BRIEFING

The EU sugar sector

SUMMARY

The sugar sector in the European Union 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 consumer 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.

The sector faces challenges on a number of fronts. The changed policy environment which resulted from quota elimination, as well as trading conditions due to higher production levels, and the ongoing debate on the agreement with Mercosur have all contributed to a period of uncertainty for commodity prices. Maintaining a viable sugar sector is inextricably linked with the development of agriculture and rural areas. This means the parallel development of economic, social and environmental policy objectives. At an economic level, the fate of sugar farming will help to ensure farmers' incomes as well as those in the wider processing sector. From a social perspective, keeping jobs in agriculture, manufacturing and services sectors will benefit rural communities. Sugar beet cultivation also allows farmers to diversify their income sources while improving soil quality and encouraging environmentally friendly agricultural practices.

Future policy for the sector should focus on risk mitigation. It will also be mindful of the stabilisation of farm incomes; instruments to limit farm income volatility; linking sugar beet production with environmental and climate change objectives, and encouraging the development of a long-term risk management system.

This briefing updates and expands an earlier publication, published in April 2018 (PE 620.224).

In this Briefing

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Facts and figures about the EU sugar sector

The sugar sector in the European Union

A 2016 study for the European Parliament's Committee on Agriculture and Rural Development noted the sugar industry's strategic position in the food sector as the primary sweetener and the need to maintain production as an important element of food security. It also noted that the sugar industry is of economic, environmental and social importance in the European Union (EU).

At its simplest, the sugar sector deals with those activities from the initial growing of the crops used for sugar production (sugar beet and sugar cane) and involves different players, such as the primary producers and sugar manufacturers. The outcome is a varied product list including both agricultural and industrial goods as well as sugar beet and cane, many types of processed sugar and other sweeteners such as isoglucose. Sugar is not just a sweetener but finds its way into many other sectors, such as in food and drink production, as well as biofuels and other products.

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. The EU is the world's leading producer of beet sugar, with around 50 % of the total amount. Most of the crop is grown in the northern half of Europe, where the climate is more suitable. However, beet sugar represents only 20 % of the world's sugar production, with the other 80 % produced from sugar cane. Prior to the 2006 reform, there were about 350 000 EU farms cultivating 2.2 million hectares of sugar beet. The number of beet growers has more than halved over a few years, to about 156 000 farms cultivating 1.6 million hectares of sugar beet in 2018. In that latest year, France, Germany and Poland accounted for 65 % of the total sugar beet area and total number of growers, while Denmark, Croatia and Italy showed the largest percentage decrease from the previous production year. 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 indicate an increase in both beet acreage and harvest.

The consumption of sugar in the EU (2018) amounted to just under 19 million tonnes. In addition to isoglucose consumption (the main sugar substitute), the sugar industry also produces other products such as molasses, beet pulp, energy (electricity, biogas) and slaked lime. It is estimated that by-products account for approximately 10 % of the added value of the sugar industry. Efficient use of these by-products benefits both the production system and the environment, and is a practical expression of sustainable development. Production and processing of sugar beet create jobs and play an important role in regional development. In 2018, there were over 139 thousand sugar beet growers in the EU, while the number of persons employed in the sugar industry was approximately 30 thousand (CEFS, 2018). The share of the sugar industry in employment in the food industry in the EU in 2013 amounted to only 0.8 % as reported by Eurostat. 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 1 – Global and EU sugar crop growing, and production and consumption of sugar

	Sugar Beet			Sugar Cane			Sugar	
	Area	Production	Yield	Area	Production	Yield	Production	Consumption
	Million ha.	Million t.	t/ha.	Million ha.	Million t.	t/ha.	t	t
World	4.9	301.0	61.5	26.0	1 842.0	70.9	179.9	176.5
EU-28	1.65	131.2	79.2	0.08	2.7	74.3	20.9	18.6

Data source: FAOSTAT for sugar crops, 2018; USDA for sugar production and consumption, 2018.

EU policy framework for the sugar sector

The early years of EU sugar policy

The legal foundation on which EU sugar policy rests includes legislation on the common market organisation for agricultural products, quotas, imports and exports, and other sugar-related legislation. Sugar is part of the common market organisation (CMO) between EU countries, which has several functions including providing a safety net to agricultural markets, cooperation through producer organisation and inter-branch organisations, and laying down minimum quality requirements. Ever since its establishment in 1968, the sugar CMO has strived to achieve self-supply in the European market while guaranteeing remunerative prices to producers. Production was limited closely to internal consumption, by quotas allocated to Member States and in turn to each undertaking. The sector had to participate in the cost of eliminating export surpluses by means of levies paid to the EU (European Community at that time) budget. Overall, the organisation incurred scarcely any budget expenditure, since the sector was kept in profit by the high prices paid by users and final consumers.

