RURAL Briefing

THE EUROPEAN SUGAR REGIME - REFORM AND TRANSITION

European agriculture has been operating the current Sugar Regime virtually unchanged since the 1960s. Producers across the EU have enjoyed what a German farming commentator has described as 40 golden years. This is about to end. The political and financial existence of the regime has become unsustainable and it is now outside legal frameworks for international trade.

The reforms proposed are radical by most standards and the price-reductions and other implications for sugar beet growers and processors highly significant. Some farmers will be obliged to contemplate a future without this crop.

What are the prospects as EU sugar production finally moves towards world market economics ?

RURAL Briefing Number 16
October 2005

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Briefings provide RURAL supporters and others with coverage of the policy issues examined and debated under the Society's arrangements, and which help to inform the policy development process and those close to and affected by it.

Briefing No 16 discusses the proposed reforms of the EU Sugar Regime which are due to be concluded in November 2005. The reforms are profoundly significant for growers and processors and for land management.

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Introduction

Late in November 2005 the European Commission is expected to agree to reform the European Union Sugar Regime. This is likely to be among the most significant reforms attempted by the EU and it will be the only major reform of the Sugar Regime (SR) since its inception in the late 1960s. The reform is necessary because the SR breaches WTO rules, it has generated a production surplus of the order of 4-5 million tonnes, it has artificially held prices at two to three times those prevailing on world markets, and it adversely affects trade relationships with less developed countries (LDC) and with African Caribbean and Pacific (ACP) producing countries. Without reform, accumulating surpluses would place an unsustainable burden on the EU budget.

The regime has all the classic support measures: guaranteed prices, intervention purchases, tariff protection, production quotas, and export subsidies. These characteristics have maintained the disparity between internal EU and world market prices, and explain why sugar has remained attractive compared to other crops. Currently, as other CAP reforms progress and decoupling has moved enterprises closer to open markets, sugar now remains probably the most profitable crop in the portfolio for those farmers able to grow it. For some businesses this crop may be the single reason why their enterprise remains viable. As the last of the EU's protected regimes the SR is also under political, economic and legal pressure. A changing world trade environment brings prospects of further liberalisation, rule changes and dispute settlement procedures. The risk to the EU is exemplified by the ruling of the WTO Appellate Body on subsidised exports this year which set aside the EU's defence of the SR.

The next round of WTO negotiations (the so- called Doha round) takes place in December 2005 and, plainly, the EU will wish to appear at those negotiations unencumbered by the political disadvantage of being the sponsor of an unreformed SR. The internal EU economic pressures are very significant; the SR net costs are estimated by the DEFRA Regulatory Impact Assessment to be of the order of €790 million for the UK and €4,500 million for the EU, but the costs to consumers are greater - perhaps €920 m and €6,100 m respectively. It has been argued that these costs are not significant as they are spread very widely and thinly across a large range of food products. However, they do weaken the competitiveness of EU food and confectionary companies faced with international competition.

An additional factor arises from the recent enlargement of the EU. The 11 new member states may seek to enjoy the benefits of a regime designed in a totally different era but clearly this is not a realistic political or financial prospect. Finally, the legal life of the existing SR expires in 2006.

In summary, the necessity for reform is clear. Change is necessary to conform with WTO and Everything But Arms Agreements (EBA) and because the SR is now seriously mismatched with other CAP reforms. Accordingly the European Commission signalled its intention to comply with the WTO ruling and issued formal proposals for reform in June 2005 . The main elements of the proposals are:-

- Re-structuring. A 4year re-structuring scheme to aid sugar processors wishing to rationalise or close operations. This is levy- financed and reducing in value.

- Quota. Some movement of quota will result as quota surrendered under re-structuring is extinguished and processors who remain in business are given opportunity to by up to an additional 300,000 tonnes allocated among member countries. Linear quota cuts will only be applied if necessary at the end of the scheme.

- Prices. The reference price will be reduced from €632 to €385/tonne over 4 years; beet prices to growers are reduced by 25% in years 1 and then by 43% from year 2 onwards.

- Compensation. Growers are to be compensated for 60% of the price reduction- with the payment being fully de-coupled and brought in line with national arrangements for the Single Farm Payment (SFP).

- Cane sugar. Prices are reduced by 39% over 4 years.

- External trade. Import quotas for EBA countries are not included - but safeguards against fraud are proposed. Export subsidies, beyond the level already agreed by WTO are expected to be phased out quickly.

