

HOUSE OF LORDS

European Union Committee

18th Report of Session 2005-06

Too much or too little? Changes to the EU Sugar Regime

Volume I: Report

Ordered to be printed 6 December 2005 and published 13 December 2005

Published by the Authority of the House of Lords

London : The Stationery Office Limited
£price

HL Paper 80-I

CONTENTS

	<i>Paragraph</i>	<i>Page</i>
Preface		5
Introduction	1	7
Box 1: How much does the EU sugar regime cost?		7
Chapter 1: Drivers of Reform	7	9
Why the need for reform?	8	9
The WTO ruling	8	9
Box 2: Quota System		10
The WTO Doha Development Round	10	10
Box 3: The WTO and the Doha Development Agenda		10
CAP reform	12	10
What impact will the reform have?	13	11
African, Caribbean and Pacific (ACP) states	13	11
Chapter 2: Agreement to a New Regime	15	12
Price cut: too little or too much?	18	12
Table 1: 2004/05 sugar production in the EU		13
Box 4: Efficiency		14
Box 5: How much sugar does the EU produce?		15
Chapter 3: Softening the Blow—Compensation and Restructuring	27	17
Table 2: Changes to the proposed voluntary restructuring scheme		17
Compensation to producers	31	17
Box 6: What is the single farm payment?		18
Chapter 4: Impact of Reform Within the EU	42	20
Employment	44	20
Competition	48	21
Environment	55	22
Box 7: What is Biofuel?		23
Table 3: Estimated Ethanol Yields		23
Chapter 5: Effect of Reform on ACP Countries	61	24
Box 8: The ACP		24
Table 4: ACP/India imports		24
What can be done to aid ACP economies?	70	26
Box 9: What is the Financial Perspective?		27
Will the Action Plans work?	73	27
Timing of proposals	82	28
What more can be done?	84	29
Chapter 6: Impact of Reform on non-ACP countries and the World Market	88	30
Figure 1: World Top 15 sugar exporters in 2000 (figures in 1000 tonnes)		31
Box 10: What is the cerrado?		32

Chapter 7: Looking ahead to 2014—Will the Reform work?	101	33
The November agreement—sending conflicting signals?	102	33
Will the reform satisfy the needs of current WTO negotiations?	112	35
Will the reform be worth it?	116	35
Chapter 8: Summary of Conclusions	118	37
Chapter 2 – Agreement to a new Regime	118	37
Chapter 3 – Softening the blow – Compensation and Restructuring	120	37
Chapter 4 – Impact of Reform within the EU	125	37
Chapter 5 – Effect of Reform on ACP Countries	131	38
Chapter 6 – Impact of Reform on non-ACP Countries and the World Market	139	39
Chapter 7 – Looking Ahead to 2014 – Will the Reform work?	141	39
Appendix 1: Sub-Committee D (Environment and Agriculture)		41
Appendix 2: Details of the November Agreement		44
Appendix 3: Call for Evidence		46
Appendix 4: Letter to Lord Bach from Lord Grenfell dated 10 November 2005		48
Appendix 5: Letter from Lord Bach to Lord Grenfell dated 22 November 2005		52
Appendix 6: Letter from Gareth Thomas MP to Lord Grenfell dated 23 November 2005		53
Appendix 7: List of Witnesses		54
Appendix 8: Recent Reports		57

NOTE: References in the text of the report are as follows:

(Q) refers to a question in oral evidence

(p) refers to a page of written evidence

The Report of the Committee is published in Volume I, HL Paper No 80-I.

The Evidence of the Committee is published in Volume II, HL Paper No 80-II.

The European Union Committee

The European Union Committee is appointed by the House of Lords “to consider European Union documents and other matters relating to the European Union”. The Committee has seven Sub-Committees which are:

Economic and Financial Affairs, and International Trade (Sub-Committee A)
Internal Market (Sub-Committee B)
Foreign Affairs, Defence and Development Policy (Sub-Committee C)
Environment and Agriculture (Sub-Committee D)
Law and Institutions (Sub-Committee E)
Home Affairs (Sub-Committee F)
Social and Consumer Affairs (Sub-Committee G)

Our Membership

The Members of the European Union Committee are:

