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Preparing Europe's sugar sector for a competitive future

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Ladies and gentlemen,

Thank you for inviting me to a conference which will, I'm sure, be engaging and lively!

As a European Commissioner proposing a major shake-up of our sugar regime, you might forgive me for feeling that, by coming here, I'm venturing into the lion's den.

On the other hand, you may feel that I'm the lion, creeping up on the sheep!

Of course, neither of these images tells the truth. But both reflect the fact that, when we talk about the future of the sugar market, there's a huge amount at stake.

Feelings are already running high over the Commission's reform proposals, and that won't change in the coming weeks.

But that just underlines that we need to work together to get things right.

So I welcome the chance to meet representatives of CEFS, CIBE and EFFAT, as well as many other organisations, under one roof today for a thorough and constructive debate.

What is that debate? Well, it has moved on. I don't think many people now claim that we don't need any kind of change at all – that the sugar regime can carry on working as it was 10, 20, 30 years ago.

Now, the question is: Do we need this reform? Or is there another way? Perhaps an easier way?

I believe there are answers, which I'll try to outline. I hope you'll forgive me if I focus on some of the most important points, given that my time is limited.

Internal drivers for change

So, why do we need this reform?

From an internal perspective, we need a reform which gives a better fit between the sugar sector and the rest of the CAP.

For most agricultural sectors, the reforms of 2003 and 2004 have given us a CAP for the future. Farmers still have financial security but are much closer to the disciplines of the market. And there is a heavier emphasis on standards of environmental care and animal welfare – things that consumers and tax-payers are calling for.

If the sugar sector were left out of this transformation, the distortions of competition would be severe and could wreck the coherence of the CAP as a whole.

External drivers for reform

The external imperative for reform is just as powerful.

We have lost a WTO panel requested by Australia, Brazil and Thailand. A panel which effectively requires us to cut back sugar exports by 4.6 million tonnes – and which therefore takes away an important safety valve for letting out pressure from our domestic market.

On the other side of the balance sheet, millions of tonnes of sugar could start coming our way from the Least Developed Countries from 2009 onwards under the Everything But Arms agreement.

Any changes we make to the sugar common market organisation have to be measured against these trade-related challenges.

Non-viable solutions

Before I talk about what the Commission has proposed, let me dwell for a moment on what is not appropriate.

First, we cannot enter into a short-term reform.

Long-term viability is what is needed, and needed soon. If the sugar sector always lags a few paces behind the rest of the CAP, and a few paces behind what global conditions require, of course it will always be playing catch-up.

Second, we must not go back on international trade deals. There have been loud calls to re-open the EBA agreement, temporarily offering higher prices for limited imports.

But this would give the LDCs totally unrealistic expectations for the future and send some unhelpful messages in wider trade negotiations.

The Commission's proposals: price cuts

Having spoken about the sort of reform that we don't want, I'll now talk about what I think we do want.

As you know, one of the main items in the package which we've put on the table is a cut of 39% to the EU institutional sugar price, made in two steps.

This is a deeper cut than the 33% suggested by my predecessor, Franz Fischler. But we believe it has to be so.

The figure of 33% was based partly on a plan to revisit the issue of pricing in 2008, making adjustments then if need be.

However, consultation showed that this idea of a review was deeply unpopular. The industry wanted to have a clear perspective for the next few years as quickly as possible.

We did not turn a deaf ear to this. The arguments were powerful, and we decided to scrap the idea of the review. But an important consequence flows from this.

That consequence is that the price cut needs to go far enough now. Far enough to put our sugar industry on a steady footing for the long term.

If the cut is too shallow, supply under the EBA deal will rise. And now that our exports are having to shrink dramatically, this will mean automatic decreases to our production quotas.

If that scenario carried on over time, most of our domestic industry would soon feel the heat – even the more efficient producers.

If I proposed a price reduction which was less controversial than the 39% but which would have results like these, I would be doing everyone here a profound disservice.

There is another point in favour of making the right price reduction early on: doing so would allow us to put in place sufficiently generous compensation and adjustment packages while we are still able to do so.

