

CIDSE – Caritas internationalis - APRODEV

Position paper

Reform of the Sugar Regime in the EU

**Policy Recommendations
from a development perspective**

March 2005

Reform of the Sugar Regime in the EU

Policy Recommendations from a development perspective

1. A pro-development reform
2. Addressing poverty reduction
3. European overproduction damages developing countries.
4. Preserving and enhancing the development impact of preferential market access
5. The neglected side of sugar and development – poor labour standards and exploitation in sugar producing countries, competition with food production for local and national consumption needs
6. Shortcomings of the current EC reform proposals
7. Objectives of our Reform Proposals
8. Policy recommendations
 - a. EU Sugar Reform must eliminate the use of export subsidies and dumping.
 - b. Restriction of the dominant role by sugar companies
 - c. Compensation and accompanying measures
 - d. International Social and Environmental Standards

Annex 1: Overview of the EU sugar regime

Annex 2: Additional data on sugar in the EU and in the world

1. A pro-development reform

Pressure for the EU Sugar Market Order reform comes especially from the international trading system and from the economic and development policy side, mainly articulated at the WTO. What is being questioned in the current Sugar Market Order, inter alia, is the concentration of production, the intensity of production, dumping of surpluses onto the world markets and the state-related excessive advantage of sugar against other European crops.

Our concerns stem from the social and ecological situation of the sugar economy in developing countries as well as in Europe. Sugar is the internationally traded agricultural product par excellence. That is why every country is affected by the decisions of others.

With sugar cane, developing countries are competing with beet sugar grown by countries of the North. Although sugar cane production and processing is more efficient than that of sugar beet, the latter has been able to build its dominant position on the world market thanks to state support. Those who pay in the end are the cane sugar workers, small farmers and their families in developing countries.

We believe that a pro-development reform of the EU Sugar Market Order can make a real difference for these small farmers, giving them a better chance to earn a fair income to make their livelihoods more sustainable.

In this paper we put forward the development case for change.

2. Addressing poverty reduction

Poverty reduction in developing countries is used as one of the main arguments for reform of the EU Sugar Market Order (SMO), both by those who want to maintain the status quo as well as those who want further liberalisation.

There is undoubtedly a pressing development case for reform of the European Union Sugar Regime. The current regime is causing great damage to the interests of developing countries by dumping tonnes of cheap sugar onto the world market, depressing prices and leading to lower export revenues for developing country governments and incomes for developing country producers. This needs to be stopped.

However the sugar regime also benefits a few developing countries that export to the European Union on preferential terms.

In 2004, the European Union put forward proposals for change to the sugar regime. From a development perspective they failed on both counts. Current reform proposals fail to put forward changes radical enough to stop the damaging dumping of European sugar surpluses. But at the same time, the European reform proposals put a disproportionate burden of change on those developing country producers who currently benefit from the EU sugar regime. They currently represent a 'lose-lose' for developing countries.

As development agencies, CIDSE and APRODEV believe that a sugar reform is possible that both stops dumping and makes Europe's system of preferential access to developing countries more effective at fighting poverty. But at present, this valuable opportunity for reform appears

to neglect development and instead maintains the disproportional benefits for some of Europe's largest producers and most powerful lobby groups and sugar processors, neglecting also social and environmental interests in Europe.

3. European overproduction damages developing countries.

Europe is one of the highest cost producers of sugar¹. 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 Zambia².

Yet despite high costs, the EU sugar regime suffers from a chronic problem of overproduction and dumping. In net terms, the EU is an exporter³. Net exports represent an average 20% of EU sugar production⁴. The share of the EU 15 in total world sugar exports amounts to 15%.⁵

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 support⁶. Europe's sugar prices are maintained at almost three times world market levels⁷, protected by tariffs that reach 140 per cent⁸.

This is highly damaging to sugar cane producers and the sugar industry 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 significant. And it is only one example of the harmful agriculture policies of the European Union.

¹ Oxfam, 2002, 'The Great Sugar Scam' Oxfam, Oxford, pg 1

² NEI, 2000 'Evaluation of the Common Organisation of the Markets in the Sugar Sector', NEI, Rotterdam.

