Evaluation of CAP Measures Applied to the Sugar Sector

This evaluation was carried out by Agrosynergie, in collaboration with its partners.

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Agriculture and
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INTRODUCTION

The sugar CMO

For many years, the sugar sector has been regulated through the traditional instruments of the CAP: guaranteed prices to support the market, production quotas to limit over-production, tariffs and quotas on imports from third countries, and subsidies to export surplus production out of the EU.

The sugar common market organisation (CMO) was established in 1968 aiming to ensure fair incomes for EU producers and self-sufficiency. Over the years, it has been modified but not fundamentally changed despite reforms in other areas of the Common agricultural policy (CAP).

For a number of reasons, this policy approach came under growing pressure, and its prolongation after 2006 was not an option. In November 2005, the Council reached agreement on a wide-ranging reform.

Drivers of the reform

In 2006, the CMO was reformed for three main reasons:

- Greater coherence between the sugar policy and the new CAP framework set up in 2003, which implemented the Single Payment Scheme, was to be ensured.
- Because of the EU import concessions awarded in 2001 to the Least Developed Countries through the Everything But Arms (EBA) Initiative, substantial import flows were expected given the high sugar price at the EU level.
- The EU's export subsidy commitments at the WTO level, as interpreted following the outcome of legal actions against the EU sugar regime, and the on-going negotiations under the Doha Development Agenda, required reduction in subsidized exports (down to 1.37 million tonnes).

Objectives of the reform

The main objectives of the reform were:

- to bring the Community system of sugar production and trading in line with international requirements, by reducing EU subsidised exports;
- to stabilise the market in the new international context, via a decrease in the EU domestic price in order to prevent massive import flows, as well as to reduce sugar production and more specifically CMO sugar quotas;
- to ensure future competitiveness of the sugar sector (at both the agricultural and industrial levels);
- to guarantee supply for consumers and sugar end-using industries at a reasonable price;
- to ensure a fair standard of living for the agricultural communities working in the sugar sector;
- to limit potential negative social and environmental impacts when carrying out the reform.

Rationale of the reform

The 2006 CMO provided for a transitional and long-term policy framework for reaching these objectives.

During the transition period, the objective was to reduce EU quota production by 6 million tonnes.

To improve future competitiveness of the sector, an in-depth restructuring of the sector was planned, removing from production those growers and processors unable to operate in a business environment in which prices would be severely cut.

KEY ELEMENTS OF THE REFORM

The reform has been operational since 1 July 2006 and started with a four-year transition period.

Significant price reduction

The reference price for white and raw sugar was cut by 36% between 2006/07 and 2009/10. The minimum beet price that sugar manufacturers must respect was reduced to 26.29 euros per tonne.

Quota reduction and restructuring scheme

To ensure that less competitive producers would abandon sugar production, a voluntary restructuring scheme was implemented. The target was a quota reduction of 6 million tonnes by the end of 2009/10.

A temporary restructuring fund offered an incentive to end sugar production. The fund financed measures in favour of:

- Industry: significant restructuring aid compensating for quota renunciation and contributing to the costs of dismantling factories and of limiting negative impacts;
- Farmers: compensation for giving up production;
- Most affected regions: financing diversification measures.

The fund was financed via a levy on quotas held by operators during the first three marketing years of the reform. This was possible due to the fact that the sugar reference price did not decrease during the first two marketing years after the reform (2006/07 and 2007/08), while the beet minimum price decreased from the year first year. The fund amounted to 6.2 billion euros.

In addition, the reform provided isoglucose producers 0.3 million tonnes of supplementary quotas without fees. Full-time refiners benefited from transitional aid to help them adapt to the restructuring of the sugar industry.

"Reform of the reform"

During the first two years of the scheme, the amount of quota renounced was much lower than expected. Therefore, to make it completely effective, the scheme was modified in 2007: farmers' compensation was increased, and it was made clear to operators that a compulsory uncompensated and linear quota cut would be applied in case the final target was not reached.

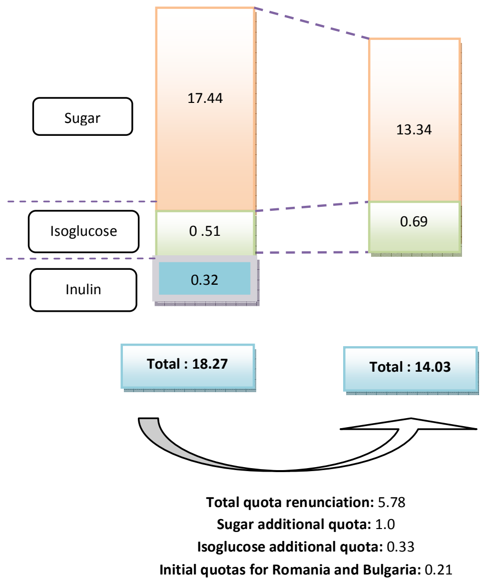
Partial compensation for farmers

Cuts in minimum beet price lead to decrease in sugar beet growers' income. As a result, decoupled payments[1] were introduced, compensating on average 64.2% of the revenue loss. The individual compensation level depended on the single payment scheme model adopted in each country or region.

