The end of the sugar production quotas in the EU

Why did the EU have a sugar quota system and why is it ending now?

Sugar is the only agricultural sector in the European Union where production is subject to a quota system. It was introduced with the first rules on the sugar common market organisation (CMO) in 1968, along with a support price for producers at a level significantly above the world market price. At the time, the recently introduced Common Agricultural Policy (CAP) had as one of its main objective the self-sufficiency of the continent for its food production by encouraging agricultural production with remunerative and stable prices for farmers. Quotas, together with a support price, gave a welcome incentive to achieve these goals in the sugar sector.

The CAP is a dynamic policy which has constantly adapted over time to fit with the evolving challenges and realities of food production, farmers' needs, environmental concerns and market demands. Following the shift from product support (through prices) to producer support (through income support via direct payments), initiated in 1992, an additional reform in 2003 consolidated this transition by decoupling the direct payments from the production of any particular product.

In the case of sugar, the way for the transition was paved with a significant reform in 2006. This reform agreed by the Member States included the progressive reduction of support prices for beet and sugar, the phasing out of public intervention until 2008/2009, ceasing paying export refunds as from 2008, including a mechanism to support the restructuring of the whole industry that took place between 2006 and 2010. At that same occasion, Member States agreed on the principle of the end of quotas in 2015. A system of voluntary compensation (worth €5.4 billion) for ceasing the activity resulted in the reduction of the quota production by roughly 6 million tonnes and led to the creation of a more competitive EU sugar sector ready to compete on a deregulated EU market closer to international prices, and to benefit from market opportunities, both in the domestic and the world markets.

Following this important transition, and after initially agreeing the end of the quota system for sugar in 2015, the European Parliament and Member States decided in the 2013 CAP reform to postpone this landmark by two years until the end of the 2016/17 sugar marketing year, i.e. from 30 September 2017.

There is also a long established and wide consensus among European Parliament, Member States and agricultural stakeholders that the CAP needs to be simplified. The price and quota management required complex monitoring and administrative resources both for the operators and the authorities.

How did the quota system work?

The total EU production quota of 13.5 million tonnes of sugar is divided between 20 Member States. Production in excess of the quota is known as "out-of-quota" sugar and strict rules govern its use. It can be exported up to the EU's annual World Trade Organisation (WTO) limit of 1.374 million tonnes, sold for biofuel or other industrial non-food uses, or be stored and counted against the following year's sugar quota. There is also a small quota of 0.72 million tonnes for an alternative sweetener called isoglucose (also known as Glucose Fructose Syrup) and surplus production of isoglucose is subject to similar restrictions.

If there were signs that there would be an excess of sugar on the EU market in the following marketing year – which runs from 1 October to 30 September – a decision could be taken to withdraw some quantities. If, on the other hand, there was the risk of shortage, measures could be taken to increase supplies.

The end of the sugar quotas means that there are no further limits to production or to exports, allowing production to better adjust to market demand, both within and outside the EU.

How is the sugar sector organised in terms of production, consumption, trade, employment?

The EU is the world's leading producer of beet sugar (roughly 50% of the total). However, beet sugar represents only 20% of the world's sugar production; the other 80% is produced from sugar cane. Most of the EU's sugar beet is grown in the northern half of Europe, where the climate is more suited to growing beet. The EU also has an important refining industry that processes imported raw cane sugar.

EU sugar production in the 2016/2017 marketing year corresponds to 16.84 million tonnes (including 250 000 tonnes of sugar from cane grown in the French Overseas Departments). For the upcoming harvest, no longer bound by the limitations of the quota, it is expected an increase in production by roughly 20% (20.1 million tonnes). This increase results from both, an increase in area and higher yields because of good climatic conditions.

In terms of employment, based on industry sources, there are roughly 145 000 sugar beet growers in the EU in 20 different Member States, plus 28 000 direct jobs in the sugar beet processing, and many more upstream (farm machinery, agricultural inputs) and downstream (food processing, wholesale, retail, transport, logistics). In addition to this, there are 8 000 sugar cane growers in the French Overseas Departments, and full time cane refineries in 9 Member states.

In terms of trade, the EU is one of the largest importers of cane sugar – in particular as a result of the "Everything But Arms" agreement and Economic Partnership agreements with the African, Caribbean and Pacific (ACP) countries which grant many developing countries duty-free access to the EU market. But the EU is also a sugar exporter. Under the current quota system, WTO rules restrict EU "out of quota" exports to 1.374 million tonnes a year (see previous question). EU exports almost only out-of-quota sugar and mainly to neighbouring countries in North Africa and Middle East.

