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Oxfam International

Joint NGO Briefing Paper

EMBARGOED UNTIL 00:01 HRS GMT WEDNESDAY 1 JUNE 2005

Critique of the EC's Action Plan for ACP countries affected by EU sugar reform

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Introduction

In July 2004, the European Commission (EC) released its proposals for reform of the EU sugar regime (in the document COM(2004) 499 final). This document acknowledged that 'the proposal would certainly imply adjustments in the sugar sector of the ACP [African, Caribbean, and Pacific] countries and India' — countries which until now have had preferential and guaranteed access to high prices in the European market for a limited quantity of exports under the Sugar Protocol.[1] For this reason, the Commission promised to initiate a dialogue with ACP Sugar Protocol countries to develop an action plan of 'appropriate accompanying measures'. The plan was published in January 2005 (SEC(2005) 61). It states that since 'the main roots of the challenges facing Sugar Protocol countries are to be found in the structure of international trade relations', the EU aims to improve international and regional sugar trading conditions for ACP countries through a mixture of trade and aid measures.

The Commission's commitment to reforming EU sugar policies and to helping those ACP countries adversely affected by reform to adjust is welcome. However, the potential of the Action Plan remains unclear given the lack of detail on a wide range of issues. In particular, there is insufficient detail on how support measures will be financed and delivered in a timely and effective manner and to an adequate degree. Further, the Action Plan fails to address the adjustment needs of several sugar-producing Least Developed Countries (LDCs), which are not covered by the plan or which are unlikely to receive adequate help under it.

Many ACP countries and LDCs rightly remain concerned that the EC and EU member states have failed to take account of their concerns in the reform process. In particular, they oppose the depth and speed of the proposed price cuts.[2] Some of these countries will need EU assistance to offset the likely serious impact of EU sugar reform, whilst others will need help to adjust and make the most of any opportunities presented by reform. However, many of them are reluctant to be drawn into detailed discussions on what adjustment measures will be needed without a clearer idea of which reforms will be implemented, and therefore what adjustment challenges they will face.

Oxfam and WWF share this concern, and are themselves continuing to push for substantive changes in the EU reform proposals, to ensure that they achieve an outcome that genuinely favours sustainable development.[3] However, we are equally concerned that the EU makes meaningful and timely commitments to help poorer countries adapt to and benefit from changes in EU sugar policies whatever the outcome of the EU reform negotiations.

This briefing note provides a summary and critique of the proposed Action Plan and presents proposals on how the EU could best help developing countries likely to be affected by EU sugar reform and to make the most from the opportunities reform may provide.

The Commission's ACP Action Plan

The Action Plan sets out the EU's commitment to supporting ACP countries affected by EU sugar reform. This is part of the EU's wider commitment to support poverty reduction and sustainable development in those countries, and to aid commodity-dependent economies in general.

Trade measures

In terms of trade, the Commission proposes that the Sugar Protocol should be integrated into the Economic Partnership Agreements (EPAs) that are currently being negotiated between the EU and ACP countries. These are due to come into force from January 2008. It is proposed that this should be done in a way that allows for the EU's commitment to LDCs for quota- and duty-free market access for sugar from 2009 (under the Everything But Arms (EBA) initiative), and is compatible with WTO rules and commitments. The Commission also urges ACP countries to engage themselves fully in the WTO negotiations, since it believes that further market opening will contribute to economic growth in all countries.

Development assistance

The Commission envisages three types of measure to help support the adjustment process of ACP countries affected by EU sugar reform. These aim to: i) enhance the competitiveness of the sugar sector, where this is sustainable; ii) promote diversification of sugar-dependent areas where long-term sustainability is in question; and iii) address broader adaptation needs. A different combination of these measures will be appropriate to meet the specific needs of each ACP country.

Principles of support

The Action Plan recognises that country-specific strategies are needed. Each strategy will focus on the needs of sugar-dependent areas, but will not necessarily focus on the sugar sector alone. It is not intended to 'compensate' the sugar industry, but to provide assistance based on an assessment of the constraints and potential resulting from reform, of both the sugar sector and other alternative economic sectors, both inside and outside agriculture.

Oxfam and WWF's response

Oxfam and WWF welcome many of the Commission's stated principles. In particular: we support the aims that the national action plans should complement and be implemented jointly with national development strategies, and be specific to the needs of each country; that all stakeholders in and around the sugar sector should be involved in their design and implementation; and that a pro-poor and environmental sustainability dimension must be incorporated. However, we also have concerns, as outlined below.

