

THE FUTURE OF THE EUROPEAN SUGAR SECTOR

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Executive Summary

The sugar market within the European Union is simultaneously one of the most regulated and one of the most unstable. Inflationary pressure, price volatility, structural deficit of supply, the erratic management of supplies, distortion of competition: these problems, which are many and acute, hamper the smooth functioning of the market. The European Commission has decided the current rules need a complete overhaul in order to restore balance the market: it has proposed abandoning the system of production quotas which governs supply and freezes out any new competition. The proposal immediately aroused a general outcry among the beet and sugar producers.

In France, the government sided with the beet growers and sugar. A decision which initially seems logical, since France is the leading European producer of beet sugar. Initially, only. Because this decision is fraught with consequences. For the past few years, the European sugar price has risen well above world prices. This situation weighs heavily on the food industry's margins, the leading consumer of sugar (confectionery, pastries, chocolate, sodas, jam, ice-cream etc.). SMEs, which are the life-blood of our regions, have already been seriously impacted whereas the sugar groups which have an oligopoly position, are consolidating their margins and reinvesting abroad without having to fight or pay any tax (the co-operative status of the main French groups exempts them from this).

At a time when the government has chosen to target competitiveness to halt the decline of French industry, this decision appears, to say the least, hasty, if not inconsistent. All the more so since it is not a matter of abandoning all the market rules but simply relaxing them to allow supply to respond to demand, in short, to allow the market to function normally. Why would we want to strengthen a dominant player, in good financial health, at the risk of weakening a food industry squeezed between the successive increases in raw commodity prices and the pressure of the large supermarkets?

Economic interest requires better. Safeguarding traditional know-how, of utmost importance for conserving the resources of our territories, also imposes it. Because sugar is not only the beet itself, but also value-added products such as the *bêtises de Cambrai*, *bergamotes de Nancy*, *nougat de Montélimar*, *crème de marrons de l'Ardèche*, *violettes de Toulouse*, *palets bretons*, *biscuits roses de Reims*... a whole panoply of culinary and cultural heritage which once promoted will act, tomorrow, as a lever for economic growth and social development. It is also a matter of the credibility of France which is committed to defending the merits of the Common Agricultural Policy (CAP). Are not security of supply and market stability two of the founding principles of the CAP?

It is not a case of "robbing Peter to pay Paul", to promote the food industry at the expense of the sugar producers, but to construct a fair reform which is fair because it is economically equitable, fair because it creates growth and fair because it takes into account the whole sector, including the consumer.

That is the challenge faced by the politicians.

A distorted debate

The sugar market in the European Union is currently highly regulated.

The first regulatory intervention mechanisms (grouped within the Common Market Organisation – CMO - sugar) were laid down in 1967. They enabled the creation of a single internal and protected market, which aimed to ensure a fair income for sugar beet producers and to stabilise the market. These rules have certainly gradually evolved over time but without truly any relaxation in their rigidity. The current regime, which is the result of a political compromise and implemented by the 2006 reform, will be maintained until the end of the marketing year 2014/2015, i.e. 30 September 2015. As part of the preparation of the reform of the CAP for the period after 2013, the European Commission proposed, in October 2011, to overhaul the provisions regulating the European sugar market. In particular, it advocates «the end of the quota system for sugar» starting with the 2015/2016 marketing year ¹.

The system of production quotas, attributed through each Member State to the sugar producing companies, is one of the pillars of the current framework of the European market. Set by the European Union at a total of 13.3 million tonnes since 2010 and divided up among 19 Member States, the amount of sugar produced under the quota system is exclusively intended for the domestic sugar market food, i.e. table sugar directly sold to consumers (granulated, caster, icing and lump sugar) and the sugar used by the food industry (confectionery, pastries, chocolate, sodas, jam, ice-cream etc.). Since the European demand for food sugar (more than 16 million tonnes) largely exceeds the production of so-called «quota» sugar, the sugar industry thus benefits from a guaranteed and stable market, protected by the establishment of a floor «reference» price.

1. «Proposal for a regulation of the European Parliament and of the Council on the common organisation of the markets in agricultural products («Single CMO» regulation), European Commission, October 2011.

