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REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL

Evolution of the sugar imports in the European Union from LDC and ACP countries

Commission report referred to in Article 5 (3) of Commission Regulation (EC) No 828/2009

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1. LEGAL FRAMEWORK

Article 9 of Council Regulation (EC) N° 1528/2007 of 20 December 2007 (the Market Access Regulation) applying the arrangements for products originating in certain states which are part of the African, Caribbean and Pacific (ACP) Group of States provided for in agreements establishing, or leading to the establishment of, Economic Partnership Agreements (EPA) provides that for the period 1 October 2009 to 30 September 2015 imports of sugar from ACP states which are not Least Developed Countries (LDC) may be suspended where simultaneously sugar imports from all ACP's exceed 3.5 million tonnes and imports from ACP non-LDC's exceed 1.6 million tonnes per marketing year. This quantity has been subdivided by region of production which guarantees minimum access for each EPA region. This is called the Transitional Safeguard Mechanism (TSM).

Article 5 and Annex IV of Commission Regulation (EC) N° 828/2009 of 10 September 2009 laying down detailed rules of application for the marketing years 2009/2010 to 2014/2015 for the import and refining of sugar products of tariff heading 1701 under preferential agreements, provides further details of the TSM. Article 5 paragraph 3 states that "the Commission shall present a report on the functioning of the transitional safeguard mechanism for sugar". The report shall take account of sugar trade flows from ACP and LDC countries listed in annex I of this Regulation.

2. INTRODUCTION

In 2006 the European Union reformed its sugar regime in order to increase the competitiveness and market orientation of the EU sugar industry. Key elements of this reform were a gradual 36% cut in the EU support prices for both the EU producers and ACP/LDC preferential exporters and a reduction of the EU quota sugar production. The 2006 sugar reform took into account the preferential access for ACP and LDC sugar producers.

During the reform it was estimated that, on the import side, a major role might be played by "swap"[1] trade flows from preferential partners (ACP/LDC), under the hypothesis of a world white sugar price of USD 200 /tonne and an exchange rate of 1.3 USD/€. Under these

[1] In those estimates, it was underlined that " A *major role might be played by "swap" trade flows, on the level of which remained a lot of uncertainty"*, due to the difficulties in organizing this scheme (i.e. all EBA sugar production had to be exported to the EU and EBA countries had to buy sugar needed for their consumption on the world market). Commission staff working document-reforming the European Union's sugar policy, SEC 2005, 0808 final, page 9.

assumptions, the difference between the EU sugar price and the world price, or the price in the ACP and LDC countries, might encourage some of these countries to export to the EU as much of their domestic production as possible by using swaps.

Swaps depend on the gap between world and EU prices, freight costs and importers capacity to organise this difficult scheme. During the reform it was considered that the potential maximum volume which could be "swapped" was 3.5 million tonnes, which corresponded to the ACP/LDC production capacity.

3. NEW SUGAR IMPORT CONTEXT

The 2009/10 marketing year was the first year of implementation of a complete new legal framework on imports. As from 1 October 2009 the ACP preferential import regime changed from the country allocated ACP "Sugar Protocol" quantities to Duty Free Quota Free imports under the Economic Partnership Agreement (EPA) and Everything But Arms (EBA) agreements, which expanded significantly ACP/LDC market access: LDC's sugar exports to the EU were fully liberalized and sugar imports from ACP's non LDC's partners were subject only to a safeguard measure based on volume.

In 2009/2010, ACP/LDCs exports to the EU slightly decreased, but as from 2010/11, we assisted to a gradual but continuing rise in these exports. World market prices have been particularly high over the last 3 years and the EU market has been therefore less attractive; ACP/LDCs taking also advantage of high priced local, regional and world markets. ACP/LDCs exported in 2011 worldwide 3.2 million tonnes of sugar, of which 1.9 million tonnes to the EU. Moreover, growth of production and exports from ACP/LDCs has been lower than expected due to some delay in on-going investments.

Furthermore, since 2008 some ACP countries took a strategic decision to increase exports in the form of white sugar. This development combined with growing consumption in the ACP/LDC countries has reduced the volumes of raw sugar available for exports to the EU.

In 2011, sugar **consumption** in the ACP/LDC countries was 7.3 million tonnes, compared to 5.1 million tonnes in 2004, which represents an increase of 41% during this period.

For details see table V in the annex.

4. EVOLUTION OF SUGAR IMPORTS

Following the 2006 sugar reform, the EU changed from a net exporter of sugar to a net importer.

4.1. Quantities of sugar imports

In the period **between 2001/02 to 2005/06**, average total sugar imports into the EU were 2.1 million tonnes, of which 1.6 million tonnes from ACP/LDC countries.

