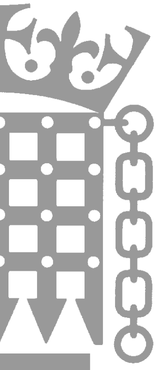

HOUSE OF LORDS

European Union Committee

4th Report of Session 2012–13

Leaving a bitter taste? The EU Sugar Regime

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SUMMARY

In 2005, we reported shortly after the last reform of the EU sugar regime had been agreed. We supported the reform and concluded that, if the price cuts and restructuring process were successful, EU beet production quotas would become redundant and should be removed. Even though some of the results of the reform have not been what was envisaged, we maintain the position we took seven years ago.

Since 2006, there has been substantial restructuring but the EU beet processing sector still has substantial over capacity and is even more oligopolistic than it was. The policy retains strong features of protectionism. Inevitably, that means that operators are protected from the market and that consumers must pay the bill.

Our biggest concern is for the consumer. For several years following the last reform, the EU price went down, as planned, but there was no similar decrease in the prices paid by consumers at the supermarket till. The European Commission must put the consumer much closer to the heart of its sugar policy and it should, specifically, put in place a mechanism to assess not only the market price of sugar but the price paid by consumers.

We are aware of strong views from the health sector that sugar is a health hazard for consumers, particularly for children. Whilst accepting the concerns we consider that control of sugar consumption on health grounds should be achieved via Member State taxation and regulation policies rather than justifying EU level continuation of market distortion.

Pricing is far from easy to disentangle and the market structure is highly concentrated. We consider that the market situation requires closer attention and would benefit from greater clarity and transparency. We therefore recommend that the UK's Office of Fair Trading, in collaboration with colleagues from other Member States, examine the market as it impacts on UK and EU consumers.

We learned with some dismay that funds intended to mitigate the impact of the 2006 reform on certain developing countries have not, in many instances, been successfully disbursed. The precise reasons for this are unclear, but we heard that there had been some problems with the Commission itself. We therefore urge the Commission to ensure that its own delegations are sufficiently resourced to support that disbursement and to monitor it closely.

Agricultural, Trade and Development policy decisions must not be taken in isolation from each other. We fear that they are. Ultimately, support for developing countries is a matter for development policy, but must be taken into account during the negotiation of future agricultural policy.

In the current negotiations on the Common Agricultural Policy, we firmly support the Commission's approach of abolishing production quotas in 2015. Import tariffs on raw and refined cane should be eased as appropriate in response to the world market, taking into account WTO and bilateral trade talks.

It is likely that there could be strong opposition in some Member States to the complete cessation of quotas and calls for continuation of quotas in some form beyond 2015.

Should a compromise be required, we recommend a firm date between 2015 and 2020 for the removal of production quotas, an immediate recalibration of these quotas and support to remove inefficient production. A simple continuation of the status quo would be unacceptable.

Leaving a bitter taste? The EU Sugar Regime

CHAPTER 1: INTRODUCTION

Our inquiry

1. The Committee last reported on the EU Sugar Regime in 2005 when it conducted an inquiry into the planned 2006 reform of the regime. In this report we consider the progress of that reform and the future of the sugar sector in the context of the Common Agricultural Policy (CAP) reform package currently being considered in Brussels.[1]

2006 reform of the EU Sugar Regime

2. The EU is the world's biggest producer of beet sugar and the principal importer of raw cane sugar for refining.[2] The sugar market in the EU is subject to a number of measures which are overseen by the Commission, such as production quotas, a reference price and market management instruments. These are discussed in more detail in Chapters 2 and 3 of this report.

3. The EU Sugar Regime underwent significant reform in 2006 in order to align it with the principles of the reformed CAP and to comply with international obligations. The reform sought to ensure the competitiveness of the EU sugar industry; to stabilise the markets and guarantee the availability of supplies; to contribute to providing a fair standard of living for the agricultural community (via instruments put in place to mitigate the social and economic impact on the agricultural communities in the regions affected); and to maintain preferential access for producers in the African, Caribbean and Pacific Group of States (ACP) and Least Developed Countries (LDC) to the high value EU market.

4. To this end, reform measures included a reduction in EU production quotas by 6 million tonnes by September 2010 (the total EU production quota for sugar currently stands at 13.3 million tonnes)[3] designed to preserve the market balance and eliminate inefficient capacity; gradual reductions in the prices per tonne of sugar and sugar beet; a temporary restructuring fund principally providing restructuring aid and diversification aid to the beet

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[1] COM (2011) 625 Proposal for a Regulation of the European Parliament and Council establishing rules for direct payments to farmers under support schemes within the framework of the CAP;

COM (2011) 626 Proposal for a Regulation of the European Parliament and Council establishing a Common Organisation of the Markets in Agricultural Products;

COM (2011) 627 Proposal for a Regulation of the European Parliament and Council on support for rural development by the EAFRD; and

COM (2011) 628 Proposal for a Regulation of the European Parliament and Council on the financing, management and monitoring of the CAP.

[2] http://ec.europa.eu/agriculture/sugar/index_en.htm

[3] *ibid.*

industry and transitional aid to full time refiners; and transitional assistance to affected ACP countries through Accompanying Measures.

5. The EU's support to its sugar regime should be seen in a global context whereby all major sugar producing countries have implemented support mechanisms for their domestic industries designed to protect them against the volatility of world sugar markets. All of the major producers except Australia, for example, apply tariffs on imports and most apply some form of domestic market control.[4] The future of support is closely linked to the ongoing Doha Round world trade discussions.

Our last report

6. In 2005, the Committee welcomed the reform as a necessary step but regretted that more extensive proposals had not been pursued—in particular, the Committee recommended the removal of production quotas, describing the requirement to leave the new regime unchanged until 2014 as "inappropriate".

Commission proposals

7. Following the European Court of Auditors' report in 2010 on the progress of the 2006 sugar reform,[5] which concluded that the Commission should propose further adjustments of internal production and remove the constraints in the quota system, the Commission included a number of measures relevant to the sugar sector in its package of proposals for reform of the Common Agricultural Policy, introduced in October 2011 (see Box 1).[6]

BOX 1

CAP Reform—sugar proposals

Production quotas and other market management measures due to end by 30 September 2015;

Conferred powers for the Commission to adopt detailed provisions in respect of governing agreements between sugar undertakings (sugar processors and refiners) and sugar beet growers; and

Retention on a permanent basis of the €350 per hectare payment to Finnish sugar beet growers to address the particular geographical and climatic conditions which adversely affect the sector in that country.