The proposal to do away with quotas, which goes hand-in-hand with the end of the guaranteed sugar beet purchase price, quickly encountered opposition from both the growers and the industrial sugar producers. The General Confederation of Beet Growers (CGB), which represents the 26,000 French farmers involved in sugar beet production, believes that it is «of capital importance to keep in place the existing regulatory tools» to «allow the sector to become more competitive and to be able to contend with its main competitor, Brazil» ². In fact, it proposes to «renew for five more years» the current regime and thus be «by 2020 in a situation to be competitive on the world market» ³. This issue of the competitiveness of European producers on the world stage has today crystallised the debate opened up by the European Commission's proposal. This controversy, around which agricultural and economic experts do not agree, is unfortunately confining the debate to opposition which is distorted and simplistic.

A distorted vision because the removal of quotas, recommended by the Commission, does not mean the abandonment of all the market rules. The very high customs tariffs, which constitute a bulwark against Brazilian exports, will not go away overnight. In addition, as for the other agricultural raw commodities, new management tools are planned, in particular «safety nets» to deal with market volatility, price volatility and the emergence of possible crises. «Specific instruments will remain necessary on expiration of the quota system to ensure a fair balance» between the sugar companies and beet growers, the Commission also points out ⁴.

A simplistic vision, also, because it makes no mention of the growing difficulties generated by failings in the European sugar market and thereby prevents the opening up of a real discussion about the future of the whole of the European sugar sector, from the beet growers through to the consumers, taking in the food industry and the cane sugar refiners on the way.

It is not a question of minimising the economic and strategic importance of Europe's sugar beet industry, but of placing it within a broader reflection which, as part of the general interest, takes into account the cost-benefit analysis of a possible reform or the maintenance of the *status quo*.

2. «The sugar beet industry of tomorrow: new version of the CGB white paper», General Confederation of Beet Growers, December 2012.

3. «Sugar CMO: a proposal by the Commission, to say the least, surprising, inconsistent and short-sighted», CGB Press Release, 7 September 2011.

4. «Proposal for a regulation of the European Parliament and of the Council on the common organisation of the markets in agricultural products («Single CMO» regulation), European Commission, October 2011.

It is moreover surprising to hear the MEP, Michel Dantin, author of a report on the reform of the Common Organisation of the European agricultural markets, propose renewing the quotas desired by the sugar beet industry solely on the grounds that the interests or the fears of the various players are irreconcilable. «On this particular issue of sugar, I was able to see in particular how the positions of the various actors in this sector were diametrically opposed. Positions that, up to now, they have been unable or unwilling to bring closer together. Nevertheless, it will be in everyone's interest, in the weeks and months ahead, to break away from sterile objections in order to draw up plans for a solution that will necessarily be broadly endorsed», the MEP stated to justify his position.⁵

Yet it is exactly here that the nub of the problem lies. The absence of a wide-ranging reflection brings with it the risk of imprisoning the necessary debate on the future of the European sugar sector in an exclusive defence of contradictory sectional interests in total disregard of the general interest. It is the mission of the public and political authorities to overcome this stumbling block and to develop an effective solution that preserves, as far as possible, the economic interest of all the actors including that of the European citizen.

5. «Presentation of the report on the reform of the Single Common Market Organisation in the Agriculture and Rural Development Committee of the European Parliament», Michel Dantin, Brussels, 18 June 2012.

The disappointments of the 2006 reform

For a proper understanding of the current debate on the future of the European sugar sector a brief reminder is needed on the circumstances, the expectations and the consequences of the previous reform. The current regime of the European sugar market was established in 2006, not without difficulty and under increasing pressure. Up to this date, the European market benefited from a framework based on protecting the activity and incomes of the sugar and farming professions, through a classic regime which combined price support with control of demand.

