COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 22.6.2005
SEC(2005) 808

COMMISSION STAFF WORKING DOCUMENT

Reforming the European Union's sugar policy

Update of impact assessment [SEC(2003) 1022]

{COM(2005)263 final}

TABLE OF CONTENTS

1. PROCEDURAL ISSUES AND CONSULTATION OF INTERESTED PARTIES

In September 2003 the Commission published a Communication[1] on the options for reform of the EU sugar regime, with an accompanying Extended Impact Assessment on the Sugar Sector[2], followed in July 2004 by a Communication outlining the Commission's proposal for the future of the EU sugar regime[3].

From the resulting debate, the Commission has taken into account the views expressed by the Council, the European Parliament[4], the European Economic and Social Committee[5] and other Consultative Committees[6], and has incorporated new elements into the accompanying legislative proposal. As a follow-up to those consultations made in the initial impact assessment work in 2003 and 2004, further contributions from stakeholders were also received.

A dialogue is currently taking place with third countries regarding the Commission's Working Paper[7] for an "Action Plan on accompanying measures for Sugar Protocol countries affected by the reform of the EU sugar regime." Various meetings have also been held on the action plan and on the sugar reform on 13 September[8] and 13 October 2004[9], 24 January[10], 7 March[11] and 26 April 2005[12].

Consequently, the present impact assessment incorporates new information gathered since the publication of the initial impact assessment SEC(2003) 1022. The relevant documentation can be found on the DG Agriculture website[13]. It therefore represents an update addressing specific elements corresponding to the impact of the definitive legal proposal.

2. PROBLEM DEFINITION

2.1. Drivers of Change

Under the current regime the EU sugar sector is unsustainable

The findings of the Commission's first Extended Impact Assessment pointed to an unsustainable future for the EU sugar sector under the current regime because:

---

1 COM(2003) 554 final.
2 SEC(2003) 1022.
3 COM(2004) 499 final.
4 Final Resolution P6 - TA(2005)0079 adopted at the plenary session of 10 March 2005.
5 Opinion 1646/2004 - NAT 258, adopted on 15 December 2004.
6 The Standing Group "Sugar" of the Advisory Committee "Arable Crops" has discussed the sugar reform on three occasions since September 2003, namely 15 March, 20 September and 6 December 2004.
7 SEC(2005) 61 of 17 January 2005.
8 Meeting with Least Developed Countries, Brussels.
9 Meeting with ACP ministers in Copenhagen.
10 Informal Meeting with Ministers of the sugar-producing ACP countries and LDC, Brussels.
11 EC-Caribbean Technical Workshop on adaptation following EU Sugar Reform, Port of Spain (Trinidad).
12 ACP Consultative Group on Sugar on accompanying measures for Sugar Protocol countries, Brussels.
13 Documents available include "A Description of the EU Sugar Common Market Organisation (AGRI/63362/2004, September 2004), "Sugar - International Analysis and Production Structures within the EU" and "Statistical information on the Sugar Sector".

- the maintenance of current high EU prices would dramatically increase sugar imports at the expense of domestic EU production;
- the current quota mechanism would lead to a mechanical reduction in EU production. Sugar production under quota in the EU's most competitive sugar producing regions, with relatively higher levels of B sugar, would be cut relatively more than in less competitive regions, with smaller B quotas;
- such a situation would lead to a gradual erosion of the EU sugar sector and bring it into even greater contradiction with the prevailing direction of CAP Reform, just when reformed sectors would be improving their competitiveness and market orientation.

The EU sugar sector needs to be competitive and to join in the CAP reform process

If unchanged, the EU sugar policy will become an anomaly deviating from the fundamental principles of the new Common Agricultural Policy (CAP) – market orientation, decoupled farm income support, and a better balance between the two pillars of the CAP via the strengthening of rural development. The necessary steps to incorporate the EU sugar common market organisation (CMO) into the CAP reform process would include:

- integrating the EU sugar sector into the sustainable, long-term policy perspective established for agriculture, in line with its present budgetary envelope and the framework for agricultural expenditure, and the modulation and financial discipline mechanisms;
- improving the competitiveness of the EU sugar sector by significantly reducing institutional support prices and simplifying the current quota arrangements, thereby making way for an economically sustainable EU sugar production base;
- giving priority to producer income support by transferring part of the current support for the EU sugar sector to the single payment scheme;
- making these payments subject, as is the case with all CAP direct payments, to the respect of statutory EU environmental and food safety standards, through cross-compliance, and rules of good agricultural and environmental condition, as well as to the modulation mechanism.