In the 1970s, the European sugar market somewhat opened to third countries mainly because of the accession of the United Kingdom and the 1975 African, Caribbean and Pacific Group of States (ACP) Protocol. The influx of these imported quantities resulted in the need to re-export, at a cost covered by the EU budget. Later on, following the 1995 Uruguay Round of global trade talks, the EU committed to limit its subsidised exports. The CMO was adjusted accordingly and, in the event of higher imports, the market balance was re-established by reducing EU production.

From self-sufficient to market-oriented EU sugar production

With the opening of the EU market to least developed countries as from 2000 and to certain Balkan countries in 2001, as well as the export reduction resulting from the World Trade Organization (WTO) Sugar Panel in 2005, the sugar regime became increasingly unbalanced. High EU prices had allowed the cultivation of sugar beet in almost all Member States including in less suitable regions, and had enhanced the attractiveness of the EU market for third countries. In addition, the CMO received increasing criticism from EU sugar users as well as from food, chemical and fermentation industries, as they were penalised by the high price of sugar in relation to their international competitors.

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

Beet farmers can get income support in the form of direct payments that are largely decoupled. EU countries also have the possibility to grant voluntary coupled support to specific sectors in difficulty – including sugar beet and sugar cane production. Eleven EU countries have decided to grant voluntary coupled support for sugar beet producers, with payments per hectare ranging from about €67 in Finland to over €600 in Romania.

Market policy

EU sugar market policy focuses on two main areas: market measures and trade measures.

Market measures within the EU

The EU can support the sugar sector with specific market measures, in particular private storage aid, measures against market disturbance and measures to solve specific problems. The EU 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.

Trade with countries outside the EU

Trade policy is an exclusive power of the European Union. Accordingly, only the EU can legislate on trade matters or conclude international trade agreements, mindful always of its obligations under the rules of the World Trade Organization.

EU sugar trade 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 importation of cane sugar by the EU enables the granting of duty-free access to the EU market to developing countries under the 'Everything But Arms' (EBA) agreement and economic partnership agreements with the African, Caribbean and Pacific countries.

Challenges and perspectives

Market outlook

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. 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.

Food security and food safety

In a world growing steadily more aware and demanding of the importance of the security, supply and safety of food, the EU has imported more sugar in the production year 2017/18 compared to the previous year. Production year 2018/19 saw a reduction in the tonnage imported. This has in turn affected the supply-demand situation internally and means the world market exerts a greater influence on the Union's internal market. Increasing price volatility is a likely result.

Health issues

A range of policies are already in place to address over-consumption of sugar.[1] They fall into a number of categories that either aim to provide information or provide an easily available healthy option. Some governments choose the option of putting in place financial (dis)incentives to sugar consumption. Measures taken have included the introduction of 'sugar taxes' and voluntary actions involving cooperation with relevant stakeholders.

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. The Slovak Presidency (2016) conducted a survey of Member States' initiatives or proposals for action. This highlighted that 20 countries stated that their focus was on food reformulation with the aim to reduce the amount of added sugars. The foods targeted included dairy, breakfast cereals, sugar sweetened beverages, bread, ready meals and school meals.

Environmental importance

Sustainable agricultural production is based on, among other things, appropriate crop rotation and fertilisation of plants appropriate to the type of soil. The farming system adopted should ensure maintenance of soil fertility and protect against erosion while providing a good yield and limiting the spread of weeds and pathogens.

Appropriate crop rotation and fertilisation should provide a positive balance of soil organic matter and optimal balance of fertiliser, which are important ecological indicators. However, the progress of technological advances, an increase in the use of chemicals and the market conditions have put pressure on the classical form of rotation in favour of monocultures. This reliance on a simplified crop rotation leads to ecological imbalances as a result of more pathogens, reduced soil fertility and weed competition. The negative effects are postponed because current agricultural production primarily takes into account current market requirements and not the future environmental effects of production. In order to prevent such practices, environmental programmes are an important element of agricultural policy, as are the rules of cross-compliance.

Sugar beet is an important element of appropriate crop rotation, as it has a beneficial effect on the environment by increasing the diversity of crop production as well as maintaining agricultural land in good condition. It has the highest productivity per unit of land.

