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Brussels sugar quotas look set to stay

By Joshua Chaffin in Brussels

The EU's system of sugar quotas looks set to continue at least until 2020 after MEPs voted on Wednesday to preserve it, in spite of complaints from the food industry that it has contributed to high prices and sugar shortages.

The parliament's vote – by a margin of 434 to 231, with eight abstentions – reverses a previous commitment by the EU's 27 member states to end the scheme by 2015.

It also runs counter to the trend toward greater liberalisation of the EU's common agricultural policy that has resulted in the abolition of production quotas for milk and other commodities.

CIUS, the trade group that represents sugar users, such as Kraft and Nestle, lambasted the decision.

"Today's vote brings the EU back to outdated, protectionist policies of the past, which distort the market and jeopardize security of supply for the entire food chain," said its secretary general, Muriel Korter.

The wholesale price of sugar in the EU is more than double that on the international markets.

But MEPs defended production quotas as an essential way to safeguard farmers against volatile prices – particularly in the midst of a recession. They also complained that a previous reform of the sugar industry in 2006 led to the loss of 20,000 jobs.

EU sugar prices are roughly 50 per cent higher than those on world markets. The quota system has shielded Europe's beet farmers and a handful of big sugar companies – mostly in France and Germany – from foreign competition.

The policy has come under increased scrutiny since sugar shortages hit some member states, such as Portugal, two years ago.

The EU was forced to revamp the scheme in 2006 – at a cost of €5bn – in order to comply with a World Trade Organisation ruling.

In addition to food and drink companies, refiners of cane sugar, such as the UK's Tate & Lyle, have also challenged the quotas, pleading for greater freedom to import raw supplies from Brazil and elsewhere.

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Some opponents, such as Jamie Fortescue, the head of the European starch industry association, took comfort that the margin for the vote was less lopsided than in the past, suggesting that the defence of the quotas might be softening.

Mr Fortescue, who represents companies seeking to sell more isoglucose, a sugar substitute, predicted that the parliament would come under pressure from some national governments as it enters negotiations on a final deal.

"We urge the EU member states to acknowledge the rapidly declining support for EU sugar quotas and to stick to its former decisions," Mr Fortescue said.

http://www.ft.com/intl/cms/s/0/349f9f2e-8bf8-11e2-b001-00144feabdc0.html#axzz2NVJSwKCn

Outline

- **Quota:** A government-imposed trade restriction that limits the number, or in certain cases the value, of goods and services that can be imported or exported during a particular time period.
- In this case, EU quota for sugar voted to stay alive in order to protect domestic industry from international competition
- The problem that arises from this is that the price of sugar in EU is 50% more than international markets due to these measures
- Shortage of supply = excess of demand in several member states
- Complaints by progressive parties in regards to "protectionist policy"
- Opposition claims these measures are against recent liberalization and main aim of the EU customs union
- Isoglucose is a substitute for sugar
- Rise in price of sugar results in a rise in demand of isoglucose, as they are inversely related in terms of cross elasticity of demand (XED)

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Diagram 1: Effect of Quota - Excess of demand

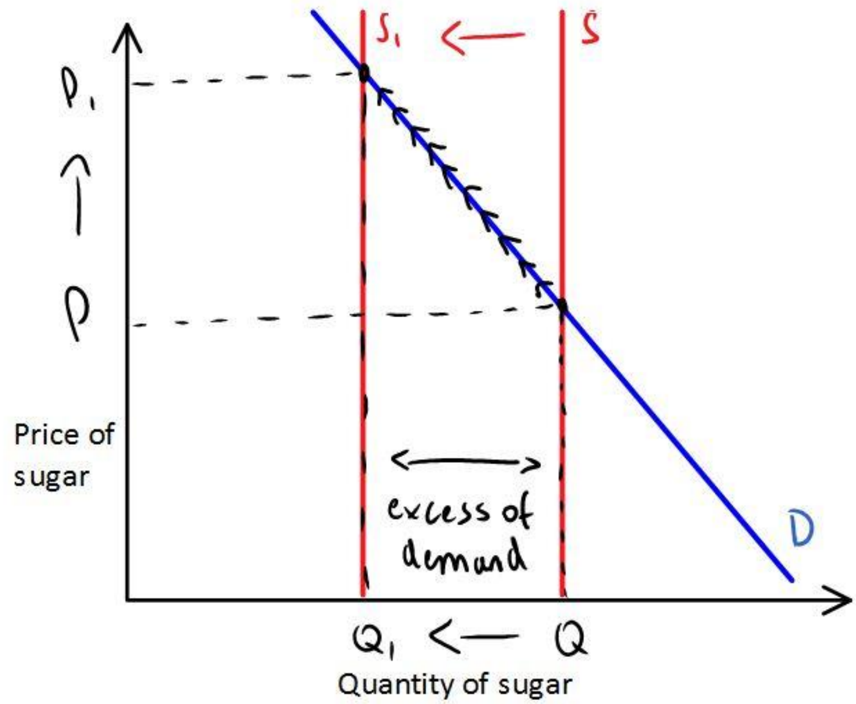

Diagram 2: Substitute of sugar – Shift in demand