The bulk of sugar produced under quota and the sugar imported from third countries is used by the EU food and drink industry for both the domestic market and the export of processed products. Only a minor part of the sugar production is marketed and directly consumed as such. Out-of-quota sugar production is used for exports (until the limit of 1.35 million tonnes), a variable volume goes for bioethanol production (1.35 million tonnes in 2016/2017) and to specified chemical uses (800 000 tonnes estimated for 2016/2017). The remaining volume of out-of-quota sugar (749 000 tonnes in 2016/2017) will be carried forward to the next marketing year and then released on the market as quota sugar.

What are the tools provided by the Common Agricultural Policy to the EU sugar sector after the quotas end?

- Member States have the option of providing **voluntary coupled support** linked to production to address sectors in difficulties, including sugar beet production. This is an option taken up by 11 Member States – Croatia, Czech Republic, Finland, Greece, Hungary, Italy, Lithuania, Poland, Romania, Slovakia and Spain – with overall coupled support for sugar beet amounting in 2017 to roughly €179 million.
- The Commission re-introduced a **far-reaching system of collective bargaining** in the legal provisions applicable post quota that help the position of beet growers when negotiating with the other elements of the food chain. This system improves the negotiating powers of beet growers towards their sugar producers when concluding agreements regarding the delivery of beet. Collective negotiations or written agreements within the chain are compulsory and provide predictable terms for delivering and buying beet. The sugar sector is the only area where such far reaching agreements without competition scrutiny. However these agreements cannot involve the collective negotiation of the selling price as was the case under the quota regime. The scheme applicable after the quota end includes the possibility of voluntary value sharing arrangements.
- The Commission is constantly providing **market information and transparency** to enable the sector to respond to market developments. A Sugar Market Observatory is fully operational, with the aim to provide the sugar sector with more transparency by means of disseminating market data and short-term analysis in a timely manner.
- **Private storage aid** can also be granted if necessary taking into account market prices, reference thresholds, costs and margins.
- Like other agricultural sectors, the sugar sector is covered by several **disturbance clauses** available in the CMO Regulation that would allow the Commission to take action in case of severe market crisis involving a sharp increase or decrease of market prices.

How will the end of quotas reflect on the EU trade, in particular with developing countries?

The EU will export around 8% of the total production in 2016/2017. With the end of the quota system, these exports will no longer be limited by WTO rules, allowing producers to fully explore new markets and possibilities.

As for imports, the EU goes further than any developed economy to cater for the needs of developing countries. The EU will continue to offer trade preferences and remain the world's foremost provider of assistance to developing countries.

Sugar can be and will continue to be imported into the EU duty-free and quota-free under the Everything-But-Arms agreement for the least-developed countries and from countries that have concluded or implemented Economic Partnership Agreements with the EU. Most of that sugar will need to be refined in the EU. These preferential imports have declined in the recent years because of lower EU prices and other markets having become more attractive during the last two years. These imports will most likely further decline after the end of quotas as domestic prices will closer align to world prices.

In agreements with a range of Latin American countries (Central America, Colombia), South Africa, Balkans countries and Moldova the EU has also granted sugar concessions in the form of tariff import quotas with reduced duties. Some additional import tariff quotas in the sugar sector are part of the WTO agreement.

In addition to these import agreements, the EU has been extremely attentive to the situation of cane farmers in developing countries, allocating over €1.2 billion for restructuring or diversification in the 18 countries that traditionally supplied raw sugar to the EU. These funds allowed countries to invest and move up the value chain (as for example Mauritius) or to diversify away from sugar (as for example Trinidad and Tobago).

Are there any new opportunities for the sector following the end of the quotas?

Without regulatory limits on sugar production, sugar producers will optimise the use of their production capacity and reduce the unit costs of producing sugar. This will allow competitive suppliers to sell sugar on the world market which will not be limited anymore when the quotas expire.

Certain starch-based sweeteners, notably isoglucose, were limited until now to 0.7 million tonnes. This sector will be able to expand and generate new employment, notably in rural areas. Isoglucose is typically used for the production of soft drinks.

The quota for inulin syrups is zero, which de facto prohibits production of this sweetener. The end of quotas therefore provides new opportunities if the market is there.

EU sugar consumption is expected to remain stable or slightly decline; however, as much of the increase in output will either compensate for decreasing imports or help to boost export sales.

What is the expected market situation post 2017?

The situation for the coming post quota years is analysed in the Commission's medium term outlook report. This outlook estimates that between 2016 and 2026 sugar production will increase by 6%. Isoglucose production could triple from 700 000 tonnes to 2.3 million tonnes. Imports will continue to drop from 3.0-3.5 million to 1.8 million tonnes and exports are expected to increase from 1.3 million tonnes to 2.5 million tonnes.

For the upcoming harvest, no longer bound by the limitations of the quota, an increase in production of roughly 20% (20.1 million tonnes) is expected. This increase results from both an increase in area and higher yields because of good climatic conditions. This production, however, follows two marketing years with relatively low production levels.

