Brussels 22 May 2008

Sugar for the chemical industry

In the mid-80s, the European Union introduced a regulation aimed at making the development of the European chemical industry compatible with the common agricultural policy.

In fact, on one side the Union's common agricultural policy was based on sugar production quotas at a Community price that was disconnected from fluctuations on the world market and relatively stable but higher on average (resulting from a political balance between consumer purchasing power and the remuneration of beet-producers). This disconnection included protection (Community preference) with the help of high customs duties. On the other side, the Union's industrial policy included low customs protection from imports (ad valorem tax of a few percent). In so far as sugar, which serves for the manufacture of organic molecules (citric acid, lactic acid, xanthan gum, etc.), represents a substantial part of their production, the European chemical industry was handicapped as regards imports of these molecules. To put an end to this unfair competition, which the chemical sector claimed was acting as a brake on its development, the Union established a system of production refunds. In practice, every day of the year the chemical industry could obtain supplies of Community sugar and ask the Commission to reimburse it the difference between the regulatory price of Community sugar and the price of sugar on the world market from which its competitors could obtain their supplies. This system operated until the reform of the Union's sugar policy in 2006. For marketing year 1987/1988, the Community budget paid refunds to the chemical industry (and the pharmaceutical industry) on 181,154 tonnes of processed sugar (and isoglucose). In comparison, for the same 11 countries this figure was 436,700 tonnes for the last marketing year of implementation (2005/2006) and 626,722 tonnes for the EU of 25. It can therefore be said that this regulation has worked well.

With the reform of its sugar policy, the Union decided to cut its quota production by a third and switch from a situation of being a high-surplus exporter to a deficit situation as a net importer. It decided in this context to stop paying production refunds to its chemical industry and ask it to sign contracts with the European sugar sector for non-quota sugar at a freely negotiated price.

> For the chemical industry, used to having surplus community sugar freely available and being able to align its purchase price for sugar every day with the world price for sugar thanks to production refunds, this was a hard blow. In effect, as beet is sown in March/April for year "n" to be harvested in September of year "n" to December of year "n" and then processed into sugar which is then sold until October of year "n+1", the chemical industry found itself faced with the need to announce as from March of year "n" its intentions to purchase sugar over the period September "n" to October "n+1" as regards quantities and prices, so that the farmer could take his sowing decision and plant beet rather than cereals.

For two marketing years (2006/2007 and 2007/2008) the chemical industry has not wanted to play this game (or not completely at least) and has benefited from the delay in the programme to reduce Community quota sugar production that generated, according to the regulation, surplus non-quota sugar. Since 31 March 2008, we have known that as from marketing year 2008/2009 the sugar industry will have attained 94% of the objective for the reduction of quota sugar production set by the Union. Consequently, there will be no foreseeable excess production of quota sugar. Despite this new situation, the chemical industry once again demonstrated its reluctance to sign contracts in March 2008 for what its sugar purchases would be (in terms of quantities and prices) for the period October 2008 to September 2009. It has asked the European sector to take the risk of sowing non-quota beet without a contract. But within the context of the prospect of a relatively low world price for sugar compared with the prospect of relatively high world prices for cereals it is not easy to convince farmers to sow without any price commitment. Furthermore, with no guaranteed outlets sugar manufacturers are reluctant to sign contracts with farmers since it is prohibited for sugar produced over and above the quotas to be placed on sale on the Community market until a year later.

In these circumstances, the Commission wants to believe that it has found the solution for marketing year 2008/2009 by offering the chemical industry the opportunity to import up to 400,000 tonnes of sugar duty-free from the world market and giving the European sugar sector the opportunity to export up to 700,000 tonnes of sugar produced above its quota. When the time comes it will be interesting to see how the chemical industry is going to sign its international contracts because a boatload of sugar has to be ordered “a little” in advance and requires a certain amount of logistics. From the sugar sector’s side, the beet-sowing figures are not yet fully known but it is possible that at the beginning of marketing year 2008/2009 there could still be surplus sugar stocks accumulated since the start of the new regime in 2006. What is certain, on the other hand, is that as from 2009/2010 either the European sugar and chemical industries will have found a suitable trade negotiation table to adapt, three years late, to the new sugar regime, or the European sugar industry will have lost an outlet for more than 500,000 tonnes of sugar that it has had until now and the European chemical industry will have turned to seeking its supplies from outside the Union.

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