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Environment, Food and Rural Affairs Committee

Reform of the Sugar Regime

Twelfth Report of Session 2003–2004

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Summary

The European Union's sugar regime has remained largely unchanged since its inception in 1968. With the current regulation expiring in June 2006, the European Commission has focussed discussions on a series of possible reform options. The aim of our inquiry was to consider these options, before making recommendations on the position the United Kingdom should adopt in negotiations on the new sugar policy.

The current system is highly complicated, involving a mixture of price supports, supply control and protection against imports. These policy instruments combine to inflate consumer prices in the European Union to around three times world levels. They also restrict competition, limit market access and encourage over-production, with surpluses having to be dumped abroad using export subsidies. The rules are under increasing pressure from the European Union's international commitments. Recent changes to other agricultural sectors have only served to highlight the distorting nature of the sugar regime.

We believe that reform should lower the import tariff rate and include significant reductions to the internal market price, phased in over time. We also recommend that production quotas should be eliminated, after a market balance has been achieved. This change is vital if competition and efficiency are to be improved.

Decoupled payments to European Union sugar producers will help them adapt to the new market conditions. Similarly, transitional aid programmes can assist the economies of African, Caribbean and Pacific States, whose benefits from preferential import arrangements will be eroded.

A timely decision to move to a more liberal sugar policy will help in bringing the WTO Doha Round to a successful conclusion. We therefore urge the Government to use all its influence in negotiations to press for significant reform.

1 Introduction

Background

1. The sugar regime – known more properly as the 'Common organisation of the markets in the sugar sector' – is a system of support prices and production and import quotas under the Common Agricultural Policy (CAP). It came into existence in 1968. Despite being established initially only on a temporary basis, it has remained largely unchanged since then, despite numerous significant reforms in other sectors of the CAP. The main principles of the regime have also survived several enlargements of the European Union and the negotiations which led to the Uruguay Round Agreement on Agriculture.[1]

2. The current sugar regime ends on 30 June 2006. As we discuss in this report, there is considerable pressure for the new regime to encourage and enable change in the sugar sector. In September 2003 the European Commission produced a communication which assessed a series of possible reforms to the regime.[2] The hope was that this paper would help the Council of Ministers to reach a broad consensus over the way ahead, prior to the presentation of formal legislative proposals.

Aims of the inquiry

3. In February 2004, we appointed a Sub-committee to undertake an inquiry into the forthcoming reform of the European Union sugar regime. The Sub-Committee was chaired by Paddy Tipping; its other members were Mr David Drew, Mr Michael Jack, Mr Austin Mitchell, Mr Alan Simpson and Mr Bill Wiggin. The terms of reference for the inquiry were:

> The Committee will consider the options for the forthcoming reform of the EU sugar regime, and make recommendations about the position of the United Kingdom in negotiations about the stance the European Union should adopt over the reform.[3]

4. In the course of our inquiry we received written evidence from 83 organisations and individuals, representing the broad range of interests in the development of sugar policy. The Sub-committee took oral evidence in April and May 2004 from growers and processors of both beet and cane sugar. We also heard from those representing the interests of the sugar industries in the Least Developed Countries (LDCs) and African, Caribbean and Pacific (ACP) States, as well as Oxfam, CAFOD, UK Industrial Sugar Users Group, Royal Society for the Protection of Birds (RSPB) and the Brazilian Ministry of Agriculture. Our sessions concluded with oral evidence from Lord Whitty, Minister for Farming, Food and Sustainable Energy, on 11 May 2004. We are most grateful to all of those who gave us evidence or otherwise assisted us during the course of our inquiry.

[1] The round of multilateral trade negotiations begun under the General Agreement on Tariffs and Trade (GATT) in 1986 which were concluded in 1994 were known as the Uruguay Round because they were launched at Punta del Este, Uruguay in September 1986.

[2] European Commission, *Reforming the European Union's sugar policy: Summary of impact assessment work*, (Brussels, 2003); see also Stg Co Deb, European Standing Committee A, *Common Agricultural Policy: Reform of the Tobacco, Olive Oil, Cotton and Sugar Sectors*, 29 January 2004.

[3] Press notice, 16 February 2004

1 Sugar in the UK

Production: beet sugar

5. Sugar beet is grown in the United Kingdom, mainly in East Anglia and the West Midlands. There are about 7,000 growers, producing 9 million tonnes of beet on 150,000 hectares of land.[4] The entire UK beet sugar quota is held by British Sugar plc, which pays around £300 million each year to farmers to buy up the sugar beet. The beet produces about 1.5 million tonnes of white sugar, which is roughly 60 percent of the sugar processed in the United Kingdom each year.[5] Sugar beet represents around 2 percent of total UK agricultural output.[6] The beet sugar industry as a whole supports approximately 20,000 jobs in the farming, processing and transport sectors.[7]

Production: cane sugar

6. When the UK joined the European Union in 1973, it secured an agreement allowing the continued importation of raw cane sugar from its traditional suppliers in African, Caribbean and Pacific (ACP) countries of the Commonwealth. This agreement allows 1.3 million tonnes of sugar to be imported into the Union each year at guaranteed minimum prices and free of any EU levy.