³ 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

⁴ 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

⁵ European Commission, 2003, Commission Staff Working Paper, Reforming the European Union's sugar policy, Summary of impact assessment work' Brussels

⁶ Borrell and Pearce, 1999, 'Sugar: the taste test of trade liberalisation', Centre for International Economics, Canberra and Sydney.

⁷ Oxfam, 2002, 'The Great Sugar Scam' Oxfam, Oxford, pg 1

⁸ Oxfam, 2002, 'The Great Sugar Scam' Oxfam, Oxford, pg 6

By driving down prices and dumping such a large surplus of exports, the EU sugar regime contributes to volatility in the world sugar market⁹. It has also contributed to the downward trend of global sugar prices since 1995¹⁰. Developing countries lose 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 has documented the damage EU sugar subsidies cause to small, poor sugar producers in South Africa¹¹.

In third country markets, cheap subsidised European sugar also replaces sugar produced by small poor 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 trade opportunities are huge¹².

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) of Euro 428 per tonne¹³. 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 cent¹⁴.

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 budget¹⁵.
- 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 production¹⁶.
- The third is through exports of non-quota 'C' sugar. This 'C' sugar is cross-subsidised by the high price EU sugar beet farmers and the EU sugar industry receive for 'A' and 'B' sugar. The generosity of the sugar regime in terms of prices *and* quotas enables

⁹ Borrell and Larson, 2000, 'Sugar Policy and Reform', Policy Research Working Paper 2602, World Bank, Washington.

¹⁰ ¹⁰ 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

¹¹ CAFOD, 2002 'Dumping on the Poor' CAFOD, London.

¹² Oxfam, 2002, 'The Great Sugar Scam' Oxfam, Oxford

¹³ Paul Goodison, 2004, 'Executive Brief of the EU Sugar Regime', European Research Office, Brussels

¹⁴ Oxfam, 2002, 'The Great Sugar Scam' Oxfam, Oxford, pg 9

¹⁵ Oxfam, 2002, 'The Great Sugar Scam' Oxfam, Oxford, pg 9

¹⁶ Oxfam, 2002, 'The Great Sugar Scam' Oxfam, Oxford, pg 9

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 profit¹⁷.

In 2000/01 quota exports were 3.1 million tonnes whilst non quota 'C' sugar exports were 3.8 million tonnes¹⁸. 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 consumption¹⁹. 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 surplus²⁰. 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 tonnes²¹. Since 1996/97, 'C' sugar exports have consistently been larger than official EU subsidised exports²².

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.

¹⁷ 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

¹⁸ Oxfam, 2002, 'The Great Sugar Scam' Oxfam, Oxford, pg 8

¹⁹ 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

²⁰ See also: http://www.eca.eu.int/EN/NOTEINFO/2000/nirs20_00en.pdf

²¹ 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

²² Common Organisation of the Sugar Market Description" Annex III

http://europa.eu.int/comm/agriculture/markets/sugar/reports/descr_en.pdf

4. Preserving and enhancing the development impact of preferential market access

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

It has provided stable export earnings to a group of 17 ACP countries, worth annually over 500 million Euro above what could be earned on the world market²³. 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 CIDSE and APRODEV are concerned that the distribution of current ACP preferences has very little poverty focus. Only a few ACP countries benefit from the current Sugar Protocol and, at the same time, the EU sugar regime provides only limited benefits. Moreover the quotas are not fairly distributed. About 70% of the yearly revenues of ACP sugar go to only four countries (Mauritius, Fiji, Guyana and Swaziland) and only 4 of ACP beneficiaries are LDCs (Madagascar, Malawi, Tanzania and Zambia) having a combined total of just 4 per cent of the full amount^{24, 25}. The preferences are not linked to any development supporting criteria.

Nonetheless EU preferences are very important for a group of small island state that produce sugar at high cost in the Caribbean and the Pacific (notably Guyana, Jamaica and Fiji). These countries all have sugar sectors that support poor people and to whom sugar production forms an important segment of often vulnerable economies.

There is a clear obligation on the EU to ensure that any losses suffered by the ACP are addressed and that substantial and secure transitional assistance is put in place as part of the reform process.