The EU sugar sector must continue to meet its international commitments

The EU sugar sector faces a number of challenges related to the EU's international commitments on sugar, which include:

- the implementation of the EBA initiative and its expected impact, in terms of increased sugar imports into the EU;
- the provisions of the current ACP sugar protocol and India agreement, which commit the EU to buy annually at a guaranteed price an agreed quantity of 1.3 million t of white sugar equivalent;
- the findings of the World Trade Organisation (WTO) panel challenging the EU sugar export regime, as upheld by the Appellate Body[14], which have clarified the

[14] Appellate Body Report AB-2005-2, EC-Export Subsidies on Sugar, of 28 April 2005.

conditions under which the EU may conform to the export subsidy quantity commitment of 1 273 million tonnes, as specified in the EU schedule;

- the need to uphold the benefits to the Western Balkans of the EU sugar import regime, while at the same time providing a sustainable framework for the sugar sector of these countries that is consistent with their long-term orientation towards the EU. In this context, the Commission proposed the introduction of a tariff rate quota (TRQ) at levels that preserve the present export levels to the EU from Western Balkans countries and the prospects of an economically sustainable balance between their production and consumption. In addition to the ongoing dialogue with Croatia and the Former Yugoslav Republic of Macedonia, a TRQ was introduced for Albania, Bosnia-Herzegovina and Serbia-Montenegro[15], as from 1 July 2005.

2.2. Methodological aspects

The broad environmental and social impact of the policy reform options considered by the Commission in September 2003 has already been described in the initial impact assessment. Owing to the limited additional information available to the Commission services since the publication of that initial assessment, greater emphasis has been given here to an assessment of the economic impact.

Thus, the economic impact of the proposed EU sugar regime reform has been analysed, firstly taking into account the views of the following economic actors:

- Consumers
- Agri-food industries
- Starch (isoglucose) industry and inulin syrup producers
- Sugar refineries
- African, Caribbean and Pacific countries (ACP)
- Least Developed Countries (LDC)
- EU sugar factories
- EU sugar beet growers

At a second stage, the impact on production at regional and Member State level was assessed. The impact assessment closes with an assessment of the overall economic impact of the proposed reform.

3. OBJECTIVES

3.1. General policy objectives

The objectives of the sugar sector reform should be coherent with those of the recent overall approach to CAP reform, namely, to seek:

- a sustainable long-term policy perspective for the sector;

---

15 Council Regulation (EC) No 374/2005 (OJ L 9, 5.3.2005, p. 1).

- a future for the sector based upon improved competitiveness, greater market orientation and a sustainable market balance consistent with the EU's commitments with respect to third countries and international trade rules.

These objectives should also be achieved whilst ensuring that account is properly taken of producer incomes, consumers' interests and the situation of the processing industry, in particular the need for a period of transition to permit the necessary adjustments.

3.2. Contribution to the Lisbon and Sustainable Development Strategies

The 2003 CAP reform represents a key step towards a more forward-looking, business-oriented and sustainable EU agriculture sector. If unchanged, the EU sugar policy will become an anomaly deviating from the fundamental principles of this new direction to the CAP.

The overarching objective of the EU sugar sector reform should therefore be to align itself with the fundamental principles of that new CAP, thereby contributing to the goals of the Lisbon strategy by:

- promoting a more open and competitive EU sugar market;
- increasing market orientation;
- fostering more dynamic entrepreneurship amongst farmers and producers;
- maintaining a level of economic activity and employment in the most competitive sugar producing Member States, which would be severely threatened under the "No reform" option;
- offering more favourable conditions for the restructuring of the sugar industry in the least competitive sugar producing Member States, which will move out of production.

In relation to the Sustainable Development Strategy, in line with the Presidency Conclusions of the European Council in Göteborg 2001, the objectives of the 2003 CAP reform are clearly to contribute "to sustainable development by increasing its emphasis on encouraging healthy, high quality products, environmentally sustainable production methods, including organic production, renewable raw materials and the protection of biodiversity." Aligning the EU sugar sector with the 2003 reform approach will bring:

- economic sustainability by moving away from the principle of the apportionment of the production capacity, currently built into the sugar quota regime, towards a more competitive, more market-oriented sector;
- social sustainability by achieving the necessary economic restructuring of the sector with the aid of instruments offering better conditions for those parts of the EU sugar industry that will move out of production, and fulfilling the EU's international commitments;
- environmental sustainability by connecting the sugar CMO, as part of the CAP, with the application of EU environmental legislation through the cross-compliance principle.

