The Impact of EU Sugar Reforms on Traditional African Caribbean and Pacific Sugar Exporters

Paul Goodison

November 2015
Initiativet for Handel og Udvikling

The Impact of EU Sugar Reforms on Traditional African Caribbean and Pacific Sugar Exporters

Table of Contents

Summary

From 1975 onwards, initially under the Sugar Protocol, the special preferential sugar arrangement and subsequently the EBA initiative, sugar producers in a growing number of African, Caribbean and Pacific (ACP) countries enjoyed quota restricted duty free access to the EU market. These quota restricted imports took place at guaranteed prices (linked to internal EU prices) which were at times three to four times higher than world market sugar prices. Under the traditional EU sugar regime these imports from ACP countries were an integral part of the EU supply balance.

Under the impact of EU sugar sector reforms initiated in 2005, the EU set in motion a process of reducing guaranteed prices alongside an expansion of direct aid payment for EU sugar producers (in line with reforms in other sectors). In October 2007, the EC announced the repudiation of the Sugar Protocol, which from October 2009 removed price guarantees for sugar imported from ACP countries.

In a context of high world market prices, which helped support EU market prices in the face of the lowering of EU guaranteed prices, the first stages of CAP reform impacted less severely on ACP exporters as a whole than initially projected. While some ACP suppliers terminated sugar sales to the EU, other ACP suppliers expanded their sales to the EU. This was made possible by the establishment in 2008 of a ceiling on sugar imports from the ACP at a level, which effectively no longer limited the volume of exports. By 2013/14, this saw ACP/LDC sugar exports to the EU reach 2.193 million tonnes (a 37% increase over pre-reform levels).

The substantial decline in world market prices since July 2011 is, however, impacting on EU prices and reducing the returns to ACP sugar exporters. However, since EU prices have fallen less than world market prices by June 2015, the EU market still offered higher revenues than world market sugar sales.

However, further planned EU sugar sector reforms, notably the scheduled abolition of national sugar production quotas in October 2017, will have profound effects both on the prices paid for sugar imports from traditional preferred African, Caribbean and Pacific suppliers and the overall volume of EU sugar imports. This is projected to see EU prices fall by 33% compared to 2013 price levels, a progressive 5% increase in EU sugar production and a 50% decline in overall EU import demand[1].

The increase in EU sugar production despite the dramatic decline in market prices is attributable to:

a) *the increased efficiency in overall EU sugar beet production and sugar extraction;*
b) *the diversification of revenue sources from sugar beet processing which is underway;*
c) *the abolition of EU sugar production quotas (which will immediately bring out-of-quota beet production onto the EU sugar market);*
d) *the ongoing system of public sector support to EU sugar beet producers (consisting of both the 'decoupled' single farm payments and since the 2013 round of CAP reforms increased levels of 'coupled' support for sugar producers in a limited number (10) of EU member states);*
e) *the continuation of a highly protective sugar trade regime.*

In addition to the price and import demand effects of ongoing reforms, the sugar sector reform process has also promoted a consolidation and internationalisation of European sugar companies. ***This is having important effects on patterns of ACP-EU sugar trade****. In particular, it has intensified competition on national EU sugar markets, where traditional raw cane sugar refiners traditionally played an important role. The intensified competition arising from a large-scale expansion of raw cane sugar refining by sugar beet processing companies, is bringing into question the financial sustainability of the full-time raw cane sugar refiners who traditionally refined ACP raw sugar exports.*

[1] EC, 'Prospects for EU Agricultural markets and income 2014-2024', December 2014, http://www.lafranceagricole.fr/var/gfa/storage/fichiers-pdf/Docs/2014/Commission-081214.pdf

The projected price and import demand effects of EU production quota abolition will carry particularly profound consequences for smallholder sugar cane farmers in ACP countries. Particularly in those countries with a high dependence on the EU market for sugar sales (notably in Africa - Swaziland, in the Caribbean - Belize, Guyana, Jamaica and Barbados, and in the Pacific - Fiji). While many of the milling/refining companies in competitive African, Caribbean and Pacific sugar producing countries are diversifying their revenues from cane processing away from raw sugar markets (through sales of alcohol, ethanol, co-generated electricity, bottled water, fertiliser animal feed and even chemicals and plastics), ***independent small and medium sized sugar cane farmers will remain dependent on cane payments based solely on revenues derived from sales of sugar and molasses****.*

Unless formulas can be found which allow independent cane growers to gain a share of revenues from new products manufactured from sugar cane (i.e. beyond sugar and molasses sales), the future commercial viability of independent sugar cane farmers, particularly smallholder sugar farmers looks uncertain*.*

The fact that investments in the expansion of smallholder sugar farming has been supported under the Accompanying Measures for Sugar Protocol programmes, without a proper assessment of the long term commercial implications of the on-going process of EU sugar sector reform for small scale sugar producers, suggests that important issues of policy coherence have been left unaddressed in the sugar sector.

Recommendations

- EU sugar sector companies have a poor record in terms of avoiding abuse of dominant market positions, with this suggesting a need to ***strengthen the regulatory framework for the functioning of ACP-EU sugar supply chains***.
- The EC should bring its substantive analytical work on strengthening the functioning of agricultural supply chains to bear on ***initiatives to strengthen the functioning of ACP-EU sugar supply chains***, to avoid abuse of the dominant market position, which EU sugar companies enjoy within ACP-EU sugar supply chains.
- This should include a broadening out of EC initiatives to monitor price developments on EU sugar markets, to include more detailed analysis of price developments within ACP-EU sugar supply chains.
- As sugar prices on the EU market fall and the volume of sugar imported into the EU declines, so the importance of non-sugar sales revenues will increase, with this suggesting a need for ***policy initiatives to expand the participation of smallholder sugar farmers in revenue sharing arrangements linked to non-sugar and molasses revenues,*** derived from the further processing of sugar cane.
- This particularly relates to the issue of ***the pooling of proceeds from sales of sugar cane based products and their division between growers and millers.***
- This is likely to be ***a critical issue to the future financial viability of both sugar cane production by smallholder farmers and independent growers in ACP countries.***
- The EU should support initiatives to share experience amongst smallholder sugar farmers on the pooling and sharing of new revenue streams, and promote best practices, as part of its sugar sector adjustment support measures in ACP countries.

