid scheme, in light of the implementation of the EU biofuels initiative.

5. Other sweeteners

Sweeteners fall into two categories: natural sweeteners containing calories that are extracted from plants, such as sugar itself, and 'artificial' sweeteners with zero calories.

Isoglucose

Isoglucose is a syrup obtained by the isomerisation of glucose in fructose under the action of particular enzymes. The raw material is wheat or maize, from which starch

is extracted. The basic industrial product is glucose, obtained from starch through hydrolysis, and used particularly in the food industry for its nutritional and structural qualities. Liquid in form, isoglucose is used as a sugar substitute mainly in the production of drinks.

Isoglucose has rapidly become a strong competitor to sugar and was added to the EU sugar regime in 1977. Its production has been limited to an annual quota of 0.3 million tonnes (0.5 million tonnes for EU-25), though the quota will increase as a result of the February 2006 reform. This quota represents only a marginal activity for the starch industry which produces about 10 million tonnes of starch per year. The main provisions laid down for sugar also apply to isoglucose. In other developed countries with high sugar prices isoglucose has taken a significant market share. It is on a par with sugar in the USA and amounts to a third of sugar consumption in Canada, Japan and Korea.

Inulin syrup

Inulin syrup has a very high fructose content (80 %) obtained by hydrolysis of an inulin extracted from chicory roots. Inulin production began in the 1980s when appropriate industrial hydrolysis and extraction processes were developed. The food industry uses inulin powder and its oligofructose derivatives for their nutritional and dietary qualities rather than as a sweetener. Two-thirds of inulin production is processed by full hydrolysis into inulin syrup, which has a very high sweetening power. It is used by the food industry in drinks in particular, either on its own or mixed with glucose. Inulin syrup was taken into the sugar regime in 1994 along the same lines as isoglucose. The quota is 0.3 million tonnes, shared between three Member States.

Artificial sweeteners

There are artificial sweeteners – not covered by the sugar regime – that have a sweetening power of tens or even hundreds of times that of sugar, no calories, and no impact on blood glucose levels. The best known of these include saccharin, aspartame, cyclamates and the 'alcohol sugars' such as sorbitol. They enjoy an estimated market share of 15 %. This market share is restricted for two reasons, one health-related and the other technical (use in the food industry).



Reform of the sugar regime – a long-term competitive future

On 24 November 2005 the Council of Ministers reached a political agreement on reform of the common market organisation in the sugar sector (the sugar 'regime'). The legal texts were formally adopted by the Council of Ministers on 20 February 2006 and published on 28 February¹. The legal package comprises three Council Regulations, covering:

- changes to the sugar regime as a whole
- incorporation of sugar beet growers in direct support schemes for farmers
- establishment of a temporary scheme for the restructuring of the sugar industry.

It is worth underlining that the reformed regime does not come into operation overnight. It starts on 1 July 2006. There is a transition period between 2006/07 and 2009/10 for structural changes to occur.

1. The current support system (until end-June 2006)

How the current sugar regime works

The essential features of the current sugar regime are support prices (a minimum price to growers of sugar beet, and a guaranteed price to support the market), production quotas to limit over-production, tariffs and quotas on imports from third countries, and subsidies to export surplus production out of the EU.

Sugar quotas

There are two types of quota: A quota (initially determined in accordance with domestic consumption) and B quota (additional amount to fulfill export potential). Production quotas were set to distribute production of sugar amongst the Member States and to keep overall

production within certain limits. They represent the maximum quantity of sugar eligible for price support. The total quota for the EU-25 is 17.4 million tonnes (A-quota: 85 %; B-quota: 15 %); Member States may produce more but that over-quota production ('C sugar') has to be sold outside the EU without subsidy.

Support prices

The minimum price for sugar beet is the minimum price at which sugar manufacturers are required to buy beet from growers for the production of quota sugar. It is currently EUR 46.72 per tonne for beet used to produce A-quota sugar and EUR 32.42 per tonne for beet used to produce B-quota sugar. 'Intervention' (market support) prices are EUR 631.9 per tonne for white and EUR 523.7 per tonne for raw sugar. Current prices are unchanged since 1993/94.

Sugar imports

The EU has several international trade agreements with third countries and groups of third countries allowing preferential access (i.e. at low or zero tariffs for quantities subject to quotas) to the high-priced EU sugar market. These are longstanding and enshrined in multi-lateral trade agreements.

The regime was established in 1968 aiming to ensure fair incomes for EU producers and self-sufficiency. Until now it had been modified, but not fundamentally changed, despite reforms in other areas of the common agricultural policy (CAP) which have increased competitiveness in the agricultural sector by reducing support prices, compensating farmers with direct income payments and breaking the link between subsidies and production.

¹ Official Journal L 58 of 28.2.2006 – see: http://europa.eu.int/comm/agriculture/capreform/sugar/index_en.htm

2. Four reasons why the sugar regime was reformed

The sugar sector has maintained artificially high prices

EU price levels have been three times higher than world market prices recently – this has been a constant point of criticism inside and outside the EU. The restructuring of our sugar industry was unavoidable: sugar had to be brought in line with today's economic realities.

The EU lost a World Trade Organisation (WTO) sugar 'panel'

The recent ruling of the WTO Appellate Body ('panel') in a case brought by Australia, Brazil and Thailand against aspects of the EU sugar regime obliged the EU to alter the regime. The ruling found that 'C sugar' exports benefit from export subsidies by being cross-subsidised with revenues from production under A and B quotas. Secondly, the WTO ruled that the EU exceeds its export subsidy commitments due to its subsidised export of quantities of sugar equivalent to imports from the Africa Caribbean and Pacific (ACP) countries and India. Measures had to be taken to comply with the ruling.

The current sugar regime expires on 30 June 2006

Without a new regime all price provisions, all quota arrangements and the public storage ('intervention') system would have ceased to apply; this could have led to serious market disturbances and threatened the organised restructuring of the European sugar sector.

Prolongation of the current system was not an option

The EU had to adapt to its international obligations. The status quo was unsustainable – it would have led to a scenario dominated by attrition:

- countries benefiting from the EU's Everything But Arms (EBA) agreement with Least Developed Countries (LDCs), allowing free access to the EU sugar market, could send all their production (around 3.5 million tonnes per year) to the EU;
- EU production quotas would then have had to be reduced automatically by the imported quantities in order to achieve market balance;

- the sugar industry, even in the most competitive EU regions, would have been damaged. Non-competitive regions would suffer gradual decline without the incentive to seek economic alternatives.

Under unchanged circumstances at least 60 factories would close and 5 000 agricultural jobs, 25 000 jobs in industry and 50 000 indirect jobs would be lost.

3. Objectives of the reform

The main objectives are to:

- guarantee a **regular supply** of sugar while protecting the European market from extreme price fluctuations
- make the sugar sector **more competitive**, able to withstand international competition
- move towards **more market orientation** while **restructuring** the sector
- provide a **fair standard of living for farmers** and maintain rural communities
- maintain **preferential access for ACP and LDC producers** to the high value EU market
- **simplify** the regime and make it more transparent
- limit **budget** costs

Reaching these objectives provides the sector with a **long-term policy framework and the opportunity for a competitive future.**

4. Key elements of the reform

The reformed sugar regime comes into operation on 1 July 2006. There is a four year transition period.

Significant price reduction

To be more competitive and market-oriented the reform introduces price cuts. Those who cannot compete within the new framework will be given incentives to give up their quotas. Thus:

- prices should revert to their true role as the determining factor in the allocation of resources and investment decisions (EU support prices are replaced by a 'reference' price)

Institutional prices in the EU

| | | 2006/2007 | 2007/2008 | 2008/2009 | 2009/2010 | From 2010/11 onwards |
|--|---------|-----------|-----------|-----------|-----------|----------------------|
| PRICES | | | | | | |
| Reference price (price at producer level) | (EUR/t) | 631,90 | 631,90 | 541,10 | 404,40 | 404,40 |
| Reference price at producer level (net of restructuring amount) | (EUR/t) | 505,50 | 458,10 | 428,20 | 404,40 | 404,40 |
| Reference price (raw sugar) | (EUR/t) | 496,80 | 496,80 | 448,80 | 335,20 | 335,20 |
| Cumulative reduction in reference price at consumer level | % | 0,00 % | 0,00 % | 14,30 % | 36,00 % | 36,00 % |
| Cumulative reduction in reference price at producer level | % | 20,00 % | 27,50 % | 32,20 % | 36,00 % | 36,00 % |
| Cumulative reduction in raw sugar price | % | 5,00 % | 5,00 % | 14,30 % | 36,00 % | 36,00 % |
| Minimum sugar beet price | (EUR/t) | 32,86 | 29,80 | 27,83 | 26,29 | 26,30 |

- the reference price for white and raw sugar will be cut by 36 % in four steps between 2006/07 and 2009/10
- the minimum price for beet will also be cut, to EUR 26.3 per tonne from 2009/10
- during the four-year transition period, EU-funded buying into stores ('intervention') will function as a safety-net. From 2010/11 on it will disappear
- preferential imports continue, but there is a safeguard mechanism to protect EU operators from sudden surges of imports

Partial compensation for farmers

Direct payments for sugar beet growers will be made (covering 64.2 % of the revenue loss from the price cuts). Payments are calculated in the same way for all 25 Member States. Direct payments will be decoupled² and become part of the Single Payment Scheme³; payment is therefore conditional on the fulfilment of 'Cross Compliance' requirements whereby farmers receive payments provided they comply with environmental, health and welfare standards.

² Decoupling means breaking the link between the subsidy a farmer receives and the production or price of a specific farm product

³ A system of decoupled direct aid payments for EU farmers introduced following the June 2003 CAP reform

Quota reduction

There will be no compulsory quota cuts in the first four years to ensure competitive producers will not be weakened. The hope is that voluntary restructuring will lead to sufficient quota reduction. The temporary restructuring fund will offer a clear incentive to leave sugar production for the least competitive sugar producers. The restructuring fund finances measures in favour of:

- **Industry:** contributing to costs of factory closing/reconversion of sites
- **Farmers:** compensating for price cuts
- **Most affected regions:** financing of diversification measures

The fund will be financed via a levy on quota during four years. This scheme is explained in more detail in a separate sheet.

