

CIBE/CEFS Position paper

THE SUCCESS OF THE EU SUGAR REGIME REFORM IS BEING UNDERMINED BY ITS EXTERNAL TRADE POLICY

CIBE and CEFS are very concerned by the Commission's external trade policy proposals, particularly those relating to the WTO Doha Round negotiations and the EPA negotiations. They consider these proposals are not consistent with the Sugar Regime reform as adopted by the Council and the Parliament in 2005 and reconfirmed two months ago. Therefore they are looking for the help of both Institutions in the aim to convince the Commission to review its trade policy position insofar as sugar is concerned.

**SUMMARY:
PRESENTATION AT THE CIBE/CEFS COCKTAIL
OF 19th DECEMBER 2007
- RESIDENCE PALACE, BRUSSELS -**

1/ Some preliminary remarks

a) Why was Europe's sugar policy (the "Sugar Regime") reformed?

To address internal (CAP reform) and external (EBA, WTO Panel and WTO Doha Round) challenges

To improve the efficiency of the sector

b) How was the Sugar Regime reformed?

Through the introduction of an agro-industrial restructuring scheme aimed at reducing EU production quotas by 1/3 and total production by some 40%, so turning the EU from a net sugar exporter to a net sugar importer

Via a price cut of 36%

Via a specific program for out of quota sugar

2/ In October 2007 the internal pillar of the reform was reassessed

3/ But the EU's external trade policy envisaged by the Commission undermines the reform

a) The latest Falconer text in the WTO Doha Round does not fit with the EU sugar reform

b) The Commission's EPA offer sends the wrong messages to the ACP countries

4/ Conclusion: What Council and Parliament should tell the Commission

DETAILED PRESENTATION

1/ Some preliminary remarks

a) WHY was the Sugar Regime reformed?

In 2005, the EU decided to reform its sugar policy with the aim to:

- take account of the ruling by the WTO Dispute Settlement Body restricting the EU's ability to export sugar
- adapt to the Everything But Arms Initiative¹ and limit its consequences by cutting prices and reduce the attractiveness of the European market to the Least Developed Countries (LDC) exporters and to avoid unprofitable (from a world market point of view) LDC investment in new agro-industrial capacities
- create a margin for manoeuvre in the WTO Doha Round negotiations
- include sugar policy in the reformed CAP which is characterised by domestic support for farmers being moved from administered prices to decoupled direct payments per hectare and liberalised market prices
- improve the European sugar sector's efficiency.

b) HOW was the Sugar Regime reformed?

The Sugar Regime reform was based on a support price cut and an agro-industrial restructuring scheme designed to cut quota sugar production by 6 million tonnes (corresponding to one third of EU-25 quotas before the reform). It also involved specific treatment for the out of quota production.

The restructuring programme

The restructuring programme is based on voluntary incentives (subsidy per tonne of quota renounced) for four years with coercive measures at the end (a compulsory quota cut in February 2010) to reach the volume target. Its aim is to switch the EU from being a net sugar exporter to becoming a net sugar importer, so that the EU can implement the conclusions of the lost WTO Panel, create a place for imported LDC sugar in the market and offer its WTO partners the termination of its subsidised exports in the context of a positive outcome of the Doha Round.

The sugar price cut

The sugar price cut had two principle objectives. Firstly, it was designed to favour the most efficient European producers and to convince less efficient European producers to renounce quota. Second the aim was to create room for manoeuvre in the WTO Doha Round negotiations on market access and to make it possible to apply cuts to the EU's import duties for sugar without the risk of a flood of additional imports. It was also aimed at adapting the scale of investments in new production capacity in the LDC's. At the end of the Sugar Regime reform negotiations a negotiated price cut was agreed but with transitional measures for beet production in less efficient regions.

¹ adopted in 2001 and according to Least Developed Countries a duty free quota free access to the European sugar market from 1st July 2009

Out of quota production

Recognising that out of quota production occurred in the most efficient regions it was decided to keep some two-thirds of this production in order to encourage sugar industry efficiency. To this end a facility was created that allowed to pay for the conversion of about a third of out of quota production into quota production; while for another third or so, a reserved outlet was created in the chemical industry to replace the subsidised quota sugar the chemical industry had access to before the reform.

2/ In October 2007 the internal pillar of the reform was reassessed

Considering the gap between the expected level of quota renunciation and the reality after two campaigns (2006/2007 and 2007/2008) the Commission proposed to the Council and to the Parliament an improvement in the restructuring scheme's incentive. The Council agreed an additional aid for growers whose beet delivery rights are cancelled, the introduction of provision allowing growers to trigger quota renunciation for up to 10% of the sugar manufacturer's quota to whom they used to deliver beet and the fixing at 90% of the share of the restructuring aid for manufacturers.

