Long-term stability of the European sugar sector, also after 2015

Position paper Dutch sugar sector, on behalf of 10,000 sugar beet growers, on a future-proof European Common Agricultural Policy 2014-2020.

Growers and the industry together strive for:

- Food security
- Rural development
- Sustainable food production
- Preservation of biodiversity
- Mitigation of (the consequences of) climate change

Executive summary

In November 2010, the European Commissioner for Agriculture Ciolos presented his proposal for the Common Agricultural Policy (CAP) after 2013. It's most important objectives are: long-term food security, maintenance of viable rural communities with sufficient employment, stability of the markets, biodiversity and sustainable agricultural practices.

The sugar sector not only welcomes these objectives, but is also able to actively contribute to them thanks to the current sugar CMO. In the Netherlands and in Europe, there is wide support among the growers and producers for the maintenance of the current sugar CMO after 2015. However, they have identified five issues that need special attention (and improvement).

2006 Reform successful

The current sugar CMO, part of the CAP, is valid up to the growth season of 2014-2015. Because of the reform of the CAP after 2013, the sugar CMO is also part of the discussion. The European Commission is exploring several options for the sugar CMO after 2015. That is remarkable considering the fact that the European sugar sector has already undergone the drastic reform of the 2006 sugar CMO, which will be completed at the end of 2011. This reform led to the closure of 80 factories in the EU since 2006, a decrease in sugar beet area by 750,000 hectares and the loss of more than 30,000 jobs. Moreover, it resulted in the end of sugar beet cultivation for 140,000 farmers and five EU countries completely closed their industries. In the Netherlands, a drastic restructuring has taken place as well. Royal Cosun took over CSM Suiker BV and three factories out of a total of five in the Netherlands have been closed down.
The European Commission, the European Parliament and the European Court of Auditors conclude that the 2006 reform of the sugar market has achieved its main objectives. The current sugar CMO honours the WTO-commitments, is CAP-proof and is in line with the 'Everything But Arms' arrangement with LDCs (Least Developed Countries). Europe has changed from a net sugar exporter into a net sugar importer. The competitive position of the European sector has improved significantly and the current system is budget neutral for the European tax payer.

Food security, stability and sustainability

Long-term food security is an important objective of the CAP. The current sugar CMO is characterized by a unique balance between domestic production in Europe and import mainly from the least developed countries. The consumption of sugar in Europe amounts to approximately 16.5 million tonnes, the domestic production to 13 million tonnes. To be able to meet the demand, the EU imports 3.5 million tonnes of sugar per year from poor countries such as Malawi and Mozambique. This balance between European domestic production and import is a way of ensuring food security.
In the Netherlands, more than 3,000 people depend for their livelihood on the production of sugar, just like approximately 10,000 sugar beet growers and their families. Furthermore, the sugar sector contributes to the development of viable and dynamic agricultural communities, also in areas where there are not many other economic activities.
Another important objective of the CAP is to create stability on the European markets. Based on the current sugar CMO, the European Commission (EC) has a number of instruments to control the supply and demand on the European market. For instance, in the event of a potential shortage or surplus on this market, the quotas can temporarily be increased or decreased or additional imports may be permitted.
Liberalisation of the market can lead to considerable price fluctuations. The world sugar market is one of the most volatile of all commodity markets. By balancing supply and demand, stability is created in Europe. A strong CAP, including the sugar CMO, not only contributes to a stable market, it is also in the interest of all stakeholders, consumers, the processing industry, farmers, producers, the Least Developed Countries (LDCs) and the African, Caribbean and Pacific Group of States (ACP countries).
The sugar sector is characterized by sustainability, both in sugar beet growing and the production of sugar.
Sustainability is also an objective of the CAP. The yields of sugar beet growing in Europe have increased significantly in the last few years and can increase even further.

The environmental impact is very low. Domestic production, close to the consumer, makes it possible to create closed cycles and reduces the dependency on fossil fuels. With the production of renewable electricity and gas from biogas, Suiker Unie is also part of the new bio-based economy.

