View metadata, citation and similar papers at core.ac.uk
brought to you by CORE
provided by Research Papers in Economics

No.100/November 2005

Coping with the Fallout for Preference-Receiving Countries From EU Sugar Reform

Hannah Chaplin
The Institute for Internationnal Integration Studies,
Trinity COllege, Dublin

Alan Matthews
Department of Economics
Trinity College, Dublin

IIIS Discussion Paper No. 100

Coping with the Fallout for Preference-Receiving Countries From EU Sugar Reform

Hannah Chaplin
Alan Matthews

Disclaimer
Any opinions expressed here are those of the author(s) and not those of the IIIS.
All works posted here are owned and copyrighted by the author(s).
Papers may only be downloaded for personal use only.

COPING WITH THE FALLOUT FOR PREFERENCE-RECEIVING COUNTRIES FROM EU SUGAR REFORM

Hannah Chaplin and Alan Matthews

Developing countries can produce sugar at much lower cost than in the EU, yet reform of the EU sugar policy will result in both winners and losers among them. This is because the EU is both an exporter and importer of sugar. Sugar policy reform will mean a reduction in EU sugar production, benefiting competitive sugar exporters such as Brazil. But sugar policy reform will adversely affect those developing countries which currently benefit from preferential import access to the EU's high-priced sugar market, while diminishing the benefits of those least developed countries to which duty-free and quota-free access has been promised after July 2009. This paper concentrates on the latter group of preference-receiving countries. It identifies the countries concerned and the extent of their potential losses. It critiques alternative proposals which have been put forward to assist these countries to adjust to the adverse effects of EU sugar policy reform. The paper concludes by proposing a modified package of measures to offset the negative effects of EU sugar policy reform on preference-receiving countries.

JEL: F10, Q18

Key words: EU sugar policy, preference erosion, compensation

Acknowledgement

This paper is an output of the Policy Coherence project based in the Institute for International Integration Studies at Trinity College Dublin supported by a research grant from the Advisory Board for Development Cooperation Ireland.

Revised August 2005

1. INTRODUCTION

The European Commission's proposal for reform of the Common Market Organisation (CMO) for sugar is now the focus of intense debate. Understandably, the focus of the debate in Ireland is on the impacts on Irish sugar beet producers and the Irish sugar industry. From a policy coherence perspective, and given the Irish government's commitment to assist developing countries meet their Millennium Development Goal targets by 2015, it is also important to evaluate the impact of the reform on developing countries, and particularly the more vulnerable developing countries in Africa and among the Least Developed Countries (LDCs).

The EU Commission's initial proposal to reform the CMO in July 2004 (EC, 2004a)and its subsequent modified proposal in June 2005 (EC, 2005c)have stirred strong debate within the development community due to its implications for ACP countries with privileged access to the EU market as well as for those Least Developed Countries (LDCs) eligible for preferential access to the market through the EU's Everything But Arms (EBA) initiative. The EU is a high cost sugar producer and its highly supported production contributes to oversupply and lower prices on world markets, to the detriment of efficient, low cost developing country sugar exporters such as Brazil and Thailand. The need for reform of the EU sugar policy from a development perspective is accepted. However, development opinion is divided between those who argue in favour of maintaining the value of preferences by keeping a high EU support price and managing the market by severe quota cuts on the EU's own production, and those who call for the liberalisation of the EU sugar market (maintaining perhaps relatively low tariffs) with compensation for the preference-receiving countries which would be adversely affected by this reform.

This paper argues that the high-price, low-quota option for EU production is a chimera and does not provide a sustainable option for those developing country sugar exporters which currently benefit from EU preferences. Analysis of the ACP countries which benefit from preferences shows that they fall into two groups: diversifying economies where the importance of sugar is falling over time and where compensatory financial aid could help to further this process; and some vulnerable small island economies with few alternatives to sugar. For the first group of countries, there is a need to provide income assistance as well as structural adjustment aid to help them cope with the negative consequences of the reform; a deficiency payment scheme with a gradually declining guaranteed price would be an effective instrument for this purpose. If the EU wishes to help maintain sugar production on vulnerable island economies, a deficiency payment scheme would also provide a much more targeted and efficient mechanism than the current policy.

The situation of LDCs is different in that the main impact of the reform is to reduce the future value of potential market access rather than reducing actual export earnings. Few LDCs are net exporters of sugar, and those that are, are likely to be competitive at world market prices. However, the LDCs argue that they need the incentive of a high guaranteed price at least for a limited period to encourage investment in rebuilding their industries. The LDCs have argued in favour of much more severe cuts in EU production under quota as a way to maintain a higher intervention price. However, a targeted deficiency payment linked to the quota quantities under the EBA Framework Agreement or whatever quantity might be negotiated, would also be a more efficient support mechanism in this instance.

This paper develops these arguments in the light of the June 2005 reform proposal from the Commission. Section 2 of the paper describes the EU's preferential import schemes for sugar. The main elements of the Commission's reform proposal are outlined in Section 3. Sections 4 and 5 look at the likely impacts on the ACP countries and least developed countries, respectively. Section 6 examines various proposals put forward to protect these countries against the adverse effects of EU sugar policy reform. Section 7 concludes with our own proposals for the way forward.

2. THE ROLE OF PREFERENCES IN THE EU SUGAR REGIME

Overview of the EU sugar regime

The EU sugar market is heavily supported: the domestic price is about three times the world price. The EU sugar CMO is based on the use of import tariffs, the special safeguard permitted under the WTO Agreement on Agriculture, export subsidies, production quotas, and a guaranteed minimum price. The latter was set such that it covered the costs of production in the least efficient regions of the EU. As a result, sugar beet is a highly profitable crop in regions with higher productivity. There are two types of quota: A and B which are set at Member State level. The former approximates to national consumption, while the latter is exported with subsidies. A levy on the production of both A and B quota sugar finances the cost of export subsidies, so the internal support measures are largely budget-neutral. Production which exceeds quota (referred to as C-sugar) is sold on the world market without export subsidies. The high levels of support are an important factor in the EU being the second largest sugar exporter in the world.

The EU is an anomaly on the world sugar market, since in addition to being the second largest exporter, it is also the second largest importer. Its role as an importer can be attributed to preferential trade agreements. The EU sugar CMO includes several preferential trade agreements which have created direct links between the price paid under the EU CMO and the price received by some developing countries. This and other preferential import agreements are described in the remainder of this section.

ACP/India Sugar Protocol preferences

The agreement which gives rise to the largest volume of preferential imports is with African, Caribbean and Pacific (ACP) countries, otherwise known as the ACP Sugar Protocol, which was renewed in the Cotonou Agreement in 2000. The UK sugar refining industry developed through imports from its former colonies with which it had trade agreements. On the accession of the UK to the EU, these were formalised in the Lomé Convention in order to secure the supply of raw cane sugar to UK refineries. The original agreement was made with ACP countries and India at a time when world sugar prices were high, and equivalent to the EU guaranteed intervention price. This influenced the decision that sugar exported to the EU under the agreement should receive at least the guaranteed price. In effect, the agreement benefited the UK refinery industry by securing for it fixed quantities of raw cane sugar which the signatories were obliged to supply.

Under the Sugar Protocol, a total of 1,304,700 tonnes of white sugar equivalent obtains this price duty-free. Each participating country is assigned a quota, which determines the quantities it is allowed (and required) to export to the EU under the agreement (Table 1). Quotas were determined according to the historical importance of a given country as a sugar supplier to the UK. Thus, the main sugar traders with the UK in the colonial period have the biggest quotas: Mauritius has the largest, while Fiji and Guyana also have important shares. Quotas have the advantage for ACP countries that refiners are limited in their ability to manipulate prices through agreements with individual countries since trade with one country cannot be substituted with that from another without compromising the total volume imported into the EU (Stevens, 2003).

CXL quota (Most Favoured Nation (MFN) sugar)

Prior to joining the EU, Finland had a sugar import obligation under the Agricultural Agreement of GATT. This was honoured by the EU at the time of Finland's accession in 1995. Under the agreement, the EU agreed to preferentially import annually a total of 85,473 tonnes of raw cane sugar for refining of which 58,969 tonnes are from Cuba and 23,930 tonnes from Brazil. Under the terms of the agreement, these imports are liable for a reduced import duty and receive a price equal to the Intervention Price.

Table 1: Distribution of Import Quotas by ACP countries and India (tonnes of white sugar equivalent)

	Tonnes (white sugar equivalent)	Percentage of ACP quota allocated
Barbados	50,312	3.9
Belize	40,349	3.1
PR Congo	10,186	0.8
Fiji	165,348	12.7
Guyana	159,410	12.2
Ivory Coast	10,186	0.8
Jamaica	118,696	9.1
Madagascar	10,760	0.8
Malawi	20,824	1.6
Mauritius	491,031	37.6
St Kitts and Nevis	15,591	1.2
Swaziland	117,845	9.0
Tanzania	10,186	0.8
Trinidad/Tobago	43,751	3.4
Zimbabwe	30,225	2.3
India	10,000	0.8
Total	1,304,700	

OCT sugar

Some Member States are linked to overseas countries and territories (OCTs) such as the Portuguese Azores, the French overseas territories of Reunion, Guadeloupe, Martinique and Guiana and the Netherlands Antilles and Aruba. The sugar from these territories is exempt from customs duties when sold in the EU. In 2003, OCT imports to the EU were 23,000 tonnes (EC, 2004a) although the exact quantity varies from year to year.

Maximum Supply Needs and Special Preferential Sugar (SPS)

Prior to joining the EU both Portugal and Finland used to import and refine raw cane sugar in order to meet their domestic demands. At the time of Finland's accession in 1995, the arrangement described above was made to accommodate its requirements. At that point, two other sugar supply issues were current among Member States: two French refineries were unable to obtain a sufficient supply of raw cane sugar from the French overseas territories and the UK refining industry wished to import a greater quantity of raw cane sugar than that allowed under the ACP/India agreements. As a solution to these issues, the EU established a new arrangement referred to as Maximum Supply Needs (MSN) which applies to 7 raw cane sugar refineries: 2 in each of the UK, France and Portugal; and 1 in Finland. Under the agreement, penalties can be imposed on the refining industry for exceeding the import levels set out under its terms. Quantities are reduced by the same percentage as the EU sugar quota when the latter is reduced to conform to WTO commitments.