Lord Blackwell	Lord MacLennan of Rogart
Lord Bowness	Lord Marlesford
Lord Brown of Eaton-under-Heywood	Lord Neill of Bladen
Lord Dubs	Lord Radice
Lord Geddes	Lord Renton of Mount Harry
Lord Goodhart	Baroness Thomas of Walliswood
Lord Grenfell (Chairman)	Lord Tomlinson
Lord Hannay of Chiswick	Lord Woolmer of Leeds
Lord Harrison	Lord Wright of Richmond

The Members of the Sub-Committee which carried out this inquiry (Environment and Agriculture, Sub-Committee D) are:

Lord Cameron of Dillington	Baroness Miller of Chilthorne Domer
Lord Christopher	Earl Peel
Lord Haskins	Lord Plumb
Lord Lewis of Newnham	Lord Renton of Mount Harry (Chairman)
Lord Livsey of Talgarth	Lord Sewel

Information about the Committee

The reports and evidence of the Committee are published by and available from The Stationery Office. For information freely available on the web, our homepage is:

http://www.parliament.uk/parliamentary_committees/lords_eu_select_committee.cfm

There you will find many of our publications, along with press notices, details of membership and forthcoming meetings, and other information about the ongoing work of the Committee and its Sub-Committees, each of which has its own homepage.

General Information

General information about the House of Lords and its Committees, including guidance to witnesses, details of current inquiries and forthcoming meetings is on the internet at http://www.parliament.uk/parliamentary_committees/lords_s_comm_d.cfm

Contacts for the European Union Committee

Contact details for individual Sub-Committees are given on the website.

General correspondence should be addressed to the Clerk of the European Union Committee, Committee Office, House of Lords, London, SW1A 0PW

The telephone number for general enquiries is 020 7219 5791.

The Committee’s email address is euclords@parliament.uk

PREFACE

The European Union (EU) sugar regime is about to be reformed. As it stands, it is an anomaly of the EU's Common Agricultural Policy (CAP). Whilst most other agricultural regimes were included in the major CAP reforms of 2003, the sugar regime was not, and the regime remained relatively unchanged after almost 40 years in existence. Now the Council of Ministers have reached agreement on proposals tabled by the European Commission to update the regime. The agreed text must be considered further by the European Parliament, but ultimately a new regime will be introduced.

It is a welcome and necessary reform. The current regime protects the EU sugar market through a support system of guaranteed minimum prices, different production quota levels, import tariffs and export refunds. Under the agreed text, the minimum price will be cut by 36 percent over four years and production quotas will be merged to create a single quota.

Reform will be painful. Factories will close and jobs will be lost. Implementation of the proposals is intended to cause a substantial reduction in EU sugar production of almost 40 percent. There may be high political, social and economic prices to pay in order to achieve this objective.

The effect of these proposals will not be confined within the borders of the EU's 25 Member States. A group of countries across Africa, the Caribbean and the Pacific (ACP) enjoy preferential access to the EU guaranteeing them preferential rates for imports of their sugar. These countries will face momentous challenges in the face of the reformed EU sugar regime.

The implementation that lies ahead will be tough and difficult. As the World Trade Organization (WTO) negotiations take place this month in an effort to liberalise world trade, including the elimination of global trade-distorting agricultural subsidies, all eyes will be focused on the EU to ensure this reform delivers a competitive EU sugar regime and a viable future for ACP economies.

Too much or too little? Changes to the EU Sugar Regime

Introduction

1. EU agriculture ministers recently agreed¹ a reform to the EU's sugar sector. Currently, the EU artificially boosts the price of sugar on the EU market by restricting other countries' access to the EU market². Domestic production of sugar beet³ is controlled by set quotas which determine how much sugar growers can produce and guaranteed prices which protect farmers' income. The several million tonnes of surplus of sugar generated each year by the high level of support to producers is then exported, with the aid of subsidies, onto the world market. The EU sugar regime depresses world prices, crowds out efficient exporters from developing markets, and currently costs the EU budget a net €1.1 billion per year⁴.

BOX 1

How much does the EU sugar regime cost?

For the budgetary year 2004, the gross sugar sector budget was set at €1.721 billion. This is distributed as follows:

- export refunds (75 percent of the total): €1.285 billion, including €0.802 billion for the equivalent of 1.6 million tonnes of ACP sugar
- production refunds (chemical industry): €0.194 billion
- refining aid (cane sugar): €41 million
- export refunds for non-Annex I products : €183 million
- aid for the disposal of raw sugar (overseas department sugar): €18 million.