No need for new reform

Now, in 2011, the starting point is totally different from the one in 2006. In 2006, there were several reasons to implement changes. At present, the general opinion is that although the sugar sector has suffered, the restructuring has been successful and the objectives have been achieved. The sector is in balance. There is no need to reform now. All the more because the current sugar CMO has proven to be a clear and effective instrument to meet the objectives set in the CAP, such as food security and stability. Considering that the sector has undergone a successful restructuring, the sector and the new system must be given the opportunity to prove themselves. This requires a consistent policy. However, if a new reform is to be implemented, it must be based on a clear and informed decision. It must be tested for the desired and undesired effects, both in relation to existing market organisations in other countries and in relation to the developments on the world market.

Five issues that need attention (and improvement)

- *Volume management continues to be necessary*
  Sugar is the only product in Europe with a unique balance between domestic production and import. The European Commission prefers the sugar to be imported mainly from the LDCs. These countries only have access to the European market if there is room for import and if the import from other countries is limited. Therefore, a volume management system is necessary to preserve this balance. The quota system has proven to be an efficient tool.
- *No increase of sugar import*
  Apart from the already existing concessions based on the 'Everything But Arms' arrangement and WTO arrangements, the European Commission must not make any new concessions for sugar import through bilateral agreements. This extra import would lead to further cuts in EU sugar production.
- *Export opportunities outside the EU are too limited*
  Export opportunities strengthen the market orientation and contribute to the worldwide food supply, especially in times of sugar shortages and high prices on the world market.
- *Level playing field across the European Union*
  The sector operates in a highly competitive playing field. Therefore it is important that all sugar beet growers and sugar producers in Europe are treated equally. However, compared to other European countries, the Netherlands have, for instance, relatively unfavourable regulations for the sale of by-products, such as earth foam/Betacal (lime fertilizer).
- *Production charge of 12 Euros per tonne of sugar*
  This charge dates back from the time that the sugar industry received export refunds.
  However, at present the sugar sector is budget neutral, honours WTO commitments and does not receive any refunds. Therefore, there is no longer a basis for this production charge.

Weighted and responsible sugar CMO

The sugar sector strives for a weighted and responsible sugar CMO in which the interests of the different parties involved are equally served. The Dutch sugar sector wants to contribute to that by actively participating in the dialogue. This position paper is meant as input for the discussion about the future CAP after 2013 and the sugar CMO after 2014/2015 in particular.

Objectives of the Common Agricultural Policy after 2013

In November 2010, the European Commissioner for Agriculture Ciolos presented his proposal for the Common Agricultural Policy (CAP) after 2013. The sugar sector in general welcomes the objectives of the CAP: long-term food security, maintenance of viable rural communities with sufficient employment, stability of the markets, biodiversity and sustainable agricultural practices. What is more, it is also able to actively contribute to them due to the current sugar CMO.
This position paper explains per objective of the European Commission how it is supported by the sugar CMO and given shape by the sector.

Food security

There is an increasing demand for sugar worldwide. Each year, sugar consumption increases with 2 to 3 percent as a result of the growing world population and the increasing prosperity in emerging economies.
The Food & Agricultural Organisation (FAO) expects that sugar consumption will rise from 168 million to 205 million tonnes in 2019. The global sugar production must scale up to be able to satisfy the demand.
The current sugar CMO is characterized by a unique balance between domestic production in Europe and import mainly from the least developed countries (LDCs). The consumption of sugar in Europe amounts to approximately 16.5 million tonnes, the domestic production to 13 million tonnes. To be able to meet the demand, the EU imports 3.5 million tonnes of sugar per year, in particular from poor countries such as Malawi and Mozambique. This balance between European production and import is a way of ensuring food security in Europe. Moreover, food security must be viewed from a global perspective. As it happens, a stable, domestic production in Europe ensures food security not only in Europe, but also in the sugar-exporting LDCs.

Stability of the markets

Another important objective of the CAP is to avoid a highly volatile market. Based on the current sugar CMO, the European Commission (EC) has a number of instruments to control the supply and demand on the European market. For instance, in the event of a potential shortage or surplus, the quotas can temporarily be increased or decreased or additional imports may be permitted. Further liberalisation of the market can result in price fluctuations, which gives rise to a volatile market, whereas the sugar CMO, together with its set of instruments, provides stability.

