

# VLIV PROTEKCIJONISMU NA TRH S CUKREM V EU A VE SVĚTĚ

## INFLUENCE OF PROTECTIONISM ON SUGAR MARKET IN EU AND IN WORLD

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### **Anotace:**

Článek analyzuje situaci na trhu s cukrem v Evropské unii, a to jak faktory určující nabídku a poptávku po cukru, tak faktory vyplývající ze společné zemědělské politiky. Výstupem této analýzy by měl být ucelený pohled na tvorbu „tržní“ ceny na vnitřním trhu Evropské unie a porovnání tohoto mechanismu s mechanismem tvorby ceny na světovém trhu s cukrem.

### **Klíčová slova:**

Trh s cukrem, společná organizace trhu, trh evropský, trh světový, protekce, liberalizace

### **Abstract:**

The paper analyses the situation on the sugar market in the European Union, mainly the factors of sugar supply, factors of sugar demand and also the factors implicit from Common Agriculture Policy. The output of the topic should be the compact view on the price making mechanism in the interior European Union market and to compare this with price making mechanism in the worldwide sugar market.

### **Key words:**

Sugar market, common market organization, Europe market, world market, protection, liberalization

### **PREFACE**

More than 120 countries around the world produce sugar and global production now exceed 140 million tons a year, approximately 70% of which is produced from sugar cane grown primarily in the tropical and sub-tropical zones of the southern hemisphere. The remaining 30% is produced from sugar beet grown mostly in the temperate zones of the north. About 40% of sugar was made from beet until 1990, but this has decreased to current levels as cane sugar producers have made considerable gains in expanding their sugar markets due to the lower costs of cane sugar production. About 71% of production is consumed in the country of origin whilst the balance is traded on world markets.

The EU-25 is the world's largest consumer of sugar and the second largest producer of sugar. The EU consumes about 17.6 million tons (raw value) equaling about 13% of world consumption. Production is around 20 million tons (it is about 14 % of world production). The share of EU sugar exports and imports in the world sugar market is in case of import about 5 % and export about 12 %. In comparison with the countries of Southern Hemisphere its share in world production, consumption, export and import has declined, but its share is steadily important.

International trade in sugar and sugar products has contracted because domestic supports in countries, where it is heavily subsidized have increased production, eroding markets for exporters, including those under preferential trade agreements. The proportion of production exported has declined. Sugar exports are fundamentally important to many developing countries. The world nominal export values increased from US \$ 9.8 billion in

1980 to US \$ 10.4 billion in 2003. But the real values are under the level from the year 1980 especially due to lower prices in the world market and due to volumes of production which have the influence on prices. The world market is under the big influence of the local supports which are connected with the protectionist policies of many countries (especially the OECD countries). The level of protection shows us the following table, which illustrates the share of producer's supports in the value of world trade in sugar. From the table is possible to see that the value of supports achieved more than 54 % of value of world trade in sugar in the years 1999-2001

