The sugar sector in the EU

The EU’s sugar sector provides a source of income for many farmers and sugar manufacturers. The EU is the world’s top producer of sugar beet and one of the main sugar manufacturers’ and consumers’ markets. The EU sugar market had been one of the most heavily regulated markets in the agri-food sector for 50 years, until the quota regime ended on 30 September 2017, thereby introducing a new scenario for this segment of the economy.

What does the sugar sector comprise?
The sugar sector mainly covers activities related to growing crops and using them for producing sugar, and therefore involves different players, such as sugar beet and cane growers, and sugar manufacturers. Its products include both agricultural and industrial goods, among which sugar beet and cane, many types of processed sugar – from brown to white and from granulated to syrup – and other sweeteners such as isoglucose. While only a tiny part of the sugar produced becomes a sweetener, other sectors rely on it too, especially for making foods and drinks, as well as biofuels and other products.

From crop-growing to sugar production in figures

EU production of sugar crops, sugar and isoglucose
Production trends in the EU sugar sector reflect the way EU sugar policy has evolved over time. Before the 2006 reform (see second page), there were about 350 000 EU farms cultivating 2.2 million hectares of sugar beet. The number of beet growers more than halved over a few years, to about 156 000 farms cultivating 1.5 million hectares of sugar beet in 2013. In the same year, France, Germany and Poland accounted for 60 % of the total sugar beet area and total number of growers, while Italy and Spain, having once been among the big producers, registered the most severe drop (-80 % less area, and fewer growers since 2005). Sugar beet acreage and harvest remained stable until 2016, with year-on-year variations due to factors such as weather conditions or the need to balance beet acreage with sugar stocks. The most recent forecasts following the end of the sugar quotas on 30 September 2017, indicate an increase in both beet acreage and harvest. Similarly, EU sugar production (quota plus out-of-quota quantities), which averaged 17 million tonnes a year from 2011 to 2016, is estimated at 21 million tonnes. Yet again, isoglucose production, previously at (quota-based) 0.7 million tonnes, is estimated to achieve a 0.2 million-tonne increase.

The EU and the global market
World sugar crop production is largely dominated by sugar cane (see Table 1), which in the EU is only produced in the French overseas departments and, in small amounts, in the Portuguese and Spanish islands. Yet, the EU is a key player on the world sugar market, with a leading role among sugar beet producers. Its sugar beet yield and sugar production make it the world’s third biggest producer, preceded only by Brazil and India. As for sugar consumption, the EU is second only to India. As regards trade, the EU has been among the top five sugar exporters in recent years, with the main destinations the Mediterranean basin, Switzerland and Norway. Moreover, with export growth of 79 % in November 2017 compared to a year earlier, EU sugar registered one of the highest increases in EU monthly agri-food export values, with additional production expected to head for new export destinations too. Finally, although with a reverse trend, the EU imports sugar, mostly from cane, under preferential trade agreements with developing and least-developed producing countries. These countries are the EU’s main source of sugar imports.

<table>
<thead>
<tr>
<th>Sugar beet</th>
<th>Sugar cane</th>
<th>Sugar</th>
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<tbody>
<tr>
<td>Area (million ha)</td>
<td>Production (million t)</td>
<td>Yield (t/ha)</td>
</tr>
<tr>
<td>World</td>
<td>4.5</td>
<td>277.2</td>
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<tr>
<td>EU-28</td>
<td>1.5</td>
<td>110.8</td>
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A sector facing a new EU policy scenario

From self-sufficient to market-oriented EU sugar production
The EU sugar regime, based on yearly sugar and isoglucose production quotas and on other support measures for producers, operated largely unchanged, from 1968 to 2006. As for other agricultural products, attaining self-sufficiency in sugar production was initially the main policy objective. Successively, in line with the approach adopted in other sectors to boost competitiveness, cut market distortions and fulfil the EU's international commitments, the 2006 reform reshaped the quota system and extensively reformed the support measures (minimum price for sugar beet, sugar market intervention price, tariffs and quotas on imports and subsidies for exports). Besides, beet farmers could join the direct payment scheme, and the restructuring of the sector was incentivised so as to concentrate production in the most productive and competitive sites. The reform achieved its goals of reducing the sugar quota (by -28% in five years) and consolidating the sugar industry (resulting in fewer sugar companies and factories). However, with its remaining production quota and official prices, the sector was still far from being truly market-oriented.

The end of quotas and EU support for the sugar sector
Up until 1 October 2017, yearly production quotas of 13.5 million tonnes for sugar and 0.7 million tonnes for isoglucose (for inulin syrup the quota was zero) were allocated to the EU Member States and then to sugar enterprises. Producers exceeding their quota had to pay a surplus levy, while out-of-quota quantities could be produced under strict rules (e.g. for export or the non-food industry, or being counted against the next year's quota). The end of the quota system (and other measures such as the minimum purchase price of €26.3 per tonne of sugar beet), has removed limitations on how much EU producers can put on the market, but has shaped a new challenging scenario: that of a liberalised market. In view of this, EU agricultural policy continues to support the sector by focusing on farmers' income and market evolution. Income support is based on EU direct payments on a per hectare basis and, in 11 Member States, on an additional EU voluntary coupled support for sugar beet production, with payments per hectare ranging from about €67 in Finland to over €600 in Romania. The EU single common market organisation (CMO) can intervene with private storage aid or additional support measures in case of sharp changes in prices or other severe market disturbances; a system of collective bargaining without competition scrutiny is also in place to strengthen the position of beet growers in the supply chain. The EU sugar market observatory, established in July 2017, provides operators with timely information on market development, and supports their business decisions. Finally, EU sugar policy covers foreign trade tariffs, quotas and agreements that regulate duty-free access to the EU market for sugar cane from developing and least-developed countries.

The issues at stake for EU sugar
Post-quota production and price developments, the effects of sugar consumption on human health and EU trade relations with producing countries are key issues in the debate on the policy solutions for an EU sugar sector that is facing liberalisation and price volatility in the global market. Subject to factors such as weather conditions and competing products, the outlook for the sugar market for the next decade is that world production will grow, as will consumption in developing countries, and that EU production will stabilise at a higher level compared to the average quota years, while EU sugar consumption will decrease. EU isoglucose production will also grow, thereby increasing its share among sweeteners. In this context, the EU will become a net exporter, but the recent downward trend in EU sugar prices is likely to remain below levels of the quota years. Thus, further market shrinkage may occur in less productive areas. With a focus on health, some Member States (more recently Ireland) have taxed soda drinks to limit sugar intake; other sweeteners such as isoglucose have also provoked concern. As for trade, if EU sugar operators' concerns about any further concessions to third-country producers deepen, EU sugar market development could come at the expense of EU sugar imports, thereby affecting developing countries.

European Parliament
Alongside its legislative contribution to EU sugar policy reforms, Parliament recently hosted a hearing on the future of the EU sugar market and on ways for EU operators and institutions to deal with new challenges. A number of Parliamentary questions have addressed concerns over the consequences of the reform of EU sugar policy, including for health, price development and trade relations.