The regime is part financed through a levy on industry which raised between €0.35 billion and €0.75 billion in the years 2002-04, resulting in a net budget of €1.1 billion per year.

2. The reform will change the way the EU runs its sugar regime through instigating structural and financial changes, including changes to its sugar

¹ *EU radically reforms its sugar sector to give producers long-term competitive future*, Committee press release IP/05/1473, 24 November 2005. The Council of Ministers reached political agreement on the basis of proposals tabled by the Commission on 22 June 2005. The agreement cannot be formally adopted until the European Parliament has been consulted on the proposals. The Parliament has indicated that this will not occur until the beginning of 2006. The proposals tabled on 22 June 2005 were: COM (2005) 263 final: (i) Proposal for a Council Regulation on the common organisation of the markets in the sugar sector; (ii) Proposal for a Council Regulation amending Regulation (EC) No.1782/2003 establishing common rules for direct support schemes under the common agricultural policy and establishing certain support schemes for farmers; and (iii) Proposal for a Council Regulation establishing a temporary scheme for restructuring of the sugar industry in the European Community and amending Regulation (EC) No.1258/1999 on the financing of the common agricultural policy.

² The present system is governed by Council Regulation (EC) No 1260/2001 of 19 June 2001 on the common organisation of the markets in the sugar sector [2001] OJ L178/1. This fixes prices and quotas until the end of the marketing year 2005/06 and also sets rules for trade (import and export) with third countries.

³ Sugar can be produced from sugar cane or sugar beet. Climatic conditions mean sugar beet is grown within the EU. The EU imports sugar cane, primarily from ACP countries.

⁴ Partial Regulatory Impact Assessment of options for Reform of the EU Sugar Regime (hereafter referred to as "RIA"), p. 24

imports and exports. The minimum guaranteed price for sugar will be cut by over a third. The reform will also introduce a compensation package for EU farmers. Accompanying the reform, the Commission has tabled a separate proposal⁵ which would provide financial assistance for adjustment measures in African, Caribbean and Pacific (ACP) countries adversely affected by changes to the EU's regime. This proposal is still to be agreed.

3. This report considers the impact of the reform upon the EU and ACP sugar industries and, in particular, examines the adjustment measures through which the Commission is proposing to offer assistance to ACP countries. The House of Commons Environment, Food and Rural Affairs Committee recently published its report on the reform, which we welcome⁶.
4. It is essential that the Commission and Council of Ministers ensure that the process of reform takes due account of the need for an economically viable sugar industry and, at the same time, the social and development needs of producers and processors in the EU and beyond. To that end conclusions and recommendations contained in the following pages are directed at creating a competitive EU sugar industry for the future.
5. Our conclusions and recommendations have drawn on evidence heard from a wide range of witnesses. Evidence was given in response to the Commission's initial proposals for reform rather than the reform recently agreed. Witnesses included the Commissioner for Agriculture and Rural Development, Ambassadors and senior representatives of ACP countries, Governments of Australia, Brazil, the Czech Republic, Greece, Slovenia, Thailand and the United Kingdom; as well as academics, sugar producers, refiners and users. We take this opportunity to thank our many witnesses who assisted us in our inquiry through the submission of written and/or oral evidence.
6. We make this report to the House for debate in the context of a further general debate about the WTO after the Hong Kong ministerial meeting.

⁵ COM(2005) 266 final: 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.

⁶ *Reform of the EU Sugar Regime*, 2nd Report, session 2005-06 (HC 585-I)

CHAPTER 1: DRIVERS OF REFORM

7. According to Mariann Fischer Boel, the Commissioner for Agriculture and Rural Development, there was “no alternative to a profound [EU sugar] reform”. In her view, continuation of the current regime would have meant a “slow and painful death for the European sugar sector”⁷. In June 2005, the United Kingdom Government described the regime as “anomalous and indefensible in its present form”⁸ and firmly supported the Commission’s proposals for reform⁹. Formal adoption of the new regime will occur in 2006 following consultation with the European Parliament on the new regime; until then the current regime will operate.

Why the need for reform?