- ACP countries. Will receive the lower internal price in the EU for the quantities to which they are entitled under the Sugar Protocol. Refining aid is abolished and other detailed measures are proposed for raw cane sugar and refiners.

The general expectation is that across the EU the marginal producers at the Northern and Southern fringes - the least suitable growing areas - will reduce or cease production, leaving the market to the most efficient producers in the central belt where climatic and soil conditions and the possibilities of economies of scale suggest that continued production at world market prices may be possible. The prospects for the UK are thought to fit a similar pattern - the marginal and least efficient producers are expected to cease sugar beet production, and only those able to produce at the highest levels of efficiency are likely to remain in the market.

The volume and price changes required are however very significant, and there is much diversity of efficiency within the industry. Only structural change will achieve the reductions of surpluses required. DEFRA, as part of the UK's preparations for the forthcoming negotiations, has published a Regulatory Impact Assessment of the reforms and held a Consultation.

The UK position.

The UK government has made its position clear for some years; the aim should be to move to an unregulated and fully decoupled sugar market - in line with the position for other arable crops. However the UK government also currently holds the Presidency of the EU, and as such it has to run the negotiations between 25 member states all of whom must seek to obtain the best deal they can. The situation is made highly complex by the system of qualified majority voting which applies to EU business, by the fact that only the Commission may make new proposals and, in the nature of political trading, some states may well manoeuvre for advantage in areas other than the SR, or indeed agriculture. These negotiations are therefore attended by considerable uncertainty and are unlikely to be concluded before the often seen last minute "cliff-hanger" dealing, in which the UK will play a crucial Presidency role.

The UK beet growing activity represents some 2% of agricultural output on about 1.5% of agricultural land, with production concentrated in the East of England - some 40% in Norfolk. Under the proposals production is expected to fall in the UK. The Commission anticipates a price level of £25/t, at which price very few farms could compete. This may be too pessimistic an assessment. The UK market, in isolation, is in deficit and it is therefore possible that processors may offer higher prices in order to sustain supplies to their operations. In any event the combined pressure of imports and world prices is expected to depress prices. DEFRA's estimate is that, even with reductions in cost, production may fall by between 20% and 50%.

The immediate concerns within the industry.

UK and international growers and processors expressed concerns across the spectrum of the proposals, viz:-

- There was a general acceptance of the need to get away from export restitution, dumping and tariff protection. The truly efficient grower ought to need no artificial barriers to open markets, the balance of power should rest in the market with proper supply and demand checks and balances - not in the use of regulation.

- For ACP countries the proposals are too fast, too deep and too soon.

- There are fears about competition from external producers, notably Brazil. There is concern that at reduced prices growers will be unable retain beet in their cropping portfolio, thereby losing benefits such as break-cropping, environmental habitat of importance for some species or to continue sales into industrial uses.

- Sugar processors face uncertainty about the viability of their businesses as on farm production is cut. Under the incentive of the restructuring arrangements some are likely to close factories in high cost areas, leading to a relocation of production within the UK and between member countries of the EU

- Sugar users feel trapped in a regulated market and are also concerned about the balance of compensation. Food industry manufacturers are already under severe and mounting competitive pressure, yet although a price-fall for one their ingredients might be thought helpful, the de-stabilising effects, possible disruption of the supply chain and the uncertainty of outcome are regarded as unhelpful.

- There are serious questions about the future viability of beet in the UK crop portfolio, even on the very best, soils depending upon the profitability of alternative land uses in those areas. That being so, prospects vary from the most bleak "this will mean the export of another of our industries" to the more expressive "it all depends on where the price really moves to."

- There are substantive environmental benefit issues connected to the crop, and it is unclear how these might be retained in a strictly de-coupled era. A wider environmental concern relates to the UK and/or EU contributing to a market driven change that has adverse environmental effects through more movement of goods around the world and more habitat loss or damage outside Europe.

- Much now depends on the finally concluded adjustment arrangements. Is the EU going to follow normal economic rules? Existing quota arrangements have resulted in a series of national markets rather than a genuinely single EU market. An acid test of the reform will be how far it removes the confusion between the UK market and an EU market. Minimally, the 4-5m tonnes surplus has to be taken out of the system but the policy cannot fall into line with other CAP arable products until the new reduced market is open to competition by all farmers within the Union.