These traditional instruments of the CAP (community production strictly controlled by quotas matching domestic demand, protection of the market guaranteed by high customs tariffs, support for exports by profitable prices supported indirectly by European consumers) allowed the sustained development of European sugar production while ensuring a steady supply for the internal market. Europe thus changed from an importer in the 1960s to that by the 1980s and 1990s of second largest world exporter, after Brazil. At the start of the 2000s, criticisms multiplied, both internally and externally, challenging the validity and the fairness of the system. Within the European institutions, the price of sugar in the internal market was considered excessive in relation to world market prices. «According to the European Court of Auditors, European prices are three times higher than world prices. This means an annual cost for European consumers estimated at 6.5 billion euros»¹. But it was mainly on the world stage that this regulatory framework, which ensured a stable internal market and reduced competition from imports to a minimum, was most fiercely attacked. According to the World Trade Organization (WTO) the European regime maintained both strong protectionism and unfair competition in contradiction with the agreements signed by the European Union. In September 2004, the EU sugar

1. «Proposal for a resolution relating to the European sugar market», Report by Michel Souplet, on behalf of the French Senate Committee of Economic Affairs, 3 April 2001.

regime was declared illegal by the WTO after receiving a complaint from Brazil, Australia and Thailand. This judgment was confirmed on appeal, in late April 2005.

This ruling sounded the death knell for the European sugar regime in its then form. To comply with Europe's international undertakings and to adapt to the new requirements of the Common Agricultural Policy, more clearly oriented towards the market, a new Common Market Organisation for sugar was created in 2006. It planned to reduce drastically quota production by nearly 30 %, to limit subsidised exports, to reduce the minimum purchase price of the beet and the guaranteed price of a tonne of sugar and, to achieve this, to adapt and restructure the sugar beet industry accordingly. This reorganisation, funded for the most part indirectly by the consumer, has a dual purpose. It seeks, firstly, to improve the productivity of the European beet sector making it competitive internationally by eliminating the least profitable production capacity and, secondly, to guarantee a new market balance within the European Union.

The objectives of this new regime of the Common Market Organisation in sugar are aimed to be in line with the founding principles of the CAP, defined in 1958 by the Treaty of Rome and preserved untouched in the successive treaties. Namely: increase agricultural productivity, guarantee a fair standard of living for farmers and the security of supplies, stabilise the markets and guarantee reasonable prices for consumers. Six years after the implementation of this new organisation, it is legitimate and necessary to ask whether these objectives have been achieved. Are the results up to the expectations? Two specific points have caught our attention:

1. The objective of eliminating the least profitable sugar production capacity and thereby increasing the competitiveness of the European industry has been partially achieved. The reform has certainly «contributed to accelerating the closure of low and medium capacity plants» ² and led, between 2006 and 2009, to some 80 plants closing in return for compensation. But the abandonment of production quotas has also affected the “producers whose plants were located in areas considered to be the most competitive by the Commission” ³, while maintaining “15.9% of production in areas with high or very high costs” ⁴. In particular, the European Court of Auditors notes that “the maintenance of rigidities and constraints

2. «Assessment of the common agricultural policy measures relating to the sugar sector», Agrosynergie, December 2011.

3. «Has the reform of the sugar market achieved its main objectives?», Report of the European Court of Auditors, 2010.

4. «Post-reform European Union sugar – prospects for the future», *Gain Report*, USDA, 21 December 2011.

incorporated into the current quota system, results in undue rigidity of production capacity and reduces scope for both growers and producers to increase efficiency". Furthermore, the system of quotas, a guarantee of a captive community market for the industry, does not encourage the sugar companies to improve their productivity.

2. The other objective of the 2006 reform was at the same time to ensure the security of supplies and ensure the stability of the internal market. On this point, the reform has failed. Although in the early years the price of sugar fell on the internal market, failings have subsequently multiplied. The new regulatory framework has, in effect, made Europe structurally dependent on imports because of "under quota" production which is lower than demand. From a pre-reform situation of overproduction, Europe has become an importer of around 15 to 20% of its needs. Imports themselves regulated and limited (apart from a few specific quotas, only the "least developed countries" and those of the African-Caribbean-Pacific area enjoy the right to export without customs duties or volume restrictions). Because of this, the European market has not only become permeable to the volatility of the global market, but, in addition, due to its rigidity and the complexity of its demand adjustment mechanisms, it amplifies durably the upward movements. In spite of good sugar beet harvests in Europe, the quota sugar price has thus increased sharply since the summer of 2011 (approximately €470/t) reaching a maximum price of €720/t at the start of December 2012 ⁵. The gap between the European sugar quota price and the world price has increased dramatically reaching "even more than €300/t in July 2012" ⁶. It should be noted that in the current situation, the downstream management tools which the Commission has available to it to stabilise the market at a price close to the reference price (€404/t), have proved powerless to correct the inflationary pressures. Even more disturbing is the fact that the security of supplies has not continually been guaranteed, since shortages have arisen on the European market on several occasions. In the light of these recent developments, we can only observe bitterly that the current system of quotas and the related tools for managing the market (exceptional imports, placing on the market of sugar for export) make the supply problems worse and do not provide an effective response to several of the CAP's major objectives (security of supplies and stability of the market).