7. Around 90 percent of the sugar cane imported to the European Union is refined at Tate and Lyle's Silvertown plant in East London. The refining process separates out the pure sucrose from the impurities contained in the raw cane sugar. The refined product, white sugar, is identical to that derived from sugar beet. The refinery produces over 1 million tonnes of refined sugar each year,[8] or 40 percent of all UK sugar.

Consumption

8. In total around 2.5 million tonnes of sugar is processed in the United Kingdom each year. Some is exported: around 2.25 million tonnes is consumed annually. Of that around 75 percent is sold direct to manufacturers of confectionery, chocolate, cakes, biscuits, soft drinks and ice cream.[9] These food sectors employ 80,000 people and are worth £15 billion in consumer sales per annum.[10]

[4] Ev 84

[5] Figures from Defra website, www.defra.gov.uk

[6] Ev 84

[7] Ev 2

[8] Ev 17

[9] Ev 84; see the Defra website, www.defra.gov.uk

[10] Ev 57

2 Current Regime

Policy mechanisms

9. The aim of the common market organisation for sugar at its inception was to guarantee European producers a fair income and to ensure that domestic production was sufficient to meet domestic demand. These objectives were pursued through the use of a mixture of price supports, supply controls and border protection.

Support prices

10. The sugar regime sets a minimum price at which sugar processors are required to buy beet from growers. Until 2006 this basic price is set by the Council of Ministers at €47.67 per tonne. The regime also provides a safety net by setting a price at which intervention agencies are obliged to buy in all eligible sugar offered to them. However, due to the tight control over market supply, intervention buying is rarely required for sugar: it last occurred in 1986.

Production quotas

11. Unlike other CAP commodity support regimes, the sugar regime has never involved open-ended support. The quantity of sugar subject to a support commitment has always been limited by production quotas. Such quotas are fixed for each country on the basis of white sugar equivalents. Each Member State allocates its quotas to individual sugar processing plants, which then contract with growers for the necessary quantity of sugar beet to fulfil the quotas.

12. The initial allocation of quotas among Member States was based on past production levels, not on consumption. This has led to a number of anomalies. Countries which have historically produced a lot of beet sugar, such as France, Denmark and some others, received quota allocations far in excess of their domestic consumption levels. Past dependence on imported cane sugar meant that countries such as the UK and Portugal were left with a large shortfall between home production and consumption. In the case of the UK, that problem was compounded by historically low levels of beet production.[11]

Export refunds

13. Production over quota limits, known as 'C' sugar, is not allowed to be sold within the European Union and has to be exported to world markets without subsidy. Whilst originally intended to act only as a buffer to ensure the fulfilment of the quota requirement, production of 'C' sugar has risen steadily to a level equivalent to 20 percent of quota production.[12]

14. The European Union uses export refunds to bridge the gap between its high internal market price and the significantly lower world price. These subsidies act as a safety valve, ensuring that all sugar produced within quota limits, but surplus to consumption (i.e. surplus but not 'C' sugar), can be sold profitably on the world market, without depressing the internal market price. Sugar

[11] Hallam, David, Peter Midmore and Lord Preston, *The Economic Impact of the British Beet Sugar Industry*, The University of Reading, 1994, p 12

[12] European Commission, *Common organisation of the sugar market: Description*, (Brussels, 2003), p 11

contained in exported food and drinks also qualifies for export refunds to compensate manufacturers for the higher costs of using Community-sourced raw materials.

Import tariffs

15. Import tariffs protect the European Union's internal market from inflows of cheaper sugar from third countries. A fixed duty of €419 per tonne is applied to imported white sugar and €339 per tonne to raw sugar.[13] The domestic market is further protected by a special safeguard arrangement negotiated in the World Trade Organisation (WTO) Agreement on Agriculture. Under its provisions, additional duties can be charged on imports when import prices fall below a specified trigger level. The trigger level was set during a reference period when the only imports into the European Union came under preferential access arrangements (see below): in other words, the trigger is set at a high level relative to world market prices. As a result estimates suggest that non-preferential sugar seeking access to the European market faces a protective import barrier of more than €700 per tonne.[14]

Preferential access

16. The current regime provides guaranteed access to the European Union market for around 1.5 million tonnes of raw cane sugar from a number of African, Caribbean and Pacific (ACP) countries and India.[15] This preferential trade arrangement provides duty-free access at a guaranteed minimum price for an agreed quantity of sugar. Broadly similar preferences have also been extended to a smaller volume of sugar from the Least Developed Countries (LDCs) and the Western Balkans, under various different initiatives.