The CAP, including the sugar CMO, not only contributes to a stable market but also guarantees a fair price for the farmers. This is of vital importance for the ongoing production of raw materials. A competitive domestic sugar production in Europe provides a fixed volume for the European market and therefore a basis for stability.

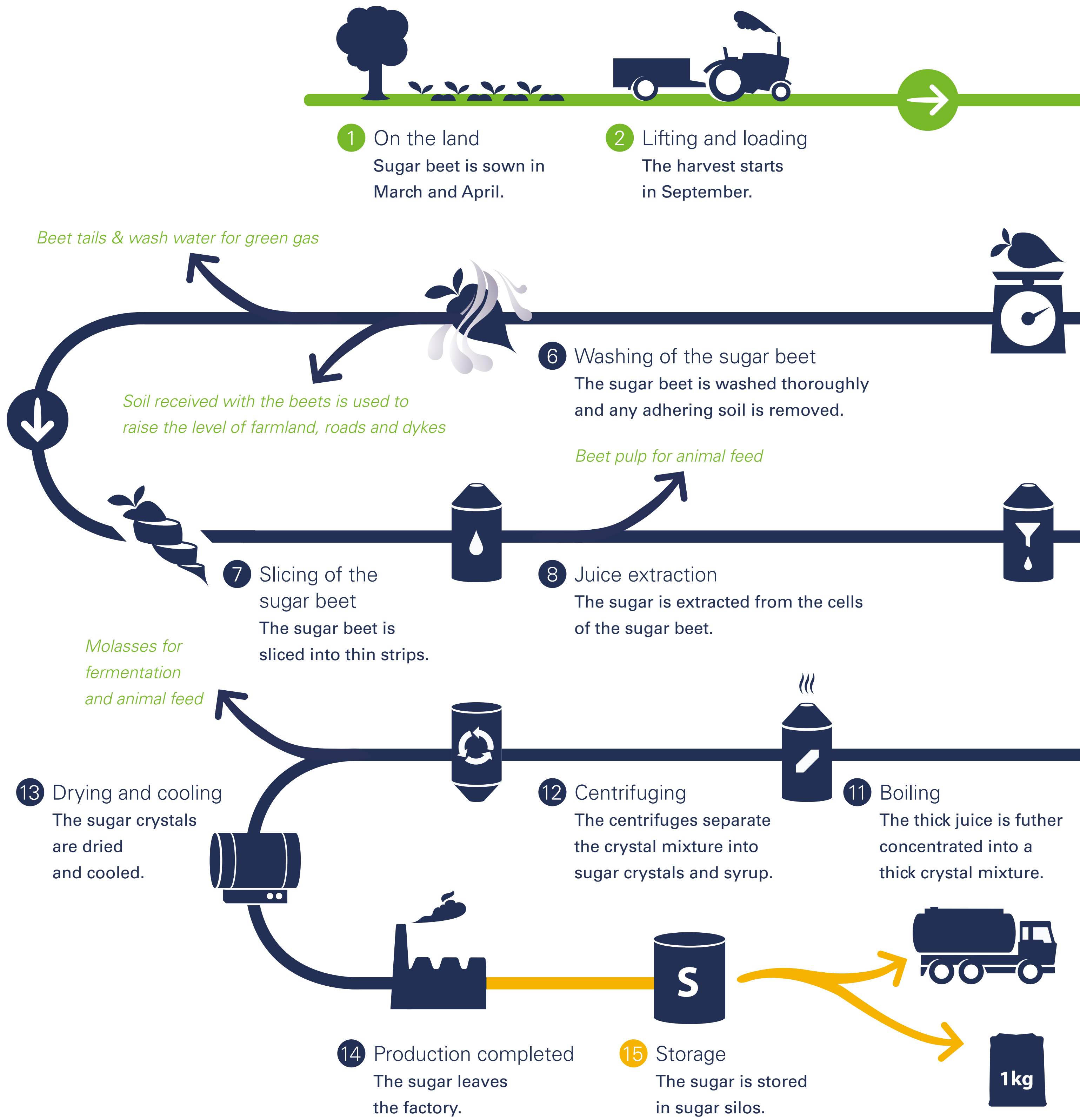
Rural development and stimulation of employment

