The EU Sugar Reform Policy: a critical analysis from a European Left perspective

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Since its creation in 1968, the common European sugar regime was aimed at supply security through farming subsidies and a high level of protection for the European market. From the outset, exceptional arrangements were created in order to maintain established supply chains for European refineries from the former colonies, which had often been transformed into monocultures to generate the "sugar energy" for the new industrial labour masses in Europe. As ownership of factories and plantations was often linked in wealthy families, so was exploitation of farm workers and industrial workers in peripheries and centres. Mauritius or Fiji are good examples for 19th century globalisation and the forced resettlement of labour involved.

Lomé and other arrangements somewhat continued this special relationship between Europe and its colonies. Let us jump a bit forward in time to the Uruguay Round and the foundations of the 2006 EU sugar market reform.

During the 80s and early 90s, the EU's offensive interests in trade had shifted considerably. Creating a low tariff, rules based world trading system for machinery, cars, chemicals, or pharmaceuticals had become far more important than protecting the diminishing numbers of European farmers.

Market access to the EU for agricultural products was offered to convince developing countries to finally agree to join and create the WTO. Within the framework of the Uruguay Round negotiations, the European Union had also agreed to reduce its sugar production and to reduce its export subsidies for sugar and other agricultural commodities to zero.

Remember that this happened soon after a major change in world paradigm: the collapse of the bipolar system with the fall of the wall in Europe and the wind of change subsequently blowing in Africa. The Nineties were also a time of growing awareness in Europe of the poverty in most other regions of the planet, and how bitter sugar could taste from the perspective of plantation workers in the global South. Still, the EU Commission tried for a few years more to maintain the level of protection for European sugar producers and to focus the southern perspective on the ACP, until not least the WTO itself forced the EU to extend preferential arrangements, either to all developing countries equally or to conclude FTAs with partner countries or regions to replace the Cotonou approach.

After years of preparation, the 2006 sugar market reform and the EPA negotiations were the step to comply. At that time, pro-developing countries advocacy groups and a number of committed Members of the European Parliament were at least influential enough to embed a budget for certain compensation measures and transition schemes for non-EU sugar producers into the reform package. I would be very much interested in learning from you about the effectiveness of these financial allocations and whether or not it helped the workers at the end.

Within Europe, the 2006 reform was intended to organise transition from a protected market to production competitive enough to prevail in a world market environment. The quota system for member states was created to facilitate a certain consolidation period. It was expected that during this period sugar beet production in the European Union would be concentrated in those areas fit for survival in world market competition. Already at that time, the food industry would have preferred a faster access to cheap sugar. To win the sugar refining industry for the compromise, quotas and price guarantees were extended to certain non-EU producers again in order to maintain established supply chains. The ACP sugar protocol was already serving European industry interests as well.

Has the 2006 sugar reform worked out well for the EU?

To some extend yes, though not immediately, but after some further adjustments from 2009 onwards. Sugar beet production has decreased by 20 percent, and is now concentrated in the areas producing more efficiently. Until recent peaks in world market prices, most supply chains of the European sugar refineries could also be maintained, but the 36 % reduction in the guaranteed price past on the burden of adaptation to the ACP. You know better than me the consequences of the MAAS and the related early retirement schemes in Mauritius. I fear that respective EU compensation schemes fell short from covering the costs involved.

However, currently the refineries are complaining about serious shortages in supply. ACP producers never delivered to full extend on the quota available for them. And with the current world market prices many take the opportunity to sell their produce elsewhere for a better price.

The consolidation process involved also social and cultural costs in Europe.

Prior to the reform, only Brazil exported more sugar than the EU. Today the EU has become a net importer of sugar. As a consequence of the reform, arable land used for beet production fell from 2 million hectares to 1 million hectares. Aggregate sugar production was reduced from 22 million tons of raw sugar equivalent to 15 million tons, a 30 % reduction. Once sugar was produced in 23 member states, today there are only 18 left. France, Germany, Poland and the UK are producing 70 % of all sugar in the EU. Production costs fell. In the Netherlands and UK, costs are below 400 € /t. In France, Germany, Poland, Austria, Belgium and Denmark they range between 400 € /t and 470 € /t. Producers in Bulgaria, Greece, Italy or Portugal still have to cope with costs of more than 630 € /t, which might be too high to continue production in the future. Farmers' generate income from sugar beet remained relatively stable with on average 2300 € per hectare. This is of course related to prices achieved with alternating crops, mainly cereals or potatoes.