At the end of the four-year restructuring period, flat-rate quota cuts may be introduced, across all Member States, but only if required by the market situation.

Current quota arrangements will be simplified by merging A and B quotas into one quota; the quota system is extended until the end of the 2014/15 marketing year. To maintain production levels in Member States currently producing C sugar, an additional quota of just over one million tonnes will be made available against a one-off payment. Furthermore, isoglucose quotas will be increased.

Market Balance

Tools to ensure market balance in each marketing year will be retained, e.g.:

- **Carry forward mechanism:** sugar factories may carry forward an overshoot of quota production to the following year
- **Withdrawal mechanism:** the Commission may deal with a market imbalance by the compulsory storage of sugar
- **Private storage scheme:** triggered once the market price falls below the reference price during a representative period

Expanding alternative outlets for out of quota sugar

There are improved incentives for the industrial uses of sugar:

- biofuel, chemical and pharmaceutical industries will have access to out-of-quota sugar which should guarantee them reasonable raw material prices
- processing of biofuel from sugar beet will be promoted – sugar beet will become eligible for the energy crop aid of EUR 45/hectare (provided under the 2003 CAP reform) and will qualify for set-aside payments

Budget neutrality

The reform is budget neutral as the costs of new measures, notably the compensation of the sugar beet farmers, will be off-set mainly by savings resulting from a substantial reduction in export subsidies.

5. Impact of the reform on EU Member States

Variable impact across the EU

The impact of sugar reform varies according to Member States' possibilities for sustainable production. Areas with specific advantages, such as Austria, Belgium, France, Germany, the Netherlands, Poland, Sweden and the UK should be least affected.

Compensation for negative impacts

Negative impacts can be offset by:

- possibilities to top up compensation to growers (especially where a significant percentage of quota is being given up, or where a factory is closing)
- additional restructuring assistance in some regions
- new outlets for out-of-quota production (ethanol and industrial use)
- refining of cane sugar in sugar beet factories to achieve economies of scale
- increases in isoglucose quotas (in proportion to the restructuring of sugar quota)
- moving to alternative crops (notably to wheat or maize)
- the restructuring fund

6. Assisting LDC and ACP countries

The situation of LDCs and ACP states is examined in a separate sheet – "The EU and developing countries". A lower price on the EU sugar market will affect those countries exporting to the EU on preferential terms. However, EU sugar prices post-reform will still be higher than world prices generally, and the EU is designing a package of assistance measures for less developed countries.



European sugar in figures

There is a wealth of misinformation about European sugar production, consumption and trade. Some **facts** about the EU and sugar are shown here.

1. European production

EU-25 sugar production varies between approximately 19 and 20 million tonnes per year. Sugar is produced in all Member States of the EU-25 except Cyprus, Estonia, Luxembourg and Malta. France, Germany and Poland are the largest producers, accounting for half of EU-25 sugar production, followed by Italy and the UK. The efficiency of sugar production varies significantly across Member States.

2. The importance of the EU's sugar economy

Sugar beet covered 1.8 million hectares throughout the EU-15, accounting for 1.4% of the agricultural area and providing 1.6% to 1.8% of the value of EU agricultural output. With EU enlargement the beet area rose to more than 2.1 million hectares.

Sugar beet growers

There are more than 325 000 farmers growing sugar beet in the EU (230 000 in the EU-15; 95 000 in the new Member States). Germany has around 48 300 holdings, Italy 46 400 and France 31 800, the three States making up more than half of the holdings in the EU-15. Sugar beet is usually grown along with other arable crops such as cereals. Generally, holdings with sugar beet are

Sugar companies and factories

| | Production under quota | | | Total Production 2004/2005 | Yield 2004/2005 | Share in Production |
|-----------------------|------------------------|-----------|-------------|-------------------------------|--------------------|------------------------|
| | Quota A | Quota B | Total Quota | | | |
| EU-25 | 14 723 213 | 2 717 321 | 17 440 535 | 19 998 055 | 9.14 | 100.00% |
| France | 2 970 359 | 798 632 | 3 768 991 | 4 515 176 | 12.23 | 22.60% |
| Germany | 2 612 913 | 803 982 | 3 416 896 | 4 305 959 | 9.83 | 21.50% |
| Poland | 1 580 000 | 91 926 | 1 671 926 | 2 001 412 | 6.72 | 10.00% |
| United Kingdom | 1 035 115 | 103 512 | 1 138 627 | 1 390 000 | 10.22 | 7.00% |
| Italy | 1 310 904 | 246 539 | 1 557 445 | 1 158 163 | 6.43 | 5.80% |
| Spain | 957 082 | 39 879 | 996 961 | 1 078 176 | 9.80 | 5.40% |
| Netherlands | 684 112 | 180 447 | 864 560 | 1 036 762 | 10.47 | 5.20% |
| Belgium | 674 906 | 144 906 | 819 812 | 991 666 | 10.89 | 5.00% |
| Czech Republic | 441 209 | 13 653 | 454 862 | 553 960 | 7.96 | 2.80% |
| Hungary | 400 454 | 1 230 | 401 684 | 487 725 | 7.30 | 2.40% |
| Danmark | 325 000 | 95 746 | 420 746 | 471 518 | 9.81 | 2.40% |
| Austria | 314 029 | 73 298 | 387 326 | 458 137 | 10.24 | 2.30% |
| Sweden | 334 784 | 33 478 | 368 262 | 371 632 | 7.80 | 1.90% |
| Greece | 288 638 | 28 864 | 317 502 | 259 301 | 7.91 | 1.30% |
| Slovakia | 189 760 | 17 627 | 207 432 | 233 005 | 6.75 | 1.20% |
| Ireland | 181 145 | 18 115 | 199 260 | 223 745 | 7.22 | 1.10% |
| Finland | 132 806 | 13 280 | 146 087 | 148 583 | 4.79 | 0.70% |
| Lithuania | 103 010 | 0 | 103 010 | 132 857 | 5.24 | 0.70% |
| Portugal | 132 806 | 13 280 | 146 087 | 148 583 | 4.79 | 0.70% |
| Latvia | 66 400 | 105 | 66 505 | 67 111 | 4.94 | 0.30% |
| Slovenia | 48 157 | 4 816 | 52 973 | 37 994 | 6.23 | 0.20% |

Source: European Commission, DG Agriculture and Rural Development

larger than average in terms of both area and economic indicators. The overall agricultural area for holdings with sugar beet (70 hectares, of which eight are dedicated to sugar beet) is larger than the average for all farms (20 hectares). In general, holdings with sugar beet have above average incomes.

Only about 8 000 holdings in the EU-15 are specialised in sugar beet, corresponding to 3.4% of the total number of sugar beet farms. As sugar beet is one crop among others in a rotation, the number of specialised farms is limited.

Sugar processors

Numbers of sugar companies and factories are shown in the table. Sugar production is in the hands of 70 companies (EU-25).

Sugar companies and factories in the EU-25 – 2004/05

| Member State | Number of... | |
|------------------------|-----------------|-----------------|
| | sugar companies | sugar factories |
| Belgium | 2 | 6 |
| Czech Republic | 7 | 11 |
| Denmark | 1 | 3 |
| Germany | 5 | 26 |
| Greece | 1 | 5 |
| Spain | 3 | 11 |
| France (mainland) | 13 | 32 |
| France ('dom') | 5 | 5 |
| Ireland | 1 | 2 |
| Italy | 5 | 17 |
| Latvia | 2 | 2 |
| Lithuania | 2 | 4 |
| Hungary | 3 | 5 |
| Netherlands | 2 | 5 |
| Austria | 1 | 3 |
| Poland | 5 | 43 |
| Portugal (continental) | 3 | 3 |
| Portugal (Azores) | 1 | 1 |
| Slovenia | 1 | 1 |
| Slovakia | 3 | 5 |
| Finland | 1 | 3 |
| Sweden | 1 | 3 |
| United Kingdom | 2 | 7 |
| EU-25 | 70 | 203 |

Employment in the sector

In the EU-15 there has been a trend towards rationalisation and job reduction in the sugar sector over recent years. This results from 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 126 in 2003. In the period 1992/93 to 2003/04 job numbers in the processing sector fell from 58 546 to 31 862. If the sugar regime remained unchanged, it is estimated that there would be around 15 000 fewer jobs by 2012.

3. EU production in a global context

Areas covered by sugar beet and sugar cane throughout the world amount to about 25 million hectares, 75 % planted with sugar cane and the rest with sugar beet. While areas covered by sugar beet have been declining since the mid-1970s, those under sugar cane have steadily increased since the 1960s. Areas under cane have more than doubled in forty years.

