

# The EU Sugar Regime and Forthcoming WTO Obligations

Ellen Huan-Niemi



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# The EU Sugar Regime and Forthcoming WTO Obligations

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## **Abstract**

The structure of the European Union (EU) sugar regime has been under tremendous pressure internally and externally for major reforms. The EU sugar regime has avoided major reforms during the review in year 2001, but it may not be able to avoid major reforms by year 2006 after its mid-term review in year 2003. The coming new WTO round in agriculture will pressure the EU sugar regime for further reforms because the EU is sensitive to further tariff reductions and may encounter problems in its border protection for sugar. The EU may resolve its problem in exporting sugar with export subsidy by cutting its production quotas and limiting sugar production after EU enlargement by imposing strict production quotas, along with growth in the EU sugar consumption.

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*Index words: EU sugar regime, new WTO round, enlargement, tariff, export subsidy*

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# EU:n sokerin markkinajärjestelmä ja tulevat WTO-velvoitteet

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## Tiivistelmä

Euroopan unionin (EU) sokerin markkinajärjestelmä on sekä sisäisten että ulkoisten muospaineiden alaisena. Järjestelmän jatkosta on päätetty vuoteen 2006 saakka, mutta sokerisäädösten välitarkastelua valmistellaan jo vuoden 2003 aikana. Viimeistään vuonna 2006 edessä on suuria muutoksia. EU:n sokerijärjestelmän uudistamisessa on kolme päävaihtoehtoa: maakiintiöiden leikkaus, hallinnollisten hintojen leikkaus tai näiden yhdistelmä. Erityisesti Maailman kauppajärjestön WTO:n neuvottelukierros luo paineita EU:n sokeripolitiikkaa kohtaan. EU:n sokeripolitiikka on erittäin herkkä tuontitullien alentamiselle, koska sokerin sisämarkkinahinta on EU:ssa selvästi maailmanmarkkinahintaa korkeampi. Tuontitullien leikkaaminen pakottaisi EU:ta alentamaan sokerin sisämarkkinahintaa. Sen sijaan kiristyvät vientitukisitoumukset WTO:ssa eivät muodostu EU:lle ongelmaksi, mikäli sokerin kulutuksen kasvu jatkuu ja tuotannon rajoittamista jatketaan tiukoin maakiintiöin myös laajentuneessa unionissa.

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*Asiasanat: EU, sokerin markkinajärjestelmä, WTO, tulli, vientituki*

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# 1 Introduction

The European Union (EU) is a major participant in the world sugar market. In 1999, the EU was placed second in all the ranking of major producers, exporters and importers in the world (Table 1). The EU, Brazil, Australia, Thailand, and Cuba accounted for about 70% of world exports in 1999. The EU and Brazil are the dominators in the world sugar trade being the top producers and exporters in the world. However, the EU is also a major importer of sugar, but sugar imports in Brazil is negligible. The EU is unique in being both a major exporter of white sugar and importer of raw sugar in the world market.

The dominant role of the EU in the world sugar market is the result of the high level of support the EU is providing to its sugar sector compared to the member countries of the World Trade Organisation (WTO). The EU uses export subsidies to bridge the gap between the high internal EU market price and the significantly lower world market price<sup>1</sup>. The Common Market Organisation (CMO) of sugar established minimum support prices for sugar guaranteed by an intervention purchase system. A production quota system was established to limit the total quantity eligible for price support. The EU sugar producers (growers and processors jointly) are responsible for paying the full costs to the EU Budget of surplus quota sugar disposal through the producer levies. There are two types of quota: A and B. The major difference between A and B quota sugar is the level of imposed producer levies. Only quota sugar can be sold in the EU and is eligible for price support through the intervention mechanism and export refunds. Sugar produced in excess of the A and B quotas is called C sugar and cannot be marketed in the EU. C sugar has to be sold on the world market without the support of export refunds/export subsidies. Thus, the quota system limits the supply of sugar in the EU internal market (CAP MONITOR).

Table 1. World sugar market in 1999 (in raw sugar equivalent and million of tons).

Rank	Five largest producers		Five largest exporters		Five largest importers	
1	Brazil	20.6	Brazil	12.5	Russia	5.8
2	EU	19.3	EU	5.1	EU	1.9
3	India	17.4	Australia	4.2	Indonesia	1.9
4	China	9.3	Thailand	3.4	USA	1.6
5	USA	8.2	Cuba	3.1	Japan	1.6
Total	World	136.3	World	39.5	World	38.4

Source: ISO 1999.

<sup>1</sup> In the last five years, the world market for sugar has been characterised by considerable overproduction and a rising level of stocks. The ratio of stocks as a percentage of world sugar consumption has risen from 35.92% in 1992/93 to 48.81% in 2001/02. World stocks are now at a historically high level, which has had the effect of depressing prices.

The EU internal market is insulated from the world sugar market through a system of import duties and export refunds. The CMO of sugar supports producer prices<sup>2</sup> at levels above world market prices, stimulating production in the EU and resulting in exportable surpluses of sugar. Consequently, the EU has been distorting trade flows by disposing the sugar surpluses to the world market with export subsidies.

The Uruguay Round Agreement on Agriculture (URAA) has established a set of completely new and operational rules for agriculture in order to reduce agricultural export subsidies, create new rules for agricultural import policy, shift domestic support of agriculture away from those practices that affect production and trade flows, and agree on disciplines for sanitary and phytosanitary trade measures.

Negotiations on further liberalisation in agricultural trade replacing the URAA were launched at the WTO in March 2000. Member countries of the WTO have agreed to continue the negotiations in liberalising agricultural trade on the basis of Article 20 of the URAA. The Doha Development Agenda (DDA), launched at the Doha Ministerial Conference in November 2001, will influence the shape and dynamics of the new WTO round. The agriculture negotiations became part of the single undertaking in which virtually all negotiations under the DDA are scheduled to end by 1 January 2005.

The main objective of this study is to analyse the impacts of the assumed agreement in 2005 for the coming new WTO round on the EU sugar regime. Two scenarios of possible outcomes are assumed to show the impacts of further reduction in the commitments for export subsidy and further reduction in tariffs on the EU sugar regime. Furthermore, the impacts of the prospective EU enlargement on the export subsidy commitments are assessed by including the ten member candidates of the Central and Eastern European (CEE) countries.

First, the Uruguay Round commitments for sugar are specified and followed by the assumptions and methodology for the projections. Second, the impact of the Uruguay Round on the EU sugar regime is briefly examined. Third, the projections for the export subsidy commitments under the assumed new WTO round are examined. The export subsidy projections are divided into EU with 15 member states (EU-15 scenario) and enlarged EU with 25 member states (EU-25 scenario). Finally, the border protection for EU sugar is being analysed by projecting further tariff reductions in the new WTO round and the conclusion will follow at the end.

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<sup>2</sup> The domestic prices have been supported by high border protection by imposing “high tariffs” on imports.



## 2 Commitments under the Uruguay Round Agreement on Agriculture (URAA)

The EU made the following commitments for sugar under the Uruguay Round Agreement on Agriculture from marketing year 1995/1996 to 2000/2001:

- the volume of subsidised sugar exports was reduced by 21 percent over a period of 6 years, but subsidised exports (“re-export”) of preferential sugar<sup>3</sup> from the African, Caribbean and Pacific (ACP) countries and India are excluded<sup>4</sup> from the reduction formula;
- the expenditure for export subsidies was reduced by 36 percent over a period of 6 years, but the export subsidies<sup>5</sup> given to the ACP preferential sugar is excluded;
- variable import levies for sugar were converted into binding standard tariffs, and these standard tariffs were reduced by 20 percent over a period of 6 years; additional duties can be imposed by invoking the “Special Safeguard Provisions” under the URAA;
- current access is maintained for the imports of preferential sugar at 1.305 million tons (in white sugar equivalent) from the ACP countries and India, plus 82,000 tons (in white sugar equivalent) of Most Favoured Nation quota (CAP MONITOR).