As things stand at present, we are well placed to help producers and farmers who would like to leave the sector in an orderly and socially acceptable manner. This may well not be the case a few years from now. Can we really take the risk of waiting?

The Commission's proposals: compensation

What are these compensation packages?

For farmers, we have proposed a direct payment compensating for 60% of the estimated income loss from the cut to the guaranteed beet price – in every member state, without exception.

We believe that, if all factors are taken into account, this should actually put most farmers in a position to cover most of their income loss.

So the direct payments would be a very effective cushion against the price shock. And since they would be absorbed into the Single Payment Scheme, they would also bring to the sugar market the key benefits of the general CAP reforms: greater market-orientation through decoupling, and higher environmental standards thanks to cross-compliance.

Meanwhile, for producers, we have proposed a voluntary and temporary restructuring scheme, which would run for four years.

I would like to draw particular attention to this concept. It has emerged from close consultation with interested parties. And it shows that the Commission has tried to be flexible enough and creative enough to address as many concerns as possible.

We want to achieve three things through the restructuring fund.

First, we want to give incentives to less competitive producers to leave the industry.

A frank statement like this one is not comfortable to listen to. But it expresses a logical compromise in the dilemma which we face.

On the one hand, EU sugar production is going to shrink, whether we keep the current regime or create a new one. On the other hand, there was fierce resistance to our earlier proposals of compulsory quota cuts and quota transfer between member states.

The fund is a sensible response to this problem. It should help to balance the market by drawing companies into the restructuring exercise, rather than by forcing them into it.

Second, we want to deal effectively with the social and environmental challenges which will arise when sugar factories have to close.

We are not just economists and accountants in the Commission. Of course we have to make sure that our sums work out. But we haven't forgotten that industries are not only about profits, but also about livelihoods, about people.

So a large portion of the money available from the restructuring scheme would have to be spent on helping people who had lost their jobs – as well as on ensuring that factories shut down according to the highest environmental standards.

We've already proposed some broad guidelines to what would be expected. Detail would follow in further regulations.

Third, we want to channel money into diversification for those regions which would be affected most deeply by reform. This strand of our policy would come into play in 2008/2009, and would work in co-operation with the EU's structural and rural development funds.

Overall, I believe that the restructuring fund would be a prudent and workable scheme.

Workable now – but not workable indefinitely.

As you know, it would be financed through a temporary charge on sugar production from companies which stay in the business. They can afford this contribution today. They may not be able to do so four or five years from now. So restructuring should begin while it can still be conducted in an orderly fashion.

Some other highlights of the reform

I don't have time in this address to talk in detail about other elements of the reform proposals.

However, I suggest to you briefly that they would offer gains of various kinds:

- to efficient sugar producers, by providing an extra 1 million tonnes of quota;
- to producers of other sweeteners, by enlarging the isoglucose quota;
- to refiners, by guaranteeing an adequate supply of raw sugar; and
- to Sugar Protocol countries, by granting funds to lift the competitiveness of their sugar industry, or to help them diversify.

These are just a few selected points on a long list.

Conclusion

Ladies and gentlemen, my time for this address is nearly up.

Before I conclude, I'd like to do what I can to set the right context for further debate about reform of the EU sugar regime.

In general, debate is not currently in short supply in the European Union – about all manner of subjects.

Some of these subjects are practical. Others are more ideological – or at least, this is how they are portrayed by the media.

In my view, the debate about our sugar market must not be overtaken by ideology.

The task before us is not to make the sugar sector part of a war of words over wider political agendas, real or perceived.

Rather, our task is to forge the best future for it that we possibly can - in keeping with the principles of the rest of the CAP and with our international commitments.

This is the spirit in which the Commission has tabled its proposals – controversial proposals, but also carefully considered.

I know that I can count on everyone with an interest in the sugar regime to observe this same spirit as they make their contribution to the discussion.

I look forward very much to hearing further comments from CEFS, CIBE and EFFAT, today and in the months ahead.

Thank you.

Ends