Costs involved

17. It can be argued that the cost of administering the regime is cushioned by the fact that levies are charged on quota sugar to recoup the cost of disposing of sugar surplus to quotas. These levies, paid jointly by the growers and processors, mean that the European Union sugar regime is, on the face of it, largely self-financing. However, additional funding is used from the CAP budget to pay for subsidies for the export of a quantity of sugar equal to the amount *imported* under the Union's preferential imports arrangements. This cost, €800 million each year, falls directly on European Union taxpayers.[16] Moreover, consumer groups argue that the cost of the levies on quota sugar is passed on to consumers through a higher price for sugar.[17]

18. The high price of sugar in the Community, averaging around three times world levels,[18] is severely criticised by final and intermediate consumers. Evidence from the UK Industrial Sugar Users Group suggests that the current sugar regime "increases the cost to British consumers by some £600 million each year",[19] equivalent to "around £10 per person".[20] Costs are also borne by sugar-producing nations which do not have preferential access to the European market. CAFOD

[13] European Commission, *Common organisation of the sugar market: Description*, (Brussels, 2003), p 14

[14] *Ibid.* p 15; this estimate assumes a world price of around €200 per tonne.

[15] Ev 85; this total is made up of the imports under the Sugar Protocol (see para 6) and a smaller amount of Special Preferential Sugar.

[16] Ev 26

[17] Ev 105

[18] Ev 82

[19] Ev 57

[20] Q 152

and Oxfam estimate that, in 2002, the direct losses from the EU's sugar policy to Brazil, Thailand and South Africa were $494 million, $151 million and $60 million respectively. These are described as "large losses for countries with significant populations living in poverty, acute balance-of-payments pressures, and limited budget resources".[21]

19. Less tangible costs of the regime have also been identified. Resources are misallocated to sugar beet production which might be profitably used elsewhere, due to the artificially high prices paid under the policy. Disposal of surplus sugar outside the European Union also contributes to the downward trend and volatility of world market prices, imposing costs elsewhere in the world.[22]

3 Drivers for reform

'Everything But Arms'

20. The 'Everything But Arms' (EBA) initiative is a unilateral trade concession by the European Union which essentially will eliminate duty and quota from all products, except arms and ammunition, originating from the 49 LDCs.[23] The initiative took effect from 2001, but incorporated a transitional phase-in of liberalisation for three sensitive commodities, including sugar.

21. Prior to the end of the transitional period, the duty-free amount of sugar accepted into the European Union will reach almost 200,000 tonnes. Up to this point, the increase in imports from LDCs will be accommodated by reducing the Special Preferential Sugar imports from ACP countries. After 2009, however, when quantitative restrictions on LDC imports are lifted, there is much more potential for a serious increase in the oversupply of the European sugar market, especially if prices remain so high. Further disruption of the market is also possible if LDC countries export their local production to Europe and source sugar from the world market for domestic consumption.

Trade negotiations

22. Further external pressures for reform have come from the European Union's trading partners, through negotiations in the WTO. Commitments under the Agreement on Agriculture have already necessitated reductions in production and import quotas, so that the Union could stay within limits set on export refunds. Future obligations, following a conclusion to the Doha Development Round, are likely to exacerbate the difficulties.

23. The existing sugar regime is threatened by the WTO negotiations in a number of ways. Commitments to eliminate export subsidies and to significantly reduce import tariffs will diminish the protection afforded to the internal sugar market. Pressure is also mounting for the eradication of the special safeguards mechanism that is currently so effective in excluding third country imports of sugar.

[21] Ev 27

[22] Ev 25

[23] Council Regulation (EC) No. 416/01

24. Bilateral trade negotiations also present potential for increased imports. Offers from European Union trade negotiators to members of Mercosur (Argentina, Brazil, Paraguay and Uruguay) could result in improved market access, even for sensitive products such as sugar.[24] This is particularly significant because Brazil is regarded as having the lowest costs of production for sugar, and has considerable scope for expansion of production. Furthermore, new Economic Partnership Agreements could extend free access to the European market to those ACP countries not currently afforded preferential treatment under the Sugar Protocol.

WTO dispute settlement

25. Another cloud looming on the horizon is the complaint made to the WTO by Brazil, Australia and Thailand, alleging that current European sugar production and subsidies are illegal even under *present* trade rules. The case rests on whether the EU's 'C' sugar exports – which are traded at the world market price – are found to be effectively 'cross-subsidised' by the market support offered for quota sugar. There is also a challenge to the WTO waiver that allows the European Union to re-export an amount equivalent to the total volume of imports under its preferential arrangements. The panel adjudicating on this dispute is expected to reach a verdict by September 2004.[25] Any decision that outlaws the exports of sugar in question would clearly have a serious effect on the European Union's market balance.

Consistency with other sectors

26. Internal pressure for reform has focussed mainly on the sugar regime's impact on consumers, competition and efficiency.[26] However, with sugar being left out of the reform process that has affected most other agricultural sectors (moving away from price support towards direct support to farmers) the sugar regime has been seen increasingly as being inconsistent with the rest of the CAP. Bringing the sugar regime into line with the policies for other commodities under the reformed CAP would increase its market orientation and reduce inequality of treatment from the producer point of view.

