



Bund für  
Umwelt und  
Naturschutz  
Deutschland



## For a Reform of the Sugar Regime in the EU

### *Position of some German environmental, development and rural NGOs*

*Initiated by: Forum Environment and Development, Working Group on Agriculture and Nutrition*

## Summary of our Position on a Reform of the Sugar Market Policy in the EU

1. We support Tariff Rate Quotas for Least Developed Countries as proposed by the LDCs.
2. A logical consequence of this is: The supply management scheme of quotas in the sugar sector of the EU shall be kept until 2019, based on a production quota system.
3. The production quotas have to be significantly reduced to at least 90 % of the EU's domestic sugar consumption.
4. Exports of directly or indirectly subsidised sugar have to be eliminated as well as the re-export of sugar imported on preferential terms.
5. The present criteria of allocation of preferential import quotas to ACP countries (African, Caribbean and Pacific countries) according to historical claims shall be reviewed; the future market access shall be allotted according to developmental needs.
6. The allocation of preferential import quotas to developing countries and all development aid to the sugar sector have to be strictly linked to social and ecological standards.
7. Our government has to intensify its efforts to work towards binding social and environmental standards in the sugar economy worldwide by making use of all relevant international platforms (ILO, ISO, WTO, and OECD).
8. The EU system of quota allocation has to undergo a significant reform in certain areas.
9. The market dominant position held by the European sugar industry has to be constrained.
10. Sugar beet growers need to receive compensation for the reduction of their quotas. This can partially happen by including the sugar beet fields into the general system of decoupled area payments, introduced by the CAP reform under the Luxemburg Agreement.

## **Explaining our vision on the Reform**

### **I. Why do we think a reform of the Sugar Market Order is necessary?**

The EU Sugar Market Order (SMO) should be reformed. Pressure for its reform comes especially from the international trading system and from economic and development policy side, mainly articulated at the WTO, as well as from internal criticism of the system because of its contradictions. What is being questioned in the SMO, amongst other things, is the concentration of production, the intensity of production, dumping of surpluses onto the world markets and the state-related excessive advantage of sugar against other European crops.

Our concerns stem from the social and ecological situation of the sugar economy in Europe as well as in developing countries. Sugar is one of the most important crops in the world in terms of rural employment. Millions of people's lives and the economies of entire countries depend on sugar. Sugar is the internationally traded agricultural product par excellence. That is why every country is affected by the decisions of others. With sugar cane, developing countries are competing with beet sugar grown by countries of the North. Although sugar cane production and processing is more efficient than that of sugar beet, the latter has been able to build its dominant position on the world market thanks to state support. But those who pay in the end are the cane sugar workers, small farmers and their families in developing countries.

At the same time, very efficient producers in some "rich" developing countries, like in Brazil, Thailand and the South African Republic, have increased production significantly over the past few years. Poorer countries with less capital and a worse infrastructure have not been able to compete. The world prices for sugar are extremely low.

### **II. The reform of the Sugar Market in Europe and poverty reduction**

Poverty reduction in developing countries is used as one of the main arguments for a reform of the SMO by those who want to maintain the status quo as well as those who want further liberalization. We disagree with the view that the current sugar economy is an effective tool to fight poverty. We believe that an increase of the international sugar trade will only have a slight poverty reducing effect, if at all. Our reasons for this are as follows:

- 1.) Sugar cane is in most of the developing countries – with only a very few exceptions – a product grown in plantations or by feudal landlords.
- 2.) The sugar economy has little linkages with other economic sectors and therefore only gives a marginal growth impulse to the whole of the economy.
- 3.) More exports mean for most developing countries that multinational corporations will set up factories and plantations and the best arable land will be used to produce sugar cane, which could otherwise be used for peasant farming to grow staple food.

An argument for the extension of sugar production is perhaps that the market incentive and the capital for the development of the country would not otherwise be made available, and that the country urgently needs to earn foreign revenue.

Plantation workers and workers in sugar factories in developing countries would be affected by new export possibilities due to liberalisation of the European market. Every reform

argument utilizing poverty reduction has to be measured on the real contribution to effectively improve the catastrophic working conditions faced by sugar workers in developing countries:

- In many plantations in developing countries the human rights situation is problematic. According to estimates by the International Union of Food Workers (IUF) workers living conditions have worsened in the past 10 years as a result of the restructuring process of the sugar industry. Forced work, day labourers and migrants workers are on the increase.
- Abuse of power and an increase of concentration by old and new multinational companies and local sugar barons is growing.
- Exploitation of people and nature is accelerated by the murderous international competition.
- Furthermore, there is a threat to employment in the current sugar industry as a result of the production of substitute sugar products made by biotechnical, synthetic or genetic engineered processes and by more advanced management systems and farming techniques.

Trade policy alone will have little impact to the livelihood of the affected people if it is not linked with mechanisms and criteria designed to improve social and environmental conditions of the workers.