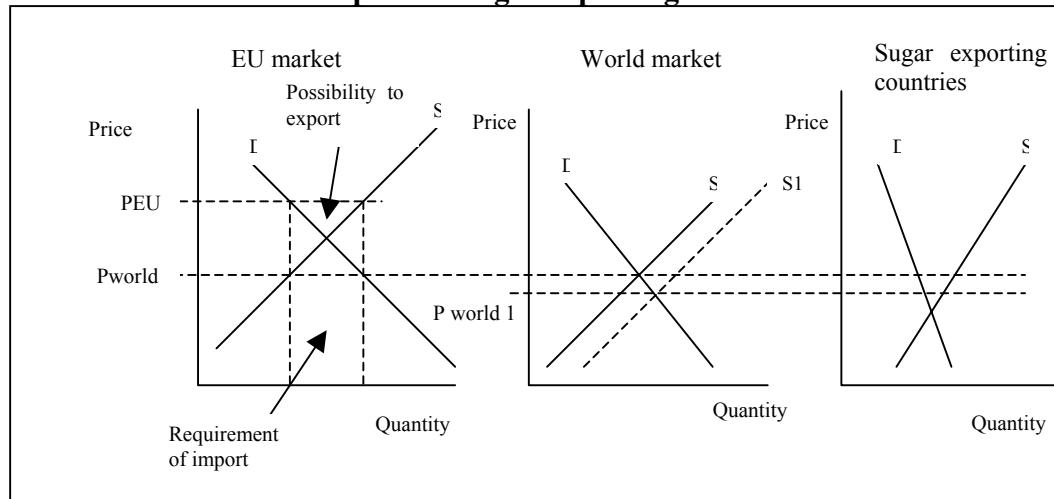
## GOAL AND METHODOLOGY

The goal of this paper is analysis of sugar market. This will be proceeded in two straight, the first one will be characterized the general patterns that are applied in this market's segments. The second one will be focused on the influence of common agricultural policy of Europe Union on world price of sugar. For this exploration was taken secondary date from roots that are named in list of Resources of information and also basic economical knowledge of authors. The output of this study should be groundwork for understanding of problems of sugar market regulations by European Union. This will be used for proceeding of IGA grand, which is related to commodity structure of agrarian external trade.

## RESULTS

The following graphs show us the European price and world price and simultaneously they show us how European price and export (export of surpluses) influences the conditions on world market through affection of world price.

**Graph 1: The influence of European Union's sugar market on the world sugar market and on the markets of important sugar exporting countries**



*Source: own analyses*

If we make the more detailed analysis of sugar markets, we find out, that world sugar market presents mostly oligopoly market environment. The supply and demand curves are intersecting in the point of equilibrium, but supply is regulated by governments of some countries and also some countries have influence on the market price. Nevertheless the market mechanism effects here and world price is formed on base of supply and demand. Supply is represented especially by:

- 1) stock reserves from the previous years,
- 2) surpluses of sugar from contemporary years,

3) sugar which is produced for the purposes of export especially in exporting oriented countries.

Due to high level of production and reserves, which exceed the consumption, the situation on the world market is characterized by high level of supply, which is higher than level of demand. This situation pushes the prices of sugar down, which means that from standpoint of producers it is very heavy to keep (hold out) the position on the world sugar market. World sugar market is influenced by following paradoxical situation:

- the rich countries (which are the biggest consumers of sugar and which have presumptions to be the biggest potential customers of the world sugar market, because they have high purchase power) have no interest to buy the sugar on the world market, because their policy is based on self-supply with their own production of more expensive sugar and their markets are guarded against the import of sugar from the world market.

It is paradoxical situation, that in case of the trade with sugar, which is the product with relatively low level of added value, the most developed countries headed by European Union have the strong influence on the situation on the world market with mentioned commodity. They have strong influence on quantity of supply and thereby they have influence on final prices on the sugar markets. This situation is described in aforesaid graph number 1 b). These countries sell through the world market their surpluses. Because the prices on their markets (especially on the European Union's market) are higher in comparison with the world market, they must subsidize their sugar, if they want to sell their stocks. These subsidized surpluses have the negative effect on balance of the world sugar market, because they deteriorate the position of others selling countries on world market. The very low world price of the sugar is kept down through the supply of great quantity of redundant subsidized sugar from the protected local markets.

Due to the specific conditions on the European market the prices of sugar are 2-3 times higher in comparison with the world market. This situation is caused especially by production costs of sugar in European Union. The European Union has been facing to import of cheaper sugar from the world market through the protection of European market. The protection of European market is based on difficult systems of customs, quotas, subsidies and bilateral and multilateral agreements. The different situation is in the case of export of surpluses of European sugar. The European sugar in the world is sold at the price of world market, which is 2 or 3 times lower than the price in Europe. It is the reason why the export of sugar from the Europe is possible only on base of high export subsidies, which support its competitive advantage on the world market. European export of sugar represents about 12 % world sugar trade, which means that European export has significant influence on creating of world price of sugar. The world price is going down and it is the reason of increasing differences between the world price and European price.