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<sup>3</sup> There is guaranteed access to the EU market for sugar from the African, Caribbean and Pacific (ACP) countries and India. “Preferential sugar” is the term used to describe raw cane sugar imported from the ACP countries and India under the provisions of Protocol No. 3 of the formerly Lomé Convention or currently Cotonou Agreement and the Agreement with India.

<sup>4</sup> The EU is importing raw cane sugar from the ACP countries at the intervention price of EUR 523/ton. The intervention price is two to three times higher than the world market price. The guaranteed intervention price paid to the ACP countries is considered as “development aid” to these countries. Subsequently, the export subsidy used to re-export the preferential sugar (processed in white sugar form) is not subjected to the WTO commitments for export subsidy.

<sup>5</sup> The export subsidy used in the export of quota sugar in the EU is “self-financed” by the sugar producers and industry. However, in the case of “preferential sugar,” the export subsidy used is financed by the EU Budget as a form of “development aid” to the ACP countries.

### 3 Assumptions and methodology

Two different scenarios are shown in the “export subsidy” projections for the new WTO round (Table 2). In the first scenario, the reduction in commitments for the new WTO round is assumed to be along the same lines as in the Uruguay Round with further 36 percent reduction in the expenditure for export subsidy and 21 percent reduction in the volume of subsidised export. In the second scenario, the export subsidy commitments are assumed to be further reduced by 50 percent for both the export subsidy expenditure and the volume of subsidised exports.

There are also two scenarios for the projections of “border protection” for EU sugar (Table 2). The first scenario assumes that the standard tariff for raw sugar is further reduced by 20%, and the second scenario assumes a further reduction of 36%. Sensitivity towards the strength of the Euro is measured by using two scenarios – a “weak Euro” scenario (EUR 1 = USD 0.80) and a “strong Euro” scenario (EUR 1 = USD 1.20). Within the scenario of a “strong Euro,” additional duties imposed under the “Special Safeguard Provisions” are projected to show the additional level of protection given by invoking this safeguard measure<sup>6</sup>. The world market prices for raw sugar (FOB Caribbean Price/New York No. 11)

Table 2. Assumptions for the new WTO round.

	<b>Scenario 1</b> (Similar to Uruguay Round)	<b>Scenario 2</b> (Steeper reductions or downpayment)
<b>Export Subsidy</b>	Reduce quantity of subsidised exports by <b>21%</b> over 6 years Reduce export subsidy expenditure by <b>36%</b> over 6 years	Reduce quantity of subsidised exports by <b>50%</b> over 6 years Reduce export subsidy expenditure by <b>50%</b> over 6 years
<b>Market Access</b>	Reduce standard tariff by <b>20%</b> over 6 years 1) Weak Euro – EUR 1 = USD 0.80 2) Strong Euro – EUR 1 = USD 1.20 “Special Safeguard Provisions” invoked under a Strong Euro	Reduce standard tariff by <b>36%</b> over 6 years 1) Weak Euro – EUR 1 = USD 0.80 2) Strong Euro – EUR 1 = USD 1.20 “Special Safeguard Provisions” invoked under a Strong Euro

<sup>6</sup> Safeguard measures are contingency restrictions on imports taken temporarily to deal with special circumstances such as a sudden surge in imports. They normally come under the Safeguards Agreement under GATT 1994, but the Uruguay Round Agreement on Agriculture (URAA) has special provisions on safeguards (under Article 5 of URAA). The “Special Safeguard Provisions” for agriculture differ from normal safeguards under GATT 1994. In agriculture, unlike with normal safeguards: higher safeguards duties can be triggered automatically when import volumes rise above a certain level, or if prices fall below a certain level; and it is not necessary to demonstrate that serious injury is being caused to the domestic industry. Currently, including the EU, 38 WTO members have reserved the right to use the “Special Safeguard Provisions.” The right to use this special agricultural safeguard would lapse if there is no agreement in the negotiations to continue the “reform process” initiated in the Uruguay Round.

Table 3. Assumptions for the implementation period of the new WTO round.

Base year	Beginning year	Ending year	Implementation Period
2004/2005	2005/2006	2010/2011	6 years

are taken from FAPRI (2002) world market price projections and calculated on the basis of cost, insurance, & freight (CIF) instead of free on board (FOB).

The base year for the assumed reductions is 2004/2005, which is a continuance of the Uruguay Round's commitment level in marketing year 2000/2001. The on-going negotiation process under the Doha Development Agenda is assumed to be completed by January 2005. Thus, the new WTO round is assumed to begin in marketing year 2005/2006 and end in marketing year 2010/2011, over an assumed six-year implementation period (Table 3).

The EU notifications to the WTO are used as a base for the export subsidy projections. Uruguay Round's six years average is used in calculating the assumed "average subsidy per ton" for sugar in the projections (Appendix 1). Average subsidy per ton is used in the projections for the export subsidy expenditure (quantity of subsidised sugar exports multiplied by the average subsidy per ton, Table 4).

Table 4. Assumptions for the EU-15 sugar production, consumption, quota sugar exports, and expenditure for export subsidy in the new WTO round.

Production*	limited by production quotas; A & B sugar quotas = 14,482,143 tons
Below quota production	DOM & Portugal unable to fulfil their production quotas = 341,000 tons yearly
Total A & B quota production	14,482,143 tons minus 341,000 tons = 14,141,143 tons yearly
Consumption	growing at 0.5% per year on average from 12,940,000 tons in 2001/2002 to 13,534,000 tons in 2010/2011
Quota sugar exports with export subsidy	total A & B quota production minus consumption from 1,201,143 tons in 2001/2002 to 607,143 tons in 2010/2011
Export subsidy per ton	average subsidy per ton from 1995 to 2001 = EUR 460
Export subsidy expenditure	(quota sugar exports) x (average subsidy per ton)

\*C sugar production is excluded because C sugar is exported without any export subsidy

The total EU-15 sugar quotas in 2001/2002 are 14,482,143 tons<sup>7</sup>. It is assumed that A and B sugar production<sup>8</sup> is limited by production quotas from 2001/2002 to 2010/2011. The quantity of quota sugar production has always been below the total EU-15 sugar quotas mainly because the French Overseas Territories (DOM) and Portugal have been unable to fulfil their production quotas (Appendix 2). As a result, the total A and B sugar production would stay around 14,141,143 tons per year (Appendix 3). On the consumption side, it is assumed that consumption would grow at 0.5% per year on average, based on average yearly consumption growth from 1995 to 2001 (Appendix 4). Consequently, the quantity of subsidised sugar exports is calculated by deducting consumption from the quota sugar production (Appendix 3), whereby C sugar production is excluded because C sugar is exported without any export subsidy (Table 4).

Under the EU enlargement scenarios, it is assumed that ten new member states are ready to join the EU by year 2004 with the “big bang effect.” The new member states consist of Poland, Hungary, Czech Republic, Slovenia, Estonia, Latvia, Lithuania, Slovakia, Bulgaria, and Romania<sup>9</sup>. The EU Commission will impose sugar production quotas on the new member states after EU membership (CEC 2002). It is assumed that the new member states will receive sugar production quotas equal to the EU Commission’s quota allocation for each country<sup>10</sup>, and the projections are based on the EU Commission’s quota allocation proposal to the new member states<sup>11</sup> (Appendix 5). In the EU-25 projections, the CEE-10 countries’ net exports are added to the EU-15 member states’ total exports. Intra-trade within the CEE countries (PC-TAS) and trade between the CEE countries and the EU-15 member states (EUROSTAT COMEXT) are excluded from the EU-25 total exports of sugar. Simultaneously, the total “current access”<sup>12</sup> of third countries in the market of the net importers can be

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<sup>7</sup> A permanent quota cut was made in year 2001 as part of the EU Farm Council’s reform of the sugar regime. The total EU-15 sugar quotas were reduced from 14,592,411 tons to 14,482,143 tons, and the new sugar quotas will apply from 2001/2002 to 2005/2006 [Council Regulation (EC) No 1260/2001 of 19 June 2001].