27. In the future, the sugar regime will have to cope with increasing imports, reduced opportunities to export (especially with refunds) and a reduction in external protection. All these pressures combine to produce an irresistible driver for change. **Reform of the EU sugar regime is inevitable and long overdue. The changes implemented must be sufficient to allow the Community to honour its existing and future international commitments. Reform of the sugar regime should be consistent with that undergone by other parts of the Common Agricultural Policy.**

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[24] "EU trade deals aim to weaken CAP opponents", *Financial Times*, 14 April 2004, p 5

[25] Ev 182

[26] See Court of Auditors, *Special Report No 20/2000 concerning the management of the common organisation of the market for sugar*, 2001/C 50/01

4 Commission's options

28. The European Commission's Communication to the Council of Ministers and the European Parliament on the EU sugar regime and its future prospects,[27] which was accompanied by an impact assessment,[28] does not make a specific proposal for reform, but groups a range of possible options into three broad approaches as a basis for political debate. These three policy orientations are headed:

- extension of the present regime beyond 2006
- reduction in the EU internal price
- complete liberalisation of the current regime.

29. The Commission's own summary of the options is set out below. Within its Communication, the Commission does not explicitly indicate a preference for one option over the rest, but it does say that "any reform of the sector would have to follow the fundamental principles of the CAP reform initiated in other sectors, i.e. bridging the gap between domestic and world market prices and shifting support from product to producer".[29]

Extract from European Commission's press release on options for reform of the EU sugar regime[30]

1. An extension of the present regime beyond 2006
This would consist of keeping intact the current CMO [Common Market Organisation], based on flexible quotas and price intervention. The EU market would be open to import quantities, according to the various international commitments already agreed or to be agreed in the future. Custom duties, internal prices and production quotas would be reduced. The Extended Impact Assessment also addressed the impact of a request by the Everything But Arms (EBA) countries to implement that agreement through a fixed quota system. [Note: this covers the 'fourth option' listed in the impact assessment].

2. A reduction in the EU internal price
In this scenario, once the levels of imports and production have stabilised, production quotas would be phased out. The internal market price would be allowed to adjust itself to the price of non-preferential imports. However, lowering the level of the EU internal price would make the EU market less attractive for the least competitive sugar producing countries. The impact of this policy option on the world trade patterns was given particular attention. To soften the effects of the reduction in the EU sugar prices, this scenario also looked at the possibility of allowing sugar producers to benefit from the single farm payment, in line with the June 2003 CAP reform. Finally, the impact of this scenario on the revenue from sugar for countries currently exporting sugar to the EU has been assessed.

3. A complete liberalisation of the current regime
The domestic EU price support system would be abolished and production quotas would be abandoned. The impact on the EU sugar market, of the complete removal of import tariffs and quantitative restrictions on imports, has been assessed. As with the price reduction scenario, the possible introduction of income support for EU producers, as well as the impacts of liberalisation on world trade and the implications for the revenue from sugar of countries currently exporting sugar to the EU have been assessed.

[27] Communication from the Commission to the Council and the European Parliament accomplishing a sustainable agricultural model for Europe through the reformed CAP—the tobacco, olive oil, cotton and sugar sectors (COM(2003)554)

[28] European Commission, *Reforming the European Union's sugar policy: Summary of impact assessment work*, (Brussels, 2003)

[29] COM(2003)554, p 3

[30] "Commission opens discussion to reform the EU sugar regime", European Commission press release IP/03/1286, 23 September 2003

5 Timetable for reform

30. The Commission's options were presented to the Agriculture Council at the end of September 2003. Since then there has been only one other substantive Council discussion, on 17 November 2003. The Department for Environment, Food and Rural Affairs (Defra) told us that, at that stage, "most Member States felt it was too early to take positions on the reform options, though there was a general recognition that a straight renewal of the existing arrangements would have to be excluded".[31] The Commission's Communication was subsequently referred to the Special Committee on Agriculture (SCA), who examined it at meetings on 8 March 2004 and 7 June 2004.

31. The timetable for reform has been affected by the European Parliamentary elections in May 2004 and the prospect of a change of Commission in November 2004. However, the outgoing Agriculture Commissioner, Franz Fischler, has said that he intends to present a "concrete reform proposal" before he steps down.[32] It now seems likely that this will take the form of a communication setting out, in general terms, the Commission's plans for reform.[33] It is anticipated that the College of Commissioners will agree the draft document at a meeting on 14 July 2004, before it is tabled for discussion at Council. Publication of a formal legislative proposal is not expected until early next year.[34] However, if reaching a decision proves difficult, then the reform process may well drag on until the second half of 2005, when the UK is holding the Presidency of the European Union and will chair the meetings of the Council of Ministers.