What we consider in this report

8. In light of the Commission's proposals in the context of CAP reform, we thought it timely to conduct a short inquiry to review the progress of the 2006 reform and to consider the future of the sugar sector beyond 2015. Throughout our short inquiry we have concentrated on four key issues which are the focus of this report:

4 Support Measures in the Sugar Sector around the World, CEFS (Comité Européen des Fabricants de Sucre), November 2011

5 European Court of Auditors, Special Report No. 6/2010: Has the reform of the sugar market achieved its main objectives?

6 COM (2011) 626 final/2 Proposal for a Regulation of the European Parliament and of the Council establishing a common organisation of the markets in agricultural products (Single CMO Regulation)

the abolition of production quotas and other market management measures by 2015;

the governance of Interprofessional Agreements between sugar undertakings and sugar beet growers;

the extent to which EU price reduction has been passed on to consumers; and

the impact on third country producers and potential mitigation that may be required.

9. The members of the Agriculture, Fisheries, Environment and Energy Sub-Committee, which conducted this inquiry, are listed in Appendix 1. Those who gave evidence to us are listed in Appendix 2. We are grateful to all of them. It should be noted that our evidence has largely been drawn from UK witnesses and our conclusions and recommendations should therefore be viewed in this light.

10. We make this report to the House for debate.

CHAPTER 2: DEVELOPMENTS SINCE THE 2006 REFORM

The 2006 reform

11. Prior to reform in 2006, the key features of the sugar regime were: 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 tariff quotas on imports from third countries; and subsidies to export surplus production out of the EU.

12. The key factor driving the 2006 reform of the EU's sugar regime was a ruling by the World Trade Organisation that EU sugar exports were subsidised by guaranteeing producers an internal price higher than that of world prices. This had two implications: first, that the EU's guaranteed price had to be reduced and, second, that its exports had to be cut. The EU also had to adapt to its wider international obligations. Countries benefiting from the Everything But Arms (EBA) Agreement with Least Developed Countries are allowed free access to the EU sugar market for their production. Internal production quotas would then have needed to be cut, with damaging effects on jobs, unless mitigating action was taken to manage the transition. Finally, the Common Agricultural Policy (CAP) had been in a state of continuing liberalisation since 1992 and it was considered important that this process was extended to the sugar sector. Indeed in many respects the sugar regime of quotas, reference prices and tariff protection is one of the last remnants of the 'old' CAP, aspects that have to a considerable extent been reformed in other sectors.

BOX 2

Key elements of the 2006 reform

Price Reduction: the reference prices for sugar and the minimum prices for beet growers were substantially cut over the period 2006–10 (the reference price for white sugar was cut from €631.9 per tonne to €404.4 and the minimum price per tonne of quota sugar beet was cut from €44.01 to €26.29)

Production quota reduction by 6 million tonnes

A temporary restructuring scheme was set up, financed by manufacturers and aimed at encouraging the least efficient to renounce their production quotas voluntarily

Partial compensation for farmers

End of preferential imports to traditional cane refiners (such as Tate & Lyle Sugars), along with transitional aid over the period 2006–09

Exports of non-quota sugar limited to 1.37 million tonnes

Impact of the reform

13. An evaluation of the 2006 reform was undertaken for the European Commission and published in December 2011.[7] Its key findings were:

    the EU was transformed from a net exporter of sugar to being a net importer, with the effect that, in year, it produced around 85 per cent of its supply needs;

    5.8 million tonnes of production quotas had been renounced (around 30 per cent of the total), almost reaching the 6 million target, although some of this had to be renounced by relatively competitive producers;

    quantities produced outside production quotas decreased on average by 1.8 million tonnes;

    market share was further concentrated in France and Germany (up from 43 per cent of production to 52 per cent);

    there was a 41 per cent decrease in the number of factories over the period 2006–10;

    prices increasingly converged with the world market price;

    the number of full-time refiners increased and refineries increased their capacity;

    some beet sugar producing factories expanded into refining;

    imports increased from 3–4 million tonnes but supplies from developing countries did not expand to the level expected;[8]

    the competitiveness of sugar producers, measured by yield, working days, volume per factory and productivity per labour unit had increased; and

    employment in the sector decreased by 44 per cent over the period 2006–10.

14. These findings were largely reflected in the conclusions of a European Court of Auditors report in 2010.[9] It pointed out certain other weaknesses:

    while reducing production quotas, it observed that the reform also allowed companies to purchase additional quotas (around 1 million tonnes were purchased);

    the competitiveness of many individual growers was not enhanced; and

    while acknowledging that price formation in the food sector is complex, the intended reductions in the EU price of up to 36 per cent were not passed on to the consumer and must be subject to regular monitoring by the Commission, as must the enforcement of competition law for the same reasons.

15. In addition, there have been specific effects on third countries, which we explore in Chapter 4.

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7 Evaluation of Common Agricultural Policy measures applied to the sugar sector, AGROSYNERGIE, December 2011

8 http://ec.europa.eu/agriculture/sugar/presentations/trade-statistics_en.pdf

9 European Court of Auditors, Special Report No. 6/2010: Has the reform of the sugar market achieved its main objectives?

