

## **LDC SUGAR GROUP**

### **Response to Commission Staff Working Paper and the Communication from the Commission to the Council and the European Parliament**

19 November 2003

1. The LDC sugar producing countries have examined the European Commission's papers entitled "Reforming the European Union's sugar policy - summary of impact assessment" (Impact Assessment) and "accomplishing a sustainable agricultural model for Europe through the reformed CAP – the tobacco, olive oil, cotton and sugar sectors" (Communication), published on September 23<sup>rd</sup> 2003, and as stakeholders in the EU Sugar Regime, have adopted the following common response to the reform options.
2. This position is for presentation to the European Commission, the European Council, the European Parliament, the Member States and all stakeholders in the EU Sugar Regime. The LDCs understand that the Commission suggests to open a discussion between these parties about the objectives of the regime, about the various options for reform, and about their impact on all stakeholders. The LDCs welcome the Commission's statement that the reform: "would need to closely examine its effect in the international context, especially with respect to the impact it may have on developing countries".
3. Against a background of the international development agenda and the multifunctional role of sugar, the LDCs intend to participate fully in the debate about, and formulation of international sugar policy, including EU policy, and this paper is intended to be read in that light.
4. The LDCs wish to be much more actively consulted by the Commission and other policy makers involved. The all-important Impact Assessment was made without any formal consultation of the LDCs by the Commission.

#### **Background**

5. The EBA initiative was agreed by the EU Council on 26th February 2001. The effect of this initiative will be to open the EU market fully to the world's poorest countries which comprise of close to 1 billion people. The EBA initiative was initiated with the purpose of promoting socio-economic development in the LDCs. The world and LDCs in particular have welcomed the initiative in the spirit of this objective.
6. In order to avoid any confusion on the impact of sugar reform on 'developing countries', it is important to stress that the LDCs are faced with poverty levels far greater than and development levels that are far lower than those of major sugar exporting nations that are also developing countries, such as Brazil and Thailand. These major sugar powers have both a much higher GNP per capita and much lower sugar production costs. In terms of EU Sugar Regime reform, what is good for these major sugar exporters, is generally not good for the LDCs. The LDCs call for differential treatment based on this important consideration in the future orientation of the EU sugar regime.

7. The EBA initiative granted an important opportunity for the development and growth of LDC sugar industries and their local communities. Before the EBA initiative was presented, the EU market had afforded very limited or no access to LDCs, who collectively (under the ACP Sugar Protocol) supplied 75,212 metric tonnes (w.s.e.) in 2000/2001 into an EU market exceeding 12 million tonnes. The initiative allows for the development of EBA sugar exports to the EU. The original intention of the EBA initiative was unrestricted and immediate access for all products including sugar. This would have given a tremendous boost to LDC development via the proven multifunctional role of sugar in rural economies. Unfortunately, the initiative was subsequently modified to a slower 8 year introduction schedule for sugar while most other products (except bananas and rice) remained unrestricted from the start. The LDCs were only allowed to supply 152,026 metric tonnes (w.s.e., both under the EBA quota and the ACP sugar protocol) into the EU market during 2002/3.
8. The LDCs have the ability to expand sugar production, and will do so under EBA to provide major development benefits to communities in rural areas in which sugar operations are located.
9. The current supply of LDC sugar to the EU has been organised by the LDCs in terms of a Framework Agreement for the balance of the current EU sugar regime. This agreement, which is endorsed and accepted by all LDC stakeholders, ensures that each year any LDC country may register to supply and thus that the development benefits of EBA are spread across the widest possible number of LDC countries, and regions within them. This unique agreement has also enabled the LDC suppliers to deliver their sugar entitlement with a 100% performance record to date. Reliability of supply into the future is therefore assured.
10. The sugar industries in LDC countries are substantial motors for socio-economic development and positive contributors to food security in the regions within which they are situated. It is well known that they provide reliable opportunities for small growers, field and factory workers and that they bring ancillary industries and services to rural areas. In more developed countries, infrastructure (e.g. water and sanitation, roads, housing, electricity, etc.), health care, education and other social services are provided by the state or the private sector. LDC governments often lack the fiscal basis to develop such services to a high standard. In the absence of other suppliers, LDC sugar industries provide these services from their own funds or bear the cost of private sector service providers. They provide these services not out of altruism, but because a healthy, well-educated and motivated community within a reliable infrastructure is an essential component of their success. Thus sugar ideally lends itself to the concept of multifunctionality and development.
11. Sugar cane cultivation is acknowledged for its positive environmental impact. Good agronomic practices and the renewable nature of sugar cane as a resource are well demonstrated in LDC sugar industries. Expansion of sugar cane production will contribute to the efficient removal and absorption of carbon dioxide from the atmosphere, with benefits for all.