Key concerns

1. The plan must be adequately financed and assistance delivered in a timely and effective way[4]

Under the current EC reform proposals, price cuts will be implemented from 2006, after which time significant reductions in export revenue will affect many ACP and LDC exporting countries. Indeed, the impact of impending reform in the light of the Commission's proposals is already being felt, as loan financing for investment in sugar sector activities is drying up or becoming available on far less favourable terms (i.e. more expensive and with shorter repayment periods). It is therefore welcome that the Commission intends to make funding available for the Action Plan from 2005.

However, the Action Plan states that finance for adjustment measures will be provided through the Development Co-operation and Economic Co-operation Instrument in the next EU budget. This will only be implemented from 2007–13. We would like to see greater clarity in how much funding will be available, and from where, over 2005 and

2006. These resources must comprise new sources of finance, rather than being diverted from the existing European Development Fund (EDF).

Experience with previous adjustment assistance, notably in the case of bananas, suggests that it will take time for ACP countries to design and implement national adaptation strategies. If, as the Commission intends, its accompanying measures are to cushion the impact of the reform, substantial assistance must be delivered in the short term, before that impact is felt. Yet, given the short transition period for reform proposed by the Commission, it is far from clear that this will be possible.

In the longer-term, EU sugar reforms that address the recent WTO ruling on subsidised exports by effectively eliminating dumping and opening Europe to a higher level of imports, offer some ACP countries and LDCs the opportunity of healthier regional and European markets for their sugar. The EU Action Plan must help these countries to make the most of these opportunities.

The precise level of finance that will be needed to assist ACP countries and LDCs in adjusting to changes in EU sugar policies, will depend on the nature of the final reform package agreed among member states. However, the UK government estimates that it is likely to be around €500m a year for ACP producers alone.[5] This figure does not take into account the need to provide adjustment assistance to non-Sugar Protocol LDCs, for whom additional finance must be found.

Recommendation

The EU should provide a sum in excess of €500m a year for adjustment assistance for ACP Sugar Protocol countries in its budget from 2007. Given that action will need to be taken *before* the impact of the reform is felt, a similar amount must be found and made available in 2005 and 2006.

Additional funds must be provided to assist non-Sugar Protocol LDCs, and reflect the full impact of EU reforms on those LDCs within the Sugar Protocol who also export to the EU under the EBA (Madagascar, Malawi, Mozambique, Tanzania, and Zambia).

All options should be considered for sourcing this essential finance, particularly to fill the apparent short-term funding gap. These should include transferring funds from the EU agriculture budget to the development budget, and deploying existing EDF funds in support of the establishment of national strategies on the basis that provision will be made to reimburse these funds when a new finance mechanism comes into effect.

In order to offset the impact of EU reform proposals on the availability of loan financing for sugar investments, the EU should consider modifying the terms of the Cotonou Agreement Investment Facility to encourage the European Investment Bank to provide low-cost loans from the risk capital facility for the refinancing of sugar sector investments, and for restructuring activities.

2. Any assistance should benefit all LDCs alongside ACP countries

The Commission proposes that the Action Plan should cover only the 18 ACP countries that are signatories to the Sugar Protocol and which currently export sugar to the EU.[6]

Five of these countries (Madagascar, Malawi, Mozambique, Tanzania, and Zambia) are LDCs, which also export to the EU under the EBA initiative, and will only benefit from assistance under the Action Plan to a level commensurate with their exports under the Sugar Protocol.

A further five LDCs, (Bangladesh, Burkina Faso, Ethiopia, Nepal, and Sudan) export sugar to the EU only under the EBA agreement. These countries will also be adversely affected by the fall in EU prices, as it will reduce the value of their future increased access under EBA. However, in the longer term, they may benefit from less distortion of their markets by Europe and will need support to take advantage of any opportunities arising from EU reform. Under the Commission's proposals, these LDCs will not benefit from any adjustment assistance.

Recommendation

The EU should extend adjustment assistance to all LDCs likely to be affected by EU sugar reform. As with ACP Sugar Protocol countries, this will help LDCs to adjust and to make the most of potential opportunities presented by reform.

Such support for non-Sugar Protocol LDCs, is as important as it is for Sugar Protocol countries, because of the sugar industry's role in poverty reduction and to ensure the sustainability of sugar production. Any assistance offered to non-Sugar Protocol LDCs must be provided in addition to the support required for adjustment in ACP Sugar Protocol countries (see section 1).

3. The trade dimension should be strengthened

The trade section of the Action Plan focuses on the future potential benefits to ACP countries arising from current negotiations at the WTO and under the EPAs. Given that these benefits are potential and may not be realised, Oxfam and WWF believe that the Action Plan should highlight some concrete commitments by the EU to improve the trading environment for sugar-producing ACP countries and LDCs, within the context of its overall sugar reform.