<sup>8</sup> The Uruguay Round commitments for export subsidy affect A and B sugar exports only. C sugar exports are excluded from the commitments.

<sup>9</sup> According to the EU Commission, Poland, Hungary, Czech Republic, Slovenia, Estonia, Latvia, Lithuania, Slovakia, Malta, & Cyprus are scheduled to join the EU in 2004. Bulgaria and Romania are scheduled to join in 2007. This study has included Bulgaria and Romania in the first wave of accession in order to see the total impact of the 10 countries. Cyprus and Malta are excluded due to insignificant agricultural production and consumption compared to the other potential member countries.

<sup>10</sup> Quota allocation for Bulgaria and Romania is calculated by estimating the production quotas according to EU Commission’s rules.

<sup>11</sup> Each candidate is offered specific sugar quotas by the EU Commission (CEC 2002).

<sup>12</sup> As a mean to preserve market access of third countries under the backing of the WTO, historical quantities of sugar imports are to continue to be imported by the CEE countries under the “current access quotas” from countries outside the EU with 25 member states.

estimated by using the same base calculations and data base. The estimations indicated that the combination of the ten CEE countries would produce net imports instead of net exports, whereby the net imports are counter-balanced by the “current access quota” of third countries’ historical market access in the CEE countries. As a consequence, the combination of the ten CEE countries will bring no additional quota sugar exports to the total quota sugar exports of the EU-15 member states (Appendix 5).

## 4 The Uruguay Round Agreement on Agriculture: Impact on the EU sugar regime

The EU uses export refunds to bridge the gap between the high internal EU market price and the significantly lower world market price to export surpluses of quota sugar (A and B). The export refunds apply not only to the main products covered by the sugar regime, but also to the export of processed products containing sugar. In practice, the EU's use of export refunds is one of the main ways in which it supports its domestic market prices for sugar, as it grants restitution on whatever quantity of sugar it judges to be surplus to internal needs. Thus, there is hardly any intervention buying in the sugar regime (NEI 2000).

The required reduction in the volume of exports and budgetary outlays for export subsidies did not cause any difficulties for the EU at the beginning of the URAA implementation period. At the end of the implementation period, however, the export subsidy commitments became very binding (Figure 1 and 2). In order to stay within the final marketing year 2000/2001 commitments, there was a "temporary cut" of 498,800 tons in the total A and B sugar quotas. Hence, the amount of EU's subsidised sugar exports (A & B quota sugar) have decreased while the unsubsidised sugar exports (C sugar) have increased during the Uruguay Round (Devadoss & Kropf 1996). As a matter of fact, the EU is able to stay within the export subsidy commitments by cutting the production quotas yearly<sup>13</sup>, if necessary, when the EU is in danger of breaching the commitments for export subsidy.

The EU internal market is insulated from the world sugar market through a system of import duties and export refunds. Before the URAA, the EU fixed a minimum import price or threshold price for sugar. Sugar imports were charged a variable import duty equal to the difference between the CIF import price and the threshold price. Preferential sugar imports were exempted from this import duty. This system of variable import duties made the importation of non-preferential sugar financially unattractive with hardly any importation of sugar outside the EU's preferential trade agreement (NEI 2000).

Under the URAA, the EU was obliged to replace the ad valorem import duties into fixed standard tariffs with a gradual reduction of standard tariffs by a total of 20 percent in six years. These standard tariffs were fixed at a high base level due to the methods of converting the equivalent of non-tariff barriers into fixed standard tariffs. In reality, the "Special Safeguard Provisions" for sugar have been constantly in operation since 1995 because of the low world market prices for sugar. The fixed standard tariffs and the additional import duties under the safeguard measures have made the import of non-preferential sugar uneconomic in

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<sup>13</sup> According to Council Regulation (EC) No 1260/2001 of 19 June 2001 on the common organisation of the markets in the sugar sector under Article 10(3) and (4), the guaranteed quantity under production quotas should be reduced before 1 October each marketing year if the forecasts for the year in question show an exportable balance (attracting an export refund/export subsidy) greater than the maximum laid down by the Agriculture Agreement (URAA) concluded under Article 300(2) of the Treaty.

comparison with the price of EU quota sugar in the internal market. Likewise, the minimum access commitments under the URAA have not increased sugar imports to the EU because the EU was importing more than 10 percent (well above the 5 percent requirement by year 2000/2001) of consumption under its preferential trade agreement with the ACP countries and India.

The EU was not required to reduce its internal price support specifically for sugar under the URAA because domestic support is measured as the Aggregate Measurement of Support (AMS), aggregated across all commodities and policy instruments. Subsequently, the total reduction of 20 percent over a period of six years for domestic support commitments refer to the total levels of support, but not to individual commodities. Overall, the sector wide domestic support for sugar has been high compared to the other agricultural commodities in the EU due to the high intervention price for sugar. The domestic support for sugar will remain high unless the intervention price for sugar is lowered closer to the world market price.

## **5 Projections of EU with 15 member states (EU-15 scenario) and EU with 25 member states (EU-25 scenario) under the new WTO round for agriculture**

### **5.1 EU-15 scenario: further reductions in the export subsidy commitments for sugar**

The projections indicate that the EU will be able to stay within the quantity commitments for export subsidy not only under a further 21% reduction, but also under a further 50% reduction in the commitments for subsidised exports under the new WTO round (Figure 1). Yet, the EU may resort to cutting the production quotas yearly when the EU is in danger of breaching the commitments for export subsidy in the particular marketing year because of higher output mainly due to good weather and area planted. The cut in production quotas will only be temporary for the particular marketing year<sup>14</sup>.

Of course, the result is sensitive to the rate of consumption growth. The EU may risk breaching the quantity commitments for sugar if the consumption growth is lower than 0.5% yearly on average, especially under the scenario of a further 50% reduction in the volume of subsidised exports (Figure 1, Scenario 2).

The projections indicate that the EU will be able to stay within the budgetary commitments for export subsidy under a further 36% reduction, but not under a further 50% reduction in the commitments for export subsidy expenditure (Figure 2). In order to stay within the budgetary commitments under a further 50% reduction scenario, the average subsidy per ton has to be lower than EUR 460 from 2008/2009. Compared to the quantity commitments, the budgetary commitments are more binding. The export subsidy expenditure is very sensitive to the amount of subsidised sugar exports and the strength of the Euro.

### **5.2 EU-25 scenario: further reductions in the export subsidy commitments for sugar**

The projections indicate that EU with 25 member states will be able to stay within both the quantity and budgetary commitments for export subsidy for both reduction scenarios under the new WTO round (Figure 3 and 4). The result strictly depends on the assumptions that the EU Commission will impose sugar production quotas on the new member states after EU membership, and the new member states will receive sugar production quotas equal to the EU Commission's quota allocation for each country. Also, EU sugar consumption would grow on average 0.5% per year.

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<sup>14</sup> Commission Regulation (EC) No 1745/2002 of 30 September 2002 reducing the EU sugar production quotas by a quantity of 862,475 tons for marketing year 2002/2003, having regard to Council Regulation (EC) No 1260/2001 of 19 June 2001 on the common organisation of the markets in the sugar sector.