12. Sugar is unique in LDC countries for ensuring the transparent flow of benefits from the markets to both producers and cane farmers. Also uniquely, sugar has the greatest potential to most benefit from the EBA initiative compared with other agricultural commodities produced in LDC countries. Most development potential will come from private sector investment, thereby ensuring a continuing flow of benefits to the productive sector in the country concerned. Sugar thus provides an excellent means of ensuring that the benefits of the EBA initiative demonstrably reach grassroot levels.
13. Attracting foreign direct investment (FDI), as well as domestic investment into LDC sugar industries requires access to markets at remunerative prices combined with effective controls against maladministration and fraud. The LDC sugar producers wish to go further and to seek the assistance of the EU and its relevant agencies to encourage FDI in LDC sugar industries.
14. Together, millers, growers, rural communities and LDC governments are able to combine to achieve their potential to uplift skills, health and prosperity; the EBA initiative for sugar will provide the key to further development provided it affords market access at remunerative prices. The 'overall economic welfare' as calculated for different reform options in the Impact Assessment is indeed different for LDCs than for many other countries or entities. For the LDCs, maintenance of remunerative prices is key to generating such welfare.

### **Options for reform**

15. Before outlining the LDC position on the different reform options as presented by the Commission, it should be mentioned that the family of three options for reform as presented by the Commission in its press releases and in the Communication excludes one option, labelled 'Fixed Quotas', which was analysed in the Impact Assessment. Without giving any explanation, or even mentioning this important omission, the Commission has decided to exclude the fourth option of Fixed Quotas. Since the family of options is presented as a basis for an extensive discussion between stakeholders, the LDCs urge the Commission to include this fourth option again and urge all stakeholders to base their considerations for reform on the family of four options as discussed in the Impact Assessment.
16. The value to LDCs of access to the EU market is access at remunerative prices. Substantially reduced prices in the EU market would be of little or no benefit to the development intention behind the EBA initiative. Obviously, Liberalization of the EU sugar regime would remove the preferential aspect of EBA access and would make the EU just another destination for sugar at world market prices, (which the Commission also expects to be in decline), thereby attracting competition from the strongest and largest sugar producers in the world. This would be prohibitive for the development of sugar exports from LDC producers faced with relatively high transport costs to the EU, and being in a development phase, that are still years away from world-market competitiveness.

17. Substantially reduced prices as part of the Price Fall option would severely restrict the development potential of the EBA initiative as well. At the same time, they would generate a substantially increased export flow of sugar from the LDCs into the EU, as compared to a scenario of remunerative prices in the options of Status Quo and Fixed Quotas. In the event of lower prices, investments that will have been made in production and export capacity will have to be recouped on the basis of much reduced export revenue, and would therefore require substantially increased export flows compared to the volumes that would be supplied by LDCs in an orderly market structure. Furthermore, the Price Fall option would allow for unlimited substitution of LDC sugar production for domestic consumption with LDC sugar imports, thereby creating additional LDC export capacity.
18. The LDCs require time to develop the competitiveness of their sugar industries. Whereas many sugar industries with limited potential have been created and maintained through subsidies and preferential arrangements around the world, the LDC Sugar Producers have the characteristics to become competitive over time, as confirmed by the Impact Assessment. In the development spirit of the EBA initiative the EU should deliver the preferential access and price levels that are needed to bring the LDCs to this level. Accelerated market access (both prior to and after 2006) coupled with a longer transition period would stimulate this process within a managed market scenario in the EU.
19. The LDCs are conscious that the quantities of sugar produced in LDCs are small compared with the scale of the EU sugar industry. To put matters into perspective, the total production of LDC-49 countries is around 2.8 million tonnes, whilst sugar production in the EU-25 is around twenty million tonnes. It is important that the impact of the concessions granted to the LDCs under EBA is not overstated. Both the Communication and the Impact Assessment contain forecasts for sugar imports from LDCs that are much higher than is reasonably to be expected under the current regime. The conclusions of the study published by the European Commission in 2000 entitled "Everything but Arms Proposal; Possible Impacts of the Agricultural Sector" (which is referred to in the Impact Assessment study) remain valid and confirm that the likely level of imports from the LDCs will be relatively small.

20. In terms of the Impact Assessments Family of Four Options, the LDC's have the following position:

-Option 1 (Status Quo) is the preferred option. It would provide the LDCs with duty-free access to the EU sugar market at guaranteed prices equal or close to those that existed at the time of the introduction of the EBA initiative, and would represent a strong incentive for development through trade, increased production efficiency and product quality, as well as new and substantial (foreign) investment in the LDC industries.

-Option 2 (Fixed Quotas) would facilitate an orderly managed market and be the only alternative to option 1 acceptable to the LDCs. It should be kept in the family of options to be discussed. The option would allow for the development of EBA access as envisaged in 2001 at market prices that would not be much reduced from the current ones. If LDC access needed to be negotiated, the EBA position should take into account the export potential of the LDC sugar producers, and could obviously not "consolidate the highest export levels attained while taking into account the investment undertaken" as stated in the Impact Assessment, for the reason that these exports and the related investments have yet to happen.

-Option 3 (Price Fall) price cuts of the magnitude envisaged in this option would completely undermine the intended benefits of access to the EU market for LDC suppliers; the result would be the opposite of the development objectives which the EBA initiative set out to achieve.

-Option 4 (Liberalisation) would amount to a complete negation of the benefits of the EBA initiative, with disastrous consequences for many LDC economies preparing for a new export market.