The cooperative Cosun (on behalf of 10,000 sugar beet growers in the Netherlands) is dedicated to the preservation and development of the infrastructure necessary for profitable sugar beet growing (more than 70,000 hectares in the Netherlands). As such, Cosun contributes to the development of viable and dynamic agricultural communities. Agriculture still represents a large part of European employment. In the Netherlands alone, Suiker Unie and the related suppliers provide thousands of jobs. Moreover, the sugar industry is active in areas with few other industries; it even attracts other economic activities (Agro & Food Cluster 'Nieuw Prinsenland').

Sustainable food production

The sugar sector considers sustainable business practices of paramount importance. It does pioneering work in sustainable growing and production practices. The yields of sugar beet growing are high in Europe. The environmental impact is very low. The entire production chain is certified. The factories work continuously on efficiency improvements to reduce energy consumption, water demand and emissions. The domestic production, close to the consumer, makes it possible to create closed cycles and furthermore, reduces the dependency on fossil fuels.

From beet field to sugar factory:
A model of environmental sustainability



3 Transport
Trucks transport the sugar beet to the factory.

4 The factory
The processing of the sugar beet starts.

5 Determination of the sugar content
The sugar beet is weighed and the sugar content is determined.

Betacal lime fertilizer for agricultural purposes

9 Purification of juice
Minerals, salts and proteins are extracted from the raw juice. It has now become thin juice with a sugar content of approximately 15%.

10 Evaporation
By evaporating the water (with steam), the thin juice thickens and the sugar content increases to approximately 70%. It has now become thick juice.

16 Industrial clients
The sugar is transported to clients in bulk trucks, among others.

17 Consumers
The sugar will be sold in small quantities at the supermarket.

Sustainability according to Suiker Unie

Sustainability is an important principle in the production chain of Suiker Unie. In the entire chain, from seed to beet to sugar and several by-products, Suiker Unie strives for recycling waste streams and keeping the energy consumption as low as possible. The energy consumption for the sugar production in the Netherlands has decreased with more than 44% in the last 20 years. That is significantly better than the objective of the Kyoto Protocol and more than twice the European objective of achieving a 20% reduction of fossil energy consumption by 2020 compared to 1990.
Sugar beet is a wonderful crop and suitable for many purposes. One hectare of sugar beet produces five times more energy than the energy needed to grow and process sugar beet. The pulp, for instance, can be used as raw material for biodegradable packaging material. Molasses, another residue, can be used to make high-quality products such as baker's yeast, yeast extracts for soup, ethanol, perfusion solutions and plant nutrition.

Suiker Unie already generates renewable electricity and gas from the biogas of its methane reactors. With the bio-fermenter in Dinteloord, the building of which has started recently, and the fermenter yet to be built in Vierverlaten, Suiker Unie wants to produce a total of approximately 22 million m^3 of green gas.

Photo: Frank Timmers, BN DeStem

Bio-based Economy

The new bio-fermenters are an important step for Suiker Unie towards further increasing the sustainability of its production chain. In the near future, all waste streams/biomass of Suiker Unie will be processed into green gas that will be injected into the Dutch natural gas distribution network.
Annually, the fermenters will process 200,000 tonnes of vegetable residues into 18 million m3 of green gas. Together with the green gas of the methane reactors, it is enough for 15,000 households. As a result, Suiker Unie will become one of the largest producers of green gas in the Netherlands. Suiker Unie also wants to use green gas for its vehicles. Together with its partners, Suiker Unie explores the possibilities of using the gas for the transport of its sugar. There are already company cars, lease cars of employees and trucks running on green gas. Suiker Unie will not only process the residual product from sugar beet, but also from other companies, for instance from the glasshouse industry of the Agro & Food Cluster 'Nieuw Prinsenland'. This means that Suiker Unie takes part in the new bio-based economy.

