IMPACT OF EU SUGAR REFORM ON ACP COUNTRIES

On Wednesday 22 June 2005 , the European Commission will publish legislative proposals to reform the EU Sugar Regime. Draft texts have been leaked to the press, which suggest that the Commission intends to cut EU sugar prices by 39% over a period of only four years starting in 2006. With this price cut the Commission is trying unfairly to pass on to ACP states, as early as 2006, the burden of refining aid, which it currently pays to EU refiners of raw cane sugar. In addition to these drastic reductions in price, the Commission's draft proposals would also impose new marketing restrictions on ACP suppliers, against the spirit and letter of the Sugar Protocol, which would prevent them from developing traditional trade in higher-value sugars and reduce competition among buyers.

The expected Commission proposal would have an absolutely crippling effect on the vulnerable economies of the ACP sugar supplying countries. What is being put forward is **too deep, too quick and too soon** as far ACP producers are concerned. Under these conditions the sugar industries in many countries will be quite simply unable to survive, while in other producing countries the so-called reform will inevitably lead to severe cutbacks with disastrous socio-economic consequences.

It is estimated that the Commission's proposal would lead to a loss in income of up to €400 million annually in ACP countries. The knock on effects of this reform, which hardly bear contemplating, would include:

- macro-economic instability;
- the crippling of national efforts to meet the UN Millennium Development Goals;
- the closure of countless estates;
- the complete undermining of modernisation efforts already underway within the sugar industry;
- the failure of smallholders' cooperatives and collapse local farmers' banks;
- massive unemployment, rural instability and urban migration;
- a dramatic and alarming increase in poverty;
- increased crime;
- national destabilization in all ACP countries and heightened insecurity in the Caribbean region; and
- environmental degradation.

ACP REACTION

The ACP sugar supplying states have reacted with alarm, dismay and bewilderment to news of the Commission's upcoming proposal.

- **Alarm** - because of the almost unimaginably devastating impact such a reform would have on the socio-economic fabric of their countries and the direct threat to the livelihoods of hundreds of thousands of vulnerable people.

- **Dismay** - because what is being proposed is at odds with not only the binding commitments enshrined in the Sugar Protocol and the Cotonou Agreement, but also the principles that underpin EU development policy and the general objectives of the Doha Development Round of the WTO. The ACP has faithfully met its obligations under the Sugar Protocol and can legitimately expect the EU to respect its commitments in terms of the three guarantees of price, access and indefinite duration. However, continuing access to the EU market without remunerative prices is not sustainable for the vast majority of ACP sugar supplying states. Indeed, this view is strongly echoed by sugar producing LDCs who will have unlimited duty free access to the EU market of 2009 under the terms of the Everything but Arms (EBA), but stand to gain little or nothing at prices at which they simply cannot compete.

- **Bewilderment** – because such radical prices cuts cannot be justified either on an economic level or by the constraints of WTO negotiations and the implementation of the recent recommendations of the WTO Sugar Panel. In the former case, there is nothing in the WTO Framework Agreement of 1 August 2004 that would necessitate price cuts of this magnitude. In the latter case, the plaintiffs specifically stated that the EU should implement the recommendations of the Panel without prejudice to its commitments to the ACP. In the absence of any other rational explanation, it appears clear that the Commission is using sugar as a bargaining chip in the WTO and is unfairly seeking to impose the burden of its reform on ACP producers.

The ACP states are also bewildered because under the terms of the Commission's expected proposal almost none of the major stakeholders stand to benefit. The price cuts would not trickle down to EU consumers in any way, production would be wiped out in several EU countries, the expected benefits of the EBA agreement would be rendered null and void for LDC producers, and the ACP would be the worst hit of all. Furthermore the cost to the EU budget would swiftly rise by nearly €350 million annually, due to the plan to pay compensation to European beet growers.

The ACP acknowledge the need to make changes to the current EU Sugar Regime. However, the very concept of reform implies improvement and not sudden destruction. The ACP will call, therefore, on the EU Member States to recognise that the very future of some ACP countries is at stake and to agree to a more fair and equitable reform for all parties. This would include:

- the continuation of an orderly managed market system based on quotas and guaranteed remunerative price for the benefit of all stakeholders including LDCs, who have made it clear that the EBA initiative would only be of benefit to them if they obtain remunerative prices for their sugar exports;

- considerably less drastic price cuts;

- a phasing-in of these cuts over a period of eight years as of 2008 in order to maintain the stability and predictability necessary for investment and development;

- and, finally, targeted accompanying measures to shoulder the burden of cuts and support the restructuring and modernisation of ACP sugar industries.

As far as accompanying measures are concerned, the ACP preference is for putting the focus on maintaining sustainable development through trade rather than simply creating another aid mechanism. The blueprint for an assistance package to ACP countries that Commissioner Louis Michel is expected to present alongside Commissioner Fischer Boel's sugar reform proposal should not prejudge or prejudice ACP calls to combat the crippling price cuts expected to be proposed by the Commission. However, where and when necessary, the ACP can legitimately expect to receive assistance to help ensure the long-term sustainability of their sugar sectors.

In order for these accompanying measures to have any positive impact, it is, however, absolutely essential that funding is made available up front, i.e. prior to the implementation of the reform. Any delay would make it impossible to absorb the impact of price cuts and would spell disaster for ACP sugar industries.

Moreover, any assistance package should be directed at supporting the many existing initiatives to modernise and enhance the competitiveness of ACP sugar sectors, and bring direct benefits to the producer on the ground. Diversification efforts should be focused on diversification within sugar and look at alternative means of harnessing the potential of the sugar cane crop, such as the production of biofuels, alcohol, and electricity.

Finally, when decisions are made on accompanying measures and sugar reform in general it is worth looking to past mistakes to provide lessons for the future. Rapid and dramatic liberalisation of the banana, rum and cocoa sectors have had disastrous consequences for producers in developing countries, and what financial assistance funds have been made available have had little or no positive effect. It is imperative that we do not see a repeat of these situations in the sugar sector. The future of several ACP and LDC economies and the livelihoods of millions of people depend on it.

CONTACT DETAILS
For further information, please do not hesitate to contact:
Nidhendra Singh
Tel: +32 475 369265
Giles Keane
Tel: +32 473 894328
Please visit the ACP Sugar website at www.acpsugar.org
All statistics from 2003
Article 36.4 of the Cotonou Agreement recognizes the need to safeguard the benefits of the Sugar Protocol.
Q. http://www.ldcsugar.org/

D:050206

##