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STATEMENT

Reforming Global Sugar Trade: What Do Changes in Sugar Policy Mean for the Future?

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Major changes are on the horizon for sugar, one of the world's most highly protected agricultural commodities. A recent shift in European Union (EU) policy, which could significantly reshape sugar markets in both industrialized and developing countries, is receiving scant attention in the U.S. Current protectionist measures greatly restrict access to sugar markets worldwide, distort global competition, and lower prices and revenues for many competitive, low-cost producers and exporters.

The substantial EU sugar reforms, initiated in 2006, focus on cutting subsidies to farmers and closing obsolete sugar mills. Over time, these policy changes could cause sugar production in the European Union to fall by one-third, shifting the EU from a net exporter to a net importer of sugar. Reducing EU protectionism will also have a ripple effect across the globe, increasing world sugar prices and providing new opportunities to low-cost producers, such as Brazil, Colombia, Guatemala, South Africa, and Thailand. Conversely, countries that currently have preferential access to sugar markets would experience economic losses.

The full impact of these reforms is uncertain, including how the EU will cope with future challenges, such as the full liberalization of sugar imports from the least developed countries in 2009. Nevertheless, the changes are significant and could influence U.S. sugar policies.

Currently, U.S. policy protects sugar producers and processors from competition by limiting imports and excluding lower-cost producers from open access to the market. This keeps domestic sugar prices artificially high. However, 40 countries have been given preferential access to U.S. markets, including certain high-cost producers, such as a number of Caribbean countries.

As EU reforms proceed, and as U.S. corn sweetener and sugar markets become more integrated with Mexico under NAFTA, the U.S. could come under pressure to change its sugar price

support program. Potentially, the U.S. could end sugar subsidies and institute a buyout, as it has for peanut quotas and tobacco price supports. Restrictions on imports and domestic production could be relaxed and tariffs lowered. Although these changes would bring sugar prices down, their impact on developing countries would vary.

More open global trade in sugar would benefit some poor African countries that are low-cost producers of sugar, including Malawi and Zimbabwe. Other countries, such as Mauritius and Swaziland, would be hurt economically due to loss of preferential market access.

In order to be competitive in global sugar markets, developing countries would have to produce sugar efficiently and massively, meaning they would have to engage in large-scale, high-tech production, calling into question the opportunities for smallholder farmers. Nevertheless, it may be possible for small-scale sugar producers to organize themselves in cooperatives that could successfully compete.

Among developing countries, Brazil is by far the key player in global sugar markets. Being both the world's largest producer of ethanol (all produced from sugarcane) and greatest exporter of low-cost sugar, Brazil's sugar policies have a major impact on world markets. If Brazil decided to primarily produce ethanol from its sugarcane, for example, the price of sugar would increase worldwide. On the other hand, if Brazil focused on sugar production, prices on the global sugar market would fall.

The potential impact of policy changes on farmers in both developed and developing countries is huge, but more open global trade in sugar would result in more winners than losers. Taking a cue from the EU, the U.S. should seek to reform its sugar policy, to provide better market access. This would benefit both low-cost sugar producers in developing countries, as well as consumers in the U.S.

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