The EU's "Everything-But-Arms Initiative" – henceforth called 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 to ensure that this access supports development in LDCs²⁶.

Current reform proposals ask ACP countries to take on a disproportionate burden of adjustment over a very short timescale. The Commission needs to rethink its approach here by relying more on EU quota cuts to address the problem of dumping and extend any reduction of internal prices over a longer transitional time period. Prices should be reduced gradually, but only to a certain, still remunerative, price level.

²³ Paul Goodison, 2004, 'Executive Brief of the EU Sugar Regime', European Research Office, Brussels

²⁴ 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

²⁵ Oxfam, 2002, 'The Great Sugar Scam' Oxfam, Oxford, pg 19

²⁶ 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.

The group of LDCs presented a proposal on 5 March 2004 to the EU-Commission on sugar reform. They ask to replace the EBA Initiative by duty free import quotas (so called “Tariff Rate Quotas”) from 2009 onwards. In the transitional period of the 10 following years, they propose a phasing out of the tariff for the out-of-quota deliveries. Because we think that this is in the interest of development, we advocate, in support of the LDCs current position, the postponing of the EBA Initiative, which includes free tariff and quota free access to the EU market for Least Developed Countries.

With the above, we would like to ensure that a genuine contribution will be made to combating poverty. We see in this proposal an opportunity to come to an agreement, at least with the LDCs, which links additional market access with bilateral agreements on social and environmental standards. We also recognise that this is a delicate matter that raises concerns among LDCs about covert protectionism by the EU.

Any standards should be drawn up in full consultation with LDC countries as well as with international and LDC trade unions and farmers’ organisations. LDCs should have a final say in the shape of any agreement and a review mechanism must be available if they suspect that it is being used as an unjustified protectionist measure by the EU.

As a result of the substantial EU quota cuts outlined above, the EU must reserve for the developing countries at least 20% of its domestic sugar consumption as market access. LDC standards-linked market access should be increased steadily in line with LDC increased capacity. Remaining export space opened up by reform should be distributed among developing countries according to development policy criteria²⁷.

The EBA Initiative, guaranteeing tariff and quota free market access for LDC, should be replaced by tariff rate quotas, according to the wishes of the LDCs. The in-quota tariff should be zero.

5. The neglected side of sugar and development – poor labour standards and exploitation in sugar producing countries, competition with food production for local and national consumption needs

What has been missing from the current debate on sugar reform has been a proper understanding of how sugar production in developing countries can either help or hinder development and poverty reduction.

Based on the experience of its partners in major sugar producing countries like Brazil and South Africa, CIDSE and APRODEV have substantive concerns that sugar production too often fails to deliver for the poor people who work as producers and workers on sugar plantations and farms.

Sugar is one of the most important crops in the world in terms of rural employment. Millions of people’s lives and the economies of entire countries depend on sugar. However, the structure of production and its impact on poor people is varied. In South Africa, production is

²⁷ As part of the reform process we would recommend further debate and consultation by the Commission to reach a position on development criteria for market access with those sugar exporters that do not benefit from preferential market access outside the ACP states or LDCs to the EU market

based predominantly on small-holdings owned directly by poor sugar farmers. In contrast in Brazil, for example, sugar production is predominantly carried out on large plantations with concentrated ownership, questionable environmental impacts and poor people employed as workers – often on unfair terms and in conditions of exploitation.²⁸ In addition, recent trends in the international sugar market have seen a pronounced concentration by power in sugar supply chains and production systems. Where these kinds of structures are prevalent, poor people mostly profit only to a small extent from sugar export revenues. Furthermore, in poor countries with a food deficit, export oriented sugar production may conflict with national food production interests. A one-sided export orientation of agriculture in these countries can increase the pressure for food imports, i.e. food import dependence. A decreasing food self-sufficiency along with a lack of peoples' purchasing power, on the other hand, is likely to lead to hunger.

In these latter circumstances, an increase in the international trade in sugar could only have a slight poverty reducing effect, if at all.

Therefore, we are concerned that more sugar exports could simply mean the expansion of factories with little benefit to poor producers and of plantations which take up the best arable land at the expense of peasant farming and more poverty reducing forms of agriculture.