21. Given the above preferences for the LDCs, it is important to stress that the Commission does not explain its exclusion of the second option of Fixed Quotas, while the Impact Assessment gives a clear explanation: "The option of returning to fixed quotas would require the Community to go back on its international commitments like the EBA initiative", and "Backtracking on EBA would affect the credibility of the EU". Since two of the four options (Price Fall and Liberalization) lead to a sugar price level in the EU that renders the EBA initiative meaningless for sugar, it seems very undesirable to rule out one of the two options that would give meaning to EBA access for sugar, because the EU would not like to limit the free access it has given earlier. In other words, the Commission seems to prefer maintaining free access for the LDCs into a market with a price that is too low for them to compete, over that of negotiating with the LDCs an orderly market that achieves a price that allows the LDCs to compete and create development. The LDCs urge the EU not to let its commitments under EBA stand in the way of LDC development and trade.

22. An orderly market structure as envisaged in the options of Status Quo and Fixed Quotas is favoured by the LDCs. They understand the dangers of oversupply in any market and believe that management of market allocations could be facilitated by responsible negotiations in order to balance supply and demand between imports and domestic production. The LDCs believe an orderly market structure would help maintain EU sugar prices at levels that provide sustainable benefits for EU farmers, ACP producers and LDCs alike. Increases in EBA supplies could be offset by increased consumption in an enlarged EU and by reduced production quotas, but should not be at the expense of ACP suppliers.

23. The suggestion of maintaining an orderly market structure incorporating free EBA access could be regarded as contradictory. The LDC's believe this is not the case. In the past the EU sugar regime has been an orderly managed market structure, regardless of the volatility in sugar beet acreage and sugar production. In light of the apparent ability of the system to deal with annual fluctuations in the market, predictable EBA imports could be given a place in an orderly managed market structure for the future.
24. The LDCs would be willing to facilitate the Commission's task of managing the EU sugar market by negotiating as a group, reasonable quantitative restrictions, in combination with workable administrative procedures for import, together with strong regulations and monitoring structures, prohibiting the re-exportation of sugar imported into any of the LDCs. The potential substitution of LDC sugar production for domestic consumption with LDC sugar imports could be managed on the basis of a collectively proposed structure that would also take into account LDC sugar production and export potential.
25. With respect to the enforcement of Rules of Origin by the LDCs, it should be stressed that the LDCs take responsibilities in such enforcement very seriously. They believe that the benefits of the EBA initiative in respect of sugar are intended for the LDC sugar industries, specifically the communities relying on the industry and people working there in fields and factories, and that those benefits will also impact positively on ancillary industries. LDCs are resolved to cooperate fully with local and EU customs officials to ensure rigorous compliance with customs procedures which ensure that these benefits reach their intended targets, notably concerning rules of origin, administration of customs certificates and anti-fraud measures.
26. LDCs currently, through the EBA Sugar Framework Agreement, register supplying entities on an annual basis. In any future regime, the LDCs will request cooperation with their Governments, EU Member States, the Commission (DG Customs), and the WTO to implement a system of compulsory certification of authorized exporters from each LDC whereby unauthorized exporters would not gain access to the EU market under the EBA initiative. The LDCs envisage that only sugar industries or their appointed representatives should be able to countersign the customs documents necessary to gain access to the EU sugar market under the EBA initiative.

## **Conclusion**

The LDC sugar producing countries recommend that the European Commission should propose, and the European Council and European Parliament should support an orderly market structure for sugar, in line with the current EU sugar regime, which:

- guarantees remunerative prices to LDC and ACP sugar industries in order to secure the benefits of EU market access to their respective countries;
- does not restrict the volume of LDC access to the EU sugar market, other than through negotiated reasonable quantitative restrictions, which amongst other things would take into account LDC production and export potential;
- speeds up development in LDCs by accelerating EU market access;
- does not restrict the LDCs as to the type of sugar they may deliver, nor through whom such sugar can be imported, nor to whom they may deliver in the EU market;
- will not force the LDCs to substantially increase the volume of their exports to the EU in order to achieve the same export revenue and to recoup investments, as a result of substantially reduced prices in the EU market;
- ensures rigorous compliance with customs procedures and registration of authorized exporters which in turn ensures that the benefits of the EBA initiative reach their intended targets in LDCs; and
- is conducive to providing the best possible conditions for attracting investment into LDC sugar industries.

In having the discussion leading up to the eventual proposal for and decision on the reform of the EU Sugar Regime, the LDCs ask all stakeholders involved to consider the presented evaluations in the light of European sustainable development strategy and the CAP objectives; but more so, it asks all stakeholders to review the alternatives based on the advantages and disadvantages these bring to all stakeholders. As can be seen on page 38 of the Impact Assessment (a table outlining the impact of the four options on key recipients), the options of Status Quo and Fixed Quotas create substantially less 'losers' and would logically be supported by the majority of stakeholders.

Whatever the outcome of the discussions, the LDCs call for an extended transitional period during which they can adjust themselves to new market conditions, whilst still benefiting from free market access that has been granted to them by the EU so generously, but that currently will only start to come into effect in 2009.

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