Table 2: MSN of the cane sugar refineries

Country	Tonnes of white sugar equivalent
Finland	60,000
France	297,000

Portugal	292,000
UK	1,130,000
Total	1,779,000

The MSN quantities are obtained primarily from ACP and India, OCT and MFN sources. The additional tonnage required is imported from ACP countries and India in addition to that imported under the Sugar Protocol and is called Special Preferential Sugar (SPS). The amount of SPS is determined by the quantity of OCT sugar since this is the only variable quantity from the prescribed sources of MSM sugar.[1]

SPS is covered by a tariff quota with zero duty for raw cane sugar for refining. It receives a minimum price which is paid by Community refiners, which is slightly less than that obtained by preferential sugar. The difference between the price received (€496.80/t) and the guaranteed price for preferential sugar (€523.70/t) is due to the fact that SPS is ineligible for refining aid.[2]

Everything But Arms

The EU Everything But Arms (EBA) scheme allows duty free access to the EU market for the 50 least-developed countries (LDCs), including 6 ACP Sugar Protocol signatories. Under the agreement, special provisions have been adopted for sugar to allow a gradual approach to full market access. These are:

- Up until 2006, duty-free access only applies to a tariff quota of raw cane sugar for refining. The initial quota is 74,185 tonnes which is subject to an annual increase of 15%.
- EBA imports are incorporated into MSN, reducing SPS by an equivalent quantity.
- Between 2006-2008, customs duties will be gradually reduced without volume limits by an initial 20%, then 50% and finally 80%, and from 1st July 2009, they will cease to exist.

Under the transitional system of tariff rate quotas (TRQs), refiners must pay a minimum purchase price for these imports equal to that paid to raw sugar imported under SPS. This is in order to achieve equality with sugar providers from ACP and SPS countries. However, the EBA scheme does not actually guarantee prices for this sugar imported under TRQs (EC, 2004b). That is to say, the price that the EBA imports receive has not been guaranteed by the EU although it has itself decided to set a minimum price which the refiners pay. Only those countries that have signed a Framework Agreement with the EU are eligible to receive the increase in quotas. The EBA import quotas for raw sugar under the Framework Agreement (which 26 countries have signed) are shown in Appendix 1 (taken from Appendix 3 of (Kerkela & Huan-Niemi, 2005). It should be reiterated that this TRQ comes out of SPS quantities. Since the opening of the TRQ, SPS sugar volumes have been reduced by the same amount. Thus, the EBA will not make a difference to the total amount of sugar imported into the EU until at least 2006 and more probably closer to 2009.

The LDCs as a whole are net importers of sugar. Their consumption amounts to about 3.4 million tonnes and production to about 2.6 million tonnes of raw sugar, leaving them with a net deficit of about 0.7 million tonnes. Thus, production is insufficient to meet domestic demand (LMC, 2004). Only a few countries are net exporters. Although there are 50 countries which fall under the EBA, sugar exports are dominated by a handful of countries (Table 4). All preferential access arrangements are currently for raw sugar only, although after 2009

[1] More recently, SPS quantities are also affected by EBA imports as described below.
[2] Aid paid since 1986 to refiners of raw cane sugar imported under the ACP Protocol in order to compensate for the difference in margins between refineries and beet mills. Since 1997, it has been set at €29.20 per tonne of white sugar equivalent (EC, 2004a).

LDCs will be entitled to export either raw or refined sugar depending on which is more profitable for them.[3]

Table 3: EBA countries with sugar export capacity (tonnes of white value equivalent)

	2001/02	2002/03	2003/04 (expected)
Burkina Faso	7,073	7,237	7,672
Sudan	16,257	17,037	16,979
Ethiopia	14,298	14,689	15,249
Malawi	10,402	10,661	10,959
Tanzania	9,065	9,317	9,940
Zambia	8,758	9,017	9,538
Mozambique	8,331	8,384	10,116

Source: LMC, 2004

Sudan achieved sugar self-sufficiency in 1980 and, as production levels rise, it is well placed as a net exporter to benefit from the EBA. It is currently expanding production and plans to set up three new plantations and factories (EU, 2004). Ethiopia, Zambia and Malawi are also net exporters but the latter two countries are hampered by being landlocked, giving rise to high transport costs. The sugar industries of Mozambique and Tanzania are both undergoing a process of rehabilitation (LMC, 2004). The former has become a net exporter since the inception of EBA, while Tanzania is projected to become an exporter (LMC, 2004). This group of EBA countries all have potential to expand their sugar production as quotas increase and full access approaches. However, the EBA arrangement does not require beneficiary countries to be net exporters, only that sugar exported to the EU must be domestically produced to meet the rules of origin. EBA countries will have a big incentive to export their domestic production at the high EU price and re-import their domestic needs from the world market. Thus, once quotas are removed in 2009, the pattern of exporting countries could change, depending on the sugar price prevailing in the EU market at that time.

The Balkans Initiative

Under this initiative, established at the end of 2001, products originating from the region (Albania, Bosnia-Herzegovina, Croatia, FYROM, and Serbia and Montenegro) are exempt from EU import duties. The conflict in the former Yugoslavia adversely affected the existing sugar industry and attempts have been made by local authorities to develop the sector, particularly in Croatia and Serbia and Montenegro. The EU aimed to aid this process when it created this initiative, and exports have indeed risen since its implementation from almost zero in 1999 to 300,000 tonnes in 2002/3 (EC, 2004a). In order to conform to WTO agreements, the quantities imported by the EU are offset by reducing EU production quotas by the same amount.

Implementation of the Balkans initiative has not been without its problems. Serious doubts arose about the origin of sugar entering the EU under the agreement when imports to the EU from the western Balkans increased significantly after 2001 while, at the same time, exports from the EU to that region increased. 'Carousel trade' was suspected: EU sugar exported to Serbia and Montenegro was possibly being fraudulently declared to be of Serbian-Montenegrin origin and, as such, re-imported into the EU under the preference agreement. As a result of this, the special trade agreements with Serbia and Montenegro were suspended for three months in 2003 (Huan-Niemi & Niemi, 2003).

This incident serves to illustrate the problems that can arise from preferential trade and the difficulties of determining the origin of sugar. This could become an issue for EBA sugar

[3] The analysis in LMC (2004) suggests that LDCs will continue to find it more profitable to export sugar in raw rather than refined form, principally because of the extra handling and transport costs for refined sugar.

since, as noted, EU preferences provide an incentive to export to the EU over other destinations due to the level of the EU price as compared to the world price. Under these conditions, there is a motivation to import sugar for re-export under the preference agreement. Provided the exported sugar is of domestic origin, this is not illegal but drawing the line between imported sugar which is replacing domestic sugar and imported sugar which is being re-exported to the EU will be difficult.

The value of sugar preferences

The contribution of sugar to the economies of ACP countries is shown in Table 5. Its contribution to agricultural exports reflects the dominance of sugar as an agricultural crop in many of these countries, most notably Barbados in which its share of agricultural exports is 100%. The proportion of total exports derived from sugar provides an indication of both the role of sugar and agriculture in exports. By this measure, sugar preferences are particularly important to the three major holders of ACP quota, that is Fiji, Guyana and Mauritius, as well as Belize and St. Kitts and Nevis. In terms of employment, sugar contributes less than it does to exports. It plays a greater role in total employment in Belize than the other countries while being a key employer in agriculture in Mauritius and Swaziland.

Table 4: Contribution of sugar to the economies of ACP countries

Country	Contribution to Foreign Earnings		Share of Employment		GNI per capita (2003)
	% of agricultural exports	% of total exports	% of total employment	% of employment in agriculture	
Barbados (c)	100	12.5	1.8	52.6	9,270
Belize (c)	22	19.6	14.1	51.2	3,190(d)
Fiji (c)	67.4	23	7.3	12.8	2,360
Guyana (b)	65.2	22.6	9.7	32.2	900
Jamaica (a)	48.7	8	2.9	16.4	2,760
Malawi (c)	11.2	9	1.3	5.5	170
Mauritius (c)	89.6	19.5	6.4	80.2	4,090
St Kitts/Nevis (a)	92.3	21.8	8.5	58.3	6,,880
Swaziland (c)	34.4	9.4	8.6	80.9	1350
Trinidad and Tobago (c)	18.2	0.6	4.8	61.7	7,260
Zimbabwe (b)	7.6	3.3	2.1	7.8	na

(a): 1999; (b): 2000 and (c): 2001 (d): 2002
Source: Laurent, 2004 ; GNI source: World Development Indicators.

The value of preferences for a given country in a specific year depends on the volume of sugar exported to the EU under the Sugar Protocol or the EBA Framework Agreement and the world price: the lower the world price, the greater the value of preferences. Since the establishment of the Sugar Protocol in 1975, the value of preferences has greatly increased due to declining world prices. In 1975, the world and EU prices were almost equal, while currently the EU price is three times the world price. For the year 2003, we estimate the premium obtained by ACP beneficiaries to be about €476 million using actual volumes traded rather than quotas. This is close to the figure of $470 million in 2001 estimated by Milner et al, 2004.

The distribution of the premium obtained from preferences is correlated to the allocation of quota amongst preference countries. The importance of the sugar premium to an individual country depends on the proportion of its sugar exports destined for the EU and the role of sugar within its agriculture sector. Preference countries which lie in cyclonic areas such as St. Kitts and Nevis and Barbados have little recourse to growing other crops. In these cases preferences are particularly valuable since virtually all sugar exports (99.9% and 100% respectively) are to the EU and the premium obtained provides additional foreign exchange for the purchase of food imports than would otherwise be available.

Milner et al. (2004) provide various indicators of the importance of preferences. They estimate that the total transfer amounted to 60% of the value of Protocol exporters' sugar exports to the EU in 2001. The importance of this transfer in each country's exports depends upon the size and degree of diversification of these exports. For many African countries, its importance is small. But, for some countries, it is rather important (up to 10% for Barbados, Belize, Fiji and Swaziland) and over 10% for Guyana and Mauritius. In absolute terms, the transfer value amounts to 2.1% of the total export earnings of ACP countries and 0.6% of GDP. In pure accounting terms, the elimination of the transfer would lower per capita GDP in Madagascar by 0.1% and in Fiji by 2.9%. The adverse impact would be greater for Swaziland (4.3 per cent), Mauritius (4.0%) and Guyana (8.7%).

3. EU SUGAR POLICY REFORM

A number of factors contribute to the need to reform the EU sugar CMO. The sugar regime is unique in that it has remained untouched by CAP reform to date. The principal motivation for CAP reform is that support should be shifted from production to the producer in the form of decoupled direct payments. This argument is as valid for sugar as it is for other commodities. However, there are a number of additional factors which are forcing change in the sugar regime.