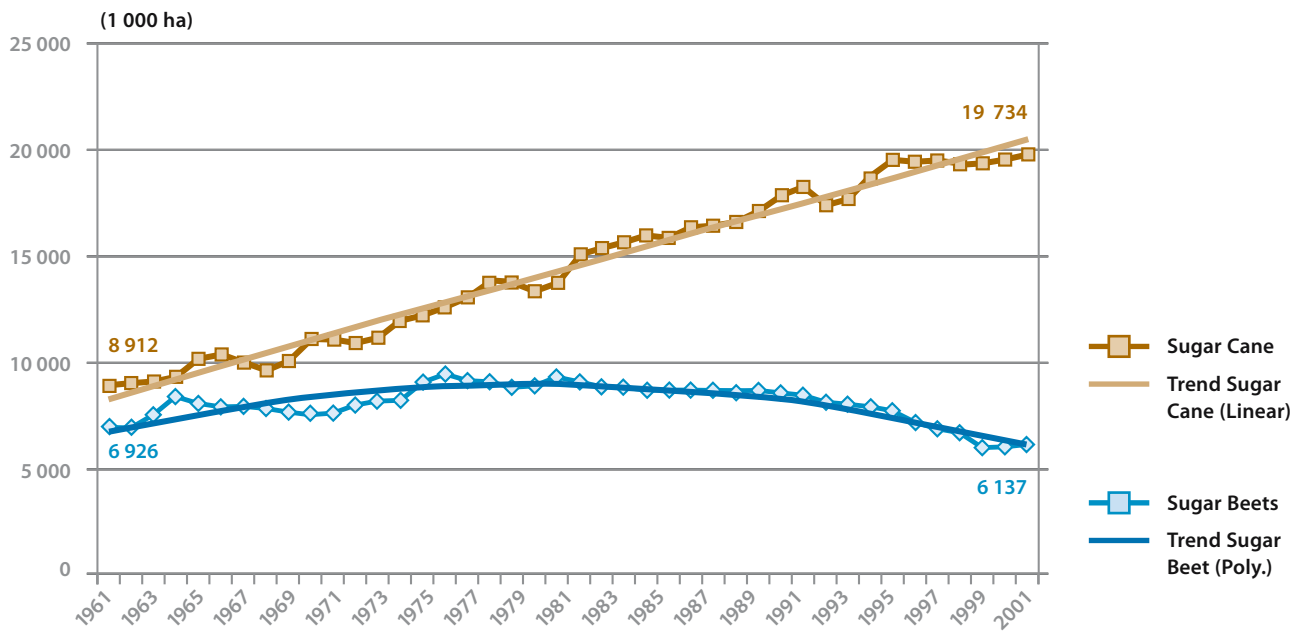
Sugar production has more than doubled since the 1960s. Average world sugar production for 2002/03 was 135 million tonnes. Over the last ten years, production has soared in Brazil (+120%) and in India (+ 50%).

The EU-25 share of the world market is divided up as follows: 14 % of production, 12 % of consumption, 12 % of exports and 5 % of imports. Its share in world production, consumption and exports has declined, whereas southern hemisphere countries have steadily gained importance.

EU Imports and Exports

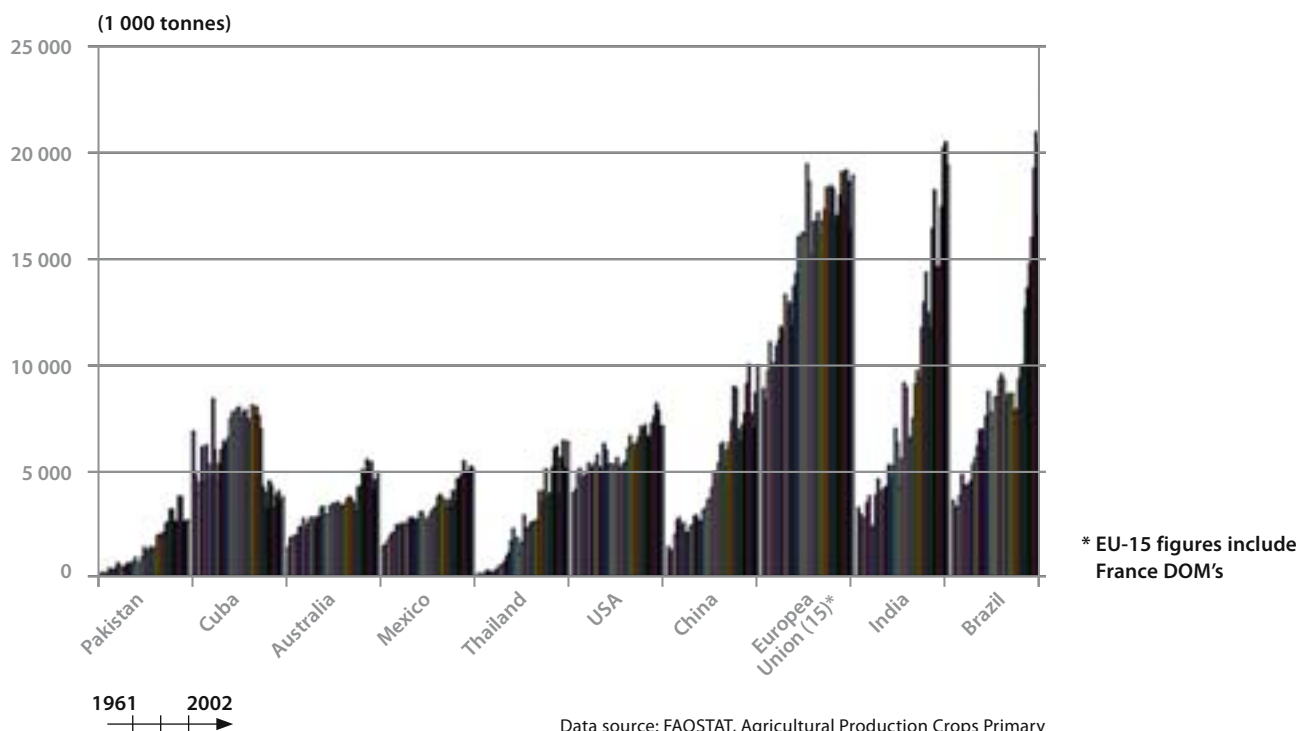
The EU-25 both imports and exports sugar, but in net terms has been an exporter. On average in the period 2000/01 to 2002/03, exports amounted to 4.7 million tonnes with imports at 1.9 million tonnes. The EU is a key player on world sugar markets but remains far behind Brazil which now dominates exports.

World- Sugar Beet and Cane, Compared developments in harvested areas, 1961–2002



Data source: FAOSTAT, Agricultural Production Crops Primary

World Top-10, Developments in sugar production, 1961–2002



Data source: FAOSTAT, Agricultural Production Crops Primary

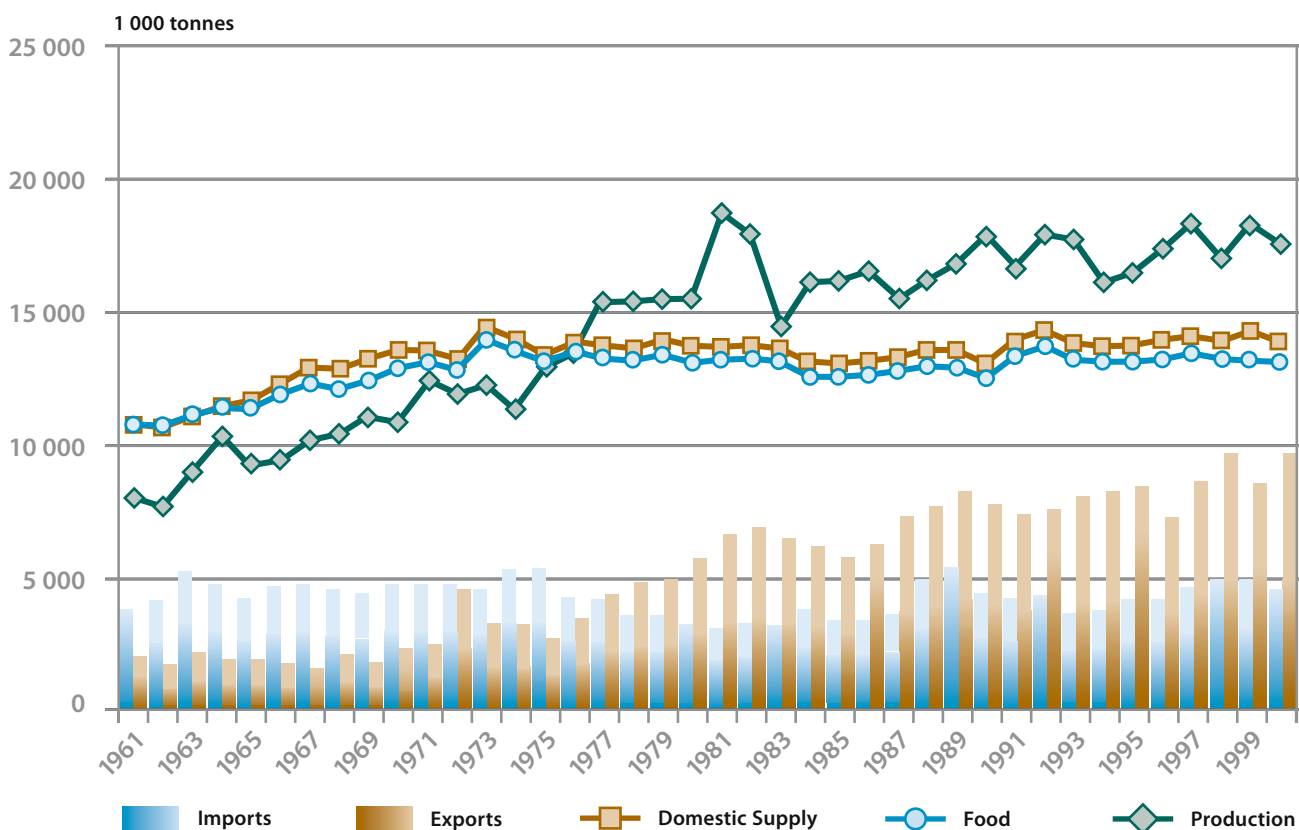
4. Sugar consumption

In 2000, food uses of sugar amounted globally to 113 million tonnes (123 million tonnes in raw equivalent). Seven of the top ten sugar using regions are also among the top ten producers. FAO¹ data illustrate steady growth in sugar supply and use at world level. Consumption (based mainly on figures for the use of sugar as food) has grown by 1.7 million tonnes (refined) a year over the last 40 years. This represents a 3.8% increase compared to the early 1960s and a 1.6% increase compared to the average for the years 1991 to 2000.

5. Sugar policy impact

Sugar policies have a significant impact on production and trade, and therefore on prices. Several key sugar producers tend to supply their domestic market first, where prices are generally higher than on world markets. Leading producers are also among the main users which explains why white sugar has been traded less. This trend has, however, been shifting.