The increase of production is likely to be compensated by a further decrease of imports, an increase in exports which are expected to double to 2.8 million tonnes and a possible rebuild of stocks which have been at the lowest level ever in summer 2017.

Since spring 2017, international prices have fallen as a result of an estimated sugar surplus at world level after two consecutive years of deficit. In September 2017, world market prices were around €311 per tonne. The EU domestic prices have remained stable in previous months (€501 per tonne in July 2017), however prices will likely drop as from the beginning of the new marketing year and become closer to world trends.

Whilst it is most likely that EU sugar prices will provide a premium compared to world market prices, they are expected to be closer to world market level in the future.

Are there any risks of unbalance and oversupply on the markets?

In spite of an increase of sugar production expected for the current harvest in the EU, the market context as well as the economic structure and drivers of the sugar sector allow for a fast and efficient reaction to market developments. Production decisions in the sugar sector are taken by a limited number of sugar producers that contract beet hectares from farmers and production levels can be adjusted annually.

Supported by €5.4 billion from the EU, the 2006-2010 reform of the EU sugar sector has helped the sector to get ready for the end of the quota system and it should be prepared to properly react to market signals. The increase of production in the first year post-quota is expected to be absorbed by a higher level of exports (no more subject to WTO limit), a likely reduction on imports and a recovery of sugar stocks (currently particularly low). It is however unavoidable that the increase in supply will bring the adjustment of EU prices to a level closer to the world market in order to allow exports.

The Commission is confident that, after one or two marketing years, beet and sugar producers will have fully adjusted to the new market environment. It cannot be excluded however, that production will further concentrate in the most productive regions and, while some producers will successfully secure new market outlets (inside and outside the EU), others will further reduce their production.

The Commission will remain vigilant to these possible evolutions and will not hesitate to make use of the safety net measures available to support producers.

Does the end of quotas mean that EU consumers will consume more isoglucose and run higher health risks?

EU sugar consumption is expected to remain stable or slightly decline. The Commission is aware that there is debate on how exactly the sugar and the isoglucose market will react to the end of quotas and of discussions on the health consequences of high intakes of fructose in diet.

Other names are used for isoglucose such as glucose-fructose syrup, fructose-glucose syrup and high fructose corn syrup. As ingredients, isoglucose may be used to replace, for example, sucrose, this is the name for the simple table sugar coming either from sugar beets or sugar cane. Whether free fructose and fructose in sucrose have different metabolic effects is a matter of debate. The Commission will continue to follow this subject in the context of efforts to promote healthy diets and physical activity in general and, in particular, to promote product reformulation by industry and in discussions with Member State representatives in the High Level Group on Nutrition and Physical Activity in the future.

In this context, it is relevant to note that according to the European Food Safety Agency (EFSA), there is some evidence that high intakes of sugars in the form of sugars sweetened beverages might contribute to weight gain and the relationship of patterns of consumption of sugars-containing foods to dental caries, weight gain and micronutrient intake should be considered when establishing nutrient goals for populations and recommendations for individuals and when developing food-based dietary guidelines. In the EU, too many people, including children, do not comply with the World Health Organisation (WHO) recommendation of reducing free sugars intake to less than 10% of total energy; a number of EU Member States have established national recommendations for added sugars at this level.

What is the Commission doing to promote healthy eating habits?

The Commission is supporting the Member States' work on reformulating the food products' recipe to lower their increase in certain nutrients. By contributing to removing excess sugars, salt and fat from products that are bought every day in European supermarkets, we are providing real value to citizens. A project to provide a snapshot of the nutritional quality of the food in EU supermarkets and to support the monitoring national reformulation initiatives will be launched in 2017.

The Commission takes a multifaceted approach to reducing sugar intake and healthy diets in general. Since 2007, the Commission has a Strategy on Nutrition, Overweight, and Obesity-related Health Issues which aims at contributing to reduce the risks associated with poor nutrition and limited physical activity in the EU. The strategy encompasses a range of initiatives covering many policy areas. For example, the school fruit and vegetables and milk scheme, which provides school children with fruit and vegetables on a voluntary basis, encourages school children to replace sugary snacks with healthier options.

In 2014, the High Level Group on Nutrition and Physical Activity adopted an Action Plan on Childhood Obesity that aims to halt the rise of childhood obesity by 2020. Improving diet quality, including eating less sugar is a major part of this plan, which includes promoting healthier diets in school and pre-school, and making the healthy option the easy option, amongst its objectives.

In 2011, the High Level Group agreed on an EU Framework for National Initiatives on Selected Nutrients (a 2008 reformulation framework had been agreed to reduce salt in food by 16% in 4 years). Work then started on reducing saturated fat by 5% until 2016 and by an additional 5% by 2020.

In 2015, work started on Added Sugars Annex, promoting a voluntary reduction of 10% in added sugars in processed food by 2020. This Annex was validated in December 2015 by the High Level Group.