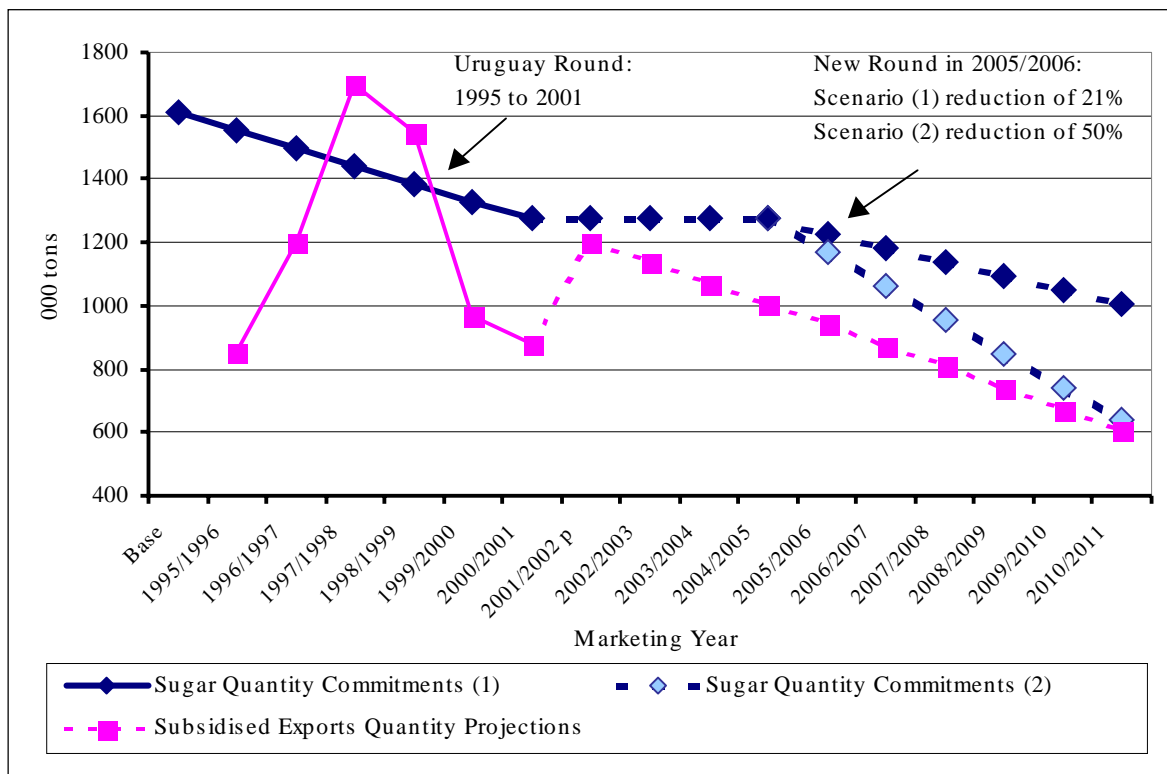


Figure 1. EU-15 Sugar: Actual quantity commitments and subsidised exports under the Uruguay Round versus assumed quantity commitments and projected subsidised exports in the new WTO round (WTO Notifications, author's calculations).

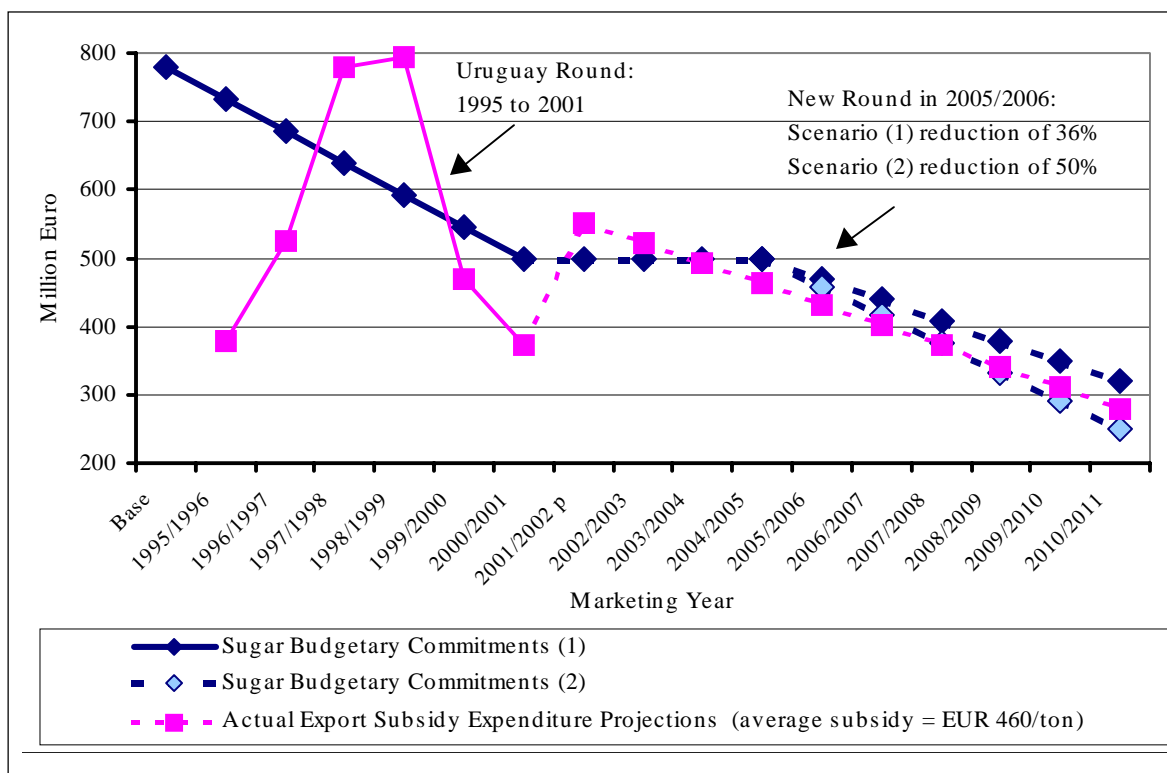


Figure 2. EU-15 Sugar: Actual budgetary commitments and export subsidy expenditure under the Uruguay Round versus assumed budgetary commitments and projected export subsidy expenditure in the new WTO round (WTO Notifications, author's calculations).