First, there is the need to accommodate new EU market access commitments to developing countries. Full implementation of the EBA will give rise to increased imports into the EU. There are various estimates of the expected level. The Commission provided an initial estimate of around 2.7 million tonnes (ASSUC, 2001; EC, 2000) but this was subsequently reduced to 900,000 tonnes per year or more (EC, 2001) and then raised again to 2.2 million tonnes (EC, 2005b). Other authors give estimates of 2.4 million tonnes (Mitchell, 2004) and between 0.5 and 3.9 million tonnes (LMC, 2004). The wide variation in these estimates partly relates to different assumptions about the likely price on the EU market in the future as well as the proportion of domestic sugar production which might be exported to the EU[4]. As the EU is already more than self-sufficient in sugar, any additional imports imply an equivalent increase in exports. But, as exports are only viable with the aid of export subsidies, and subsidised export quantities are limited to the maximum amounts scheduled under the WTO Agreement on Agriculture, any increase in LDC imports will require a one-for-one reduction in domestic EU production.

The EU is also engaged in renegotiating its preferential access arrangements for ACP countries (only six of whom are LDCs) in the form of Economic Partnership Arrangements. These will replace non-reciprocal preferential access for ACP countries to the EU market by free trade agreements. The Cotonou Agreement foresees the review of the ACP Sugar Protocol in the framework of these negotiations. The EU Commission argues that the Sugar Protocol must be integrated into EPAs in a way that does not prejudice the EU's commitment to LDCs for full market access for sugar from 2009 and that ensures full compatibility with WTO rules on preferential trade agreements (EC, 2005a). As the EU must improve on the current market access arrangements it offers to these countries, in return for receiving duty-free access for substantially all of its exports to ACP countries, the Sugar Protocol will have to be renegotiated in that context. It is conceivable that ACP countries would demand the same access conditions, i.e. duty free access without quotas, as that conceded to LDCs under

[4]The future level of imports may also be influenced by whether the EU makes use of the safeguard clause included in the EBA Agreeement

the EBA scheme. Any improvement over Sugar Protocol access terms would put additional pressure on the EU market.[5]

Current price and quota quantities in the EU depend on the availability of export subsidies to export surplus within-quota production as well as re-export an amount of white sugar equivalent to that imported from ACP countries and India. The eventual elimination of export subsidies as an outcome of the Doha Round is a second factor which would make it necessary for the EU to reduce its domestic sugar production. Currently, the EU has a scheduled commitment allowing it to export up to 1.27 million tonnes of white sugar with the aid of export subsidies. The elimination of export subsidies would require a quota cut of at least this amount.

But the export subsidy issue is broader than this. Even if the Doha Round fails to end in an agreement, the EU is faced with an unfavourable WTO ruling in the dispute brought by Thailand, Australia and Brazil which calls for C sugar exports to be included under export subsidy commitments as well as the 1.6 million tonnes exported annually with export subsidies which represents an equivalent volume of white sugar to the raw cane sugar imported under the ACP Protocol and SPS.[6] The EU has indicated that it intends to comply with the panel ruling (EC, 2005c). The implication is that the EU will be required to reduce the level of quota production at least to the level of internal supplies (domestic production plus preferential imports). This assumes that border protection can be maintained at a sufficiently high level to keep out imports of non-preferential sugar in the future.

However, a third source of pressure for EU sugar reform arises because the Doha Round negotiations are also tackling the issue of high tariffs which restrict market access. Maintaining the EU internal market price at up to three times the world market price requires very high levels of tariff protection, including the use of the agricultural special safeguard measure permitted as part of the WTO Agreement on Agriculture. The Framework Agreement reached by WTO members in August 2004 on the work programme for the Doha Round negotiations included an agreement to work towards a tiered tariff reduction formula in which high tariffs would be reduced by proportionately larger amounts. This was qualified by the further agreement that members could designate a limited number of sensitive products where smaller tariff cuts could be applied, but only in the context of alternative arrangements (such as a larger expansion of Tariff Rate Quota access) which would result in a substantial improvement in market access. Also, whether developed countries will continue to have access to the agricultural special safeguard measure remains under discussion. Any tariff reduction formula agreed as part of the Doha Round will inevitably put pressure on the internal price for sugar within the EU as well as encourage the growth of non-preferential sugar imports.

In July 2004, the EU Commission put forward a reform proposal to address these problems (EC, 2004). EU production would be brought into line with domestic consumption, necessitating a quota cut of 2.8 million tonnes over a four-year period to 2008/09. Quotas would be transferable between EU member states. EU sugar prices would be cut by 20% in 2005/096, increasing to a 33% cut in 2007/08. Refining aid would be abolished, implying that the price received by Sugar Protocol countries would be reduced by 37%. Under the Commission proposal, the price paid under the Sugar Protocol for raw sugar would drop from €523.7 per tonne to €329 per tonne. Compensation would be paid to European beet producers

---

[5] How serious a threat this would be would depend on the nature of the reform steps which the EU would take to deal with this and other pressures on the sugar CMO. For example, with lower EU prices, many Protocol countries would no longer find it profitable to continue to export sugar to the EU market.

[6] The panel report which upheld the complaint against the EU was issued in October 2004 and was confirmed on appeal by the EU by the Appellate Body report issued in April 2005.

equivalent to 60% of the reduction in beet revenues. This compensation would be paid as a decoupled payment integrated into the Single Farm Payment, allowing EU beet producers to switch into alternative production without affecting their compensation entitlement. The Commission proposed that a further review of the sugar policy would take place in 2008/09, once the requirements of the Doha Round were known, and there was greater clarity regarding the supply response of LDC sugar producers.

Table 5: Main elements of the Commission reform proposal of 14 July 2004 and 22 June 2005

July 2004	**June 2005**
A and B quota combined. 16% reduction in EU sugar quotas.	A and B quota combined. No compulsory quota cuts until at least 2010. Additional 1 million tonnes of quota to be made available to 'C-sugar' producing Member States.
33% reduction in the white sugar guide price by 2007/8.	39% reduction in the white sugar guide price over 2 years (by 2007/8).
Cut in the raw sugar price from €523.7/tonne to €329. Raw sugar price to be cut over 3 years by 2008/09.	Cut in the raw sugar price from €523.7/tonne to €319.5. Raw sugar price to be cut over 4 years to 2009/10.
37% reduction in the sugar beet price, 60% will be offset by direct payments to farmers.	42.6% reduction in the sugar beet price. 60% compensation to EU producers.
EU sugar quotas previously allocated by country to be freely tradable Europe-wide.	Quota restructuring scheme in which closing sugar factories will renounce their quota.
Maximum Supply Needs abolished from 2009/10.	Maximum Supply Needs to remain in place. Between 2006-2009, 75% to be derived from ACP countries/India. Beyond 2008/9 this will hold for only the first 3 months of the marketing year. Other sugar processors to be allowed to import and refine raw sugar.
Increase in isoglucose quotas of 300,000 tonnes (+ 60%).	Increase in isoglucose quotas of 300,000 tonnes (+ 60%) of which 10,000 will be applied each year for three years starting in 2006/7.
Further review of CMO in 2008/09.	Proposal for further review dropped.

These July 2004 proposals met with a hostile reaction from EU Agricultural Ministers. Many queried the need for price and quota cuts of the magnitude proposed by the Commission. Less competitive countries were critical of the proposal to allow quota movement across national borders. However, the need to bring the EU sugar regime into compliance with the WTO panel report meant that the July 2004 proposals were not sufficiently radical to allow the EU to meet all its commitments, both to other WTO members and to developing countries, in the future. As a result, a further set of revised proposals was released by the Commission in June 2005.

The new proposal outlines stronger price cuts to be implemented: the white sugar guide price is to be cut by 39%, that for raw sugar by 36% and for sugar beet, 42.6%. The sugar beet cut is to be implemented over 2 years, the reference price for white sugar is set to be reduced over 4, but it will effectively be implemented over 2 years due to quota restructuring charges. These will apply over three years (2006/7 – 008/9) to each tonne of in-quota sugar; their level will be degressive (Table 6). These charges will aid in financing the restructuring scheme. The cut in the raw sugar reference price will be implemented over 4 years. This will provide preference countries with a longer period of transition than EU producers. In all cases, the cuts will begin in the marketing year 2006/7. The price cuts will be offset by direct payments to EU farmers not linked to production. This will reach 60% in 2007/8. Farmers in preference countries will receive no such compensation.

Table 6: Price cuts under the June 2005 reform proposal

	Reference Period	2006/7	2007/8	2008/9	2009/10
Institutional/reference white sugar price (€/T)	631.9	631.9	476.5	499.9	385.5
Reference raw sugar price (€/T)	523.7	496.8	394.9	372.9	319.5
Institutional/reference white sugar price, net of restructuring amount (€/T)	631.9	505.5	385.5	385.5	385.5
Restructuring amount (€/T)	-	126.4	91.0	64.5	-
Minimum sugar beet price (€/T)	43.63	32.86	25.05	25.05	25.05

Rather than implementing quota cuts, a quota restructuring scheme has been proposed. This is to be implemented over a four year period in which high, degressive restructuring aid will be available to sugar factories, isoglucose and inulin syrup producers who close factories and renounce their quota. If needed, quota cuts may be applied at the end of the scheme. This should encourage factories to close in the least competitive regions, and in so doing to reduce the level of sugar produced in the EU, and therefore, the level of EU exports.

Member states which produce C sugar will be able to obtain one million tonnes of additional quota for which they will make a one-off per tonne payment which will equal the level of restructuring aid in the first year of implementation. Together with the introduction of a 'surplus charge' on excess production which is not carried over to the following marketing year, this measure should effectively eliminate C sugar production. This will enable the EU to conform to the outcome of the WTO dispute and will reduce the level of exports on the world market.

Maximum Supply Needs for refining is to remain in place with a limit of 1,796 351 tonnes. Between 2006 and 2009, 75% of this quantity must be derived from ACP countries/India. Beyond the 2008/9 marketing year (that is after full implementation of EBA), this provision will only hold for the first 3 months of the marketing year. Once EBA is fully implemented sugar producers other than dedicated refineries subject to MSN will be able to import and refine raw sugar.

The implications of these proposals for ACP and LDC countries are now investigated.

4. IMPACT OF EU SUGAR REFORM ON ACP COUNTRIES

For ACP countries, the revenue loss on exports to the EU for sugar exported under the Sugar Protocol and the EBA Framework Agreement is estimated at around €250 million (Table 6). These figures are likely to be an underestimate of the full impact on supplier countries. They do not allow for the fact that some countries may no longer find it profitable to export sugar at the lower EU reference price, even though it remains significantly above the world price level. Second, the loss to ACP states which are also EBA countries would be expected to grow over time as their access quota increases up to 2009/10 and they have full access after that date. Third, the setting of a minimum level of 75% of Maximum Supply Needs sugar to be sourced from ACP countries/India does not include SPS quantities. This will open the way for refiners to substitute EBA sugar for SPS which will adversely affect those non-LDC ACP countries which currently supply SPS. For LDCs, SPS can simply be exported as EBA sugar, under which terms they will not be subject to varying quotas. However, for non-LDC countries, this will represent reduced access to the EU market, and effectively a loss of preferences. The major SPS supplier in this category is Swaziland (Table 6). The setting of the 75% limit to apply only to the first three months of the marketing year after full implementation of EBA opens the way for ACP sugar also to be subject to substitution for EBA sugar. However, since the proposal does not seek to reduce ACP quota, it is likely that refineries will continue to find it worthwhile to import all the export quantities which ACP countries wish to supply.

