

EU Agriculture Council

Meeting with the ACP Ministers Responsible for Sugar

24 January 2005

Justus Lipsius Building, Brussels

Item ... (III)

TRADE DIMENSION:

Guaranteed Price, Maximum Supply Needs, Refining Margins etc.

In our view, the issue of price is both fundamental and central to the EC sugar regime and the effective implementation of the Sugar Protocol and the Everything But Arms Initiative in order to guarantee a stable and predictable level of earnings and income.

- It is argued that the EU domestic intervention price is three times the world market price.
- But the Commission also recognises that the world market price is not a representative price for comparison purposes because the world market for sugar is a residual market used for the dumping of excess/surplus production by some major producers/exporters.
- Besides, domestic prices paid by consumers in both developed and developing countries, including LDCs, are much higher than the world market price. In some EU Member States, it is in excess of € 1,000 per ton.
- It is to be recalled that, when the Sugar Protocol was negotiated and concluded in 1975, the world market price for sugar was more than three times higher than the EU intervention price.

- Some ACP States made a deliberate political and economic choice to opt for stability and predictability in export earnings by legally undertaking to supply “agreed quantities” to the EU at a guaranteed low price. Indeed, there was nothing like a global quota shared by the interested ACP States. The current total is the sum of the individually “agreed quantities” offered by the ACP States.
- The ACP guaranteed price has remained unchanged for the last 18 years. Indeed, when account is taken of the growing cost of ocean freight and insurance, the real export earnings have decreased for the ACP suppliers. It is also to be noted that the ACP guaranteed price is aligned with the minimum EU intervention price. In most EU Member States, there are regional prices which are even higher than the minimum institutional price to reflect, and rightly so, the regional and other constraints and specificities. The situation of the ACP is comparable to that of the OCTs. This is a fundamental element which needs to be addressed when the Commission will propose special treatment for OCTs.
- The current level of the ACP guaranteed price allows them to continue to honour their obligations to the EU and at same time to address the socio-economic needs and ensure the livelihoods of hundreds of thousands of poor farmers and workers in the ACP States, who do not have alternative sources of employment and income or even alternative crops.
- The maintenance of a remunerative guaranteed price is therefore critical not only for the survival of the sugar industry in the ACP States, but also to enable the ACP States to generate resources from within to invest in their re-structuring and modernisation programmes on a sustainable basis and not fall into the debt trap.

These issues are critical for the competitiveness and profitability of their industries.

- ***The reform proposals of the Commission will be destructive, will affect the mutuality of interest and will shift the entire burden of the reform on the ACP. This is most unfair and unjust.***
- The proposals for a 33 % cut in price for white sugar and 37 % cut in raw sugar within a short period would be catastrophic to the ACP.
- The proposed cut of 37 % in the price of raw cane sugar will in reality amount to a cut of 43 % for the ACP because the ACP, unlike the European beet sugar producers, will have to pay ocean freight and insurance amounting to € 55/ tonne on average.
- According to the Commission's proposals the intervention price of raw sugar will be reduced from € 523 to € 329 per tonne. If the costs of ocean freight and insurance premium, amounting approximately to € 55/tonne, are taken into account, the reduction in export earnings will effectively be 43 % for the ACP/LDCs, whereas the EU farmers, whose production levies averaging € 23/tonne will be abolished, will be given 60 % direct de-coupled income support, with the result that they will obtain nearly 90 % of the present price level against 57 % for the ACP. This will be grossly unfair and discriminating. Loss of earnings will amount to at least € 255 million yearly.
- The loss in earnings will be permanent and the ACP States will not be able to sustain it. In fact, the proposal is a recipe for disaster, social upheaval, and political instability.

- It also seems to us that the ACP raw sugar price is equated to the price of sugar beet. Apparently this is due to the internal price fixing system of the EU. But Article 5 (4) of the Sugar Protocol requires the EU to take into account all economic factors relevant to the ACP while negotiating the ACP guaranteed price within the price range obtaining in the EU.

This is mind boggling because raw cane sugar is not harvested from the soil like sugar beet. Raw cane sugar is produced from sugar cane and heavy investments have been made to process the sugar cane into raw sugar which in some case can be considered even finished products suitable for direct consumption.

- This equation is an aberration which needs to be addressed and the implied discrimination removed.
- All these factors indicate that the level of price cut, its entry into force, and the timeframe within which it will be effected, are not justified
- The ACP/LDC have made a collective submission to the effect that the new sugar regime should enter into force in 2008, and be implemented over an 8-year period with a price cut required that is less burdensome to the ACP/LDCs.
- The current proposals will neither benefit EU consumers or poor farmers and workers in ACP States. In reality, only the intermediaries and the industrial users of sugar will benefit. This has been amply demonstrated in other commodity sectors. 70 % of the EU sugar consumption is for industrial use.
- The issue of coherence between trade, agriculture and development policies needs to be addressed. In this respect, the external effect of the CAP reform should also be taken into account.

