# Submission to the DEFRA Consultation on Sugar Reform, January 2004

## INTRODUCTION

*"Since 1995 the EU has spent approximately 1.25 billion euros a year subsidising sugar exports. The system is so distorting that it pays a country like Finland to actually produce sugar. … We must seize the opportunity to reform the sugar regime later this year and I can announce today that I will lobby hard both in Brussels, in other member states, and at home for this."*

The Rt. Hon. Patricia Hewitt, Progressive Globalisation: achieving global justice through trade, Fabian Society Conference, Monday, June 23, 2003

*"Without agreement on agriculture, there will be no development round. The developed world failed to offer sufficiently radical or quick reforms of its agricultural policies. The EU's failure on agriculture was an own goal resulting from a lack of coherence between its policies on trade, development and agriculture. The developed world must accept that if its agricultural policies harm developing countries – and trade distorting domestic support and export subsidies clearly do – then they must be changed."*

House of Commons International Development Committee, 'Trade and Development at the WTO: Learning the lessons of Cancun to revive a genuine development round', 11 December 2003

*"The price of sugar fluctuates. If it goes low, we have to forgo certain things. Normally I'm able to feed my family although we're experiencing problems at the moment. Sometimes the money runs out. It makes me very angry that European farmers get so much support"*

Sipho Sibeko, South African sugar cane farmer[i]

ActionAid[ii], CAFOD[iii] and Oxfam GB[iv] welcome the opportunity to submit views to DEFRA on the European Commission's proposals for reform of the EU sugar regime. We have already written extensively on the EU sugar regime and a number of our country programmes and partners are actively engaged in the sugar sector, namely Brazil, Kenya and Malawi.

The EU sugar regime is in desperate need of reform. It is failing to deliver on a long list of criteria. None of these failings is as great or as manifestly unjust as its negative impact on developing countries.

The recent collapse of the WTO Ministerial in Cancun was partly due to the intransigence by the North on agricultural reform. The EC's position on its agricultural subsidies was a contributing factor to this collapse.

The EU sugar regime is of significant importance for developing countries. As an unreformed sector of the CAP, heavily reliant on export subsidies (sugar represents 30% of the EU's annual export subsidy bill)[v], price support and with high levels of dumping, it is also a notably anachronistic and damaging one.

Developing countries will continue to demand that there is significant agricultural reform in the North. European movement on agriculture is a prerequisite for reactivating the stalled Doha round. Meaningful sugar reform that addresses the concerns of developing countries could be a major step in bridging this current divide.

It is time that the Commission and EU member states moved beyond the pressures of narrow agricultural and sugar industry interests and tabled far reaching proposals for change.

Reforms will have a direct impact on developing countries. This should be given greatest weight and priority in the Commissions consideration of reform options and in their future proposals.

The status quo is not an option. The damage currently being done by dumping alone means that reform is urgent and imperative. This should not be put off by the political wrangling of member states. The UK Government needs to ensure that the Commission puts development centre stage in the formulation of proposed policy changes.

In our submission ActionAid, CAFOD and Oxfam GB would like to outline the two areas where development concerns need to be put at the heart of sugar reform.

## AREA 1: THE NEED TO STOP DUMPING

Europe is one of the highest cost producers of sugar.[vi] According to a study by the Netherlands Economic Institute (NEI) the production costs of the lowest cost beet producers in the EU were 60% higher than the costs of low cost cane production throughout the 1990's. It cost Europe around 673 Euro to produce one tonne of white sugar, compared to just 286 Euro for competitive countries like Brazil, Colombia, Malawi, Guatemala and Zambia.[vii]

Yet despite high costs the EU sugar regime suffers from a chronic problem of overproduction and dumping. In net terms the EU is an exporter.[viii] Net exports represent an average 20% of EU sugar production.[ix] The share of the EU 15 in total world sugar exports amounts to 15%.[x]

This only happens because of the array of quotas, subsidies, levies and trade barriers put in place by the current regime. Europe's farmers and processors are the world's biggest recipients of sugar subsidies.[xi] Europe's sugar prices are maintained at almost three times world market levels[xii] protected by tariffs that reach 140 per cent.[xiii]

This is highly damaging to sugar producers in the vast majority of sugar producing developing countries.

