

Case Study: The Reform of the EU's Sugar Regime

By Alan Hudson

“Within the framework of the reformed Common Agricultural Policy, the EU will substantially reduce the level of trade distortion related to its support measures to the agricultural sector, and facilitate developing countries’ agricultural development.”¹

1. Introduction

The EU's sugar regime has been characterized by high guaranteed internal prices, quotas, tariffs, export subsidies and preferential access to EU markets for ACP sugar producers in Sugar Protocol Countries. At great cost, it has led to the over-production of sugar in the EU, distorted world markets, and led some ACP countries to be reliant on the preferential market access which they have enjoyed since the entry into force of the Sugar Protocol in 1975.

The EU has grappled with the issue of sugar regime reform for many years, and in recent years has made determined progress. The pace of change has increased because: firstly, there has been a realization that the sugar regime is inefficient, expensive and unsustainable, and will become more unsustainable as the Everything But Arms agreement provides enhanced access to LDC producers; and secondly, because the WTO ruled that the EU must drastically reduce its use of export subsidies, a move which strengthened the need to stop over-production.

On February 20th 2006, the EU Council formally adopted a regulation which will lead to the reorganisation of the EU sugar regime.² The key feature of the reform is a reduction of 36% in the price of sugar over four years. This will lead to a substantial reduction in EU sugar production. However, producers will benefit from a voluntary restructuring aid scheme, and growers from direct income payments amounting to 64% of their losses. As production decreases, so will the need for trade-distorting export subsidies. Concluding a parallel process of policy-making, on 15th February 2006, the Council and the European Parliament both adopted a regulation establishing accompanying measures for ACP countries likely to be affected by the reform of the EU's sugar regime.³ For the period from July-December 2006, this package of support for modernisation, adjustment or diversification amounts to Euro 40 million, a sum of money which will come out of the EU's development budget. However, none of this will be paid until the end of the year as applications for funds must first be evaluated. Support will continue during the period 2007-13 although the level is still under negotiation. These funds will again be provided from the development budget.

2. Implications for development

The reform of the EU's sugar regime has complex development implications. First, those ACP countries which have enjoyed preferential access to the high and guaranteed prices of the EU

¹ European Consensus on Development, December 2005, para 36 – 14820/05.

² Council Regulation (EC) No 318/2006 of 20 February 2006 on the common organisation of the markets in the sugar sector.

³ Regulation (EC) No 266/2006 of the European Parliament and of the Council of 15 February 2006 establishing accompanying measures for Sugar Protocol countries affected by the reform of the EU sugar regime.

market will lose revenues of around €250 million per year, even if they do not reduce production in response to the price cut. However, the likely result of the price cut will be a decline of production in many of the Sugar Protocol countries, so actual losses of income could amount to €500 million per year. Second, the fully liberalised access to the EU market which Least-Developed Countries (LDCs) will enjoy from 2009 under the Everything But Arms Agreement, will be access to a market characterised by lower prices than currently pertain. And, if their exports to the EU increase too rapidly, then LDCs may be subject to import restrictions. And third, reduced dumping of EU sugar will enable efficient sugar producers such as Brazil and South Africa to capture a larger share of the world market. The world market price is expected to increase as a result of reduced EU production, although there is considerable uncertainty over the outcome.

The impact on countries in sub Saharan Africa will depend on what access they have had to EU markets (whether they are Sugar Protocol countries), what access they will have to EU markets (whether they are EBA, and to what extent future Economic Partnership Agreements improve access), and how efficient their sugar producers are. In general, Sugar Protocol countries will lose out, and EBA countries will gain, but not by as much as they would have done had EU prices remained inflated. Efficient producers will prosper, inefficient producers may be forced out of business.

3. EU (Council) players, processes and development inputs

In September 2003 the Commission published a Communication and Impact Assessment setting out options for reform of the EU sugar regime. This was followed in July 2004 by a Commission Communication outlining its proposals for the future of the sugar regime.⁴ The Commission's revised proposal – taking account of the views of a wide range of interests – was presented in June 2005, with DG Agriculture and Rural Development taking the lead.⁵ At the same time the Commission – with DG Development in the lead – presented a proposal for a regulation of the European Parliament and the Council to establish accompanying measures for those ACP countries affected by reform of the EU sugar regime.⁶

As regards the reform of the EU sugar regime, the Council institutions involved have been the Agriculture and Fisheries Council, the Special Committee on Agriculture, and the Working Party on Sugar and Iso-glucose. These fora were the venues for discussion of the internal implications and technicalities of the EU sugar reform, discussions to which, it has been suggested, development experts could contribute little. Certain Member States – including the UK - ensured that development issues and the interests of ACP States were raised, for instance at meetings of the Special Committee on Agriculture.