The cornerstone issue appears to centre on how competitive the market will become. If the surplus persists, the market could well fall into chaos. Yet quotas could interfere with the operation of the restructuring package and thus the "threat" in the proposals is undermined. One position suggests that because of logistic costs some of the LDC /ACP markets, are, in reality, mostly local. This suggests that the impact of preferential imports will not destabilise the reformed EU market. In contrast, the need to remove export subsidies and to accept lower levels of tariff in the course of WTO negotiations may threaten a more severe adjustment to competition within the EU. This has led some to claim that it would be more realistic to avoid fixing EU prices until after the WTO - not before.

The structural surplus of 4-5m tonnes which could even increase, given the knowledge that demand is static or possibly falling very slightly, suggests that price-fall is virtually certain. That being so, production in the UK is thought certain to fall too. Whether the farm gate price will fall as far the Commission suggests is by no means certain, because some member states may not fully de-couple, dependent upon the "national arrangements" for their SFP scheme. In this situation it is possible to envisage continued operation of inflexible quotas within national boundaries and less overall impact for the restructuring package. However, the proposals envisage more cross border trade and, if some countries cease beet production that may flourish.

The so-called national arrangements for incorporating compensation payments into SFP are also attended by uncertainty. Some countries may seek to continue some level of partial decoupling. Sugar beet growers, understandably, wish to see the payment reserved to them. Where regionalised or hybrid systems of allocation are chosen, the money may be shared among all who are entitled to SFP. In those situations the compensation to sugar growers may taper down earlier than the proposals envisage. In addition, the SFP is likely to be subject to modulation; moving money from payments to farmers into support for rural development and environmental support. At the levels of compensation set, high cost growers who cease to grow the crop, but take the SFP and grow other crops at even a modest profit, could be better rewarded than if the crop were grown at present price levels.

The impact of price reductions on the pattern of farm businesses may not be as straightforward as first thought. There is a great variety of business, of quality of production management, of crop portfolio context, of soil type and logistic exposure, and of tenancy and land ownership conditions. There are also many choices before growers; alternative crops, use of contractors, partnership arrangements including informal local agreements on operating existing quota, transition to other schemes and variability of the costs and benefits of the crop in the rotation. The cost and benefits, values and penalties of any or all of these factors combine in a market risk analysis which may be unique to each farm business, and therefore each production management decision possible in any year. Particular price movements, therefore, are unlikely to produce linear movements across the entire production scene.

One reaction to the reform could be to divert a proportion of existing production to industrial use, particularly as ethanol for use as an additive to road vehicle fuel, thus lowering CO^2 and contributing to the NFFO. However, notwithstanding that the UK is badly trailing other countries in achieving renewable energy targets, UK energy policy is far from achieving any synergy with arable crops and energy. Moreover, in those countries such as the United States and Brazil, where ethanol production is forging ahead, the feedstocks are maize and sugar cane respectively. Sugar beet by contrast is a third or fourth quality feedstock behind maize, sugar cane and wheat in terms of efficiency. To take advantage of the UK's ability to grow good quality beet for fuel presents particular difficulties in terms of price and tax structure, which have not yet been grasped in the UK. The feeling of this seminar was that, nevertheless, here is an opportunity that policy and science needs to address, because although beet may not be an ethanol solution, wheat might be; the balance of land use therefore becomes an issue.

Questions about the balance of land use and changes of land use also arise when considering the environmental benefits of the beet crop. The crop itself provides a direct food benefit to particular bird species and systems of husbandry including beet bring wider benefits in terms insects and other species of the bird and animal food chain. The acreages are considerable and in some localities critical. As overwintering ground for geese they are arguably critical for that part of the bird population - the UK hosts half the world population of the pink footed geese.

Whether or not growers are influenced by such issues as bird habitat or beet-for-fuel, the overwhelming influence upon them is likely to be the shape and form of the market. They are anxious to see undistorted competition across the EU, no internal distortion via modulation systems and SFP, the end of C beet and the flexibility to enter contracts with buyers as is the case with other arable crops. In that spirit there is a conviction that the larger efficient growers should be able to stay in production under the reformed regime. These land managers can exploit economies of scale, reduce their fixed and variable costs, continue to pursue varietal, crop, husbandry and logistic improvements and, where necessary, cooperate or form producer groups. All these measures are being earnestly contemplated. By contrast, for the smaller grower with higher all round costs and who may already be at the margin, the decision will be much simpler and clearer and such growers will cease production.