16. The views of our witnesses on the impact of reform largely reflected the Commission and Court of Auditors' analyses. British Sugar, the only beet sugar processor in the UK, noted that, "although it was radical, the outcome of the 2006 reform did provide a sufficiently stable policy environment for us to invest".[10] Anna Locke, Head of Programme, Agricultural Development and Policy, Overseas Development Institute, observed that the 2006 reform had succeeded in linking EU sugar prices to movements in world prices.[11] In terms of the implications of greater alignment with the world price, we heard from John Adams (LMC International) that Brazil, as the largest producer, is the price-setter of the world sugar market price.[12] That price has some linkage to oil prices as a significant proportion of Brazilian sugar is used as ethanol for transport fuel.[13]

17. The National Farmers Union (NFU) cautioned against attributing to the reform all changes seen in the industry since 2006. Their representative, William Martin, Chairman, NFU Sugar Board, agreed that the reform had certainly accelerated the process of restructuring the industry towards one that was more efficient, with higher yields. He regretted, however, that the reform had forced not only inefficient factories to close, but also some of the more efficient factories, such as British Sugar's processing plant in York, thus forcing efficient farmers also to reduce their production.[14]

18. Sugar users and cane refiners were far more critical of the impact of reform. The UK Industrial Sugar Users Group (UKISUG) observed that, pre–2006, the market was predictable as there was a lot of supply. Reform has squeezed supply and therefore put users in a more constrained position, which has created difficulties for smaller users in particular. It was explained that restricted supply on the EU market forces purchases to be made from the world market, but such purchases are subject to tariffs of €419 per tonne, in addition to the various transport and port costs.[15]

19. Tate & Lyle Sugars were clear that the situation now is worse than before the 2006 reform. The effective quota system for certain cane refiners' access to raw cane was abolished amid expectation that tariff-free imports would rise substantially. In addition, there was a significant investment by the beet industry into cane refining (1.85 million tonnes of new cane-refining capacity). Ultimately, they reported, supply had not materialised and cane refiners were running at around 60 per cent capacity.[16] As explored in Chapter 4, we also heard that Mauritius is refining cane itself and exporting the refined product to the EU, thus further reducing the demand for refining capacity in the EU.

20. Our attention has been drawn to changes in the EU market price for sugar since the reform and a recent surge in prices (see graph below). Thus, the reform led to a substantial reduction in the market price initially, as intended, but that has since risen due to pressures on internal market supply, which are examined further in Chapter 3.

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[10] Q 89

[11] Q 1

[12] Q 3

[13] Q 20, 37

[14] Q 72

[15] QQ 120–122

[16] Q 157

CHAPTER 3: FUTURE REFORM—INTERNAL POLICY

What is proposed?

22. In October 2011, the European Commission published a set of proposals to reform the Common Agricultural Policy (CAP). For the purposes of the sugar regime, the key proposal related to the Common Organisation of the Markets. It was not proposed to extend the system of production quotas beyond September 2015. Other measures—which are mostly linked to the quota system—that would also end at that point include: a minimum price for the purchase of beet; the charge on producers of quota sugar; withdrawal of quota sugar;[17] production refunds; and import licences for refiners.

23. A number of aspects would remain in place: tariffs; additional tariffs; tariff quotas; export refunds (rarely used any more); aid for private storage;[18] and a reference price (triggering private storage). The existing system of tariffs and tariff quotas for imports is set out below in Box 3. Rules are proposed to regulate sugar sector agreements, which we explore in paras 44–45.

24. Other aspects of the CAP reform are also salient. First, the general subsidy regime, offering a Single Farm Payment to farmers regardless of commodity produced. In exceptional circumstances, a payment may be granted specifically for the production of sugar and, in Finland, sugar beet growers may receive €350 per hectare each year. That is a legacy of the Finnish accession negotiations, during which it was argued that the measures were needed to support agriculture in difficult climatic and geographic circumstances. Second, the rural development regulation, which contains a range of measures, many of which could prove helpful to sugar growers. These include the risk management toolkit, the idea of which is to assist producers in managing their activities against the risks of weather and price volatility.

BOX 3

Tariffs and tariff quotas

Tariffs on imports are set within the framework of the internationally agreed General Agreement on Tariffs and Trade.[19] Those applied to imports into the EU are collected by Member States, which keep 25 per cent of the value of the tariffs to cover administrative costs and the remainder form part of the EU's own resources. The Commission estimates that the value to the EU budget of tariffs on imports of sugar in 2013 will be €123.4 million.[20] Additional tariffs may be imposed, and exceptions may also be granted. The EU has several sugar tariff quotas (allowing a quota of imports at a rate lower than the standard tariff or at a zero rate) and has introduced more in the last two years in order to allow more supply on to the EU market. It also allows tariff-free imports from certain developing countries-see Chapter 4. The standard tariffs charged on imports are: €339 per tonne for raw cane sugar and €419 per tonne for refined white sugar and raw sugar that is not for refining.[21]

17 Until the end of the marketing year in order to address over-supply of sugar on the market

18 Permits the granting of aid when the Union sugar price falls below a certain percentage of the reference price for a certain period of time

19 The precise levels of tariff are set each year by the Commission

20 Draft General Budget 2013

21 Pp 140–141 Commission Regulation (EU) No 1006/2011 amending Annex I to Council Regulation (EEC) No 2658/87 on the tariff and statistical nomenclature and on the Common Customs Tariff

Production quota abolition

25. ACP and LDC producers and the beet production sector (farmers and processors) argued for an extension of EU beet production quotas until 2020.[22] Barry Newton, Chairman, EPA/EBA[23] London Sugar Group, asserted that this would allow ACP and LDC producers "more time and more investment to achieve the improvements in productivity ... that would allow us to be competing more openly in world markets after that period".[24] The prospect of extending production quotas until 2020 in order to assure improved competitiveness was shared by other advocates of quota extension. The National Farmers Union (NFU) told us that, by 2020, there was a very good prospect of having a competitive industry.[25] British Sugar was concerned that the scrapping of policy arrangements in 2015 would discourage the further investment that was needed to make the sector "fully internationally competitive by 2020".[26] They confirmed that current uncertainty was causing delays in their investment programme.[27] From a UK perspective, British Sugar warned that the UK industry had rationalised more than elsewhere before the 2006 reform but had nevertheless had no choice but to rationalise yet more after 2006. This meant that those countries that had only rationalised after the reform had spare capacity which could be brought into operation relatively quickly if production quotas were abolished,[28] although the NFU observed that processing elsewhere was not as efficient as in the UK, precisely because of the excess capacity.[29]

26. We were keen to assess whether those advocating an extension of the production quota system were simply asking for an extension that would then be repeated in several years' time. The NFU assured the Committee that the industry was not just looking to postpone by yet another five years and acknowledged that, if the industry was unable to improve productivity by 2020, it was "probably time to think about something different".[30] British Sugar appeared to imply that they would favour an extension beyond 2020 but confirmed that "we are not expecting and not asking for the quota system to be continued forever".[31]

