

# REFORM OF THE EU SUGAR REGIME

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Briefing notes (February 2005)*

## **There is an undeniable need for EU sugar regime to be reformed.**

Proposals to overhaul of the sugar subsidy regime are both necessary and very welcome. Current production quotas and high tariffs to block cheap imports mean that the price of sugar is three times higher in the EU than on the world market. There is a pressing need to put an end to this distortion, all the more so in light of the WTO ruling on the issue in June.

## **However, we should consider the particular problems that the reform will create for African Caribbean & Pacific producers.**

The ACP EU Sugar Protocol is immensely important for those countries which currently enjoy preferential agreements, guaranteeing European prices for agreed volumes of ACP sugar imported into Europe. Many of these countries have high levels of vulnerability, for example, many are small island states with a heavy dependence on sugar. They often face severe supply side constraints, including very limited access to risk capital. Countries such as Fiji, Barbados, Jamaica, Guyana and Mauritius have confirmed that they risk facing unsustainable dislocation as a result of a reduction in the intervention price of sugar. In Jamaica, 32,000 people could lose their jobs and in Trinidad about 20,000.

## **Many LDC countries are also likely to be affected.**

The EU had committed itself to allowing the 50 least developed countries (42 of which are also ACP countries) duty free access to its sugar markets by 2009 under its 'Everything But Arms' initiative agreed in 2001, but the advantages offered by such a system are likely to be considerably reduced as a result of the proposed reforms.

## **THE COMMISSION PROPOSES**

1. A 37% price cut
2. Entry into force in 3 years
3. A 1 year implementation period

ACP countries summarise the problem in the following way. The reforms are they maintain:

### **- Too drastic**

A price cut as large as 37% (which, taking into account increasing marine freight and insurance premiums, is closer to 43%) will result in substantial reduction in export earnings. What is more, under the current proposals, the price for raw sugar will be reduced by much more than the white sugar price - shifting the burden of refining aid to the ACP suppliers.

### **- Too soon / too quick**

The 3 years entry into force / 1 year implementation period leaves very little time for countries to adapt and restructure

### **- Too little**

Commission proposals provide inadequate support for ACP producers. EU farmers will be provided 60% direct income support and savings of €24/t as a result of abolition of production leasing, guaranteeing up to 90% of their previous revenue. ACP producers, on the other hand, have been offered an "action plan".

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*Without undermining the impetus for change and reform, it surely makes no sense to simultaneously risk impoverishing countries which have been so heavily dependent on sugar. Imaginative thinking is required so that the EU can put an end to its distortive, protectionist agricultural policy, whilst also supporting those fragile economies hit hardest by preference erosion. For this to be achieved, a comprehensive and effective action plan will be paramount.*

## **THE ACTION PLAN ON ACCOMPANYING MEASURES FOR SUGAR PROTOCOL COUNTRIES AFFECTED BY THE REFORM OF THE EU SUGAR REGIME**

### **The details**

- \* Provides support to the 18 ACP signatories to the Sugar Protocol, which currently export sugar to the EU<sup>1</sup>
- \* Offers a basket of measures, which will need to be adapted to the particular needs of each individual country
- \* Supports the broad objective of integration into the world economy, through progress in Doha Development Round and the Economic Partnership Agreements in order to facilitate trade diversification.
- \* Within the sugar sector, proposes to increase competitiveness where such a policy is deemed appropriate (diversifying within sugar by adding value to sugar products and developing alternative cane-derived products e.g. ethanol / rum)
- \* Addresses the broader implications of reform, in particular the social impact of restructuring
- \* Assistance is to be delivered on the basis of country-specific strategies and national envelopes, using existing instruments as far as possible
- \* Lays down a maximum period of implementation for supporting measures of 8 years
- \* Two step-process. Dialogue is to be established with ACP so that their views can be incorporated in the final proposals to be submitted to the Parliament and Council.

### **The problems**

- \* Complete omission of LDCs from the action plan!
- \* ACP countries are already feeling the effects of the proposals. The action plan is not only needed to adapted to the market conditions that will be created as a result of the reform, but also the changes brought about the prospect of reform - most notably the availability of financing.
- \* How can an action plan strategy in 2005 deliver support within the proposed timeframe?
- \* No plans to take action to reduce EU exports to Africa and promote regional integration.
- \* Insufficient detail (purposely low?) about the practicalities of the action plan: how much money will be provided? Will the funds be provided from the EDF or additional sources? What delivery mechanisms will be used? There will be new funding but the source of it and delivery mechanisms are not known.

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## **THE FUTURE - WHAT IS NEEDED**

*"The ACP's main priority is still to work towards a fair and equitable reform which will enable us to remain sustainable in the long term. It is only then that we can work on an Action Plan." Nandcoomar Bodha, Mauritius' Minister of Agriculture, Food Technology & Natural Resources.*

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<sup>1</sup> Barbados, Belize, Guyana, Jamaica, Trinidad and Tobago, St Kitts and Nevis, Fiji, Republic of Congo, Ivory Coast, Kenya, Madagascar, Malawi, Mauritius, Mozambique, Swaziland, Tanzania, Zambia and Zimbabwe

\* Full consultation and dialogue with ACP countries is essential. Many ACP representatives have been disappointed by the lack of substantive political exchange so far. Almost everything relating to the sugar proposal has been leaked and has never been debated with those who will be most affected.

\* The ACP does not want funds diverted to sectors other than sugar. They want support to make sugar competitive and for cane to become an added value industry. Equally, they do not want solutions that trade off the sugar sectors loss of preference for tariff preferences in negotiations on services.

\* The Commission must carry out studies to fully assess the impact of EU sugar sector reform and encourage the use of existing National Indicative Programme funds to draw up country strategies, reimbursing retroactively other activities from which funds have been diverted.

\* Specific remedial measures need to be developed, which can be adopted to deal with these effects.

e.g. the issue of the drying up of investment funds could easily be addressed if the EIB were to consider providing loans from the risk capital facility at the lowest possible interest rate.

e.g. concrete trade initiatives could be used in order to compensate for declining prices such the expansion of market access for low cost sugar producers or removing special sugar duty on sugar containing products to allow ACP countries to develop exports of value added sugar based products.

\* No fixed time limit should be established at the outset, but rather subject to on-going review. Even with full support for the ACP (before, during and after), an extended transition period may nonetheless be required.

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A two-track approach is emerging. The timing and phasing of the price cuts seems increasingly likely to be determined by the inter-European political process (and bargaining between Member States), with little reference to the ACP. The ACP confirm that they feel sidelined. There is some concern that insufficient consultation has and will take place within the APC. There is a sense that no substantive political exchange has taken place on the issues ACP Ministers had discussed during their January tour of European capitals. This cannot continue.

#### Likely timetable

##### *1. Draft Regulation May / June (or even earlier)*

*A significant minority of Member States are likely to argue for a longer transition period and a more gradual introduction of price cuts.*

##### *2. Second half of 2005 likely to be a period of efforts to get agreement in time to have a framework for the new sugar regime agreed before the WTO Ministerial in December.*

For the ACP, sugar is not a commodity only, it is the cohesive factor in their social fabric. What is required is a reform that is just and equitable and meets the legitimate expectations of the ACP while respecting the legal provisions of the Sugar Protocol and the political commitment made to the LDCs, almost all of which are ACP States. We need to assure that the ACP earn adequate level of earnings on a stable and predictable basis. This is fundamental for their sustainable development and their fight against poverty to which we are committed.