Imposed to adapt the European production tool to the new agreements on international trade, the 2006 reform has certainly helped improve the European sugar sector's overall competitiveness and to lower prices initially but, then subsequently has created unexpected side-effects which are antagonistic in respect

5. «Sugar Price Reporting», Management Committee for the Common Organisation of Agricultural Markets, 6 December 2012.

6. «Sectoral report - economic analysis of the sugar sector», FranceAgriMer, September 2012.

of the Common Agricultural Policy. Despite its good intentions, it has, because of the rigidity of the system of production quotas set up, hugely destabilised the market and created risks of shortages which were previously non-existent. Therefore, although it has shown itself to be an effective tool in a transitional period to assist in the adaptation of the productive system, it cannot in its current state meet the requirements of the CAP, such as they are laid down in the European treaties.

The new imbalances in the sugar chain

The 2006 reform has also had major knock-on effects throughout the European sugar chain. The stated objective of restructuring the industrial sugar production tool in order to make it more competitive on the world stage has resulted directly in the departure from the market of some 140,000 farmer-producers (45% of the total) and the closure of some 80 processing plants. The desire to focus maintaining the sugar industry in the regions with the highest yields has precipitated the abandonment by five Member States of the whole of their production capacity while six others have lost more than 40% of their capacity. This restructuring, accompanied it should be remembered, by financial support measures, has painted a new landscape, characterised by increased geographical and capitalistic concentration of the industrial tool.

Geographically, France and Germany which already dominated the internal market have consolidated their positions. They now control respectively 26% and 21.5 % of the sugar production quotas, compared with 22% and 19.5% before the reform. At the industrial level, the same movement can be seen. The effect of the restructuring has not only pushed some players out of the market but it has also accelerated consolidation by favouring take-overs and mergers. «following the reform, production has become even more concentrated such that 75 % of the EU internal production is now produced by only six industrial groups of companies», the European Court of Auditors noted in 2010 ¹. A movement which has gained momentum in the past two years. In France, concentration is particularly striking because, after the takeover in 2012 of the Vermandoise group by Cristal Union, three actors (Tereos, Cristal Union and Saint Louis, a

1. «Has the reform of the sugar market achieved its main objectives?», Report of the European Court of Auditors, 2010.

subsidiary of the German group and the leading European, Südzucker) hold nearly 95% of the national production quotas ².

This new «balance» unmistakably amounts to an oligopoly situation, consolidated by the community regulatory barriers to competition. Indeed, as rightly pointed out by the competition authority, «the supply of sugar on the European market is doubly constrained by the quota system which acts as a barrier to entry and expansion in this market and maintaining production below demand, and by the strong increase in world prices since 2009-2010 which has diverted the flow of imports from the ACP countries (African-Caribbean-Pacific) and the LDCs (Least Developed Countries)» ³.

The structural tensions, created by the new regulatory framework of 2006 on the internal market, give a great deal of freedom to the European sugar producers to set their price and give them what may be called a «guaranteed income». This description is not an exaggeration but entirely appropriate because, as the competition authority again points out, «the demand from the food industry appears weakly elastic to prices» and their ability to obtain supplies on the world market is virtually non-existent (outside the reduced volume from the ACP and LDC countries and the few tariff quotas granted, the rights of imports to the European Union set at €419/t are sufficiently prohibitive to preclude any suggestion of trading). Because of this, the food industry players are «unable to exercise their negotiating power» and are «forced to accept price increases» ⁴.

Although the 2006 reform initially had serious consequences on the sugar industry (according to the Sugar Manufacturers European Committee the loss of turnover was about 3 to 4 billion euros per year due to the initial reduction in the price of sugar and in the reduction of quotas), it currently confers on it a dominant position within the European internal market simply attributable to the structural imbalance between supply and demand from which it has benefited handsomely. Their latest published financial results attest to this situation. By way of illustration, the operating margin for the beet division of Tereos, the leading French company in the market, amounted to 20.7% for the

2. «Overview of the Food Industries 2012 – Sugar Manufacture», Ministry of Agriculture, Food and the Forest.