A feature of the UK market is the quasi-monopolistic position of British Sugar (BS). This means that in addition to being the seller of seed and manager of quota, BS is presently the only beet buyer in the market. Thus the grower has only one outlet for his crop, is a price-taker and without power to change that. It is unclear how, in the future as the EU industry re-structures, this relationship, and BS, might change in the UK. In Germany and Poland choices might remain similar to those available now, or be newly developed because of geography. However in the UK it does seem that some form of new "co-existence" will have to develop between BS and growers. The market relationship can be seen as symbiotic - each needs the other.

A dimension of the reforms which concerned this seminar and appears not to have received attention elsewhere is that of risk analysis and the socio-economic impact. Environmental issues have already been mentioned above in a UK context. There is concern that these have not been subject to EU or wider analysis by the Commission. What, for example, are the land use and habitat implications across the EU for the various shifts in production which are likely to occur - and could be modelled. If production is reduced or lost to the EU and replaced by imports, what might be the implications elsewhere? Repeatedly, participants expressed concern that the UK and EU should be aware of the global environmental footprint. In the specific case of Brazil, the country with perhaps the greatest capacity to significantly expand production, the seminar was told that no evidence exists to support the allegation that further rain forest or other adverse land use change would result in that country.

Similar concerns arise in respect of the communities of growers and others dependent upon service and processor businesses. The question was put again - what are the implications? Given the possible scope of the changes that could arise, a number of participants wondered about opportunities. Could the thinking be moved beyond the benefits of beet? What of alternative land use? What other benefits to taxpayers might be developed under the heading of "public goods"? It appears that we are collectively lacking in imagination; creative thinking is needed. A parallel dilemma exists for the industry - can processors, for example, move to cane refining or other downstream value-adding activities?

This discussion prompted examination of the Commission's proposals for re-structuring and the view was expressed that the funding support for this should properly be seen as economic development aid. The restructuring package is expected to facilitate the exit of resources from sugar production but it does not in itself determine what use will then be made of the resources released. The strategy for dealing with that relies on a combination of direct payments to growers, restructuring aid to processors and the operation of the market. The issue of adjustment is a matter for political priorities – and will be affected by wider EU and national budgetary issues.

Adjustment to market forces is much more difficult in poor economies with few alternative enterprises. In this context it was noted that many of the ACP countries faced severe difficulties but had no assurance of aid at a level that would match their loss of revenue as a result of the lower EU sugar price. The accompanying measures, which rightly focussed on Action Plans to facilitate adjustment in the light of the differing opportunities facing ACP countries had no assurance of adequate funding. The administration of these plans would be by DG Dev rather than DG Ag. Until new budget arrangements were agreed there was no certainty of funding, and the amount currently on offer for the final six months of 2006, some _40 million, was wholly insufficient. This was especially unsatisfactory in the light of the impression in the wider UK community that one of the reasons for reform was to help developing countries.

The processing sector, like the growers, broadly welcomes relief from regulation and the opening-up of competition. They looked forward to the end of the regulated market and the operation of the beet market on the same principles as the cane market. Others, however, wondered about the relative power of the participants in this market-place. The example of coffee was quoted - where prices to growers are at all-time low, while prices to consumers are at an all-time high, and the most likely reason is the power of a small number of very powerful multiple-retailers. The position of isoglucose, a speciality liquid sweetener with special application in the confectionery industry and presently concentrated in the soft drinks sector, was a cause for concern. Production is presently severely restricted by quota and the proposals, which will lower isoglucose prices, envisage only a relatively modest enlargement of that quota. The industry wishes to see this market opened because the product offers competitive advantage and is capable of further development, all of which is being seriously hindered by the present SR arrangement.

In summary, the collective impressions of this seminar are that:

- The risk analysis of environmental and socio- economic factors is insufficient for the possible outcomes. Although in terms of both employment and land use, sugar production occupies only a small share of EU resources, the impact on those forced to change their jobs and in regions where the loss of sugar leads to a reduction in biodiversity, is a matter of general concern. These are difficult to quantify but remedial action will depend primarily on the response by member states.

- There is considerable grower scepticism that "normal" supply and demand will operate, and further scepticism that the price level and compensation package will actually work in the manner proposed, especially if, the SFP remains coupled in some member countries but is decoupled and regionalised in the UK.