Table 1: Institutional prices in the EU (in €/tonne)

	2006/07	2007/08	2008/09	2009/10 - 2014/15
Reference price for white sugar (price at producers level)	631.9	631.9	542.0	404.4
Reference price for white sugar net of levy	505.5	458.1	428.7	404.4
Cumulative reduction in reference price net of levy at producer level	20%	27%	32%	36%
Reference price for raw sugar	496.8	496.8	448.8	335.2
Minimum price to growers (per tonne of beet)	32.86	29.78	27.83	26.29

Figure 2: Changes in quota in the EU, in million tonnes



[1] Decoupled payments are lump-sum income support to farm operators that does not depen on current production, factor use, or commodity. In the CAP they were introduced with the 2003 reform (single payment scheme).

OBJECTIVE OF THE EVALUATION AND METHODOLOGY

The objective of this evaluation was to analyse the effects of the 2006 reform at different stages of the supply chain (farming sector, manufacturers and refiners). The impact on consumers was not included in the evaluation.

It assessed the impact of the CMO measures in terms of effectiveness, efficiency, relevance and coherence.

The period studied was 2006 up to mid-2011 and is compared to a pre-reform period (usually 2001-2005). The evaluation covered the EU-27 but focused on the countries where field case studies were conducted: Finland, France, Germany, Italy, Poland and the United Kingdom.

The study followed standard evaluation methodology, combining different approaches:

- theoretical analysis for formulating the hypothesis of impact of the measures;
- quantitative assessment based on standard descriptive statistical approaches applied to different databases (Eurostat, FADN[2], DG Agri, CEFS[3], CIBE[4]);
- qualitative analysis of information collected in the bibliography and from operators and/or managing authorities interviewed during field case studies, allowing sound interpretation of the quantitative results

The evaluation was carried out between December 2010 and November 2011.

The main limitations of the analysis

- Some data considered very sensitive by operators were not made available (or only partially so). This includes production costs, sugar companies' restructuring plans and refiners' business plans.
- The monitoring of the restructuring scheme was not thorough enough to provide data for the evaluation. In particular, the national reports on the restructuring fund were difficult to obtain and contained limited information.
- The results of the FADN data analysis were limited and were not statistically representative.

Reading Guide

The following sections present, for each topic, some background and indicator information, the evaluation question, and main findings.

[2] Farm Accounting Data Network
[3] Comité Européen des Fabricants de Sucre
[4] Confederation of European Beet Growers

THE SUGAR-BEET GROWING SECTOR

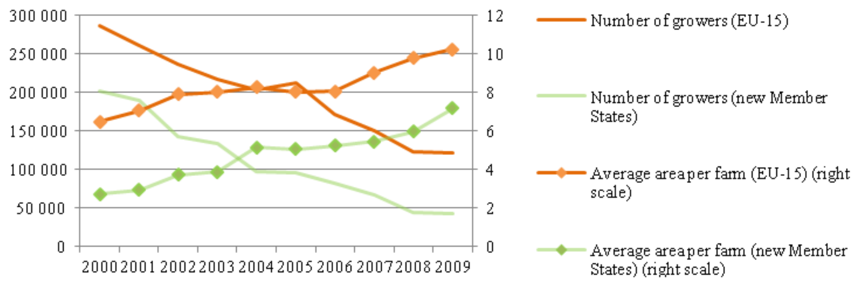
The EU-27 is the world's leader in beet sugar production, with 17.5 million tonnes produced in 2009/10. Historically, sugar production existed in the majority of EU Member State except Luxembourg, Cyprus, Malta and Estonia. The best suited areas for beet form a "beet-belt", which stretches from the United Kingdom to the east of Poland.

The beet varieties used in the sector are specific to sugar production. Sugar beet is always grown in rotation with other crops, and the share of beet is usually below 30% of the farm's area even in the most specialized farms.

Farms growing beet follow the long-term general trend in European agriculture for decrease in the number of holdings and for increase in average area per farm (Figure 3).

Thanks to the CAP measures, beet has been a highly profitable crop for decades. The production is delivered to the local manufacturing plants, under the conditions established in interprofessional agreements, made compulsory by EU regulation.

Figure 3 : Change in the number of sugar beet holdings and in average area per farm (ha), 1990-2009



Source: CIBE

Evaluation question

To what extent have the measures applied to the sugar sector affected the production of sugar beet in terms of quantity and yields, sugar beet prices, geographical distribution and production structures?