27. Others argued for a more liberal approach. UKISUG observed that: "enough is enough" and "we no longer need quotas and we should be away from them sooner rather than later".[32] If isoglucose production quotas[33] were lifted, the UKISUG observed, there was potential in the market to move to

22 QQ 63, 72, 88

23 Economic Partnership Agreement (EPA)

24 Q 64

25 QQ 72–73

26 Q 89

27 Q 91

28 Q 97

29 Q 81

30 Q 74

31 QQ 92, 103

32 QQ 134, 143

33 Liquid in form, isoglucose is a sweetener that is used as a sugar substitute mainly in the production of drinks. It is obtained from starch, which in turn is extracted from wheat or maize. Isoglucose quotas represent around 5 per cent of the overall production quota.

around 20 per cent of sweetener consumption coming from isoglucose.[34] Sheila Page, Senior Research Associate, Overseas Development Institute (ODI), argued that further postponement of quota abolition would be costly to ACP and LDC producers, to the EU and to the rest of the world.[35] The Government confirmed that they were opposed to production quotas as a matter of principle. They offered two main arguments, observing first that British producers were already highly competitive and, second, that quotas have an artificially inflationary impact on prices.[36]

28. The inflationary impact of a restrictive regulatory environment was also recognised by Tate & Lyle Sugars, who commented that the price paid by consumers would fall substantially if production quotas and tariffs were removed.[37] We observe that the average UK consumer price of 1kg of granulated sugar has risen from 74p to 99p between June 2006 and June 2012, an increase of one third. This is in line with a very similar increase in the prices of confectionery goods.[38] **We are very concerned that the 16 per cent net increase in the EU price for sugar since 2006 has not been reflected in consumer prices for sugar and related goods, which have risen by over one third in the UK. We find the argument that the consumer price could fall if production quotas and tariffs are removed compelling but this requires monitoring by the European Commission. It is disappointing that the recent evaluation by the Commission of Common Agricultural Policy measures applied to the sugar sector assesses the impact on all groups except consumers. In line with the objectives of the Common Agricultural Policy as set out in the Treaty, we urge the Commission to put the consumer much closer to the heart of its sugar policy and, specifically, to put in place a mechanism to assess not only the market price of sugar but the price paid by consumers.**

29. We are aware of strong views from the health sector that sugar is a health hazard for consumers, particularly for children. Whilst accepting the concerns we consider that control of sugar consumption on health grounds should be achieved via Member State taxation and regulation policies rather than justifying EU level continuation of market distortion.

30. Despite the potential impact on price of a restrictive regulatory environment, Tate & Lyle Sugars could accept regulation as long as cane refiners were protected in a similar manner to beet producers and processors. If production quotas were abolished, they contended, so restrictive tariffs on imports of raw cane should be lifted. On the other hand, if beet production quotas were to remain, then cane refining quotas should be reintroduced.[39] They warned that the abolition of production quotas, thus liberalising the beet production market, without abolition of tariffs "would swamp the cane refiners in a very short time"[40] The Government agreed that there was a need to remove import tariffs on raw cane sugar.[41]

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34 Q 138
35 Q 13
36 Q 203
37 QQ 168–169
38 Office of National Statistics, Consumer Price Index, June 2012
39 QQ 165, 166, 171
40 Q 186
41 Q 204

31. **We conclude that neither the beet nor the cane sectors should continue to be protected. We therefore agree with the UK Government both that production quotas should be abolished in 2015 as proposed by the Commission and that import tariffs on raw cane sugar should be eased as appropriate in response to the world market. The easing of tariffs should, in our view, be extended to the import of refined cane sugar, bearing in mind the need to provide some security of supply, world trade discussions and support measures applied by other countries to support their sugar markets. The current restrictions on exports from the EU should be lifted to allow the EU to compete on the world market and to provide balance in the EU market if imports were to increase further.**

32. The political reality according to the Minister of State for Agriculture and Food, the Rt Hon Jim Paice MP, was that the UK and Commission position had very little support in the Council and European Parliament, with some Member States which would even like to see production quotas prolonged beyond 2020. Michel Dantin MEP's draft European Parliament amendments to the Commission's proposal suggest a report in 2018 on progress and a decision at that point in 2018 on whether to abolish production quotas in 2020 or extend them further.[42] **While we urge the Government to continue to advocate a more liberalised approach as early as possible in negotiations, we recognise the political reality of the agricultural reform negotiation. However, we would consider a simple continuation of the status quo to be unacceptable.**

33. **In the event that a compromise should be necessary, we would recommend the following elements:**

    a clear date for the ending of production quotas between 2015 and 2020. We would resist any promise of a future review in order to establish a final date as this fails to give the industry the certainty that they claim to require in order to make appropriate investment;

    an immediate recalibration between Member States of production quotas to recognise changes made both pre–2006 and since 2006; and

    support to remove inefficient production.

34. In the milk sector, a soft-landing has been introduced in order to assist the market to prepare for the abolition of production quotas in that sector. The soft landing has included an increase in production quota each year, so that it becomes less and less restrictive and therefore more responsive to the market. **From the consumer's perspective, though, funding has already been used to dismantle some of the sugar quota capacity and we therefore recognise the lack of consistency in any move to increase sugar quota gradually. We would not recommend an increase in sugar quota as a form of compromise.**

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[42] European Parliament, Committee on Agriculture and Rural Development, Draft Report on the proposal for a regulation of the European Parliament and of the Council establishing a common organisation of the markets in agricultural products. Rapporteur: Michel Dantin

Risk management and other aspects of CAP reform

35. The measures within the Common Market Organisation are not the only aspects of the CAP reform proposals and broader EU funding arrangements that are relevant to sugar. In order to ensure more efficient deployment of EU funding, the European Commission has proposed that, in the period 2014–2020, Member States ensure that their plans for rural development, regional development, European social fund and fisheries fund are complementary. In our recent report on The Multiannual Financial Framework 2014–2020, we supported the simplification and improved synergies offered by this Common Strategic Framework.[43] **We remind the Council and the European Parliament that the reform of the sugar sector must be seen in the broader context not only of Common Agricultural Policy reform but also of the future cohesion policy. The potentially large-scale alternative use of beet sugar in bio ethanol production—rather than for human food or animal feed—is another important consideration on which we would welcome the Government's response in the UK context. When designing future rural development plans and operational programmes for structural funds, the nature of Member States' sugar sectors might usefully be borne in mind.**