Protection of biodiversity

200 years of progress in crop breeding, including resistance against diseases, have significantly contributed towards increased yields of sugar beet growing and have resulted in many varieties. To preserve the biodiversity and further enhance the protection of the environment, crop rotation with sufficient crops, including sugar beet, is important. Sugar beet is grown on the same field only once every three to five years. As a valuable crop in the rotation cycle, it prevents the spread of diseases. As a result, less fertilizers and pesticides will have to be used in the growing of other crops. It is important, therefore, to keep sugar beet in the crop rotation cycle.

Advantages for wildlife

Birds are a good indicator of biodiversity. The stubble from previous crop and the post-harvest stubble are important to wild animals, especially birds. Sugar beet fields retain an open vegetation structure with areas of bare soil until late spring. From an official study in Great Britain, it appears that this is conducive to many ground-nesting birds such as stone-curlews, lapwings, skylarks and wintering pink-footed geese.

Sugar beet is an important rotational crop. It is never grown in continuous single-crop farming. As rotational crop, sugar beet plays an important part in crop rotation with cereals. The cereal yield after sugar beet can be 10 to 20% higher than after two years of successive cereals. Because sugar beet is seldom a host to pests and diseases which affect other crops, the cultivation of sugar beet reduces the level of diseases and pests and helps to control weeds. As a result, fewer pesticides are needed.

No need to reform the sugar CMO

Because of the CAP reform, the sugar CMO, which is part of the CAP, is also part of the discussion. The sugar CMO is valid up to the growth season of 2014-2015. The European Commission is exploring several options for the sugar policy after 2015. The options vary from continuing the current sugar policy to abolishing the sugar CMO and an alternative in between. Abolition of the sugar regime means abolition of the sugar quotas.

2006 Consolidation process

- Closure of 83 factories
- Decrease in sugar beet area of 750,000 hectares
- Loss of 30,000 jobs
- End of sugar beet cultivation for 140,000 farmers
- Complete closure of sugar industry in 5 European countries

It is remarkable that abolition is raised as an option again, all the more seeing that the European sugar has already undergone a drastic reform. In 2006, the reform of the European sugar market was approved. The most important objectives were: reduction of the European sugar price, bringing it more in line with the price on the world market, a smaller competitive sector, better access to the European market for the least developed countries and compliance with WTO rules.
The reform had a significant impact on the European sugar sector and resulted in a considerable reduction. The EU sugar production has been reduced from 19 million to 13 million tonnes. Of the 310,000 European growers, 140,000 have left the industry which led to a reduction of 750,000 hectares of sugar beet area in Europe. Of the 189 European sugar factories, 83 have been closed. Bulgaria, Ireland, Latvia, Portugal and Slovenia have completely ceased to produce sugar and therefore also to grow sugar beet.
In the Netherlands, a restructuring has taken place as well. Royal Cosun took over the sugar division of CSM. Furthermore, three of the five remaining sugar factories in the Netherlands (Puttershoek, Breda and Groningen) have been closed down in the past few years.
Like the European Commission and the European Parliament, the sugar sector is of the opinion that the 2006 reform of the sugar market has achieved its objectives. The export of sugar has been restricted. Before the reform, it was possible to sell quota sugar on the world market with export refund. At present, the EU can only export a maximum of 1.3 million tonnes of surplus sugar per year. There are no more European export refunds. This means that the current system respects WTO commitments.
The production of sugar is not financed with EU funds. Furthermore, a few years ago the European Commission introduced a special scheme for bio-based companies and the sucrose chemical industry. Not only can they purchase sugar from the European market (out-of-quota quota sugar), but also an additional (zero levy) import quota of 400,000 tonnes has been opened for them. With this measure, the increasing demand for sugar as raw material for bio-based products such as biodegradable plastics is met.