A full or partial liberalisation will not automatically solve this problem, nor will trade preferences and/or production and import quotas. A global liberalisation will only allow very small possibilities for a link between trade and environmental and social standards, as long as there are no internationally agreed conventions. This being the case, the only political option left are bilateral trade agreements. Preferential trade commitments are in this case the appropriate tool to use them as incentives for social and environmental improvements.

The continuation of the Market Order, which provides windfall profits to the companies, will also give scope on our side to combine the incentive with a Corporate Code of Conduct for the European sugar industry, which should also be binding for their activities outside Europe as well as subcontractors.

If the EU reform agenda is not able to guarantee poverty reduction, it should at least prevent further damage to the interest of those living in poverty, for instance, stopping immediately the dumping of European sugar surpluses onto the world market.

### **III. The main shortcomings of the EU Sugar Market Order**

Contrary to a big part of the agricultural sector in Europe, we are not convinced that the SMO has stood the test of time. We believe that the SMO has shown serious deficiencies and has to comply with a broader responsibility towards society.

- 1.) The biggest problem with the SMO is its targeted overproduction. Although its basic mechanism of production quotas was supposed to be geared towards restricting production, yields of 125% to 150% of domestic requirement are the norm. These surpluses are exported with subsidies paid by a levy imposed on all producers in accordance with EU policy. Consequently, exports subsidised in this way have depressed world market prices and pushed developing countries producers out of the

market. They alone have to bear the cost of fluctuating world market prices, as well as having to endure the low price levels on the world market.

- 2.) EU sugar prices and thus import tariffs have completely run out of control. The extremely high tariffs are the best proof that the SMO is serving very partial interests: the EU sugar prices are three times higher than the world prices and its import tariffs, bound at the WTO tariffs of over 300%, are among the highest tariffs in the world. Only a few privileged developing countries have market access.
- 3.) The monopolistic position of power of the sugar industry is a consequence of the SMO and has led to offensive acts of market expansion. A large part of the support does not reach its supposed beneficiaries; the sugar farmers.
- 4.) Also the few existing market access possibilities of developing countries mainly under the ACP Sugar Protocol are not fairly distributed and scarcely make a contribution to more trade justice worldwide.
- 5.) The extremely high level of support for EU sugar has discredited the whole EU's Common Agricultural Policy (CAP). Postponing the sugar reform could have significant consequences on the negotiating power of the EU in terms of defending other sensitive agricultural market regimes, which are much more important for the survival of family farming in Europe like, for example, for dairy products or olive oil.

#### **IV. Objectives of our Reform Proposals**

We are in favour of:

- 1.) more justice in the system of distribution in the sugar sector at European and international level,
- 2.) compliance with social minimum standards, workers and human rights, the right to food and development,
- 3.) more environmentally friendly method of sugar farming both in the North and in the South,
- 4.) a better contribution of the global sugar economy to combating hunger and poverty and a more balanced rural development,
- 5.) to restrain the development of sugar substitutes, maintaining and promoting rural employment.

#### **V. The proposals in detail**

##### ***1.) Sugar exports from the EU***

Within the next three years the entire exports of C sugar have to be phased out and B quotas have to be cancelled. Alternative uses in the domestic market need to be found for unplanned surpluses, like for instance for the processing of bio ethanol, assuming that these alternatives are ecologically and economically viable. Direct and indirect export support, such as by funds through the producers' levy, must be abolished. Total production needs to be restricted to a maximum of 90% of self-sufficiency to give room for imports under the preferential sugar quotas. The export of directly or indirectly subsidised sugar has to be eliminated, as well as re-exports of sugar imported under preferential terms.

## ***2.) Prices and Tariffs***

An effective mandatory supply management and Europe's retreat from the world sugar market will increase world market prices as a result. The difference between EU internal and external price will become smaller, even if only slightly. A higher domestic price should be kept in place in order to secure the possibility of survival of the EU sugar farmers, and to guarantee a profitable price to those developing countries under preferences, particularly those LDCs enjoying preferential access, during the transitional period up to 2019.

## ***3.) Trade preferences for developing countries***

We advocate for postponing the EU's "Everything-But-Arms Initiative" – henceforth called EBA Initiative – which includes free tariff and quota free access to the EU market for Less Developed Countries - LDCs. The group of LDCs presented a proposal on 5 March 2004, to the EU-Commission. They ask to replace the EBA Initiative by duty free import quotas (so-called "Tariff Rate Quotas") from 2009 onwards. In the transitional period of the 10 following years they propose a phasing out of the tariff for the out-of-quota deliveries.

With the above, we would like to ensure that a genuine contribution will be made to combating poverty. We see in this proposal an opportunity to come to an agreement, at least with the LDCs, which links additional market access with bilateral agreements on social and environmental standards.

The EU must reserve for the developing countries as a whole 10% of its domestic sugar consumption as "minimum market access". With the growth in demand for sugar within the EU, the quantity of the minimum market access of 10% also increases. Sugar used for making bio ethanol shall be fully counted for.

After serving the LDC, the remaining market access should be allocated as tariff rate quotas (TRQ) for the rest of the Developing Countries and should be distributed according to development policy criteria.