36. Commenting specifically on the application of the proposed new rural development regulation to the sugar sector, the Government confirmed that there was some scope for using rural development funding to help farms and groups of farms manage their own risk, making use of private sector insurance mechanisms.[44] These would allow farmers to be financially supported in order to purchase appropriate insurance against the risks arising from weather and price volatility. In correspondence with the Minister and EU institutions on reform of the Common Agricultural Policy, we have supported this concept, although on a time-limited basis until such mechanisms have become well established. **One justification for continued protection of the sugar beet industry is the difficulty of facing the volatility of the world market, a danger that could be mitigated by greater use of risk management tools, such as insurance but extending also to future pricing. We understand that such tools are under developed in the sugar sector and we therefore recommend that the European Commission submit a report, with recommendations, on the use and development of private sector risk management tools in the sugar sector.**

Market management instruments

37. For the moment at least, the European Commission has a key role in managing the volatility of the EU market. In considering future sugar policy, it is necessary to take into account the regular management of the market by the Commission. Even if production quotas were abolished from 2015, UKISUG acknowledged that the Commission had a role to play in a managed transition and that a safety net of some description may be required for food security purposes.[45]

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43 European Union Committee, 34th Report (2010–12): *The Multiannual Financial Framework 2014–2020* (HL Paper 297)

44 Q 215

45 QQ 142–143

BOX 4

Market management measures adopted by the Commission

The European Commission has adopted a range of measures over the last two marketing years to stabilise the market. In essence, these include tariff reductions through a tendering process, quotas to import at zero tariff[46] and the incorporation into quota production of excess sugar produced (so-called "out of quota" sugar).

Since December 2011, measures to increase imports have included:

> The opening of a standing invitation to tender for sugar imports at a reduced tariff[47]—191,000 tonnes over seven tenders, three of which were cancelled as the EU had enough sugar. Tariffs ranged from €252 to €270 per tonne, all for raw sugar; and
>
> Three Regulations fixing minimum tariffs for a further three tenders, permitting another 200,000 tonnes on to the market. Reduced tariffs ranged from €289.36 to €312.6 for raw (unrefined) sugar and from €320 to €345 for white (already refined) sugar.[48]

During the same period, measures to release out-of-quota sugar were taken in December 2011 (400,000 tonnes) and May 2012 (250,000 tonnes).[49]

38. There was some questioning among our witnesses of the European Commission's performance in responding to the shortage of sugar on the EU market (see Box 4). The NFU stated that the Commission needed to use the tools available to it rather better than it had thus far.[50] Tate & Lyle Sugars asserted that their warnings of weaknesses in the market had been ignored until it was too late: "the Commission should have acted earlier". In particular, they considered, more imports of tariff-free sugar should have been allowed. Looking to the future, Tate & Lyle Sugars argued that market management measures should not be left for the Commission to operate. Rather, they would like to see the correction to address the lack of imports at zero tariff to be automatic, enshrined in legislation, rather than for the Commission to decide.[51]

39. On 2 July 2012, the Commission responded to criticisms that its exceptional measures have been unfair to cane refiners. It acknowledged that it has had to relieve pressure on the EU market and considered this market pressure "normal ... as the EU market competes with others to obtain the necessary raw material, including from LDC countries which are free to choose to whom they supply". The Commission argued that it has used the measures of facilitating imports and releasing out of quota production of beet onto the market "in broadly equal measure over the past two years".[52]

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46 Commission Implementing Regulations 302/2011 and 589/2011, in March and June 2011, covering 500,000 tonnes

47 Commission Implementing Regulation 1239/2011

48 Commission Implementing Regulations 382/2012, 444/2012 and 485/2012

49 Commission Implementing Regulations 1240/2011 and 362/2012

50 Q 82

51 Q 178

52 Commission replies to refiners on sugar market woes, Agra-Europe, 2 July 2012

40. **Whilst the market remains regulated at EU level, there is clearly a role for market management measures, including tariffs and import quotas. There is dissatisfaction with the manner in which the Commission has discharged its responsibilities. We observe that the Commission has at least attempted to balance the interests of the beet production and cane refining industries. It must continue to do so and to ensure that its decisions are taken in a timely and transparent manner. Transparency is important as tariffs form part of the EU's budget and therefore substantial reductions in tariffs have wider implications for the financing of the EU budget.**

Competition

41. During our short inquiry, we had some debate among witnesses about the apparently monopolistic nature of the UK's sugar market, a debate which extended to the oligopolistic nature of the EU's market. Sugar users, represented by UKISUG, were not concerned about the nature of market and pointed to the possibility to import supplies from elsewhere.[53] Similarly, British Sugar, the sole sugar beet processor in the UK, contended that it has completely open competition from Tate & Lyle Sugars and from processors in France, the Netherlands, Germany and Belgium.[54]

42. While Tate & Lyle Sugars, the EU's largest cane refiner and the UK's only devoted sugar cane refiner,[55] denied that they are in a monopolistic position, they observed that there is concern about competition in the EU market as a result of the small number of beet processors: only six companies account for almost 80 per cent of sugar production quotas.[56] In commenting on a recent merger referred to it,[57] the Commission noted, "the current high price and scarcity of sugar across the EU make it all the more important to maintain competition on the already concentrated European sugar markets" and added that, "at the production level the degree of concentration and entry barriers in several Member States are high".[58] We were also made aware of a recent report by the European Competition Network—a network of national competition authorities and the European Commission. This noted that it is a highly concentrated industry, with external competition largely prevented by import tariffs and that competition is very much influenced by the EU's regulatory framework.[59] It is important therefore that any inquiry into the market structure should be based on the EU wide sugar market, not simply the UK.

