Oxfam Briefing Note

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The challenge to the EU: stop the sugar dumping!

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The recent challenges mounted by Brazil and Australia at the WTO over the EU's implicit and explicit sugar export subsidies have raised fundamental questions about reforms to the Common Agricultural Policy.

Instead of responding with a coherent strategy that ends its sugar export dumping, the EU has so far sought to deflect attention from the excesses of its regime by raising concerns about the future of preferential access for the ACP countries. Last month Pascal Lamy was reported as saying that the challenge was "very bad news" for the ACP countries.[1] Yet both Brazil and Australia have publicly confirmed that they have no intention of challenging the ACP countries' preferential access to the European market.

The current low and unstable prices of the world sugar market are of serious concern to the many and diverse developing countries that produce sugar. The world sugar market is chronically over-supplied and Brazil, as a major low-cost producer and exporter, has a critical role and responsibility in shaping the future of the market. However the EU, as a high-cost, heavily subsidised exporter, should now lead the way in showing responsibility by ending its dumping.

EU imports of preferential sugar are highly valued by ACP countries – worth over euros 500m each year - but make up just a fraction of Europe's sugar supply, accounting for just 8% of Europe's sugar supply. And since the early 1980s, the EU has significantly increased quotas for domestic sugar production far in excess of domestic needs, creating the continual pressure to export. If EU sugar quotas were cut to their 1980 level, the internal market would now be roughly in balance, with domestic production and ACP imports meeting domestic consumption needs.

[1] Agence Europe Daily Bulletin no. 8313, 7th October 2002

Instead, the EU is now the world's largest exporter of white sugar. In 2000-01, it exported almost 7 million tonnes of sugar, at prices far below its costs of production. Where did all these exports come from?

- 3.8 million tonnes of non-quota sugar (so-called C sugar). Over half of Europe's sugar exports last year were produced in excess of EU quotas - a blatant indication of the over-production that is built into the current incentives of the EU sugar regime. The EU claims that C sugar exports are not subsidised because they do not receive export subsidies but C sugar is cross-subsidised by the guaranteed prices granted for quota production. Excessive amounts of C sugar are produced every year because farmers risk losing their contracts with sugar processors if they deliver sugar beet short of their contracted amount – hence the in-built incentive to over-produce. Some EU sugar beet farmers are calling for more flexible contracts with the powerful sugar processors so that they can significantly reduce C sugar production.[2]

- 1.5 million tonnes of quota sugar, for which export refunds are given in order to bridge the gap between the internal price and the world market price. The export refunds are raised through a levy paid by farmers and processors – made possible by the guaranteed high prices they receive. But the cost of this levy is ultimately paid for by EU consumers at euros 800m each year.

- 1.6 million tonnes of quota sugar "re-exported" as an amount equivalent to ACP imports in order to keep the domestic market 'sweet' for the EU's biggest sugar beet farmers. Export refunds of euros 800m are paid each year by EU taxpayers to make this possible.

Taken together, these 7 million tonnes of subsidised EU sugar exports help depress the world market price and block low-cost sugar producing countries out of valuable third markets such as the Middle East and North and West Africa.

Last year the EU launched the Everything But Arms (EBA) Initiative under which sugar-producing Least Developed Countries (LDCs) have been given very restricted quotas for preferential access into Europe. But in order to make room for this EBA sugar, instead of cutting back on

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[2] The Dutch Arable Farmers Union have proposed a bonus-malus system that allows farmers to over-or under-deliver a margin of sugar beet to the processor without penalty.

European quota production, the EU has cut back quota imports from the ACP countries - literally trading one group of developing countries off against another.

If Europe is sincere in its frequently stated claim that ACP preferential access is an important form of development aid then, then it should be publicly reaffirming its commitment to supporting their economies. Under a quota system for sugar production in Europe, ACP and LDC country interests should be given high priority, given that, for many, sugar is a critically important part of their economies.

Following from our briefing paper, *The Great EU Sugar Scam*, Oxfam calls on the EU to take the lead now by reforming its excessive domestic production with:

A 25% cut in EU quota production, which would then make possible:

- **An end to EU sugar dumping. This would mean an end to all quota exports and an end to all non-quota (C sugar) exports by storing all C sugar for use in the following year's quota**
- **Restoring quotas for ACP preferential sugar imports (that have been cut to make room for EBA imports) and standing by the EU's commitment to support the economies of these countries**
- **Greatly increased quota access for imports from the least developed countries under the Everything But Arms Initiative**

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