Despite these caveats, the table provides a first indication of the countries likely to be most affected by EU sugar reform. For the purposes of discussing the impacts of reform, countries can be broadly classified into three groups: ACP LDCs, ACP non-LDCs with available alternatives and ACP non-LDCs in cyclonic regions.

ACP countries which are LDCs are incorporated into the EBA initiative. This allows them potentially to offset losses on their current quota exports to the EU by increasing their export volumes which will not be subject to quota restrictions after 1st July 2009. Some of these countries are competitive, low cost producers such as Zambia, Malawi and Zimbabwe. Also, for these countries as well as Kenya, the EU represents only a small proportion of the sugar export market. Benefits of the reform may be obtained in third country markets where competition from the EU will be reduced as a result of the reform lowering production and therefore export volumes. However, the magnitude of this effect may not be that significant.

Simulations of sugar market reform usually model liberalisation across the board, and there are relatively few estimates for the effects of EU sugar reform alone. On the other hand, EU reform will most likely take place in parallel with a new WTO Doha Round agreement so the effects will mimic a multilateral reform. Early studies suggested quite a strong price response to a cutback in EU exports. Scenarios of EU liberalisation modelled in the 1980s suggest an increase in the world price of around 11% (Larson & Borrell, 2001). Borrell and Pearse (1999) suggest an increase in the world price of around 38% for full liberalisation of the world market. If liberalisation were to occur only in the US and Western Europe, the effect would be only half of this. FAO (2005) summarises the results of more recent studies, but the range of estimates for the world price impacts is very wide – from 10 to 70%! However, it is likely these studies fail to take fully into account the enormous supply capacity in Brazil, where half of all sugar production is currently used for ethanol production, which could be easily switched to supply the world market if market opportunities arose.[7]

The extent to which individual preference countries will gain from any increase in the world price will also depend on the proportion of their exports to non-EU markets and the extent to which their exports benefit from preference agreements with other countries. Most ACP countries also have preference agreements with the US: Barbados, Belize, Congo, Cote d'Ivoire, Fiji, Guyana, Jamaica, Madagascar, Malawi, Mauritius, St Kitts and Nevis, Swaziland, Trinidad and Tobago and Zimbabwe. For these countries, exports to the EU exceed those to the US with only Malawi having a sugar quota allocation in the US of an equivalent magnitude to that under Cotonou (Larson & Borrell, 2001). Countries which export to the US under preferential agreements will not benefit from any increase in the world market price for those exports. Indeed, reduced US price support under a Doha Agreement would exacerbate the effect of preference erosion in the EU market rather than compensate

[7] The recent increase in world oil prices will make ethanol production more attractive in the future.

for it. Zambia, whose main export market is DR Congo, is the only country likely to benefit from any world market price increase. The study by Milner et al (2004), which assumed that the increase in the world price as a result of full global liberalisation would be 38%, suggested that net gains would be enjoyed by only Congo, Cote d'Ivoire, Zambia and Zimbabwe even under this optimistic scenario.

For non-LDC ACP countries with a high dependence on the EU market, the adjustment problems will be greater. In all cases, sugar is a significant agricultural crop, and as such, plays an important role in their rural economies. Countries which will suffer the highest absolute losses are those with the largest quotas, namely Mauritius, Fiji, and Guyana (see also Appendix 2). These three countries are all high cost producers, with costs which are more than twice those of low cost ACP producers such as Swaziland, Zambia and Malawi. Their high cost structure has arisen largely as a result of having had a secure export market for a long period under the ACP protocol. The high price has become institutionalised leading to a lack of competitiveness on the world market. In Mauritius, in an effort to make full use of its allocated quota, land has been locked into sugar production through land regulations (Larson & Borrell, 2001). Furthermore, special conditions for sugar industry workers have resulted in high labour costs. The cost structure is so high that profits are only 8% of gross revenue, making the industry reliant on the existing preference price in order to remain financially viable (Borrell & Pearce, 1999).

The impact assessment of sugar reform carried out for the European Commission suggests that, at the proposed lower price, sugar production will no longer be financially viable and will cease in Mauritius and Guyana (EC, 2003). Mauritius is attempting to restructure its sugar sector and to reduce its reliance on sugar through the development of tourism and financial services. It is the sheer size of the sugar transfer which makes adjustment difficult for Mauritius. For Fiji, sugar has been replaced by tourism as the main source of foreign exchange revenue, thereby reducing reliance on sugar in the economy as a whole. However, the reform will still impact on rural areas where sugar is grown by small-scale farmers. Inefficiencies remain within the sugar sector which could potentially be reduced, thereby maintaining the profitability of the sector despite the reduced price. Guyana has recently invested in a new sugar mill that will increase output. Through this it expects to reap some benefits from the predicted exit of some other ACP countries from sugar production and export. As other Caribbean countries cease production, this could increase its access to regional markets (Gillson et al., 2005). The precise position of Guyana appears ambiguous with some studies suggesting that its production may be in danger (EC, 2003), and others, that it should survive (Gillson et al., 2005). Swaziland is a lower cost producer than the others in this group which could provide it with scope to benefit from the exit of other ACP countries. Overall, for this group, the reform will seriously impact on sugar revenues, but adjustments are under way to counteract the effects.

The group of countries which give rise to the most concern in relation to the reform are those in cyclonic regions in which sugar cane is virtually the only crop which can be grown. This results in highly specialised agricultural sectors with little potential to diversify. The problem is exacerbated by undiversified export markets with all or virtually all exports destined for the EU (see Figure 1, where these countries are all located at the right-hand side of the chart). Not only are their agricultural incomes and exports heavily reliant on the sugar CMO (Table 5), but they are also high-cost producers. Jamaica, Barbados, Trinidad and Tobago and St.Kitts and Nevis even have production costs above the EU average (Kerkela & Huan-Niemi, 2005). These are all likely to exit sugar production under the proposed EU sugar reform (Gillson et al., 2005). For these countries, climatic constraints give limited scope to diversify into other export crops in order to offset losses. Furthermore, there is little evidence that these countries have engaged in adjustment in anticipation of reform of the CMO. Trinidad and Tobago have a lesser problem due to their natural resources of oil and gas which provide foreign exchange revenue. Barbados and St.Kitts and Nevis both have tourist industries, which have overtaken sugar in their importance to the economy but these have been hit by the downturn in tourism since September 11th. Jamaica poses a greater problem in that, despite having a diversified economy, it suffers from high unemployment and debt levels of 150% of GDP. The sugar reform and the likely exit from sugar production is likely to exacerbate these problems.

Figure 1: Total sugar exports by ACP countries and the proportion of their sugar exports going to the EU.

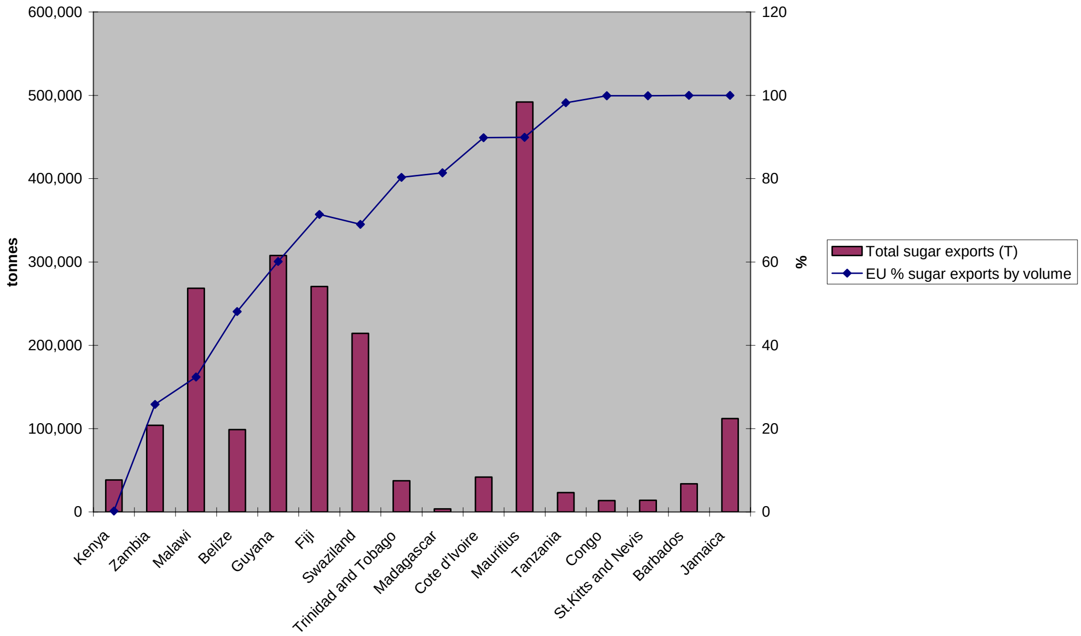

Table 6: Summary of the importance of exports to the EU to ACP countries and the expected loss in revenue resulting from the proposed reform of June 22nd 2005 incorporating a cut in institutional price and elimination of SPS

	Year	Total sugar exports (T)	ACP quota	EU % of sugar exports by volume	Revenue loss from ACP and EBA quota	Revenue loss from SPS quota**	Total revenue loss from EU exports (€)
Belize	2002	98,858	40,349	48.1 (under ACP 40.8)	8,239,266	2,331,190	10,570,455
Barbados	2003	33,634	50,312	100.0	6868062.8	0	6,868,063
Congo	1995	13,715	10,186	99.9 (under ACP 74.2)	2079981.2	0	2,079,981
Cote d'Ivoire	2003	41,709	10,186	89.8 (under ACP 24.4)	2,079,981	8,826,872	10,906,854
Fiji	2003	270,582	165,348	71.4	33764061.6	9,014,251	42,778,313
Guyana	2003	307,642	159,410	60.1	32551522	8,248,796	40,800,318
Jamaica	2002	112,094	118,696	100.0	22889594.8	0	22,889,595
Kenya	2003	38,197	na	0.2		2,472,874	2,472,874
Madagascar	2003	3,708	10,760	81.4	757173.6	0	757,174
Malawi	2003	268,241	20,824	32.4 (under ACP 7.7)	6429237	0	6,429,237
Mauritius	2003	491,973	491,031	89.9	100268530.2		100,268,530
St Kitts and Nevis	2001	14,052	15,591	99.9	2,869,418	0	2,869,418
Surinam	2001	2	Na	100.0		647	647
Swaziland		Na	117,845	69[8]	24063949	9,711,000	33,774,949
Tanzania	2003	23,178	10,186	98.2 (under ACP 43.9)	3982512.6	0	3,982,513
Trinidad and Tobago	2002	37,425	43,751	80.3	7642185	0	7,642,185
Zambia	2002	103,976	Na	25.8	5477829.994	0	5,477,830
Zimbabwe	2002	Na	30,225	na	6,171,945		6,171,945
Total		1,858,986	1,294,700		266,135,250	40,605,630	306,740,881

Note: Revenue losses are own calculations based on actual tonnage exported to the EU in the reported year, rather than quota allocations. This therefore includes ACP, SPS and EBA allowances. It is assumed that for EBA countries that their SPS volumes become EBA sugar. The revenue loss therefore equals the export levels multiplied by the price cut.

