

Common organisation of the markets in the sugar sector

2005/0118(CNS) - 22/06/2005 - Legislative proposal

PURPOSE : proposal on the reform of the common organisation of the markets in the sugar sector.

PROPOSED ACT : Council Decision.

CONTENT : Following the CAP reforms of 2003 and 2004, the Commission states that the time has come to bring the sugar regime into line with the approach already adopted in other sectors. Sugar reform must take proper account of farmers' incomes, consumers' interests and the situation of the processing industry.

There is a clear political consensus that the EU sugar sector must:

- move away from the attrition scenario under the current regime, which would drastically curtail sugar production under quota in both the EU's most and least competitive sugar producing regions;
- be brought in line with the CAP reform process, in particular the new orientation given with the introduction of decoupling, the single payment scheme and the application of cross-compliance rules;
- develop, without delaying the necessary economic adjustments, within an sustainable market environment, based upon improved competitiveness and greater market orientation;
- attain a sustainable market balance, in relation to domestic production levels and international commitments;
- be provided with a long-term policy framework, not requiring any review in 2008.

In this context, the Commission proposes that:

- the EU institutional price, net of the restructuring amount, will be cut by 39%, over two years, to ensure a sustainable EU market balance, consistent with the EU's international commitments;
- the national envelopes for the farmer direct payments in each Member State will grant 60% of the estimated revenue loss from this 39% institutional price cut; (please see COD/2005/0119);
- the sugar quota regime will be extended until the end of the 2014/15 marketing year, and there will be no review in 2008.

The main features of the proposed reform of the sugar regime are as follows:

Intervention and start date of the sugar campaign: in order to further the move away from public intervention mechanism for EU market sectors, it is proposed to abolish the intervention mechanism and intervention price for sugar. In order to ease the implementation of the price cuts, it is proposed to change the start date of the sugar campaign from 1 July to 1 October, starting in the 2007/08 campaign.

Reference Price: the intervention price will be replaced by a reference price for sugar. To boost EU competitiveness and lessen the gap with the prevailing world sugar price, the reference price will be set at a level 39% lower than the current intervention price. The price decrease will be achieved within two

years, beginning in the 2006/07 campaign. The reference price will serve in the establishment of the trigger level for private storage.

Minimum Sugar Beet Price: the minimum price for sugar beet has been calculated, in line with the proposed reference price cuts, net of the restructuring amount. However, in order to take account of the move away from a rigid price support system, through the abolition of the intervention mechanism, a flexibility clause has been introduced, which would grant sugar beet growers the possibility to negotiate the sugar beet price down to 10% below that guaranteed minimum price.

Price Reporting: a price reporting mechanism for sugar shall be put in place in time for operational use, as from the 2006/07 campaign.

Setting up a Single EU Quota: the current quota arrangements proposal will be simplified, by merging the “A” and “B” quotas into one single quota. An additional amount of 1 million tonnes of quota shall be made available to current “C” sugar producing Member States. At the time of allocation of that quota to sugar producers, a one-off, per-tonne amount will be charged, equal to the level of the year 1 restructuring aid. A surplus amount mechanism will be established, to bring an overall consistency to the single quota system, distinguishing clearly the different sources of sugar and ensuring the legal security of the system.

Quota Reductions: there will be no compulsory quota reductions during the restructuring period. Market balance will be ensured by the amounts of sugar quota entering the restructuring scheme and the market balance tools proposed below. At the end of the restructuring period, quota cuts will be applied, if needed, on the basis of a flat-rate, percentage cut in the total quota of each Member State.

Isoglucose: the isoglucose sector will need to be in a position to profit from economies of scale, in order to have a long-term prospect of economic viability. Under these circumstances, a progressive and proportional increase of isoglucose quotas, of 100 000 t/year for three years beginning in 2006/07, is proposed.

Carry forward mechanism: as in the current regime, sugar factories will be allowed to carry forward any overshoot of quota in a given marketing year to the quota of the following marketing year.

Withdrawal Mechanism: moreover, the Commission will retain the possibility of dealing with market imbalance, in a given marketing year, by withdrawing a percentage of quota sugar from the market until the beginning of the following marketing year.

Private Storage: a private storage scheme is proposed, in order to open the possibility of temporarily withdrawing sugar from the market. It will be implemented, as appropriate, by the Commission, should the market price fall below the reference price. Quantities withdrawn will not be eligible for private storage support.

Specific measures for the chemical and pharmaceutical industries: the current arrangements for excluding the sugar used for alcohol, including rum, bio-ethanol and yeast production from the production quotas will continue and will be extended to those quantities of sugar used by chemical and pharmaceutical industries, for end products with a high utilisation of sugar.

An assistance scheme for ACP countries: the Commission considers that the duty-free imports, foreseen for Least Developed Countries (LDC) under the “Everything But Arms (EBA) initiative as from 2009/10, should be maintained and that EBA countries should also be provided with a stable, long-term perspective for the development of their economy. These countries should benefit from the same guaranteed prices as those provided in the ACP sugar protocol.

Under the Sugar Protocol, eighteen ACP countries export sugar to the EU, and may be affected by price reductions on the EU market. A dialogue is currently taking place with ACP countries, regarding the Commission's Working Paper for an "Action Plan on accompanying measures for Sugar Protocol countries affected by the reform of the EU sugar regime." These measures aim to help Sugar Protocol countries to adjust to the changing market conditions by enhancing competitiveness of their sugar sectors, by diversifying into other economic activities or by addressing broader social, economic and/or environmental impacts of these changes.

The Commission is also proposing a temporary restructuring scheme for the EU sugar sector, to be implemented over a four-year period. (Please see CNS/2005/0120).

The scheme will provide:

- a high, degressive per-tonne restructuring aid, available to EU sugar factories, isoglucose and inulin syrup producers, which will be granted for factory closure and renunciation of the quota; workers in zones that are particularly hard hit by the consequences of the reform.
- a top-up payment, to ensure sugar beet growers the possibility of receiving the full, final direct payment, as from the first marketing year, in the event that they abandon production, owing to the fact that the factory, with which they have sugar beet delivery rights, has closed under the restructuring scheme.

FINANCIAL IMPLICATIONS:

For the period, the cost of the proposed reform respects the status quo expenditure, as proposed at the time of the CAP Reform proposals of January 2003. The costs of the new measures proposed for this sector, for which the direct decoupled payment to producers represents the major element, will be mainly offset by the savings resulting from a substantial reduction in export refund expenditure and abolition of the refining aid.

When the proposed measures for the sector have been fully implemented, the envelopes for direct income support will involve an annual cost of EUR 1 542 million. Any costs in respect of the private storage scheme should be limited and only arise if market prices risk falling significantly below the reference price.

With regard to the restructuring scheme, an ad hoc restructuring amount will be charged to finance it and will be assigned to a restructuring fund. The amount of EUR 4 225 million will be charged over three marketing years (2006/07 up to 2008/09) and the restructuring aid will be available for four marketing years (2006/07 to 2009/10).