The Past Importance of Sugar to ACP countries and EU Sugar Sector Reform

Preferential Access and Preferential Guaranteed Prices

Imports of sugar into the EU traditionally took place under the ACP-EU Sugar Protocol and Special Preferential Sugar (SPS) arrangement designed to meet the maximum supply needs (MSN) of traditional EU raw cane sugar refiners. The MSN, until its disappearance, allowed imports of up to 1,779,000 tonnes of sugar (white sugar equivalent – w.s.e.). These arrangements provided not only ***guaranteed market access*** but also ***a guaranteed price*** for the sugar supplied, linked to the EU guaranteed price (€523.7 per tonne of raw cane sugar, cif). At a time of extremely low world market sugar prices this yielded major financial benefits to the preferred ACP sugar suppliers.

A September 2000 study by the Netherlands Economic Institute[2] estimated that in 1997/98 the total income transfer[3] to ACP countries under the sugar protocol and special preferential sugar arrangements was 501.8 million European Currency Unit (ECU)[4]. However, as world market sugar prices fell so this revenue transfer increased, to an estimated 1,000 million ECU per annum.

Impact of Reforms Upon the LDCs

From 2001 under the Everything But Arms (EBA) initiative, preferential access was progressively extended to additional LDC sugar producers. The initial quota in 2001/02 was 74,185 tonnes and the final 2008/09 quota 197,335 tonnes. From October 2009 LDC sugar exporters enjoyed full duty free-quota free access to the EU market.

Following the announcement of the EBA initiative a number of EU companies acquire shareholdings in African companies (most notably ***Associated British Foods*** 51% shareholding in ***Illovo***[5]). This provided a vehicle for investment in the expansion of sugar production and milling in low cost sugar producing least developed countries (most notably Mozambique, Malawi and Zambia).

The introduction of full duty free-quota free access (DFQF) for LDCs coincided with the offering of *de facto* unrestricted duty free-quota free access for ACP sugar from countries whose governments had concluded reciprocal preferential economic partnership agreements (EPAs) with the EU. The granting of DFQF access under the EPAs, saw a similar expansion of investment in sugar production in low cost non-least developed southern African sugar exporting countries (notably Swaziland and Zimbabwe).

The Sequencing of Expanded Market Access with EU Sugar Sector Reforms

This expansion of access to the EU sugar markets for ACP/LDC sugar exporters was carefully sequenced with the process of sugar sector reforms, which changed the context in which the ACP-EU sugar trade took place. This sequencing was designed to ***bring EU sugar prices down closer to world market price levels, thereby reducing the incentive for ACP/LDC sugar producers to export sugar specifically to the EU market***.

However, with EU sugar sector reforms being introduced in two distinct phases, separated by a ten-year period, the process of transition has not proved smooth. There has been increased volatility in individual ACP-EU sugar trade relationships. This has been particularly the case following the

[2] Netherlands Economic Institute, 'Evaluation of the common organisation of the market in the Sugar sector', September 2000, point of entry for full report: http://ec.europa.eu/agriculture/eval/reports/sugar/index_en.htm

[3] The extra earnings derived from exporting to the EU at the guaranteed price compared to what would have been earned on the same volume of sugar sold on the world market

[4] The ECU was the forerunner of the Euro, a virtual currency calculated on the basis of the weighted value of national EU member states currencies.

[5] For details see Agritrade, 'British Sugar Corporate Profile', 24 July 2014 http://agritrade.cta.int/Agriculture/Commodities/Sugar/British-Sugar-Associated-British-Foods-corporate-profile

abolition of the EU-ACP Sugar Protocol in October 2009[6], which ended the guaranteed price arrangements for ACP/LDC sugar exports. The impact of the abolition of the EU-ACP Sugar Protocol on prices obtained from exports of individual consignments of ACP sugar to the EU market was compounded by the dramatic shifts in global sugar prices. This created tremendous volatility in the prices offered for individual consignments of ACP sugar. This even gave rise to a situation where on occasion world market sugar prices were higher than EU market sugar prices. A development, which created considerable problems for traditional ran cane sugar refiners.

EU Sugar Sector Reforms: Summary

The Impact of the First Round of Sugar Sector Reforms
The implementation of the 2005 round of sugar sector reforms, saw

- a 36% reduction in guaranteed EU prices, which was compensated for by EU sugar producers being incorporated into the single farm payment scheme, with decoupled support estimated to be equivalent to around 64.2% of the guaranteed price reduction (for a 5 year transition period an additional coupled payment equivalent to 30% of the price cut was made available).
- a reduction in EU sugar production quotas, with this being compensated for by a substantial sugar sector restructuring fund;
- the abrogation of the ACP-EU Sugar Protocol, which ended price guarantees for sugar imported from ACP sugar protocol beneficiaries;
- the continuation of national sugar production quotas until October 2017.

The Existence of '*Out-of-Quota*' Sugar
It should be noted that the sugar production quotas did not place a ceiling on actual EU sugar production but rather ***the volume of sugar production eligible for EU support***. Substantial '*out-of-quota'* sugar production took place equivalent to 24.7% of the total EU quota in 2013/14 (rising to a projected 47.4% in 2014/15). However only in exceptional circumstances could '*out-of-quota'* sugar be sold on the EU market. Normally this sugar beet production had to be used for other purposes (non-sugar consumption purposes), or be turn into sugar carried over to the next annual sugar production quota or be turned into sugar which was exported at world market prices[7].

The Impact of Out-of-Quota Sugar in the New Post-Production Quota Context
The existence of '*out-of-quota'* sugar production is significant. With the abolition of production quotas, this sugar beet production can be used to produce sugar for sale on the EU market, ***immediately boosting domestic EU sugar supplies and reducing EU sugar import demand***. Demand for imports of raw cane sugar from the most competitive beet processing companies, is likely to be particularly severely affected, since these companies can now process more of their own beet production into sugar for sale on the EU market. This is likely to reduce the level of co-refining of raw cane sugar which these companies undertake and hence reduce competition for imports of sugar from preferred sugar suppliers.