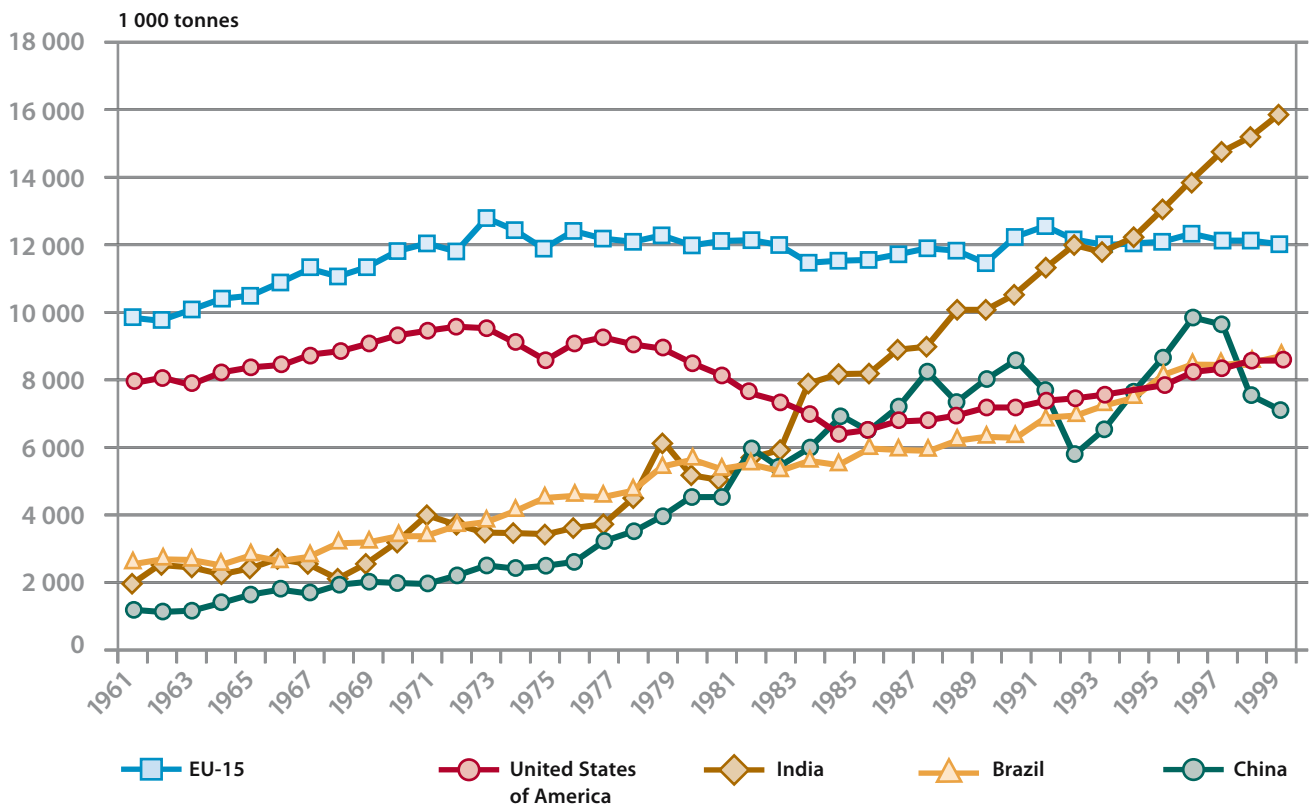
EU-15 - Production, uses and trade, 1961–2000 (Intra-trade is included in this graph)



Source: European Commission, DG Agriculture and Rural Development

¹ Food and Agricultural Organisation of the United Nations

World- Top-5 sugar using countries, 1961–2000



Data source: FAOSTAT, Commodities Balance



The EU and developing countries

The EU sugar regime, with its high guaranteed prices to growers and processors, has been able to function partly due to the tariff structure that ensures competition from imported sugar is controlled. Import duties have been maintained at levels designed to deter non-preferential imports. Nevertheless, the EU has provided significant access to its market for sugar imported from less developed economies. The EU is still the world's biggest importer of farm products from developing countries, buying as much as the US, Japan, Canada, Australia and New Zealand combined. Sugar is a good example of the EU's commitment to the developing world.

1. The EU's sugar trade relations with the developing world

From UK accession onwards, a specific trade regime for some ACP countries...

The UK's accession to the EU in 1973 illustrates how the latter has sought to assist less developed countries. The UK brought in a strong tradition of buying farm goods from its former colonies – including large volumes of sugar. Instead of cutting this tie, in 1975 the EU signed the Sugar Protocol with 19 African, Caribbean and Pacific (ACP) countries. The guaranteed imports laid down in the Protocol have since been worth millions of tonnes of sugar exports and billions of euros to those countries.

The Protocol on sugar attached to the 1975 Lomé Agreement between the ACP countries and the EU sets out a commitment by the EU to buy certain quantities of sugar at guaranteed prices and a commitment by the ACP signatory countries to supply that sugar. Under the agreement, duty free import quotas are allocated for 1.3 million tonnes per year. This arrangement is not affected by the February 2006 sugar reform.

... and India

An identical agreement to the Sugar Protocol was reached at the same time with India (involving 10 000 tonnes per year).

Supply of refineries

The sugar regime provides that sugar refineries in five Member States must have access to 1.8 million tonnes of preferential raw cane sugar each year, corresponding to their "presumed maximum needs". This arrangement also continues post-reform, under unchanged conditions and with privileged access to imported sugar for existing full-time refiners, though after the four-year transition period other sugar processors can have access to such preferential sugar. If refineries cannot source sufficient quantities via the Protocol, a tariff quota at zero duty for raw cane sugar for refining, known as Special Preferential Sugar (SPS), is opened. This quota (usually approximately 200 000 tonnes) is opened each year for the ACP Sugar Protocol states and India and will continue under the reform, under the name "complementary quantity".

Renewed terms

The terms of the initial Sugar Protocol of 1975 were unchanged when it was renewed in Cotonou in June 2000. The guaranteed price is fixed each year (amounting, pre-reform, to EUR 523.70 per tonne for raw sugar – the EU intervention price – and EUR 645.50 per tonne for white sugar). New guaranteed prices apply post-reform (cf. Sheet 2). The difference between the guaranteed price and the world price, or the price on their own market, encourages some of the Sugar Protocol countries to export as much of their production as possible to the EU, even if that means supplying their own consumption needs by purchasing white sugar on the world market.

2. Everything But Arms (EBA)

Signed in 2001, the 'Everything but Arms' agreement suspends all tariffs for products from 49 Least Developed Countries (LDCs), including six of the ACP Sugar Protocol signatories. Special provisions were adopted for sugar. Until 2006, the suspension of tariffs is limited to a tariff quota of raw cane sugar for refining. The quota of 74 185 tonnes in 2001/02 increases by 15% each year, to reach 129 751 tonnes in 2005/06, 149 213 tonnes in 2006/07, 171 594 tonnes in 2007/08 and 197 334 tonnes in 2008/09. Between 2006/07 and 2008/09 tariffs will be gradually

reduced, without quantitative restrictions. Tariffs will be completely suspended from 1 July 2009 onwards.

3. Other preferential imports

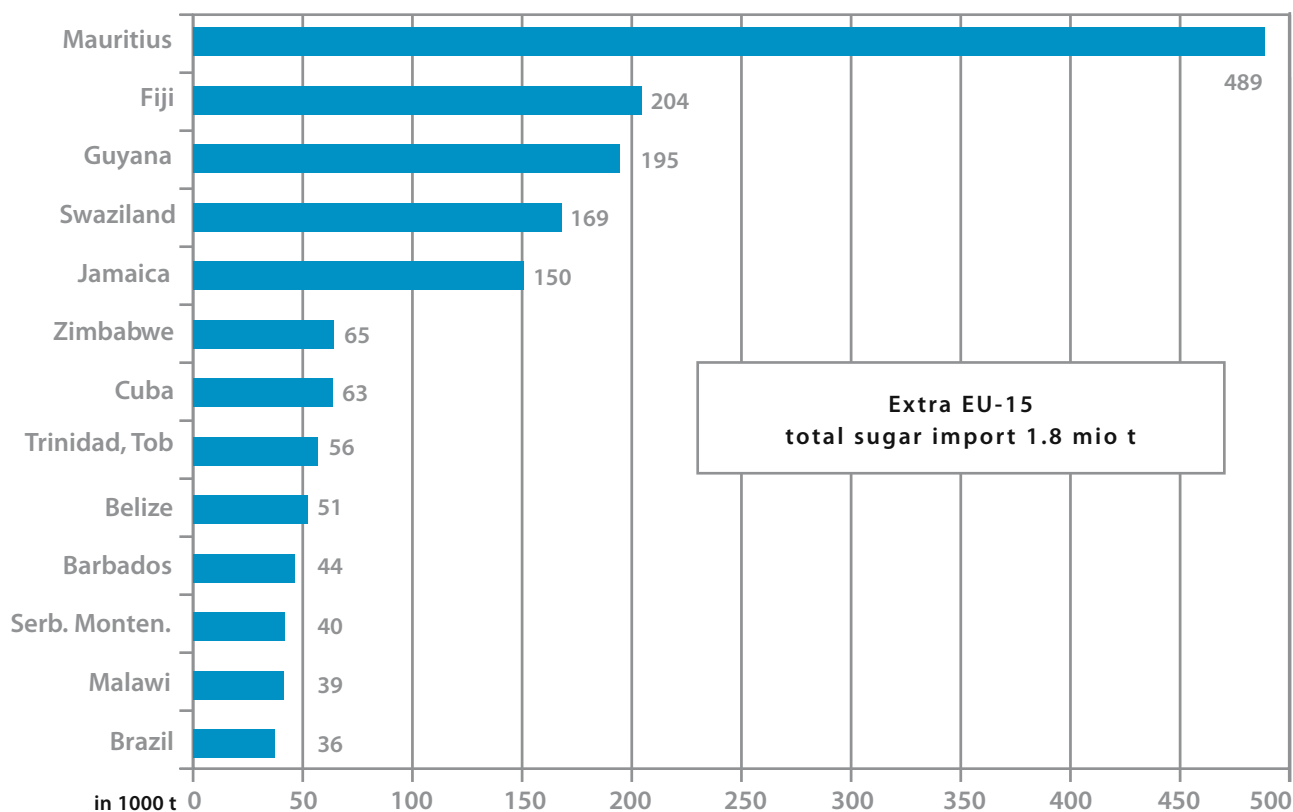
CXL quota

This quota was agreed during trade negotiations when Finland joined the EU. It covers 85 463 tonnes of raw cane sugar for refining, to which a reduced tariff of EUR 98 per tonne applies. It is mostly assigned to Cuba (58 969 tonnes) and Brazil (23 930 tonnes). The average import price is equivalent to the guaranteed price in the Sugar Protocol.