4. POLICY OPTIONS

4.1. Possible options

The Commission initially considered three possible policy orientations for the EU sugar regime, which were analysed in the September 2003 Extended Impact Assessment, taking into account the effects of the internal and external constraints placed on the sector and the ongoing dispute currently before the WTO.

4.1.1. "No reform"

As a reference for the alternative scenarios, the consequences of an extension of the present regime beyond 2006 were assessed. This consisted of keeping intact the current common market organisation, based on flexible quotas, which maintain market balance through the quota adjustment mechanism and price intervention. The EU market would be open to import quantities according to the various international commitments already agreed or agreed in the future.

4.1.2. "Price cut"

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

4.1.3. "Full Liberalisation – removal of price support and quota regime"

The third option for reform represented a complete liberalisation from the current regime. This meant that the domestic EU price support system would be abolished and production quotas would be abandoned.

4.2. Option Retained

4.2.1. July 2004 Communication

In its July 2004 Communication, the Commission discarded two of the three options.

The "No reform" option was deemed unsustainable in the medium term while the "full liberalisation" option was considered unbalanced, in terms of its impact on EU producers and trade partners, such that it did not offer realistic prospects for their long-term future.

The option retained by the Commission was based on the "Price cut" scenario, with quota adjustments, and broadly consisted of the following:

- a significant reduction (33%) in two steps of the institutional support price for EU sugar, with the abolition of intervention and the introduction of a reference price;
- the introduction of direct decoupled payments, within CAP budget limits, with the same historical reference period as used in the 2003 CAP reform (2000–2002). This payment was to be integrated into the single payment scheme;

- simplification of the present quota system by merging the “A” and “B” quotas into one quota and the reduction of the resulting total quota level, in order to reach a sustainable balance on the EU sugar market. The “C” sugar provisions were to remain as at present.

In addition, the proposal was to provide the basis for initiating a structured dialogue on the sugar sector with EU partners in the developing world, in order to consider how the EU can best contribute to the necessary and inevitable adjustments to sugar production in African, Caribbean and Pacific (ACP) countries and India.

4.2.2. Legislative Proposal

The current proposal remains based on the “Price cut” option with quota adjustment and consists of the following:

- the EU sugar regime will be prolonged until the end of the 2014/15 marketing year and there will be no review of price and quota levels in 2008;
- a significant reduction (39%) of the institutional support price net of restructuring amount for EU sugar, in two steps, with the abolition of intervention and the introduction of a reference price;
- the introduction of direct decoupled payments within CAP budget limits, with the same historical reference period as used in the 2003 CAP reform (2000–2002). This payment will be integrated into the single payment scheme;
- simplification of the present quota system by merging the “A” and “B” quotas into one quota. In order to uphold a certain production level in current “C” sugar producing Member States, an additional quota of 1 million tonnes, subject to a one-off charge, shall be made available;
- there will, in principle, be no compulsory quota cuts. Market balance will be ensured by the market balance tools proposed (i.e. carry forward, withdrawal and private storage measures) and the amounts of sugar quota entering a voluntary restructuring scheme;
- the restructuring scheme will provide a high, degressive per-tonne restructuring aid for factory closures and quota renunciation, plus a top-up payment to ensure sugar beet growers the possibility of receiving the full, final direct payment, in the event that they abandon production when the factory with which they have sugar beet delivery rights closes under the restructuring scheme.

5. ANALYSIS OF IMPACT

The broad environmental and social impact of the policy reform options considered by the Commission in September 2003 has already been described in the initial impact assessment. The following paragraphs, therefore, will concentrate on the economic and social impact of the updated options contained in the new legal proposal, i.e. a price decrease of 39% in two years, the introduction of a restructuring scheme.

The potential environmental impact of the proposed sugar reform does not differ to any significant degree from that described in the September 2003 impact assessment.

Starting with actors at the end of the food chain, it is expected that some internal price reductions should benefit consumers but, due to the rigid price elasticity of sugar, the impact on sugar consumption is expected to be low.