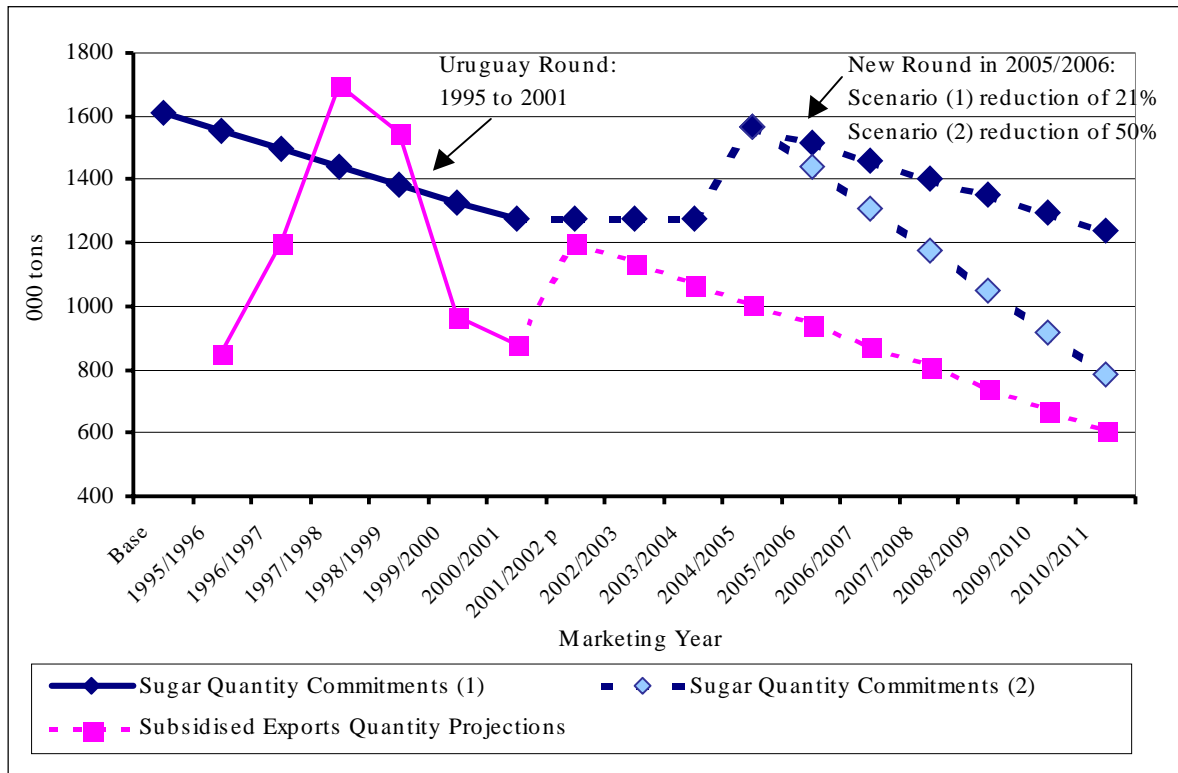


Figure 3. EU-25 Sugar: Actual quantity commitments and subsidised exports under the Uruguay Round versus assumed quantity commitments and projected subsidised exports in the new WTO round (WTO Notifications, author's calculations).

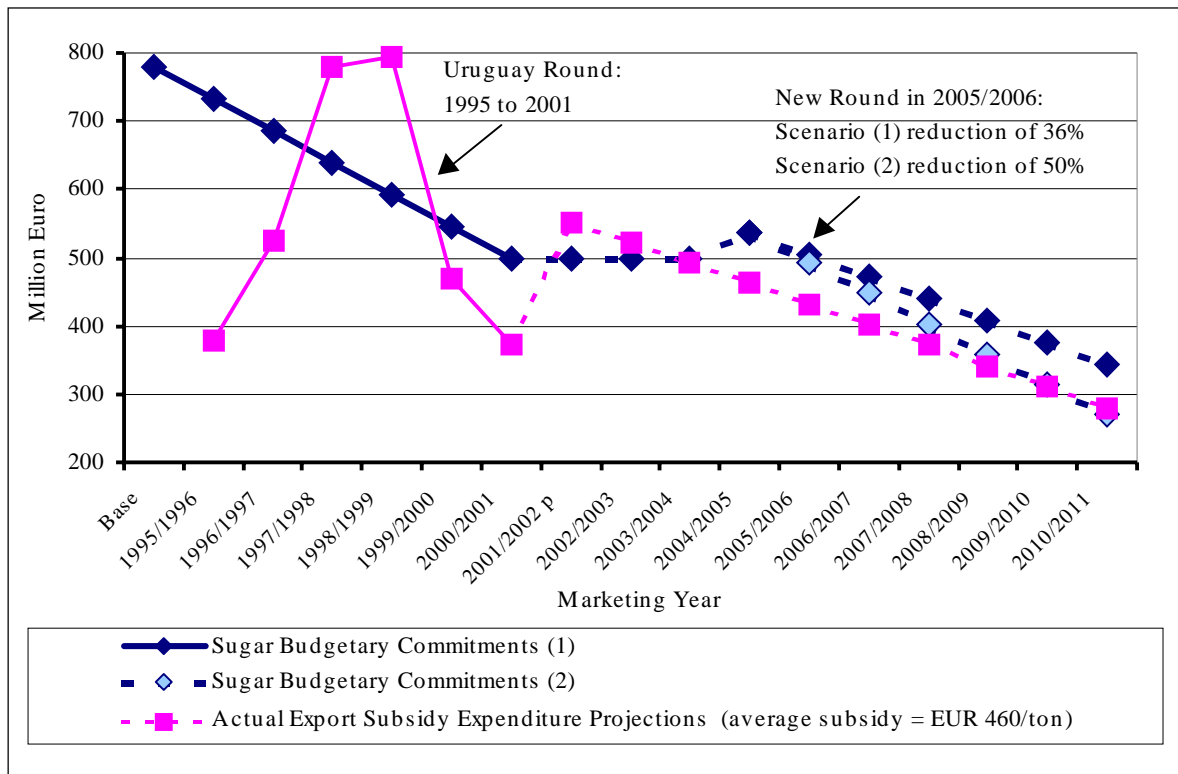


Figure 4. EU-25 Sugar: Actual budgetary commitments and export subsidy expenditure under the Uruguay Round versus assumed budgetary commitments and projected export subsidy expenditure in the new WTO round (WTO Notifications, author's calculations).

The ten CEE countries will be bringing in additional export subsidy commitments for sugar after EU accession without bringing in additional subsidised exports in sugar. The intra and inter trade estimations of the ten CEE countries indicated that the ten CEE countries will produce net imports (especially Romania and Bulgaria) instead of net exports in sugar, whereby the net imports are counter-balanced by the “current access quota” of third countries’ historical market access in the CEE countries. As a consequence, the combination of the ten CEE countries including Romania and Bulgaria, but excluding Cyprus and Malta will bring no additional quota sugar exports to the EU-25 projections (Appendix 5).

## 6 EU's border protection for sugar: further tariffs reduction in the new WTO round

The EU will lose its border protection for raw sugar from marketing year 2006/2007 under the scenario of a strong Euro, if the standard tariff for raw sugar is further reduced by 20% (Figure 5). Then, the EU may face large increases in raw sugar imports from the world market as the price of imports will be lower than the EU support price for raw sugar.

Nevertheless, the EU can invoke the Special Safeguard Provisions (trigger price) under the URAA that allow additional duties to be imposed in the case of low world market prices. The trigger price for raw sugar is €418 per ton (CEC 1995). The additional duties imposed by invoking the trigger price mechanism are just enough to safeguard the border protection for raw sugar until 2010/2011 (Figure 6). On the other hand, the EU will have no difficulty in maintaining its border protection for sugar under the scenario of a weak Euro because the price of imports will be higher than the EU support price for raw sugar.