Dumping under the EU sugar regime damages the interests of developing countries in two ways: firstly, by depressing global sugar prices, directly undermining developing country sugar producers; and secondly, by undercutting competitive developing country sugar exporters in third country markets.

What is the scale of this damage? It is difficult to assess the precise level of harm inflicted by the EU sugar regime, but the overwhelming consensus is that it is high.

By driving down prices and dumping such a large surplus of exports the EU sugar regime contributes to volatility in the world sugar market.[xiv] It has also contributed to the downward trend of global sugar prices since 1995.[xv] Developing countries loose foreign exchange earnings, markets and their sugar producers lose valuable revenue. The depression of prices by the EU retards developing country sugar producers, including many LDCs. CAFOD have documented the damage EU sugar subsidies cause to small, poor sugar producers in South Africa.[xvi]

In third country markets cheap subsidised European sugar also displaces small, poor sugar producers from developing countries. In 2001 for example, Europe exported 770,000 tonnes of white sugar to Algeria and 150,000 tonnes to Nigeria – countries that would be potential export markets for competitive African exporters like Malawi, Zambia or Mozambique. The costs in terms of income and development opportunities are huge.[xvii]

ActionAid, CAFOD and Oxfam GB's primary concern is that EU sugar reform should stop the dumping of cheap subsidised European sugar on global markets.

In 2001/02 some 1,493 million Euro was used to provide subsidies on the export of some 3,488,000 tonnes of sugar, equalling an average rate of export refund (across all types of sugar export refunds) or Euro 428 per tonne.[xviii] Taking the guaranteed internal prices as a reference point, the EU typically exports sugar at around one-third to one half of the domestic 'normal price'. Dumping margins can exceed 200 per cent.[xix]

This is only made possible by the level of subsidies and support that the EU sugar regime receives. This is a result of deep-seated problems in the current structure and implementation of the sugar regime that cause both overproduction and dumping. These issues need to be urgently addressed in the reform process.

EU dumping occurs through three channels.

- The first is by export subsidies given to sugar exports for an amount equivalent to ACP cane sugar exports. This costs 800 million Euro per annum and is paid directly out of the EU CAP budget. [xx]
- The second is through subsidies on exports from ‘A’ and ‘B’ quotas. These subsidies are funded by levies collected from farmers and processors on all quota production.[xxi] The cost of these levies (around 800 million Euro each year[xxii]) is paid for by consumers through higher priced sugar.
- The third is through exports of non-quota ‘C’ sugar. This ‘C’ sugar is cross subsidised by the high price EU farmers receive for ‘A’ and ‘B’ sugar. The generosity of the sugar regime enables farmers to cover their fixed costs and the bulk of their costs of production and still produce surplus ‘C’ sugar that they can export at a profit. [xxiii]

In 2000/01 quota exports were 3.1 million tonnes whilst non quota ‘C’ sugar exports were 3.8 million tonnes.[xxiv] As seen from the examination of average EU export refunds and costs of production, all sugar exports from the EU should be classified as dumping. There is therefore a need for sugar reform to address more than just the removal of export subsidies funded from the CAP budget.

At the heart of the problem of dumping is the setting and implementation of the sugar regime’s quota system. The quota system has failed to prevent high support prices from generating production far in excess of domestic demand.

The EU’s Court of Auditors in 2000 found that production quotas for ‘A’ and ‘B’ sugar were set around 25% higher than the level at which the EU sugar supply would equal consumption.[xxvxxvi] For the past decade at least, total ‘A’ and ‘B’ quotas in the EU have consistently been set significantly above total EU sugar consumption, creating a large annual surplus.[xxvii] As well as being set too high, these quotas have also been failing in their task of keeping producers within quota production limits. EU producers continue to produce far more sugar than their quotas restrict them to.

