Temporary scheme for the restructuring of the sugar industry in the Community

2007/0085(CNS) - 07/05/2007 - Legislative proposal

PURPOSE: to improve the voluntary restructuring scheme in the sugar sector in order to create a further incentive to participate in the scheme; to preserve structural market balance by refining rules on temporary sugar withdrawal by amending Council Regulation (EC) No 320/2006.

PROPOSED ACT: Council Regulation.

BACKGROUND: as well as a 36% price cut and the payment of decoupled aid to farmers, a key element in the EU sugar reform was the establishment of a restructuring fund financed by sugar producers to assist in the restructuring process. The main objective of the sugar reform has been to take out about 6 million tons of quota in order to ensure a better equilibrium of the sugar market.

In the first year of application, about 1.5 million tons of quota were renounced under the restructuring scheme. This means that by the start of the marketing year 2006/2007, on 1 July 2006, quotas were reduced by 1.5 million tons. In the case of a full dismantling of production facilities, each ton of quota renounced was compensated with EUR 730/t from the restructuring fund. For 2007/08 the compensation level remains the same (i.e. EUR 730/t). However, that restructuring aid will then fall to EUR 625/t in 2008/09 and EUR 520 /t in 2009/10, the fourth and final year. Sugar enterprises unable to produce at around EUR 400/t should take advantage of the restructuring aid.

Unfortunately, in year two of the scheme, producers only renounced about 0.7 million tons of sugar, well below the target of 5 million tons and way below what is necessary to balance the market. Forecasting an oversupply of about 4 million tons, the Commission decided in March to withdraw at least 13.5 percent of quota sugar, or about 2 million tons.

Because of the phase-in of the price cuts in the reform, the effects are yet to be felt by growers and are only moderate for processors. Processors have been insecure because, under the current system, Member States can fix the percentage of aid to be given to farmers above the 10 % minimum. They therefore have to decide if an application to the restructuring fund is appropriate for them without knowing exactly how much aid they will get.

CONTENT: in a bid to meet the challenges outlined above, the Commission is presenting two related proposals the purpose of which is to amend the Regulations governing the reform of the sugar sector. The Regulations, and proposals, concerned are:

- Council Regulation (EC) No 320/2006 establishing a temporary scheme for the restructuring of the sugar industry in the Community; (See: CNS/2005/0120) ; and
- Council Regulation (EC) No 318/2006 on the common organisation of the markets in the sugar sector. (See CNS/2005/0118 and CNS/2007/0086).

The purpose of this proposal is to improve the efficiency of the **restructuring** scheme and to increase the renunciation of quotas under that scheme. It also seeks to remove any uncertainty vis-à-vis the amount of aid to be reserved to growers and machinery contractors.

The proposal intends to achieve these objectives by:

- fixing the amount of aid to be reserved to growers and machinery contracts at 10% of the aid to be granted to sugar undertakings;

- granting growers an additional payment for the 2008/2009 marketing year (EUR 237.5 per tonne of quota renounced);

- paying, retroactively, the difference between the aid amount granted for the marketing years 2006/2007 and 2007/2008 with the amount paid in 2008/2009. This is being proposed in order not to penalise undertakings and growers who took part in the restructuring scheme before the amendments come into force;

- giving the Commission the power to prolong the deadline for applications in order to accelerate the restructuring process, if it has reliable indications that the aim of the restructuring fund (i.e. the renunciation of 3.8 million tons of quota) is nearly reached in the 2008/2009 marketing year;

- giving growers the possibility to apply directly for restructuring aid (Article 3 (6)) on condition that they cease to deliver sugar beet or cane to undertakings to which they were bound by delivery contracts in the previous marketing year;

- limiting the quota reduction to 10% of the quota allocated to each undertaking, which corresponds to the percentage of quota which the Member State can re-allocated each marketing year;

- giving sugar undertakings, who are affected by a growers aid application, the right to submit an application for restructuring aid – provided that it too renounces a quota corresponding to at least the same level of quota reduction that would have resulted from the applications for aid lodged by growers. In such as case the sugar undertaking's aid application should replace that of the sugar grower;

- providing an exemption of a part of the temporary restructuring amount that needs to be paid in accordance with Article 11 of the Regulation. The amount to be exempted should be proportional to this withdrawal percentage.

The purpose of the second proposal is to abolish the provision according to which traditional supply needs for refiners will be reduced in case of a **withdrawal**, by amending Council Regulation (EC) No 318 /2006. It will apply as from the marketing year 2007/2008. In other measures the proposal seeks:

- to introduce a system of thresholds – moving away from a system which reduces the level of sugar effectively produced under quota;

- to conclude a first decision before sowing takes place, possibly completed by a further withdrawal in October, based on updated data;

- to take account of those Member States who have participated in the restructuring regime. The threshold in those Member States should be adapted in proportion to the quota renounced, with a modulation between undertaking according to their individual restructuring effort;

- not to reduce the traditional supply needs in relation to the withdrawal.