'Historic', 'groundbreaking' and 'fantastic' were how EU farm commissioner Mariann Fischer Boel and DEFRA secretary Margaret Beckett described last week's agreement on sugar reform. After three days of tortuous negotiation, their elation was understandable. But what will it mean for growers? Europe editor **Philip Clarke** reports

EU sugar deal means cuts and unfair trade

Sugar beet growers face the prospect of annual cuts in their quotas and unfair competition from mainland Europe following last week's agreement to reform the EU sugar regime.

The deal, reached after three days of negotiation in Brussels, involves steep price cuts of 36% for raw sugar and 40% for beet, phased in over four years. This will be partially offset by 64% compensation to growers, made in the form of a decoupled payment.

The cornerstone of the deal, however, is the restructuring plan, which will be paid for by a levy on the industry and used to encourage less efficient EU sugar processors to quit production.

To increase the attractiveness of this scheme, the full rate of outgoers' payment, €730/t (£497/t), is being paid over the first two years of the reform instead of one. And for those countries which give up more than half their production, extra funds are available for diversification projects and for top-up payments to growers.

But concerns have been expressed that the package, which includes a lower price cut than the 39% originally proposed and gives factories more time to start restructuring, may not be fully effective in cutting surpluses.

"If the restructuring scheme fails to deliver, the facility is still there for the EU to cut production," said NFU senior sugar beet adviser Helen Kirkman. "The threat of quota cuts is not entirely removed."

The EU Commission has said it needs to reduce sugar output by about 5m tonnes a year to respect the WTO limit on subsidised exports of 1.27m tonnes.

The NFU was also disappointed at the "special deals" that were brought into the reform at the last minute, such as partially coupling compensation to production and offering national aids in some countries. "Anything that keeps sugar producers in marginal member states hanging on in there is of concern," Ms Kirkman said.

She also warned that incorporating compensation into the single farm payment could mean English growers getting less aid than their continental competitors.

But British Sugar communications director Chris Carter was more optimistic that the reform would achieve its objectives.

Death of the sugar industry? Brussels insists that the reform is essential for its survival

"We are pleased that the commission has stuck to its basic principles," he said. "No one really knows how much production the restructuring scheme and price cuts will take out, but it stands a chance of being a significant volume."

The reform should also provide a boost for the biofuel industry, especially since beet factories may qualify for 75% of the restructuring aid if they stop producing sugar and switch to bioethanol.

"There is good demand out there and relatively little production. People will be more tempted to look at it," said Mr Carter.

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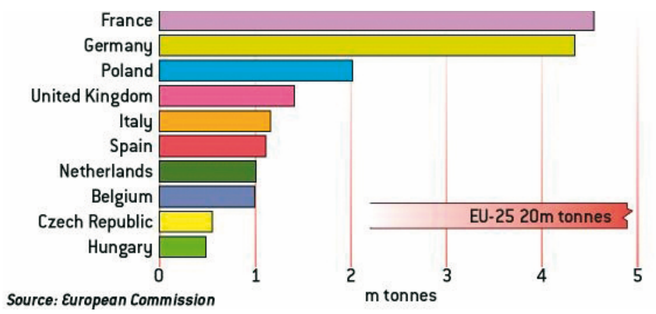
EU'S TOP 10 SUGAR PRODUCERS (M TONNES)

Total production 2004/2005



Source: European Commission

Third World dismay at lack of cash support

Developing countries have expressed their dismay at the agreement on sugar reform, accusing the EU of reneging on previous commitments.

Chairman of the African, Caribbean and Pacific sugar group George Bullen said the price cuts would undermine the preferential access agreements his members had enjoyed over the years and would wipe out cane production in poor countries.

He was angered that the EU was pumping in over €8bn (£5.4bn) of compensation for its own growers and processors, but only making €40m (£27m) available for ACP countries. "We are by far the biggest losers in this reform," he said.

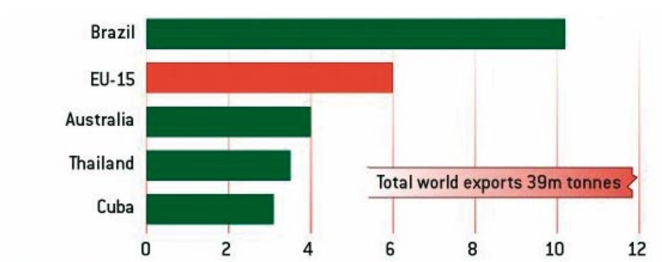
Head of Oxfam International Luis Morago also criticised the safeguard clause put into the sugar reform, which requires the EU commission to consider new import restraints should shipments from the Least Developed Countries increase by over 25% a year.

"This is a direct betrayal of promises to grant full duty and quota free access for LDCs to Europe from 2009 under the everything-but-arms initiative."

But EU farm commissioner Mariann Fischer Boel insisted that the €40m on offer to the ACP countries was just a first tranche and more funds would be available once the new EU budget is agreed.