2006 Sugar reform successful according to the European Commission and the European Parliament

The sugar CMO also is CAP-proof and in line with the 'Everything But Arms' arrangement (EBA). Sugar from the least developed countries (LDCs) is allowed to enter into the EU duty-free. The European consumption of sugar amounts to approximately 16.5 million tonnes, the production to approximately 13 million tonnes. To be able to meet the demand, the EU imports 3.5 million tonnes of sugar per year, especially from poor EBA countries such as Laos, Malawi and Mozambique. Europe has changed from a net sugar exporter into a net sugar importer. Furthermore, the European sugar price is thus more reflecting the world market price.

Starting point in 2011 is different than in 2006

- Sustainable, competitive sector
- Unique balance between domestic production – import from LDCs
- From net sugar exporter to net sugar importer
- WTO commitments are honoured
- CAP-proof
- No more European refunds – budget neutral

The sugar reform has resulted in a drastic restructuring of the sugar sector. But in the Netherlands, among other countries, it has also resulted in a sustainable and relatively strong sector. The two remaining Suiker Unie factories in the Netherlands produce approximately 900,000 tonnes of sugar per year.
The starting point at present, in 2011, is therefore totally different from the one in 2006. At the time, there were several reasons to implement changes. The sugar regime had not been changed in almost forty years since 1968. There was definitely more pressure to reform at the time.
The current general opinion is that although the sugar sector has suffered, the restructuring has been successful, the objectives have been achieved and the sector is in balance. Also the European Court of Auditors concludes that the objectives of the 2006 reform have been achieved in a largely budget neutral way.

This means that there is no need to reform again. All the more because the sugar CMO has proven to be a clear and effective instrument to meet the objectives set in the CAP. Especially after a successful restructuring, the sector and the new system must be given the opportunity to prove themselves further. This requires a consistent policy. Any new reform must be based on a clearly substantiated decision, tested for desired and undesired effects, both in relation to existing market organisations elsewhere in the world and in relation to the most recent developments on the world market.

Consistent policy required

Undesired effects of the abolition of the EU sugar CMO

Abolition of the sugar CMO has several undesired effects. For instance, a large number of developing countries whose sugar is allowed to enter into Europe duty-free will lose these export opportunities. Furthermore, it remains to be seen if the European sugar beet growers and the processing sugar industry will manage to keep afloat. By abolishing the regime, the European sugar price will fluctuate considerably. Food producers and consumers will also be affected by such fluctuations.

Reduction of sugar beet area – disappearance of sugar industries

One of the options of the proposal of the European Commission is the abolition of the sugar quotas. This will result in significant fluctuations of the sugar price and consequently the price of sugar beet. These price fluctuations lead to large annual differences in sugar beet area.
In the end, this alternative may lead to a drastic reduction of area.
The processing of sugar beet requires highly capital-intensive production facilities. The factories are only suitable for the production of sugar. In case of small(er) harvests, they cannot switch to another product. If a sugar factory were to disappear as a result of competition of other crops, price erosion or otherwise, it is unlikely that it will return at a later stage when market conditions have improved. This explains why there are sugar market regimes all over the world, therefore also in the Netherlands. More than 3,000 people depend for their livelihood on the production of sugar, just like approximately 10,000 sugar beet growers and their families. A stable supply of sugar beet is necessary to preserve the sugar industry.

Food security and stability

The sugar price on the world market is highly volatile. More often than not, this price is at a lower level than the price at which the European growers can grow their sugar beet. This volatility is caused, in part, by the limited elasticity of the demand for sugar. If the supply increases, the consumption of sugar hardly rises, if at all. Consequently, it results in a considerable decline in prices. This is exactly the reason why on almost all internal sugar markets in the world, the supply is regulated in one way or another. As long as that is done, the world market will function as a market for surpluses. Only a relatively small part of the sugar produced worldwide is traded on the world market.

By only liberalising the European sugar market, the price level in Europe will probably plummet. As a result, the farmers in Europe, who have to comply with all kinds of additional sustainability requirements, will not be able to compete anymore. Brazil, for instance, is able to produce sugar at such low prices that even the most efficient European sugar production areas cannot compete with it. Europe would come to depend largely on import. From the point of view of food security, this is an undesirable situation. Since the 2006 sugar reform, the European Union has already changed from net sugar exporter into one of the largest net sugar importers. It is irresponsible to increase the import even further. Food security is an important objective of the sugar policy. By balancing supply and demand, stability is created on the European market. Quotas have proven to be an effective instrument to ensure food security and stability on the European market.

