Na Cancún: hoe nu verder? Waar zijn wij vóór?
Derde Ronde Tafel gesprek op 16 april 2004

Oxfam International Policy on EU Sugar Reform

1 Introduction and Overview

EU sugar dumping hurts developing countries. The current reform process provides a huge opportunity to repair the negative impact of the sugar regime on developing countries, and make the sugar sector environmentally and socially more sustainable.

Oxfam recently consulted a large number of Southern governments, partner organisations in sugar producing countries, farmers organisations, agricultural experts, development NGOs and environmental and consumer organisations.

As a result of this broad consultation, Oxfam has concluded that any reform of the EU sugar regime should prioritise an end to sugar dumping and should improve market access for the poorest countries. The interests of ACP exporters to the EU should be addressed and small-scale farmers not bear the brunt of adjustment costs in Europe.

In order to achieve these objectives, Oxfam calls for the following measures to be taken:

- The complete and immediate elimination of export subsidies,
- The elimination of EU surplus exports through an immediate production cut of 6 million tonnes,
- Improved market access for LDCs to a level that exceeds their current export potential,
- Measures to compensate ACP countries for the erosion of their preferential access,
- An implementation policy that ensures that adjustment costs are mainly carried by large-scale producers and industry.

2 Background

The EU sugar policy supports and protects overproduction...

The current EU sugar policy rests on three pillars:

- EU sugar producers are guaranteed a minimum price, which is generally two to three times the - depressed - world market price (generally over • 600/tonne compared to • 200/tonne). This higher price is tied to quotas. For sugar produced in excess of the quota allocation - the so-called C-sugar - farmers receive the world market price.

- In order to prevent cheaper sugar pouring into the EU, the sugar market is protected by high levels of tariffs. However, preferential access is given to a number of countries: some ACP countries, Balkan countries and India. These countries receive the high internal EU price, but, with the exception of the Balkan countries, are bound to quotas. In addition, as from 2009 all LDCs will have tariff and duty-free access to EU markets under the Everything But Arms initiative.

- Sugar quotas are set at levels high above EU consumption. Expensive EU surpluses are exported by means of export subsidies. Export subsidies are also used to re-export the sugar imported under preferential agreements, which adds to EU surplus. Export subsidies now amount to more than €400 per tonne – which is about twice the world market price. Over the last few years, the total costs of EU exports have varied between €1.1 billion and €1.6 billion. This budget has enabled the EU to maintain a large share of the world market, in spite of high production costs. After Brazil, the EU is the second largest exporter of all types of sugar, and the biggest exporter of white sugar.

... and hurts developing countries...

The EU sugar regime has had a clear negative impact on the export and development opportunities of developing countries:

- The system has stimulated surplus domestic production, leading to an artificially high supply on the world market.

- Together with the use of export subsidies, this has led to lower prices on the world market. Calculations vary, but generally a price decrease of about 17% is attributed to EU policy[1].

- Oversupply and artificially low prices make it difficult for developing countries to compete on third markets. Overall, reduced export opportunities and low prices have a dramatic impact on export earnings of some developing countries, including seven sugar exporting LDCs.

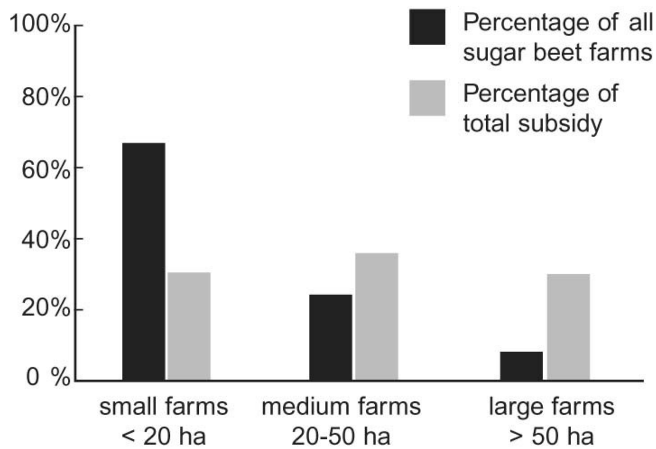
... while benefits are distributed unevenly

- A small group of developing countries benefit from the system, because of their preferential access. However, of the 17 ACP countries that have preferential access, only five reap 80% of the benefits. None of these countries are LDCs.

- Large sugar producers have been able to reap high levels of public support. A DEFRA study[2] shows how in the UK a small minority of large farms reaps a third of the effective support for sugar production.