Main findings

- As a direct impact of the quota reduction as well as of the new limitation on exports, the average volume of beets produced in the EU-27 in 2008-2010 was 19% lower than that of 2003-2005.
- With the reform, the trend of yields improvement accelerated, as did the trend of concentration of production in larger farms. This tends to confirm that it was mostly low-yield growers who gave up sugar beet production.
- After the reform, on average at the EU level, the rate of decrease in number of farms producing beets was twice as high as before the reform.
- These changes were different among Member States. This led to further concentration of production in the beet belt, while significant drop in beet quantities occurred mainly in Italy and Spain.
- Regarding prices, the progressive cut in the minimum price of quota beets was in general fully applied by producers to their supply of beet. On the other hand, in order to ensure supply and thanks to good conditions in the world market, some sugar producers offered higher prices to growers for "quota beet" (notably in Italy and the United Kingdom) as well as for "non quota beets".

Evaluation question

To what extent have the measures applied to the sugar sector contributed to increasing market orientation and competitiveness of sugar-beet-producing farmers?

Main findings

- Because the minimum price has decreased (and growers' income support was partially replaced by decoupled payment), the distortive effect of CAP measures in the agricultural choices of farmers is less significant since the reform. Market signals play a greater role in growers' decision-making. As a consequence, we could observe that sugar producers' pricing strategy is linked more to alternative crop prices and costs for producing beets.
- As low-yield growers were the ones who gave up beet production the most, the competitiveness of beet production has improved thanks to the reform.

Evaluation question

To what extent have the measures applied to the sugar sector contributed to maintaining / increasing the income of farmers?

Main findings

- The income of beet growers is the result of changes in beet profitability, as well as of other productions and decoupled support. Between the periods of 2003-2005 and 2006-2008, FADN data show, for the most specialized farmers growing beets significant increase in the farm income, with the exception of Italy, and to a lesser extent Germany. This was strongly linked to the increase in cereal prices since 2005, which compensated for decrease in beet output.
- The decrease in the minimum beet price has also been partly compensated by the introduction of a decoupled payment. The final impact of the reform on the revenue depends on the decoupling model chosen by the Member State: under the historical model (in Italy, France, etc.), the impact is limited, as decoupled support represents on average 60% of the calculated loss in revenue induced by the decrease in the minimum price; in a dynamic hybrid model (Germany, Finland), the change in individual revenue will be more significant, as the payment diminishes progressively to an entitlement level identical for all farmers.

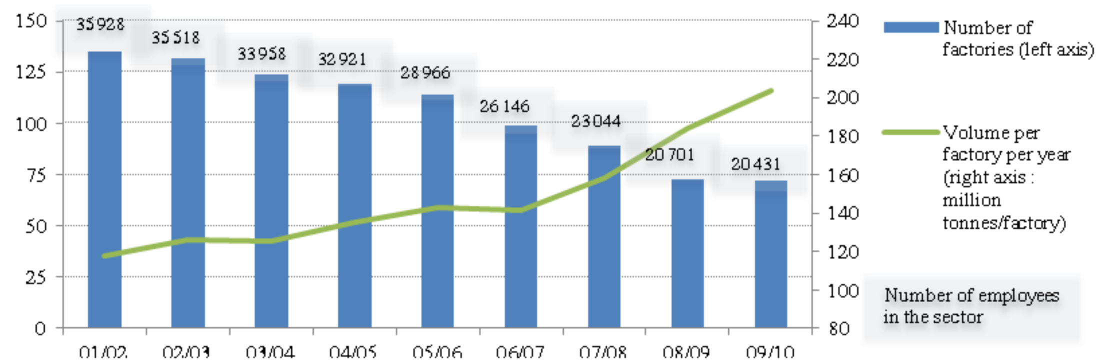
THE INDUSTRIAL SECTOR

The industrial sector is composed of:

- sugar manufacturers, which process beet into white sugar;
- refiners, which refine raw cane sugar imported mostly from third countries into white sugar;
- isoglucose producers, which produce this liquid sweetener from cereal starch.

Although the sector has been managed with quotas and institutional prices, restructuring has long been occurring in the sector via the closure of sugar processing units, increase in production capacity and factory mergers (Figure 4).