For SPS countries which are not LDCs, and therefore not incorporated in the EBA, the loss for SPS sugar will be greater per tonne than that exported under ACP. This is because reform will lead to the elimination of SPS. Since these countries are not EBA, these volumes will be sold on other markets. It is assumed in this case that they enter the world market, obtaining a price of €200 per tonne.

*based on quota allocation rather than actual export volumes to EU

**assumes that the sugar will fetch a world price of approximately €200 and SPS is eroded.

The total quota falls 10,000 short of total ACP quota since India has been omitted from the table

Source: WITS/COMTRADE database

5. IMPACT OF EU SUGAR REFORM ON EBA COUNTRIES

Experience to date with the EBA initiative suggests that it has had positive effects despite the small quota allowances. It provides a secure market for a set volume of sugar which receives a guaranteed price, lowering price risk and increasing the attractiveness of the industry to investors. Mozambique and Ethiopia have become net exporters since the initiative began in 2001 (Oxfam, 2004a). The industry in Mozambique had been ravaged by civil war and the EBA has played an important role in its revival, creating employment both in sugar mills and on plantations. These are generally located in rural areas and so act as a vehicle of rural development, providing incomes for households involved in the industry, and thereby aiding in poverty reduction (in Mozambique, 78% of the population live on under $2 a day (Oxfam, 2004b). This is illustrated by the example of Sofala province in Mozambique in which 2 large sugar estates have been rehabilitated, doubling employment in the province. In 1997-9 this province had the highest poverty rate in the country, but by 2002-3, it had the lowest (Oxfam, 2004b). In addition to providing employment, sugar estates often provide other services such as primary schools and health clinics and sometimes run malarial control clinics. In some cases housing and water may also be available to employees (Oxfam, 2004b). The case of Mozambique shows that preferential trade with the North can provide wide benefits to South countries which aid in poverty reduction, education and health.

Table 7. Status of LDC Producers in 2004

	Functioning	Rehabilitation	Not functioning
Net Importers	Bangladesh Burkina Faso Burundi CAR Chad DR Congo Mali Nepal Rwanda Senegal Uganda	Haiti Laos Madagascar Togo	Angola Benin Cambodia Guinea Sierra Leone Somalia
Net Exporters	Ethiopia Malawi Myanmar Sudan Zambia	Mozambique Tanzania	

Source: LMC International 2004

Even at this early stage of the EBA, clear winners have emerged from the sugar sector with only a few countries actively exporting. Trade preferences benefit those countries which are more stable and have appropriate infrastructure to export. War torn countries such as DR Congo and those which are just emerging from civil war such as Angola are disadvantaged in this respect. Among other countries, Mozambique, Tanzania, Sudan and Ethiopia have the advantage of lower transport costs due to their coastlines while Zambia and Malawi face the disadvantage of higher transport costs due to their landlocked positions. Clearly for countries further inland, transport costs will be a greater constraint to their ability to benefit from the EBA. Low cost land-locked countries could potentially gain more benefit from trade liberalisation at regional level through exports to neighbouring countries with higher prices.

The impact of EU sugar reform on EBA countries differs from ACP countries due to the recent and still incomplete introduction of EBA. In the case of ACP countries, problems arise because the long-term effects of preferential access have become institutionalised in some cases. For EBA countries this has not yet occurred, and thus, there is not the same degree of dependence on the sugar CMO. As a result of reform, EBA countries will generate lower export revenues in the future than they would have been if the CMO were to remain unreformed. Thus, it will impact on the level of investment which can now be expected in their sugar industries. However, the sugar price in the EU even after the reform will still be well above the world market price due to tariff protection, so preferential duty-free access to this market will still be a highly valuable right. At the lower price, of course, fewer EBA countries will find it attractive to supply this market. But if the sugar industry in these countries cannot become competitive on the basis of the preferential margin of 75% or so which will continue to exist, it is questionable if that country should be in sugar production in the first place. The price cut resulting from the reform will reduce the potential negative effects of preference agreements in the long-term. The degree to which these countries might become uncompetitive on the world market due to the institutionalisation of high protected prices will be smaller than has been the case of high-cost ACP countries.

6. THE OPTIONS FOR PREFERENCE COUNTRIES

Sugar preferences as development aid?

The ACP protocol has evolved into development aid in all but name but, because it was not set up as an aid mechanism, it can be criticised for not being the most efficient means of development assistance. For example, the cost to the EU of exporting an equivalent amount of ACP/Indian white sugar has been around €802 million in recent years ((Oxfam, 2004a)). But the benefit of the Sugar Protocol to ACP countries was estimated above to be only €450 million. Much of the cost to the EU taxpayer of supporting ACP sugar goes to the refining industry in the EU rather than to the developing countries themselves. Indeed, as most of the cost of the EU sugar regime is borne by EU consumers rather than the EU taxpayer, the overall efficiency of the transfer is even smaller than this. It has been estimated that for every $1 received by the preference countries, the EU tax payer pays $5 (Borrell & Pearce, 1999).

Another failing lies in the uneven quota distribution across countries which arose from allocations being made according to historical trade levels, as opposed to development needs. Mauritius was the main sugar producing colony of the UK and has one-third of the quota, while Fiji and Guyana together hold a further quarter (Table 1). The value of preferences considered in terms of their value per capita per day provides an indication of their potential contribution to poverty alleviation. If $2/day is taken as the definition of poverty, preferences have considerable potential to lift a household out of poverty in Mauritius, a middle-income country, where preferences have an equivalent value of $0.4/capita/day, as opposed to Tanzania, an LDC, where poverty levels are much higher but preferences are equivalent to only $0.0003/day.

For these reasons, we do not believe that development arguments can be used as a justification to maintain the value of the Sugar Protocol as part of the current EU sugar regime. Nonetheless, beneficiary countries rightly expect that their interests will be taken into account in the reform. The debate about how best to do this is discussed in the remainder of this section.

The EU Commission proposal

The Sugar Protocol attached to the Cotonou Agreement obliges the EU, for an indefinite period, to purchase and import, at guaranteed prices, specific quantities of cane sugar which originate in the ACP states and which those states have undertaken to deliver to it. The guaranteed price is negotiated annually, within the price range obtained in the Community. Where the EU reforms its sugar policy resulting in a lower price level on the Community market, the ACP states must also accept this lower price provided they are not put in a less favourable position than EU producers. However, it is generally accepted that the EU's obligation goes further than this. Under the Commonwealth Sugar Agreement which was imported into the Sugar Protocol: "The Community will have as its firm purpose the safeguarding of the interests of the countries referred to in the protocol whose economies depend to a considerable extent on the export of primary products and particularly of sugar" (Bodha, 2005). This emphasises the responsibility of the EU to aid in mitigating the effects of reform of the CMO.

This responsibility was addressed in the July 2004 reform proposal which indicated that funds would be provided to either improve competitiveness of sugar production in these countries or to promote diversification out of sugar depending on the needs of the countries concerned. In January 2005, the Commission published an Action Plan which further outlined its proposed measures to support ACP countries through the transition process. The core of its proposal is the need to develop sustainable country specific strategies for adaptation which should take into account the constraints and opportunities of the sugar sector both at present and in the future as well as national development strategies. It also emphasises the need for these strategies to be actively pro-poor as opposed to assuming that the poor would benefit through spill-over effects.

Three main instruments for assistance are proposed: measures to improve competitiveness of the sugar industry; the promotion of diversification; and addressing broader adaptation needs. In any country one or all of these measures may be implemented depending on the national situation.

A key consideration in any strategy is whether the sugar industry in a given country has the potential to be sustainable in the long-term. This is to be determined by a SWOT analysis of the entire production and marketing chain taking account of trends in domestic consumption; the potential for developing regional trade; factors influencing competitiveness; and the potential to adapt to future market conditions. Where countries are unable to demonstrate viability of the industry at any stage of the chain, they will not be eligible for assistance to improve the competitiveness of their industry. There could be difficulties in achieving an independent evaluation of the sugar industries at national level since national experts may have a bias towards maintaining the industry.

Several elements for competitiveness improvements have been proposed:

1. At producer level these are to improve technology and management in order to reduce production costs. Production units are to be restructured at both producer and factory level in order to achieve efficiency gains.
2. At the end of the chain, diversification of sugar markets is to be encouraged by adding value, such as through developing brands, quality guarantees and diversifying sales arrangements. Co-products of sugar cane can also be developed and encouraged such as bagasse-generated electricity and animal feed as can alternative cane-derived products such as ethanol and rum. Finally, developing and implementing codes of best practice, particularly for labour conditions, may aid marketing.
3. Organisation and co-ordination can be improved along the chain.

The instruments used to achieve these developments could include adapting the policy and institutional context of the sugar sector, promotion of research and consultancy, infrastructure investments (both for transport and irrigation) and facilitating access to finance. Promotion of renewable energies could aid refineries in bagasse co-generation which could provide mills with additional revenue (EC, 2005a).

While there is scope to develop value added products through developing different types of sugar, the extent to which this can be a successful strategy may be limited. The Demerara estate in Guyana produces the eponymous sugar but this does not appear to have given it a competitive advantage (Hewitt, 2001). However, this may be due to the potential of the brand never having been fully exploited (Page & Hewitt, 2002). One of the problems of producing special sugars is that the market is small and competition within it is increasing (van Berkum et al., 2005). This suggests that the capacity for preference countries to successfully enter this market could be limited.

Some preference countries have already attempted such strategies. Mauritius currently produces and markets seventeen special sugars and satisfies 20-25% of its national electricity demand with bagasse (van Berkum et al., 2005). The effect of the EU assistance plan is likely to be limited in such cases due to the strategies having already been pursued, thereby reducing the number of alternatives available. There is some scope for ethanol production: rising oil prices increase its attractiveness as a fuel. Indeed, Ethiopia has already established an ethanol plant with the ethanol being used, not to fuel cars as in Brazil to be blended with kerosene as a household cooking fuel (van Berkum et al., 2005).