Continued Trade Protection for the Sugar Sector
While the EU sugar sector is being reformed, the EU has continued to ***maintain a highly protective trade regime for sugar***. This ensures the only sugar entering the EU market occurs under highly regulated import arrangements.

Corporate Adjustments and EU Sugar Sector Reforms
The planned implementation of EU sugar sector reforms saw a profound process of corporate adjustment to the new market context, which would be created. With a ***consolidation*** and ***internationalization*** of EU sugar companies and an ***intensification of competition*** on national markets traditionally served by raw cane sugar refiners. This has in large part arisen as a result of the large scale expansion of raw cane sugar refining by traditional beet refiners (so called 'co-refining').

[6] The EC announced its abrogation of the Sugar Protocol in October 2007 to bring the treatment of imported ACP sugar into line with the reformed EU sugar regime, which was doing away with guaranteed prices for EU sugar beet growers. See Agritrade, 'The sugar protocol is denounced', 9 November 2007, http://agritrade.cta.int/en/Agriculture/Commodities/Sugar/The-sugar-protocol-is-denounced
[7] After the WTO ruled that a process of cross-subsidization between in-quota domestic EU sugar sales and 'out of quota' EU world market sales was taking place, a quantitative ceiling on the volume of sugar which the EU could export within WTO rules was established.

Impact on ACP Suppliers of the Implementation of the First Phase of EU Sugar Sector Reforms

The implementation of EU sugar sector reforms (of which the abolition of price guarantees under the EU-ACP Sugar Protocol formed a part) saw a number of traditional less competitive ACP sugar producers withdraw from exporting to the EU, while other ACP countries mainly the most price competitive producers, expanded their exports. This occurred in a context of high world market sugar prices which reduced the EU market price effects of the reductions in the EU's guaranteed sugar price.

Overall, this saw an increase in ACP sugar exports to the EU in the post-Sugar Protocol abolition period. ACP sugar exports to the EU were initially up 16% compared to the average of 2001/02 to 2005/06 period (1.8 million tonnes compared to 1.6 million tonnes), with this upward trend continuing.

World Market and EU Sugar Price Trends[8]

Overall, between July 2011 and June 2015, average monthly world market sugar prices fell from 29.47 US cents per lb to 12.11, a decline of 58.9%. With a two month delay, prices paid for sugar imported into the EU have also been falling, but less dramatically (from a monthly average of a peak of 39.61 cents/lb in August 2011 to 24.76 cents/lb in June 2015, a decline of 37.5%). This meant that by June 2015 EU import prices were twice as high as world market prices (compared to 34% higher in July/August 2011).

However, since EU reforms were implemented, there have been turbulent times on both world sugar and EU sugar markets. For a short period of time world market sugar prices were above EU market price levels (September 2010- January 2011), averaging around €628/tonne on world markets compared to EUR €486/tonne on the EU market). This created supply shortages for traditional EU sugar refiners, temporarily boosting prices paid for ACP sugar by traditional refiners. At other times, EU sugar prices have reached exceptionally high levels. During 2012 EU sugar price increased uninterruptedly, reaching the high level of €738 tonne in January 2013. This yielded generally good returns to ACP sugar exporters, boosting supplies to the EU market. However, since January 2013 EU sugar prices have been declining, from over €700 per tonne to just over €400 per tonne.

This has made the marketing of ACP sugar much more complicated than in the pre-reform period*. **It has also made it difficult to predict revenues and has heightened price volatility at the level of sugar cane growers***.

By the 2013/14 season ACP/LDC sugar exports to the EU had reached 2.193 million tonnes (a 37% increase compared to the pre-reform period)[9]. This increase in ACP sugar exports to the EU occurred despite a 30.4% decline in average EU import prices between October 2011 and October 2014. This can be attributed to the fact that ***average EU import prices in October 2014 were still 61.5% higher than world market prices.***

This upward trend was particularly noticeable in the case of the least developed country suppliers Mozambique (+166%), Malawi (108%) and Zambia(31.6%) and the neighbouring developing countries of Zimbabwe (+110%) and Swaziland (+21%).

Thus, during the period of high world market sugar prices, which reduced the effects of reductions in the guaranteed EU sugar price, ***a number of African sugar exporters were able to benefit considerably from an expansion of their sugar export volumes to the EU***.

[8] Source: Indexmundi commodities: Global prices, http://www.indexmundi.com/commodities/?commodity=sugar
EU prices, http://www.indexmundi.com/commodities/?commodity=sugar-european-import-price
[9] Data for the following sections is drawn from the webpage of the EC 'Advisory Group on Sugar'
http://ec.europa.eu/agriculture/consultations/advisory-groups/sugar/index_en.htm

However, declining world market prices and the impending abolition of EU sugar production quotas is already bringing down EU market prices and the prices paid for ACP sugar. ***In April 2015 the average price paid for imports of raw sugar from the ACP, was only €413/tonne while imports of white sugar from the ACP were receiving even lower prices at €411 /tonne.*** By April 2015, average prices paid for imports of raw and white sugar from the ACP ***were virtually aligned with the EU white sugar price***, which were themselves virtually aligned with the EU reference price (€413/tonne for white sugar).

The price effects of reform initially predicted in the 2006-2010 period are now being felt as a result of the transmission of the effects of declining world market sugar prices to EU sugar market prices.

However, in addition it should be borne in mind that the abolition of EU sugar production quotas scheduled for October 2017 is projected to have sustained effects on both ***prices offered for sugar on the EU market*** and ***overall EU import demand***. EC projections suggest the import volumes in 2013/14 are likely to constitute a high point for ACP/LDC sugar exports to the EU.