Figure 4: Number of factories, number of employees and average sugar production per factory, in the EU-15



Source: Agrosynergie, based on CEFS, DG Agri

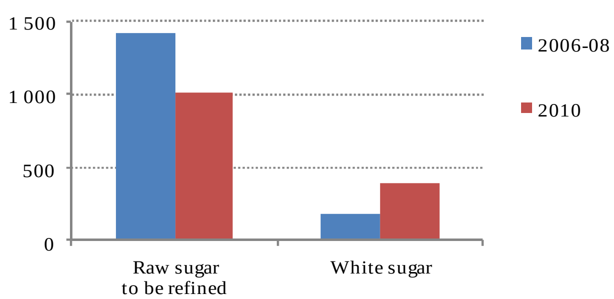
Under the previous CMO and the Sugar Protocol with ACP states and India, full-time refiners benefited from a strongly protected system that guaranteed supplies in terms of quantity and price. The new framework, resulting from the CMO reform and the progressive replacement of the Sugar Protocol by the Economic Partnership Agreements and the Everything But Arms Initiative, gradually replaced this protected system. Hence, competition in the European market has been enhanced between:

- existing full-time refiners and possible newcomers in the sector,
- and between EU beet sugar and imports of raw or refined cane sugar.

Along with decreased EU quota production, imported sugar was expected to gain market shares. A three-year transition period (2006/07 to 2008/09) and transitional aid to full-time refiners were implemented for refiners to prepare for the new context.

Contrary to expectations, data on sugar imports show a (temporary[5]) decline in supply flows of sugar to be refined (exports in 2010 were 28% lower than the average for 2006-2008). This decrease was partly compensated by imports of white sugar and other types of sugar (from Mauritius and Swaziland).

Figure 5: Total exports in the EU 15 of countries adhering to the former Sugar Protocol (1,000 tonnes)

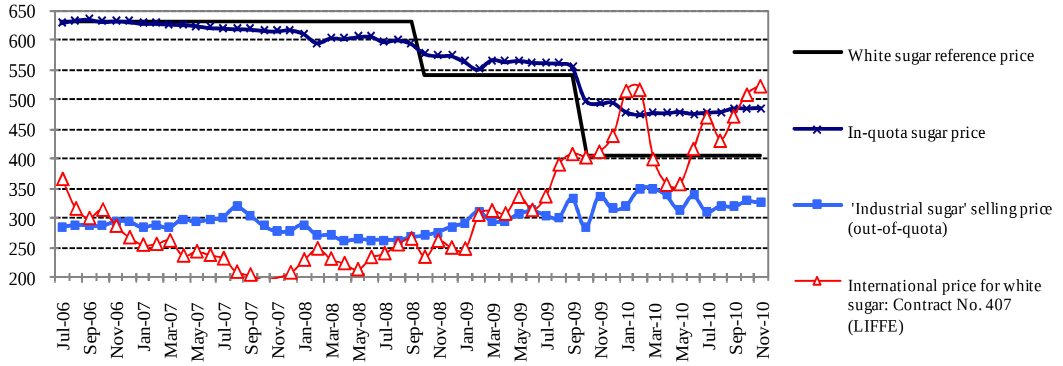


Source: Comext (October 2011)

[5] 2011 data show partial recovery

When the CMO reform was prepared, the context of the sugar market was characterized by quite limited international price variations. The EU white sugar price had always been significantly higher than the world white sugar price. For example, in 2006, it was more than double the world level. Since 2005, world sugar prices have increased – sometimes with very high price peaks – mainly because of the decline in stocks and a new demand for bioethanol. Consequently, the sugar CMO reform was implemented at a time of significant price fluctuations and an unprecedented high level of world sugar prices (Figure 6).

Figure 6: Sugar prices in the EU market, 2006-2010 (€/t)



Source: DG Agri6 and USDA (international price for white sugar)

The figure shows the differential between both EU and world prices. It also clearly illustrates the segmentation of the EU sugar market, with a significantly lower price for industrial sugar (which has been a main outlet for out-of-quota production since the 2006 reform).

Evaluation question

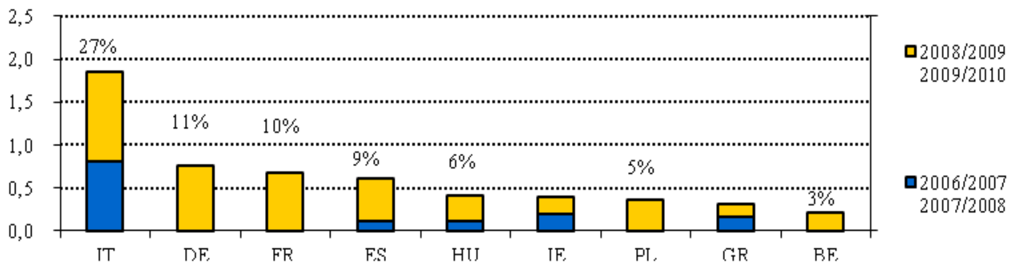
To what extent have the measures applied to the sugar sector affected sugar producers in terms of quantity, sugar prices, geographical distribution, and production structures?

Main findings: sugar

Production decreased, and production further concentrated in the beet-belt

The quota renunciations reached 5.8 million tonnes (quotas were 17 million tonnes before the reform). To reach this level, all sugar companies (but one) took part in the restructuring scheme. Quotas were largely reduced in Member States located outside the beet-belt as well as in the beet-belt, and production disappeared only in Ireland, Latvia, Slovenia, Bulgaria and continental Portugal.

