

EU SUGAR MARKET REFORM

Towards a competitive
and fair value chain



BACKGROUND

CIUS is the Committee of European Sugar Users – representing the European sugar-using food and beverage industries. CIUS members purchase and use almost **70% of the European annual production of sugar for food use** and provide **direct employment for over 350,000 people**.

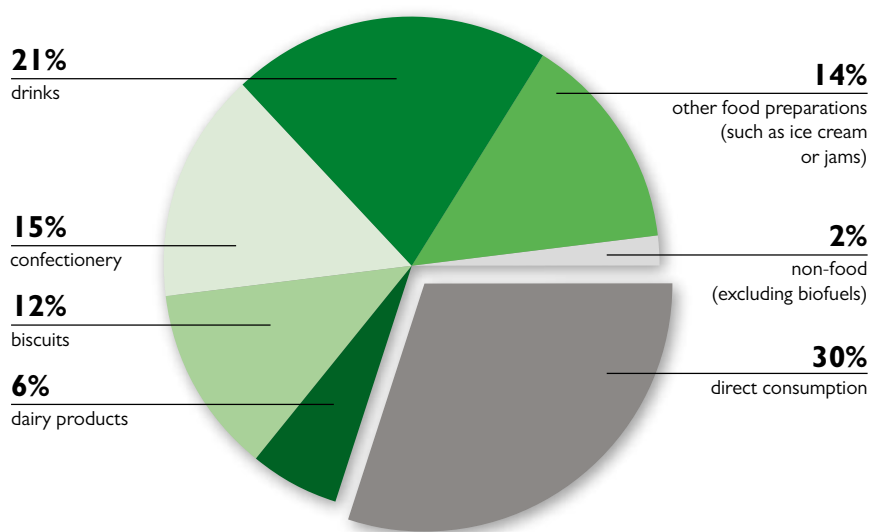


fig.1: The many uses of sugar in EU food production

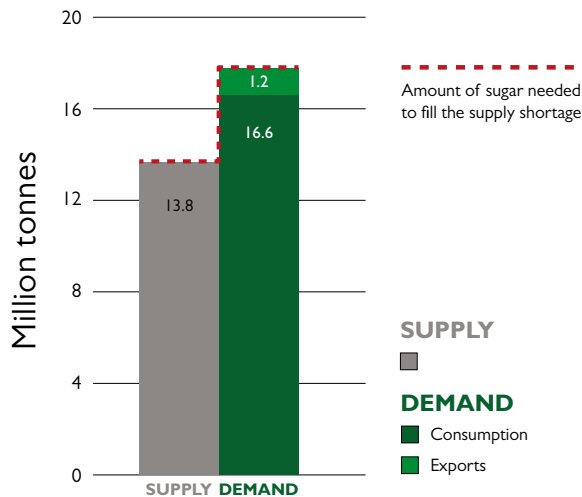
Source: European Commission, DG Agriculture and Rural Development

TOWARDS A COMPETITIVE AND FAIR VALUE CHAIN

- CIUS supports a balanced, stable and fair EU sugar market, based on competitive, sustainable domestic production, supplemented by imports to the extent needed.
- To meet this objective, CIUS supports the Commission proposal to abolish production quotas in 2015, accompanied by a gradual reduction in import barriers.

THE CURRENT REGIME HURTS EUROPEAN **COMPETITIVENESS**

◆ **Structural shortage of supply:** Current EU beet sugar and isoglucose production quotas only cover 80% of EU sugar demand. The remaining 20% must be secured through imports from a limited number of third countries. (fig. 2)



Source: European Commission, Jan. 2012

fig. 2: The EU sugar supply shortage

EU Quota production falls far short of demand. This gap has to be filled by imports and exceptional market measures.

“Our family business has survived many crises, but this last year has been a real challenge. The biggest difficulty has been to secure sugar supplies. We had long-term relations with suppliers for many years, but when supplies are as tight as this, suppliers go where they make the most money. As a small company that purchases relatively modest volumes you simply don’t stand a chance.”

Yves Reynier, Director General
Guintrand Conserve Alimentaires, Carpentras, France



◆ **High import barriers:** The 2006 EU sugar market reform has transformed Europe from the largest exporter into the largest importer of sugar. The short-fall currently amounts to circa 4 million tons per year. Sugar imports from countries with free EU access are insufficient to cover this gap, while imports from other countries are subject to prohibitive tariffs. (fig. 3)