Previous experience with EU assistance to ACP banana producers suggests that, although competitiveness can be improved in some cases, problems arise where country programmes are largely determined by individual decision-makers. This has limited the effectiveness of some programmes as well as impacting on coherence between sub-projects (Management, 2004; NERA & Oxford Policy Management, 2004). Further difficulties arose through delays in fund transfers from Brussels. There was criticism of the wastefulness of utilising financial resources to improve competitiveness in some countries where the sector had little or no potential to be competitive (Hubbard et al., 2000). The EU seems to have addressed this in the current instance by indicating that it will only provide support for improvements to competitiveness where the sugar sector has the potential to be sustainably competitive. It should also take on board the lessons learnt from support to banana producers by setting clear objectives while funding interlinked projects with clear outcomes.

With regard to the diversification option, the Commission views this at two levels: within agriculture and beyond agriculture. For the former it sees potential to intercrop or to develop alternative products from sugar cane. This level of diversification is important in reducing price and production risk whether or not countries remain in sugar production. However, agro-climatic conditions limit the extent to which this is possible, above all for ACP countries in cyclonic areas where sugar cane is virtually the sole crop which can withstand cyclones. For example, in 2004, sugar cane was the sole crop to withstand hurricanes in Jamaica (Clark, 2005). The inability of these countries to produce other crops has made them more dependent on the Sugar Protocol for foreign revenue to purchase food imports. Thus, in these cases alternative strategies will be necessary.

Despite these measures, the process of adaptation is unlikely to be easy. The extent to which these countries have specialised in sugar creates various problems for diversifying away from it. First, sugar cane has a lifecycle of approximately six years; this makes change to other crops a relatively slow process since only about one-sixth will be replaced in any given year. This is particularly problematic given the short time scale of application of the proposed reform. Second, the long-term specialisation in sugar has resulted in the accumulation of human capital for sugar production with only limited human capital for alternatives. This could make the process of diversification into alternative crops difficult. This problem is equally pertinent for diversification into non-agricultural sectors (Laurent, 2004). Exit from sugar production will result in unemployment or underemployment in rural areas, so that it is here, rather than urban areas, where jobs need to be created. But it may be extremely difficult to attract investors to rural areas due to costs of transport of inputs and outputs and of developing human capital. What is more, the impact of the fall in sugar price will adversely affect the economy as a whole, dampening domestic demand and thus the profitability of diversification for the domestic market. Foreign direct investment (FDI) focused on exports is a possible route to overcome this problem but, as yet, ACP countries have had very limited success at attracting FDI (Laurent, 2004).

A further problem is the short time frame of reform which limits the potential for enterprise and employment creation to occur before the price reduction is applied. Evidence from assistance provided to the Windward Islands in response to banana reform suggests that diversification is a slow and difficult process: projects initiated and supported by external funding in the early 1990's were still showing slow progress at becoming operational at the end of the decade (Laurent, 2004).

An important issue arising from the sugar reform is the multifunctional nature of sugar cane production. In many cases, plantations provide services such as education health, social, community and sports services. It is the possible loss of these services which the Commission wants to address under the heading of broader adaptation needs. However, beyond recognition of these problems, a strategy to address them is lacking.

The Commission has not yet put numbers on the size of the financial package it is prepared to make available. The Action Plan states that "The total envelope for assistance will be based amongst others on overall needs of Sugar Protocol countries" (EC, 2005a p.13). It will be divided into national envelopes, with additionally a common envelope for projects of general interest, e.g. at regional level, and a specific provision for administration costs. It proposes to cover the cost through the "Development Cooperation and Economic Cooperation" Instrument in the next EU budget Financial Perspective, to cover the period 2007-2013. Some provision for preparatory support for 2006, of the order of €40 million, is envisaged in the June 2005 proposals, and the Commission also highlights the availability of the FLEX mechanism in the Cotonou Agreement which can support national budgets in case of significant losses of government revenues due to a shortfall in export earnings.

These proposals are worrying because of their uncertainty. Agreement on the Financial Perspective was expected at the June 2005 European Council meeting but deep divisions remain between member states both on the overall size of the budget and on its composition. Also, there is no commitment that these funds will be additional to what has already been agreed will be available to the ACP countries under European Development Fund financing in any event.

The LDC/ACP proposal

The LDCs, supported by the ACP states, have sought to persuade the EU to follow a different reform path for the sugar CMO (LDCs, 2004). In order to avoid a major decline in the guaranteed price, the LDCs have offered to postpone the date for full liberalisation of their access to the EU market in exchange for a significant increase in the sugar preferential quota granted to the LDCs in the intervening period. Specifically, the LDCs have indicated that, rather than full access by 2009, they would prefer a system of quotas on imports which they have set out in a proposal to the EU, under which:

1. Existing import quotas for raw sugar would continue to increase by 15% annually to 2008/9 to reach 197,335 tonnes and thereafter remain static until 2015/16.
2. Between 2015/16 and 2019, tariffs would start to decrease, reaching zero by the end of the period.
3. A second quota would be set up to cover all types of sugar (i.e. refined as well as raw) starting in 2004/5 and increasing 15% annually to 2011/12 when it would amount to 1.425 million tonnes when it would then remain fixed until 2016.

The rationale behind this proposal is to allow a longer transition period (10 years) and to achieve 'remunerative prices' (LDCs, 2004). It is believed that this would provide a more secure environment for investors which would aid in attracting further investment and development of the industry in these countries. The LDCs suggest that the proposed reform of the CMO with its short-time frame to implement price reductions would increase swap trading[9] and 'open the opportunity of market abuse'. Adhering to the proposal would limit the need for so rapid a reform (Eledegeir, 2005) and so might limit the extent to which such practices may occur. The commitment of LDCs to promoting their proposal was confirmed and supported by the ACP countries through the Madrid Declaration of January 2005 through which they reaffirmed their opposition to the CMO reform and agreed the need for quantitative controls on EBA sugar exports to the EU (ACP/LDCs, 2005). The Commission states that it has not ignored the LDC proposal but considers that the underlying philosophy, namely to organise trade volumes at high prices, is diametrically opposed to the logic of the sugar policy reform (Mandelson, 2005).

Having a market for fixed quantities at fixed prices reduces risk and so makes investment more attractive. The current remunerative EU price generates higher profits than would be obtained from other markets. These profits can be invested in the industry and attract investors. Evidence from Mozambique is often cited in this regard: civil war in the country had a serious impact on the sugar industry which is currently in the process of rehabilitation. The ability of the EBA to encourage investment has facilitated this process and, since its implementation, Mozambique has become a net exporter of sugar (Oxfam, 2004b). EBA countries have the potential to develop sustainable sugar industries which could compete on the world market since they have low production costs. However, prior indebtedness of the industry in some EBA countries and bottlenecks such as poor infrastructure mean that further investment is required before this could be achieved. It is this process which the EBA countries hope to maintain through their proposal. Limiting their exports to the EU through quotas would lower the impact on the EU itself, potentially limiting the extent of reform of the CMO, and thus limiting the extent of price cuts.

NGOs and some other researchers (see for example Huan-Niemi, 2003 and; LMC, 2004) support this view. The LMC study, which was carried out for the UK Department of International Development DFID, includes the important caveat that a more stringent quota regime should be accompanied by a gradual reduction in price (LMC, 2004).

Table 7 indicates the potential benefits of the LDC proposal to sugar-producing EBA countries compared to the EU July 2004 proposal under the scenario of sugar mills requiring an internal rate of return of 10%. It suggests that LDCs would have additional revenue of almost €300 million compared to the EU July 2004 proposal which would increase to €400 million if the EU were to reduce the sugar price beyond 2007 to €305/tonne of raw sugar. Employment would be 122,000 higher for the first scenario and 146,000 for the second (LMC, 2005).

[9] The practice of one country exporting all its production while importing to fill its consumption needs.

However, there are a number of drawbacks to the LDC proposal. It assumes that that a larger quota reduction would allow the EU to maintain a higher price than under the July 2004 reform proposal (even if lower than the current price). However, this would require the continued exclusion of non-preferential sugar from the EU market, which depends not only on maintaining the current high tariff but also the special agricultural safeguard mechanism. Both of these options are unlikely to survive in the Doha talks, thus nullifying the advantages of the LDC proposal.

Table 7: Impact of the LDC proposal compared to the EU July 2004 proposal

	LDC proposal compared to the EU 2004 proposal with the price frozen from 2007			LDC proposal compared to EU price cuts continuing beyond 2007 to €305/tonne of raw sugar		
IRR=10%	Industry Revenue (€ millions)	Export Earnings (€ millions)	Total Employment ('000 workers)	Industry Revenue (€ millions)	Export Earnings (€ millions)	Total Employment ('000 workers)
Congo DR	1	1	0	1	1	0
Ethiopia	-1	-1	0	7	7	0
Madagascar	2	2	0	2	2	0
Malawi	124	124	22	131	131	24
Mozambique	5	5	0	7	7	0
Nepal	21	13	73	21	13	73
Sudan	29	29	0	47	47	0
Tanzania	110	110	26	110	110	26
Zambia	3	3	0	6	6	0
Others	0	0	0	0	0	0
Total	293	285	122	399	392	146

Source: LMC, 2005.

Potentially, it may be very costly to give incentives for unsustainable investments in developing countries. The main disadvantage of quotas is that they encourage less competitive countries to deploy resources into production which would be more efficiently utilised in other sectors. In the long-term this leads not only to misallocation of resources but to high cost structures, as factors of production become locked into production as has occurred in Mauritius and amongst Member States of the EU itself. This leaves countries unable to compete on the world market and vulnerable to changes in the sugar price. This problem is then compounded by human and physical capital having been built up for sugar, rendering the shift to alternatives difficult. Access to the EU market at an artificially high price may also divert some exporters from taking advantage of regional export opportunities for domestically-produced sugar. Nonetheless, it is important to recall that EBA sugar will continue to benefit from a more remunerative EU price than the world market price, given the continued high protection of the EU sugar market against non-preferential sugar.

A deficiency payment measure as part of the reform package

There are drawbacks to both sets of reform proposals currently on the table. Aid to improve competitiveness, assist diversification and help to maintain social services, as proposed by the EU Commission, is an essential part of the package. However, it does not adequately take into account a realistic time scale and the difficulties of diversification, particularly for some of the Caribbean island sugar economies. Both the funding amount and the source of funding are also uncertain. LDCs suggest delaying quota removal under the EBA initiative for a further ten years in order to offset the extent to which the price will be cut. The LDC proposal would certainly ensure a higher revenue stream to LDC exporters than under the Commission's reform plan, but it is based on an unrealistic assessment of the likely level of the future EU price, its philosophy of supply management is at odds with the whole approach to CAP reform and, even if successful, it carries the danger of creating an uncompetitive and unsustainable sugar industry in many LDCs.

