

# Sugar

Positive steps toward more coherence!

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**FAIR**  
**POLITICS**  
MAKE ———  
DEVELOPMENT ———  
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**In 2006 we developed a case on the sugar policy of the European Union, part of the Common Agriculture Policy. In that year the EU started the reform of the sugar sector. Expectations were that the renewed European sugar policy would prevent the dumping of sugar, which is a good thing for all cane sugar producing developing countries. These reforms, however, did not sufficiently consider the preferential access the ACP countries had to the European market and the consequences this reform would thus have for them.**

**Now, however, the objections and recommendations we had and which will be explained below, have largely disappeared because of coherent European policy. This case on sugar policy has therefore become a positive case, an example that shows that the EU also has policies that are coherent with development objectives. It also shows that incoherency can be changed into coherency when there is need for change and the political will to serve this need.**

### **Former incoherency**

In November 2005 the European sugar policy underwent radical reforms for the first time in forty years. In the World Trade Organization (WTO) Brazil in particular put pressure on the European Union (EU) to drastically reduce its subsidized sugar exports.<sup>1</sup> To meet the WTO obligations and to bring the sugar policy more in line with the rest of the reformed Agricultural Policy, the ministers for Agriculture opted for reforms whereby the European sugar price would be reduced by 36 percent during the next four years. As a result of this European exports will decrease, but at the same time sugar producers from Africa, the Caribbean, and the Pacific region (the ACP countries) will lose a large part of their income, because for decades a number of these ACP countries have been able to sell a fixed amount of raw cane sugar in Europe at the high guaranteed price.

### **Development objectives**

At the beginning of the reform process, there were several objections to the plans and methods of the European Commission. It was a clear case of policy incoherence. The development policy of the European Union (EU) states among other things that the policy of the EU in developing countries should contribute to sustainable economic and social development, smooth and gradual integration into the world economy and the combat against poverty (Article 177). In accordance with Article 178 these development goals should be taken into account while implementing the policies which are likely to affect developing countries (see document 1). This therefore also applies to the European sugar policy. These development objectives also play an important role in the pursuit of the

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<sup>1</sup>After complaints from Australia, Brazil and Thailand, a WTO-panel declared the European sugar exports largely contrary to the Uruguay Round Agreements of 1995, after which the EU had to effect reforms.

Millennium Development Goals. In accordance with the first Millennium Goal the proportion of people living in extreme poverty must be reduced at least by half in 2015 compared to 1990.

### **Agriculture policy**

The European sugar policy, as a part of the agricultural policy, completely undermined several development objectives. Sugar factories paid European farmers a guaranteed price for the sugar beet they grow. As a result of this the sugar price for European consumers was much higher than the price being paid on the world market. Encouraged by this price guarantee European farmers produced much more than Europeans can consume. On top of that there is an historical obligation to import and refine a certain quantity of raw sugar from the APC countries at guaranteed prices. The result of this was that the EU had much too much sugar and therefore dumped millions of tonnes on the world market annually.<sup>2</sup> About 800 million euros worth of export subsidies were used for this purpose.

With the price cut the EU meets the demand of the World Trade Organization to reduce subsidized exports drastically to a maximum of 1.2 million tonnes with a maximum of 499 million euros of subsidies. European farmers can still get subsidies to compensate the production loss, but the subsidies are now decoupled, which means that the amount of production is not connected to the height of the subsidy. The European production should drop drastically due to the price cut and decoupling of subsidies and production, because it greatly reduces direct encouragement to grow the product. The reform of the sugar sector should prevent over production and thus dumping on the world market. On top of that, in December 2005 it was agreed within WTO that export subsidies are to be abolished by 2013, in order to give other countries more space on the world market.

### **Incoherency**

The former European sugar policy with respect to developing countries was not univocal. Several ACP countries could export sugar under the so-called Sugar Protocol. The Sugar protocol is part of the Cotonou Agreement. It establishes that seventeen former colonies - sixteen of the so-called ACP countries<sup>3</sup> and India - enjoy preferences with the objective of sustainable development through support for the sugar sector in the countries concerned. Under the protocol these countries were allowed to sell 1,3 million tonnes of sugar in the EU annually at guaranteed prices.<sup>4</sup> On average the European price is three times higher than the world market price.

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<sup>2</sup> See LDC Sugar Group website.

<sup>3</sup> The ACP countries are 79 countries in Africa, the Caribbean and the Pacific Region. On 21 June 2000 78 of the 79 countries signed the Cotonou Agreement. Only Cuba did not sign. Overview of countries Sugar Protocol.

<sup>4</sup> The EU offers these ACP countries and India a minimum price for sugar to be paid by the refineries which was set at € 523.7 per ton of unrefined sugar and € 646.5 for white sugar for the seasons 2002/2003 up to

Reforms in the sugar policy have therefore significant consequences for the ACP countries, which were getting preferential prices for their sugar on the European market. In view of sustainable development these countries had enjoyed preferential access to the European market since 1975 and as a result of the reforms this preferential access is brought to a halt.