Every reform argument utilizing poverty reduction has to be measured against the real contribution to effectively improving the conditions of people living in poverty in the developing countries.

Trade policy alone will have little impact on the livelihood of the affected people if it is not linked with mechanisms and criteria designed to improve social and environmental conditions in the sugar sector.

A full or partial liberalisation will not solve this problem, nor will trade preferences and/or production and import quotas, if they are not compatible with social and environmental development requirements. A global liberalisation will only allow very limited possibilities, if any, for a link between trade and environmental and social standards, as long as there are no internationally agreed and effective conventions. This being the case, the only political option left at the moment is bilateral trade agreements. Preferential trade commitments are in this case the appropriate tool to use them as incentives for social and environmental improvements.

The continuation of the Market Order, which provides windfall profits to the companies, will also give scope on our part to combine the incentive with a Corporate Code of Conduct for the European sugar industry, which should also be binding for its activities outside Europe as well as subcontractors.

If the EU reform agenda is not able to guarantee poverty reduction, it should at least prevent further damage to the interest of those living in poverty, for instance, stopping immediately the dumping of European sugar surpluses onto the world market.

²⁸ In many plantations in developing countries the human rights situation is problematic. According to estimates by the International Union of Food Workers (IUF), workers' living conditions have worsened in the past 10 years as a result of the restructuring process of the sugar industry. Forced work, day labourers and migrant workers are on the increase.

6. Shortcomings of the current EC reform proposals

In the light of pressures for reform, the EC has proposed the following key elements for an EU reform strategy^{29,i}:

- A significant cut of one-third in the sugar support price over three years, from the current guaranteed level of €632/tonne to €421/tonne in 2007-2008.
- A reduction in domestic production quotas of 2.8m tonnes over four years.
- Partial compensation (equivalent to 60 per cent of estimated income losses) for EU producers, in the form of a direct decoupled payment.
- Restructuring of the EU sugar sector, by making quotas transferable between member states. In this way, production will become concentrated in the most efficient – and prosperous – areas.

These proposals fail on three counts.

- First, they fail to address the concerns of developing countries. They ignore the LDCs' proposal to amend the EBA initiative to give them adequate time to build their sugar industries, and fail to offer increased aid and technical assistance to help LDCs develop their supply capacity and improve it on a sustainable basis. There are no concrete proposals to assist ACP countries to adjust to EU reform.
- Second, the EU will remain a major subsidising exporter: the proposals will not end all directly subsidised exports, let alone all indirectly subsidised exports. As a result, sugar will remain a source of dispute at the WTO.
- Third, the distribution of benefits within Europe will be further concentrated in favour of large-scale sugar producers and processors, at the cost of small-scale farmers in the least prosperous areas.

This is fairly inconsistent with EU commitments to poverty reduction and sustainable development. EU member states must urgently inject a strong development dimension into the debate and press the Commissioners involved to amend existing reform proposals in favour of the world's poorest countries and people.

7. Objectives of our Reform Proposals

We are in favour of:

- a better contribution by the global sugar economy to combating hunger and poverty and enhancing sustainable rural development,
- more justice in the distribution within the sugar sector at the international level,
- compliance with social minimum standards, workers' and human rights, the right to food and development,
- more environmentally friendly methods of sugar farming both in the North and in the South,
- to restrain the development of sugar substitutes, maintaining and promoting rural employment.

²⁹ European Commission 2004 'Accomplishing a Sustainable Agriculture Model for Europe through the Reformed CAP-Sugar Sector Reform' COM (2004) 499 final of 14 July 2004

8. Policy recommendations

a. EU Sugar Reform must eliminate the use of 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 ‘down-payment’ 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 exporting 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.
- Production quotas should not be made transferable between regions or member states.

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).

b. Restriction of the dominant role by sugar companies

The costs of the sugar reform (price and quota reduction) should be covered to a considerable proportion by the beet sugar processing industry. The farmers, not the industry, shall be in future the beneficiaries of the protection. The economic behaviour of the white sugar industry - including its pricing policy - must be much better monitored and controlled by the government. As long as the EU sugar industry administers part of the State sugar regime, the political lobbying of the sugar industry needs to be restricted. Their business practices inside and outside the EU have to follow current guidelines on corporate social responsibility, for instance such as those as agreed by the European Union of the Sugar Industry (CEFS) and the European Food Workers’ Union (EFFAT). Public monitoring should inspect compliance with the OECD Guidelines on Multinational Corporations, including their suppliers or subcontracting companies.

c. Compensation and accompanying measures

The necessary reduction of quotas within the EU should follow social criteria, e.g. remaining quotas should be redistributed to small sugar producers.