As regards the accompanying measures for ACP countries, the key Council institutions, have been the General Affairs and External Relations Council (GAERC), Coreper and the Working Party on Development Cooperation (CODEV). The ACP Working Party also debated the accompanying measures for sugar protocol countries. These fora were the venues for discussions

⁴ 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 COM(2004) 499-final.

⁵ Commission proposal for a Council Regulation on the common organisation of the markets in the sugar sector, COM(2005) 263-final.

⁶ Commission proposal for a regulation of the European Parliament and of the Council establishing accompanying measures for Sugar Protocol countries affected by the reform of the EU sugar regime, COM (2005) 266-final.

on the accompanying measures, not least because the payment for such measures would come out of the development budget. Very few Member States – the Netherlands, Germany and Sweden – seem to have been willing to discuss the possibility of funding accompanying measures from the agriculture budget, a so-called “agricultural dividend”. And, with financing to be discussed at ECOFIN, and at the Agrifin Working Party it was difficult for those Member States keen to push for an “agricultural dividend” to make their case at the ACP or Development Cooperation Working Party. There is little evidence of contact between the Working Party on Development Cooperation and the Working Party on sugar and iso-glucose; it would seem that the former focused on the accompanying measures, and the latter on the nature of the EU’s internal reform.

The European Parliament was active both in terms of the accompanying measures, which were dealt with under the co-decision procedure, and in terms of the reform of the EU’s sugar regime itself, which was dealt with under the consultation procedure. On the former, the Development Committee led, taking the view that the accompanying measures to support Sugar Protocol producers in 2006 – €40 million – are quite inadequate, particularly in comparison with the generous compensation offered to EU sugar producers.⁷ Criticisms of the reforms and the support package were also strongly voiced by NGOs including Oxfam who had lobbied hard throughout the process on behalf of what they took to be the interests of the Sugar Protocol countries. The Sugar Protocol countries themselves, along with the LDCs, argued strongly for more gradual reform. The Committee on Agriculture and Rural Development led on the EU’s reforms themselves, and proposed many amendments to dilute the reform package, including that of restricting imports from LDCs.⁸ However its report, published in December 2005, came after the Council had largely agreed on the package of reforms.

By the time the proposals were adopted in February 2006, the price cut had fallen to 36% from 39%, the amount of income that would be provided to farmers via the Single Payment System was unchanged, and the time taken to complete the reform had increased from 2 years to 4 years.

4. Lessons for policy coherence for development

The reform of the EU’s sugar regime holds a range of lessons in terms of policy coherence for development:

- Dealing with development on a parallel track, separate from the main policy proposal, may be effective in terms of reaching some sort of agreement. But when discussions take place primarily in non-development fora, and communication between development and non-development fora are poor, there is a risk that development concerns may not be taken account of sufficiently.
- Coherence at the level of the EU will only come about if there is coherence at the level of individual Member States.
- Decisions on policy reform are taken by those from whose budget line the reforms will be paid for. For development interests to be taken account of, they must be voiced at fora where those who will pay for reform come together. If financing decisions are taken at fora where development interests are poorly represented, then financing decisions will take little account of development.

⁷ Report on the proposal for a regulation of the European Parliament and of the Council establishing accompanying measures for Sugar Protocol countries affected by the reform of the EU sugar regime, A6-0281-2005-final.

⁸ Report on the proposal for a Council regulation on the common organisation of the markets in the sugar sector, A6-0391-2005.

- The impacts of proposed reforms can be uncertain, and – certainly in the sugar case - are likely to vary across developing countries. Therefore, it is difficult to say what a development-friendly outcome – an outcome in which policy coherence for development has been attained – is. Relatedly, considerations of impact must be disaggregated by country-type, and all players must be clear what they mean when they say that development is being taken account of, otherwise such claims will become meaningless.