Responding to the Adjustment Needs of Traditional ACP Sugar Exports:
The EU's 'Accompanying Measures for Sugar Protocol' Beneficiaries Programme

The European Union recognised that the implementation of EU sugar sector reforms would impact heavily on traditional ACP sugar exporters. Some €1.25 billion was therefore made available through a dedicated sugar sector adjustment facility to finance either:

a) Specific programmes to enhance the competitiveness of sugar production;

b) Specific programmes of diversification out of sugar production;

c) Specific programmes to assist with social adjustments linked to the impact of EU sugar sector reforms.

The impact of this support is unclear. In some countries, it financed the expansion of smallholder sugar production (Swaziland, Malawi and Zambia), ***without giving full consideration to the long term commercial prospects for ACP sugar exports to the EU*** or ***the likely local, regional and international market prospects for expanded smallholder production***.

Indeed, it would seem as if ***the impact of the second phase of EU sugar sector reforms on EU prices and import demand was largely neglected in the design of smallholder sugar production expansion programmes***. Equally, it would appear as if the production effects of the expansion of 'coupled payments' to EU sugar producers on the overall EU import demand was also neglected.

There would therefore appear to remain ***a substantial agenda for action, which needs to be addressed if a sustainable future for smallholder sugar production in Sub-Saharan African countries is to be established***.

The Projected Impact of EU Production Quota Abolition on EU Sugar Prices and Import Demand

Projected Price Effects

According to the December 2014 EC's "Prospects for Agricultural Markets and Incomes in the EU 2014-2024", "*the abolition of sugar and isoglucose quotas in 2017 has far-reaching impacts on the sweetener market*"[10]. The EU sugar price is projected to decline towards world market price levels until average price premiums of only between 12% and 18% are obtainable. This process of price

[10] EC, 'Prospects for EU Agricultural markets and income 2014-2024', December 2014, http://www.lafranceagricole.fr/var/gfa/storage/fichiers-pdf/Docs/2014/Commission-081214.pdf

decline is already underway, with EU sugar prices having fallen on average around 32% since the highs of the summer of 2012.

Despite a projected recovery in prices in 2015, the trend of declining sugar prices is expected to resume before the formal abolition of production quotas, but with a sharp decline in 2017 (-16.1%) and much smaller declines in 2018 and 2019 (-0.5% and -2.0% respectively). EU sugar prices will then follow world market price trends.

Projected EU and world market prices of sugar 2013 -2024 €/tonne and € and % difference between EU & world market

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
EU price	679	723	600	495	543	496	416	414	406	415	424	427	444	458
World price	440	392	355	350	375	396	374	351	345	352	360	382	397	410
EU premium	54%	84%	69%	41%	45%	25%	11%	18%	18%	18%	18%	12%	12%	12%
€ premium	+239	+331	+245	+145	+168	+100	+42	+63	+61	+63	+64	+45	+47	+48

Source: 'Prospects for EU Agricultural markets and income 2014-2024', December 2014, Table 7.16

Projected Production and Consumption Effects

Despite these price trends, after initial marginal declines, EU sugar beet production is projected to average some 0.7% above the 2016 production level. More significantly, the average volume of sugar beet being converted into sugar in the eight years after reform is projected to be 5% higher than the average volume converted to sugar in the final four years in the run up to production quota abolition.

Significantly, abolition of ***isoglucose*** production quotas which will take place alongside the abolition of sugar production quotas is projected to see the share of isoglucose in the EU sweetener market double between 2016 and 2018 (from 3.6% to 7.3%). It is then projected to rise further until it accounts for 11.6% of the total sweetener market by 2024. This will contribute a contraction in sugar consumption in the EU.

EU sugar production, trade and consumption of sugar and Isoglucose (million tonnes)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Sugar														
Production	18.0	16.4	15.3	17.6	15.8	16.1	16.5	16.6	16.7	16.8	16.8	16.9	16.9	16.9
Consumption	18.2	18.1	18.0	17.7	18.3	17.7	18.5	17.2	17.2	17.2	17.0	17.2	17.1	17.0
Isoglucose														
Consumption	0.7	0.7	0.7	0.7	0.7	0.7	1.3	1.4	1.5	1.6	1.8	1.9	2.1	2.2
% sweetener	3.6	3.6	3.5	3.6	3.5	3.6	6.5	7.3	7.8	8.5	9.4	10.1	10.9	11.6

Source: 'Prospects for EU Agricultural markets and income 2014-2024', December 2014, Table 7.16

This contraction in EU consumption of sugar as a result of expanded production of isoglucose will be compounded by mounting pressures to reduce sugar consumption on health grounds. This decline in demand combined with the increase in the volume of beet being processed into sugar will carry important trade implications.

Projected Trade Effects

While the early stages of sugar sector reform turned the EU from a net sugar exporter into a net sugar importer, this final stage of sugar sector reform seems likely to periodically turn the EU back into a net sugar exporter. By 2024 it is projected that the EU will be largely self-sufficient in sugar production[11]. This is projected to see EU import demand fall from a peak of 3.9 million tonnes in 2012 to an average of 1.9 million tonnes from 2017 onwards. Overall EU import demand for sugar is thus projected to fall over 50% as a result of the implementation of the final stage of EU sugar sector reform. Imports from the ACP are likely to be restricted to "*the most competitive trade partners with free access to the EU markets"*. Other traditional ACP exporters which supplied the EU market will need to look elsewhere for markets, including to sugar deficit regions of Africa.

[11] This does not mean the EU will no longer import. Imports will still take place, given on-going demand for various forms of cane sugar. However, in the post-reform period this is likely to be more of a niche market product, rather than a product which is interchangeable with beet sugar production. EC suggestions that 'there will be ample need for imports in certain periods and certain regions" needs to be seen in this context.

However it should be noted that according to EC projections EU sugar exports are foreseen to increase to 1.9 million tonnes up from an average of 1.5 million tonnes in the immediate pre-reform period (a 26.7% increase). These expanded EU sugar exports may well find their way onto sugar deficit African markets, particularly in regions such as West Africa, which have good transportation links to Europe, and where EU products enjoy a good reputation for quality and food safety.

