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Commissioner Mariann Fischer Boel**

Head of Cabinet

Reform of the EU sugar sector

**Check Against Delivery
Seul le texte prononcé fait foi
Es gilt das gesprochene Wort**

'Congress of the International Confederation of European Beet Growers (CIBE)'

Copenhagen, 17 June 2009

[Ladies and gentlemen],

It's a great pleasure to join you today. Let me start by passing on the apologies of Commissioner Fischer Boel for the fact that she can't be here. But I assure you that, in the lead-up to this conference, we've had plenty of detailed discussions about the sugar sector – as we've had ever since her mandate began at the end of 2004!

Since that time – and particularly over the last three years – I think the EU sugar sector feels it has climbed a mountain, with considerable exertion – even pain. This feeling must be acknowledged, and I do so freely.

At this point, I'm tempted to quote the old proverb: "No pain, no gain".

Of course, in this case the proverb raises a question. If the sector has felt "pain", is that a positive sort or a negative sort? Has it been unnecessary pain, or rather the productive pain of an athlete training for better performance?

This is an extremely important question. And to answer it, we need to choose the right method.

One method involves comparing the present with the past.

Some of those who use this method focus sharply on the fact that EU sugar production capacity is now nearly 6 million tonnes lower than it was. This has meant a loss of global market share, closure of factories and a challenging restructuring process.

But this comparison of the present with the past makes a fundamental oversimplification. It assumes that the sector could have "carried on" much as it had done in the past. And this is simply not true.

In 2006, the EU sugar regime had essentially not changed for nearly four decades; but the world was changing rapidly, and the sector had to catch up. Reform in the rest of the Common Agricultural Policy (CAP), commitments to our trade partners, the expectations of European voters and tax-payers, and of course WTO panels – these forces would simply not have allowed our sugar system to continue in its previous form.

If we had not acted, the EU sugar sector would still have had to adjust. Let's make no mistake: without policy measures to soften the impact of change, that adjustment would certainly have been painful – perhaps even brutal. By taking the initiative on reform, we made sure that any adjustment would be managed, and that any pain would be productive for the sector in the long term.

If we draw up a balance sheet of the reform process so far, how does it look?

To me, and to Commissioner Fischer Boel, it looks very positive.

Yes, we have slimmed down the capacity of the sector by about 5.8 million tonnes. These are millions of tonnes of sugar which we would not have been able to sell and which would have weighed more and more heavily on the market every year.

Removing this excess capacity and allowing the EU sugar price to fall has given the sector a firm outlook. The sector is now much more competitive; production is in line with realistic sales opportunities; overall, the market is stable.

Very importantly, we have achieved this stability in an ordered way, with plenty of help to get the various players in the sector through the process of transition.

Beet farmers now benefit from direct payments – this is a surely a gain of huge importance; factories giving up sugar quota have of course received restructuring aid; and we even offered sugar export refunds for 3 years, instead of for 1 year as we had planned.

I should also mention the value of the new price reporting system. It now seems odd that, for nearly 40 years, we managed a sector without having a clear idea of how commercial prices were developing at any given moment. The price reporting system ends this logical anomaly – not before time!

Overall, my Commissioner believes this is a good reform that is putting the sector's feet on the right path for the future.

Of course, there's still plenty of "unfinished business". The sector has raised a number of issues, and these must be addressed. I would like to mention some of them now.

The first issue is the **€12 production charge**.

The sector would like to see the production charge abolished. Some argue that this has essentially been in place to finance export refunds. However, this is not entirely the full justification for the production charge. In fact the production charge was mainly introduced to help make the sugar reform neutral for the EU budget over the period 2007-2013.

Costs for the budget are still arising from export refunds which have been applied during the first three years following the reform. Furthermore, the reform has introduced decoupled direct payments for beet growers in order to partially compensate for the price reduction.

Anyhow, we are not in a position to abolish it early. The production charge is a source of revenue for the EU budget as a whole. This means that we can't end it without re-opening the EU's Financial Perspectives for 2007 to 2013. Nevertheless, when the debate on Financial Perspectives for after 2014 gathers pace, then we can talk again about the production charge.

The second issue that I would like to raise is the issue of **sugar supply to the chemical industry**.

This was a long-standing problem. When my Commissioner addressed a sugar sector conference here in Copenhagen about a year ago, she was very clear on this subject. She said that, if the sugar industry and the chemical industry couldn't put their house in order, she would do it for them.

This is what has now happened. As you know, to settle the old problem, we have provided an annual tariff rate quota of 400 000 tonnes of sugar to ease the conditions of supply to the chemical industry – and we believe this has achieved its goal.

But this is not a one-sided solution. On the other side, we are allowing an extra 650 000 tonnes of out-of-quota sugar exports every year. It is true that this quantity is still well below what the EU would be entitled to export under its WTO obligations. We therefore still have room for manoeuvre and will look at this figure again if the need arises.

Therefore, we have taken a balanced approach, we have put the house in order, and we hope that the house will now stay in order for some time to come!

The third issue I would like to mention **is the inward processing regime (IPR)**.

The EU's industrial sugar users are clearly benefiting from the fall in EU sugar prices. Nevertheless, it's understandable that they want to make sure that access to IPR is as fair as possible.

It's true that individual Member States take varied approaches to IPR. In response, we intend to develop guidelines to level the playing field somewhat.

On the other hand, Commissioner Fischer Boel still firmly believes that offering IPR at a given moment must be justified by economic circumstances – it can't be taken for granted.