Figure 7: Contribution per Member State to sugar quota renunciation and per phase (million tonnes)

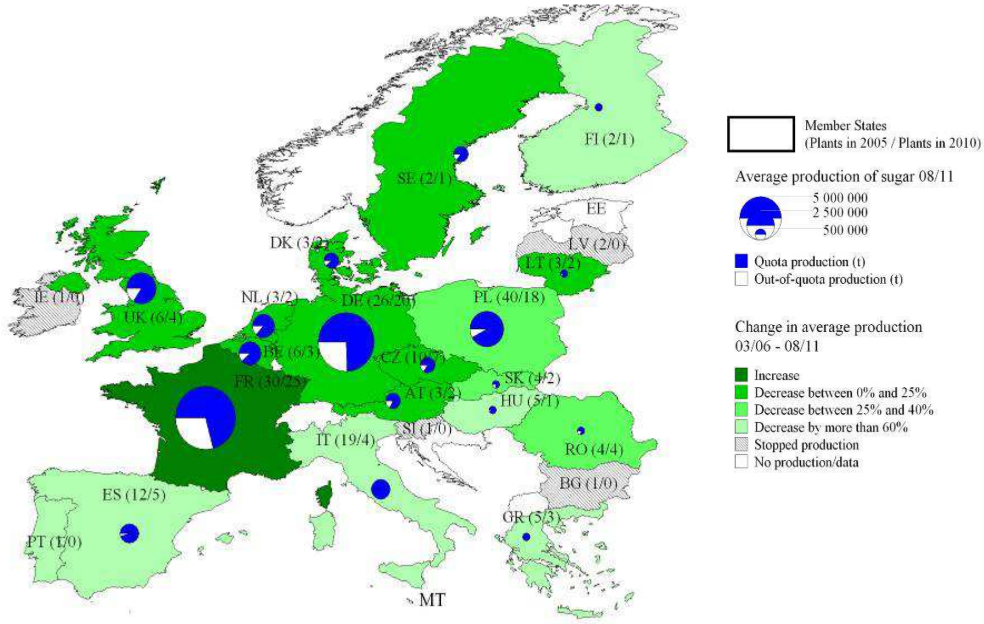


Source: DG Agri

6 'Industrial sugar' purchase price is out-of-quota price, declared by yeast and chemical industries

France, Germany, the United Kingdom, the Netherlands, Poland, Belgium, all located in the beet belt, accounted for more than 40% of the decrease in the EU. In these regions, companies decided to renounce quotas only after the reform of the reform (2008/09 and 2009/10), when the risk of an uncompensated linear quota cut became high. Meanwhile, they had acquired additional quotas to compensate for export losses and to increase their market shares in an effort to ensure competitiveness. All available additional quotas were purchased in 2006/07 and 2007/08.

Figure 6: Location and characteristics of EU sugar production after the reform



Source: Agrosynergie

Quantities produced outside quotas decreased on average by 1.8 million tonnes. **Out-of-quota exports were significantly reduced** and **were** only partially compensated by an **increase** of demand from other outlets, mostly bio-ethanol production[7].

Major impact on the structure of the sector

41% of the 179 factories operating in 2005/06 closed down during the four years of the reform. Nevertheless, closing down factories to concentrate production in larger and more efficient plants has been an ongoing process in the sugar sector. Still, the reform did contribute to speeding up the closure of factories. In the EU-15, 5.8 factories closed every year between 2000/01 and 2005/06, whereas 10.5 factories did so every year during the reform period. This affected mostly low-capacity factories (especially in Poland) and medium capacities factories (up to 12,000 t/day).

Prices decreased, but not as much as expected

Because of the fall in the reference price, the domestic market price has decreased. However, since November 2009, it has remained significantly above the reference price because of very high world prices. As a consequence, the gap between in-quota sugar price and the world price has greatly decreased.

The variability of in-quota sugar has increased as a result of the decrease in the reference price. Indeed, operators now have more freedom to adjust prices to the market situation, and they do so to improve competitiveness.

Main findings: Isoglucose

Since isoglucose is made out of cereal, the reform had a direct negative effect on its profitability compared to beet sugar. The reform gave isoglucose producers the opportunity to increase their quotas without fees, as well as to renounce quotas. In the EU-25, 0.30 million tonnes of quotas were distributed for free while 0.22 million tonnes of quotas were renounced. As a result, the isoglucose quota increased from 0.51 to 0.60 million tonnes.