In this context, the most important health impact would not be on the overall consumption level but rather the composition of the intake of sweeteners. While it is considered that a lower sugar price could be detrimental to synthetic sweetener consumption, an increased supply of isoglucose could substitute for sugar in certain food products, such as soft drinks. From a health perspective, the effect of such changes in consumption patterns is currently under debate in the medical community. There is, however, no clear agreement as to whether the problem lies with the composition of isoglucose, or with the significant increase in its consumption, in soft drinks and processed foods.

Since sugar is an important input for the agri-food industry, lower sugar prices would mean they would benefit from a decrease in their variable costs.

Within the starch industry, isoglucose production should remain competitive at the price level envisaged by the current legal proposal. Therefore, for the industry it would be a matter of arbitration among sweeteners, given the strong interdependences among their prices and with respect to the sugar price. This could have an impact on the overall consumption of sweeteners under quota (raw sugar cane, beet sugar, isoglucose, and inulin syrup). Finally, as the isoglucose market will enlarge following the increase in the isoglucose quota by 300 000 tonnes; it is less probable that isoglucose factories would resort to the restructuring scheme.

Regarding inulin syrup producers, the less competitive ones would probably find it attractive to take advantage of the restructuring scheme.

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

As concerns the ACP countries, any option involving a price reduction will affect the countries benefiting from the Sugar Protocol by reducing the income accruing from exports to the Community. Recognising the need for adjustment due to the reform, the Commission has initiated a dialogue with ACP countries on the basis of an Action Plan[16] in order to define appropriate accompanying measures covering both development and trade. The Action Plan outlines possible development areas according to country-specific needs, such as sustainable improvement of the competitiveness of the sugar sector where economically viable, promotion of diversification and mitigating social consequences where improvements in the sugar sector are not viable.

The Least Developed Countries (LDC) benefit from the EBA initiative, which abolishes quotas and duties for all products except arms exported to the EU, with a transition period[17] for sugar, to be fully implemented from 2009/10 onwards. Most

---

16 Commission staff working paper “Action Plan on accompanying measures for Sugar Protocol countries affected by the reform of the sugar regime”.

17 A reduction of import duties on sugar by 20% on 1 July 2006, by 50% on 1 July 2007 and by 80% on 1 July 2008 until their entire elimination on 1 July 2009.

LDC are also ACP countries (40 out of 49). There are five ACP sugar protocol members (Zambia, Madagascar, Mozambique[18], Malawi and Tanzania) exporting under EBA and four ACP non-protocol members (Ethiopia, Burundi, Burkina Faso and Sudan). The only non-ACP LDC exporting sugar at present is Nepal, but there are other potential exporters that could increase their exports through import-export swaps and regional cumulation. The EBA initiative does not provide any price guarantee for sugar imported from LDC countries. But sugar imported from the EBA countries will continue to benefit from the higher EU domestic price. This price is equivalent to € 303/t for raw sugar from 2008/09 onwards.

From the point of view of EU sugar beet processors, in the light of a reduction in sugar prices, the future profitability of sugar beet processing will depend on whether processors can keep their margins positive by reducing processing costs per tonne or reducing raw material costs. If processing becomes unprofitable, processors will stop their activity. Since sugar beet is a bulky raw material, with high transport costs, closure of a sugar beet factory may lead to abrupt production abandonment in a certain region, at farm level.

From the point of view of EU sugar beet growers, in the light of reducing sugar prices, the future maximisation of profit will depend on whether farmers can reduce their sugar beet growing costs per tonne or switch from sugar beet to alternative crop production, should the margin per hectare of sugar beet fall below that for the alternative crops.

The combined profitability of sugar beet growers and processors is important because they depend strongly on each other, such that in a given region:

- if the sugar price falls below the combined costs per tonne of growing and processing sugar beet, the industry will have no alternative but to stop all activity;
- if the sugar price remains above the combined costs per tonne of growing and processing sugar beet, economic activity will continue but the investment strategy, particularly of the processing sector, will be adapted to take into account expected market developments.

5.1. Assessment of the economic impact

5.1.1. Farm Profitability

A simulation of the effect on farm incomes of the legal proposal for reforming the sugar sector was carried out on the basis of EU FADN data (2000–2001). Note that calculations were performed under the hypothesis that following CAP reform full decoupling is applied in all Member States.