6 Preferred approach

32. Our evidence makes clear that the current appraisal of the sugar regime represents a vital opportunity for reform. Changes to the regime have not kept pace with reforms to the other agricultural sectors and this now means that sugar policy stands out as an anachronistic throwback to the old CAP. The current regime distorts the internal market for sugar and impedes the European Union in international negotiations over trade. **We believe that, if reform is going to address properly the challenges facing the sugar sector, then it must take a significant step towards liberalisation. However, it would not realistically be possible to move from such a highly managed market to a fully liberalised position in a single step.**

33. **Therefore, our preferred approach to reform is broadly consistent with the Commission's second option. It envisages the following changes to the existing arrangements:**

- **the phasing out of the quota system;**
- **a reduction in the internal market price; and**
- **a lowering of the import tariff rate.**

[31] Ev 80

[32] Franz Fischler, *The future of the Community sugar regime*, Speech to NGG Sugar Conference, Oberjosbach, 19 May 2004

[33] "Detailed EU sugar reform proposals in early 2005", *Agra Europe*, 4 June 2004, EP/5

[34] "July 14 discussion date", *Agra Europe*, 18 June 2004, EP/4

34. Of all the components of the complex sugar regime, the system of production quotas does most to inhibit competition and efficiency. Due to the rigid division of sugar production into national quotas, sugar beet is grown in geographical areas that are climatically ill-suited for this type of agriculture. Production quotas also restrict the ability of the most efficient producers to expand, impose limits on the production of competing products and create barriers for new entrants. The removal of quotas would allow regional specialisation and the exploitation of comparative advantages within the single market. It would thus lead to increased efficiency in growing and producing sugar within Europe, as well as allowing other resources to move to more productive and competitive uses.

35. It is not sensible, however, to eliminate production quotas while prices on the domestic market are sufficiently high to sustain supply at a level far in excess of consumption. Lifting quantitative restrictions while the market price is still so highly supported would lead to the production of huge surpluses that could only be disposed of with the help of export subsidies. Therefore, it is necessary for institutional price levels to be adjusted downwards in order to discourage domestic production and imports. This is particularly important if the European Union is going to be able to follow through with its offer to eliminate export subsidies on all agricultural products.[35]

36. **To allow the European Union sugar industry time to adapt to the proposed changes, we believe it is desirable for the price reductions to be phased in over time. Production quotas should only be lifted when a market balance has been achieved, with levels of domestic production and preferential imports matching demand within Europe.** The timetable for this transitional approach will, to a large extent, be dictated by the European Union's commitments to the LDCs and its trading partners, within the framework of the WTO.

37. **Reductions in the import tariff rate will also be made possible, as institutional prices for domestically produced and preferentially imported sugar are lowered. This will afford the European Union some leeway in WTO negotiations on the particularly contentious subject of market access.**

38. **It is our strong recommendation that the United Kingdom adopt the position described above in negotiating with other Members of the European Union about reform of the sugar regime.**

[35] Letter from Commissioners Lamy and Fischler to all ministers responsible for trade in WTO Member States, 10 May 2004

7 Issues arising

Lower value market for ACP and LDC exports

39. One of the consequences of the policy approach we are advocating is that the European Union market will become much less attractive for imports from ACP countries. This is particularly relevant to those exporters whose high costs of sugar cane production will render the activity uneconomic after the proposed reduction in the guaranteed price for preferential imports is applied. **In recognising the potential losses to ACP countries resulting from reform, we believe that transitional aid programmes should be set up to assist their economies in diversifying away from dependency upon a European Union commodity regime that has lost its legitimacy.**

40. Defra told us that "the European Union cane refining sector, especially in the UK, could be significantly affected by changes to the import arrangements".[36] **We agree with the Government that ways have to be found to ensure the cane refining sector is not put at an unfair disadvantage during an interim period when preferential suppliers are adapting to the reform.**

41. Exports from the LDCs, under the EBA initiative, will also face a lower value market than might have been anticipated. This prospect has prompted representatives of the LDCs to propose an orderly system of export deliveries, with quantities fixed in advance. Their suggestion would involve postponing unlimited duty-free access for a further ten years, in association with a second stream of zero tariff quota, taking total LDC supply up to 1.6 million tonnes.[37] This increase in preferential imports would be at the expense of European Union producers, who would face cuts in their beet quotas.

42. Whilst the Commission's analysis largely discounts the option of fixed quotas, some Member States seem to be pushing it as a viable option. It would, however, do nothing to address the lack of competition in the sugar sector and would not fit well with the European Union's international commitments. This option should be avoided if the European Union is serious about making its agricultural policies more coherent and less protectionist.

Reduced sugar beet production

43. Sugar beet growers and the organisations that represent them have expressed concerns over what phased price reductions and quota abolition would mean for the UK industry. However, the UK has the most effective processors and some of the most efficient beet growers, making it one of the most competitive producers in the European Union. While it is generally accepted that the French industry will be the most resilient to price reductions, the Commission's economic analysis suggests that the UK and Germany could also survive a move towards liberalisation.[38] With many of the less efficient producers in the European Union being forced to cease production, there should also be increased market opportunities for those who survive.