3. «Decision No. 12-DCC-06 of 20 January 2012 relating to the acquisition of the Vermandoise group by the Cristal Union cooperative society», Competition Authority.

4. *Ibid.*

financial year 2010/11 ⁵. An increase similar to that of other European players in the sector which, according to the Financial Times, «accumulate profits» ⁶.

Conversely, the food processing industry (confectionery, pastries, chocolate, sodas, jam, ice-cream etc.) for which the purchase of raw commodities represents between 50 and 80% of the cost price of output from the factory, is having to bear the brunt of the sugar price increase, which is added for some companies to those of price rises for cereals, cocoa, sunflower oil and more recently eggs for some of them. For small and medium-sized companies whose margins and cash flow are low, it is a harsh blow. «Before the egg rise, we had already suffered an increase of almost 40% in the cost of our raw commodities in two years,» the director of the Jeannette biscuit factory (39 employees) at Caen noted recently, which was placed in judicial liquidation in December 2011 ⁷. One example among others which highlights the difficulties of the food industry faced with a general increase in raw commodity prices, growing risks in relation to the security of supplies and the impossibility of passing on the price hikes on the shelves.

Constraints, necessarily more serious for the SMEs which represent 90% of food-processing companies and which cannot relocate their production, as the senator of the Bas-Rhin department, Francis Grignon explained: «Many food companies thus face a dual challenge: that of having to pay their suppliers on delivery for the raw commodity while their clients pay them, at best, after 30 or 60 days, and this problem is compounded by the fact that they are unable to pass on the increase in their main raw commodity. (...)». By not taking into account the problems of the food industry's margins, there could be job cuts following the receiverships which are likely to occur in SMEs of the food sector ⁸.

Although the sugar price increase and the problems of managing supplies cannot alone be held responsible for the problems in the food industry, they are obviously an additional burden in an already difficult context.

5. «Tereos, 2011 Annual Report».

6. «Sweet future for beet sugar refiners», Emiko Terazono, *The Financial Times*, 14 November 2012.

7. «The soaring price of eggs penalises the food industry», Keren Lentschner, *Le Figaro*, 22 May 2012.

8. «Written question», *Official Gazette*, Senate, 1st November 2012.

The inconsistencies of the French position

In October 2012, the French and German Ministers of Agriculture agreed on «the need to extend the sugar quotas until 2020» ¹. A position in support of the sugar sector (farmers and industrialists) which at first sight seems logical because both countries are at the same time the two main producers of European beet sugar (they represent 53% of community production) and the two largest exporters (mainly to European Union countries). At the European level, a split has been created between the producing countries and those who gave up their production quotas at the time of the 2006 reform. As noted by the French minister of Agriculture, Food and the Forest, Stéphane Le Foll, the Italians, in particular, have a different view: «I think they also eat sugar, but they do not produce much so they are not directly concerned by the extension of what is called the sugar CMO until 2020» ².

However, we are entitled to ask whether the French position, beyond the defence of the industrial interests of the sugar sector, is justified in the sense of whether it supports the country's economic activity and is consistent with government policy. It goes without saying that the French sugar sector creates wealth for the economy. It shows a trade surplus (+ 773 million euros in 2011) and employs approximately 35,000 people ³, including 26,000 farmer-growers, for whom beet does not represent «even in the most specialised farms, more than

1. «Franco-German agreement on the maintenance of the CAP budget», Joint press release at the meeting between Mrs Aigner and Mr Le Foll, 9 October 2012.

2. «Agreement between Rome, Paris and Madrid on the CAP budget», Sybille de La Hamaide, *Reuters*, 16 October 2012.

3. «Overview of the Food Industries 2012 – Sugar Manufacture», Ministry of Agriculture, Food and the Forest.

a third of the cultivated area» ⁴, and 2,200 seasonal workers during the harvesting (the 25 sugar plants, established in the north of France, only operate for around at most three to four months a year).