EU Sugar Trade Projections 2011-2020 (million tonnes)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Sugar Imports	3.6	3.9	3.7	3.0	3.1	2.7	1.89	1.91	1.89	1.91	1.91	1.90	1.91	1.91
Sugar Exports	2.2	1.5	1.5	1.6	1.5	1.5	1.5	1.3	1.4	1.5	1.7	1.8	1.8	1.9

Source: 'Prospects for EU Agricultural markets and income 2014-2024', December 2014, Table 7.16

A Private Sector Perspective on Future EU Sugar Imports and Exports

According to statement from representatives of the French international sugar and cereals cooperative Tereos, overall EU sugar production could rise to as high as 19 million after 2017, compared to current production levels of 15.8 million tonnes. EU sugar imports, post quota abolition, could then fall as low as 0.5 million tonnes, compared to earlier highs of around 3.8 million tonnes.

In contrast, it was maintained that after 2017 the French sugar 'surplus' 'could be around the same level as the aggregated surplus of all other EU net exporting countries after 2017'. This would give rise to a situation where extra-EU sugar exports could rise to as high as 3 million tonnes.

These private sector estimates of ***import demand are substantially below the EC's December 2014 projections*** (74% below EC projections) while the estimates for overall levels of ***EU sugar exports are substantially above the EC's December 2014 projections*** (58% above EC projections). ***The trade effects of EU sugar production quota abolition could thus be even more severe than the EC's December 2014 projections suggest***.

Reuters, 'EU sugar exports to rise after quotas dismantled Tereos', 14 April 2015
http://www.reuters.com/article/2015/04/14/sugar-eu-exports-idUSL5N0XB1DP20150414?rpc=401

The Corporate Dimension of the Consequences of EU Sugar Sector Reforms

According to the EC, in preparation for sugar production quota abolition EU sugar companies may try to gain market shares by running down their privately held stocks of sugar. Recent corporate market re-positioning efforts within the EU reflect wider processes of corporate adjustments, which are underway. This involves mergers and acquisitions both within the EU and globally (including in the ACP, most notably in Southern Africa).

Many ACP-EU sugar supply chains are now vertically integrated within corporate structures. These range from the acquisition of ***Belize Sugar Industries*** milling operations by ***American Sugar Refiners,*** which had previously acquired the sugar interests of ***Tate & Lyle***[12] (including the Thames raw cane sugar refinery), to the acquisition of a 50% share in ***Illovo*** by ***Associated British Foods***, the owners of ***British Sugar***, the sole UK sugar beet processor. The example of ***ABF/Illovo*** provides a vivid illustration of the kinds of policy and regulatory challenges which are emerging.

Illovo, is Africa's largest sugar producer with agricultural investments and factories in six countries (South Africa, Swaziland, Zambia, Malawi, Tanzania and Mozambique), where it "*produces raw and refined sugar for local, regional, European and world markets from sugar cane supplied by its own agricultural operations and independent growers*"[13]. Since 2006 ***Illovo*** has invested extensively across its operations to expand sugar production and processing capacity to take advantages of preferences on the EU market.

[12] For more details see Agritrade, 'Tate and Lyle Corporate Profile', 24 July 2014
http://agritrade.cta.int/Agriculture/Commodities/Sugar/Tate-Lyle-American-Sugar-Refining-corporate-profile
[13] Illovo, 'Group Overview', http://www.illovosugar.co.za/About-Us/Group-Overview

In support of their operations in Southern Africa, ***British Sugar*** and ***Illovo*** have jointly established a sugar trading company, ***Mitra,*** which "*supplies a range of European Refineries with raw sugar for refining as well as direct consumption customers with specialty and refined sugars*". ***Mitra*** sources its sugars primarily from LDC/EPA countries, but also from all countries with market access arrangements to the EU[14]. In addition, "*AB Sugar owns a 42.5% share in the* ***Czarnikow Group***"[15], which has a "*commercial involvement in physical transactions in excess of 8 million tonnes of sugar each year*[16]" (10% of sugar traded annually).

In addition, within Europe ***ABF*** has expanded its raw cane sugar processing capacity at its beet processing plants in the UK (at Newark, with a potential capacity of 120,000 tonnes and at Cantley, with a potential capacity of 230,000 tonnes). In 2009, ABF acquired ***Azucarera,*** the Spanish sugar business of Ebro Puleva[17]. This saw the commissioning of a refinery at Guadelete (the site of a former beet factory, decommissioned as part of the EU sugar sector reform process), with a capacity to process 100,000 tonnes of beet and 300,000 tonnes of raw cane sugar, which Illovo was contracted to supply. In addition in 2012/13 ***Azucarera's*** beet plants reportedly processed 95,000 tonnes of raw cane sugar[18].

This means sugar cane grown in Southern African ACP countries on ***ABF/Illovo*** owned estates and by smallholder out-growers and independent farmers, ***is processed at ABF/Illovo mills, and is potentially traded by ABF/Illovo owned companies and potentially refined by ABF/Illovo owned companies, before the finished product is marketed by ABF in Europe.*** This potentially raises important issues related to the process of price formation within the sugar supply chain. This is an important issue for smallholder sugar farmers, who are almost wholly dependent on the price paid for their cane, based on the sales value of raw sugar and molasses. This is an increasingly important issue since, in recent years, widely differing prices have been obtained for individual consignments of ACP sugar exported to the EU. This raises important issues about the functioning of ACP-EU sugar supply chains, for in the new context, ***scope exists for abuse of a dominant market position.***

Similar issues related to the functioning of the sugar supply chain and particularly the process of price formation arise with reference to the Belize-EU trade, where ***ASR owns the mill, operates sugar trading operations and owns the EU refinery at which Belize sugar is processed.***