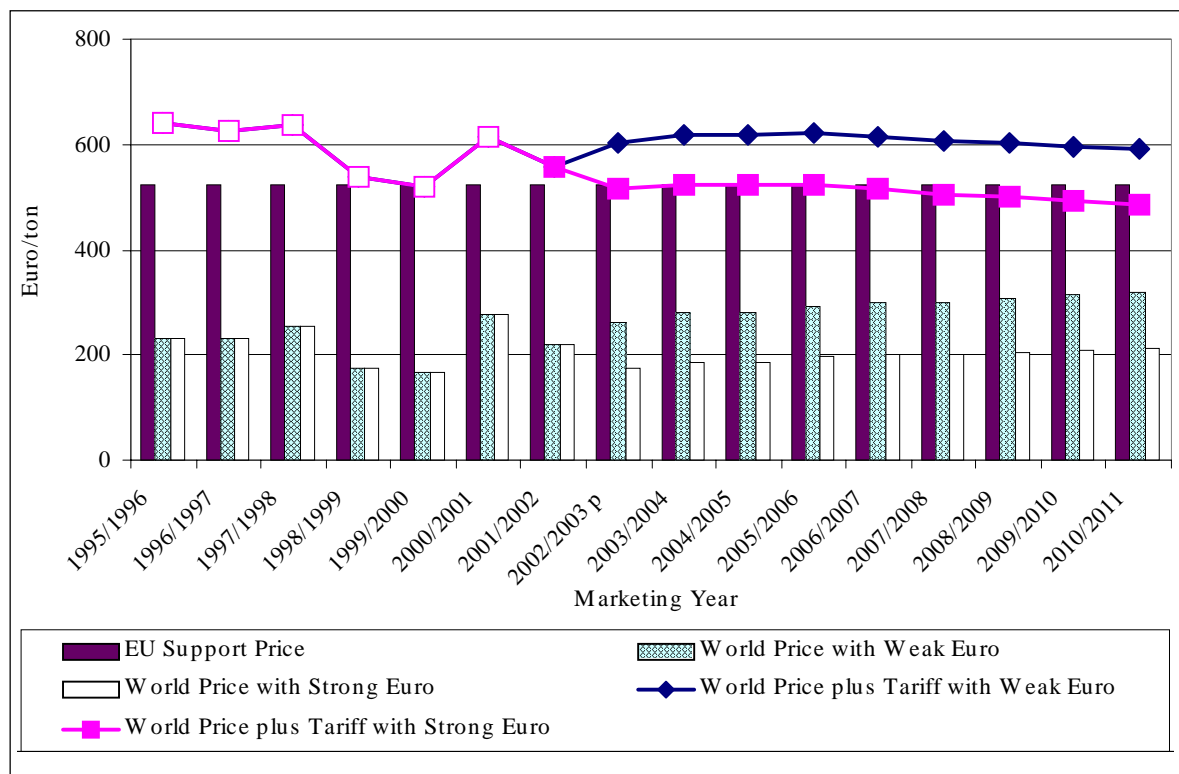


Figure 5. Scenario 1: The level of protection for EU-15 raw sugar during the Uruguay Round and after 20% reduction in standard tariff in the new WTO round (FAPRI 2002, Sugaronline, author's calculations).

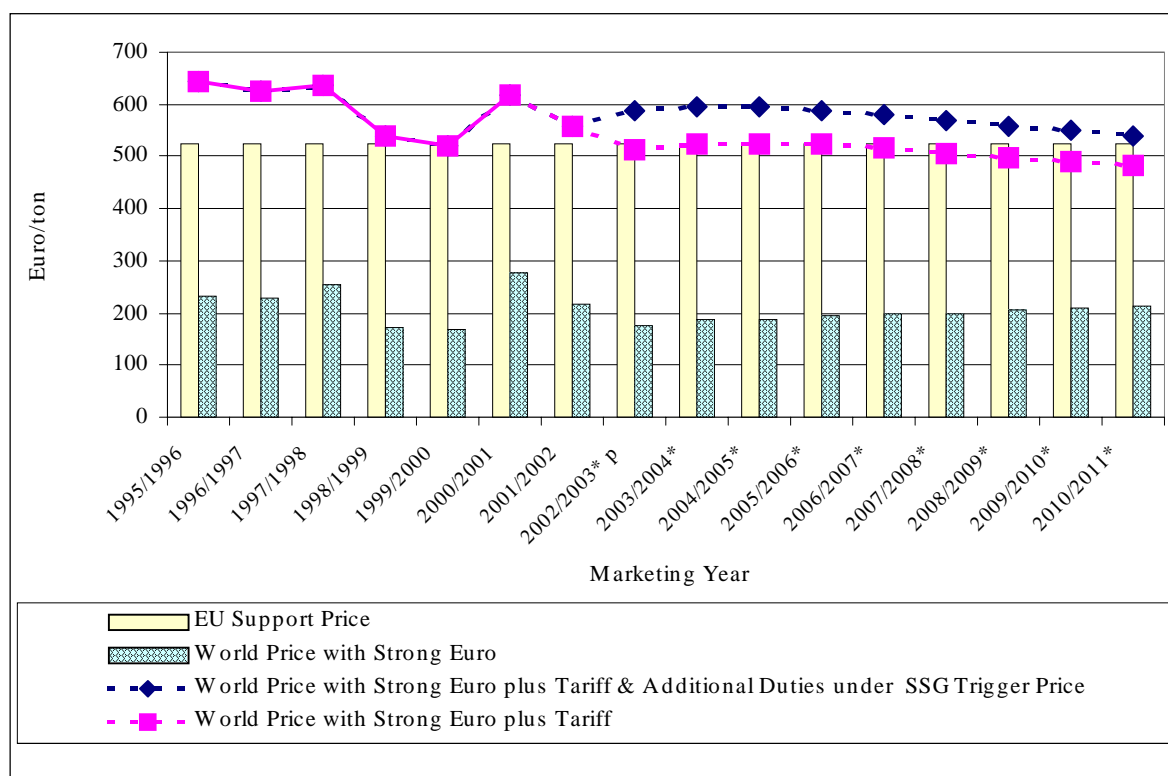


Figure 6. Scenario 1 with a strong Euro and the “Special Safeguard Provisions” (SSG) additional duties: The level of protection for EU-15 raw sugar after 20% reduction in tariff in the new WTO round. \* Additional duties are calculated from 2002/2003 onwards (FAPRI 2002, Sugaronline, CEC 1995, author’s calculations).

The EU will definitely lose its border protection for raw sugar from marketing year 2006/2007 under the scenario of a strong Euro, if the standard tariff for raw sugar is further reduced by 36% instead of 20% (Figure 7). Furthermore, the additional duties imposed by invoking the Special Safeguard Provisions (trigger price) under the URAA are no longer enough to maintain the border protection for raw sugar (Figure 8). In reality, the large difference between the EU support price<sup>15</sup> and world market price for raw sugar does not allow for steep tariff reduction without the risk of losing the border protection for raw sugar.

Even under the scenario of a weak Euro, the “world market price plus tariff” is close to the support price for raw sugar by marketing year 2010/2011 if the standard tariff for raw sugar is further reduced by 36% (Figure 7). As a result, the price of imports for raw sugar will be close to the EU support price for raw sugar even when the Euro is weak. In order to maintain the border protection for raw sugar, the EU is still able to impose additional duties on raw sugar imports by invoking the Special Safeguard Provisions. However, the additional duties will not be sufficient to uphold the border protection for raw sugar under the scenario of a strong Euro until marketing year 2010/2011 (Figure 8).

<sup>15</sup> The EU support price (EUR 523) is more than double the world market price (EUR 180 – 260) for raw sugar.