Although there is no question of calling into question the strategic nature of the sugar industry, it should also be recalled that the food industry which uses 80% of the quota's food sugar has greater importance in the French economy. It mainly numbers the 21,200 employees of the chocolate and confectionery sector, 12,200 in biscuit and pastry making, close to 4,000 in ice-cream and sorbet making, 6,500 in soda and syrup and a large part of the 7,200 working in processed fruit (jams, compotes) as well as those in the sectors of breakfast cereals, spirits, yoghurts and dairy desserts ⁵. This considerable disparity is also reflected in the annual investments in R&D: 3.1 million euros for the sugar industry compared with 38.5 million for the food industries which are users of sugar ⁶.

The local importance of the sugar industry in many rural areas should not make us forget the economic and cultural asset and lever for development that the food industry constitutes for many regions. The diversity of local areas and traditional know-how constitutes an acknowledged resource of this sector of activity. If it is customary to say that France is the country of cheeses, it is also that of confectionery, of which there are 600 regional specialities often produced by a few independent SMES or artisanal structures. Cambrai has its bêtises, Aixen-Provence its calissons, Toulouse its violettes, Montelimar its nougat and Nancy its bergamotes, protected since 1996 by the European PGI name (Protected Geographical Indication).

We could also cite the importance of biscuit-making for the economic fabric of Brittany where some fifty firms employ more than 5,000 people; or that in the economy of the Lot département where the family business, Andros, the leading European producer of jam and compote, employs 1,230 people locally ⁷. Not only does the food industry, in all its diversity, actively contribute to the economic and social dynamism of the territories, but it also strengthens their reputation and their image. A company such as Confiserie des Hautes Vosges in the municipality of Plainfaing (1,860 inhabitants), the manufacturer of the

4. «Assessment of the common agricultural policy measures relating to the sugar sector», Agrosynergie, December 2011.

5. «Overview of the Food Industries 2012», Ministry of Agriculture, Food and the Forest.

6. «The research tax credit in the field of food industries», Ministry of Agriculture, Food, Fishing, of Rurality and the Development of the Territory, 2009.

7. «Overview of the economy of the Lot département», CCI of the Lot, September 2012.

famous bonbons des Vosges flavoured with the essence of fir tree buds, each year receives 180,000 visitors and has thus become the second most visited site in the department.

This is not to oppose the sugar industry against the food industry even if, currently, the first is campaigning for the maintenance of the system of sugar production quotas whereas the second is supporting its abandonment. Both are essential to the national economic fabric. And if their respective professional confederations play their role when they defend the interests of their members, it is that of the political authorities through their authority and jurisdiction, to assess the relevance of the arguments put forward in the light of the general interest. The effectiveness and relevance of their action depend on this.

By this yardstick, the French position is surprising to say the least, and hasty.

Is it reasonable to want to maintain a system that has demonstrated its ineffectiveness by creating inflationary pressure and distorting competition? Is it consistent to want to strengthen a dominant player – let us specify dominant not to mean in terms of employees or of value-added but with power over the sugar market – at the risk of weakening a food industry, and particularly the fabric of many SMEs and sub-contractors, which have already been weakened by the increases in raw commodity prices and the pressure of the large supermarkets?

In addition, the position of the Ministry of Agriculture, Food and the Forest is incompatible with the government's general policy. It is in contradiction with its declared commitment to the CAP, of which the quota system tramples on several founding principles. It is in contradiction with the political desire to strengthen business competitiveness and stem the decline of French industry. It is in contradiction with the line set by the President of the Republic who wishes to «produce more and better in France» and «reduce the production costs of our sectors exposed to international competition»⁸.

It is in contradiction with the determination of the Minister of Agriculture, Food and the Forest, himself, to «support the internationalisation of the food companies»⁹ since how can we encourage «SMEs and medium-sized enterprises to become involved in exports» if at the same time we are weakening their competitiveness? This is tantamount to saying we are taking away with one hand what we have given with the other. Finally, it is in contradiction with defending consumers' purchasing power.

The French position raises even more questions as it relies on no impact study. In the absence of established economic justifications, it may only be likened to

8. «Opening of the press conference by the President of the Republic», 13 November 2012.