The Role of EU Sugar Sector Support Measures in Sustaining EU Sugar Production

Recognising EU Productivity Gains

Considerable innovation is underway in those areas of the EU which are best placed to competitively produce and process sugar beet. This is seeing an increase in both beet yields and sucrose extraction. In addition, sugar-processing companies are increasingly diversifying the revenue streams derived from the processing of sugar beet, with this being explicitly intended to reduce vulnerability to volatile sugar markets. In the case of cooperatively owned sugar processing companies (such as Tereos[19] and Suiker Unie[20]), this process of revenue diversification is likely to directly contribute to sustaining

[14] ABSugar, 'Our Group: Mitre Sugar Ltd', http://www.absugar.com/Our-Group/Mitra-Sugar-Ltd
[15] Czarnikow, 'About Czarnikow', web page, http://www.czarnikow.com/about-czarnikow
[16] AB Sugar, 'About us: Sugar', web page, http://www.absugar.com/About-Us/Sugar
[17] Confectionerynews.com, 'ABF reaches acquisition agreement on Ebro Spanish sugar business', 15 December 2008, http://www.confectionerynews.com/Commodities/ABF-reaches-acquisition-agreement-on-Ebro-Spanish-sugar-business
[18] Agritrade, 'British Sugar Corporate Profile', 24 July 2014 http://agritrade.cta.int/Agriculture/Commodities/Sugar/British-Sugar-Associated-British-Foods-corporate-profile
[19] For more details on Tereos Sugar see, Agritrade, 'Tereos Corporate Profile', 24 July 2014 http://agritrade.cta.int/en/layout/set/print/Agriculture/Commodities/Sugar/Tereos-corporate-profile
[20] For more details on Suiker Unie Sugar see, Agritrade, 'Suiker Unie Corporate Profile', 24 July 2014 http://agritrade.cta.int/Agriculture/Commodities/Sugar/Suiker-Unie-Royal-Cosun-corporate-profile

higher levels of sugar beet production. However, the level of EU sugar production from beet cannot be divorced from wider EU agricultural support programmes[21].

EU Direct Aid Payment Support to Sugar Producers

Since 2005 sugar producers have been integrated into the system of EU direct aid payments to farmers. This consists of two types of payment:

- the 'de-coupled' single farm payment, which is paid to all farmers regardless of what they produce; and
- since the 2013 round of reforms voluntary 'coupled' payments to sugar producers, which 10 EU member states have taken up the possibility of using (to the collective value of €180 million).

It is unclear to what extent the increased use of 'coupled' payments by 10 EU member states will impact on the overall level of EU sugar beet and sugar production. In 2013/14, these member states accounted for 26.16% of the total EU sugar production quota and accounted for 25.3% of total sugar production from sugar beet. In this context 'coupled' payments could serve to sustain EU beet production in these countries, in the face of competition from other EU suppliers, ***thereby increasing the overall level of EU sugar production and reducing the level of EU sugar import demand.***

The Significance of EU Payments to Sugar Beet farmers: The Case of the UK[22]

In November 2014 it was estimated that the single farm payment (SFP) in the UK per ha would be €251.39.

In 2013/14 sugar beet yields in the UK were high at around 70 tonnes/ha.

This gives a farm payment equivalent to €3.59 per tonne of sugar beet produced.

This compares to a UK contract price for 'in-quota' beet in 2013/14 of £26.51 per tonne.

Converting from € to £ at the rate used by the UK Rural Payment Agency in its communication of 20 November 2014, this gives a single farm payment to UK sugar beet farmers equivalent to 11.53% of the UK sugar beet contract price (£2.79).

The significance of the SFP varies depending on the contract price negotiated with the miller (exclusively ***British Sugar***), which is influenced by market prices for sugar. The 2013/14 contract price was for example only 85.24% of the contract price for quota sugar in 2012 (£31.1/tonne), which was the highest level since 2005.

According to a June 2015 press release from the UK National Farmers Union, the 'in-quota' sugar beet contract price for the 2016/17 season is set at £20.30[23]. This will be 23.43% below the 2013/14 UK sugar contract price and 34.73% below the 2012 sugar beet contract price.

Thus by 2016/17 the SFP payment will be equivalent to 13.74% of the beet contract price[24].

EU Safety Net Measures in the Sugar Sector

In addition, the EU operates a reference price system which sets a floor to EU sugar prices. Since 1 October 2009, the EU reference price for raw sugar and white sugar has been €335.2/tonne and €405.4/t respectively. Since October 2009, while EU white sugar market prices have often remained

[21] Equally in those countries not maintaining 'coupled' support payments to beet producers, the level of sugar beet production cannot be divorced from the prices being paid for other arable crops, since sugar beet (unlike sugar cane) in an annual crop.
[22] The UK is taken as an example since it is currently the most efficient EU sugar producer
[23] See NFU 'Sugar beet prices announced for 2016/17', 29 June 2015, http://www.nfuonline.com/sectors/sugar/latest-news/sugar-beet-prices-announced-for-2016/17/
[24] Although this would probably be less given the devaluation of the Euro against the £.

substantially above the reference price, since March 2013 a sustained decline in EU market prices has taken average white sugar prices to just above the reference price (with some reports of prices being offered below the reference price).

The EU retains the 'safety net' option of intervention buying of EU sugar, in case EU sugar market prices fall below the reference price. The cross sector contingency fund totalling €3.5 billion for the seven year financial envelop, is available to support private storage or finance intervention buying and storage if necessary.

It seems likely that 'safety net' intervention will remain the only market intervention tool, which the EU will retain once EU sugar and isoglucose production quotas are abolished in October 2017.

The EU's Highly Protective Sugar Sector Trade Policy

Significantly, beyond publicly financed support programmes, the EU retains in place a strictly managed trade regime for imports of sugar. The EU maintains Most Favoured Nation (MFN) bound duties of €419/tonne for white sugar and €339/tonne for raw sugar. The EU also has recourse to a special safeguard clause.

Within this trade policy framework the EU grants tariff rate quotas (TRQs) for sugar under a variety of trade agreements for Balkan countries, Central American countries, Peru, Colombia and most recently South Africa. The EU also provides quotas for specific suppliers as a result of the EU enlargement process and its international trade commitments on market opening. This has seen ***the share of non-ACP sugar imports into the EU increase from 18.3% in 2001/02 to 31% in 2013/14*** (and from 359,000 tonnes to 995,000 tonnes). This includes inward processing arrangements, which allows imported sugar to be used in value added food products destined for export[25].