The analysis led to the estimated average break-even prices shown below, at which level sugar beet becomes less profitable than competing crops (wheat, barley, maize, durum, and sunflower). This is the price level at which, on average, the farmer decides to switch from sugar beet to other crops.

[18] Mozambique signed the sugar Protocol in 2005.

The estimates for break-even prices were then compared with the minimum price proposed for sugar beet under full implementation of the reform: € 25/t. At farm level, three groups of Member States can be distinguished, as shown in Table 1.

Table 1 Breakdown of MS according to the estimated average break-even price for sugar beet at farm level

Much more than 25€/t		Not clear cut		Close to 25€/t	
Member States	*Break even price €/t*	*Member States*	*Break even price €/t*	*Member States*	*Break even price €/t*
Finland	*44*	UK	*40*	B-NL	*30*
Greece	*34*	Austria*	*40*	Denmark	*25*
Italy	*42*	Sweden	*34*	France	*26*
Spain	*36*			Germany	*30*

* Austria's position will depend on the competing crop chosen for the analysis.

1. MS where the break-even price is much higher than € 25/t: Finland, Greece, Italy and Spain.

   For Finland, the main factor is rather the low level of sugar beet yields. The coupled supplement that can be granted for drying cereals and oilseeds also raises the break-even price for sugar beet.

   For Greece, Spain and to some extent Italy, the profit margin obtained from the relatively more attractive competing crop (maize) is the main factor explaining the high break-even price for sugar beet. Within MS there might be significant differences at regional level, depending on the competing crop.

2. In three MS the decision to move out of sugar will depend on other factors.

   In the UK the future of sugar beet growing will depend on the capacity for gains in production efficiency by improving yields and reducing costs.

   In Sweden, it will depend on the decision concerning the drying aid for cereals.

   In Austria, this result is much more related to statistical issues, i.e. data sampling, so should be viewed with caution.

3. MS where the break-even price is close to or below € 25/t: Denmark, France, Germany and Belgium-Netherlands[19].

   These countries are characterised by high yields (especially FR) and an efficient use of inputs (in particular BE-NL).

5.1.2. *Combined profitability of farmers and processors*

Ultimately it is the projected combined profitability for growers and processors that will determine the impact of the reform. An indication of the combined profitability may be derived by comparing average sugar processing costs and field production

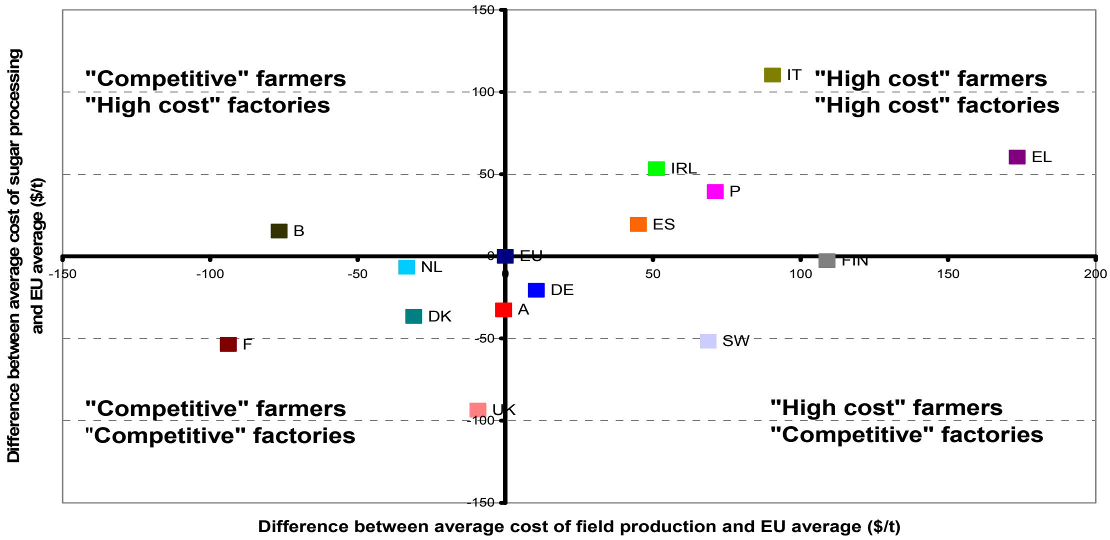
[19] Belgium and the Netherlands have been considered together in order to obtain a larger sample of specialised farms.

costs in the different Member States with the EU-15 averages. This comparison is shown in figure 1.