9. «The food industry, a priority sector for export», press release, Ministries of Foreign Trade and Agriculture, Food and the Forest, 23 October 2012.

a blank cheque given to the sugar beet lobby which waves like a red rag the prospect of an influx of Brazilian sugar at low prices onto the European market. This is an argument that has already been used in the past to oppose the 2006 reform («a reform that will benefit Brazil in particular and very little developing countries»¹⁰) and which recent history has demonstrated that this was simply not the case – imports into Europe of refined Brazilian sugar being limited by a volume quota.

10. «Analysis by the CGB on the Sugar Regulation reform that has finally been decided», 2007 annual report (chapter 6), General Confederation of Beet Growers.

The real questions for a fair reform

The future of the European sugar sector, and more particularly in France, is an issue that should be properly debated at a level with what is at stake. A debate which considers the balance between cost and benefit both in maintaining the quota system and the various possible replacement scenarios for redressing the balance between supply and demand (simple abandonment or increase in the quota and imports to resolve the problems of supply and create competition or the creation of an import quota free of customs duties for the countries outside of the ACP/LDCs). A debate that could open the door to a fair and accepted reform. In the absence of a serious independent study having been conducted on this subject, we shall simply open up some lines of thought and counter a few preconceived ideas.

DO THE QUOTAS PROTECT EUROPEAN SUGAR PRODUCTION?

Although the quotas guarantee European beet sugar producers an internal market of 13.3 million tonnes, they also limit their capacity to sell on the world market. Due to the regulation of the European market, exports of so-called «non-quota» sugar are governed by strict rules. They may not exceed the 1.4-million-tonne ceiling fixed by the World Trade Organization. However, the global market should continue to grow driven by consumption «which is expected to grow by 2.2 % per year» in the next decade ¹. The capacity of the European sugar sector to export will obviously depend on world prices which should continue to «remain on an elevated plateau and to average higher in real terms to 2020-21 compared with the past decade» ².

1. «OECD-FAO Agricultural Outlook 2011-2020 », OECD/FAO, 2011.

2. *Ibid.*

The French sector which has one of the highest sugar/hectare yields of beet in the European Union, increasing on average by 2% per year, certainly has a card to play to increase its production and its export market share.

DOES THE EUROPEAN INDUSTRY SUFFER FROM A LACK OF COMPETITIVENESS?

«In 2000, beet sugar production costs were twice as high as those for sugar cane in Brazil, the most competitive country in the world. This gap has been reduced by only 30% due to the increase in beet yields and the significant increase in Brazil's production costs», the Director-General of the Beet Technical Institute believes ^{3 4}. The fact remains that this productivity gap should be treated with caution and varies greatly from year to year depending on climatic conditions, the exchange rate of the real and the cost of labour. And if you look at the operating margins generated by Tereos' beet divisions (France and Czech Republic) and sugar cane (Brazil, Réunion and Mozambique) in 2011, they are identical ⁵.

DOES BRAZILIAN PRODUCTION THREATEN THE EUROPEAN INDUSTRY?

If it is true that Brazil should «consolidate its position as the leading exporter and account for 55% of world trade» ⁶ by 2020, Brazilian exports to Europe are currently contained by very high tariffs. Moreover, it is important to take into account the growing links which are too often neglected, between European enterprises and Brazil. For example, the leading French sugar industry company, Tereos, has invested in sugar cane production in Brazil since the early 2000s, an activity which benefits from its «process of transferring agricultural and industrial know-how» and an investment plan of 330 million euros over five years ⁷. The group currently records 945 million euros of turnover in sugar cane in Brazil and Mozambique compared with 1.6 billion euros in beet in Europe.

3. «Sugar beet and environment », Marc Richard-Molard, meeting of the Agriculture Academy of 4 April 2012.

4. Note that white sugar and brown sugar are (sometimes) considered by some professionals to be different products.

5. «Tereos, 2011 annual report».

6. *Ibid.*

7. «Tereos, 2011 annual report».

ARE THE SUGAR GROUPS STILL AGRICULTURAL COOPERATIVES?

Due to their status as agricultural cooperatives, the leading two French sugar groups (Tereos and Cristal Union) do not pay tax on the profits generated by the sale of beet sugar produced in France. For all that, their strategy increasingly resembles that of the multinationals of the food industry, preferring to diversify in all directions through the creation of subsidiaries to increase their incomes and their profitability. Tereos has thus invested in sugar cane in Brazil and Mozambique and Cristal Union in cultivating several hundred hectares of stevia in South America. What is the logic of defending the interests of French beet growers members of the cooperative and investment in competitive sectors? Winning on two fronts: Tereos has thus paid its members, for the 2011 financial year, 99 million euros (in addition to the price for the purchase of beet thanks to the high price of European sugar and dividends received on the profits of the foreign companies).