We therefore propose that, over a ten-year transition period, the EU should continue to provide income assistance to the sugar industry of particularly vulnerable ACP economies by means of a guaranteed price which would initially start at the current level but which would be gradually reduced over the transition period to the level proposed by the Commission in its reform proposals. Such support would take the form of a deficiency payment linked to specific quantities of production. This mechanism should complement the proposed structural adjustment assistance and is not a replacement for it. This solution is compatible with the market orientation of the sugar reform proposal, it provides the additional breathing space that many of these economies require, and yet its self-terminating nature will avoid the problem of locking countries into unsustainable lines of production in the longer term. The criteria for eligibility for deficiency payments would have to be worked out, but would be based on objective criteria of vulnerability, dependence on EU sugar earnings and scope for diversification. Those LDCs which currently benefit from preferential exports to the EU under the Framework Agreement should also be eligible for these payments. As the amount of the deficiency payment is reduced over time, additional resources should be switched to 'second window' activities such as improving competitiveness and assisting diversification.

A coupled direct payment of this kind would count as trade-distorting domestic support under WTO rules. Many sugar exporter developing countries may not have an entitlement to provide trade-distorting domestic support beyond the *de minimis* level (which, for developing countries, is 10% of the value of production for product-specific support). However, by limiting payments to a fixed quantity of production, these payments would be eligible for the blue box and therefore not subject to any ceiling or reduction requirement under the Uruguay Round Agreement on Agriculture.

An important issue is to whom the deficiency payment should be delivered. While utilising it to directly subsidise growers would allay the shortfall in their income, it is important to consider how it could be used to contribute to economic growth in the countries concerned. A recent study of Fiji suggests that providing funds to Central Governments for investment in infrastructure would aid in the transition process, through both its direct and indirect effects on productivity-driven economic-growth (Levantis et al, 2003). This could be one possible avenue to be explored.

The financial package for these supports should be calculated on the same basis as for EU growers, The Commission has proposed a very generous compensation package for EU farmers and sugar factories adversely affected by its reform proposal. Farmers will be entitled to compensation for 60% of their revenue loss; as this will be paid as part of the Single Farm Payment, they will be free to use their land for other profitable farming activity which will help to make up much of the remainder of this loss. In addition, in its June proposal, the Commission has moved away from the idea of uncompensated quota cuts to a voluntary buy-out scheme backed by a generous restructuring fund. While this scheme is directed to factories in the first instance, there is scope for bargaining by growers to share in at least part of these payments.

The contrast with the compensation package on offer to the ACP countries could not be more stark. Despite the greater dependence of these economies on their sugar earnings, no income compensation has been proposed. Furthermore, the amount of compensation on offer in the first year, 2006, of €40 million, contrasts hugely with the cost of the implicit transfer the EU has been making to these economies under the Sugar Protocol (estimated at €800 million earlier, or the cost of export subsidies for an equivalent amount of white sugar to that imported under the Sugar Protocol). What seems to have happened is that the Commission has taken the total expenditure on the current sugar regime and made it available as compensation to EU producers. This is despite the fact that the expenditure on the re-export of ACP sugar never benefited EU growers and should rightly be used as part of the ACP country compensation package.

ACP producers are entitled to the same compensation package as EU farmers, i.e. 60% compensation for the revenue loss. Given our estimate of the revenue loss of €250 million, the compensation package should increase to €150 million per year as the reduction in the raw sugar price is phased in. Funding for this proposal should be found from the current expenditure on the CMO which, as explained above, largely arises because of ACP exports. However, a promise has been made to provide 60% compensation to EU growers so additional budget resources will be required. A further source of funding could be obtained by placing a consumer levy on sugar (DEFRA, 2005). This could be set at a level which would maintain the consumer sugar price at its current level, so that the gains from the lower producer price are not transferred to the consumer or higher. This would reflect the fact that EU consumers are the main beneficiaries of the sugar reform. A further rationale would be to reduce the incentive to increase sugar consumption by EU consumers as a result of the lower price, thus avoiding exacerbating the problems of obesity and unhealthy eating. Australia provides a precedent of such a scheme when it established a restructuring scheme at the time of reforming its dairy sector with the implementation of deregulation of the sector in 2000. This was funded through a consumer levy on liquid milk (Harris, 2004).

7. CONCLUSION

The EU sugar CMO has an array of preference agreements with developing countries, those with the ACP countries are long-standing as opposed to the recent EBA initiative. Reform of the CMO will affect both groups in terms of revenue foregone. However, the impact will be greater for ACP countries due to the degree of dependence on the EU sugar price which has built up over time. In view of this, it is vital that the EU provides appropriate measures to aid these countries adjust to the new regime.

Two proposals for an adjustment regime have been made. The Commission proposes a financial aid package to improve competitiveness, assist diversification and help to maintain social services. However, this proposal does not adequately take into account the need for a realistic time scale for diversification, and its funding is both uncertain and mean. The LDCs have proposed to delay the removal of quotas on their EBA exports to the EU for a further ten years, I return for a larger LDC quota over this period and in the hope of maintaining an internal EU price much closer to the current price than what the Commission is proposing. The LDC proposal would indeed mean higher export earnings for EBA exporters over the next ten years than under the Commission’s proposal, but it is based on an unrealistic assessment of the likely level of the future EU price, its philosophy of supply management is at odds with the underlying basis for the sugar policy reform and, even if it were successful, there is the danger that it could leave the LDCs with a high cost, uncompetitive sugar industry at the end of the period.

Our proposal builds on the Commission’s proposal but adjusts it in two fundamental ways. First, we propose an important element of income assistance, to be paid as a deficiency payment to existing sugar producers on the existing volume of exports to the EU. This payment should initially be set equal to the difference between the current EU price for raw sugar and the price which will be paid under the Commission's reform proposal. This payment should be reduced over a ten-year period, with the reductions backloaded into the second half of the period. Eligibility among ACP and EBA countries for the payment should be decided on the basis of objective criteria such as income per capita, dependence on EU sugar earnings, and prospects for diversification.

Second, the adjustment package must be a generous one. The Protocol is based on parity of treatment between EU sugar beet growers and ACP cane producers. ACP growers are as affected as EU growers by the price reduction proposed by the EU Commission. Yet the compensation package proposed for EU producers, at €1.35 billion per annum, starkly contrasts with the proposed €40 million in 2006 for ACP producers. Parity of treatment must extend also the compensation package accompanying sugar policy reform. On this basis, we propose that the compensation package should be based on 60% of the revenue loss to ACP and EBA Framework Agreement suppliers in 2009/10.

REFERENCES

ACP/LDCs. (2005). *The Madrid Declaration*.

ASSUC. (2001). *EBA- an impact assessment for the sugar sector*: association des organisations professionelles du commerce des sucres pour les pays de l'union europeenne.

Bodha. (2005). *Speech at the Meeting of EU Agriculture Ministers, Ministers from ACP and LDC countries and Members of the European Commission 24 January 2005*.

Borrell, B., & Pearce, D. (1999). *Sugar: the taste test of trade liberalisation.* Paper presented at the Conference on agriculture and new trade agenda from a development perspective 1-2 October 1999, Geneva, switzerland.

Clark, G. (2005). Speech at the Meeting of EU Agriculture Ministers, Ministers from ACP and LDC countries and Members of the European Commission 24 January 2005.

DEFRA. (2005). *Partial Regulatory Impact Assessment of Options for Reform of the EU Sugar Regime with Particular Reference to European Commission Proposals of 22 June 2005*.

EC. (2000). *Everything but Arms (EBA) Proposal. First remarks on the possible impacts on the agriculture sector*. Brussels, Belgium: European Commission.

EC. (2001). *Everything but Arms (EBA) Proposal: possible impacts on the agriculture sector*. Brussels, Belgium: European Commission.

EC. (2003). *Reforming the European Union's Sugar Policy Summary of Impact Assessment Work*. Brussels, Belgium: European Commission.

EC. (2004a). *The Common Organisation of the Market in Sugar*. Brussels, Belgium: European Commission Agriculture Directorate General.

EC. (2004b). *DS 585/04 Sugar Sector Reform (COM 2004/499 fin du 14 Juillet) Background Note No. 2: Institutional prices for sugar and sugar beet*. Brussels, Belgium: European Commission.

EC. (2005a). *Action Plan on accompanying measures for Sugar Protocol countries affected by the reform of the EU sugar regime*. Brussels, Belgium: European Commission.

EC. (2005b). *Commission Staff Working Document. Reforming the European Union's Sugar Policy: Update of Impact Assessment [SEC(2003) 1022] (COM(2005) 263 final)*. Brussels: European Commission.

EC. (2005c). *Proposal for a Council Regulation on the Common Organisation of the Markets in the Sugar Sector. Proposal for a Council Regulation amending Regulation (EC) No*

1782/2003 establishing common rules for direct support schemes under the common agricultural policy and establishing certain support schemes fro farmers. Proposal for a Council Regulation establishing a temporary scheme for restructuring the sugar industry in the European Community and amending Regulation (EC) No 1258/1999 on the financing of the common agricultural policy. Brussels, Belgium: European Commission.

Eledegeir. (2005). *Speech at the Meeting of EU Agriculture Ministers, Ministers from ACP and LDC countries and Members of the European Commission 24 January 2005*.

EU. (2004). *Communication from the Commission to the Council and the European Parliament Accomplishing a Sustainable Agricultural Model for Europe through the Reformed CAP - Sugar Sector Reform. Addendum to the Report*. Brussels, Belgium: Council of the European Union.

FAO. (2005). *The Impact of Reforms to Sugar Sector Policies: a Guide to Contemporary Analyses*. Rome, Italy: FAO.

Gillson, I., Hewitt, A., & Page, S. (2005). *Forthcoming Changes in the EU Banana/Sugar Markets: A Menu of Options for an Effective EU Transitional Package*. London: Overseas Development Institute.

Harris, D. (2004). *Adjustment assistance for policy reform: a case study on the Australian dairy sector restructuring package*. Paris: OECD.

Hewitt, A. (2001). *Guyana, Sugar and EBA: Case-study of a country which is not quite Least Developed.* Paper presented at the Regulatory Frameowrk of Globalisation Workshop, Observatory of Globalisation, Barcelona, Spain.

Huan-Niemi. (2003). *The Future of Trade Preferences for Sugar*. Brussels, Belgium.

Huan-Niemi, E., & Niemi, J. (2003). *The Impact of Preferential, Regional and Multilateral Trade Agreements: A Case Study of the EU Sugar Regime*. Brussels: CEPS.