'Balkans' Initiative

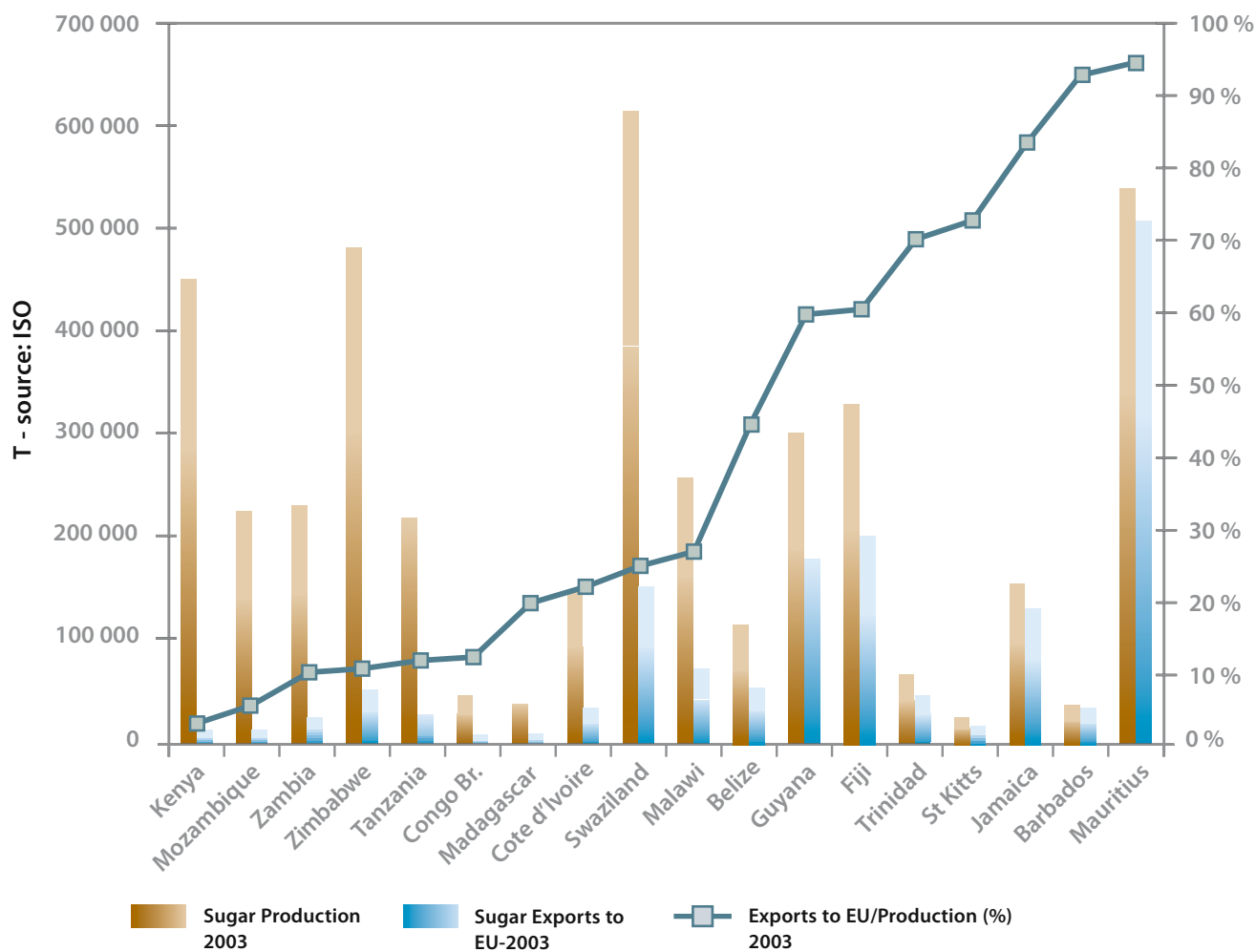
Under the 'Stabilisation and Association Process' implemented by the EU, all import duties for products originating in the Western Balkans (Albania, Bosnia-Herzegovina, Croatia, FYROM and Serbia and Montenegro) were abolished at the end of 2001. The difference in the prices for sugar on the two markets made the concession very attractive. Production, which fell sharply during the conflicts, is being encouraged by the local authorities, in particular in Croatia and Serbia and Montenegro. Imports into the EU of sugar originating in the Balkans, which were previously zero, reached 300 000 tonnes in the 2002/03 marketing year.

EU-15 Main partners for imports, quantities, "2000/01"



Source: European Commission, DG Agriculture and Rural Development

Sugar production and exports to the EU market of Sugar Protocol countries



Source: European Commission DG Agriculture and Rural Development

This additional supply of sugar to the EU market resulted in a reduction in EU production quotas in order to comply with its WTO commitments. Trade declined in 2003/04 because the preference granted to Serbia and Montenegro was suspended. A new quota scheme for sugar originating from the Balkans entered into force on 1 July 2005 with the aim of securing the sustainable development of sugar production and consumption in these countries.

Which developing countries supply the EU market?

Mauritius accounts for over 25% of imports. Among the top 10 (in % of imports), all suppliers but one (Cuba) are ACP countries which are benefiting from the Sugar Protocol.

LDC sugar exports to the EU showed a noticeable increase from 95 000 tonnes in 1999/00 to 120 000 tonnes in 2001/02. In particular, imports from Sudan

and Mozambique became significant in 2001/02 (25 000 tonnes combined). This reflects the entry into force of the Everything But Arms Agreement.

4. Preferences to developing countries continue post-reform

The lower EU price post-reform will reduce the expected returns to LDCs and the Sugar Protocol countries on sugar shipped to the EU under preference. However, the lower EU price will still be well above typical global market quotations. Sending sugar to the EU should therefore still be attractive for a number of ACP country signatories of the Sugar Protocol and LDCs.

Impact of reform on LDCs

The reduction of EU prices proposed in the reform will reduce the benefits that the LDC could have expected from exporting sugar to the EU. To avoid distortions of competition with LDCs benefiting from the EBA agreement, EU operators will continue to be obliged to buy the sugar to be imported under the EBA scheme at a price no lower than the guaranteed price for ACP countries and India. This means that LDC exports to the EU will still benefit from prices significantly higher than world market prices.

The Commission and Council carefully considered LDC requests that, for a transitional period, the EU could continue to import their sugar at high prices but in quantities limited by quotas. However, the Commission and Council decided against altering a central element of the EBA pact just four years after negotiating it. Nor is it desirable to operate a dual price structure in the EU – lower internal prices alongside higher guaranteed value for some overseas suppliers.

ACP countries

For the ACPs covered by the Sugar Protocol, the reform does not alter the provisions of the Sugar Protocol and India agreement. To account for changes under the sugar reform, this commitment will now have to be fulfilled at a lower guaranteed price for white sugar, in the range of the new EU 'reference price'. At this price level, the implied raw sugar price will be reduced to EUR 448,8 per tonne in 2008/09 and EUR 335,2 per tonne from

2009/10. The Commission has proposed to integrate the Sugar Protocol into the Economic Partnership Agreements which the EU is currently negotiating with all ACP states and which are due to enter in force in 2008.

Assistance scheme for ACP countries impacted by the sugar reform

The EU recognises that the sugar reform may have a significant socio-economic impact in ACP countries that are signatories to the Sugar Protocol and have been relying on preferential sugar exports to the EU. It is committed to accompanying the adjustment process which will consequently be required in these countries. The Commission has discussed with the ACPs the broad lines of an assistance scheme on the basis of an 'Action Plan'. It includes both trade measures and development assistance to help the Sugar Protocol countries to adapt. The trade measures will be negotiated within the Economic Partnership Agreements. A development assistance scheme is proposed for an eight year period.

Some 'accompanying measures' for Sugar Protocol countries are established in Regulation N° 266/2006 of 15 February 2006¹. Considering the differences between the different Sugar Protocol countries, in terms of types of issues faced and possible responses, a broad range of support options is being offered, to be tailored to each situation. Assistance will be based on a country-specific, multi-annual, comprehensive adaptation strategy, devised by the stakeholders in the country concerned. The range of assistance should cover the needs of countries which seek to upgrade the competitiveness of their sugar sector, as well as of those for which the adaptation process requires diversifying into alternative economic activities, around or instead of the sugar sector. Considering the multifunctional role of the sugar sector, especially in certain regions, these support measures should also cover broader social, economic, and environmental consequences of the reform if necessary. This adjustment process can also benefit from the use of other development assistance instruments.

For this assistance package, the European Parliament and the Council adopted a financial envelope of EUR 40 million for 2006, and more significant budgets should be included in future financial provisions.

¹ Published in Official Journal L 50 of 21.2.2006



World trade in sugar

Many global sugar players maintain high tariffs for sugar, and some operate import quotas, while others combine a mixture of the two. The EU currently operates a system of export subsidies; other countries subsidise production, and therefore trade, via indirect subsidies or use currency devaluation as a means to improve terms of trade. All these factors have affected the development of world trade in sugar.

