Committee of Industrial Users of Sugar CIUS

Background Position Paper **22 JUNE 2005**

European sugar users are encouraged by the Commission's plan for sugar reform, but call for more competition in the sugar market

The European sugar users - over 3,000 businesses in the European confectionery and drinks industries employing more than 450,000 workers – are encouraged by the Commission's plan for sugar reform.

- The proposal is a real opportunity to increase the competitiveness of the whole of the European sugar chain, including farmers, sugar processing plants and sugar-using businesses.
- The 39% price cut in the Commission's plan is the minimum necessary to bring about a restructuring of the European sugar industry, making it sustainable and competitive.
- The price cut is vital for the thousands of European small and medium sized companies producing chocolate, biscuits and other confectionery. Sugar is a major input for them. These companies make high-quality products with great export potential, which they will be able to exploit with a positive impact on employment thanks to the reform. Without reform their export business will be threatened. (See attached testimonials from member companies.)
- Failure to agree this reform plan will endanger the chances of success of the Hong Kong Doha Round ministerial in December 2005. Developing countries are demanding clear commitments on the phase-out of export subsidies, which only a deep reform of the sugar regime can provide.

But a re-assessment of the restructuring fund option and stronger measures for competition between sugar processors are needed.

As the national quota system will be maintained, tacit price collusion among producers will continue. For years, this collusion has resulted in 'market' prices well above the Commission set price. It is crucial that the reform translates into more competition. This means increasing supply sources, in particular opportunities for imports.

The EU sugar industry needs support to restructure, but the proposed mechanism is unacceptable.

The Commission proposes a restructuring fund of about €4-6bn to help the sugar industry - to be financed by sugar users and consumers through a levy system. But both the objective and the mechanism of this restructuring aid are highly questionable.

- The principle of compensating private shareholders of sugar refiners for loss of revenues and profits is wrong. Restructuring aid to less competitive sugar processing plants to retrain workers and diversify into other product markets could be justified if managed in a fair and transparent way, but the financial aid offered is much more than that required to meet this objective.

- This levy will seriously harm competitiveness, exports and jobs in the European confectionery and drinks industries, which includes a high number of SMEs for which sugar represents a significant raw material cost. In the first three years of the reform, these sugar users are likely to end up worse off than under the current regime, since they'll have to pay the restructuring tax, with no restitution under the export restitutions mechanism.

Competition in the market is needed, but it may not materialize.

The reform must create the right regulatory environment for competition to flourish and end price collusion in the EU sugar market. Like in other areas of the economy, competition in the sugar sector will benefit both producers and consumers and increase overall economic welfare.

- It is beyond doubt that there is no competition at work in the EU sugar industry under the current regime. EU buyers paying 8% to 22% higher than the institutional price for their sugar in spite of a situation of surplus supply clearly demonstrates that.

- But the reform proposal will leave the national quota system in place until 2014/15. The quota system kills competition by isolating each national sugar market, and allowing the few large processing companies that dominate to collude and raise prices. This will continue after the reform.

- It is crucial that effective measures are put in place to prevent sugar processors from continuing to collude on prices. This is why it is so important to increase alternative supply sources, in particular sugar imports and isoglucose.

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