SUGAR QUOTA EXCHANGE BETWEEN FARMERS

MARINUS C. GEUZE

Sugar beet co-operative COVAS, Ittervoort, the Netherlands

ABSTRACT

To avoid unlimited sugar production, the European Union set quota on EU member states and sugar factories. As a consequence the factories divided up their production quota amongst their sugar beet farmers. In the Netherlands this was carried out in 1987 when the average beet acreage was between 4 and 6 hectares.

After a long period of stand still in scaling-up, the Netherlands sugar industry and beet growers jointly decided to open up the market for beet quota. As of January 1, 2002 beet growers can buy or sell their production quota. High interest was shown in quota prices and effects on farm structure.

As a novelty in Europe, sugar beet growers in the south-east province of Limburg successfully started a sugar quota exchange. Its purpose was to bring together supply and demand, thereby reaching an equilibrium price at which quota are being transferred between farmers.

The sugar exchange operates periodically, carries out financial transfers and publishes the sugar quota price in order to increase market transparency.

In this paper quota price development and effects on the scale of production in 2002 are shown. Similar developments could take place in other countries when free trade in sugar quota between farmers is allowed.

INTRODUCTION

In 1987 new limits were put on sugar beet production in the Netherlands. Each farmer received a sugar quota based on his production history. Although positive for beet prices, this meant a standstill at the scale of production, at an average of 4 - 6 hectares of beet per farm. Since 2002 beet growers can buy or sell their sugar production quota.

AIM

Schemes were studied to create transparency in the new market for sugar quota exchange. Price speculation was to be avoided and good tradability at low cost was requested. Secondly quota price development and effects on farm structure were of high interest.

METHOD

Sugar quota is a homogeneous product, which anonymously can be traded. An independent organisation with financial credibility is trusted by farmers to start a market exchange for sugar quota.

Sugar beet growers in the south-east province of Limburg decided to start a novelty in the European sugar industry. Through their sugar beet co-oerative COVAS they set up a sugar quota exchange organisation. Periodically the exchange brings together supply and demand, thereby reaching an equilibrium price.

A farmer who wishes to buy sugar quota turns in an order to buy a certain quantity at a maximum price. A farmer who wishes to sell quota puts in an order to sell a certain quantity at a minimum price. According to economic law a supply and demand curve is established and at the point where the lines cross, the equilibrium price is found. At this price the quantity of quota supplied equals the quantity demanded.

RESULTS

The sugar quota exchange in Limburg operates successfully. About 40% of the orders are carried out, all at the equilibrium price. The sugar quota price is published every round to inform the market. It benefits free trade of sugar quota amongst farmers. The quota exchange only handles 10% of total quota transfer, but it gives the market transparency and the quota price.

Based on experiences with dairy quota exchanges in Denmark and Northern Germany a limit is set on price swings. Each round the price can only differ 20% from the previous one. Rounds are organised almost every other month outside beet growing season. Since January 1, 2002 there have been six rounds of the sugar quota exchange in Limburg.

In 2002 the amount of Limburg farmers leaving beet growing doubled to 10%. The average area under beet increased by 0,5 ha per farmer in the first year.

CONCLUSION

Starting free trade in sugar quota benefits farm structure for beet growing

Starting a sugar quota exchange benefits this process through price transparency.

REFERENCES

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