

EU SUGAR REFORM

On July 1st, 2006 a radical reform of the EU sugar sector will take place. The reform (Council Regulation (EC) No 318/2006 of 20 February 2006 on the common organisation of the markets in the sugar sector) will bring a system which has remained largely unchanged for almost 40 years into line with the rest of the reformed CAP. It is intended to ensure a long-term sustainable future for sugar production in the EU, enhance the competitiveness and market-orientation of the sector and strengthen the EU's position in the current round of world trade talks.



The sugar reform will include a 36 percent cut in the guaranteed minimum price of sugar and provide compensation for farmers. A Restructuring Fund has been created to act as a financial incentive to encourage less competitive sugar producers to develop alternative economic activities via various support measures (e.g. training). Farmers will be given the opportunity to diversify their range of agricultural products and wider socio-economic and environmental services. Sugar will continue to be produced where it is most competitive, with farmers being compensated for the loss of income resulting from the reform. Their direct payments

will be incorporated in the Single Farm Payment and linked to the fulfilment of strict environmental and land management criteria (cross compliance measures).

The restructuring scheme (Council Regulation (EC) No 320/2006 of 20 February 2006) will run for 4 years and has 3 main objectives:

- to provide incentives to encourage less competitive producers to leave the industry
- to provide money to cope with the social and environmental impacts of factory closure (e.g. financing redeployment programs and environmental measures)
- to provide funds for the most affected regions to develop new businesses in conjunction with the current EU structural and rural development funds.

The reform of the CAP and the ensuing reform of the sugar sector is a clear indication of the EU aligning its agricultural activities to free market conditions resulting from WTO negotiations. However, the success of such reforms relies on the collaboration of landowners and their continued presence in rural areas where sugar was a main income and employment generator.

ELO accepts that sugar policy reform is inevitable, but highlights that over-rapid adjustment of sugar production in any region may have considerable negative consequences for jobs, investments, supply chain commitments and the environment. These factors should be carefully considered when deciding the nature and pace of any reform. There should be adequate compensation and adjustment assistance given to all those affected and parallel actions should be taken to develop the European biofuels industry. In particular, there is a need for a stronger commitment to integrate the sugar reform with the development of bioenergies as a renewable source of energy.

The environmental impact of an increase in sugar production in developing countries should also be taken into account, as it may lead to a change in land use and a resulting increase in deforestation. ELO is in favour of a more coherent approach towards mitigating climate change and meeting the requirements of the Kyoto Protocol.

In the face of an increasingly liberalised global economy, it is ever more important to ensure that agricultural reform is accompanied by the right incentives and political framework to allow the development of alternative economic activities that are equally profitable, such as the production of biofuels.