The result is that the use of ‘C’ sugar has grown at a significant rate. In 2002, C sugar reached a total of nearly a quarter of total EU sugar production (‘A’ and ‘B’ production) at 3,264 million tonnes[xxviii]. Since 1996/97, ‘C’ sugar exports have consistently been larger than official EU subsidised exports.[xxix]

Quotas are clearly set far too high, and this has been compounded by the institutionalisation of overproduction, the use of ‘C’ sugar and, as a result, systematic dumping.

Rather than addressing this problem, the political nature of quota setting and the repartition of the EU's sugar production capacity across the entire Community has instead postponed attempts at reform.

## ActionAid, CAFOD and Oxfam GB urge DEFRA that:

**EU Sugar Reform must eliminate the use export subsidies and dumping**

- Sugar reform must immediately eliminate the use of export subsidies. This should be done before waiting for the outcome of any WTO negotiations on agriculture. This step would form part of a development 'downpayment' to signify the EU's good faith at the WTO negotiations in Geneva, not delayed in the hope of extracting further concessions from developing countries.
- Sugar reform must prohibit all forms of dumping of EU sugar (the export of sugar at below the costs of production). **This should include removing current export subsidies, quota sugar export subsidies financed by levies and the export of C sugar.**

**EU Sugar Reform should see EU sugar production levels cut substantially to a level at which EU production is lower than EU consumption, plus preferential imports**

*This should be done through quotas by:*

- Reducing 'A' and 'B' quotas substantially to a level at which they are lower than EU consumption, plus preferential imports.
- Elimination of 'C' sugar altogether – as C sugar is not allowed to be sold on the EU market, any use of the category is de facto dumping by the EU. It should therefore be eliminated. ActionAid, CAFOD and Oxfam GB also note the particular duty of the UK government to address the issue of 'C' sugar exports. From 1996/97 to 2000/01 almost one quarter (23%) of UK sugar production was non quota production that was dumped on world markets.[xxx]
- Production quotas should not be made transferable between regions or member states (a proposals floated by the Commission in its impact assessment summary).

*And by reducing internal price levels in the EU:*

- Internal prices should be lowered (through reductions in intervention support) to a level where European production is lower than European consumption, plus the imports of ACP and LDC exporters (see next section as to which ACP sugar exporters would continue to benefit from preferential access).
- Any fall in the EU internal price should be gradual, predictable and over an extended time period to minimise and phase in any transitional costs to LDC and ACP countries (for example, due to preference erosion).
- A price reduction would have to be at a level substantial enough to take into account the much higher return to beet production (and therefore incentives for EU farmers to produce sugar beet) than other crops.

# AREA 2: SECURE TRANSITIONAL ASSISTANCE MUST BE PROVIDED TO THOSE DEVELOPING COUNTRIES NEGATIVELY AFFECTED BY REFORM

Preferential access to the EU market has provided a handful of African, Caribbean and Pacific states with significant benefits.

Preferential access has provided stable export earnings to a group of 17 ACP countries, worth annually over 500 million Euro over what could be earned on the world market.[xxxi] It has maintained sugar industries in these countries, and has been a source of employment and wages to their sugar sectors and producers.

This has been of undoubted benefit to these countries. However it is the consideration of ActionAid, CAFOD and Oxfam GB that the development costs of the EU sugar regime to all developing countries have far outweighed the benefits to this small group of countries.

Three points are worth noting:

- The first is that Sugar reform unfortunately does not present policy makers with a 'win-win' situation. Reform is likely to lead to an erosion of the benefits for ACP and some LDC producers, despite the development benefits that reform could have elsewhere. *There is a clear obligation on the EU to ensure that these losses are addressed and that substantial and secure transitional assistance is put in place as part of the reform process.*

- The second is that, despite the arguments put forward by the European sugar industry, the distribution of current ACP preferences has no poverty focus. Those few ACP countries that benefit from the current Sugar Protocol are arguably not those with the greatest development needs, nor is the EU sugar regime overly generous in the benefits it provides. Under the Sugar Protocol ACP imports account for just 8% of European sugar production and only 4 of ACP beneficiaries are LDCs (Madagascar, Malawi, Tanzania and Zambia) and their combined total is just 4 per cent of the total.[xxxii,xxxiii]