The use of sugar substitutes regardless of their type, whether synthetic, biotechnical or genetically engineered, has to be included in the supply management system as well. Their proportion of the market may not exceed the present proportions.

Special rules for “good farming practices” in sugar production need to be applied. In addition, specific agro-environmental programmes for sugar beet need to be put in place. These encompass, among other things, crop rotation, biodiversity conservation, soil protection and a reduction of pesticide use. Funded through the rural development regulation (second pillar) alternatives to the sugar economy need to be developed, especially in areas, which will suffer the most from quota reductions (diversification).

The ACP Countries and other DCs - which so far have benefited from some preferential market access, like Cuba, India and Jamaica - should be compensated for any transitional cost imposed upon them.

d. International Social and Environmental Standards

The bilateral agreement with the LDC, which derived from the postponed EBA, must include social minimum standards for the livelihoods and working conditions of the plantation and sugar-processing industry workers. It must also comply with binding the ILO Core Standards and secure basic workers’ rights. The agreement must also take environmental standards on board, especially with regard to the farming methods applied to sugar cane, its processing, and the way of extending the sugar area. Compliance with these standards needs to be under constant monitoring by the undersigning parties. Trade unions and civil society organisations in the respective countries must participate in the review process.

In addition, the EU-member governments and the EU Commission shall commit themselves to further develop the International Sugar Agreement, especially to elaborate on the ISO Articles 29 and 30, in order to develop operational minimum standards for all sugar producing countries in the world. The ISO also needs to set up a complaint procedure similar to that under the ILO. These standards and their compliance need to be backed by strong incentives, like accompanying trade-related technical assistance, reporting procedure, external monitoring, and labelling or special trade preferences for fairly and ecologically produced and traded sugar.

ANNEX 1: Overview of the EU sugar regime³⁰

Three pillars

The EU sugar regime rests on three pillars: high guaranteed prices, import protection, and export subsidies.

Guaranteed prices

The EU guarantees minimum domestic prices to farmers and processors far above world market prices. In order to prevent production from booming, these prices are only paid for a limited amount of production. This quota is determined every year by the European Commission and is set at a level roughly equal to the consumption of sugar in Europe. The guaranteed domestic prices are now some three or four times above world market levels. Whilst world prices are at an all-time low of €160/tonne, the price that European consumers and food industry pay is currently a minimum of €32/tonne.

The total production quota is set at around 17.4m tonnes for the 25 members of the EU. This quota consists of a so-called A quota, which equals EU consumption (14.7m tonnes), and a B quota (2.7m tonnes). This amount presents a structural surplus that must be disposed of outside the EU.

Import restrictions

The EU needs high import barriers to prevent its market being flooded by cheaper sugar. In addition to a fixed tariff, the EU deploys a permanent ‘special safeguard’ that increases as world prices fall. Total current import duties create a tariff, equivalent to around 324 per cent, providing a watertight system of protection. Even with world prices at extremely low levels, it is impossible for other exporters to enter the EU market, apart from those countries that receive preferential treatment.

Export subsidies

The structural surplus built into the EU quota system must be sold outside the EU, but is extremely expensive compared with sugar from low-cost producers. Export subsidies, paid to processors and traders, bridge the wide gap between domestic and world prices. At present, the EU pays around €25/tonne in export subsidies on quota sugar. In other words, every €1 in export sales of sugar costs the EU €3.30 in export subsidies.

‘C’ sugar and preferential access

Two major factors add to the complexity of the sugar regime and contribute to even greater impacts on the rest of the world: the presence of preferential import agreements and the production of non-quota sugar.