8. Of the 20 million tonnes produced within the EU each year only 16 million tonnes is consumed within the EU (World Wildlife Fund UK p 256). According to the consumer organisation Which?, the surplus is ‘dumped’ on the world market to the disadvantage of the some of the world’s poorest countries (p 254). Which? described the current regime as a policy based on “market-distorting quotas, overproduction [and] subsidised exports” which cannot be justified (p 255).

The WTO ruling

9. The EU has had no choice but to address this problem of over-production. On 28 April 2005 a WTO appeal panel ruling on complaints brought by Australia, Brazil and Thailand affirmed that the EU broke WTO export rules. The WTO upheld the complaint that the EU effectively cross subsidised the export of C sugar by paying higher prices to EU growers of A and B quota sugar (see Box 2 below). To comply with this ruling the EU had to agree to remove 4-5 million tonnes of its sugar from the export market by May 2006. Commissioner Boel told us that implementation of the reform will reduce EU sugar production by approximately eight million tonnes a year (Q 5).

⁷ *Sugar Reform will offer EU producers long-term competitive future*, Commission Press Release, IP/05/776, 22 June 2005

⁸ RIA p.10

⁹ The Government stated in October 2005, “Liberalising the outdated and protectionist EU sugar regime is an important element of our efforts to reform the Common Agricultural Policy and is a top priority for the United Kingdom Presidency”. Government Response to European Union Committee Report, *The United Kingdom Presidency: Defra’s Priorities*, 12th Report, Session 2005-06, HL Paper 36 <http://www.publications.parliament.uk/pa/ld200506/ldselect/lducom/36/36.pdf>

BOX 2

Quota System

Currently each Member State is set a quota which limits how much sugar they can produce and the minimum sugar price is only guaranteed for sugar produced within this quota. Member States are free to produce more sugar but surplus production has to be sold outside the EU.

There are three types of quota. 'A' quota corresponds to the amount needed to supply the EU domestic market. 'B' quota allows the producer to produce 30–45 percent in excess of that in order to ensure the producer's contract is fully supplied. Sugar produced above both 'A' and 'B' quotas is known as 'C' sugar—officially unsubsidised—and must be sold outside the EU.

The new regime will merge A and B quotas into a single production quota.

The WTO Doha Development Round

10. Further impetus for regime change has come in the form of the ongoing World Trade Organization (WTO) Doha Development Round (see Box 3 below) which aims to place the needs and interests of developing countries at the heart of the WTO trade talks. Heads of government will meet at the WTO Ministerial meeting in Hong Kong this month with the intention of making progress. Developed countries are being challenged to remove remaining export subsidies and the EU is being pressed to allow greater import access to its agricultural markets, including that of sugar. Agreement on reform of the regime bolsters the EU's negotiating stance at the talks.

BOX 3

The WTO and the Doha Development Agenda

The 6th World Trade Organisation Ministerial Conference will take place in Hong Kong from 13-18 December 2005. The Ministerial Conferences are held at least every two years and form the highest platform for decision making on the WTO's strategy and direction.

The main focus of the Hong Kong Conference will be to determine which issues will be considered in the final agreement of the Doha Development Agenda, which should be completed at the following Conference in 2006. Launched in November 2001 at the 4th Conference, the Doha Development Agenda will take account of a range of subjects, including agricultural market access. The aim is to agree on formulae and other details that will determine the scale of reductions in tariffs on thousands of products and on farm subsidies.

11. A successful outcome to the Doha negotiations is of great importance for the whole EU economy. For that to happen, the EU must put forward arrangements for agriculture that are acceptable to other WTO members. Minimally that is likely to require better market access and an end to remaining export subsidies.

CAP reform

12. The new regime must also be considered against the backdrop of reform as the EU changes the way in which it funds and structures its agricultural activity. Most areas of the EU's Common Agricultural Policy (CAP), within which its sugar regime operates, underwent significant reform in 2003. These

reforms aimed to cut or “decouple” the link between the subsidy farmers received and the volume of commodity they produced, with the aim of increasing competitiveness. Without change, sugar beet would continue to be disproportionately protected compared with other arable crops.

What impact will the reform have?