Hubbard, M., Herbert, A., & Roumain de la Touche, Y. (2000). *Evaluation of EU Assistance to ACP Banana Producers*. Taastrup, Denmark: Eva-EU Association.

Kerkela, L., & Huan-Niemi, E. (2005). *Trade preferences in the EU sugar sector: winners and losers*. Helsinki, Finland.

Larson, D., & Borrell, B. (2001). *Sugar Policy and Reform*: The World Bank.

Laurent, E. (2004). *Beyond EU Sugar Reform: Financing Diversification in ACP Sugar Exporting Countries*. London, UK: Commonwealth Secretariat.

LDCs. (2004). *Proposal of the Least Developed Countries of the World to the European Union Regarding the Adaptation of the EBA Initiative in Relation to Sugar and the Role of the LDCs in the Future Orientation of the EU Sugar Regime*.

LMC. (2004). *EU sugar reform: the implications for the development of LDCs*. Oxford, UK: LMC International Ltd.

LMC. (2005). *EU Sugar Reform. The LDC Proposal - The Development Dimensions*. Oxford, UK: LMC International Ltd.

Management, N. a. O. P. (2004). *Addressing the Impact of Preference Erosion in bananas on Caribbean Countries. A Report for DFID*. London.

Mandelson, P. (2005). *Speech at the Meeting of EU Agriculture Ministers, Ministers from ACP and LDC countries and Members of the European Commission 24 January 2005*.

Milner, C., Morgan, W., & Zgovu, E. (2004). Would All ACP Sugar Protocol Exporters Lose frome Sugar Liberalisation? *The European Journal of Development Research, 16*(4), 790-808.

Mitchell. (2004). *Sugar Policies: Opportunity for Change*. Washington D.C., USA: World Bank.

NERA, & Oxford Policy Management. (2004). *Addressing the Impact of Preference Erosion in bananas on Caribbean Countries. A Report for DFID*. London.

Oxfam. (2004a). *Dumping on the world: how EU sugar policies hurt poor countries*. Oxford, UK: Oxfam International.

Oxfam. (2004b). *A Sweeter Future? The potential for EU sugar reform to contribute to poverty reduction in southern Africa*. Oxford, UK: Oxfam International.

Page, S., & Hewitt, A. (2002). The New European Trade Preferences: Does 'Everything but Arms' (EBA) Help the Poor? *Development Policy Review, 20*(1), 91-102.

Stevens, C. (2003). Food Trade and Food Policy in Sub-Saharan Africa: Old Myths and New Challenges. *Development Policy Review, 21*(5-6), 669-681.

van Berkum, S., Roza, P., & van Tongeren, F. (2005). *Impacts on the EU sugar policy reforms on developing countries*. The Hague: Agricultural Economics Institute (LEI).

Vaughan, A. (2004). *Sugar, Trade and Europe*: Sustain.

WTO. (2004). *European Communities-Export Subsidies on Sugar Complaint by Brazil Report of the Panel*.

Appendix 1.

EBA import quota for raw sugar under the Framework Agreement (26 countries)

	2001/02	2002/03	2003/04	2004/05	2005/06
Angola	0	0	0	0	0
Bangladesh			8989	8282	6643
Benin	0	0	0	0	4238
Burkina Faso	7073	7238	7672	7374	5090
Burundi	0	0	0	0	0
Cambodia	0	0	0	0	0
Congo DRC	0	0	0	10831	8155
Ethiopia	14298	14689	15249	14264	11737
Guinea	0	0	0	0	3974
Haiti		0	0	0	0
Laos	0	0	0	0	0
Madagascar	0	0	0	6550	4742
Malawi	10402	10661	10959	10925	8076
Mali	0	0	0	0	4985
Mozambique	8332	8384	10117	9738	7731
Nepal	0	8970	8667	9191	7248
Niger	0	0	0	0	5118
Rwanda	0	0	0	0	0
Sierra Leone	0	0	0	0	5960
Senegal	0	0	0	0	4816
Somalia	0	0	0	0	0
Sudan	16257	17037	16979	17032	15214
Tanzania	9065	9317	9940	9493	7589
Togo	0	0	0	0	5980
Uganda	0	0	0	0	4979
Zambia	8758	9017	9538	9146	7475
Total	74185	85313	98110	112826	129750

Source Kerkeal and Huan-Niemi 92005)

CASE STUDIES OF ACP BENEFICIARY COUNTRIES

Mauritius

Sugar cane accounts for 90% of utilisable agricultural area of which 19 large estates account for 55% of land under sugar cane, while 35,000 small growers are responsible for the rest (http:// countrystudies.us/Mauritius/3.htm). Exports to the EU account for 90% of sugar production (Oxfam, 2004a), while sugar exports account for 90% of agricultural exports and are 20% of all merchandise exports (WTO, 2004). More importantly sugar exports cover 75% of the cost of food imports to the country, which is a net food importer, as it produces very little food. Thus, sugar revenue is important for food security. While it could be argued that sugar production eclipses the production of other crops, the country does suffer constraints to its agricultural production due to its geographical position in a cyclonic belt which limits the crops which can be cultivated (WTO, 2004). In addition to providing export revenue, bagasse (a by product of sugar cane) is used to generate electricity, and accounts for 25% of national energy production and is an important source of energy given the lack of fossil fuels on the island (WTO, 2004).

In recent years its reliance on sugar exports has reduced as its tourism and financial off-shore sectors have grown. In an effort to limit the effects of inevitable changes to the CMO, the government is in the process of a restructuring the sugar sector which should result in a considerable fall in employment in the sector from 30,000 to 7,000 as a result of halving the number of sugar mills).

Fiji

Sugar exports to the EU account 71% of its sugar exports, 40-50% of its annual agricultural GDP and 12-15% of national GDP. Sugar is grown by 20,000 small-scale farmers and a further 20,000 seasonal workers are employed in the industry. The ACP protocol enables these producers to receive a higher price for their sugarcane than they would receive on the world market, making an important contribution to poverty reduction (Vaughan, 2004).

Guyana

Sugar is responsible for 20% of GDP and over 50% of its agricultural production. However, it is reliant on preferential markets since it is not competitive on the world market. The industry provides employment for 26,000 workers but provides a living for 20% of the population (Huan-Niemi, 2003). The economy relies heavily on international trade and on products with preferential markets in particular. Thus, the ACP protocol for sugar is of great importance to the national economy (WTO, 2004).

Barbados

The sugar industry has a dominant position in the agriculture sector mainly because it is one of the few crops which can be grown due to its climatic and agronomic conditions. It has the highest levels of export of all agricultural crops and is the main source of foreign exchange in the sector, accounting for 40% of its contribution to GDP. As a result of its limited capacity to have a diversified agriculture, foreign exchange earnings are important for the country's food security since 75% of its food is imported. Preference agreements are therefore important in maintaining its foreign exchange earnings, and thus, for food security. The industry employs 1,200 directly and employs more indirectly (WTO, 2004)

Belize

Sugar provides for 20% of the population and is almost the only crop grown so food needs are met through imports. Preference agreements for sugar are therefore important for maintaining its current level of sugar revenues which provide foreign exchange revenue for imports. Currently 33% of the population live under the poverty line, and it is likely that without preferences this figure would rise, suggesting that the ACP protocol plays a role in reducing poverty (WTO, 2004).

Côte d'Ivoire

Sugar has been used as a tool of regional development in the north of the country by contributing to diversification of agricultural production. In the process of achieving this, the industry has been privatised and €85million has been invested over the last 5 years. This has resulted in it becoming a net sugar exporter, with most exports being exported to the EU either under the ACP agreement or as SPS sugar. There are 22,000 ha which are industrially planted, and 2,400ha are village plantations. The sugar industry employs 2,000 people directly, and 5,000 indirectly, providing subsistence for 200,000 people (WTO, 2004). It should be borne in mind that these figures were cited by Côte d'Ivoire in support of the Sugar Protocol, and thus, they may be biased upwards.

Jamaica

Sugar is the most important agricultural crop and generates 40% of agricultural export income. Over 40% of UAA is in sugar cane and it directly and indirectly employs nearly 200,000 people or 8% of the population. The industry is integrated, producing sugar, molasses and rum. It is an important source of employment in rural areas, thus reducing rural to urban migration (WTO, 2004).

Malawi

Sugar is an important contributor to the country's GDP and the foreign exchange revenue derived from its export significantly augments the government budget. Directly and indirectly the sector contributes to the livelihoods of 95,000 people. It contributes to the development of rural areas where the industry is located, resulting in the growth of small townships. In addition the industry provides health, education, housing and infrastructure (WTO, 2004).

St. Kitts and Nevis

Sugar and molasses represent 92% of total agricultural exports and is responsible for 58% of agricultural employment. It exports only to the EU. Thus, it is highly dependent on the current CMO as exports provide vital foreign exchange for food imports as well as being a source of rural employment and income.

Swaziland

Sugar is the most important pillar of the Swazi economy, accounting for 11% of GDP. The stable earnings gained under the ACP and SPS agreements are particularly important to the country as they contribute to poverty alleviation. The Swazi sugar industry has invested in housing, education, health care, recreation facilities and clean water. It provides employment to 9% of the working population and provides support to 86,000 people. Its production costs are such that it is not competitive on the world market so that its dependence on the EU leaves it vulnerable, particularly given that the economy has a narrow base.

Trinidad and Tobago

The ACP protocol has an important role in providing the country with a stable income. Exports to the EU represent 84% of total sugar exports. Sugar cane is grown predominately by small producers who benefit from preferential access. The sugar industry is important in providing infrastructure, recreational activities and limiting rural depopulation (WTO, 2004).

Kenya

Sugar is one of the few commercial crops grown in Kenya and employs about 200,000 small-scale farmers (WTO, 2004). While the ACP protocol should provide a stable income for these farmers, mismanagement by processing companies has led to some farmers not being paid for several years for their production. This problem has been exacerbated by cheap sugar imports which have lowered the domestic price and have made it difficult for processors to sell to the domestic market, making them less able to pay producers. As a result, farmers have been abandoning sugar cane production, growing food crops instead although in some cases small plots of sugar cane are maintained alongside food crops (Vaughan, 2004). This example illustrates that although the ACP protocol has the potential to provide development benefits, these are not necessarily transmitted since this depends on the structure and organisation of the sugar industry in the recipient country.

Tanzania

Tanzania only exports small quantities of sugar, essentially using the quota allocated. Although only a modest quantity is exported, preferential access is beneficial in promoting investment in the industry, which has allowed it to increase its production which has provided employment opportunities in rural areas (WTO, 2004). Sugar cane is grown on plantations run by sugar companies, with production being supplemented by out-grower schemes.

Institute for International Integration Studies
The Sutherland Centre, Trinity College Dublin, Dublin 2, Ireland