- There is uncertainty about the supply response of the sugar producers to the new lower prices. Some believe that supply will not contract sufficiently to remove the excess 4 – 5 million tonnes that can no longer be exported. Others, that production will fall so low that so many processors will be forced out of business, that sugar production will fall to levels well below those foreseen by the Commission and permissible under WTO rules. The Commission's calculations depend heavily upon the response of sugar processors. They estimate that some 54 factories will close. Should this not be the case, and supply exceed the volume allowed, the reserve power exists to impose linear reductions in quota.

- For ACP countries, the proposals do not provide a mechanism which will adequately compensate them for the reduced revenues they will receive because sugar prices are lower within the EU.

Responses to the Proposals.

A key feature of the process has been and will remain the need to manage expectations downwards. Inevitably attitudes swing between extremes among those who feel threatened by any degree of adverse change to their market, and those who have the will and opportunity to adjust in face of new pressures. From a EU standpoint, however it remains essential that across the Community all parts of the sugar industry recognise that, in order to eliminate the surplus, production must fall. This is hugely important because it is this climate of expectation which drives investment in resources.

The relative pressures on growers depend on the extent to which they can exploit economies of scale in land, machinery and husbandry systems, logistics and management arrangements. Inevitably, those best positioned are the larger holdings, perhaps already operating fully contracted cultivation and/or harvest arrangements, either alone or in partnerships, and already practised in avoidance of over-investment of capital in a particular crop. The majority of the growers in this scenario will be influenced entirely by gross margin; many will have experience of rationalisation for other arable crops. In this situation the viability of the reformed market will also affect the network of services such as transport, and contractors, where the same experience of rationalisation applies.

For some growers, for example smaller tenant farmers on difficult land with high-cost agreements, poor diversification options, and geographically distant from a processor, the options are limited. The psychology of risk for such growers is important. These growers have been most dependent upon the profitability of the crop and may well feel under most pressure to retain it. However, an ideal response to the compensation arrangement would be for these enterprises to exit the market.

The pressures will be on growers to keep systems simple and yet produce high yields. Energy costs for the beet crop are relatively high and are certain to remain so. Yield improvement provides the means of lowering these relative costs. Opinions were divided as to the UK's yield position relative to other EU producers but the evidence appears to show that the central belt EU producers have a distinct competitive advantage. Only the best UK growers are achieving average continental yields. On price and costs/tonne experience and opinion again varied, and there was feeling that a gap existed between the "published" and known prices. The consensus was that, fully and properly costed, the crop presents very little scope for reduction below £23/t. Even at that price, use of the best silt land for the crop becomes questionable, even when the crop carries break-crop benefits which extend across the life of a full rotation. These views point to experience in other areas, eg the potato market which has also moved to fewer, larger growers operating to stable contracts for known markets.

The sugar market in the UK ought in theory to fit this model. Processors are heavily invested in a long term business, and they have an interest in stability and security of raw material supply at known quality. As has been noted above, this symbiotic relationship with growers is a reality - but it was suggested that perhaps the processor needs the grower more than farming needs the crop. There are other crop choices available to almost all growers, and the impact of SFP has yet to work its way into the pattern of choice and decision taking. However, the typical grower will be attempting to juggle the uncertainties of soil type and crop performance with enough flexibility to stay in business, and cope with future quota management and the floating price.

Given this uncertainty, which will continue for a period after the negotiations are settled, some growers are likely to adopt an apparently dual position - to exit the crop if it is viewed in isolation - but risk continuing with it because those risks may be no worse than for other crops when assessed across all options. It may take some time before these positions resolve into a pattern that reveals clearly the development in the reformed market. This opens the issue of opportunities for growers. The obvious first area of choice for growers is among other arable crops. The grain market remains near an historic low and therefore the competitive pressure remains, but beet growers generally are regarded as a particularly skilled group, already competing hard and generally successfully in other areas and not lacking in confidence and the understanding of business risks.

Other ideas exist, including in the methods of conducting the contract relationship. For example, if large groups of like-minded growers formed production "modules" or groups to cooperate with cultivation, sowing, husbandry and harvest operations such groups could extend their activities to include marketing and contract negotiation. A collection of such modules or groups could radically alter the contract relationship with British Sugar, and might even eventually exert enough pressure on the processing system to influence and engage in cross border trading of processed product/s.