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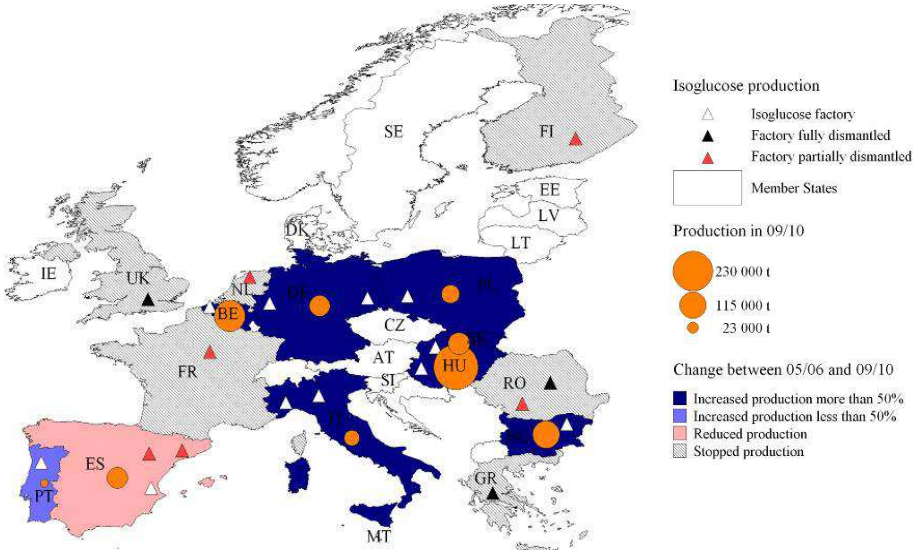
[7] + 0.8 million tonnes between 2006/07 and 2009/10

This is mostly because operators considered that, under the upcoming context of low sugar prices, isoglucose production would not be cost effective. As a result of the reform:

- In the EU-25, 0.2 million tonnes of quotas were renounced, and the quota increased from 5.1 to 6.0 million tonnes.
- The share of isoglucose in EU quotas increased from 2.9% to 4.5%.
- Half of the existing isoglucose production units shut down.
- The average quantities processed per site have increased by 44%.
- Production is now located in 9 Member States, compared to 15 before.

Figure 7: Map of isoglucose production locations and characteristics within the EU



Source: Agrosynergie

Evaluation question

To what extent have the measures applied to the sugar sector affected the full-time refiners in terms of quantity, prices, geographical distribution and production structures?

Main findings

Increased refining capacities

To prepare for a context in which the EU would have to increase sugar imports, operators increased their capacities:

- The number of full-time refiners increased from seven before the reform to eleven in 2011, and full-time refineries increased their capacities by 58%;
- Some beet sugar producers have started refining raw cane sugar in their beet processing plants, meaning further increase in refining capacities in the EU.

Supplies market-related

Under the new conditions, the attractiveness of the Community market depends on the gap in price between the EU and other markets: when the price conditions are not favourable in the European market, exporting countries may find it more advantageous to export to other markets than the EU. This is indeed what happened; after a basically stable transition period, supplies of raw cane sugar in the EU-15 from third countries reached an all-time low of 1.4 million tonnes in 2010, because of the hike in world prices. Moreover, as a strategic response to the reform, some European companies have increased exports of white sugar from ACP countries (e.g. Mauritius and Swaziland), which competes with the domestic refining activity.

Contribution of the transitional aid

According to the interviews[8], the transitional aid contributed both to restructuring the plants (increasing capacities) and to lessening negative impacts on margins related to low level of imports, by covering operating costs.

[8] Neither the operators nor the authorities accepted to supply the evaluation team with the business plans related to the aid provided to full-time refiners.

SUSTAINABLE MARKET BALANCE IN THE EU

Evaluation question

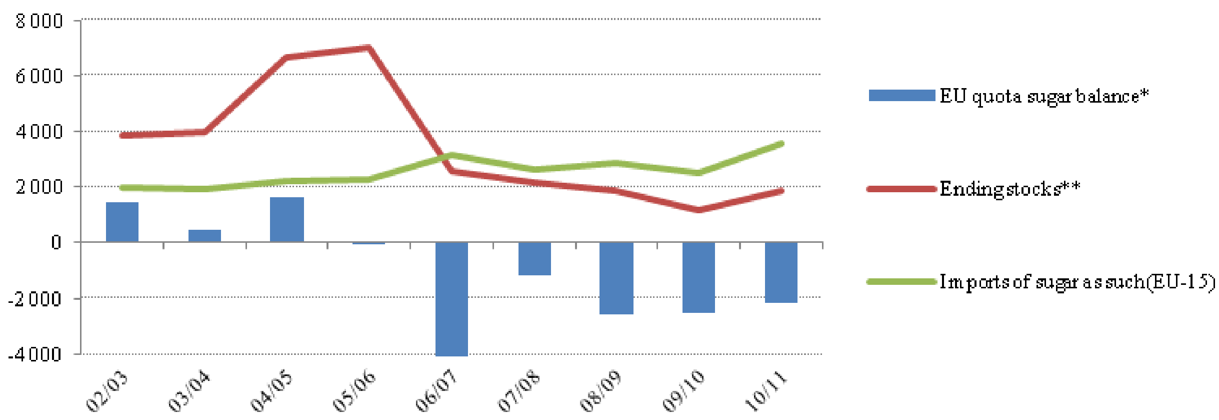
To what extent have the measures applied to the sugar sector contributed to attaining a sustainable sugar market balance in the EU?