Since the Commission presented its first plans for sugar reforms (in 2003) the countries involved in the Sugar Protocol have criticized the plans; The price cut was expected to lead to a sharp decrease in income. Expectations are that a number of countries, especially in the Caribbean, will not be able to produce on a cost-effective basis. The loss of income from exports for the ACP countries amounts to about 300 million euros per year (see document 3). Due to the expected closure of part of the sugar industry lots of jobs would also be lost.<sup>5</sup>

A second point of criticism was that the cut will be implemented too quickly, allowing little time for investments, which could improve the competitive position or make the industry more diverse. This is not helping gradual integration into the world economy, as was laid down in the European development objectives mentioned earlier. Another point of criticism referred to the compensation these countries received. In 2006 the ACP countries will receive forty million euros in compensation. According to the ACP countries themselves and aid organizations this compensation is far from sufficient.

Fair Politics, at that time still called the EU Coherence Programme, called upon the EU to take its responsibility by giving farmers who benefit from the Sugar Protocol the opportunity to deal with the changes. Which meant that the EU should earmark more money for compensation and that the transitional period should be extended.

### **Recommendations transformed into EU policy**

One of our recommendations was to abolish export subsidies on European sugar, in order to stop dumping. At this moment there are hardly any export subsidies left. The Commission is strictly encouraging all companies to renounce production quota before 2010 so that overproduction will not occur. Companies and farmers will get compensation for their income loss, which are also subsidies of course.<sup>6</sup> However the Commission is not handing out money to stimulate the export.

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2005/2006. This regulation is valid up to 30 June 2008. The guaranteed price of raw cane sugar from the ACP countries is not included in the EU price proposals; this price is negotiated separately in the frame work of the Sugar Protocol.

<sup>5</sup> According to the LDC Sugar Group, which represents the LDCs, there are more than three million people in the ACP countries who partly or entirely rely on the sugar industry for their income.

<sup>6</sup> <http://europa.eu/rapid/pressReleasesAction.do?reference=IP/07/1401&format=HTML&aged=0&language=EN&guiLanguage=en>

Higher compensation for ACP countries under the Sugar Protocol was also one of the recommendations. In 2006 the Commission proposed a Regulation (266/2006)<sup>7</sup> that was later adopted by Parliament and Council that foresaw in: establishing accompanying measures for Sugar Protocol countries affected by the reform of the EU sugar regime. The EU helps several ACP Countries, through a multi-annual strategy for the period of 2006-2013, to enhance the competitiveness of the sugar and cane sector, promote the economic diversification of sugar-dependent areas, and/or address broader impacts generated by the adaption process. Thirteen ACP countries under the Sugar Protocol asked for this EU assistance. The amount of money set aside for the assistance is 1 244 million for the period of 2006-2013,<sup>8</sup> which is less than the 200 million a year we recommended, but more than the first 40 million announced by the Commission in 2006. As a positive element though, this money will not be taken from the EDF.

As another part of the accompanying measures for Sugar Protocol countries, the consequences of the European reform for ACP countries has been evaluated for most of them.<sup>9</sup> The country strategies and measures have been adjusted to the different impacts and consequences the reform of the European sugar sector will have on the different ACP countries. This will enlarge the possible success of the changes these countries have to make and with which the EU will help them.

The focus of the multi-annual strategies is mainly on building-up the sugar industry in ACP countries, as these countries will have less money to invest due to lower sugar prices, and on researching more options in the industry as to enlarge the economic diversification.

Clearly, the EU listened to ACP countries themselves who protested to the reforming of the sugar sector from the beginning and to NGOs who also foresaw negative consequences for development policies. The EU decided to reform its sugar sector, and at first paid mainly attention to the effects this would have on its own member states. However, after this starting period it also adopted a Regulation and made policy in order to protect ACP countries from heavy and sudden negative consequences. Seeing as these countries heavily depend on their income of the sugar and cane industry, they can very much use the help, knowledge and means of the EU.

This case is a good example of a situation in which the EU can look after the interests of its own citizens without neglecting the consequences of its decisions and policies for developing countries.

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<sup>7</sup> <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2006:050:0001:01:EN:HTML>

<sup>8</sup> [http://ec.europa.eu/development/policies/9interventionareas/ruraldev/agri/sugar\\_intro\\_en.cfm](http://ec.europa.eu/development/policies/9interventionareas/ruraldev/agri/sugar_intro_en.cfm)

<sup>9</sup> [http://ec.europa.eu/development/policies/9interventionareas/ruraldev/agri/sugar\\_intro\\_en.cfm](http://ec.europa.eu/development/policies/9interventionareas/ruraldev/agri/sugar_intro_en.cfm)

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