IS THE FRENCH FOOD INDUSTRY FLOURISHING?

According to the Ministries of Foreign Trade and Agriculture, Food and the Forest, «the food industry represents the second highest trade surplus for France, recording 12 billion euros in 2011 and an increase in sales of 14% in a year. These exceptional results hide however contrasting realities and international competition is increasingly strong»⁸. In fact, the trade surpluses of the wine and dairy sectors hide the «forest» of the negative balances of the other sectors. France relies on the wealth of its heritage, but is struggling to support the development of its SMEs and to attract the multinationals of the sector. The increase in the price of sugar and the recurring difficulties of supplies are certainly not contributing to tipping the scales favourably.

In trying to cast to one side a few preconceived and commonly stated ideas, we have tried to open up the field of the debate. Its conclusion can come only from the development of a solution which is beneficial to the French economy as a whole and not by maintaining an authoritarian and unfair system which does not give our industry the means it needs to strengthen its competitiveness.

8. «The food industry, a priority sector for export», press release, Ministries of Foreign Trade and Agriculture, 23 October 2012.

Repainting a future for the market

Any reform of the European sugar market must be guided by the desire to correct the currently observed aberrations (soaring prices, threats to the security of supplies) which were not foreseen at the time of the previous reform of 2006.

The character of the European market which has a structural supply shortfall brought about by internal production quotas and customs barriers to imports, is the crux of the problem. It weights down the whole of the sugar-using food sector by maintaining inflationary pressure and hampers its development projects by constantly inducing fears of shortages in the management of its supplies. The measures which will be adopted must aim to remedy these failings which heavily penalise the European economy and consumers.

It is useful to recall that the removal of production quotas, supported by the European Commission and by a certain number of member countries does not mean full liberalisation of the market. It must be accompanied by measures which safeguard the interests of the sugar industry and the farmers by the introduction in particular of «safety nets» to cope with the volatility of the markets, the volatility of prices and the emergence of possible crises. The debate would be improved by refocusing it on defining these measures rather than concentrating on maintaining a quota system in which the economic imbalances it creates in the internal market, invalidate its legitimacy.

An independent study on the whole of the food industry sector (and not on the sugar industry only) must be made for understanding what consequences the removal of quotas would have on the European economy and for implementing appropriate support measures. In the absence of an objective assessment, the argument alone of the sugar industry's competitiveness, put forward without justification, cannot be used to legitimise the *status quo*. The competitiveness of the sugar industry would certainly benefit more from an overhaul of the European import-export system, encouraging market

share to be won on the global markets rather than safeguarding a captive internal market that does not support the search for gains in productivity.

Without waiting for the end of the quota system, the operation of the European mechanisms for regulating supply and demand to stabilise the market must be reviewed. The decisions in respect of opening export quotas free of customs duties or reclassifying quota sugar to increase available supplies, in case of insufficiency, are currently taken by the Management Committee for the Common Organisation of Agricultural Markets, on the proposal of the European Commission. This organisation adds to the uncertainty that weighs on the European sugar market and promotes inflationary pressures. Firstly, the slowness of the decision-making process prevents upstream intervention to correct market excesses. Secondly, the composition of the Committee itself, in which the representatives of the governments of the member countries sit, runs the risk of submitting each of its decisions to political trade-offs with little relation to their technical scope. As a result of this dual burden, the European sugar market finds itself immersed in an unstable and unpredictable environment, conducive to the deployment of speculative policies which only make the imbalances worse.

Breaking out of this vicious circle does not require major reform but the establishment of an automatic system for assessing supply and demand according to factual market criteria linked to the evolution of prices and of stocks, thereby avoiding the failings created by a market with a structural supply shortfall.

In the early years, the quota system encouraged an improvement in the competitiveness of the European sugar sector. Today it has had its time. Europe would benefit by replacing it with another organisation which is fairer and more virtuous economically. The future of the whole of the European sugar sector depends on this. .

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