  Mauritius, by far the largest beneficiary from current preferential exports, accounting for a third of preferential ACP exports to the EU[xxxiv], has a GDP per capita higher than Brazil, Mexico and Thailand, as well as Russia, Turkey and Poland.[xxxv] Agriculture only accounts for 6% of GDP whilst Mauritius has a thriving banking and services sector.[xxxvi] Mauritius in this respect is a successful example of how a sugar producer has been able to reduce its sugar dependency and develop by moving into other sectors.

The current sugar regime has also stopped ACP sugar producers from developing higher value added in their sugar industries because of EU tariff barriers on processed sugar, keeping these benefits within Europe.

Nonetheless EU preferences are very important for a group of high cost small island state producers in the Caribbean and the Pacific (notably Guyana, Jamaica and Fiji)

ActionAid, CAFOD and Oxfam GB believe that preferential access for ACP countries should be based on development criteria (see below).

- The third is that the EBA initiative will provide a valuable source of market access and finance for Least Developed Countries. Reform proposals must look to secure this access, whilst more needs to be done by the Commission and the UK government to ensure that LDCs are able to benefit from this access.[xxxvii]

## ActionAid, CAFOD and Oxfam GB strongly request:

**That the guiding principle of reform should be that the burden of change should fall on those countries who are most able to deal with it.**

- The burden of reform should primarily fall on EU sugar producers and the European sugar industry
- Sugar reform should not lead to losses to ACP and LDC preferential exporters unless proposed reforms achieve an end to European dumping on global markets

**That the EU makes sure that there is secure and guaranteed transitional assistance for any ACP or LDC countries negatively affected by reform**

<u>*There should be guaranteed sources of transitional funds from the EU*</u>

- We welcome the Commission's suggestion that annual cost savings from the sugar regime should be channelled into transitional aid to affected ACP and LDC countries due to preference erosion (targeted for example at diversification, valued added, more competitive sugar industries etc). *We urge DEFRA to make sure that all savings from sugar reform (particularly from export refunds) are ring fenced solely for this purpose.*
- We also recommend that the following sources of funding are considered
    - A sugar tax on the price of sugar
    - A tax on the European sugar industry
- Transitional assistance must be secured and guaranteed over a 15 to 20 year period.
- Any short fall should be taken from the EU Budget from agriculture or by the creation of a new budget line. The EU's development budget should not be used for this purpose. We note particular problems around the European Development Fund (EDF) and recommend that this is not used.
- That some ACP sugar exporting countries should still qualify for preferential access (when the current Sugar Protocol expires) and that this should be extended to all

forms of sugar (including processed sugar). However their eligibility should depend on them meeting certain development criteria (such as poverty, percentage of small holders in production and wider human development indices).
- ActionAid, CAFOD and Oxfam GB would value further engagement with the UK government in the formulating of proposals for transitional assistance.

*Research is urgently needed*

- The Commission paper admits to lack of detailed work on the consequences for sugar producers benefiting from preferential access. We welcome the Commission's promise to evaluate the impact of the reform for the ACP countries benefiting from the Sugar Protocol. We urge the Commission to carry out detailed individual impact assessments of the ACP and LDC countries who would be negatively affected by reform. This reform should be consultative and involve the countries negatively affected.