African, Caribbean and Pacific (ACP) states

13. In order to comply with the WTO ruling, described in paragraph 9 above, the EU needs to reduce the supply of sugar within the EU in order to cut the amount being exported. However, at the same time as reducing the level of sugar within EU borders, the WTO ruling also requires the EU to continue to honour its existing commitments to African, Caribbean and Pacific (ACP) countries and India by protecting their preferential access to the EU market¹⁰.
14. The obvious way to achieve this is to introduce a new regime which will force the EU to decrease its sugar production thereby reducing the level of exports, but still allowing imports from ACP countries. Ironically, this may be detrimental to ACP suppliers who will receive the same price cut on their exports to the EU as EU sugar growers. Many ACP countries do not have as resilient a socio-economic infrastructure to absorb the consequences of such price reduction as Member States. It is therefore necessary to consider not only the significant changes this reform will bring to EU sugar growers, processors and users, but also the effect of the reform on countries outside the EU’s borders.

¹⁰ Australia, Brazil and Thailand stated that the EU should include, in the subsidised exports which count against WTO limits, the sugar currently imported from ACP countries and India—a footnote to the Uruguay Round schedule currently appears to allow the EU to exclude these. The WTO ruled in favour and upheld this complaint.

CHAPTER 2: AGREEMENT TO A NEW REGIME

15. On 22 June 2005, Commissioner Boel presented her recommendations for reform of the regime¹¹. The Commission proposed a “carrot and stick” approach to reduce sugar production: the “stick” being a significant price cut of 39 percent in the guaranteed sugar price paid to growers; the “carrot” being a generous 60 percent compensation scheme to EU producers who decided to leave the market and a similarly benevolent four year voluntary restructuring scheme for processors.
16. The proposals encountered opposition from many fields, including those Member States whose sugar industries were likely to be hit the hardest by implementation of the proposals (see paragraph 20). After three days of negotiations on 22-24 November 2005, EU agriculture ministers politically agreed a compromise text which softens down the Commission’s initial proposals. The ministers decided to phase in over four years a 36 percent cut in the EU’s guaranteed sugar price (rather than a reduction of 39 percent over two years as previously envisaged) and a more generous compensation scheme of an average of 64.2 percent for producers who leave the market. Full details of the agreement can be found in Appendix 2.
17. **We welcome the Council of Ministers’ decision to reform the EU sugar regime. To have left the regime unchanged would have signalled a distorted and wasteful use of resource within EU agriculture.**

Price cut: too little or too much?

18. The price cut is key to the Commission’s proposals. Currently the EU controls its sugar market by guaranteeing its producers a minimum price for the sugar they produce. Sugar manufacturers are then required to buy sugar beet from growers at this set price. The current minimum price for sugar beet, unchanged since 1993 and in force up to the end of 2006, is €46.72 per tonne for A-quota and €32.42 per tonne for B-quota¹².
19. By reducing the guaranteed price, the Commission intends to encourage the least efficient and least competitive producers out of the sugar market. Such a move may completely wipe out sugar beet production where it is least efficient, notably in Greece, Ireland, and Portugal.

¹¹ COM(2005) 263 final

¹² See Box 2 on p. 10 for explanation of the quota system

TABLE 1
2004/05 sugar production in the EU

	Area (1000 ha)	Production (tonnes)
Austria	45	412,000
Belgium	91	914,000
Cyprus	-	-
Czech Republic	70	473,000
Denmark	48	442,000
Estonia	-	-
Finland	30	142,000
France	347	4,039,000
Germany	438	3,814,000
Greece	33	219,000
Hungary	67	392,000
Ireland	31	210,000
Italy	180	1,008,000
Latvia	14	68,000
Lithuania	25	123,000
Luxembourg	-	-
Malta	-	-
Netherlands	99	1,010,000
Poland	298	1,738,000
Portugal	8	67,000
Slovak Republic	35	181,000
Slovenia	6	31,000
Spain	110	999,000
Sweden	48	372,000
United Kingdom	136	1,300,000
EU-25	2,159	17,952,000

Source: Agriculture in the European Union, Statistical and Economic Information 2004, Commission, February 2005

BOX 4**Efficiency**

Much use was made by our witnesses of the term “efficient”. Like many other politically powerful words it has the capacity to mean different things to different people:

- (1) Efficient production – a high rate of output per unit of input e.g. yield per hectare (a technical concept)
- (2) Efficient business – combining resources including labour in such a way that the value of the output exceeds the costs of the input by the largest margin possible e.g. profit (a managerial concept)
- (3) Efficient market – ensures that resources are used in those activities within which they can secure the greatest value to consumers e.g. higher GDP (an economic concept)
- (4) Efficient economies – ensures that resources are used in those activities within which they secure the greatest value for society i.e. including public good benefits as well as market efficiency.