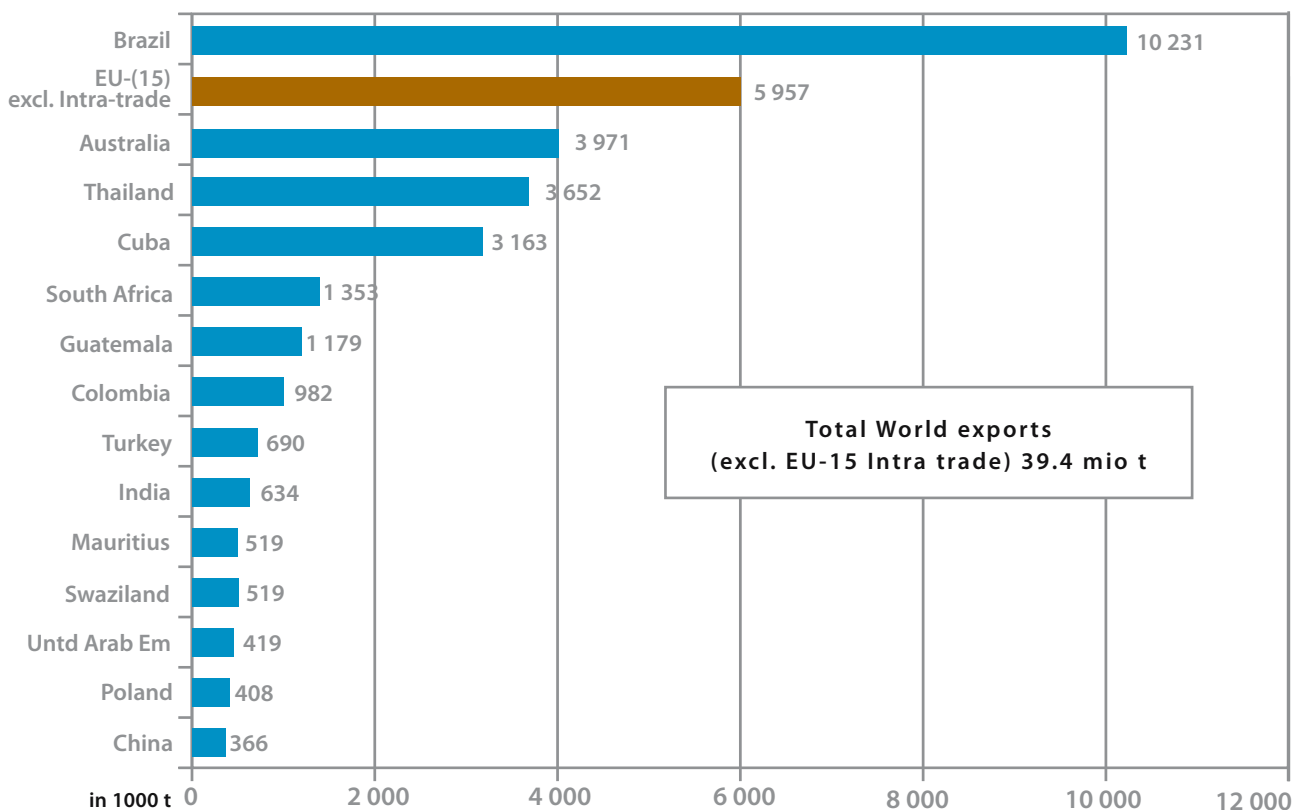
Exports of sugar

While the EU is a net exporter of sugar, it lags way behind Brazil in exports while providing a valuable market for sugar from less developed countries. Brazil is the

leading sugar exporter with 25% of world exports (more than 10 million tonnes), followed by the EU-15 with 15% (six million tonnes). In Brazil the share of exports compared to domestic production is very high (above 40% since 1995). In 1999, exports were even higher than food uses.

The share of the EU-15 in world exports is close to its share in world production, while the higher rate of Brazil shows its export orientation. Australia, Thailand and Cuba make up the top five exporters, each exporting between three and four million tonnes of sugar yearly. These five account for up to 70% of world exports.

World Top-15 sugar exporters, 1000 tonnes, "2000"



Source: European Commission, DG Agriculture and Development

The EU is both a leading exporter and importer. It became a net exporter at the end of the 1970s, mainly thanks to increased production versus stable consumption. The 10 new EU Member States as a whole are net exporters as well. Brazil has been a significant exporter since the 1970s – its exports have soared in line with production since the 1990s. In 1999, exports reached an unprecedented level (13 million tonnes). This is mainly explained by growth in the ethanol sector. Though guaranteed prices and direct subsidies have been phased out, the Brazilian sugar sector has developed by benefiting from the large economies of scale provided by ethanol from sugar cane juice.

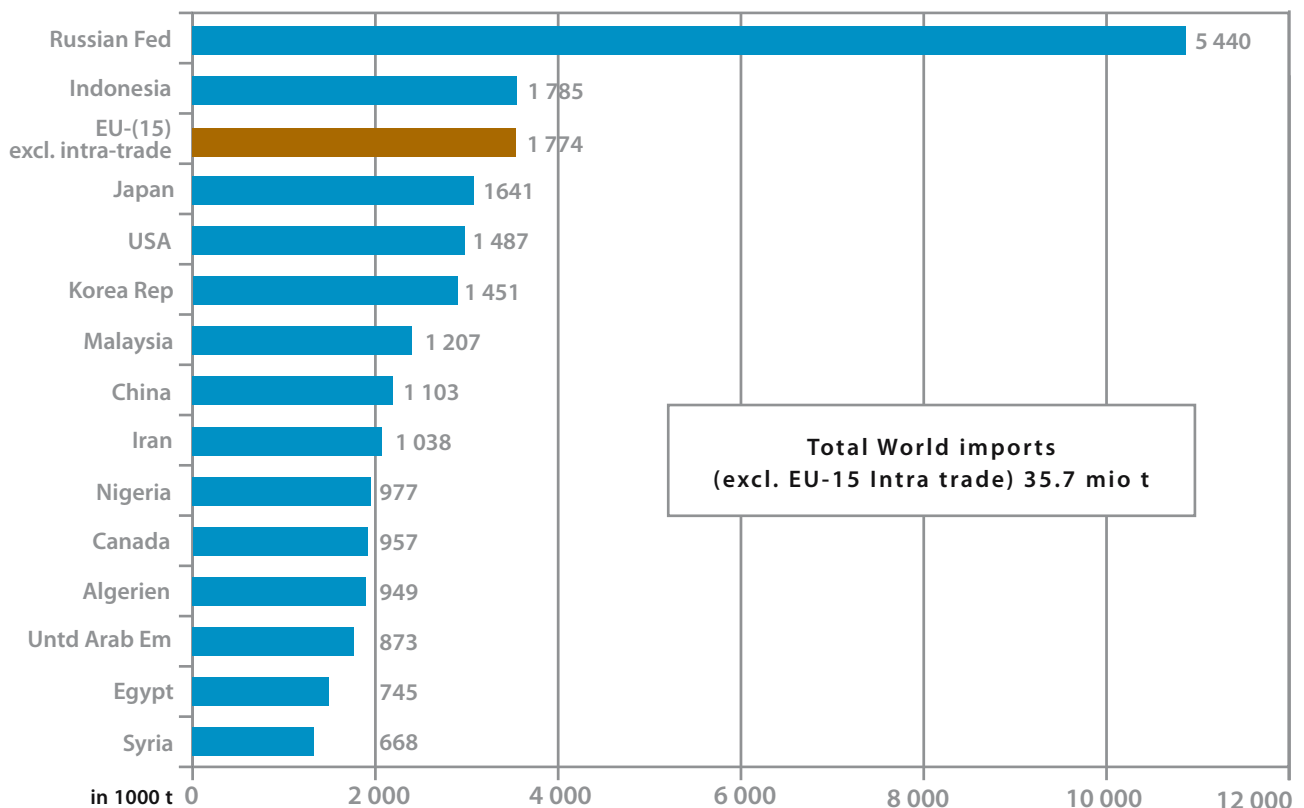
Importers of sugar

The Russian Federation is by far the biggest world importer of sugar, with 5.5 million tonnes (15% of global imports) in 2000. Russia is followed by Indonesia and the EU-15, each accounting for 5% of world imports, at about 1.8 million tonnes. Japan, USA and the Korean Republic together buy around 1.5 million tonnes, 4% of world imports. The 'Top 15' importers absorb one third of world trade.

The nature of international sugar trade

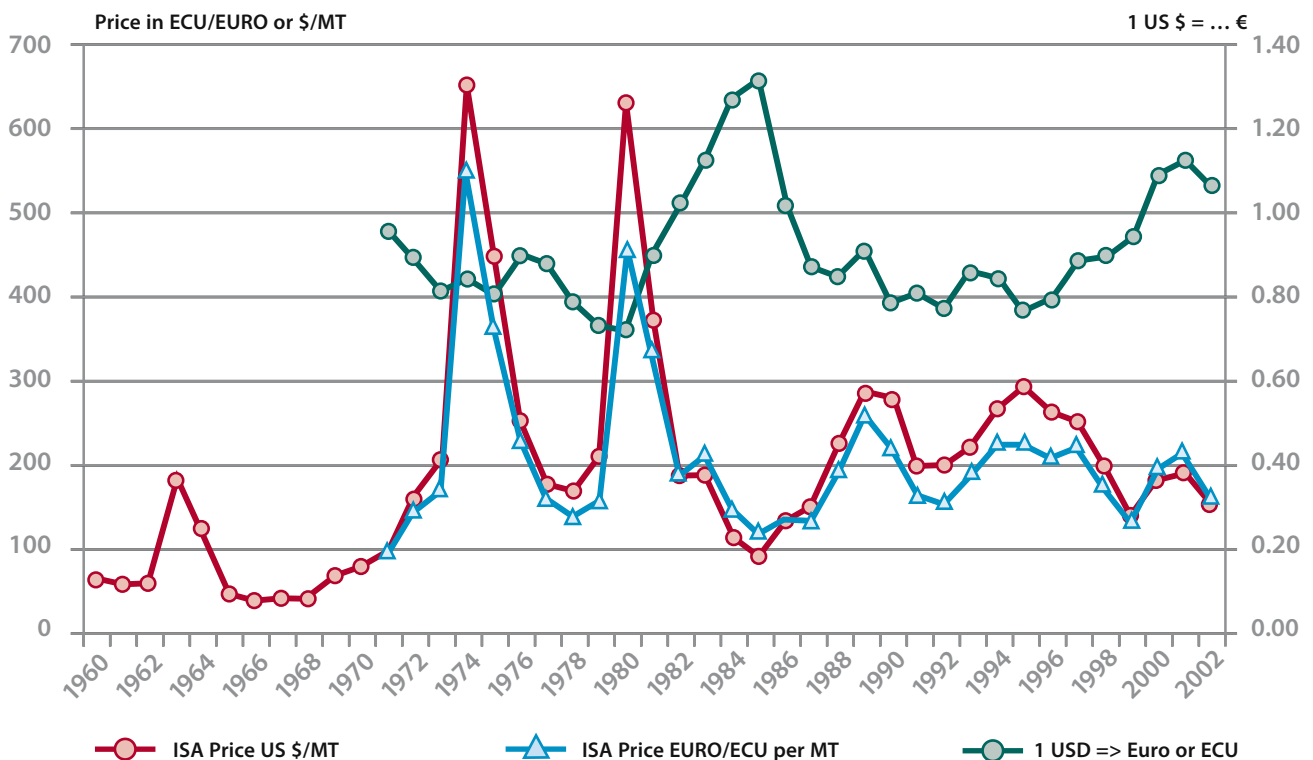
Although leading sugar producing countries are also major users, sugar is a widely traded commodity. On average international trade (close to 40 million tonnes) represents about 30% of world production (120 million