DEFRA secretary Margaret Beckett added that the safeguard clause was not intended as a cap on imports, but was intended as a mechanism for checking that there was nothing "dodgy" going on.

WORLD'S TOP 5 SUGAR EXPORTERS (M TONNES)



Source: European Commission

Details of the deal

For almost 40 years the EU sugar regime has escaped significant reform, while other sectors have changed almost beyond recognition.

But last week in Brussels, under intense pressure from the EU Commission and UK presidency, agriculture ministers finally agreed a package that is set to re-shape sugar production throughout the EU and beyond.

This is what they agreed:

PRICES

A 36% price cut for raw sugar phased in over four years, as follows

	Currently	2006/07	2007/08	2008/09	2009/10
€/t	632	505 (-20%)	458(-27.5%)	411 (-35%)	404 (-36%)

A corresponding 40% cut in the minimum beet price to growers

	Currently	2006/07	2007/08	2008/09	2009/10
€/t	43.6	32.9 (-25%)	29.8 (-32%)	26.7 (-39%)	26.3 (-40%)

COMPENSATION

Decoupled payment to all growers, worth 64.2% of the price cut, to be included in the Single Farm Payment and subject to cross compliance

	2006/07	2007/08	2008/09	2009/10
€/t (estimated)	6.8	8.8	10.8	11.1

✱ In those countries giving up at least half their quota, an additional coupled payment of 30% of the income loss to continuing growers for five years is available, paid out of EU funds
✱ These growers may get a further top-up from national funds
✱ UK growers to get an extra €1.14/t (78p) for four years to allow for the fact we are a net importer of sugar

RESTRUCTURING

Voluntary restructuring scheme, lasting four years, to encourage factory closures and the surrender of quota. Payment as follows

	2006/07	2007/08	2008/09	2009/10
€/t	730	730	625	520

This scheme to be financed by a levy on sugar factories as follows

	2006/07	2007/08	2008/09
€/t	126	174	113

✱ At least 10% of the restructuring fund to be used to compensate beet producers and contractors affected by factory closures

15% of the restructuring fund to be used for diversification projects, as follows

	2006/07	2007/08	2008/09	2009/10
€/t	109.5	109.5	93.8	78.0

✱ For member states where sugar quota is reduced by more than half, this diversification money is increased proportionately, and may be paid as compensation to ex-growers
✱ Partial closures of factories allowed, attracting 75% of the restructuring payment, so long as sugar production ceases. This could be used to help factories convert to biofuel production
✱ Cane sugar refiners also allowed access to up to €150m of restructuring money, even though they do not pay into the fund

MARKET MANAGEMENT

✱ Extension of the sugar quota system until 2014/15
✱ 'A' and 'B' quota merged into a single production quota
✱ To maintain production in 'C' sugar producing countries, an additional 1.1m tonnes to be available for purchase at a charge of €730/t
✱ Intervention retained for four years, paying 80% of the following year's reference price, for up to 600,000 tonnes a year
✱ Thereafter, private storage aid introduced as a safety net
✱ Sugar beet to qualify for set-aside payments when grown as a non-food crop and also to be eligible for the energy crop aid of €45/ha
✱ Sugar used for the biofuel, chemical and pharmaceutical industries to be excluded from production quotas
✱ An aid package of €40m for African, Caribbean and Pacific countries in 2006/07, to help offset the effects of lower EU prices on their preferential access
✱ Safeguard clause – EU to consider import restrictions should imports from any developing country rise by more than 25% each year

SPECIAL DEALS

✱ Austria to get a one-off €9m payment for investment in collection centres
✱ Sweden to get a one-off €5m for beet growers in Gotland
✱ Portugal to be allowed to convert its sole beet factory into a cane refinery
✱ Finland to pay top-up of €350/ha to growers supplying its sole beet factory

SUGAR FACTORIES IN EU-15

France	32
Germany	27
Italy	19
Spain	11
Belgium	8
UK	6
Netherlands	5
Greece	5
Austria	3
Denmark	3
Finland	2
Sweden	2
Ireland	1
Portugal	1

SUGAR REFORM – WHAT THEY SAID

"I can understand why sugar has not been reformed for 40 years. I now know what it's like to enter the hornets' nest." EU agriculture commissioner Mariann Fischer Boel immediately after the farm council

"The price cut was one of our main concerns. In the final compromise it is unfortunately too high." COPA president Rudolf Schwarzbrock

"The extent of the price cuts will be extremely painful and we regret the special deals that have been done for some countries. We remain to be convinced that we will avoid competitive distortion." NFU sugar chairman Mike Blacker

"Reaching agreement has not been easy for many member states, but I firmly believe this ground-breaking decision will secure a sustainable future for the EU sugar sector." DEFRA secretary Margaret Beckett

"We regret that the size of the price cut was reduced at the last minute, leaving the EU price still double the world price. That will cost jobs in Britain." Richard Lamming, UK Industrial Sugar Users Group

"The commission has hurled money at its member states to convince them to sign up [to the deal], but has abandoned some of the world's poorest countries to destitution." Oxfam International boss Luis Morago