For example, the Action Plan fails to acknowledge the negative impact of EU subsidised sugar exports on poor countries, particularly that of the 600,000 tonnes of sugar it exports each year to Africa. Similarly, the Action Plan talks about EPAs enhancing regional trade in sugar, but does not follow through on this by committing to the exclusion of sugar and sugar-based products from the market liberalisation that the EU is seeking under the EPAs. The assumption that ACP producers can easily increase regional sugar trade fails to acknowledge the constraints in refining capacity and regional transportation infrastructure in many ACP countries. The EU must commit to providing support to develop refining capacity and improve regional infrastructure.

Recommendation

The EU should commit to some tangible actions that will help to improve the trading environment of ACP and LDC sugar-producing countries. This includes ending EU subsidised exports, excluding sugar and sugar-based products from EPA liberalisation, and supporting the development of national and regional marketing, refining capacity, and infrastructure, so as to promote regional sugar trade.

4. Any assistance must encourage better environmental management practices

Assistance to the sugar industry in ACP countries and LDCs must help to ensure that sugar production and processing is carried out in ways that maintain or improve the quality of the natural environment.

A wide range of locally adapted Better Management Practices (BMPs) is available to ensure that sugar production does not have adverse environmental consequences.[7] EU assistance measures should support developing national sugar industries to implement the following:

- more efficient irrigation systems
- improved agronomic practices — e.g. soil management, rationalised use of fertilisers and chemicals
- integrated pest management
- reducing air pollution and effluent run-off from cane mills

- conserving water, soil, and wildlife in farm planning
- regional development planning that explicitly includes conservation of ecosystems that provide vital services for communities, and habitats for wildlife
- better use of by-products (e.g. bio-fuels, soil conditioners, fertilisers)
- implementation of environmental legislation and controls.

Oxfam and WWF welcome the fact that the Action Plan mentions the need to ensure that the environment is accounted for in general, as well as in specific potential development measures. It also recognises that some areas should not be growing sugar because of its environmental impacts.

In order to ensure that environmental issues are widely addressed in developing the national action plans, Oxfam and WWF support the Commission's proposal that a broad range of stakeholders both in and around the sugar sector is involved, including civil society groups.

Recommendation

EU support to sugar development should be based on the implementation of BMPs at farm and mill levels.

In addition, it is essential that any adjustment assistance provided should undergo a sustainability assessment, since there are likely to be environmental consequences of investments aimed at improving the financial viability of the sugar industry, such as in transportation or other infrastructure development. Where assistance is focused on finding alternatives to sugar, environmental sustainability assessments should be undertaken of diversification programmes.

5. Adjustment assistance must contribute to poverty reduction

Oxfam and WWF welcome the Commission's emphasis on ensuring that adjustment assistance should benefit the poorest and most vulnerable. Sugar has made an important contribution to poverty reduction in many countries, and has the potential to do so in the future. Oxfam's recent research in southern Africa, for example, highlighted the current importance and future potential of the sugar industry in creating employment and income for thousands of people living in poverty. Investment in smallholder schemes offers the potential to provide direct benefits to their members and for the environment.[8]

In the Caribbean, several countries — such as Guyana, Jamaica, and Belize — face major socio-economic dislocation as a result of EU sugar reforms. In Guyana, classified by the World Bank and International Monetary Fund as a Heavily Indebted Poor Country (HIPC), 35 per cent of the population already live below the poverty line. Sugar is the backbone of the economy and some 30,000 jobs and the livelihoods of approximately 150,000 people (20 per cent of the population) are at stake.[9]

However, there is no automatic link between employment in the sugar sector and poverty reduction. It will be important to involve workers' representatives in the development of national strategies to ensure that mechanisms are established to protect workers' rights and deliver benefits to the workforce. In providing assistance to improve the competitiveness of the sugar sector, it will be necessary to guard against cost-cutting measures that impact negatively on poor people working in the industry, such as cutting already low wages or reducing the important social investments made by many sugar companies. Such changes could have significant negative impacts on the poorest sections of society. Instead, resources should be targeted, for example, to improve local infrastructure and to encourage the development of local value-added and processing. Where EU sugar reform is likely to result in job losses, in addition to providing adequate redundancy schemes, it may be helpful to target resources to offer training or small business loans for workers who may lose their jobs.

Recommendation

The EU should work with countries that receive adjustment assistance to establish mechanisms to ensure that any assistance provided benefits the poorest and most vulnerable, and include the protection of workers' rights.