World – Top-15 world sugar importers, 1000 tonnes, "2000"



Source: European Commission, DG Agriculture and Development

ISA sugar price – Yearly average – 1960–2002



Source: European Commission, DG Agriculture and Development

tonnes, in refined equivalent). This share is high when compared to cereals (international trade represents 15% of cereal production, not taking rice into account) and close to the share for oilseeds. Nevertheless, as most international trade in sugar occurs under special trade agreements (e.g. preferential trade, long-term contracts), spot trade is considered residual.

Historically, sugar prices have been highly volatile, for various reasons. Macro-economic factors, oil price changes and currency parities can induce variable demand while production is not particularly responsive to changes in prices.

Raw versus refined sugar

While trade in raw sugar was on a declining trend from the mid-1970s to the mid-1990s, trade in refined sugar

has steadily increased. Since 1995, exports have been expanding for both types of sugar. Raw sugar remains the main traded form, but its share in total exports is declining (to slightly above 50%).

EU sugar and the world market

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 had to be tackled in the recent reform, the reality is more complex.

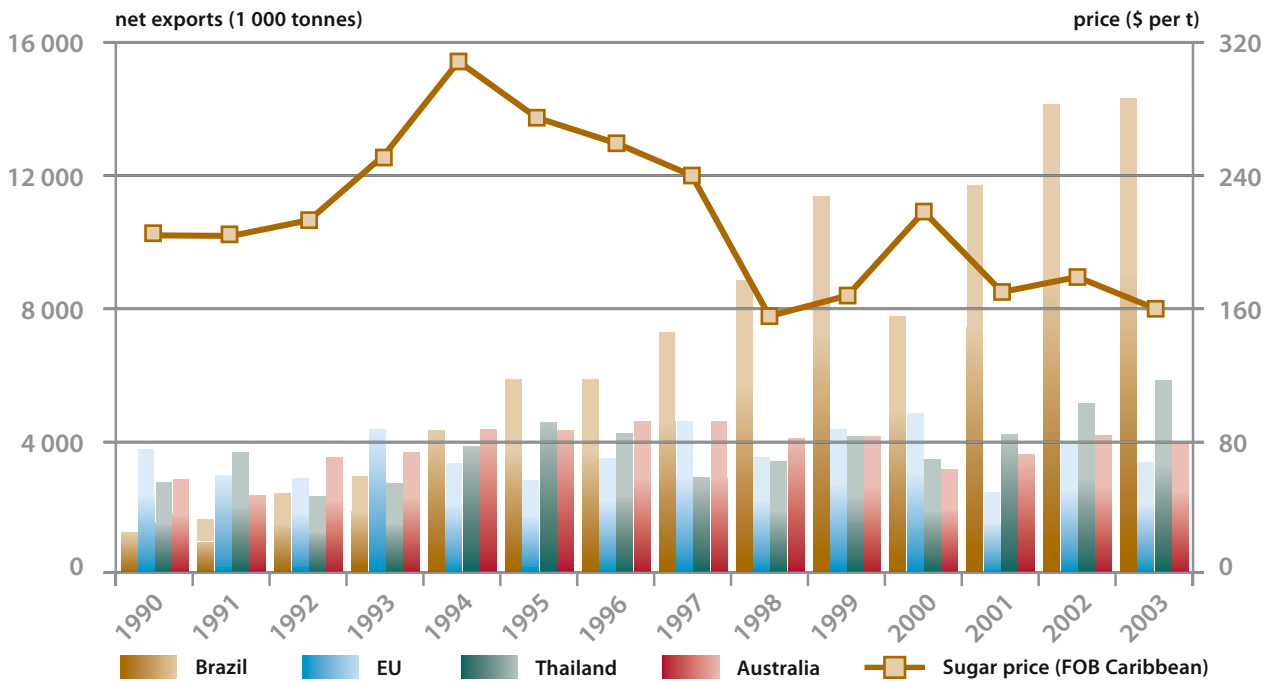
The next graph shows the dramatic increase in the exportable surplus of sugar in Brazil, and elsewhere, which explains much of the decline in world market prices.

EU versus world prices

International prices for sugar are extremely volatile following a cyclical, though erratic, path. Since 1995, prices have been on a downward trend mainly attributed to an overall excess of production over consumption. Data show that the EU price for sugar – i.e. the price of white sugar as it leaves the sugar factory – is three times the

'world price'. The Commission does not dispute the figures, however the world price is not a true market indicator as it is a residual price resulting from surpluses that are traded if not taken up by internal consumption. Almost all exporters are selling sugar at world market prices and hence at a lower price than their domestic prices.

World sugar price and net exports



Source: European Commission, DG Agriculture and Rural Development



Restructuring the EU sugar sector

There has been widespread agreement, during many years of debate, on the need for reform of the sugar regime and for comprehensive restructuring of the EU's sugar sector. One option discussed to aid this restructuring process was to allow for production quotas to be transferred between Member States. However, there was significant opposition to this. The February 2006 reform agreement includes an ambitious voluntary restructuring scheme to be implemented over a four-year period.

1. The reasons for restructuring

The EU has a structural surplus in sugar production. Much of this surplus is exported to third countries, by means of subsidies. Following the WTO panel ruling of April 2005 on certain trade-related aspects of the sugar regime, the EU must curtail such exports. Furthermore, various recent preferential import arrangements (EBA, Balkans agreement) will probably lead to the EU importing significantly increased amounts of sugar, again exacerbating the structural surplus in sugar production. In addition, the Commission (and many other stakeholders) believes that sugar production in several EU regions is unsustainable in the long-term. This view applies to sugar beet growers and to some factories in the processing sector.

For all these reasons the EU sugar sector needs to restructure.

2. The objectives of restructuring

The objective of restructuring in the sector is to remove from production those growers and processors that will be unable to operate in a business environment in which prices have been severely cut. Sugar factories and beet growers will be encouraged to give up their quota rights. In this way more efficient producers will have better opportunities for the future and the EU will not lose productive capacity.

3. The restructuring scheme

The Council has agreed a voluntary restructuring scheme to be implemented over a four-year period (2006/07 to 2009/10). The scheme comes in two parts:

- significant, degressive (i.e. reducing over time) restructuring aid of EUR 730 per tonne of quota in years one and two, EUR 625 per tonne in year three and EUR 520 per tonne in year four. This will be available to sugar factories, isoglucose and inulin syrup producers, and will be granted in the case of full dismantling of factories and renunciation of production quota. Sugar beet suppliers and machinery contractors will benefit from at least 10 % of the restructuring amount. Processors can abandon production during any one of the four years. Restructuring aid will be paid in two installments
- diversification aid for the region affected by the restructuring of the sugar industry, the amount of which will be increased for Member States where the quotas renounced go beyond a certain proportion of their original quota

There are options available to allow partial renunciation of quota (with reduced aid of course), some transfer of quota between factories, and continued use of factories for non-sugar activities.

Also, in those countries giving up at least 50 % of their quota, there is the possibility of an additional diversification aid which can be used either for further diversification measures and/or for the benefit of growers of beet or cane giving up their production in the regions affected by restructuring.

Applicants must present detailed restructuring plans in order to benefit from aid.

Temporary restructuring scheme

The restructuring scheme should be temporary. In 2010 the Commission may institute compulsory quota cuts if necessary – for example as a result of the restructuring scheme not producing sufficient renunciation of quotas, or because of market conditions (or a combination of factors).

Who pays?

Financing for the restructuring scheme will come from a specific amount charged over three years on all sugar, isoglucose and inulin syrup quota. The rates are EUR 126,40 per tonne in 2006/07, EUR 173,80 per tonne in 2007/08 and EUR 113,30 per tonne in 2008/09. This should also be paid in two installments each year.

Conditions

Abandoning production will mean:

- renunciation of the relevant quota after consultation between beet growers, social partners and the sugar industry
- definitive and total stopping of production in the factory/factories concerned
- closure of the factory/ies concerned and dismantling of production facilities
- restoration of the good environmental condition of factory sites and redeployment of the workforce

Applications for restructuring aid must be submitted by 1 February preceding the marketing year during which production will be abandoned or before 1 August 2006 for the 2006/07 marketing year.

Financial limits

Restructuring aid will only be paid within the limits of funds available in the marketing year concerned. If amounts to be granted exceed that amount then aid will be granted on a first-come-first-served basis.