[36] Ev 85

[37] Ev 36

[38] European Commission, *Reforming the European Union's sugar policy: Summary of impact assessment work*, (Brussels, 2003), pp 27-28

44. It has been suggested that the contraction of the European sugar beet industry might be more severe than the Commission originally envisaged, due to the increased competitiveness of alternative sweeteners.[39] Such fears should not detract from the many benefits of quota abolition. Indeed, it is important that deregulation should be extended to the lifting of quantitative restrictions on alternative natural sweeteners, so that the whole sector is brought into line with the principles of the single market.

45. Gross margin analysis suggests that there will be viable alternatives to sugar beet in the crop rotation.[40] However, our preferred reform option will have a negative impact on growers' incomes, as prices and production levels are reduced. **We recognised that some form of producer compensation will be required to help farmers adjust to the new market conditions. To minimise market distortion, these payments should be fully decoupled from production activity, following the principles of the CAP reform agreed in 2003.**

46. The Commission's Communication suggests that the Single Farm Payments might be an appropriate instrument for compensating farmers for their income losses.[41] However, Defra's decision to implement the English Single Farm Payment on a flat rate basis, phased in over a transitional period, complicates the issue.[42] Sugar beet land in England is already set to benefit from the area component of the Single Payment from 2005. We are, therefore, not convinced that incorporating any future sugar payment into the Single Farm Payment can be fully justified.

47. In his evidence the Minister acknowledged that the amount of extra money that could be found to compensate European Union sugar beet farmers was limited by the budgetary ceiling to the first pillar of the CAP. He did note, however, that savings from a reduction in export refunds could go some way to offset the additional cost of producer payments.[43]

Environmental impacts

48. During the course of our inquiry, we made strenuous efforts to identify the different environmental impacts of the proposed reform scenarios. We were concerned not only about the environment in the UK and Europe, but also in the LDCs and ACP states. We were also keen to know if an expansion of production in a low cost area, such as Brazil, would have significant detrimental consequences for its environment.

49. The evidence we received on this matter was sometimes conflicting and largely inconclusive. When focussing on the situation in the UK, we were told by the RSPB that, while there were environmental advantages and disadvantages associated with sugar beet cultivation, on balance it favoured continued production.[44] However, it was noted that the environmental gains made could be achieved through other means, such as agri-environmental schemes.[45] Other evidence

[39] "Isoglucose threat to EU sugar regime if quotas abolished", *Agra Europe*, 5 March 2004, EP/8

[40] Ev 16, 183

[41] COM(2003)554, p 21

[42] See Environment, Food and Rural Affairs Committee, Seventh Report of Session 2003-04, *Implementation of CAP Reform in the UK*, HC 226-I, para 5.

[43] Q 200

[44] Qq 162-163

[45] Q 164

focussed on the potential for sugar beet to provide a feedstock for the production of bio-ethanol,[46] the use of which would have significant environmental advantages over fossil fuels.[47]

Security of supplies

50. Current levels of production in the European Union clearly go well beyond any need for food security. Indeed the Commission has said that security of supply is not likely to be seriously threatened in a commodity sector where consumption is stable and numerous exporting countries are seeking a market for their surplus production.[48] However, one of the benefits of our preferred approach of managed change, as opposed to a swift move to a fully liberalised position, is that it should ensure stability of supplies, while protecting the internal market from the worst of the fluctuations seen in world prices.

Scrutiny of the UK processing industry

51. The high level of concentration in ownership and limited competition has made the sugar sector a focal point for the attention of anti-competition authorities.[49] The situation in the UK, where just two companies control the whole sugar sector, is not uncommon in the rest of the European Union. In 2001, the Court of Auditors reported:

> Just five companies hold over 50% of the total European Union quota. Furthermore, in 10 of the 14 sugar-producing Member States, the entire national quota is in the hands of only one or two companies.[50]

52. A recent report by Oxfam called for competition authorities to "carry out a systematic, European Union-wide investigation of the activities of sugar-processing companies with a view to lowering market-entry barriers, improving competition, and preventing price collusion".[51] **Competition will be increased more by abolishing quotas than through any other policy change. However, if the new sugar regime does not contain provision for eliminating production quotas, we recommend that the competition authorities conduct an investigation into the UK processing industry.**

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[46] Ev 63, 131, 139, 148, 154, 176

[47] Ev 8; see our report into *Biofuels*, HC (2002-03) 929-I, and the Government Reply to the Committee's Report, HC (2003-04) 270.

[48] European Commission, *Reforming the European Union's sugar policy: Summary of impact assessment work*, (Brussels, 2003), p 33

[49] See Swedish Competition Authority, *Sweet Fifteen: The Competition on the EU Sugar Market*, (Stockholm, 2002).