Sugar production in Europe is still a lot more expensive than in Brazil, Australia, India, or Thailand, also US farmers produce cheaper. Full exposure to the world market would be premature for European farmers. Hence it is likely that high tariffs for imports will be maintained, and that sugar will be declared a sensitive product in the event of the conclusion of an FTA with MERCOSUR. (Peru/Colombia and Central America achieved an increased quota in their recently concluded FTAs with the EU)

Sugar processing has become very concentrated. Half of the sugar beet processing facilities were closed down, only 102 of them are left. 18,000 people lost their jobs. The processing campaign length increased from 90 days to 125 days. I went to school in a sugar processing town and remember the smell of old socks being characteristic for the campaign period. To extend this period by one month does certainly not increase the quality of live for the people.

Today, 8 companies are dominating the entire EU market. The big players in sugar processing in Europe are now German Suedzucker with a 25% market share, the German Nordzucker with 13 % , then Associated British Foods and the French Tereos. Here in Mauritius you know well that Suedzucker was the central player in moving Mauritius from being an exporter of raw sugar to refining white sugar. This deal helped Suedzucker to make up for 50 % of its quota loss in Germany and to continue to fulfil its contracts with the food industry. Suedzucker is by the way owned by a giant cooperative of 30,000 German farmers. After Tate & Lyle had lost in the Mauritius deal they were soon after taken over by the American ASR.

A future for the quota system?

The main stakeholders in the EU debate about whether or not to abolish the quota system in September 2015 are EU sugar beet producers, EU sugar cane refineries, the isoglucose producers, the sugar processing industry, and last but not least ACP countries and the respective advocacy groups in development policy.

It can be summarised that sugar beet producers are in favour of extending the current quota system to the year 2020. They argue that they need this additional time to become more competitive on the world market. The ACP wish to maintain the status quo even beyond that year in order to keep this rather stable source of income for their overall development strategies. The refineries in Europe do not come up with a strong position in favour or against quotas, as for them access to supplies is of the major importance, regardless of whether the raw material comes from developing countries or e.g. Brazil. The sugar using industries are the most influential lobby in favour of abolishing quotas and reducing tariffs in 2015. Their interest is a low sugar price. As the EU Commission has not put a legislative proposal for the extension of the quota system beyond 2015 on the table, they obviously follow the demands of Nestlé & Co rather than the ACP. The European Parliament has passed a resolution - a report drafted by MEP Michel Dantin - in favour of prolonging the quota system to 2020, which is still a possible and not unlikely compromise. However, as long as there is no concrete legislative proposal from the Commission, it must be assumed that the system will seize to exist in 2015.

Please be aware that the current economic crisis has an effect on the attitude of governments in affected EU member states. Spending on development aid has been cut. It is a time, when Governments look after their own people first, as short-sighted this may be in the view of the left parties like my own. But it is a fact, that GNI per capita is higher in Mauritius than in two EU member states, namely Romania and Bulgaria.

World Market outlook

The OECD and the FAO predict higher prices for the coming decade than for the past decade, though lower than this year. Production grows faster than consumption and we could soon reach a global supply surplus.

Much of the future market development depends on:

- the Indian sugar cycle
- the oil price and its effect on Brazilian ethanol production
- the Chinese demand
- the EU common agriculture policy

The effects will be felt differently in the world regions. West Africa is already in sugar deficit. The East African Community is fearful of such a situation, and is hence providing an opportunity for Mauritian companies to expand in Kenya and Tanzania.
The race for lower costs is a danger to small farmers. This danger has become reality in Laos and Cambodia, where Thai corporations are expanding production for EU and China and force small farmers off their lands. The fair-trade sugar niche used by many small farmers in Mauritius could work out for a while, as demand in Europe for fair traded biological products is increasing. The problem of high certification costs would have to be solved, though. The fair trade movement is strongly supported by the left parties in Germany and several other EU member states, mainly in Northern Europe.

In this context, the shift of Mauritius for added value production rather than exporting raw sugar makes sense. But the strong focus on exporting to the EU could be dangerous, if quotas were to be abolished and Suedzucker and others were able to extend sugar beet production in Europe again. Thus, further diversification seems to be highly recommendable. It appears also very likely, that number of workers in the sugar sector will be further reduced, with global production rising and cost competition increasing. Enhancing the role of cane in energy production could compensate this effect, as long as prices for fossil energy remain high. But I would also like to see an increase of wind and solar energy farming in Mauritius.

The most dangerous aspect of the complex world sugar market situation is the potential of one single player on this stage: Brazil. No one can compete with their production costs (6 cents per pound as compared to 18 cents per pound in Mauritius), so the current market opportunities might collapse on the day Brazil is no longer artificially hindered from entering the markets by protectionist measures. Mauritians and Europeans should watch with care the outcome of the EU-MERCOSUR free trade agreement negotiations.