Conclusion

The Commission's commitment to providing adjustment assistance for poorer countries likely to be affected by EU sugar reform is welcome. Oxfam and WWF support many of the principles set out in the ACP Action Plan published in January 2005. However, the plan is inadequate in a number of key areas outlined above. We urge the Commission and EU member states to adopt the following policy recommendations:

1. Provide adequate finance in a timely and effective way. Oxfam and WWF propose that at least €500m a year should be provided from 2005 onwards for Sugar Protocol countries, and an additional sum provided for non-Sugar Protocol LDCs.
2. Extend adequate adjustment assistance to all LDC sugar-producing countries likely to be affected by EU sugar reform, in addition to assistance provided to ACP Sugar Protocol countries.
3. Commit to some tangible actions that will help to improve the trading environment of ACP and LDC sugar-producing countries. This includes ending EU subsidised exports, excluding sugar and sugar-based products from EPA liberalisation, and supporting the development of national and regional marketing, refining capacity, and infrastructure, so as to promote regional sugar trade.
4. Ensure that any assistance encourages the adoption of better management practices, both in the sugar sector and in any alternative livelihoods proposed. Support regional development plans for sugar-growing areas that explicitly include conservation of ecosystems that provide vital services for communities and habitats for wildlife.
5. Establish mechanisms to ensure that any assistance provided benefits the poorest and most vulnerable, including the protection of workers' rights.

It is now essential that the European Commission and EU member states engage a wide range of stakeholders in ACP countries and LDCs, in a meaningful and open dialogue on what measures are needed to provide effective and timely assistance in the face of EU sugar reform. A similar dialogue between the EU and ACP countries and LDCs is needed on the fundamental aspects of the reform process, e.g., in relation to the depth and speed of EU price and domestic quota cuts, and market access for developing countries.

Notes

[1] The Sugar Protocol agreed between certain ACP countries and the EU comes under the wider EU–ACP agreement, originally known as the Lome Agreement and now the Cotonou Agreement.

[2] ACP Submission on the European Commission's Communication of 14 July 2004 concerning the reform of the EU sugar regime, 6 October 2004.
Hwww.acpsugar.org/finalacpresponse2.docH
LDC response to the European Commission's Communication of 14 July 2004 concerning the proposed reform of the EU sugar regime, 13 September 2004. www.ldcsugar.org

[3] For Oxfam's proposals on EU sugar reform, see Oxfam (2004), 'A Sweeter Future? The Potential for EU Sugar Reform to Contribute to Poverty Reduction in Southern Africa', Oxford: Oxfam. For WWF's position on reform of the EU sugar regime, see: www.panda.org/downloads/europe/wwfsugarposition.doc

[4] This section on finance for the Action Plan, and section 3 on the trade dimension draw on Goodison, P. 'EU Sugar Sector Reform: Getting to Grips with the Challenges Facing ACP Countries', background paper for Oxfam, January 2005

[5] UK government, 'UK Statement on Accompanying Measures to Assist ACP Producers in their Response to EU Sugar Reform', 23 March 2005

[6] Barbados, Belize, Guyana, Jamaica, Trinidad and Tobago, St Kitts and Nevis, Fiji, Republic of Congo, Ivory Coast, Kenya, Madagascar, Malawi, Mauritius, Mozambique, Swaziland, Tanzania, Zambia, and Zimbabwe.

[7] For more information see WWF (2004), 'Sugar and the Environment: Encouraging Better Management Practices in Sugar Production and Processing', Godalming, UK: WWF

[8] Oxfam (2004) 'A Sweeter Future? The Potential for EU Sugar Reform to Contribute to Poverty Reduction in Southern Africa', Oxford: Oxfam, and WWF case studies on co-operative farming models in Zambia and South Africa

[9] Figures from the Guyana Sugar Corporation, personal communication, April 2005

This paper was written by Penny Fowler of Oxfam and Adam Harrison of WWF. We acknowledge the assistance of Phil Bloomer, Rian Fokker, Elizabeth Guttenstein, Richard Holland, and Julieanne Porter in its production.

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- conserving the world's biological diversity,
- ensuring that the use of renewable resources is sustainable, and
- promoting the reduction of pollution and wasteful consumption.

Oxfam International

Oxfam International is a confederation of twelve organisations working together in more than 100 countries to find lasting solutions to poverty and injustice: Oxfam America, Oxfam-in-Belgium, Oxfam Canada, Oxfam Community Aid Abroad (Australia), Oxfam Germany, Oxfam Great Britain, Oxfam Hong Kong, Intermón Oxfam (Spain), Oxfam Ireland, Novib Oxfam Netherlands, Oxfam New Zealand, and Oxfam Quebec.