Since the marketing year 2006/07, total sugar shipments from third countries started to grow significantly, and during the **2010/11** marketing year sugar imports had already surged to the unprecedented level of 3.7 million tonnes (+ 77% compared to the period 2001/01 to 2005/06), the highest level ever. Meanwhile, preferential sugar imports from ACP/LDC countries reached the level of 1.8 million tonnes (+ 16% in relation to the period 2001/01 to 2005/06).

In the marketing year **2011/12**, overall imports of sugar into the EU were slightly lower than the previous marketing year, 3.6 million tonnes (- 3%). By contrast, preferential sugar imports from ACP-LDC countries continued to expand up to the level of 1.84 million tonnes (+1.9%, compared to the previous marketing year) setting a new record level. Therefore, preferential sugar imports have been growing continuously since the reform of 2006, although not to the extent expected in the most optimistic scenario, including swaps.

For details on imports see annex I.

4.2. Origin of sugar imports

This upward trend concerned particularly the ACP/LDC following origins: Mozambique, Swaziland, Malawi, Zambia, Zimbabwe, Laos and Cambodia.

Based on current data it seems that the most promising LDC country for further expansion of sugar production and export to the EU is Mozambique.

For details on imports see annexes II, III and IV.

4.3. Raw versus white sugar imports

The previous sugar protocol only allowed country allocated sugar, mainly raw sugar for refining. Therefore one of the major new elements since the reform of the sugar regime was the possibility to import white sugar. And indeed some ACP countries, notably Mauritius, have increased exports of white sugar compared to raw sugar, to reap the higher added value.

In marketing year 2011/12, raw sugar imports into the EU surged to a new record level of 2.7 million tonnes representing 76% of the total volume imported.

For details on imports see annex I.

5. SUPPLY AND SUGAR PRICE EVOLUTION

Supply evolution

During the 2006/07 and 2007/08 marketing year, the EU sugar market was over supplied and the EU was obliged to withdraw quota sugar from the market. This surplus market situation lasted until the beginning of the 2008/09 marketing year. As of the marketing year 2009/10, the EU sugar market turned from an over-supplied market to a more balanced market. Whilst the open access for ACP/LDC countries created new opportunities for EU operators to source sugar, it also induced downward pressure on EU sugar prices. However, due to this development in combination with increasing world market price, some EU importers experienced difficulties to contract their supply needs. In the course of the calendar year 2011, it became evident that the EU sugar market was not an oversupplied market but rather a tight market. Therefore, as of the 2011/12 marketing year, sugar prices were negotiated in this new economic environment and the sugar producers managed to negotiate much higher sugar prices for the EU market.

Price evolution

During the transitional period between **July 2006 – September 2009**, the EU internal white sugar price declined by 12%, falling from EUR 630 per tonne to EUR 555 per tonne.

During the period **October 2009 – February 2010**, imports were coming in at the expected rate, in accordance with EPA/EBA monitoring system. As a result, the EU internal price dropped from EUR 555 per tonne in September 2009 to EUR 493 per tonne in November 2009 (-11%), despite the temporary increase of the world market prices which in February 2010 reached a 30-year record high of EUR 522 per tonne.

During the following months, world market prices started to decline, with a sharp fall between **February and May 2010**, from EUR 522 tonne to EUR 376 tonne (-28%). During this period, EU internal market prices stabilised around EUR 475 tonne.

However, world market prices displayed a sharp increase throughout the second semester of 2010, reaching levels above the EU price through **September 2010- January 2011**: in December 2010, the world market white sugar price was much higher than EU, EUR **628** tonne compared to EUR **486 €** tonne.

During the first semester 2011, the EU and the world market went in opposite directions, and by **May 2011** world market prices had fallen from EUR **628** tonne to EUR **400** tonne, driven by abundant supply on the world market. Meanwhile, during the same period EU price increased from EUR **486** tonne to EUR **536** tonne.

The prospect at the beginning of the marketing year **2011/12** had changed. It was clear that the import concessions awarded to ACP and LDC through the EPA/EBA agreements, were not generating excessive import flows. Previous expectations that the EU sugar market may be flooded by ACP/LDC sugar showed not to be realistic, and the prospect was that imports from the ACP and LDC countries would not be able to cover the gap between EU (in quota) production and demand. As a result, EU sugar prices started to increase considerably above the world market price, even beyond the level prior to the implementation of the 2006 reform and contrary to the continuous decline in the world market prices since the beginning of 2011. Therefore, during the year 2012 the EU price increased uninterruptedly, reaching the high level of EUR **738** tonne in **January 2013**.