Questions and answers about the EU sugar regime reform

Q. Why was the sugar regime reformed now?

A. The simple answer would be that the current sugar regime runs out in June 2006, and that the EU was therefore bound to act.

However, this ignores the many strong reasons for reform. The 2003-04 CAP reform, which was designed to encourage farmers to produce in a more sustainable and market-oriented way, did not include sugar (though it covered most other crops and livestock products). It was thus logical to extend the reform to sugar – in the interests of all involved in the sector. Second, if we hadn't decided now on a new form for our sugar regime, external economic forces would have decided it for us. Without support price cuts the market would overbalance and only deeper cuts to home production would restore balance.

Q. Why didn't we roll over existing arrangements?

A. The pre-reform sugar regime was often subject to fierce criticism for bringing about a lack of competition, distortions in the market, high prices for consumers and users, and for its effect on the world market. The gap between EU and world market prices has grown larger, while the EU has undertaken new international commitments. In these conditions, the EU's structural surplus risked widening while the rigidity of the present quota system leaves no incentive for the sector to adjust.

Q. Was reform driven by overseas factors?

A. The Commission's own analysis of the sustainability of the sugar regime showed that we needed to reform the regime now, in any case. Since this analysis was carried out, a WTO panel handed a victory against the EU to Australia, Brazil and Thailand on two counts: first, the Union can no longer subsidise extra sugar exports to balance out preferential imports, mainly from ACP countries; secondly, EU export commitments will have to take account of sugar exported with and without refunds. The annual

volumes in question are 1.6 million tonnes and up to three million tonnes, respectively, piling further pressure onto our market. So, overseas factors are very much in play also.

Q. Why doesn't the reform provide 100% compensation to growers for the support price cuts?

A. The average income loss will be fully compensated because, on top of compensatory payments at 64.2% of the price cut, the current production levy will disappear.

Q. Are sugar producers in the new Member States treated in the same way as those in EU-15 Member States in this sugar reform?

A. Yes. The main elements apply throughout the EU-25: the price cut will come in but with the full compensatory payments, while processors ceasing sugar production will also have access to the restructuring fund under the same conditions as in the EU-15.

Q. Why did we need a political agreement on reform in November 2005?

A. There are four important reasons:

- I.** The current regime lapses in June 2006. To complete legal texts of new Council and Commission regulations, and allow sufficient time for changes to be implemented, we needed earlier agreement on reform
- II.** The WTO panel that went against the EU sugar regime requires changes to be implemented by 22 May 2006
- III.** Reform was important in order to strengthen the EU's hand in the WTO Ministerial meeting in early December 2005 which discussed agricultural trade reform
- IV.** Agreement in November 2005 gives farmers and the processing industry sufficient notice to adapt to new circumstances

Q. Will 'market-orientation' permeate the whole sugar production chain?

A. Yes. As growers and processors will both be affected by price cuts they will have to orientate their businesses to actual market demand and future prospects. Some restructuring in both parts of the sector is bound to occur.

Q. Will the reform result in cheaper sugar for consumers and industrial users of sugar?

A. The reform will result in lower sugar prices at farm and processor level. Normally this should feed through directly into lower ex-factory prices (i.e. prices to users such as the food and drinks industry, and to the price of a retail pack of sugar). The impact on the prices of food and drinks containing sugar is more complex as sugar tends to be one of many ingredients, and not necessarily the major one, in many foods. For example, even in soft drinks the cost of the sugar accounts for only 2% of the price of a can.

Q. Is the reform balanced, affecting all parts of the sugar supply chain?

A. Yes. The reform agreement is carefully calibrated to ensure that growers, beet processors, raw sugar refiners, producers of alternative sweeteners to sugar, overseas suppliers (notably developing countries), as well as industrial users and consumers, have had their situations recognised. In addition, the agreement allows sugar to be used in non-food applications and for the production of biofuels.

Q. Will sugar production disappear from the EU?

A. No. The reform is designed specifically to prevent this from happening. We believe that, given more efficient production, EU sugar could supply more than 75% of its 450 million consumers. Some important points should be underlined:

- the trend towards rationalisation and job reduction in the sugar sector would continue even without reform. This is the result of our increased productivity in sugar beet production and processing. For instance, there were 374 sugar mills in the EU in 1968/69, around 240 in 1990 and just 135 in 2001. The story is the same for jobs: in the period 1992/93 to 2003/04 job numbers in the processing sector fell

from 58 546 to 31 862. If the sugar regime remained unchanged, it is estimated that there would be around 15 000 fewer jobs by 2012

- overall the reform will sustain production at a higher level than would be possible in future under the status quo. This is because the maintenance of present price levels would draw in substantially greater quantities of imports from the EBA countries. Thus annual quota cuts would have to be increasingly severe
- however, within the overall level of production there will be gradual shifts between regions and Member States. This is necessary in order to promote greater competitive efficiency. In regions where sugar production ceases, the industry will be able to take advantage of the EU-funded conversion scheme for those wanting to leave the sector. This will help to cushion the social and economic effects of closure
- finally, as far as sugar beet farmers are concerned there is no reason to expect any significant effects on employment since those leaving beet growing will turn to alternative arable productions

Q. Does the Commission really believe that a system of voluntary cessation of sugar production (and giving up of quota) will be sufficient to reduce EU production and subsequently the level of exports onto 3rd country markets?

A. Yes because, within the proposed scenario of price cuts, the financial incentive has been calculated so as to encourage a significant part of the industry to quit the sector voluntarily. In any event, at the end of the restructuring period quota cuts will be applied if production has not dropped sufficiently.

Q. The Commission has chosen, according to some, a more radical reform approach than is necessary – surely an adaptation to the status quo would be better?

A. We have taken care to conduct impact assessments of all the viable options, and to consult very widely and we consider that the proposed reform is the option that offers the best possibilities for a sustainable sugar sector (within the EU and in LDCs and ACPs) in the longer-term. We rejected complete liberalisation on the grounds that a large part of the EU sugar

industry would irreversibly disappear, and because most ACP countries would become uncompetitive.

Q. Will the reformed sugar regime be secure from further attack in the WTO?

A. We believe the sugar reform will allow the EU to comply fully with WTO rules and with our WTO commitments.

Q. Will the reform bring an end to the dumping of sugar by the EU on 3rd country markets?

A. First, the EU is a major importer of sugar as well as being an exporter. Secondly, the EU has never practiced the 'dumping' of sugar. The export of subsidised sugar has been an indirect consequence of aspects of the sugar regime, and this issue will be remedied by the reform. In the Doha Development Round of WTO talks, we have pledged to phase out export subsidies if our trading partners phase out their export support programmes in parallel.

Q. How will the EU assist less developed countries that will lose full benefit of preferential access to the EU sugar market?

A. In two main ways:

I. For the ACPs that, under the Sugar Protocol, have enjoyed the benefits of long-standing access to the high-priced EU market there will be a special package of financial and other assistance. Of course they may still export to the EU market where sugar prices are likely to remain above world market levels

II. LDC sugar to be imported within the EBA scheme will continue to be bought by EU operators at a price no lower than the guaranteed price for ACP countries and India

Q. Why did the EU not accept the proposal by LDCs to introduce an import quota system for sugar in return for higher prices?

A. We did not wish to alter a central element of the EBA pact just four years after negotiating it. Nor did we feel able to operate a dual price structure in the EU – a lower internal price alongside a higher guaranteed value for some overseas suppliers. If now is the time for the EU to build a durable future for its domestic sugar

production, founded on a more realistic price, then now is also the time for our trading partners to come to grips with this new reality. Let's keep this in proportion - under the reform, the EU price will drop from its current very high level but will remain well above typical global market quotations. Sending sugar to the EU should still be attractive for a number of LDCs.

Q. Won't this reform leave the ACP countries out in the cold?

A. The ACP countries have to understand that the EU sugar reform was unavoidable. The status quo was not an option. Subsidised EU sugar exports have come under fierce criticism for harming developing countries. The EU could not sustain an artificial internal price three times higher than the world market prices and, in the long run, to keep ACP countries dependent on prices that are out of touch with market realities would prove detrimental for their economies. The EU will now make a severe cut in sugar production and exports.

The EU has opted for an approach to prepare both EU producers and developing countries in time for the inevitable changes. They are in the same boat. The proposed reform implementation in steps over four years provides time for adjustment. In a changed environment which leads to considerable price and production cuts for European beet and sugar producers, the guaranteed price for sugar from the ACPs has to be set at the corresponding level.

The EU fully stands by its commitments regarding the ACP countries. We offer them a clear perspective. They will keep their import preferences, they will retain an attractive export market. But our reform also implies adjustments in the ACPs' sugar sectors. We are engaged in an open with the affected ACP countries on how to provide tailor-made and specific accompanying measures to assist their adaptation to the new market conditions based on an action plan covering both development and trade measures. We want to help ACPs to make their domestic sugar production more efficient, or assist restructuring and the search for other income sources.

Q. What about the assertion that sugar (beet or cane) is not produced in an environmentally unsustainable way?

A. For EU production, the cross-compliance requirements under successive CAP reforms (and especially the 2003 reform), which oblige and encourage farmers to respect environmental laws and to keep land in a good agricultural and environmental condition, ensure that sugar beet production will be environmentally sustainable.

Q. Is sugar support expensive for the EU taxpayer?

A. No. Recently, EU expenditure in the sugar sector has been falling:

- 2000: EUR 2 100.6 million
- 2001: EUR 1 676.9 million
- 2002: EUR 1 585.9 million
- 2003: EUR 1 439.8 million
- 2004: EUR 1 421.4 million

If the cost of exporting EU sugar equivalent to the amount imported under preferential agreements (to the benefit of less developed countries) is removed, then the 'real' cost of supporting sugar production has been much lower still.

Q. Isn't supporting sugar production incompatible with the EU's commitment to tackling the growing problem of obesity (especially among children)?

A. No. The Commission believes that a balanced diet is a fundamental basis for good health. Such a diet can and should include a moderate amount of sugar.