One aspect of the present scene - C beet and the psychology behind it - needs to be removed. The main cause of its existence is the genuine fear among growers of failure to achieve quota. Over-insurance planting then follows, often complicated by better than anticipated yield or season, which results in substantial tonnage of no real value. (On the other hand, in some regions, beet growers have shown themselves quick to react and C beet has quickly found an outlet in cattle feed.) The continued presence of quota in the future is regarded as an impediment to eliminating the C tonnage. If it were to persist, inevitably it would be suggested that the outlet should be for ethanol production. However the view was that quantities involved are too low to make this realistic. It was felt that the only way beet could profitably contribute to ethanol production in the UK would be under a properly scaled and dedicated operation inside a policy framework.

The UK position, as has been noted, is that government seeks a fully de-coupled system. However some continental countries remain partially coupled and it was a concern that partial coupling could emerge from the negotiations. The issue is that UK interests are served best by a fully de-coupled system, but the existence of coupled systems elsewhere in the EU, could, potentially, seriously distort markets. Other countries were concerned that processors who operate in several EU countries would concentrate on areas where costs were lowest and close factories in high cost countries. This could lead to the loss of their sugar industry. The issue is a political one for the countries concerned and it is not yet clear whether partial de-coupling for the SR is any more than a negotiating position, particularly among new member states, or whether it could become a proposal - and even then what chance it might stand in a qualified majority voting test.

The seminar sought to understand how the industry re-structuring funding would work in practice. How, and under what conditions, would plant be de-commissioned? What about the effect on communities? What about re-development? What arrangements will exist to target funds appropriately? What opportunity would processors have to make wider use of existing investment in plant? These and other related questions have no clear answers at present. However, the Commission's intention is that the arrangements shall be fair and targeted to deal with inefficiencies in the existing system. The Commission will also impose conditions on the use of funds by processors, and retain the option to impose linear quota cuts if the restructuring does not work.

In UK, where the level of processor efficiency is higher than some others in the EU, processors do not at present contemplate dismantling plant. The dominant uncertainty for growers is that of the price / processor reaction to the agreed reforms, how this will influence the supply/demand equation and how the compensation package when agreed will integrate with SFP. Whilst the concept in UK is "fully de-coupled and in line with the UK model" the fear is that whilst, the funds ought (in fairness, it is argued) to go to the beet growers, and that this may be a bias initially, compensation will ultimately be "modulated away to pay for other public goods".

Demand, the behaviour of markets and implications.

In the EU, demand for sugar is currently static or falling very slightly, although historically a growth of 1% has been the pattern. Within that position is a range of complex issues, including the effect on consumption of moves to healthier diet, differences of choice in sugar products, growth of speciality products for consumers and manufacturers - who take 80% of production, the impact of dramatic growth of isoglucose if unregulated, and the trend to more value-added products for consumers and industry alike.

Growth is anticipated in many of the newly industrialising countries. However, in those markets the EU, even after reform, is unlikely to be able to compete. Its internal price remains twice the level of world markets. Those markets are likely to be supplied by low cost cane producers such as Brazil, Thailand and Australia. In Africa the prospects of expansion seem to be limited by lack of water, the high cost of moving sugar from land locked countries and the inadequate infrastructure. As domestic real incomes rise these should expand much of the potential for higher levels of production.

Within the EU the expectation is for more cross border trade, however although the technology and logistics are well understood, the costs and value equations for moving sugar products around the EU over greatly increased distances are not yet established - it will be a new experience for all concerned. It is at this point in the reformed era that sugar ceases to be a simple commodity - since 80% of it is sold as speciality ingredients to food manufacturers. What then, provides the competitive impetus?

In the central belt of production, processors will be looking for economies of scale and concentration to achieve critical mass and secure a return on the invested capital resources. From this re-structured pattern a "new" shape to the EU industry should emerge over time, the speed and extent of change being largely governed by matching supply and demand. Innovation and new products will play their part. Isoglucose provides a case in point. This product would greatly increase its market share if quota were taken away; meantime the additional quota of 300,000 tonnes proposed presents a very small compensation for processors in return for effectively being regulated out of a market opportunity.

Among the chief concerns of this seminar were consequences affecting the environment. The beet crop undoubtedly confers direct and indirect environment benefit. However speakers repeatedly argued that securing environmental benefit or wider "public goods" should NOT determine the nature of production systems. The fully de-coupled model in which environmental objectives are rewarded by the public for public goods and production is rewarded in the marketplace was emphatically stated to be the only realistic long term policy.