To implement this framework ***the EU maintains a strict system of import licences***. While traditionally raw cane sugar refiners enjoy preferential access to these import licences, since 1 October 2009 traditional raw cane sugar refiners no longer have exclusive access to import licences.

This has seen a surge of investment in co-refining of raw cane sugar by EU beet sugar refiners. These so-called 'co-refiners' are able to offer better prices for raw cane sugar, since they carry their overhead costs on their beet processing operations. This has ***greatly complicated the position of traditional raw cane sugar refiners, who traditionally imported and processed ACP raw cane sugar***.

Indeed, it is seen as ***threatening the commercial viability of traditional raw cane sugar refining, unless traditional refiners can gain access to world market priced sugar supplies***. This it is held would require the dismantling of EU MFN tariff protection for non-ACP sugar, up to the supply needs of these traditional raw cane sugar refiners.

The EU also currently ***operates a system of export licences*** for sugar, although this is likely to be phased out after the abolition of EU production quotas in October 2017.

Important issues arising

Strengthening the Functioning of ACP-EU Sugar Supply Chains

The EU sugar sector has a relatively poor record in terms of avoiding abuse of dominant market positions. This was most recently illustrated by the fines totalling €280 million imposed by the German Federal Cartel Office on three major German sugar companies for collusion on prices and market division[26].

[25] Up to date and historical information on EU sugar imports can be found at the webpage of the EC 'Advisory Group on Sugar' http://ec.europa.eu/agriculture/consultations/advisory-groups/sugar/index_en.htm
[26] Food Navigator, 'German sugar companies fined €280m for price fixing', 19 February 2014

Late 2014 also saw complaints emerging from ***The Real Good Food Company*** (in which the Mauritian company Omnicane had a 24% shareholding), the then owners of the UK's largest independent bagger of sugar ***Napier Brown*** (with a 12% UK market share), over the pricing and supply practices of ***British Sugar***, with the suggestion being made that British Sugar was abusing its monopoly position[27].

This suggests a need to ***strengthen the regulatory framework for the functioning of ACP-EU sugar supply chains***. This potentially ***constitutes an important area for policy initiative.*** This could build on the EC's substantive analytical work on strengthening the functioning of agricultural supply chains in those sectors where scope for abuse of a dominant market position exists.

This issue reaches beyond trade with the EU, for companies such as ***ABF*** and ***ARS*** are well placed to tap into expanding demand for sugar in Asian markets. However, given the scope for intra-corporate trading on the basis of non-transparent prices, it is unclear to what extent this would be likely to benefit competitive ACP sugar producers (e.g.in Southern Africa). Getting to grips with strengthening the functioning of sugar supply chains could thus have far wider implications

Getting to Grips with Domestic Revenue Distribution Issues

As sugar prices on the EU market fall and as the volume of sugar imported declines, the importance of non-sugar sales revenues will increase.

In a number of ACP countries, extensive investments are underway in exploiting the full potential of sugar cane processing by opening up a multiplicity of new revenue streams. The growing importance of some of these non-traditional revenue streams to corporate earnings ***raises important issues related to the pooling of proceeds from sales of sugar cane based products, and their division between growers and millers***. Traditionally, only revenues from raw sugar and molasses were pooled before being divided between growers and millers. These 'division of the proceeds' arrangements may need to be revised, as earnings from sugar sales to the EU fall post 2017. This is particularly the case since the revenue effects of the completion of EU sugar sector reforms are likely to be compounded by growing price pressures on sugar markets across Southern and Eastern Africa, as the attractiveness of EU markets to producers in this major sugar surplus region decline.

In future, the revenue streams pooled, prior to division between sugar cane growers and millers, may need to be extended to bring in revenues from the new revenue streams arising from the further processing of sugar cane. This is likely to be ***a critical issue to the future financial viability of both sugar cane production by smallholder farmers and independent growers in ACP countries.***

The Dangers of Being Left out in the Cold

While the increasingly close intra-corporate linkages along ACP-EU sugar supply chains raises new policy and regulatory challenges, ***more fundamental market challenges are likely to be faced by ACP sugar suppliers, which are not part of these closer intra-corporate relationships***. This is particularly the case for the state owned sugar industries in Fiji and Guyana, which have largely maintained their supply relationship with the traditional refiner (***Tate and Lyle Sugar***- TLS), whose commercial prospects post-quota abolition are a source of concern.

Since the modification of import licensing arrangements as part of the EU sugar sector reforms, TLS has faced difficulties in securing access to sugar exported by traditionally preferred suppliers. Given

http://www.foodnavigator.com/Business/German-sugar-companies-fined-280m-for-price-fixing

[27] Napier Brown has subsequently been acquired by Tereos to provide a route into the UK market for its projected expansion of beet sugar production. This could well disrupt the marketing repositioning efforts of the Mauritian sugar sector unless new agreements can be reached with Tereos, with whom Mauritian sugar companies are already in joint venture arrangements for producing sugar in Mozambique.

that the capital costs of beet processors are covered by their beet operations, EU beet and raw cane sugar co-refiners are able to offer better prices for raw cane sugar than traditional raw cane sugar refiners.

This has generated a situation where TLS is "*operating at 65% of its 1.4 million to 1.5 million tons capacity at its factories in London and Lisbon*."[28] This saw the launch in 2012 of the ***TLS*** "***Save our Sugar***" campaign. ***TLS*** maintains that "*if current and proposed EU policies continue to unfairly restrict access to raw sugar, cane refiners will not survive as part of the supply mix in Europe's sugar sector*"[29].

This could carry ***very serious implications for Guyana and Fiji's sugar exports, unless new, secure routes to markets, which maintain some of the traditional price premiums, can be found***. There would now appear to be an urgent need for both GUYSUCO and the Fiji Sugar Corporation to begin seriously exploring their options in this regard. In the case of Fiji, this may need to extend to exploring the scope for a joint venture arrangement with a suitable EU beet co-refiner for the refining and marketing of substantial volumes of "***fair trade***" certified and labelled sugar for industrial and direct consumption use.