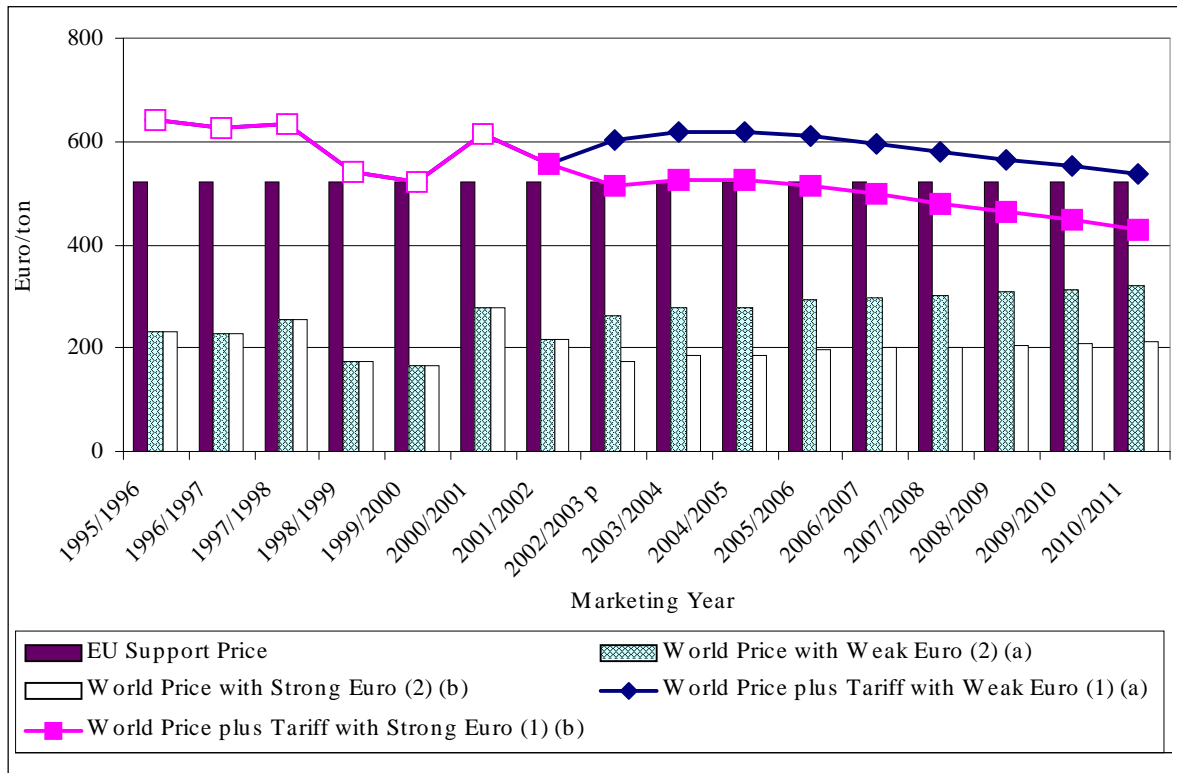


Figure 7. Scenario 2: The level of protection for EU-15 raw sugar during the Uruguay Round and after 36% reduction in standard tariff in the new WTO round (FAPRI 2002, Sugaronline, author's calculations).

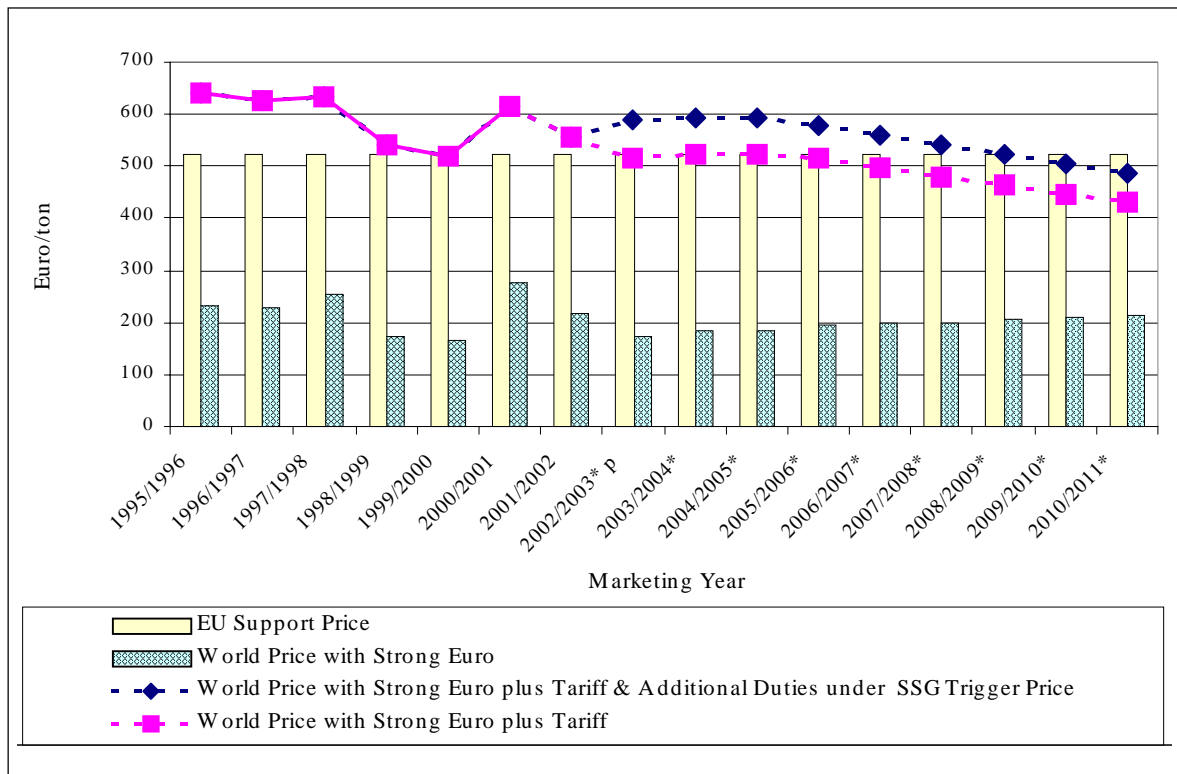


Figure 8. Scenario 2 with a strong Euro and the "Special Safeguard Provisions" (SSG) additional duties: The level of protection for EU-15 raw sugar after 36% reduction in tariff in the new WTO round. \* Additional duties are calculated from 2002/2003 onwards (FAPRI 2002, Sugaronline, CEC 1995, author's calculations).

The scenario of 36% reduction in tariffs would give third countries significant access to the EU internal market under a strong Euro, leading to an increase in sugar imports into the EU market. Any increase in sugar imports will correspond with an increase in the exportable surplus of sugar with export subsidies. The increase in sugar imports will increase pressure on the export subsidy commitments, hence, forcing the EU to cut the sugar production quotas.

Overall, the EU sugar regime is sensitive to steep tariff reductions because of the huge difference between the EU support prices and world market prices for sugar. The situation is more acute for white sugar compared to raw sugar because the support price for white sugar (€632/ton) is much higher than the support price for raw sugar (€523/ton). If the new WTO round requires substantial tariff reductions, the EU could be forced to reduce the support prices (intervention prices) for sugar in order to avoid large increases in sugar imports (Daneswar et al. 2000). In addition, the Special Safeguard Provisions under the URAA plays a major role in upholding the border protection for sugar. It is still uncertain whether the Special Safeguard Provisions will continue to be a safeguard feature in the new WTO round for agriculture. The EU's border protection for sugar will be very vulnerable without this safeguard feature in the new WTO round if the EU sugar regime continues to be in its current structure.

## 7 Summary and conclusions

A review was done by the EU on the sugar regime in year 2001 after the “temporary cut” of 498,800 tons in production quotas for marketing year 2000/2001. The result was a roll-over of the “old system” of production quotas for five years until year 2006, with a permanent 115,000 tons cut in production quotas<sup>16</sup>. The reform may have a small impact or even no impact on the EU sugar regime. The permanent 115,000 tons cut in production quotas is small compared to the yearly fluctuation of quota sugar production. The yearly fluctuation of quota sugar production could be up to a million tons<sup>17</sup> due to weather and area planted.

The required reduction in the volume of exports and budgetary outlays for export subsidies did not cause any difficulties for the EU at the beginning of the Uruguay Round. Though, the export subsidy commitments became very binding by the end of the Uruguay Round, leading to the “temporary cut” in production quotas for sugar in marketing year 2000/2001. Actually, the EU is able to stay within the export subsidy commitments by cutting the production quotas yearly, if necessary, when the EU is in danger of breaching the commitments for export subsidy.