For details see graph in annex VIII.

6. NECESSARY MARKET MEASURES

Paradoxically, during the last marketing years, instead of applying the transitional safeguard mechanism the Commission had to find ways to allow additional sugar into the EU market in order to fill the supply gap on the EU sugar market for food purposes (i.e. the EU quota market). The EU can choose between two sources of supply:

- Release of out-of quota sugar on the internal market
- Allow additional imports

In the marketing year **2010/11** a total additional quantity of **1.35 million tonnes** of sugar was supplied to the EU market of which:

- **500 000** tonnes release of out-of-quota sugar at zero tariff (and 26.000 tonnes of iso-glucose)
- **500 000** tonnes of additional imports within a zero duty TRQ
- **350 000** tonnes were allowed in tenders at reduced duty

In the marketing year **2011/12**, **1 million tonnes** of additional sugar was supplied to the EU market of which:

- **400 000** tonnes release of out-of-quota sugar (and 21.000 tonnes of iso-glucose) at a tariff of EUR 85/tonne
- **250 000** tonnes release of out-of-quota sugar (and 13.000 tonnes of iso-glucose) at a tariff of EUR 211 /tonne
- **399 000** tonnes of sugar imports at reduced duty (including 15 000 tonnes of white sugar)

7. CONCLUSIONS

In the framework of the 2006 reform, it was forecasted that under very particular conditions the EU sugar market might be flooded with sugar from the LDC countries. Two conditions were necessary: (1) a large gap between EU price and world price and (2) capacity in organising a complex scheme leading to export local production from the LDC sugar producing countries and importing a similar quantity from the world market to satisfy their domestic needs.

Following 2009 import liberalisation, very few countries seem to have succeeded in organising such a complex trade scheme. Nevertheless sugar imports from those origins have reached record levels, although not at a level that would have triggered safeguard measures, during the marketing years 2009/2010 to 2011/2012.

Until the end of the 2014/15 marketing year, the maximum level of sugar imports from ACP/LDC countries is expected to be in the range of 2.1 – 2.2 million tonnes. Therefore, it is highly unlikely that the safeguard measures will be triggered during its application period.

ANNEX I

EU27 SUGAR IMPORTS BY MARKETING YEAR (OCT-SEPT) - CN 1701 IN TONNES												
		2001-02	**2002/03**	**2003-04**	**2004-05**	**2005-06**	**Average 2001/02 2005/06**	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12**
ACP and LDC		1.605.650	1.471.504	1.583.673	1.570.403	1.544.446	**1.555.135**	1.518.806	1.886.113	1.521.920	1.807.498	1.842.447
of which	*ACP*	*1.531.465*	*1.386.191*	*1.485.563*	*1.457.685*	*1.417.174*	***1.455.616***	*1.496.276*	*1.854.121*	*1.469.558*	*1.742.997*	*1.784.101*
	EBA-LDC (1)	*74.185*	*85.313*	*98.110*	*112.718*	*127.272*	***99.520***	*22.530*	*31.992*	*52.362*	*64.500*	*58.346*
CXL (2)		82.899	82.899	82.899	82.899	82.899	**82.899**	715.275	770.933	594.749	1.219.176	1.196.580
Balkan		205.559	325.407	91.979	492.334	394.013	**301.858**	356.268	356.360	340.942	344.124	359.399
Other Origins		70.649	86.102	153.752	178.838	201.681	**138.204**	106.794	134.946	58.484	315.949	152.576
EU TOTAL IMPORTS		**1.964.757**	**1.965.912**	**1.912.303**	**2.324.474**	**2.223.039**	**2.078.097**	**2.697.142**	**3.148.352**	**2.516.096**	**3.686.747**	**3.551.002**
of which	*raw sugar*							*2.205.305*	*2.623.549*	*1.930.752*	*2.563.972*	*2.703.252*
	white sugar							*491.837*	*524.803*	*585.344*	*1.122.775*	*847.750*

(1) Laos, Cambodia,Nepal, Bangladesh.