It was also agreed that the final compulsory quota cut in February 2010 should be allocated among undertakings in inverse proportion to the amount of quota they had voluntarily renounced, so damaging more the ones having renounced less quota than the others.

What must be highlighted is the fact that the update of the 2005 Sugar Regime reform was clearly established on a reaffirmation of the 6 million tonnes quota renunciation target (as set-out in the financial annexes to the Commission's proposal) and the fact that other elements of the reform, including prices, were maintained.

The result of the voluntary and compulsory quota cut will be the closure of more 40% of the factories existing before the reform (see graph in Annex n°1), unemployment for a large number of workers, mainly in rural areas and the stopping of sugar beet cultivation in some European regions (around 30 000 sugar beet growers have stopped to grow sugar beet since 2005) so reducing the rotational possibility and the benefit attached to it from an agronomical point of view (the reduction in sugar beet area for the sugar production will amount to around 35%).

3/ BUT the external trade policy envisaged by the Commission undermines the reform

This huge effort by the whole community and by the sector in economic, human and financial terms (more than 6 billion euros allocated for it) is likely to have proved insufficient and to be unsustainable if the trade offers made by the Commission to its trade partners in the WTO Doha Round and to the ACP countries in the EPA negotiations are not quickly modified.

WTO Doha Round

One of the aims of the Sugar Regime reform was to create a margin for manoeuvre in the WTO Doha Round. This margin was examined and debated by the Council Working Group on sugar and isoglucose in September 2005. The political agreement reached by the Council on the Sugar Regime reform in 2005 consisted in a price reduction of 227.5 euros/tonne (631.9 old intervention price minus 404.4 new reference price). This cut corresponds to a 54% cut of the

fixed import duty on condition that the additional duties generated by the Special Safeguard Clause (SSC) would remain unchanged.

The inconsistency with Ambassador Falconer's July 2007 text is obvious, even though it has been accepted by the Commission as a *basis for further negotiations*. The text proposes to slash the import duties by 66% - 73% and either to abandon the Special Safeguard Clause after the end of the Doha Round implementation period or to keep it but with a 50% reduction in the additional duties it generates. This cannot fit with the sugar reform. Moreover keeping the current SSG unchanged will not be able to impede imports of raw sugar from the end of the WTO implementing period onwards when the world market price in euros is weak.

To escape this unsustainable position Ambassador Falconer's text allows the designation of Sensitive Products where the cut in import tariffs is lower than the general rule. But this designation requires the implementation of a TRQ giving increased import access. This is unacceptable and contradicts the reform as it would necessitate a larger cut in European quotas than the current 6 million tonnes target in order to make room for these additional imports.

Therefore the Commission should try to maintain the level of protection (including the unchanged SSG) as it was anticipated at the time of the reform and should a TRQ be needed it should be negotiated as small as possible taking into account the fact that the EU already imports a large portion of its consumption and the fact that the EU is one of the few developed countries implementing a duty free quota free access for sugar originating in LDC.

Another option may be to consider sugar in the erosion preferences list because it gives these products an extended period for implementing the Doha Round agreement and so would postpone the day of inconsistency between the sugar policy and the trade policy. Therefore the Commission must also negotiate an extension of that period for as long as possible.

Economic Partnership Agreements

Concerning the Economic Partnership Agreement (EPA) negotiations with the African, Caribbean and Pacific countries, the Commission proposes to extend to all of them the same treatment adopted for the LDCs. In order to make this feasible, the Commission obtained from the Council the unilateral denunciation of the ACP Sugar Protocol as from 1 October 2009. When one considers the impact assessment studies made for the establishment of the Sugar Regime reform, we see that, at that time, the Commission was considering an unchanged 1.3 million tonnes for imports from ACP non-LDC's and a possible 2.2 million tonnes of imports from LDC's without disturbances for the EU market thanks to lower EU sugar production and expected higher EU sugar consumption. But as forecast on the basis of a recent document of the Commission (summarised in Annex 2) the need for sugar originating from the LDC's will not be higher than 1.1 million tonnes if EU stocks are not to increase, instead of the 2.2 million tonnes originally assumed, and this will remain the case as long as the expected higher domestic sugar consumption is not taking place.

This being the situation the Commission does not consider it necessary to tell the ACP that the EU market will not be able to absorb ever increasing volumes of imported sugar and that they should be careful when considering investing in new production capacity. Currently the Commission is proposing to the ACP non-LDC's to replace the Sugar Protocol, with its 1.3 million tonnes of TRQ, by EU market access for 1.6 million tonnes or even more (if ACP/LDC exports are less than needed), and it no longer mentions the LDC non-ACPs (Cambodia, Laos, Bangladesh, ...) in its data despite the new investments recently announced in these countries.