Main findings

Before 2006, the EU sugar market was highly regulated. Ensuring a sustainable market balance was one of the core issues of the reform. And in 2005, the upcoming changes were obvious drivers of risk of oversupply because of increasing import flows and limited exports possibilities. The new CMO was designed to limit this risk of oversupply.

Unexpectedly, in 2009/10 and 2010/11 import flows needed to meet EU demand did not occur, due to the high level of world sugar prices, and a 1-million-tonne deficit accumulated. As a consequence, market price in the EU stabilized at a much higher level than that of the reference price, and stocks were at their lowest level at the end of 2009/10.

Figure 8: EU quota sugar balance, imports of sugar as such and stocks (000 tonnes)



quota consumption minus quota production
** Stocks at the end of July until 2005/06, at the end of October since 2006/07
Source: Agrosynergie

In 2011, the Commission took temporary measures that contributed to ease the tension and ensure additional supplies: 500,000 tonnes of out-of-quota sugar were released on the quota market and import duties were reduced.

So even though the new CMO had been designed to limit the risk of oversupply, it was possible to deal with the deficit situation related to high world prices successfully.

COMPETITIVENESS ON THE EU INTERNAL MARKET

From a technological, structural and economic point of view, the sugar production industry – like the refining industry – is similar to basic chemical industries for which company strategy is based mostly on economies of scale. With price cuts and enhanced competition, the reform was an incentive for further improvement of competitiveness factors. The restructuring scheme was designed so competitiveness of the sector would be improved. Mainly, the voluntary basis for quota renunciation aimed at having least efficient producers (and farmers) leave production first, which would "mechanically" improve the sector's performance.

Of course competitiveness has been continuously improved in the sector, thanks to the companies' efforts to reduce production costs, to improve commercial activities and ensure the best competitive positioning.

Evaluation question

To what extent have the measures applied to the sugar sector contributed to maintaining / increasing the competitiveness of sugar producers and refiners?

Main findings

Sugar producers

The reform has stimulated improvements in the main factor of achieving agricultural and industrial competitiveness, mainly thanks to changes in the structure of the sector. On average, the length of the campaign increased and the agricultural yields improved, as did the average production per factory and labour productivity.

This average improvement has not been equal among Member-States, and thus the reform has contributed to increasing the competitiveness gap that existed among Member States before the reform. The following table summarizes the main results regarding the (direct and indirect) impacts of the reform on the variables affecting cost competitiveness (average and variation coefficient).

Table 2: Cost factors: averages and coefficients of variation before and after the reform (EU-25)

	Average			Coefficient of variation		
	Before reform 2004/05-2005/06	After reform 2008/09-2009/10	Δ%	Before reform 2004/05-2005/06	After reform 2008/09-2009/10	Δ%
White sugar yield (t/ha)	8.7	11.0	26.6	23.1%	23.9%	0.8
Campaign length (days)	91.1	110.8	21.6	17.5%	23.0%	5.5
Volume per factory (t)	122	170	39.2	56.0%	73.0%	17.0
Productivity per labour unit (t/employee)	387	553	42.9	59.2%	62.5%	3.3

Source: data from various sources

At the commercial activities level, the led to a wider differentiation of prices, and companies increasingly use this to improve competitiveness.

Lastly, the reform contributed to the further concentration of the production in the main producing regions, in particular France and Germany. This could be taken as an indicator of the general effectiveness of the competitive measures implemented by the companies.

Refiners

During the transition period, as explained above, some full-time refineries have invested in further capacity. But the market conditions in 2009 and 2010 did not provide, for some of them, sufficient import flows to use their capacity at the minimum level needed for the activity to be competitive.

AVOIDING NEGATIVE SOCIAL AND ENVIRONMENTAL CONSEQUENCES

The restructuring aid was granted to manufacturers renouncing quotas, provided that they achieve the *restoring of the good environmental conditions of the factory site and the facilitation of redeployment of the workforce*. The Council regulation of the reform also stated that *Member States may require the [companies] to make commitments which go beyond the statutory minimum requirements imposed by Community law*[9].

Evaluation question

To what extent have the measures applicable to the sugar sector prevented negative social and environmental consequences linked to the restructuring of sugar production?