We demand that the ACP sugar protocol is to be terminated by 2009, along with the WTO-Waiver for the Cotonou Agreement or at least that it is fundamentally reformed, particularly with respect to the distribution of ACP quotas. An appropriate solution to fit each country needs to be negotiated for the transitional period, including compensation for those ACP-Sugar Quota holders who are not LDCs and who are in a weak and vulnerable economic situation.

The EBA Initiative, guaranteeing tariff and quota free market access for LDC, will be replaced by tariff rate quotas, according to the wishes of the LDCs. The in-quota tariff should be zero. The guaranteed duty free import quotas, starting in 2006 with a base quantity of 466,000 tons, will increase until 2009 with a 15 % increase from year to year for each country. The potential of those LDCs with a large cane sugar production capacity, which however do not hold any quotas even under the ACP agreement, will be taken into account accordingly. From 2009 up to 2015 these quotas can increase to 1,6 Mio t, remaining from there on constant until 2019. From 2015 onwards the tariff for the out-of-quota deliveries (from LDCs) shall be reduced in 4 steps. And only in 2019 will the tariff free and quota free access for the LDCs come into force, in accordance with the conditions laid out in the EBA

Initiative for the year 2009. The EU will maintain its high internal sugar price until then, protected by tariffs and domestic production quotas.

#### ***4.) Domestic Supply Management in the EU***

Even though we consider that production quotas are not the best solution, we still advocate this regime of mandatory supply management for the time being until 2019, when the LDCs gain tariff free and quota free market access.

The use of sugar substitutes regardless of their type, whether synthetic, biotechnical or genetically engineered, has to be included in the supply management system as well. Their proportion of the market may not exceed the present proportions.

The necessary reduction of quotas within the EU should follow social criteria, by introducing cuts only beyond a given amount per farm. Quotas should be individually allocated to existing sugar farmers. If an owner of a quota reduces or gives up production, the State holds the first right to buy. Quotas acquired by the State can be used for newcomers or for cutting down production. No farm should hold quotas for more than 20 % of its crop area. Quotas should not be transferred beyond regional boundaries of sugar factories.

#### ***5.) Restriction of the dominant role by sugar companies***

The costs of the sugar reform (price and quota reduction) should be covered to a considerable proportion by the beet sugar processing industry. The farmers, not the industry, shall be in future the beneficiaries of the protection. The economic behaviour of the white sugar industry - including its pricing policy - must be much better monitored and controlled by the government.

As long as the EU sugar industry administrates part of the State sugar regime, the political lobbying of the sugar industry needs to be restricted. Their business practices inside and outside the EU have to follow current guidelines on corporate social responsibility, for instance like those as agreed by the European Union of the Sugar Industry (CEFS) and the European Food Workers' Union (EFFAT). Public monitoring will inspect compliance with the OECD Guidelines on Multinational Corporations, including their suppliers or subcontracting companies.

#### ***6.) Compensation and accompanying measures***

Sugar beet farmers are going to be integrated into the system of the reformed agricultural policy according to the Luxemburg Agreement. They will receive decoupled area payments in connection with environmental conditions (Cross Compliance) and modulation. These area payments serve as compensation for quota cuts. Special rules for "good farming practices" in sugar production need to be applied. In addition, specific agro-environmental programmes for sugar beet need to be put in place. These encompass, among other things, crop rotation, biodiversity conservation, soil protection and a reduction of pesticide use. Funded through the rural development regulation (second pillar) alternatives to the sugar economy need to be developed, especially in areas, which will suffer the most from quota reductions (diversification).

The ACP Countries and other DCs - which so far have benefited from some preferential market access, like Cuba, India and Jamaica, but do not belong to the LDCs Grouping but to the LIDCs (Low Income Developing Country, meaning a per capita GNP income of less than US \$1,000 per year) or have high external debts - shall be compensated. This can happen in various ways, like with the remaining TRQ of the Minimum Market Access in sugar in the EU, by trade preferences in other commodities or through debt relief or ODA.

### ***7.) International Social and Environmental Standards***

The bilateral agreement with the LDC, which derived from the postponed EBA, must include social minimum standards for the livelihoods and working conditions of the plantation and sugar-processing industry workers. It also must comply with binding the ILO Core Standards and secure basic workers rights. The agreement must also take environmental standards on board, especially with regard to the farming methods applied to sugar cane, its processing, and the way of extending the sugar area. Compliance with these standards needs to be under constant monitoring by the undersigning parties. Trade unions and civil society organisations in the respective country must participate in the review process.

In addition, the EU-member governments and the EU Commission shall commit themselves to further develop the International Sugar Agreement, especially to elaborate on the ISO Articles 29 and 30, in order to develop operational minimum standards for all sugar producing countries in the world. Similar to the complaint mechanism under the ILO, the ISO also needs to set up a complaint procedure. These standards and their compliance need to be backed by strong incentives, like accompanying trade-related technical assistance, reporting procedure, external monitoring, and labelling or special trade preferences for fairly and ecologically produced and traded sugar.

No ODA funds of any kind, including credits and public collateral, shall be invested into the sugar economy of any developing country, unless the compliance with social and environmental standards is guaranteed.

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