- There are countries like France where both the processing industry and the farm sector are more competitive than the EU average.
- There are countries like Belgium where farmers are quite competitive but the industry presents moderately higher costs than the EU average.
- There are countries like Sweden and Finland where the processing industry is sufficiently efficient, but the farm sector is less competitive than the EU average.
- There are countries like Greece where both the farm sector and the processing industry are less efficient than the EU average.

Staying in the market is determined by the capacity either of the farm sector or the processing industry or both to adjust to price cuts.

Figure 1 Relative Position of Member State Sugar Beet Farmers and Factories according to Costs



5.1.3. *Profitability of the sugar industry as a whole*

5.1.3.1. Impact of the proposed price cuts at regional level

Based on available average data for the regions and EU-15 Member States, a simplified representation is given of the possible response that could be expected in terms of the abandonment of sugar production in regions and Member States. This is based on the declining profitability of the sugar sector in the region concerned due to falling sugar prices.

Results have to be taken as likely outcomes and thus interpreted cautiously. In fact, they depend strongly on the data and the method used. Other in-house analysis shows broadly similar results, but the picture might differ greatly for some regions that are quite sensitive to the working hypothesis. This is, for example, the case for Spain.

Moreover, these results should not be understood as forecasting the disappearance of sugar production in the regions nor in the Member States concerned.

According to the available data and the method employed it is likely that within EU-15 Member States:

- as the sugar price falls below € 550/t, sugar beet production would probably be threatened first in southern and northern Italy;
- a price below € 500/t would make sugar production less profitable in Ireland, Portugal, central Italy, Greece and parts of southern Spain, therefore in these regions production is likely to decline;
- should prices fall further (i.e. below € 400/t) sugar beet production in northern Spain and Denmark could become less profitable. Production would be likely to decrease too in other regions, like parts of the Netherlands, southern Spain and some regions of Germany.

Table 2 Sugar Break-even Price and Production under Quota (*'000 tonnes*) in EU Regions and Member States

Euros per tonne	Regions	*Sugar production (average 2000-01)*	*Production under quota (average 1999/00 - 2000/01)*	*Cumulated production under quota (average 1999/00 - 2000/01)*
above 550	Southern Italy	205,7	205,7	205,7
between 500 and 550	Northern Italy	1.234,7	1.092,8	1.298,5
between 450 and 550	Ireland	266,2	198,0	1.496,5
	Portugal	59,4	66,5	1.563,0
	Central Italy	277,9	246,0	1.809,0
	Southern Spain (irrigated)	414,9	350,4	2.159,4
	Greece	468,5	272,0	2.431,4
	Finland	172,2	145,0	2.576,4
between 400 and 450	Northern Spain	686,9	580,1	3.156,5
	Denmark	519,5	416,5	3.573,0
between 350 and 400	Netherlands	1.014,0	856,0	4.429,0
	Spain South (dry)	74,6	63,0	4.492,0
	Niedersachsen, Bremen, Hamburg, Schleswig-Holstein	1.144,9	930,0	5.422,0
	Austria	432,6	384,0	5.806,0
	Sweden	420,9	366,0	6.172,0
	Eastern Germany	970,5	788,4	6.960,4
	Nordrhein Westfallen, Hessen, Rheinland Pfalz	1.061,1	862,0	7.822,4
	UK	1.413,6	1.132,5	8.954,9
	Belgium	941,3	812,5	9.767,4
	Picardie	1.632,1	1.240,3	11.007,6
between 300 and 350	Ile de France	476,9	362,4	11.370,0
	France: other regions (Centre, Bourgogne, Est, Centre Est)	511,6	391,4	11.761,4
	Bayern, Baden-Wuttenberg, Saarland	983,8	799,2	12.560,6
	France_ Nord	666,3	506,4	13.066,9
	Normandie	333,7	253,6	13.320,5
	Champagne-Ardennes	1.012,8	769,6	14.090,2

5.1.3.2. Summary of impact of the proposed price cuts at Member State level (EU-25)

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

- MS where sugar production is likely to be drastically reduced or even phased out: Greece, Ireland, Italy, Portugal;
- MS in the border zone: Czech Republic, Spain, Denmark, Latvia, Lithuania,, Hungary, Slovakia, Slovenia and Finland. In these MS, production is likely to be maintained but at a significantly lower level;
- MS where the decrease in sugar production will be limited**.** It is even likely that overall production would not decrease in some MS: Austria, Belgium, France, Germany, the Netherlands, Poland, Sweden and the UK.