Mercosur

The conclusion of a free trade agreement with the Mercosur countries in June 2019 (yet to be ratified) represented a deal of considerable magnitude with agricultural commodities facing differing outcomes. Concessions were made, and the sugar sector will see the elimination of the in-quota rate on 180 000 tonnes of the Brazil-specific WTO quota for sugar refining. However, there will be no additional volume other than a new quota of 10 000 tonnes duty free, at entry into force, for Paraguay.

Neonicotinoids

The use of neonicotinoids in sugar beet seed treatments is widespread across Europe. These treatments are used because they effectively control the most harmful pests affecting the crop. In 2013, approval was given for a number of neonicotinoid insecticides in the EU for use in plant protection products, namely clothianidin, imidacloprid, thiamethoxam, acetamiprid and thiacloprid.

The European Commission, mindful of biodiversity challenges and the effect of products used, monitors the possible relations between bee health and pesticides. In 2013, the Commission severely restricted the use of plant protection products and treated seeds containing three of these neonicotinoids (clothianidin, imidacloprid and thiamethoxam) to protect honeybees (see Regulation (EU) 485/2013). The measure was based on a risk assessment of the European Food Safety Authority (EFSA) in 2012 and prohibits the use of these three neonicotinoids in bee-attractive crops.

Advisory committees

To ensure that the European Commission's responsibility for adopting implementing acts is exercised under the control of EU countries, various committees – composed of government representatives and chaired by a European Commission representative – are attached to the Commission. The committee for the common organisation of the agricultural markets meets regularly to discuss areas such as the evolution of market prices, production and trade in the EU and non-EU countries.

On 19 November 2018, the Commissioner for Agriculture and Rural Development announced the establishment of a High-Level Expert Group on sugar (HLG) at the Agri-Fish Council meeting. It was made clear that the mandate of the expert group was (i) to discuss the current market situation as well as EU countries' and stakeholders' concerns about the EU sugar market, and (ii) to explore and evaluate possible solutions and policy measures as regards their effectiveness and suitability to tackle the problems identified. The Director-General for Agriculture and Rural Development chaired the HLG, composed of representatives of all EU countries. The HLG held three meetings between January and June 2019. On 5 July 2019, it issued a final report in which it recalled that while the sector had been restructured with the support of €5.4 billion in the framework of the 2006 EU sugar reform and had reduced its production capacities significantly, the transition to a post-quota market environment was still ongoing. It also called on the European Commission to maintain the status of sensitive product for sugar and ethanol in future negotiations, while preserving the right balance between the interests of beet sugar producers and the EU cane sugar refineries.

Stakeholders

Industry commentators have stated their views on the sustainability of the sector. In their March 2019 commentary, the International Federation of Beet Growers (CIBE) urged the EU institutions to take concrete action so as to support sustainability progress in beet growing; set up workable risk management tools such as an Income Stabilisation Tool; strengthen the position of sugar beet growers' organisations in the supply chain; further improve transparency on the sugar and high sugar content products markets as well as on isoglucose and ethanol markets, and oppose further market access concessions and stop third countries from dumping sugar on world markets.

At the 2019 civil dialogue meeting, COPA-COGECA, the representative body for European farm organisations, criticised the concessions made on sugar with the Mercosur countries.[2] They viewed the outcome as bad news for the sector. They also raised questions on how the safeguard clause could apply for the sugar Tariff Rate Quotas (TRQ) and underlined how it risked not being applicable. Attention was drawn to the divergent standards of production among the EU and Mercosur. The expressed view was that importing sugar from these countries will increase the divergence of standards and augment deforestation.

European Parliament

Alongside its legislative contribution to EU sugar policy reforms, Parliament 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.

In January 2016, Parliament vetoed draft EU rules that would have allowed baby foods to continue to contain up to three times more sugar than recommended by the World Health Organization (WHO). This action was taken to protect infants and young children against obesity. Members of the European Parliament advocated the reduction of the EU sugar content limit to match the WHO recommendations.

MAIN REFERENCE

Research for AGRI Committee – The post-quotas EU sugar sector, Policy Department for Structural and Cohesion Policies, Directorate-General for Internal Policies, European Parliament, June 2016.

ENDNOTES

1 N. Kuljanic, What if 'nudging' good habits could make us healthier?, EPRS, European Parliament, October 2018.

2 Final minutes of the meeting of the civil dialogue group on arable crops – sugar sector, European Commission, November 2019.

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