[1] Source: Worldbank, cited in NEI, Evaluation of the Common Organisation of the Markets in the Sugar Sector, September 2000

[2] Department for Environment, Food and Rural Affairs, 2002, Numbers and Sizes of enterprises growing sugar beet in England and Wales at June of 1995 and 2000. Personal correspondence.



- Moreover, the European sugar industry is highly concentrated: in total there are not more than 30 sugar companies. In 8 of the 14 sugar producing member states, there is one sugar producer with an absolute monopoly on sugar quota. These companies have reaped considerable benefits from the current system. Both the UK sugar monopoly British Sugar and the Spanish monopoly Azucarera Ebro for example, have profit margins exceeding 20%.

3 Objectives for reform

Oxfam's starting point is that the EU's new sugar policy should undo the negative impact on developing countries of the current regime, and should promote environmentally and socially sustainable production models in the EU and in the South.
Oxfam's reform objectives should be seen in relation to the pro-poor policies that Oxfam partners advocate and support in their countries, and that ensure that farmers and farm workers capture a fair share of the value chain.

Oxfam's **4 main objectives** for sugar reform are:

- **An end to sugar dumping**. The reform process should lead to the elimination of EU sugar exports at prices below production costs. As EU production costs are extremely high compared to most other sugar exporters, this means that the EU should stop exporting sugar. This is true for high priced quota sugar and preferential sugar, but equally so for low-priced C-sugar. As countries such as Brazil, Thailand and India have rightly argued in the WTO, C- sugar exports do not involve export subsidies, but they are cross-subsidised from quota sugar. Overall, EU production and preferential imports together should not surpass consumption levels.

- **Enhanced and meaningful LDC market access**. Under the EBA initiative, LDCs stand to increase market access for all products but arms. Sugar offers the greatest potential of all agricultural commodities to offer real benefits under the EBA initiative. LDCs that will benefit from the enhanced access for sugar include

Mozambique, Zambia, Sudan, Ethiopia, Bangladesh and Malawi. These countries have expressed their preference for a stable system with remunerative prices.

- **Protecting ACP exporters**. There is a major ACP interest in the reform. The group has a 1.6m tonne quota exported at EU protected prices. Several countries stand to suffer major foreign exchange losses if EU prices fall sharply, with Guyana, Fiji and Mauritius among the worst affected.

- **Promoting a socially and environmentally sustainable sugar sector in Europe.** As a priority, vulnerable farmers in the EU should be protected. In some countries - such as the UK and France – sugar farmers are among the biggest and wealthiest. In others – Belgium, the Netherlands and southern Europe – the picture is more mixed. Reform needs to be carried out in a way that does not impose disproportionate adjustment costs on small-scale farmers. The inevitable adjustment costs should mainly fall on industry and large producers.

4 Oxfam proposals

An end to dumping

The European Commission has expressed a clear preference to reform the sugar regime in line with earlier CAP reforms: by lowering prices and compensating farmers with a direct, decoupled payment. This type of reform is in line with the logic of the WTO Agreement on Agriculture, but may not necessarily lead to the elimination of exports below production costs.

Oxfam is convinced that the lower price scenario will not lead to the radical fall in production that is needed, especially in the current political climate. While some Member States are fiercely defending the status quo, others are afraid that the costs of compensation fees will skyrocket when prices fall considerably. The likely political outcome is a modest price reduction - which will not have a significant impact on production and export levels. In that case, dumping will continue, either through the use of export subsidies, or through direct payments that indirectly enable cheap exports.

Therefore, in order to effectively stop overproduction and dumping, Oxfam proposes to use the quota system as a starting point for reform.

Since 1995, production levels varied around an average of 17.6 million tonnes annually, while consumption stood at 12.7 million tonnes on average[3]. Including the re-export of LDC preferential imports, total exports exceeded 6 million tonnes almost every year.

Therefore, in order to end export dumping production should be cut by 6 million tonnes. This includes the elimination of C-sugar and B-quota.

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[3] For the enlarged European Union (EU 25) production is currently around 20.0, and consumption around 16.6 million tonnes.

Enhanced and meaningful LDC market access

In 2009 complete tariff and quota free access for LDCs will become a reality. With the current price levels in the EU, LDCs' export capacity is estimated between 1 and 2.7 million tonnes[4].

This potential would be much lower under a lower prices scenario. In that case, by 2013 price conditions will make the EU market largely unattractive to LDC sugar exporters. Imports from LDCs under the EBA initiative would then likely be only 200,000 tonnes per annum[5].