Table 3 indicates recent production figures for these Member States, broken down according to the above groups. Figures refer to production under quota for the marketing year 2003/04.

It is important to note that current production is lower than the quota. Some Member States or regions have not fulfilled their quotas for several years.

Table 3 Breakdown of Member States according to combined profitability

	The reduction in sugar production is likely to be….					
	Drastic (1)		**Significant (2)**		**Limited (3)**	
	Member States	*Current Production**	*Member States*	*Current Production**	*Member States*	*Current Production**
		1000 t		*1000 t*		*1000 t*
	Greece	311	Czeck Republic	455	Austria	382
	Ireland	197	Denmark	413	Belgium	808
	Italy	954	Finland	145	France	3.497
	Portugal	70	Hungary	402	Germany	3.341
			Spain	991	Netherlands	851
			Other new MS	430	Poland	1.672
					Sweden	365
					UK	1.129
Sub total		**1.532**		**2.836**		**12.044**
% of current prod (*)		9%		17%		73%
Production EU 15				*13.454*		
Quota EU 10				*2.958*		
Total EU-25				**16.412**		

* A+B Production 2003/04 for EU-15 MS, quota for new MS

If Member States in group (1) fully abandoned production, this would represent a 9% drop compared with EU-25 quota sugar production in 2003/04. However, it is not excluded that some factories would remain in business.

Within the "borderline" group (2) some factories will close down, while others will stay in business and try to increase their production. In fact, some Member States could have been classified under group (3). For instance Denmark could have been considered alongside Sweden, as there are economic links between factories in these Member States. Factory ownership and the related restructuring and implementation policy have also influenced the classification of Finland.

Member States in group (3) will on the one hand undergo a limited reduction in production under quota but, on the other, will narrow down their C sugar production[20]

[20] Studies suggested that a 33% price cut would entail a cut in "C sugar" to about 1.3 million tonnes in 2008/09.

(currently 3 million tonnes). The production reduction may be partly offset by access to an additional amount of 1 million tonnes of quota subject to a one-off levy. This additional amount will be taken up by the most important C sugar producers (France, Germany, Netherlands, Belgium, United Kingdom etc.).

An accurate assessment of the number of factories that could remain in business and their production potential is not possible. As it relates to the strategic development plans of the companies concerned this information is confidential.

5.1.3.3. Out of quota sugar

However, under current arrangements there will be other opportunities for the sugar sector. For instance, sugar beet should qualify for set-aside payments, when cultivated as a non-food crop, and also be made eligible for the energy crop aid of € 45/ha provided for under the 2003 CAP reform. However, sugar beet will compete with cereals for bioethanol and will not change the ratio of biodiesel in biofuels. Finally, sugar used by the chemical and pharmaceutical industries will not be included in the production quotas and could represent an additional outlet of about 500 000 tonnes.

5.1.3.4. Acceding countries

The potential impact of the proposed reform on the sugar sectors in Bulgaria and Romania has been assessed. On the basis of the limited information available, it may be expected that Bulgaria sugar beet production could remain at the negotiated quota level of 4 752 tonnes, while in Romania sugar beet production could decline substantially.

5.1.4. Overall economic impact

Projected production under quota with the “No Reform” option is estimated to fall by up to about 11.4 million tonnes by 2013, that is, 6 million tonnes less than current production under quota (see Table 4). This decrease in production is explained by the fact that, as a result of increased imports from EBA countries, the EU sugar quota system would work directly to achieve market balance, through market adjustment, by reducing production under quota. EBA imports are estimated at 3.5 million t by 2012/13, while EU institutional prices are only technically adjusted to € 560/t, i.e. minus 11%.

Furthermore, projected exports have been set taking into account the WTO panel outcome and a Uruguay Round II scenario. Export refunds have been reduced in accordance with the negotiating position (i.e. phased out over 10 years) and will still have to cover the entire difference between the EU institutional price and the world price.