[50] Court of Auditors, *Special Report No 20/2000 concerning the management of the common organisation of the market for sugar*, 2001/C 50/01, para 83

[51] Oxfam, *Dumping on the world: How EU sugar policies hurt poor countries*, Oxfam Briefing Paper 61, March 2004, p 48

8 Negotiating position

53. Ultimately, the decision about sugar reform will be decided by qualified majority voting in the Agriculture and Fisheries Council of Ministers. Early indications suggest that a consensus amongst Member States is some way off.[52] While it is possible that the Commission itself may adopt a position close to the one advocated here, the UK is likely to experience considerable opposition from other Member States in attempting to liberalise the sugar market.

54. All parties within the sugar industry would welcome an early decision on reform, so they might have adequate notice of the changes that will be imposed upon them. The UK is due to take over the Presidency of the European Union in July 2005. If, by that time, an agreement has still to be reached, the UK should use its influence over the Council agenda to galvanise the reform process.

55. The timing of reform is also important with respect to the ongoing WTO negotiations. A recent House of Lords report identified sugar reform as being one of the key issues to be resolved if the Doha Round is to be brought to a successful conclusion. It said that "European Union reform of the sugar regime is an opportunity to demonstrate real commitment to liberalisation, and should proceed as quickly as possible".[53] **Taking a lead on sugar would mean that the European Union would no longer have to be so defensive in trade talks, allowing it to argue its case from a position of strength.**

[52] Q 226

[53] House of Lords, Sixteenth Report of the Select Committee on European Union, Session 2003-04, *The World Trade Organization: The role of the EU post Cancún*, HL Paper 104, para 172; see also International Development Committee, Seventh Report of Session 2002-03, *Trade and Development at the WTO: Issues for Cancún*, HC 400-I

Conclusions and recommendations

1. Reform of the EU sugar regime is inevitable and long overdue. The changes implemented must be sufficient to allow the Community to honour its existing and future international commitments. Reform of the sugar regime should be consistent with that undergone by other parts of the Common Agricultural Policy. (Paragraph 27)

2. We believe that, if reform is going to address properly the challenges facing the sugar sector, then it must take a significant step towards liberalisation. However, it would not realistically be possible to move from such a highly managed market to a fully liberalised position in a single step. (Paragraph 32)

3. Therefore, our preferred approach to reform is broadly consistent with the Commission's second option. It envisages the following changes to the existing arrangements:

    the phasing out of the quota system;
    a reduction in the internal market price; and
    a lowering of the import tariff rate. (Paragraph 33)

4. To allow the European Union sugar industry time to adapt to the proposed changes, we believe it is desirable for the price reductions to be phased in over time. Production quotas should only be lifted when a market balance has been achieved, with levels of domestic production and preferential imports matching demand within Europe. (Paragraph 36)

5. Reductions in the import tariff rate will also be made possible, as institutional prices for domestically produced and preferentially imported sugar are lowered. This will afford the European Union some leeway in WTO negotiations on the particularly contentious subject of market access. (Paragraph 37)

6. It is our strong recommendation that the United Kingdom adopt the position described above in negotiating with other Members of the European Union about reform of the sugar regime. (Paragraph 38)

7. In recognising the potential losses to ACP countries resulting from reform, we believe that transitional aid programmes should be set up to assist their economies in diversifying away from dependency upon a European Union commodity regime that has lost its legitimacy. (Paragraph 39)

8. We agree with the Government that ways have to be found to ensure the cane refining sector is not put at an unfair disadvantage during an interim period when preferential suppliers are adapting to the reform. (Paragraph 40)

9. We recognised that some form of producer compensation will be required to help farmers adjust to the new market conditions. To minimise market distortion, these payments should be fully decoupled from production activity, following the principles of the CAP reform agreed in 2003. (Paragraph 45)

10. Competition will be increased more by abolishing quotas than through any other policy change. However, if the new sugar regime does not contain provision for eliminating production quotas, we recommend that the competition authorities conduct an investigation into the UK processing industry. (Paragraph 52)

11. Taking a lead on sugar would mean that the European Union would no longer have to be so defensive in trade talks, allowing it to argue its case from a position of strength. (Paragraph 55)

Formal minutes

Wednesday 30 June 2004

Members present:

Mr Michael Jack, in the Chair

Candy Atherton
Mr Colin Breed
Mr Mark Lazarowicz
Mr David Lepper
Mr Ian Liddell-Grainger
Mr Austin Mitchell
Diana Organ
Joan Ruddock
Alan Simpson

The Committee deliberated.

Draft Report [*Reform of the Sugar Regime*], proposed by the Chairman, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 55 read and agreed to.

Summary read and agreed to.

Resolved, That the Report be the Twelfth Report of the Committee to the House.

Ordered, That the Chairman do make the Report to the House.

Ordered, That the provisions of Standing Order No. 134 (Select committees (reports)) be applied to the Report.

Several papers were ordered to be appended to the Minutes of Evidence.