Sustainability

Abolition of the sugar CMO means an increasing pressure on the environment.
In order to meet the worldwide increasing demand for sugar, the global sugar production must scale up. If as a result of liberalisation the demand from the European Union increases, this will lead to the conversion of areas previously not used for cultivation into cultivated areas elsewhere in the world. Scientists know that such conversion into cultivated area results in even more CO_2 emissions from the soil.
In order to achieve the objectives of the CAP, the production as close as possible to the consumer is the best option by far. The domestic production not only makes it possible to create closed cycles, but also reduces the dependency on fossil fuels. Moreover, sugar beet growing in Europe has little impact on the environment.

The future of the least developed countries is at stake

Sugar is one of the largest national export products for many least developed countries.

Their income from sugar export is used to invest in the industry so that they can develop economically. A well-functioning sugar industry also offers them the opportunity to raise the standard of living of their population. In Malawi, for instance, the sugar sector provides employment to a large part of the population. It gives poor, small farmers who are completely dependent on the sugar sector an income.

Since the 2006 reform, sugar from the LDCs is allowed to enter into the EU duty-free. As a result of this arrangement, large investments have been made in the local sugar industry in these countries. By only liberalising the European sugar market, the price level in Europe will probably drop. Possibly even below the level at which these LDCs can compete with countries such as Brazil, which would also have free access to the European market. As a result, a large number of these developing countries would probably be left with nothing. Regulation is the best guarantee for a profitable cultivation in LDCs. Moreover, it is not fair to first make promises to these countries and then abolish the favourable conditions they are benefiting from.

Five issues (that need improvement)

In general, the sugar industry welcomes the objectives of the CAP after 2013. The question is how they should be given shape in practice and be translated into regulations and agreements. The adjustments to the sugar regime must take the interests of the European sugar beet growers and sugar producers and buyers, as well as those of the sugar exporting (developing) countries into consideration.

The need for the adjustments must be substantiated based on facts and generally accepted macro-economic principles. Although the sector on the whole endorses the current sugar CMO, it has identified five issues that need attention (and improvement).

Volume management continues to be necessary

Sugar is the only product in Europe for which a unique balance between European production and import has been found. The European Commission prefers the sugar to be imported mainly from the LDCs (Least Developed Countries). These countries only have the opportunity to export to the European market if there is room for import and if the import from other countries is limited. A volume management system is necessary to preserve the balance between European production and import. The quota system has proven to be an efficient instrument to achieve this.

Quotas

- Lower than EU consumption
- Food security
- Stability
- Effective
- Simple
- Budget neutral

No increase of sugar import

Apart from the already existing concessions based on the 'Everything But Arms' arrangement and WTO arrangements, the European Commission must not make any additional concessions for sugar import through bilateral agreements. This extra import would lead to further cuts in EU sugar production.

Export opportunities outside the EU are too limited

Export opportunities strengthen the market orientation and contribute to the worldwide food supply, especially in times of sugar shortages and high prices on the world market. The export opportunities are too limited at the moment to be able to deal with fluctuations in the production. The sector wants to be able to take advantage of high prices on the world market as well.

Level playing field across the EU

The sector operates in a highly competitive playing field. Therefore it is important that all sugar beet growers and sugar producers in Europe are treated equally. However, compared to other European countries, the Netherlands have, for instance, relatively unfavourable regulations for the sale of by-products, such as earth foam/Betacal (lime fertilizer).

Production charge of 12 euro per tonne of sugar

This charge dates back from the time when the sugar industry received export refunds. As the sector is budget neutral, respects WTO commitments and does not receive any refunds anymore, there no longer is a basis for this production charge. The money that is contributed by the sector now disappears in the general EU funds.

The beet and sugar sector in the EU: a model of sustainable food production

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