43. **We observe, as have others, that the nature of the sugar market is unusual and that the EU's sugar regime is a contributory factor. As already highlighted in this report, the prices paid by consumers for sugar and related goods have not, at least in the UK, followed the trends in the EU market price for white sugar. We accept, as do the**

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53 Q 132

54 Q 94

55 Tate & Lyle Sugars have over 25 per cent of the EU's cane refinery capacity. British Sugar refines a small amount of cane

56 QQ 167, 190, 195

57 Case M.6286 Acquisition by Sudzucker (largest EU sugar producer and quota holder) of ED&F Man

58 IP/12/486

59 "ECN activities in the food sector", May 2012

Court of Auditors, that pricing in a market such as sugar with a complex supply chain is far from easy to disentangle. It is our view that greater clarity and transparency is required. We therefore recommend that the Competition Authorities at EU and national level, namely the Office of Fair Trading in the UK, in collaboration with Competition Regulators in other EU Member States, investigate the market as it applies to UK and EU consumers, to assess the extent to which the consumer gets a fair deal.

Contractual arrangements

44. We heard some concerns that the Commission's recent proposal could potentially disrupt contractual arrangements in the sugar beet sector between growers and processors. In the UK, the NFU negotiates, on behalf of all 3,500 UK sugar beet growers, an Interprofessional Agreement with the sole UK processor, British Sugar. The benefits of the agreement were stated to be that it ensures a fair balance of interests, that it helps joint working on research and knowledge transfer, that processing capacity could be expanded given the certainty that it brings and that it enables mechanisms to be put in place to overcome weather difficulties. The UK sector's agreement, for example, includes a frost insurance scheme.[60] We heard that the industry works similarly in some Member States, whereas others operate through co-operatives.

45. The specific concern set out by the NFU related to Article 101 of the Commission's Common Market Organisation proposal. This requires the terms for buying sugar beet and cane to be governed by written agreements. Unlike the text in place at the moment,[61] the proposed wording is imprecise in what should be covered by such an agreement, no longer explicitly stating that this should include the purchase and payment of beet. The Commission proposes that such detail be established at a later date through secondary (delegated) legislation. From the perspective of the NFU, they fear that this change undermines their position and would like to see the legislative protection reinforced.[62] **We consider it unlikely that the Commission desires to undermine the position of growers in this type of relationship but we think it essential that the Commission communicates its intentions. It would be helpful to amend the text of the new Regulation to include the same specificity as is reflected in the current legislation, which might also remove the need to confer the power on the Commission to adopt a delegated act.**

Research and knowledge transfer

46. As set out above, one benefit of the Interprofessional Agreement is to support research and knowledge transfer. In our report, *Innovation in EU Agriculture*,[63] we placed a great deal of emphasis on the importance of basic and applied research and the transfer of that knowledge. We heard that the UK beet industry is continuing to invest around £1.5 million per year in research in order to boost yield, with a yield increase target of four per cent

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60 QQ 75, 76, 105

61 Article 50, Regulation 1234/2007

62 QQ 75, 82

63 European Union Committee, 19th Report (2010–12): *Innovation in EU Agriculture* (HL Paper 171)

annually.[64] This "4x4 Yield Initiative" is being coordinated by the British Beet Research Organisation (BBRO).[65] Underpinning its overall objective, BBRO research, largely taking place at Rothamsted Research's Broom's Barn Centre, includes projects on crop production and crop protection. There is also a sophisticated Grower Support programme, including four well-attended open days annually at which growers can meet research teams and see demonstration work. The NFU confirmed the value of these open days and emphasised how important the rapid uptake of improved techniques was to yield improvements.[66]

47. We heard from the NFU about the French *Aker* sugar beet research project, where plant-breeding activity is underway to try to decode the sugar beet genome.[67] This is based on the overriding objectives of the French beet sector: to increase competitiveness by 30 per cent by 2020 in order to face the world market and, if possible, to reduce dependence on inputs such as plant protection products, nitrogen fertiliser, water and energy.

48. **In our view, basic and applied research in the sugar sector, supported by knowledge transfer, are a key component to driving forward a sugar sector throughout the EU that can stand on its own. We believe that industry must invest in order to boost both research and its competitive position. We therefore recommend that the Government assess whether research efforts in this industry are in line with the needs of consumers.**

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64 QQ 73, 105

65 http://www.bbro.co.uk/sites/default/files/BBROprogrammesummary12–13.pdf

66 Q 74

67 Aker 2012–2019 French Research Initiative for a Sustainable Beet Improvement: Innovative breeding, strategies based on allelic variation mining and novel –omnic tools

CHAPTER 4: ACP/LDC COUNTRIES AND THE EU SUGAR REGIME

Impact of the 2006 reform

49. The 2006 reform of the EU Sugar Regime included a €1.2 billion package of transitional assistance through Accompanying Measures to affected ACP[68] and LDC[69] producers to help mitigate the effects of the reduction in the EU sugar price—encouraging increased competitiveness where applicable and assisting other producers to diversify and leave sugar production. This transitional assistance has been delivered through individual, country-specific multi-annual Action Plans.

50. To comply with a 2005 WTO ruling, the EU had to maintain preferential access to its sugar market for these countries under reform of the regime; all ACP and LDC producers therefore have tariff-free access to the EU market, subject to safeguard measures on imports from those ACP countries that are not LDCs.

51. Discerning the impact of the reform on ACP and LDC countries has been challenging, with varied responses from the ACP countries to restructuring efforts.[70] However, the overwhelming impression we received from our witnesses was that much of the €1.2 billion set aside for transitional assistance had not reached where it needed to be, with many countries experiencing delays in receiving such funds.[71] Red tape and bureaucracy emanating from the Commission were highlighted as impediments to the smooth flow of funding to these countries, such as Belize which had only received 16 per cent of the money allocated to it for 2007/10.[72] In addition, it was highlighted that "the administrative procedures associated with those [funds] actually cost more than the amount of money received."[73]

52. We were concerned to hear that EU delegations might be responsible for the variable disbursement of funding, owing to the pressured timetable and that "it is usually the case that one person ... who is dealing with lots of other things, may have no knowledge of the sugar industry, and suddenly they have to deal with it".[74] **We strongly urge the Commission to ensure that delegations in the ACP/LDC countries are sufficiently resourced and to monitor closely the progress of disbursement of funding.**

53. The capacity of the governments in recipient countries was also highlighted as an issue in funding getting through and it was suggested that a more realistic view about the time required to get things done in target countries

[68] The African, Caribbean and Pacific Group of States is an organisation of 48 Sub-Saharan African states, 16 Caribbean states and 15 Pacific states. It was established in 1975 with the aim of coordinating cooperation between its members and the EU.