Source: Eurostat Comext database

(2) Brazil, Cuba, Australia, India (India before 2005 was in the ACP protocol)

ANNEX II

REG. (CE) n° 828/2009 - PREFERENTIAL EPA-EBA AGREEMENTS SUGAR

IMPORT LICENCES FOR SUGAR AND SUGAR PRODUCTS

CERTIFICATS D'IMPORTATION POUR LE SUCRE ET LES PRODUITS DU SECTEUR SUCRE

October 2009 September 2010

(tonnes white sugar equivalent)

CUMULATED ALLOCATED QUANTITIES BY MEMBER STATE AND ORIGIN

Quota		Member States																											
Nr	origin	BE	BG	CZ	DK	DE	EE	IE	EL	ES	FR	IT	CY	LV	LT	LU	HU	MT	NL	AT	PL	PT	RO	SI	SK	FI	SE	UK	TOTAL
09.4221	Bangladesh		2 000						1 040			500																	3 540
	Cambodia																											9 850	9 850
	Laos																											38 450	38 450
	Nepal																												
09.4231	Benin																					9 169							9 169
	Burkina Faso																												
	Dem. Rep.Congo																												
	Ethiopia																												
	Madagascar		26 756																										26 756
	Malawi	4 447				1 001				17 335		1 347								987		5 674				959	1 189	16 123	49 062
	Mozambique									11 712												57 236						20 580	89 528
	Senegal																												
	Sierra Leone																					4 450							4 450
	Sudan																											20 000	20 000
	Tanzania																												
	Togo																												
	Zambia									23 051												63 301						6 674	93 026
09.4242	Ivory Coast																											47	47
09.4243	Swaziland		215			43 676				42 250	25	28 800	215								54 300	59 120	66 228					4 282	299 110
09.4244	Kenya																											410	410
09.4245	Mauritius	6 042	547	389	80	118 047			1 346	145	145 824	4 702							901	2 340	1 520	25 607	973		62	20	173	43 615	352 332
	Zimbabwe																					35 330	25 225					8 850	69 405
09.4246	Fiji																											100 300	100 300
09.4247	Barbados																											23 500	23 500
	Belize																											65 612	65 612
	Dominican Republi																											433	433
	Guyana											44										31 850						106 750	138 644
	Jamaica																					17 600						59 200	76 800
	Trinidad & Tobago																												
	Cumulated total	**10 489**	**29 518**	**389**	**80**	**162 724**			**2 386**	**94 493**	**145 849**	**35 393**	**215**						**901**	**3 327**	**55 820**	**309 338**	**92 426**		**62**	**979**	**1 361**	**524 675**	**1 470 425**

ANNEX III

REG. (CE) n° 828/2009 - PREFERENTIAL EPA-EBA AGREEMENTS SUGAR

IMPORT LICENCES FOR SUGAR AND SUGAR PRODUCTS

CERTIFICATS D'IMPORTATION POUR LE SUCRE ET LES PRODUITS DU SECTEUR SUCRE

October 2010 September 2011

(tonnes white sugar equivalent)

CUMULATED ALLOCATED QUANTITIES BY MEMBER STATE AND ORIGIN

Quota		Member States																											
Nr	origin	BE	BG	CZ	DK	DE	EE	IE	EL	ES	FR	IT	CY	LV	LT	LU	HU	MT	NL	AT	PL	PT	RO	SI	SK	FI	SE	UK	TOTAL
09.4221	Bangladesh																												
	Cambodia																											22 000	**22 000**
	Laos																											41 380	**41 380**
	Nepal																												
09.4231	Benin									5 484		3 005																	**8 488**
	Burkina Faso																												
	Dem. Rep.Congo																												
	Ethiopia																												
	Madagascar											690																	**690**
	Malawi	9 601				6 107				15 858	212	4 830										417				1 126	2 544	9 312	**50 007**
	Mozambique									38 412		43 728										24 293	10 417				9 830		**126 680**
	Senegal																												
	Sierra Leone											1 700																	**1 700**
	Sudan										20 000																		**20 000**
	Tanzania																												
	Togo																												
	Uganda									1 039		7 066							485										**8 589**
	Zambia	40				30 962				14 781	342	60 564									24 827		12 952					5 112	**149 580**
09.4242	Ivory Coast																												
09.4243	Swaziland					45 796				43 800		72 659									59 160	24 650	5 278					12 586	**263 930**
09.4244	Kenya											14 959																	**14 959**
09.4245	Mauritius	3 192	561	474	99	270 774			1 637	1 910	86 073	3 599		22					1 610	1 594	1 855	21	1 342		108		203	43 614	**418 691**
	Zimbabwe					3 940				34 300		10 103										80 868	10 000					19 531	**158 742**
09.4246	Fiji																											136 600	**136 600**
09.4247	Barbados																					9 682						11 941	**21 623**
	Belize																											72 038	**72 038**
	Dominican Republi																												
	Guyana										6 460											38 496						130 146	**175 102**
	Jamaica																					20 786						70 748	**91 534**
	Trinidad & Tobago																												
Cumulated total		**12 833**	**561**	**474**	**99**	**357 580**			**1 637**	**155 584**	**113 087**	**222 903**		**22**					**2 095**	**1 594**	**85 842**	**199 213**	**39 989**		**108**	**1 126**	**12 577**	**575 008**	**1 782 333**