[28] Sugaronline.com, 'Tate & Lyle wants end to duty on raw sugar imports', 26 November 2013, http://www.sugaronline.com/home/website_contents/view/1223816
[29] See 'Save Our Sugar', http://saveoursugar.eu/#

Comprehensive List of Sources

Agritrade General Sugar Materials

Agritrade, 'ACP sugar exports to the EU: Sugar quota abolition and the future of raw cane sugar co-refining by EU beet refiners', 16 April 2014
http://agritrade.cta.int/en/Agriculture/Commodities/Sugar/ACP-sugar-exports-to-the-EU-Sugar-quota-abolition-and-the-future-of-raw-cane-sugar-co-refining-by-EU-beet-refiners

Agritrade, 'Sugar industry corporate profiles – Introduction', 24 July 2014
http://agritrade.cta.int/Agriculture/Commodities/Sugar/Sugar-industry-corporate-profiles-Introduction

Agritrade, 'EU to emerge as a major driver of global sugar markets', 15 June 2014
http://agritrade.cta.int/en/Agriculture/Commodities/Sugar/EU-to-emerge-as-a-major-driver-of-global-sugar-markets

Agritrade, 'Lessons for the ACP from EU efforts to strengthen the functioning of sugar supply chains ', 17 April 2014,
http://agritrade.cta.int/en/Agriculture/Commodities/Sugar/Lessons-for-the-ACP-from-EU-efforts-to-strengthen-the-functioning-of-sugar-supply-chains

Agritrade, 'Sugar Sector', Executive Brief Update , 17 December 2013
http://agritrade.cta.int/en/Agriculture/Commodities/Sugar/Executive-Brief-Update-2013-Sugar-sector

Agritrade, 'Sugar Sector', Executive Brief Update , June 2012
http://agritrade.cta.int/en/Agriculture/Commodities/Sugar/Executive-Brief-Update-2012-Sugar-sector

Agritrade, 'Sugar Sector', Executive Brief Update , July 2011
http://agritrade.cta.int/en/Agriculture/Commodities/Sugar/Executive-Brief-Update-2011-Sugar-sector

Agritrade, ' Sugar Trade Issues for the ACP', Executive Brief, March 2010
http://agritrade.cta.int/en/Agriculture/Commodities/Sugar/Sugar-Trade-issues-for-the-ACP

Agritrade, 'The sugar protocol is denounced', 9 November 2007,
http://agritrade.cta.int/en/Agriculture/Commodities/Sugar/The-sugar-protocol-is-denounced

Corporate Developments

- **British Sugar**

Agritrade, 'British Sugar Corporate Profile', 24 July 2014
http://agritrade.cta.int/Agriculture/Commodities/Sugar/British-Sugar-Associated-British-Foods-corporate-profile

NFU 'Sugar beet prices announced for 2016/17', 29 June 2015
http://www.nfuonline.com/sectors/sugar/latest-news/sugar-beet-prices-announced-for-2016/17/
Illovo, 'Group Overview'
http://www.illovosugar.co.za/About-Us/Group-Overview

ABSugar, 'Our Group: Mitre Sugar Ltd',
http://www.absugar.com/Our-Group/Mitra-Sugar-Ltd

Czarnikow, 'About Czarnikow', web page
http://www.czarnikow.com/about-czarnikow

AB Sugar, 'About us: Sugar', web page
http://www.absugar.com/About-Us/Sugar

Confectionerynews.com, 'ABF reaches acquisition agreement on Ebro Spanish sugar business', 15 December 2008,
http://www.confectionerynews.com/Commodities/ABF-reaches-acquisition-agreement-on-Ebro-Spanish-sugar-business

Illovo, Home page

http://www.illovosugar.co.za/Home

- **Sudzucker**

Agritrade, 'Sudzucker Corporate Profile',8 September 2014
http://agritrade.cta.int/Agriculture/Commodities/Sugar/Suedzucker-corporate-profile

Food Navigator, 'German sugar companies fined €280m for price fixing', 19 February 2014
http://www.foodnavigator.com/Business/German-sugar-companies-fined-280m-for-price-fixing

- **Suiker Unie**

Agritrade, 'Suiker Unie Corporate Profile', 24 July 2014
http://agritrade.cta.int/Agriculture/Commodities/Sugar/Suiker-Unie-Royal-Cosun-corporate-profile

- **Tate & Lyle**

Agritrade, 'Tate and Lyle Corporate Profile', 24 July 2014
http://agritrade.cta.int/Agriculture/Commodities/Sugar/Tate-Lyle-American-Sugar-Refining-corporate-profile

Sugaronline.com, 'Tate & Lyle wants end to duty on raw sugar imports', 26 November 2013, http://www.sugaronline.com/home/website_contents/view/1223816

See 'Save Our Sugar'
http://saveoursugar.eu/#

- **Tereos**

Reuters, 'EU sugar exports to rise after quotas dismantled Tereos', 14 April 2015
http://www.reuters.com/article/2015/04/14/sugar-eu-exports-idUSL5N0XB1DP20150414?rpc=401

Agritrade, 'Tereos Corporate Profile', 24 July 2014
http://agritrade.cta.int/en/layout/set/print/Agriculture/Commodities/Sugar/Tereos-corporate-profile

EU

EC, 'Prospects for EU Agricultural markets and income 2014-2024', December 2014, http://www.lafranceagricole.fr/var/gfa/storage/fichiers-pdf/Docs/2014/Commission-081214.pdf

EC 'Advisory Group on Sugar'
http://ec.europa.eu/agriculture/consultations/advisory-groups/sugar/index_en.htm

Netherlands Economic Institute, 'Evaluation of the common organisation of the market in the Sugar sector', September 2000, point of entry for full report:
http://ec.europa.eu/agriculture/eval/reports/sugar/index_en.htm