**That the Commission addresses the current problems of rules of origin and supply side constraints for those LDCs who stand to benefit from the EBA. The EBA should be extended to cover all forms of sugar.**

**That the emphasis on adjustment should be with European farmers and sugar reform should ideally move production in Europe away from beet.**

Sugar production takes up a comparatively small proportion of EU agriculture – accounting for only 1.4% of the utilised agricultural area.[xxxviii] Holdings with sugar beet are larger than average, in terms of both area and economic indicators. Within this the benefits of the regime are substantially skewed to the largest farmers. As the Commission points out 'more than half the areas sown to beet belong to 13% of holdings, with an average area of more than 120 ha'.[xxxix] EU sugar farmers have a higher income than other Europe farms and are 'often better off than the average taxpayer'. [xl] Whilst "the agricultural regions in question generally have the best land and are therefore in a relatively good position to convert to other agricultural activities".[xli]

**EU reform of the Sugar Regime should move towards support based on the delivery of public goods (for example, rural development and the environment)**

- We strongly support the proposal for modulation of any compensation payments to European farmers, which should be heavily weighted in favour of smaller farms. These compensation payments should be in line with moves towards a CAP that is truly decoupled from production and directly achieves public goods (rural development and the environment).
- Quotas should be targeted at small-scale producers.

CAFOD ActionAid Oxfam

| | | |
|---|---|---|
| Romero Close<br>Stockwell Rd<br>London SW9 9TY<br>020 7733 7900 | Hamlyn House<br>MacDonald Rd<br>London N19 5PG<br>020 7561 7561 | 274 Banbury Road<br>Oxford OX4 7DZ<br>01865 311311 |
| Matt Griffith<br>mgriffith@cafod.org.uk | Tim Rice<br>timr@actionaid.org.uk | Claire Godfrey<br>cgodfrey@oxfam.org.uk |


[i] From interviews conducted by CAFOD in South Africa through their partners SACBC

[ii] ActionAid was founded in the UK in 1972 and within Europe has sister organisations in Ireland, France, Italy, Spain and Greece. ActionAid works in over 40 countries in Africa, Asia, Latin America and the Caribbean. ActionAid is now one of largest international development agencies reaching over nine million of the world's poorest people.

[iii] CAFOD is the official development agency of the Catholic Church in England and Wales, working in partnership with over 1000 programmes worldwide.

[iv] Oxfam is a development, relief and campaigning organisation dedicated to finding lasting solutions to poverty and suffering around the world. Oxfam GB is a member of Oxfam International, a Confederation of 12 development agencies that work in 120 countries throughout the developing world.

[v] European Communities Court of Auditors, 2003, 'Special Report No 9/2003 concerning the system for setting the rates of subsidy on exports of agricultural products (Export refunds)' Brussels (2003/C 211/01).

[vi] Oxfam, 2002, 'The Great Sugar Scam' Oxfam, Oxford, pg 1

[vii] NEI, 2000 'Evaluation of the Common Organisation of the Markets in the Sugar Sector', NEI, Rotterdam.

[viii] European Commission, 2003, Communication from the Commission to the Council and the European Parliament, 'Accomplishing a sustainable agricultural model for Europe through a reformed CAP – the tobacco, olive oil, cotton and sugar sectors', Brussels, 23.9.2003 (SEC 2003 1022), pg 11

[ix] European Commission, 2003, Communication from the Commission to the Council and the European Parliament, 'Accomplishing a sustainable agricultural model for Europe through a reformed CAP – the tobacco, olive oil, cotton and sugar sectors', Brussels, 23.9.2003 (SEC 2003 1022), pg 11

[x] European Commission, 2003, Commission Staff Working Paper, Reforming the European Union's sugar policy, Summary of impact assessment work' Brussels

[xi] Borrell and Pearce, 1999, 'Sugar: the taste test of trade liberalisation', Centre for International Economics, Canberra and Sydney.

[xii] Oxfam, 2002, 'The Great Sugar Scam' Oxfam, Oxford, pg 1

[xiii] Oxfam, 2002, 'The Great Sugar Scam' Oxfam, Oxford, pg 6

[xiv] Borrell and Larson, 2000, 'Sugar Policy and Reform', Policy Research Working Paper 2602, World Bank, Washington.

[xv] European Commission, 2003, Communication from the Commission to the Council and the European Parliament, 'Accomplishing a sustainable agricultural model for Europe through a reformed CAP – the tobacco, olive oil, cotton and sugar sectors', Brussels, 23.9.2003 (SEC 2003 1022), pg 12

[xvi] CAFOD, 2002 'Dumping on the Poor' CAFOD, London.