ANNEX IV

REG. (CE) n° 828/2009 - PREFERENTIAL EPA-EBA AGREEMENTS SUGAR

IMPORT LICENCES FOR SUGAR AND SUGAR PRODUCTS

CERTIFICATS D'IMPORTATION POUR LE SUCRE ET LES PRODUITS DU SECTEUR SUCRE

October 2011 September 2012

(tonnes white sugar equivalent)

CUMULATED ALLOCATED QUANTITIES BY MEMBER STATE AND ORIGIN

Quota		Member States																											
Nr	origin	BE	BG	CZ	DK	DE	EE	IE	EL	ES	FR	IT	CY	LV	LT	LU	HU	MT	NL	AT	PL	PT	RO	SI	SK	FI	SE	UK	TOTAL
09.4221	Bangladesh																												
	Cambodia																											15 000	**15 000**
	Laos																											41 530	**41 530**
	Nepal																												
09.4231	Benin																					9 775				4 911			**14 686**
	Burkina Faso																												
	Dem. Rep.Congo																												
	Ethiopia																												
	Madagascar					17 359																				8 532			**25 891**
	Malawi	8 105	1 017			12 327				28 588	65	16 203							292		15 182		9 793			1 314	1 460	7 567	**101 914**
	Mozambique									61 280		113 099									9 852	24 400	19 628					10 006	**238 265**
	Senegal																												
	Sierra Leone										1 500															1 895			**3 395**
	Sudan																				20 522		20 388						**40 910**
	Tanzania																												
	Togo																												
	Uganda																		399										**399**
	Zambia					6 974				29 514	113	35 139									27 405	9 065	12 570					1 653	**122 432**
09.4242	Ivory Coast																												
09.4243	Swaziland					115 658				74 146	975	90 198							1 507		5 805	8 854	48 300					16 242	**361 685**
09.4244	Kenya																												
09.4245	Mauritius	8 318	298	664	101	259 151			1 842	1 354	5 204	8 055		66					1 029	1 849	2 852	821	2 182		87		269	41 733	**335 875**
	Zimbabwe																		25 328			61 838	24 605					34 000	**145 771**
09.4246	Fiji																											100 978	**100 978**
09.4247	Barbados																											21 750	**21 750**
	Belize																					16 965						78 423	**95 388**
	Dominican Republi																												
	Guyana																					17 075						97 554	**114 629**
	Jamaica		19 397									38 906							19 375		21 576	630							**99 884**
	Trinidad & Tobago																												
Cumulated total		**16 422**	**20 713**	**664**	**101**	**411 469**			**1 842**	**194 883**	**7 857**	**301 600**		**66**					**47 930**	**1 849**	**103 193**	**149 424**	**137 467**		**87**	**16 652**	**1 729**	**466 437**	**1 880 385**

ANNEX V

				CONSUMPTION				
	2004	2005	2006	2007	2008	2009	2010	2011
LDC not ACP	1.095.000	1.225.000	1.360.000	1.460.000	1.575.000	1.677.500	1.765.000	1.860.000
TOTAL ACP	4.053.966	4.420.869	4.536.894	4.597.828	4.830.907	5.187.183	5.358.832	5.404.366
Total LDC+ACP	5.148.966	5.645.869	5.896.894	6.057.828	6.405.907	6.864.683	7.123.832	7.264.366
Source: ISO, raw value.								

ANNEX VI

				PRODUCTION				
	2004	2005	2006	2007	2008	2009	2010	2011
LDC not ACP	265.000	250.000	280.000	310.000	260.000	225.000	275.000	305.000
TOTAL ACP	6.119.767	5.928.438	5.926.168	5.748.037	5.650.445	5.859.932	5.677.900	6.154.852
Total LDC+AC	6.384.767	6.178.438	6.206.168	6.058.037	5.910.445	6.084.932	5.952.900	6.459.852
Source: raw value								

ANNEX VII

				EXPORT				
	2004	2005	2006	2007	2008	2009	2010	2011
LDC not ACP	214.960	280.000	220.000	140.000	252.751	463.141	431.476	378.006
TOTAL ACP	2.923.344	2.773.966	2.840.530	2.612.995	2.629.260	2.391.984	2.443.570	2.847.671
Total LDC+ACP	3.138.304	3.053.966	3.060.530	2.752.995	2.882.011	2.855.125	2.875.046	3.225.677
Source: ISO, International Sugar Organization (raw value).								

ANNEX VIII

EU and world sugar price