The scene is however now being obscured by a lack of differentiation between "public" goods - which the population as whole needs and is prepared to pay for - and "club" goods - which may be the objective of minority groups for example bird enthusiasts or walkers. Classification of all "environmental benefits" as "public" goods is now leading to distortions - with the result that funds which were originally designated for CAP production purposes, and which have now been removed from that objective have not been saved, but have in some degree been re-diverted to pay for benefits which are, arguably, the responsibility of groups of private persons or their "clubs".

Given the static/slightly shrinking overall EU demand, and the drive for efficiency in production, policy still puts beet in the ascendancy - notwithstanding the surplus currently overhanging the market. The reformed SR will still be a "politically-interfered-with" market. It remains to be seen how this will be squared with concerns for ACP and EBA countries and how all sides of the industry will adapt from the current position in which growers are much too remote from a customer culture. The issues remain how can the surplus be eliminated, and how far can normal market behaviour be established.

Finally.......

Participants were fully understanding of the difficulties faced by the UK team in negotiating this package of reforms. They are inherently highly complex and deeply rooted in 40 years of protected and regulated behaviour that cannot be undone rapidly, and should not be reformed so hastily that harm results. However the simple message from this gathering of practitioners from across the spectrum of interests was:-

"Competition? Bring it on !"

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Addendum.

Seminar participants were invited at the end of the debate to state in under one minute their most significant point or points from this debate. The following is a synopsis of those points.

1. The NGOs operating in the agri-environment fields should seek to accept environmental changes for the balance of interests. The compensation makes for facilitating this.

2. A feeling of some optimism, but government and processors need to create more of an open market - and this process feels threatened.

3. Public support is still needed for environmental tasks; there is a need to infuse compensation payments so as to secure public/environmental benefit.

4.1. The reforms will not give industrial sugar uses what they need - with consequences for processors and growers. 4.2. There is a need to push for more market opportunity.

5.1. The outcome of these negotiations is unlikely to reflect well on the EU- a messy un-liberalised market is still in prospect. 5.2. There will be a fascinating process of price discovery. 5.3. There is an opportunity for growers to combine.

6. There is a need to monitor the results from the negotiations closely in the transition period.

7.1. The present situation is NOT satisfactory, and a difficult process of negotiation of agreement to reforms is severely constrained by time. 7.2. The process will not be able to benefit from replicating the quality of debate of this seminar across the EU - but we have to secure the least damaging outcome. 7.3. Other negotiations are needed particularly to make progress with ACP country issues, and between processors and growers.

8.1. We need to encourage DEFRA. 8.2. There is a dynamic situation in which we are moving from purely agricultural considerations to those of wider markets. 8.2. In such a process of change there is a clear responsibility to those affected.

9.1. The further we get away from the market, the worse will be the outcome. 9.2. There will be an increasingly concentrated customer base.

10. The efficiency of production is what matters most - but within a proper unconstrained marketplace.

11. The proposals are finely balanced. A messy conclusion will be huge dis-service to everyone so the less ‘tinkering’ the better. 11.2. There will be a new creative tension between the seller and buyer; a new symbiosis in which growers and processors must move forward together and secure their positions in the market.

12.1. For ACP countries the proposals are too deep, too soon and too quick; price reductions should not be 39%. 12.2. The freedom to market should be compatible and DEFRA needs to remain conscious that the cane sector is weak.

13.1. An upper quartile grower questions whether there is future in the crop. 13.2. It is critical to the UK that the settlement is seen to be fair.

14.1. Realism about the future, dependent upon the outcomes of the negotiations, is essential. 14.2. Perhaps the processors do need the growers rather than the reverse. 14.3. Delighted to hear about cereal based sweeteners.

15.1. A mess is going to emerge in 2006/7. Beyond then, the EU has to move to a balanced market. How on earth will that be achieved? 15.2. Negotiations with the ACP countries after November need to be pro-active.

16.1. There needs to be a system to reward the management of environmental assets; and more thought about how that can be achieved is necessary.

17.1. Growers will have to work with processors. 17.2. We should not forget the importance of our maritime climate

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RURAL's FUTURE SEMINARS
will continue to examine policy themes central to the development of policy for Farming, Food and Countryside.

See the next RURAL Briefing

RURAL plans to continue to programme events which capture the WAY AHEAD theme with the aim of promoting constructive input to the policy overlay beneath which farming food and countryside practitioners function.

Do you have views on these issues or indeed on other issues to which RURAL should turn its attention?

If so, please contact John Hickman CBE, Director RURAL,

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and at info@rural.org.uk quote RURAL Briefing

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