[69] Least Developed Countries are 48 countries suffering from the most severe structural impediments to sustainable development on the basis of GNI per capita, human assets, economic vulnerability and population size.

[70] Q 53

[71] QQ 8, 53, 181

[72] Q 53

[73] Q 14

[74] QQ 14, 41

was needed.[75] Barry Newton, EPA/EBA London Sugar Group, also suggested that many of the smaller countries did not have the resources necessary to meet all of the conditions laid down for contracts.[76] Whatever the reason, in many countries it seems that results have not been tangible.[77]

54. Another issue highlighted in relation to transitional assistance was that funds were not being used to target the issues that recipient countries wanted to address.[78] Gerald Mason, Vice-President, EU Affairs and Strategy at Tate & Lyle Sugars explained that the views of local EU officials often held considerable sway, with the power to spend money effectively delegated to them and their views as to the right solution for the country being central to the process.[79] This apparent lack of focus on the country's view of important issues was borne out in the comments made to us by the Minister, who did not believe the 2006 reforms had paid sufficient attention to the needs of developing countries.[80] **We recommend that Action Plans for the affected ACP/LDC countries should be revisited as soon as possible. Such Action Plans need to be started in the period before 2015 but sufficient time should be allocated to design appropriate plans and build the capacity in recipient countries to implement them. We further recommend that Action Plans should be targeted at issues identified by the countries themselves, such as increasing their competitiveness and efficiency or, where appropriate, moving away from sugar production altogether.**

55. We were, though, encouraged to hear the experience of Mauritius, where considerable restructuring and diversification has taken place, most notably through a deal with S dzucker to export up to 400,000 tonnes of refined sugar annually to the EU, thus enabling Mauritius to add value within its own sugar sector and increasing its competitiveness.[81] Nevertheless, we are in agreement with our witnesses, including Tate & Lyle Sugars and the Minister, that while there are lessons to be learnt from the decision by Mauritius to focus on the high added value sugar market, this model may not work for all ACP/LDC countries for reasons of scale and geography.[82]

56. Our witnesses highlighted another more positive result of reform, whereby the reduction of EU production of sugar beet had enabled the ACP/LDC countries to negotiate higher prices for their sugar due to greater competition in raw sugar imports.[83] As Anna Locke, Overseas Development Institute stated, "I think that the original EU sugar reform has worked to the benefit of the ACP countries", though she recognised that "that may have been unintentional".[84] It should also be noted that the positive impact of increased prices may have been limited, as ACP/LDC countries have not been able to supply as much sugar to the EU as needed or expected (exporting around

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75 Q 1, 14, 57, 61, 181

76 Q 58

77 Q 8

78 QQ 14, 58

79 Q 181

80 Q 206

81 QQ 8, 9

82 QQ 181, 206

83 Q 42

84 Q 44

1.8–1.9 million tonnes in 2012[85] against the 2006 estimation of up to 3.5 million tonnes each year); something which Barry Newton, EPA/EBA London Sugar Group, attributed to delays in the finance getting through.[86]

Situation post–2015

57. We heard that, under further reform, ACP and LDC countries would face a more volatile market, losing the current protection provided by the EU sugar regime which shields them from variable world prices. It was therefore likely that there would be greater uncertainty for these countries in future, with the possibility of particularly detrimental effects if the world price sat at a low level.[87]

58. However, views amongst our witnesses were split. Anna Locke, ODI was concerned about the price volatility under further reform and the resultant uncertainty for developing countries[88] and Barry Newton, EPA/EBA London Sugar group suggested that the time to end production quotas had not arrived, citing the staff working paper in 2006 which stated that production quotas would be phased out once imports and production levels had stabilised, which he did not think was currently the case.[89] On the other hand, Sheila Page, ODI was supportive of an end to production quotas and expressed the view that "if you have too much time to adjust you do not do so".[90] While she recognised that exposure to volatility would result for all ACP/LDC countries under further reform, she thought that "most of them will survive ... either by changing their sugar, their markets or what they are producing".[91](See Chapter 3 for further discussion of quotas).

59. While increased exposure to volatility was widely recognised as the likely result of further reform, there were mixed views amongst our witnesses about the likely direction of the world price for sugar over the coming years. John Adams, Senior Research Economist for LMC International suggested that there would be higher prices over the next decade and that any low levels would be unlikely to last;[92] the EPA/EBA London Sugar Group was less optimistic, predicting that prices would fall, whilst recognising that "anybody who forecasts the world sugar market price endangers their reputation";[93] while the Minister did not see any likelihood of a significant decrease in the world price.[94] **We consider that the future price of sugar on the world market is uncertain and that increased exposure to volatility for ACP and LDC countries is likely.**

60. The uncertainty of future prices makes an accurate prediction of the likely impact of reform on ACP and LDC countries difficult. This is compounded by the fact that the situation varies greatly from country to country. As

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85 Q 115
86 Q 54
87 QQ 1, 2
88 Q 44
89 Q 63
90 Q 23
91 Q 35
92 QQ 3, 4
93 Q 61
94 Q 204

highlighted by the ODI and the Minister, some countries have no chance of becoming competitive in sugar, some will require considerable work and investment to reach a competitive standard and others are likely to be able to respond to a variable world price.[95] **The Commission will need to work closely with the ACP and LDC countries to determine what mitigation measures are needed beyond 2015. We recommend that such work should be part of decisions on the pace and detail of further reform and that this should involve extensive consultation with representatives of the countries concerned.**

61. Support for the ACP and LDC countries beyond 2015 is particularly important in light of the fact that in these countries, the sugar industry is often woven into the fabric of society, acting as the main source of employment in a particular area.[96] **We therefore recommend that it will be necessary for the Commission not just to consider matters on a country-by-country basis, but to look at the localised impact of changes and support.**