Main findings

The analysis has been limited by lack of data: only six detailed restructuring plans were made available, and the national monitoring report did not include any data valuable for evaluation.

Social aspects

The closure of 41% of sugar factories inevitably led to considerable negative social impacts. According to CEFS data, the number of jobs in the sector dropped from 50,000 employees in 2005/06 to 28,000 in 2009/10. Considering the long-term trends, it is probable that half of these jobs would have been lost even without the reform, as restructuring is an ongoing process in the sector.

Although the Council regulation laying down the sugar restructuring scheme addressed the issue of limiting negative social impacts, among the six case study Member States, only the Italian authorities set additional requirements. In the majority of the Member States, companies received the restructuring aid subject only to the obligations of presenting a social plan[10] and of complying with their respective national labour market legislation and corporate social responsibility commitments. Yet, according to the interviews, the existence of restructuring aid received by the companies weighed in negotiations between company and employees, in favour of the employees. But it is difficult to assess to what extent the restructuring aid contributed to compensating the employees affected beyond national labour legislation.

Environmental aspects

The closure of sugar factories was not a source of significant negative environmental impacts. The Council regulation went beyond existing minimum obligations by requiring full dismantling of all production facilities in order to benefit from the highest amount of restructuring aid, and by requiring all factories to restore good environmental conditions to the factory site (not just to IPPC[11] factories). No additional measures were taken at Member-State level. The impact of the reform is therefore positive, mostly in terms of landscape quality.

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[9] Article 3, Point 3 and 4, §c of Council Regulation (EC) No 320/2006
[10] Granting the restructuring aid to the sugar companies was conditioned by presentation to the authorities of a restructuring plan, including social plan detailing the actions planned in particular with respect to retraining, redeployment and early retirement of the workforce concerned.
[11] The Integrated Pollution Prevention and Control (IPPC) Directive[11] defines obligations with which industrial and agricultural activities with a high pollution potential must comply to prevent or reducing air, water and soil pollution, as well as the quantities of waste arising from industrial and agricultural installations, to ensure a high level of environmental protection. Only certain factories are submitted to this regulation.

EFFICIENCY AND COHERENCE

Evaluation question

To what extent have the measures applied to the sugar sector been efficient with respect to achieving their objectives?

Main findings

Efficiency

Efficiency is defined as the "*best relationship between resources employed and results achieved in pursuing a given objective through an intervention"*.

In the case of the sugar reform, it is not possible to connect one result to one cost in particular. However, generally speaking the efficiency of the EU sugar policy has increased: overall, the reform did reach its main objectives, and costs were limited.

Under the previous CMO, costs were significant and borne mostly by the consumer through high market prices (twice the world market price in 2005/06).

Under the new CMO:

- The costs of market measures were practically eliminated as export refunds were suspended and intervention abolished.
- The loss of farmers' income caused by the decrease in beet minimum price was partially compensated by introduction of decoupled support.
- The cost of the transition, i.e. the restructuring fund, was 6.2 billion euros. The fund was provisioned by sugar and isoglucose manufacturers but its costs were in fact borne by consumers since the sugar reference price was maintained at a high level during the first two years while at the same time the minimum beet price decreased.

Simplification of the CAP

The reform did partially contribute to simplifying the CAP, as it eliminated some market measures (intervention, production refunds, export refunds and production levies). Nevertheless, the price management instruments and the quota system were maintained, and managing the market, which is now more open to imports, is still complex and requires additional monitoring and decision-making from the authorities.

Evaluation questions

To what extent have the diversification measures applied under the sugar restructuring scheme been coherent with the measures applied under the rural development policy?

To what extent have the measures applied to the sugar sector been coherent with the principles of the 2003 reform of the CAP, and with overall EU objectives?

Main findings

- The coherence of the diversification aid with the rural development policy was good.
- The 2003 CAP reform introduced the full decoupling of support to farmers. The sugar CMO with production quotas and relatively high minimum price was not in line with this principle, and market signals were highly distorted by the market measures. The reform operated a transition towards a more market-oriented sector. For that reason, the coherence with the 2003 CAP principle improved. Nevertheless, decoupling in the sugar sector was only partial, as quotas and reference price are still implemented.
- The Lisbon Strategy as re-launched in 2005 is focused on growth and jobs. Because of the ruling by the WTO Panel and the Everything But Arms Initiative, the EU had to reform its sugar regime, which entailed reduction of its production capacities and accelerated job losses. At the same time, the restructuring scheme contributed to improving the competitiveness of the sector, which in the long run is coherent with the Lisbon Strategy. Yet, in an EU market open to external competition, the crucial issue for remaining competitive and thereby ensuring growth and jobs is whether EU operators are able to compete with cane sugar imports. To answer this question, the competitiveness of the European production with regard to cane sugar is the central issue.

This evaluation was conducted by the European Economic Interest Grouping with its partners.

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