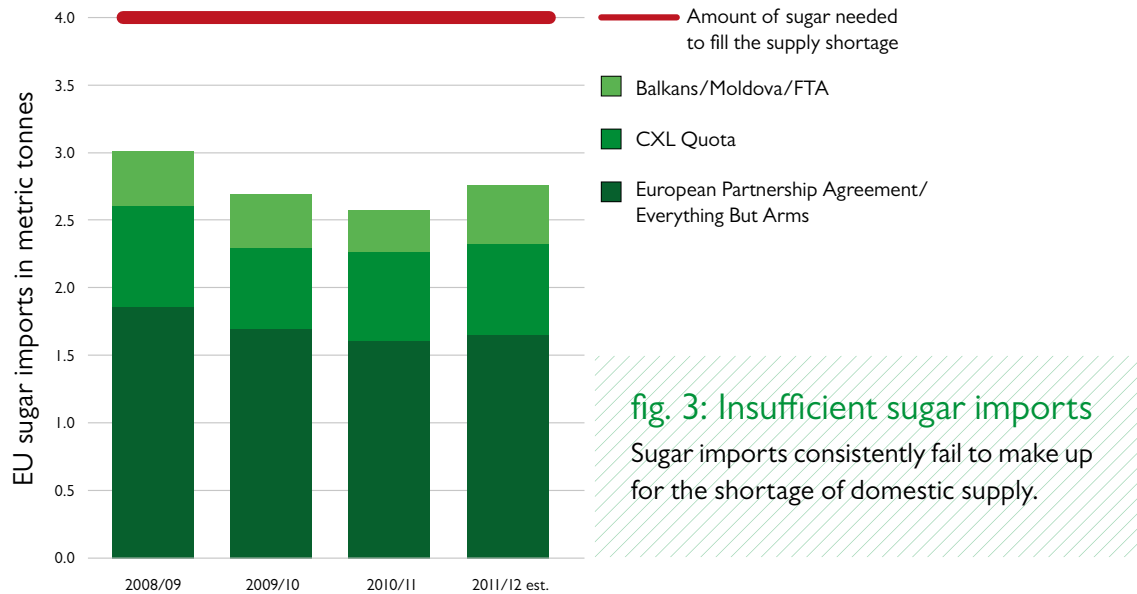


fig. 3: Insufficient sugar imports
 Sugar imports consistently fail to make up for the shortage of domestic supply.

Source: European Commission 2012

◆ **Inadequacy of corrective measures:** Under the current sugar regime the EU market is dependent on ad-hoc measures to correct supply and demand imbalances. However, these measures, if taken, are often late in their effect, do not relieve market tightness and fail to remove sourcing difficulties for sugar users.

◆ **Repercussions on competitiveness:** CIUS members purchase almost 70% of European annual sugar production for food use. Chronic supply shortage and increased prices have an immediate negative impact on the competitiveness of the European food and drink industry and the 4.2 million jobs (2.9 million of which relate to SMEs) and 2% of EU GDP it represents.



THE CORNERSTONES OF SUCCESSFUL EU SUGAR REGIME REFORM

- ◆ **Abolition of production quotas:** CIUS supports the Commission's proposals to reform the sugar sector and **to end sugar and isoglucose production quotas in 2015**. A quota-free sugar market will **enable competitive farmers to increase production** and provide for better supply. Recent research* supports this as it predicts that EU sugar production would increase following the abolition of EU sugar quota.
- ◆ **Reduction of import barriers:** The abolition of production quotas must go hand in hand with a **gradual reduction of import tariffs** to balance competition and establish a fairer trade environment.
- ◆ **A fair value chain:** Stable and sustainable sugar production must include **fair terms for European farmers**. **Robust agreements between farmers and processors**, as foreseen in the CAP reform proposals, are a better tool to achieve this than quotas. They can provide certainty and fairness without restricting production and give farmers more flexibility to react to market opportunities.
- ◆ **A safety net against market volatility:** While the market continues to be regulated, stocks and storage are important instruments to protect the stability of the value chain and guarantee supply independent of seasonality. The EU grants aid to help cover the cost of private storage of certain commodities in times of market turbulence. As foreseen in the CAP reform proposals, **private storage aid must also apply to sugar**.

* Nolte S, Buysse J and Huylenbroeck GV (2011) *Modelling the effects of an abolition of the EU sugar quota on internal prices, production and imports*. European Review of Agricultural Economics pp. 1–20

“It is imperative that the EU sugar and sweetener market becomes more responsive to market signals and pressures. We have been forced to cope with uncertainty about supplies of a key sugar based ingredient over the last 12 months - our retail customers will not countenance any failure to supply their needs, so the risk of a market failure rests with us, the SME link in a supply chain dominated by major market players.”

Malachy McReynolds, Managing Director
Elizabeth Shaw, Bristol, UK



- **Access to market information:** A freer sugar market might be subject to more unexpected and rapid changes than today. **Better market intelligence on actual sugar supply availability** in the EU will be needed for investment and production planning. That includes **prompt publication of private storage data** and monthly collection and reporting of **spot market price information**.
- **Exports as a source for growth:** Global sugar demand increases by 3-4 million metric tons every year. A quota free market will not only permit farmers to benefit from production expansion, but also from **new export opportunities**. Growing demand for products of high quality, environmental and social standards will enable a **resource-efficient and competitive European sugar and isoglucose industry to compete on the world market**.
- **A level playing field for alternative sweeteners:** Sugar can be substituted with other natural or synthetic sweeteners. Isoglucose, for example, is produced from wheat or maize and can be used as a sweetener for liquid products, such as soft drinks. Isoglucose production is also restricted by a quota, which keeps EU availability artificially low, hampering the competitiveness of this important economic sector. **The abolition of isoglucose quotas at the same time as those for sugar would redress a level playing field**.



“We medium-sized companies, whose main raw material is sugar, are being put into a difficult position in financial and quantitative terms due to the EU’s intentional supply-side shortage and inflexible quota regime. What is more, normal business growth through existing or potential customers is practically impossible since sugar is either in short supply or made unattractive in terms of price through high import duties and costly logistics.”

Thomas Baum, Head of Procurement
Sweet Tec GmbH, Boizenburg, Germany



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