[xvii] Oxfam, 2002, 'The Great Sugar Scam' Oxfam, Oxford

[xviii] Paul Goodison, 2004, 'Executive Brief of the EU Sugar Regime', European Research Office, Brussels

[xix] Oxfam, 2002, 'The Great Sugar Scam' Oxfam, Oxford, pg 9

[xx] Oxfam, 2002, 'The Great Sugar Scam' Oxfam, Oxford, pg 9

[xxi] Oxfam, 2002, 'The Great Sugar Scam' Oxfam, Oxford, pg 9

[xxii] Oxfam, 2002, 'The Great Sugar Scam' Oxfam, Oxford, pg 9

[xxiii] Court of Auditors, 2000, 'Special Report No. 20/2000 Concerning the management of the common organisation of the market for sugar, together with the Commission's replies', Official Journal of the European Communities. (2001/C50/01), pg 16

[xxiv] Oxfam, 2002, 'The Great Sugar Scam' Oxfam, Oxford, pg 8

[xxv] Court of Auditors, 2000, 'Special Report No. 20/2000 Concerning the management of the common organisation of the market for sugar, together with the Commission's replies', Official Journal of the European Communities. (2001/C50/01), pg 4

[xxvi] See also: http://www.eca.eu.int/EN/NOTEINFO/2000/nirs20_00en.pdf

[xxvii] Court of Auditors, 2000, 'Special Report No. 20/2000 Concerning the management of the common organisation of the market for sugar, together with the Commission's replies', Official Journal of the European Communities. (2001/C50/01), pg 21

[xxviii] Common Organisation of the Sugar Market Description" Annex III
http://europa.eu.int/comm/agriculture/markets/sugar/reports/descri_en.pdf

[xxix] Paul Goodison, 2004, 'Executive Brief of the EU Sugar Regime', European Research Office, Brussels

[xxx] Oxfam, 2002, 'The Great Sugar Scam' Oxfam, Oxford, pg 8

[xxxi] Oxfam, 2002, 'The Great Sugar Scam' Oxfam, Oxford, pg 19 from NEI, 2000 'Evaluation of the Common Organisation of the Markets in the Sugar Sector', NEI, Rotterdam

[xxxii] Oxfam, 2002, 'The Great Sugar Scam' Oxfam, Oxford, pg 19

[xxxiii] It should be noted that this data is pre Everything But Arms. EBA provides LDCs with larger market access, but this access is outside the framework of the Sugar Protocol.

[xxxiv] European Commission, 2003, Commission Staff Working Paper, Reforming the European Union's sugar policy, Summary of impact assessment work' Brussels, pg 26

[xxxv] Mauritius had a GDP per capita of US$9,860 in 2001 based on PPP, UNDP, 2003, 'Human Development Report 2003', UNDP:Oxford

[xxxvi] In 2000, Mauritius had 6% of GDP in agriculture, 32.1% in industry and 61.9% in services. World Bank, 2002, 'World Development Indicators 2002', World Bank: Washington.

[xxxvii] In the time available we've not been able to consult to reach a position on development criteria for market access for those sugar exporters that do not benefit from preferential market access outside the ACP states or LDCs to the EU market. We would recommend further debate and consultation by the Commission with those producers as part of the reform process.

[xxxviii] European Commission, 2003, Communication from the Commission to the Council and the European Parliament, 'Accomplishing a sustainable agricultural model for Europe through a reformed CAP – the tobacco, olive oil, cotton and sugar sectors', Brussels, 23.9.2003 (SEC 2003 1022), pg 6

[xxxix] European Commission, 2003, Commission Staff Working Paper, Reforming the European Union's sugar policy, Summary of impact assessment work' Brussels, pg 31

[xl] European Commission, 2003, Commission Staff Working Paper, Reforming the European Union's sugar policy, Summary of impact assessment work' Brussels, pg 12

[xli] European Commission, 2003, Commission Staff Working Paper, Reforming the European Union's sugar policy, Summary of impact assessment work' Brussels, pg 34