On top of all this, the Commission is sending a wrong signal to these countries by being silent on the Declaration it made in 2005 when the sugar reform was adopted. This Declaration (Annex n° 3) refers to an automatic examination of the possible implementation of a safeguard measure as soon as the imports originating from a specific LDC increase by more than 25% in any one year. To fully address the various Council, Commission and Member States declarations, it is necessary to establish clear rules and mechanisms to avoid fraudulent behaviour threatening the balance of the European sugar market. The “25% clause” vis à vis LDCs must be reaffirmed and the control of the level of imports from the ACP countries, whether LDC or not, must be consistent with the current situation (1.3 mt for the signatories of the Sugar Protocol) and compatible with European domestic consumption and production as established at the end of the restructuring process. Otherwise we face the risk of increasing imports from the ACP and LDC non-ACPs accelerated by the attractiveness of the European market and by the evolution of the euro/dollar parity. The consequence of an oversupply of the European market will be lower market prices which will impact ACP and LDC non-ACP exporters, European sugar producers and also the EU budget as it will have to pay for private storage measures.

4/ Conclusion

On the basis of what was agreed in 2005 and confirmed in 2007, the Council and the Parliament must ask the Commission to act with consistency when, it plans to give more concessions to trade partners to the detriment of the European sugar sector.

The European Union is already a net sugar importer since this 2006/2007 marketing year. The result of the restructuring scheme will be the closure of numerous factories, unemployment for a large number of workers in rural areas and the stopping of sugar beet cultivation in some European regions. The European sugar beet sector urgently asks the Commission to remain coherent with this restructuring process.

On the World Trade Organisation:

the Commission must be aware that:

- **the range for the tariff cut (66 to 73%) to be applied in the highest band proposed by the Ambassador Falconer text is unacceptable because inconsistent with the reform;**
- **keeping the current special safeguard clause unchanged is an absolute necessity, despite what is suggested in the Falconer text about the two choices for the Special Safeguard Clause, to avoid imports of sugar from the end of the WTO implementation period onwards.**

No other options can be envisaged at this stage, but in addition and in order to be in a position to express any other alternative:

- the Commission should be thinking of negotiating a possible TRQ, in the case of treatment as a sensitive product, which is as small as possible taking into account the fact that the EU is one of the few developed countries implementing a duty free quota free access for sugar originating in LDC;

- the Commission should be thinking of negotiating an extension for as long as possible of the period for implementation of the Doha Round agreement for erosion preference products.

On bilateral trade agreements:

the Commission must be aware that:

- **no more additional TRQ can be conceded to any trade partner**, as it is proposed for example for Moldavia or might be proposed with India (due to the foreseen renunciation of the current EU/India agreement on sugar);
- **rules of origin must be strict** to avoid simple mixing and other forms of loophole; the latest reviewing of those rules for the General System of Preferences must respect the following conditions that refining and flavouring are not conferring the origin and that sugar will be in the list of products for which cumulation is excluded.

More precisely on Economic Partnership Agreements with ACP:

the Commission must be aware that:

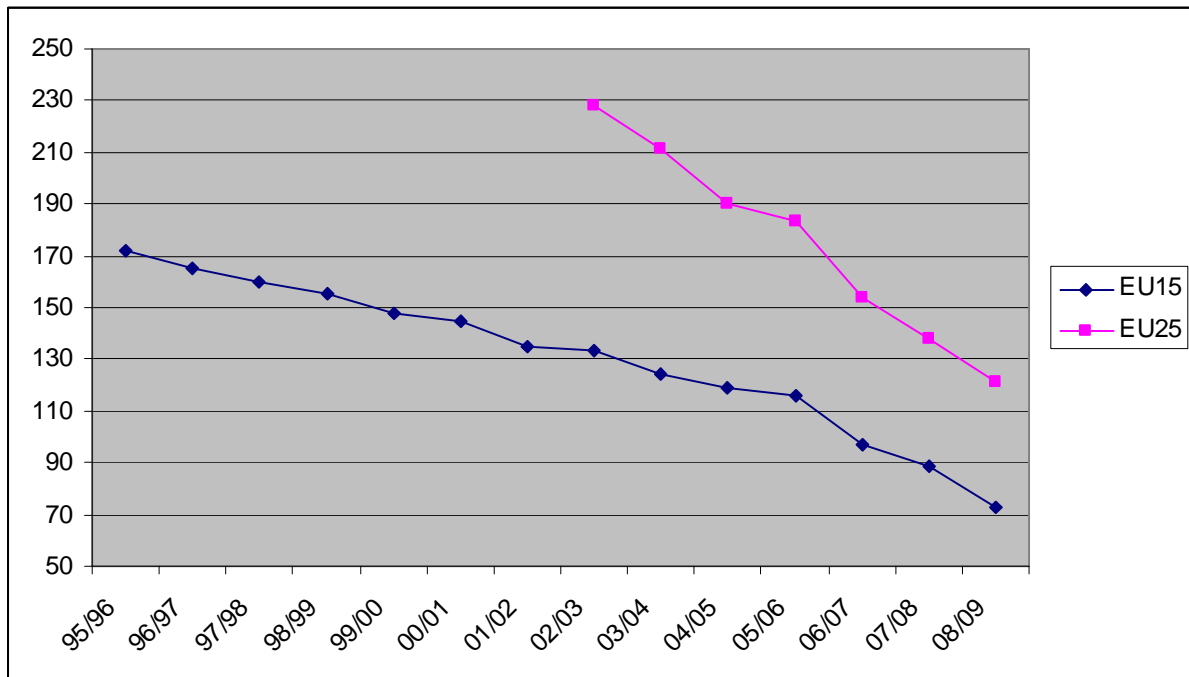
- the foreseen balance does not fit with more than 2.4 million tonnes of imports from LDC non-ACP and ACP (being or not LDC) instead of the mentioned 3.5 million tonnes only for ACP;
- the ACP countries should be alerted to consider this reality when they consider investing in new capacities which might result unnecessary;
- **a safeguard measure for sugar imported from EPAs must automatically be implemented as soon as the sum of all the foreseen imports are larger than European domestic consumption minus the production quotas;**
- adapted mechanisms to implement the safeguard measures must be manageable and applicable;
- **strict rules of origin** must be enforced to avoid loopholes and market disruptions; the latest proposal of the Commission of those rules for the EPAs must respect the following conditions that refining and flavouring are considered as insufficient working to confer the origin and that sugar will be in the list of products for which cumulation is excluded.

In addition the Commission should consider the integration of ACP regional zone negotiating EPAs as a real objective and should help ACP countries adopt a common border protection for sugar with MFN duties in the range of the average level of their bound (not the applied) WTO tariffs of the considered region. This would enable a greater homogeneity between the internal European sugar market and the internal ACPs sugar market in terms of price and thus avoid future imbalance in both markets.

The European sugar beet sector urgently asks the Commission not to change the rules adopted and agreed at any step of any negotiation. Furthermore the European sugar beet sector asks the Commission to clearly reaffirm its will to maintain a competitive and sustainable sugar sector within the European Union.

ANNEX 1

EVOLUTION OF THE NUMBER OF EU BEET SUGAR FACTORIES



NB: The figure for 2008/2009 is an estimate

There has been an obvious acceleration in the rate of restructuring since the fundamental nature of the Sugar Regime reform became clear.

ANNEX N°2

**THE FORECAST BALANCE SHEET FOR SUGAR AND ISOGLUCOSE QUOTA
BASED ON THE FORECAST CIRCULATED ON 8th OCTOBER 2007 TO THE
ADVISORY COMMITTEE FOR SUGAR. THIS SHOWS THAT THERE IS ONLY
ROOM FOR 2.4 MILLION TONNES OF IMPORTS FROM THE ACP and LDCs**

The need for the sum of imported sugar is equal to 3.4 million tonnes.

Domestic EU consumption of sugar and isoglucose	16.7
Imports of sugar-containing products	- 0.5
EU production of quota sugar and isoglucose	- 13.6
Export of sugar and sugar-containing products	+ 0.8
RESULT = need for imported sugar	= 3.4

Considering the various existing TRQs the need for importing sugar from ACP and LDCs (meaning EPAs and EBA) equals only 2.4 and not (3.5)

Need for imported sugar (to balance the market)	3.4
White sugar imported from Balkans via TRQ	- 0.4
Raw sugar imported under MFN TRQ from Brazil and Cuba mainly for Bulgarian and Romanian refiners	- 0.6
Additional raw sugar needed to supply the European full time refiners and imported from EPA or EBA (Laos, Cambodia, ...)	- 1.6
RESULT= remaining volume of imports from EPA needed for balancing the market (can be raw for refining in refineries or beet sugar factories or white)	= 0.8

}	Total imports needed from EPA and EBA = 2.4 (not 3.5)
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ANNEX N° 3

Document 6312/06 ADD 1 dated 15 February 2006
Addendum to the report of the Special Agricultural Committee dated 13 February
2006 to the Agriculture Council

Commission's Declaration on the Safeguard Clause:

“If in any given year from the marketing year 2008/09 onwards, sugar imports into the Community from a third country under the EBA arrangements increase by more than 25% in comparison with the imports from that country in the previous marketing year, the Commission will automatically open the procedure to decide whether measures such as suspension or temporary withdrawal of trade concessions, surveillance or other safeguard measures need to be applied”.