Estimated developments in production under the current legal proposal stem from the combined effects of the price cut and the attractiveness of the unit amount of the restructuring aid (€ 730/tonne) during the first two years of the reform, which should lead to a net production under quota falling of about 5.2 million tonnes. Under these assumptions, by 2012/13, sugar production under quota in the EU-25 would be about 12.2 million tonnes, that is, 0.8 million tonnes more than under the “No reform” scenario. Furthermore, sugar beet cultivation would be concentrated in the most competitive regions, a pre-condition for making the EU sugar industry sustainable in the long term.

Table 4 EU-25 Sugar Balance under Proposed Reform and "No reform" scenarios in 2013

			Base year	2012/13 Reform	2012/13 No-Reform
PRICES					
Institutional price		(€/t)	631.9	385.5	560.0
Cumulative reduction in institutional price*				39%	11%
QUANTITIES					
Consumption		(mio t)	**15.9**	**16.0**	**16.0**
Quota		(mio t)	17.2	[17,4]	[17,4]
Cumulative increase in isoglucose production				0.46	0.0
Estimated EU production under quota			16.7	12.0	11.4
C sugar production			3	-	-
Total EU-25 production under quota			**19.7**	**12.0**	**11.4**
Total imports		(mio t)	**2.3**	**3.9**	**5.2**
	of which ACP/India	(mio t)	1.3	1.3	1.3
	of which EBA/SPS	(mio t)	0.2	2.2	3.5
	of which MFN	(mio t)	0.1	0.1	0.1
	of which Balkans	(mio t)	0.3	0.3	0.3
Total exports		(mio t)	**3.1**	**0.4**	**0.6**
	of which Non Annex 1	(mio t)	0.4	0.4	0.4
	of which A & B with refunds	(mio t)	1.1	0.0	0.2
	of which eq. ACP	(mio t)	1.6	0.0	0.0

** technical reduction of 11% on Intitutional prices in the No-reform scenario*

On the import side, an increase in imports of 1.6 million t, from 2.3 to 3.9 million t of sugar, from preferential partners, is forecast. Given a stabilisation of the import regime for the Western Balkans, the main driver of the increased level of imports would be the impact of the zero tariff arrangements of the EBA initiative for the LDCs.

In such estimates, a major role may be played by "swap" trade flows, on the level of which there remains a lot of uncertainty. Swaps depend on world market and EU prices, and freight costs. The theoretical maximum production volume of 2.5 million tonnes, interested by swaps, is derived as a function of the production capacity of the current EBA net exporters (e.g. Malawi, Zambia, Ethiopia, Sudan and Mozambique) plus the production level of current EBA net importers.

Some ACP protocol countries will have to reduce their exports and/or to use the swap system to keep supplying the EU. Shortfall from some of them will be replaced by low cost producers such as Swaziland, Zimbabwe, Zambia, Malawi, and Mozambique. Thus, as a whole, ACP would continue to supply the 1.3 million tonnes they are committed to.

On the export side, as a consequence of the substantial reduction in the overall level of EU production, EU subsidised sugar exports are projected to be zero in 2012/13.

5.2. Social impact

As regards farmers, the direct decoupled payment will act as an income support from the first year of the reform implementation, being based on 60% of the difference between current and final sugar beet prices.

In some countries (Greece, Spain and, to some extent, Italy) sugar beet will be substituted by cereals, mainly maize and wheat, even if there might be significant differences within MS at regional level, i.e. in southern regions sugar beet will be substituted by maize in the irrigated areas and wheat in the dry ones. In Nordic countries the coupled supplement that can be granted for drying cereals and oilseeds will also influence farmers' decisions. Moreover, in certain regions, farmers' decisions will depend on their ability to gain efficiency in production by improving yields and reducing costs.

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

As regards sugar manufacturers, less competitive factories will resort to the restructuring scheme and cease their sugar beet processing activity. Thanks to the restructuring aid, they will be able to invest the related capital in other economic activities, which would not be the case under the "No Reform" scenario.

In the context of the proposed reform, production under quota is projected to be 0.6 million tonnes higher than under "No Reform" scenario. Therefore, employment losses are expected to be less, since the reform leads to an increase in the sugar industry's competitiveness.

6. MONITORING AND EVALUATION

6.1. Monitoring

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

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

6.2. Evaluation

In compliance with the Commission's rules on evaluation, the impact of the reform of the sugar sector will be entered in DG Agriculture’s (ABB) activities, to be evaluated in the multi-annual evaluation programme.