Preferential access agreements

The EU imports just under 2m tonnes of sugar under a number of preferential agreements, of which the Sugar Protocol and the Everything But Arms (EBA) initiative are the most important. Under the Sugar Protocol, an annexe to the Cotonou Agreement with former EU colonies, 17 African, Caribbean and Pacific (ACP) countries have the right to export up to

³⁰ Source: Oxfam Briefing Paper, *A sweeter future? The potential for EU sugar reform to contribute to poverty reduction in southern Africa*, November 2004.

1.6m tonnes of sugar to the EU at guaranteed prices and on a duty-free basis. With the EBA initiative, introduced in 2001, the EU promised quota- and duty-free access to the European market for all least developed countries (LDCs), for all products except arms. However, as a result of intensive lobbying by the sugar industry, full access was delayed for sugar, for which duty-free access will not begin until 2009. Until that time, a small group of LDCs has been given a small quota, which is being increased by 15 per cent every year and is to reach 197,355 tonnes by 2009. After that date, import restriction will be withdrawn. The import of preferential sugar adds to the already overflowing market. An amount equivalent to the ACP imports is therefore re-exported. As with the expensive domestic sugar, export subsidies are used to bridge the gap between the high guaranteed price paid for ACP sugar and the world market price. Budget costs for the export of the ACP-equivalent stand at €776m, bringing the total cost of sugar exports to a staggering €1.27bn.

Non-quota sugar

Many farmers produce sugar in excess of their attributed quota. For this non-quota sugar they receive no support. The extra quantities must either be stored and used as part of next year's quota, or exported without export refunds. For exported non-quota sugar, so-called 'C' sugar, farmers consequently receive world market prices. In some competitive production regions, 'C' sugar production has increased considerably. Starting from nil at the start of the current sugar regime, it now amounts to 2.6m tonnes, or 20 per cent of quota production.

Total exports, including surplus quota sugar, 'C' sugar, and the export of an equivalent of preferential imports, now stand at 5.2m tonnes, making the EU the second largest exporter in the world, and the leading exporter of refined sugar.

ANNEX 2: Additional data on sugar in the EU and in the world ³¹

Table 1: Sugar production quota in the EU before the enlargement (2001) in 1000 T

| Country | Quota A | Quota B | Total = Max. Quota | In % |
|-------------------------|---------------|--------------|--------------------|--------------|
| France | 2.970 | 799 | 3.769 | 26,0 |
| Germany | 2.613 | 804 | 3.417 | 23,6 |
| Italy | 1.311 | 247 | 1.557 | 10,8 |
| United Kingdom | 1.035 | 104 | 1.139 | 7,9 |
| Spain | 957 | 40 | 997 | 6,9 |
| The Netherlands | 684 | 180 | 865 | 6,0 |
| Belgium & Luxemburg | 675 | 145 | 820 | 5,7 |
| Denmark | 325 | 96 | 421 | 2,9 |
| Austria | 314 | 73 | 387 | 2,7 |
| Sweden | 335 | 33 | 368 | 2,5 |
| Greece | 289 | 29 | 318 | 2,2 |
| Ireland | 181 | 18 | 199 | 1,4 |
| Finland | 133 | 13 | 146 | 1,0 |
| Portugal (incl. Azores) | 72 | 7 | 80 | 0,5 |
| Total EU | 11.894 | 2.588 | 14.482 | 100,0 |