During the Uruguay Round, the fixed standard tariffs and the additional import duties under the “Special Safeguard Provisions” have made the import of non-preferential sugar uneconomic in comparison with the price of EU quota sugar in the internal market. Subsequently, only a very small amount of non-preferential sugar is imported. Also, the Uruguay Round commitments under minimum access have not increased sugar imports to the EU. Thus, the EU has been able to prevent competition from imported sugar that is outside its preferential trade agreement.

Nonetheless, the recent “everything but arms” trade access (a unilateral preferential trade agreement) for the 49 least developed countries (LDCs) may have a major impact on the EU sugar regime. Sugar can be imported into the EU from the LDCs entirely duty-free and quota-free by July 2009<sup>18</sup>. According to a study done by the EU Commission, it is roughly estimated that 2,7 million tons of sugar could enter the EU from the LDCs after year 2009. The full cost of the trade concession for the EU Budget in liberalising the sugar sector for the LDCs is roughly estimated to be EUR 1 billion (EBA 2000). The market access concession for the LDCs will most probably take effect during the new WTO round, thus putting more pressure for reforms in the EU sugar regime.

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<sup>16</sup> Council Regulation (EC) No 1260/2001 of 19 June 2001 on the common organisation of the markets in the sugar sector.

<sup>17</sup> The estimated quota sugar production for marketing year 2000/2001 was over 14 million tons and for marketing year 2001/2002 was over 13 million tons.

<sup>18</sup> Common Customs Tariff duties on the products of tariff heading 1701 (sugar) shall be reduced by 20% on 1 July 2006, by 50% on 1 July 2007 and by 80% on 1 July 2008. They shall be entirely suspended as from 1 July 2009 (EU Council 2001).



Projections for the assumed new WTO round indicate that EU with 15 member states will be able to stay within the quantity commitments for export subsidy for both reduction scenarios. Nevertheless, the EU may risk breaching the quantity commitments if sugar consumption growth is lower than 0.5% yearly on average, especially under the scenario of a further 50% reduction in the quantity commitments. The EU will be able to stay within the budgetary commitments for export subsidy under a further 36% reduction scenario. However, in order to stay within the budgetary commitments, the average subsidy per ton will have to be lower than EUR 460 by year 2008/2009 under a further 50% reduction in the budgetary commitments.

The projections show that EU with 25 member states will be able to stay within both the quantity and budgetary commitments for export subsidy for both reduction scenarios in the new WTO round. The ten CEE countries will bring in additional export subsidy commitments for sugar after EU accession without bringing in additional subsidised exports in sugar. The result is based on the assumptions that the new member states will receive sugar production quotas equal to the EU Commission's quota allocation for each country and EU sugar consumption would grow on average 0.5% per year.

Generally, the EU sugar regime is sensitive to steep tariff reductions because of the huge difference between the EU support prices and world market prices for sugar. If the new WTO round requires substantial tariff reductions, the EU is forced to reduce the support prices for sugar in order to avoid large increases in sugar imports. In addition, the "Special Safeguard Provisions" under the URAA plays a major role in upholding the border protection for sugar in the case of low world market prices. The EU's border protection for sugar will be very vulnerable without this safeguard feature in the new WTO round if the EU sugar regime continues to be in its current structure.

The structure of the EU sugar regime has been under tremendous pressure internally and externally for major reforms. Conservative reforms may be a reduction in the support price for sugar or a considerable cut in the production quotas. Radical reforms may be a drastic cut in the support price for sugar and abolition of sugar production quotas or full liberalisation of the sugar regime. The EU sugar regime has avoided far reaching reforms in year 2001, but year 2006 may be the "deciding year" for the EU sugar regime.

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**Appendix 1 (1/1). EU sugar export subsidy commitments, actual levels, and average subsidy per ton from 1995 to 2001**

	base	1995/1996	1996/1997	1997/1998	1998/1999	1999/2000	2000/2001	6 years average
Budgetary Commitments	779,9	733,1	686,3	639,5	592,7	545,9	499,1	
Actual Levels (EUR million)		379,0	525,0	779,0	794,8	470,1	372,7	
Quantity Commitments	1612,0	1555,6	1499,2	1442,7	1386,3	1329,9	1273,5	
Actual Levels (in 000 tons)		856,3	1200,3	1699,1	1546,1	970,6	882,2	
(Euro per ton)								
<u>Average subsidy per ton</u>								
Commitment levels		471	458	443	428	410	392	
Actual levels		443	437	458	514	484	422	<b>460</b>

Source: WTO Notifications

**Appendix 2 (1/1). Calculations for the amount of “below quota production”  
(in 000 tons)**

	1995/1996	1996/1997	1997/1998	1998/1999	1999/2000	2000/2001
Total A & B quotas*	14592	14592	14592	14592	14592	14114
Actual quota A production	11722	11716	11785	11738	11761	11424
Actual quota B production	2406	2450	2553	2480	2534	2462
Total A & B production	14128	14166	14338	14218	14295	13886
"Below quota production"	464	426	254	374	297	228
<b>Average "below quota production" in 6 years =</b>		<b>341</b>				

\* A temporary cut of 478 277 tons for A & B sugar quotas was implemented in marketing year 2000/2001 (in order to stay within the WTO commitments for export subsidy). Source: CAP MONITOR, DG AGRI (2002).

**Appendix 3 (1/1). Projection of EU-15 quota sugar exports with 0.5% yearly growth in EU-15 sugar consumption (in 000 tons)**

	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
Production of quota sugar*	14141	14141	14141	14141	14141	14141	14141	14141	14141	14141
EU-15 sugar consumption with 0,50% growth yearly	12940	13005	13070	13135	13201	13267	13333	13400	13467	13534
Quota sugar exports	1201	1136	1071	1006	940	874	808	741	674	607

\* Production of quota sugar (14 141 143) = Total A & B quotas production (14 482 143) minus average "below quota production" (341 000).

**Appendix 4 (1/1). Growth in EU-15 sugar consumption (in 000 tons)**

	<b>1995/1996</b>	<b>1996/1997</b>	<b>1997/1998</b>	<b>1998/1999</b>	<b>1999/2000</b>	<b>2000/2001</b>
EU-15 Sugar Consumption	12559	12729	12687	12767	12892	12876
Growth in %		1,35 %	-0,33 %	0,63 %	0,98 %	-0,12 %
Growth from 1995 to 2001 =	2,52 %					
Average Yearly Growth from 1995 to 2001 =	0,50 %					

Source: DG AGRI 2002.

**Appendix 5 (1/1). Central and Eastern European Countries' sugar production quotas versus consumption and Net Importers' current access\* for third countries**

	Czech Rep	Estonia	Hungary	Latvia	Lithuania	Poland	Slovakia	Slovenia	Bulgaria**	Romania**	Total
A quotas	441409	nil	378791	47711	96241	1590533	189760	48161	7000	225000	
B quotas	3828	nil	1230	4771	nil	74484	18976	4816	700	25500	
Total quotas	445237	nil	380021	52482	96241	1665017	208736	52977	7700	250500	
Quota Production	445237		380021	52482	96241	1665017	208736	52977	7700	250500	
Total Consumption	441409	50000	378791	70000	96241	1590533	195000	87000	206000	532000	
Difference	3828	-50000	1230	-17518	0	74484	13736	-34023	-198300	-281500	<b>-488063</b>
Net Importers' Current Access* for Third Countries				11410				2875	196345	278049	<b>488679</b>

\* Historical quantities of sugar imports are to continue to be imported by the CEE countries under the "current access quotas" from countries outside the EU with 25 member states. \*\* Author's estimation of production quotas and consumption figures according to EU Commission's rules. Source: CEC (2002), EUROSTAT COMEXT, FAOSTAT, Interactive TradeMap, PC-TAS.

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