Beyond these issues, in the current financial and economic crisis, the Commission has received a number of particular requests from the sugar sector.

One of these concerns **export refunds**.

As I've already mentioned, we originally planned to offer these for only 1 year after the start of the reform, whereas in fact we've done so for 3 years.

There have been requests to keep paying them in the present circumstances. But what are those circumstances? The market is actually well balanced, with about 1 million tonnes less sugar in stock than last year. We don't need to pay refunds.

However, we still have that tool available in the toolbox – along with others – so if the market deteriorates, we'll be in a position to take action.

A second request has been to bring forward payment of the **restructuring aid**.

Not a problem: we've now done that.

Then there has been the request to postpone payment of the second instalment of the **restructuring levy**.

Here, I have to say that our hands are tied. The payment date of 31 October is stated clearly in the Council Regulation. As you know, a change to the Council Regulation would need agreement from the Council – and we can't realistically hope to get this before 31 October.

Nor are we in a position to take "unused" money generated by the restructuring levy and earmark it for measures for the sugar sector – another request.

Once again, the agreed Council Regulation sets out the situation very clearly: this money goes into the "pot" of the whole European Agricultural Guarantee Fund (EAGF). It must be available for any measures funded from the EAGF.

This is a very important point because it seems we may have to use the Financial Discipline mechanism in 2012. (As you know, this is the mechanism by which we cut direct payments to farmers, across the board, to prevent total spending on direct payments and market measures from breaking through its annual ceilings).

Earmarking extra money for the sugar sector would put us in greater danger of having to use Financial Discipline, and we can't put ourselves in this position.

I understand that this may cause frustration for the sugar sector. But I would point out that spending on the restructuring process has been generous – and that the sector has benefited considerably over 40 years from price support on a large scale!

A final request relates to postponing the implementation of certain **diversification schemes**.

Here again, everything hangs on financial aspects. If it's legally possible to allocate the related funding in one year but implement the scheme the following year, we will consider this option carefully.

So far, I've talked mainly about domestic aspects of the EU sugar sector. But of course, we can never see it in isolation from the rest of the world.

I wish I could say more today about the **Doha Round** – because as you know, the EU remains firmly committed to this, and we think a successful conclusion would give a valuable stimulus to the global economy.

However, the fact is that we're seeing no political movement for the time being.

So all I can do is reassure you that, when we do get moving again, with regard to sugar we would aim to take up negotiations more or less where we left off in July last year.

In other words, what is currently on the table but, of course, not yet accepted for sugar can be summarised as follows:

- sugar would not be considered a "tropical product";
- sugar would be on the "preference erosion" list – so we would make any agreed tariff cuts over a longer period than the usual 5 years;
- there would be a specific safeguard clause for sugar for 7 years, after which the general safeguard clause would apply; and
- no decision has been taken on whether sugar would be a "sensitive product" or not.

At the same time as we try to inject fresh momentum into the Doha Round, of course we're also pushing ahead with various **bilateral trade negotiations**.

The talks which involve at least some discussion about the sugar sector are those with Mercosur, the Andean Community, Central America, Ukraine, Norway and India.

You're familiar with the situation with regard to Mercosur: we've been discussing greater access to our ethanol market. However, we still intend to make sure that in this sector we don't "pay twice" – once in bilateral talks, then again in the Doha Round.

The tariff rate quotas under discussion for the other countries that I've mentioned would not be large enough to jeopardise the EU market. If they might have a modest impact, we have to see this in the context of our overall aims in these negotiations: if we want to export more to these countries, we also have to be prepared to import more from them.

I know there are particular concerns over the **safeguard clause** in the new **Economic Partnership Agreements** (EPAs) for sugar imports from African, Caribbean and Pacific (ACP) countries.

Yes, the safeguard clause works with a "double trigger" – an overall trigger of 3.5 million tonnes, and a trigger of 1.6 million tonnes for countries covered by the EPAs. And yes, it's true that the EPAs have raised certain questions about the status of the second trigger by dividing it up between EPA signatories.

It's understandable that the new lack of clarity has caused anxiety. For the time being, I don't think this lack of clarity would have much practical impact. The International Sugar Organisation forecasts that, in the current marketing year, the EU will import about 3.2 million tonnes from LDCs and ACP states – less than the 3.5 million tonnes "permitted" for the first threshold.

But in any case, it's clear that there would be no point in having a safeguard clause which was purely symbolic. So we will take a careful look at this issue and try to make sure that the EPA safeguard clause does indeed meet our needs.

Overall, when I think about the EU sugar sector – which I've done quite a lot over the last 5 years! – I really do feel optimistic.

I know that beet growers are not 100 per cent satisfied with the current situation. This would be a lot to ask! And we have to remember that doing the right thing for the sugar sector means not only doing the right thing for growers, but also for producers, refiners, our trade partners – and customers! Nor can we leave out the EU voters and tax-payers who hold policy-makers to account.

But when we take a broad enough view to see the whole picture, I think we can be encouraged. Yes, there has been considerable exertion – perhaps even "pain". But the pain has definitely brought gain. All the indicators are good: the EU sugar sector is now on a sustainable footing and can walk confidently into the future.

So I would encourage you to do that. Sugar is on the agenda for discussions about the CAP after 2013. Be part of those discussions.

Think about what you want. Think realistically, think clearly, think imaginatively. Perhaps – dare I say this as my final comment? – think about a future without quotas?!

Thank you for your attention, and enjoy the rest of the conference.