Ordered, That the Appendices to the Minutes of Evidence taken before the Committee be reported to the House.–(*The Chairman*).

Several memoranda were ordered to be reported to the House.

The Committee further deliberated.

[Adjourned till Wednesday 14 July at a quarter past Two o'clock.

Witnesses

Monday 26 April 2004

Chris Carter, Simon Harris and Clare Wenner, **British Sugar** and Tim Bennett and Mike Blacker, **National Farmers' Union** Ev 21

Mark White and Patricia Jamieson, **Tate and Lyle plc** Ev 29

Edward Chileshe Sefuke and Julian Price, **LDC London Group**

Tuesday 4 May 2004

Jean Claude Tyack and David Clark, **ACP London Sugar Group** Ev 46

Chris Tyas, **Biscuit, Cake, Chocolate and Confectionaryu Asspcoatopm (BCCCA)**, Jill Ardagh and Richard Laming, **UK Industrial Sugar Group** Ev 63

Dr Mark Avery and Darren Moorcroft, **Royal Society for the Protection of Birds (RSPB)** Ev 77

Tuesay 11 May 2004

Lord Whitty and Andrew Kuyk, **Department for Environment, Food and Rural Affairs** Ev 88

List of written evidence

List of written evidence (continued)

Reports from the Committee since 2001

Session 2003–04		
Eleventh Report	GM Planting Regime	HC 607
Tenth Report	Marine Environment: Government reply to the Committee's Report	HC 706
Ninth Report	Milk Pricing in the United Kingdom	HC 335
Eighth Report	Gangmasters (follow up)	HC 455
Seventh Report	Implementation of CAP Reform in the UK	HC 226-I
Sixth Report	Marine Environment (*Reply, HC 706)*	HC 76
Fifth Report	The Foods Standards Agency and Shellfish (*Reply, HC 601*)	HC 248
Fourth Report	Environmental Directives (*Reply, HC 557*)	HC 103
Third Report	Caught in the net: Cetacean By-catch of dolphins and porpoises off the UK coast (*Reply, HC 540*)	HC 88
Second Report	Annual Report of the Committee 2003	HC 225
First Report	Water Pricing (*Reply, HC 420*)	HC 121
Session 2002–03		
Eighteenth Report	Conduct of the GM Public Debate (*Reply HC 443 Session 2003-04*)	HC 220
Seventeenth Report	Biofuels (*Reply, HC 88 Session 2003-04*))	HC 929-I
Sixteenth Report	Vets and Veterinary Services	HC 703
Fifteenth Report	New Covent Garden Market: a follow-up (*Reply, HC 123 Session 2003-04*)	HC 901
Fourteenth Report	Gangmasters (*Reply, HC 122 Session 2003-04*)	HC 691
Thirteenth Report	Poultry Farming in the United Kingdom (*Reply, HC 1219*)	HC 79-I
Twelfth Report	The Departmental Annual Report 2003 (*Reply, HC 1175*)	HC 832
Eleventh Report	Rural Broadband (*Reply, HC 1174*)	HC 587
Tenth Report	Horticulture Research International (*Reply, HC 1086*)	HC 873
Ninth Report	The Delivery of Education in Rural Areas (*Reply, HC 1085*)	HC 467
Eighth Report	The Future of Waste Management (*Reply, HC 1084*)	HC 385
Seventh Report	Badgers and Bovine TB (*Reply, HC 831*)	HC 432
Sixth Report	Rural Payments Agency (*Reply, HC 830*)	HC 382
Fifth Report	The Countryside and Rights of Way Act 2000 (*Reply, HC 748*)	HC 394
Fourth Report	Water Framework Directive (*Reply, HC 749*)	HC 130
Third Report	The Mid-term Review of the Common Agricultural Policy (*Reply, HC 615*)	HC 151
Second Report	Annual Report of the Committee 2002	HC 269
First Report	Reform of the Common Fisheries Policy (*Reply, HC 478*)	HC 110
Session 2001–02		
Tenth Report	The Role of Defra (*Reply, HC 340, Session 2002-03*)	HC 991
Ninth Report	The Future of UK Agriculture in a Changing World (*Reply, HC 384, Session 2002-03*)	HC 550
Eighth Report	Hazardous Waste (*Reply, HC 1225*)	HC 919
Seventh Report	Illegal Meat Imports (*Reply, HC 1224*)	HC 968
Sixth Report	Departmental Annual Report 2002 (*Reply, HC 1223*)	HC 969
Fifth Report	Genetically Modified Organisms (*Reply, HC 1222*)	HC 767
Fourth Report	Disposal of Refrigerators (*Reply, HC 1226*)	HC 673
Third Report	Radioactive Waste: The Government's Consultation Process (*Reply, HC 1221*)	HC 407
Second Report	The Countryside Agency (*Reply, HC 829*)	HC 386
First Report	The Impact of Food and Mouth Disease (*Reply, HC 856*)	HC 323