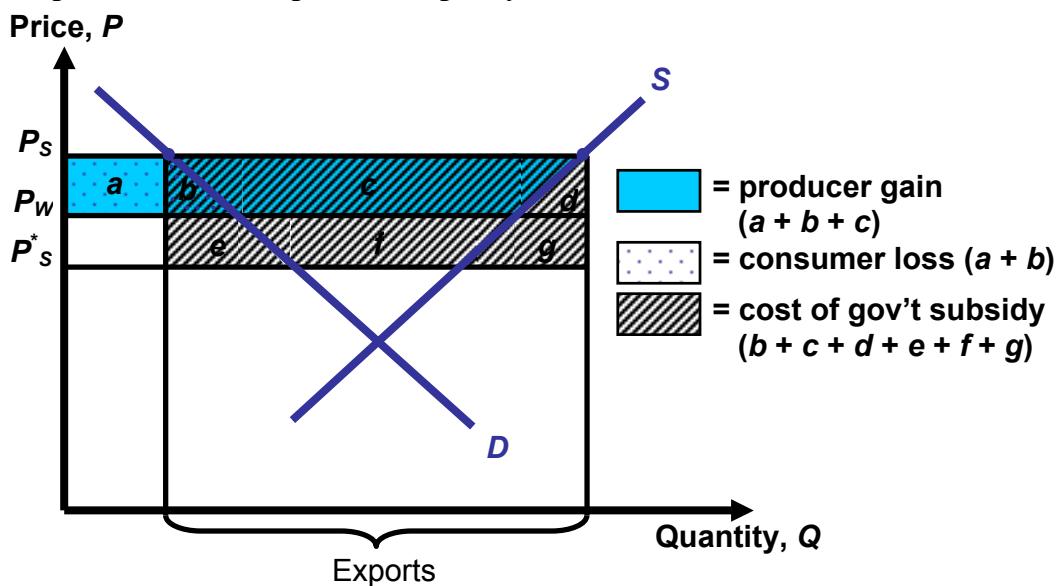
The result of aforesaid mechanism is following: world price is constantly decreasing and European Union has spent more and more money, which are necessary for the purpose of equalization of differences between the price of sugar in Europe and on world market. This situation has influence on continuous increasing of subsidies, which indirectly push the world price of sugar low and low. Above mentioned situation have had negative influence on the world market, therefore it is necessary to find the solution of described situation. The partial solution for mentioned situation was limitation of export of European subsidized sugar

through the quotation system, which at least partially reduces the above described negative effect. The quotation system was instituted under the pressure of WTO.

## CONCLUSION

The situation on European market and its influence on world market describes above-mentioned graph number 1. and the following graph number 2 shows us the effect of protection of European market. From the graphs is possible to see the effect of higher prices in EU on world price and on economy of EU. From the graph follows that the costs connected with protectionist policy of EU are higher then the gains following from protectionist policy. Although the profits of producers are due to protectionist policy higher, its level is not able to cover the losses of consumers (loss of their welfare and purchasing power) and taxpayers (government subsidies paid from state budgets). The result of EU policy is in addition the high level of subsidized export, which has negative influence on development of world prices and market. The main argument that gives reason for the EU protectionist policy is protection of domestic economy, industry, working stations and so on. But the main reasons are stabilization of foodstuff sector and effort of EU to be independent in production of key foodstuff products.

**Graph 2: Effects of a protection policy of EU**



Source: *International Economic, Obstfeld and Krugman*

In the end it is necessary to say that from stand point of view of EU in case of sugar the gains are not the main reason of EU policy. EU wants through its policy to stabilize its internal market with the sugar, because sugar is key commodity in alimentation of people. It is the EU conception of multifunctional agriculture which has the main influence on the approach of EU to protection of its agrarian and food markets. It is possible to write many acceptable reasons why the EU protects its sugar market, but it is not aim of this paper, therefore we write only the four main reasons: stability of branch, stability of market, food security and sustainable development (which is the base of European conception of future agricultural and economical development).

From above described situation is more than clear, that European and world markets are mutually linked, which means that the changes on world market has the influence on

European market and vice versa. Because of the distortions of European market have started to influence the world market in last years, the very intensive political discussion about the future form of European sugar market have been proceeding. This discussion has been proceeding especially through the bilateral and multilateral negotiations and their fundamental part has been proceeding in frame of WTO negotiations. The main goal of these negotiations is to find the solution of described situation and to open the discussion about the liberalization of world sugar trade.

### **Resources of information**

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