The LDCs have clearly expressed their preference for stable markets and remunerative prices. Consequently, they are willing to trade in their right to unrestricted access for a system with fixed quota and higher prices. This would give them the opportunity to invest in their sugar industries and build long-term export capacity.

In order to provide them this opportunity, the EU should give them an access quota that reflects their production capacity, at adequate prices. This access quota, between 1 and 2.7 million tonnes, requires a concomitant further reduction of EU production. The size of the access quota should be under regular review: LDCs should have the right to renegotiate the allocated quotas.

Evidence of triangular trade from Balkan countries has raised fears that the EBA initiative will provide LDCs the possibility to undermine the EU system by importing cheap sugar, while selling sugar for high prices in the EU. In view of the high tariffs most sugar exporting countries apply to protect their own industries, this is an unlikely scenario. Still, the EU must implement measures to effectively police the system so as to avoid fraud and ensure that benefits of preferential access reach the right people.

Protecting ACP exporters

The group of ACP countries that benefit from the sugar protocol includes low cost and high cost producers, and LDCs and non-LDCs. A number of external developments will erode their benefits under the sugar protocol on the longer term. Apart from the final direction of the EU reform, developments in the WTO will impact on the future of ACP preferential access. The reduction of tariffs and of amber box support, which will inevitably lead to lower prices, the debate about the legitimacy of non-LDC preferences, and the current dispute on the re-export of ACP sugar will undermine the position of the ACP countries.

The current regime includes obligations to the ACP countries, and calls for an effective compensation of preference erosion.

While some ACP countries will be able to cope with a certain fall in price, the less efficient ones may have serious adjustment costs, even when price falls are compensated for. Oxfam asks the European Commission to explore new ways to

[4] European Commission Staff Working Paper on Reforming EU's sugar Policy.
[5] Source : Agritrade Sugar, Technical Centre for Agricultural and Rural Cooperation ACP-EU

support these countries. One option is to invest in the promotion of regional sugar trade. A second option is to study the possibilities for ACP countries to 'sell' all or part of their export entitlements back to the EU. In return, a large aid-financing package would give them the opportunity to convert their sugar quota into financing that can be directed towards priority areas, such as rural development. Any aid package should be financed through the CAP budget and not the European Development Fund (EDF).

Promoting a socially and environmentally sustainable sector in the EU

Immediate and radical reform while essential, will involve considerable adjustment costs in Europe. The poorest and most vulnerable farmers in Europe should not bear the brunt of adjustment.

The distribution of quota and benefits has been frozen since the last twenty years. The system has brought windfall profits for the sugar industry and for large landowners with huge production entitlements., Those larger-scale operators who have made the most gains from the regime are better able to accommodate adjustment should carry the largest burden, for example through higher quota cuts for larger quota.

As the structure of the sugar sector varies widely along the different sugar producing member states, there is a strong argument to apply the principle of subsidiarity, with national governments deciding approaches for protecting small or family farmers.

The idea of cross-compliance that has so far been linked to decoupling of subsidies could also be applied to production quotas. In return for the continued protection from world market prices, the EU can legitimately require sugar farmers to respect environmentally sustainable production. Farmers should take action to limit the environmental impact of sugar production, such as soil erosion, soil compaction, water contamination (due to pesticide run-off), biodiversity reduction and overuse of water.

5 Conclusion

Oxfam will judge any sugar reform plan on the basis of its potential effectiveness in ending overproduction and dumping. Other criteria include the way it effectively increases market access for LDCs, protects ACP exporters and promotes a socially and environmentally sustainable sugar sector in the EU.

Oxfam proposes the following reform measures:

- A complete and short-term elimination of export subsidies,
- The elimination of EU surplus exports, through an immediate production cut of 6 million tonnes.
- Reform of the sugar regime should improve market access for LDCs to a level that exceeds their current export potential.
- Measures to compensate ACP countries for the erosion of their preferential access,
- An implementation policy that ensures that adjustment costs are mainly carried by large-scale producers and industry.

These measures would benefit a large number of stakeholders:

- Even when prices have to fall slightly, both EU farmers and preferential exporters are guaranteed a stable market. LDCs will have the opportunity to build and strengthen their sugar sectors.
- Other players on the world market will find new market opportunities when the EU reduces exports.
- The most vulnerable farmers within the EU are guaranteed production opportunities and are not the first to carry adjustment costs.