Common agricultural policy (CAP): support schemes for producers in the sugar sector

2005/0119(CNS) - 22/06/2005 - Document attached to the procedure

COMMISSION'S IMPACT ASSESSMENT

For further information concerning the background to this issue, please refer to the summary of the Commission's initial proposal COM(2005)0263 of 22 June 2005 establishing common rules for direct support schemes under the common agricultural policy and establishing certain support schemes for farmers.

Note: This is one of a package of three proposals put forward by the Commission comprising measures to 1) provide direct income support to sugar beet producers, 2) reform the sugar COM (common organization of the market) (please refer to summary relating to CNS/2005/0118) and 3) restructure the EU's sugar industry (please refer to summary relating to CNS/2005/0120).

1- POLICY OPTIONS AND IMPACTS: The Commission initially considered three possible policy orientations for the EU sugar regime, which were analysed in the September 2003 Extended Impact Assessment, taking into account the effects of the internal and external constraints placed on the sector and the dispute that was taking place before the WTO. This impact assessment incorporates new information gathered since the publication of the initial impact assessment.

1.1- Option 1 - No reform: As a reference for the alternative scenarios, the consequences of an extension of the present regime beyond 2006 were assessed. This consisted of keeping intact the current common market organisation, based on flexible quotas, which maintain market balance through the quota adjustment mechanism and price intervention. The EU market would be open to import quantities according to the various international commitments already agreed or agreed in the future.

1.2- Option 2 - Price cut: The second scenario evaluated was a reduction in the EU internal price. Once imports and production levels stabilised, production quotas would be phased out and the internal market price would be allowed to adjust itself to the price of those imports. To smooth the effects of the reduction in the EU sugar price, this scenario also looked at the possibility of introducing the single payment scheme into the sugar sector, in line with the June 2003 CAP reform.

The June 2005 proposal remains based on the "Price cut" option with quota adjustment and consists of the following the EU sugar regime will be prolonged until the end of the 2014/15 marketing year and there will be no review of price and quota levels in 2008; there will be a significant reduction (39%) of the institutional support price net of restructuring amount for EU sugar, in two steps, with the abolition of intervention and the introduction of a reference price; direct decoupled payments within CAP budget limits will be introduced, with the same historical reference period as used in the 2003 CAP reform (2000–2002).

1.3- Option 3 - Full Liberalisation – removal of price support and quota regime: The third option for reform represented a complete liberalisation from the current regime. This meant that the domestic EU price support system would be abolished and production quotas would be abandoned. In its July 2004 Communication, the Commission discarded two of the three options. The "No reform" option was deemed unsustainable in the medium term while the "full liberalisation" option was considered unbalanced, in terms of its impact on EU producers and trade partners, such that it did not offer realistic prospects for their long-term future.

CONCLUSION: The Commission concluded that option 2 offered the best solution of the three. If the proposal is adopted as it stands, 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; the sugar quota regime will be extended until the end of the 2014/15 marketing year.

IMPACTS: Starting with actors at the end of the food chain, it is expected that some internal price reductions should benefit **consumers** but, due to the rigid price elasticity of sugar, the impact on sugar consumption is expected to be low. The most important **health impact** would not be on the overall consumption level but rather the composition of the intake of sweeteners. Since sugar is an important input for **the agri-food industry**, lower sugar prices would mean they would benefit from a decrease in their variable costs. Within the starch industry, **isoglucose production** should remain competitive at the price level envisaged by the current legal proposal. Regarding **inulin syrup producers**, the less competitive ones would probably find it attractive to take advantage of the restructuring scheme.

Sugar refineries will in time have access to a larger supply at lower prices, while during the transition period their supply needs will be ensured through privileged access to Traditional Supply Needs.

As concerns the **ACP countries**, any option involving a price reduction will affect the countries benefiting from the Sugar Protocol by reducing the income accruing from exports to the Community. Recognising the need for adjustment due to the reform, the Commission has initiated a dialogue with ACP countries on the basis of an Action Plan in order to define appropriate accompanying measures covering both development and trade.

The Least Developed Countries (LDC) benefit from the EBA initiative, which abolishes quotas and duties for all products except arms exported to the EU, with a transition period for sugar, to be fully implemented from 2009/10 onwards.

For **EU sugar beet processors,** the future profitability of sugar beet processing will depend on whether processors can keep their margins positive by reducing processing costs per tonne or reducing raw material costs. For **EU sugar beet growers,** the future maximisation of profit will depend on whether farmers can reduce their sugar beet growing costs per tonne or switch from sugar beet to alternative crop production, should the margin per hectare of sugar beet fall below that for the alternative crops.

The impact on **agricultural employment** will be much less accentuated than in the processing industry. Reductions in farm employment levels will come mainly from replacing beet production with less labour-intensive alternative crops.

Assessing the specific impact of the proposed price cut, based on estimates of the combined profitability of the industry (growers + manufacturers) the EU-25 sugar-producing **Member States** fall into three groups, depending on their level of costs compared with the new sugar price (€ 386/t):

- Member States where sugar production is likely to be drastically reduced or even phased out: Greece, Ireland, Italy, Portugal;

- Member States in the border zone: Czech Republic, Spain, Denmark, Latvia, Lithuania, Hungary, Slovakia, Slovenia and Finland. In these countries, production is likely to be maintained but at a significantly lower level;

- Member States where the decrease in sugar production will be limited**.** It is even likely that overall production would not decrease in some countries: Austria, Belgium, France, Germany, the Netherlands, Poland, Sweden and the UK.

2- FOLLOW-UP: In order to ensure good governance and monitor the management of the sugar CMO, the Commission services will follow, particularly, certain aspects of the EU sugar sector in the planned reform period (2006–2013):

- evolution of the sugar market economy (production, imports, exports and consumption, EU and world price trends);
- development of EU sugar production structures (agricultural holdings, sugar factories, refineries);
- incorporation of sugar beet growers into the 2003 CAP Reform process, in particular their inclusion in the single payment scheme.