62. We recognise that some countries will need to move out of sugar production altogether and were struck by the suggestion of providing retraining for those workers who are affected by changes to the EU sugar regime.[97] For example, Anna Locke, ODI pointed to the experience of Brazil, which had mechanised its sugar cane harvesting and was retraining the sugar cane cutters to service and maintain the machines. She suggested that this was "an interesting model to look at."[98] **We recognise that it will be necessary for some countries to move away from sugar production altogether and that others will need support to improve their competitiveness and efficiency. We therefore recommend that in determining what mitigation measures are needed beyond 2015, the Commission should consider support for retraining, drawing inspiration from existing best practice where relevant.**

63. Another area of concern, highlighted by the Minister, was the possible impact on ACP and LDC countries in relation to the problems being faced by Tate & Lyle Sugars, the UK's only significant cane refiner, in importing sufficient raw sugar to maintain its factory.[99] Inevitably, if this factory had to close, the market for cane sugar in the UK would alter dramatically, with direct consequences for ACP and LDC producers. This was borne out in the evidence we heard from Barry Newton, EPA/EBA London Sugar Group, who underlined that, though there was not a problem at the moment, if any of the larger factories were to go out of production "it does introduce a problem for a number of us, in that we may be forced to supply to a refining capacity that is well away from the port".[100]

64. Overall, we recognise that developments in EU sugar policy have implications for the future of sugar production in many ACP/LDC countries. We were therefore struck by the Minister's condemnation of the plans for further reform for almost ignoring the needs of developing countries

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[95] QQ 5, 8, 181, 207

[96] QQ 37, 62

[97] Q 38

[98] *ibid.*

[99] Q 204

[100] Q 71

and encouraged by his view that the Government have an obligation to find ways to support them.[101] **Ultimately, support for developing countries is a matter for development policy rather than agricultural policy. We agree with the Minister that plans for further reform of the EU Sugar Regime have not sufficiently accounted for the likely impact on ACP and LDC countries and appear to have been taken in isolation from discussions on future development policy. We recommend that the Government vigorously pursue this issue during negotiations on the Commission's agriculture and development proposals for the period 2014–2020.**

Free Trade Agreements

65. A number of our witnesses raised concerns about the potential impact on the EU market of various Free Trade Agreements (FTAs) signed by the Commission with third countries, in addition to the specific arrangements with the ACP and LDC countries.

66. There are currently about 300,000 tonnes' worth of commitments to the Central American and Andean countries to import sugar into the EU market.[102] As noted by Chris Carter, Corporate Affairs Director, British Sugar plc, this will affect the supply balance, with implications for ACP and LDC suppliers.[103] Barry Newton, EPA/EBA London Sugar Group, suggested that the result would be increased instability in the market, meaning that ACP and LDC countries would not be "bankable" to the European bankers, whose funding is required for further investments in efficiency to be realised.[104]

67. We heard from Sheila Page at the ODI that the FTAs which have been signed or are in negotiation with some Latin American countries would make the system "even less workable".[105] However, Ian Bacon, President, Tate & Lyle Sugars suggested that, in the light of a probable 1.5 million tonne deficit in cane sugar, and with the maximum being brought in under FTAs at around 250,000 tonnes, it was unlikely to make a big difference to the overall supply and the overall impact on the market in the short term.[106]

68. **We are not convinced that importing an additional 300,000 tonnes of cane sugar will have significant consequences for ACP and LDC producers. However, more Free Trade Agreements are likely to be signed. In preparation for the negotiation of such Agreements, we recommend that the Commission should produce an Impact Assessment of the likely effect on these countries and the EU sugar market before making any further commitments relating to the trade of sugar.**

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[101] Q 206

[102] Q 52

[103] Q 106

[104] QQ 65, 69

[105] Q 14

[106] Q 182

CHAPTER 5: CONCLUSIONS AND RECOMMENDATIONS

Chapter 2: Developments since the 2006 reform

69. **In assessing the impact of the reform, we are particularly mindful of the Court of Auditors' concerns about the extent to which any benefits of the reform have been passed on to consumers. The key message moving forward is that the market cannot be predicted with any degree of certainty and therefore that the EU's sugar policy must be sufficiently agile to respond appropriately.** (paragraph 21)

Chapter 3: Future reform- internal policy

70. **We are very concerned that the 16 per cent net increase in the EU price for sugar since 2006 has not been reflected in consumer prices for sugar and related goods, which have risen by over one third in the UK. We find the argument that the consumer price could fall if production quotas and tariffs are removed compelling but this requires monitoring by the European Commission. It is disappointing that the recent evaluation by the Commission of Common Agricultural Policy measures applied to the sugar sector assesses the impact on all groups except consumers. In line with the objectives of the Common Agricultural Policy as set out in the Treaty, we urge the Commission to put the consumer much closer to the heart of its sugar policy and, specifically, to put in place a mechanism to assess not only the market price of sugar but the price paid by consumers.** (paragraph 28)

71. **We conclude that neither the beet nor the cane sectors should continue to be protected. We therefore agree with the UK Government both that production quotas should be abolished in 2015 as proposed by the Commission and that import tariffs on raw cane sugar should be eased as appropriate in response to the world market. The easing of tariffs should, in our view, be extended to the import of refined cane sugar, bearing in mind the need to provide some security of supply, world trade discussions and support measures applied by other countries to support their sugar markets. The current restrictions on exports from the EU should be lifted to allow the EU to compete on the world market and to provide balance in the EU market if imports were to increase further.** (paragraph 31)

72. **While we urge the Government to continue to advocate a more liberalised approach as early as possible in negotiations, we recognise the political reality of the agricultural reform negotiation. However, we would consider a simple continuation of the status quo to be unacceptable.** (paragraph 32)

73. **In the event that a compromise should be necessary, we would recommend the following elements:**

    a clear date for the ending of production quotas between 2015 and 2020. We would resist any promise of a future review in order to establish a final date as this fails to give the industry the certainty that they claim to require in order to make appropriate investment;

    an immediate recalibration between Member States of production quotas to recognise changes made both pre–2006 and since 2006; and

    support to remove inefficient production. (paragraph 33)