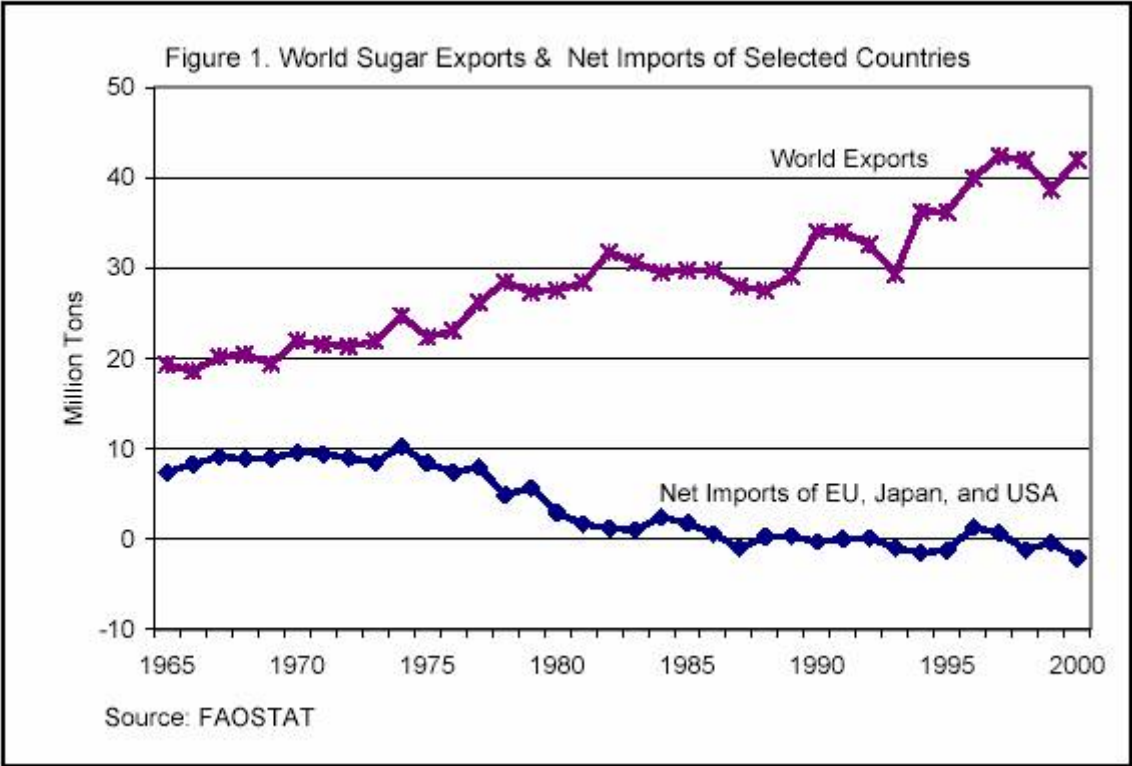
Table 2: Main sugar producers and consumers in the world (2001/2002)

| Producers | 1000 T sugar (not refined) | Consumers | 1000 T sugar (not refined) |
|--------------|----------------------------|----------------|----------------------------|
| Brasil | 23.652 | India | 18.729 |
| India | 21.850 | China | 10.633 |
| China | 11.565 | Brasil | 9.857 |
| Thailand | 7.665 | USA | 8.995 |
| USA | 7.628 | Russia | 6.650 |
| Australia | 5.371 | Mexico | 5.205 |
| Mexico | 5.240 | Indonesia | 3.773 |
| France | 5.105 | Pakistan | 3.739 |
| Germany | 4.394 | Germany | 3.189 |
| Cuba | 2.250 | Eastern Europe | 3.084 |
| Top 10 total | 94.720 | Top 10 total | 73.885 |
| EU | 18.415 | EU | 14.627 |
| World | 148.913 | World | 138.729 |

³¹ Sources: www.subel.be, The economy of sugar , tables 1 to 3; FAOSTAT, figure 1

Table 3: Main sugar importers and exporters in the world (2001/2002)

| Importers | 1000 T sugar (not refined) | Exporters | 1000 T sugar (not refined) |
|----------------|----------------------------|--------------|----------------------------|
| Russia | 12.660 | Brasil | 5.098 |
| Central Asia | 4.565 | Thailand | 3.915 |
| Nigeria | 3.835 | Cuba | 2.068 |
| Indonesia | 2.920 | France | 1.639 |
| United Kingdom | 2.551 | South Africa | 1.542 |
| Japan | 1.320 | Guatemala | 1.527 |
| South Korea | 1.285 | Australia | 1.494 |
| USA | 1.265 | Germany | 1.385 |
| Malaysia | 1.154 | India | 1.310 |
| Algeria | 1.050 | Colombia | 1.144 |
| Top 10 total | 32.604 | Top 10 total | 21.120 |
| EU | 6.769 | EU | 5.642 |
| World | 46.834 | World | 47.413 |



Notes

ⁱ European Commission 2004 'Accomplishing a Sustainable Agriculture Model for Europe through the Reformed CAP-Sugar Sector Reform' COM (2004) 499 final of 14 July 2004