- Reform in the cereals and poultry sectors has resulted in the destabilisation of national production and regional trade in cereal-based products and chicken for example. The proposed deep price will cut affect existing and potential regional market for sugar. This aspect may have serious implication for regional cooperation and integration which the EU is actively promoting.
- The argument for such a drastic proposal is that the EC regime is being subjected to both internal and external pressures. I will restrict myself to the WTO.
- There is no doubt that CAP reform in general and the reform of the EU sugar system are linked to the Doha agenda. The abandonment of export subsidies and cuts in domestic, production-linked support are key features of this link.
- However, the basic instruments of market access protection which are the key to maintaining Community preference have essentially remained intact even though negotiations on special safeguards are still pending.
- The EU should have no problem in meeting its Doha Round commitments on domestic support because most support is now decoupled from production.
- As regards export competition, the EU Commission's planned quota cuts should go a long way towards bringing its subsidised exports close to zero, while the level of imports should be maintained or even increased.
- While the liberalization of the sugar market is clearly of major interest to several producers, there is nothing in the July text that would suggest a direct attack on the EU's sugar regime or that would question the legitimacy of the Sugar Protocol.

- WTO Members also agreed that the July Framework "shall not be used in any dispute settlement proceeding under the DSU".
- While there are attempts being made to tighten disciplines in a number of areas, the flexibility is there in the July Package to offer sugar the needed protection as a sensitive product and to allow the EU to maintain its sugar regime for a considerable period. The July Framework on agriculture remains fairly general with very few numbers, thereby providing members with substantial room for interpretation when the detailed "modalities" are being worked out.
- Nothing in the July Package suggests that EU sugar reforms should start in July 2005 or 2006 and cannot be delayed until 2008.
- The main threats to ACP sugar interests lie not within the WTO negotiations but in the context of the EU's own reforms, the EBA and the current (and possible future) dispute settlement challenges to aspects of the regime.

Maximum Supply Needs

- Under Articles 1 & 5 of the Sugar Protocol, the ACP Sugar Supplying States can supply both white and raw sugar.
- This is also clearly borne out by the fact that when the ACP negotiate the annual guaranteed price, the guaranteed price is fixed for both white and raw sugar for the sake of Intervention and to fulfil the requirement of the buyer of last resort. The ACP are free to sell any type of sugar under the Protocol.
- But the ACP chose to reinforce the mutuality of interests with the EU sugar refiners, to supply raw sugar and limited quantities of direct consumption sugars, which gave the EU refiners the security of supply.

- This puts the ACP and the EBA sugar supplying states in a disadvantageous and uncompetitive position because they cannot supply the type of sugar that would allow the ACP to supply other value added sugar products.
- It also prevents the ACP and the EBA suppliers from fully utilising the price ranges and the demand for the different types of sugar which the EU market requires. In the context of price reduction, especially when it is proposed to reduce the price of raw sugar more significantly, the ACP should be given the option to maximise its export earnings by supplying all types of sugars for which there is a market in the EU
- The Maximum Supply Needs (MSN) constitutes a marketing restriction which is in contravention of articles 1 & 5 of the ACP EU Sugar Protocol.
- Therefore, the MSN issue as raised in the reform proposals may not be in order. We are prepared to work with you to find a mutually satisfactory solution.
- This takes me to the related issue of refining margins.

Refining Margin

- Colleague Ministers will note that the ACP supply sugar on a Cost Insurance Freight (CIF) basis which means they have to pay increasing ocean freight cost and insurance premium. On the other hand, the EU refiners, up to now, have been provided with refining aid so that they can produce and compete with the EU beet sugar producers at par.
- It is to be recalled that in 1984, an attempt was made to pass on the burden of the refining aid to the ACP suppliers by proposing a differential increase in the price of white and raw sugar for the ACP.

- The Commission, at that time, was made to understand that this was discriminatory and the situation was resolved by removing the discrimination.
- It is surprising that today an attempt, through the reform proposals, is being made for the burden of the refining aid again to be shifted to the ACP Sugar Supplying States by proposing a 37% price cut for raw sugar against a 33% cut for white sugar. This is unacceptable because the ACP are already being penalised by the significant increase in ocean freight and insurance premium.

Point for clarification

- The proposal for the abolition of the intervention mechanism will not be in conformity with Article 6 of the Protocol which provides that if the ACP SP suppliers do not find a buyer, the EU is under obligation to purchase the ACP agreed quantities at the ACP guaranteed price. In the absence of the intervention mechanism, we do not know how the EU will fulfil its obligations under the Sugar Protocol, as the reference price mentioned in the Commission's Communication is not clearly defined. We wondered therefore whether the proposed private storage scheme will fulfil the requirement of an intervention mechanism. Will the Commission help us in clarifying these points?
- What is the status of the MSN (Maximum Supply Needs) and how is it in compliance with the Sugar Protocol and the Commission's Proposal for the production of value-added sugar products?