Achieving one type of efficiency does not necessarily achieve the others.

20. It is not surprising that those Member States with the most inefficient sugar industries have been the most vocal in their opposition to the reform. The Greek Ministry of Rural Development and Food’s response to the proposals for reform was that they would have a “devastating impact on [EU] farms and sugar industries” (p 238) and would “primarily serve the interests of a few large EU sugar producers (in about five to six countries) leading to the creation of oligopolistic market conditions” (p 240). This sentiment was shared by Mr Jurij Dogsa, Manager of a sugar factory in Slovenia¹³, who said that the reform might bring “advantages to big sugar producers, but offers no alternatives to the agricultural production of small producers” (p 222).
21. Many of our witnesses considered the originally proposed price cut of 39 percent to be too severe. The implication was that its effect on EU sugar production would be too drastic. British Sugar Plc said “at a minimum price of €25/tonne, beet supplies become critical, even in the most efficient growing region of Europe like the United Kingdom”. Evidence submitted by a number of English Development Agencies¹⁴ indicated that following reform the prices proposed for sugar beet would, at current production costs, make about 75 percent of United Kingdom production uneconomic (p 225).

¹³ Responding on behalf of the National Assembly of Slovenia

¹⁴ The East of England Development Agency, East Midlands Development Agency and Yorkshire Forward; hereafter referred to as “the English Development Agencies”.

BOX 5**How much sugar does the EU produce?**

Annual EU sugar production fluctuates around 19-20 million tonnes. Only four of the 25 Member States have no sugar production—Luxembourg, Estonia, Cyprus and Malta. However, the productivity of sugar production varies significantly across Member States. More than half the annual production comes from France, Germany and Poland. In some other areas of the EU sugar production is inefficient and, if it were not so heavily subsidised by the EU, may not occur. Sugar can be produced from cane in tropical regions of the world for half the cost of European sugar production from beet.

22. The Commercial Farmers Group argued that there should be “no more than a cut of 20 percent” (accompanied by a reduction in the level of compensation) (p 222). This was echoed from a very different position by Mrs Glenys Kinnock MEP, Co-President of the ACP-EU Parliamentary Assembly, who called for an alternative price cut in the range of 20-25 percent. This she believed would cause less devastation to ACP economies but would still allow the EU to comply with the WTO ruling (Q 289). The strongest opposition to the 39 percent cut came from witnesses from ACP countries. Mr Jean Claude Tyack, Chairman of the ACP London Sugar Group,¹⁵ remarked that the cut was “too soon, too quick, too deep”, a slogan which applied across all the ACP countries (Q 229).
23. It quickly became apparent to us that the price cut will have a much more severe impact upon the industries and societies of ACP countries than within EU Member States, an issue we consider in more detail in Chapter 5. Gerald Barrack CF CBE, Chairman of the Sugar Commission of Fiji, informed us that the substantial cut in the EU sugar price will “result in the collapse of the Fiji Sugar Industry and have serious consequences for the Fiji economy” (p 213).
24. Although several witnesses suggested that the level of price cut is unnecessarily severe, it is critical that the cut be high in order to convince high cost processors and farmers that, if they are unable to become more efficient, they should cease production. Even after reform, sugar prices within the EU will still be twice the level that has prevailed in world markets. This provides a substantial commercial incentive for the EU sugar industry to respond to the demands of EU sugar users.
25. The Council of Ministers has agreed a price cut of 36 rather than 39 percent. No precedent for so substantial and sudden a change in price exists. It seems likely that farmers will take some time to adjust fully to lower prices. EU sugar factories, faced with a shortage of supplies may, if their margins are sufficient, offer contract prices to farmers above the minimum level for beet required by the reformed policy. However, unless the EU sugar sector is competitive, it will be forced into a progressive process of contraction. Cutting prices now is one way of ensuring that those sugar enterprises that can compete will increase their efficiency and ability to survive in the future.
26. **We understand the anxieties expressed to us by witnesses that a price cut of almost 40 percent is too large. However, we believe that a**

¹⁵ The group represents the following 13 countries: Barbados, Belize, Congo, Fiji, Guyana, Jamaica, Malawi, Mauritius, St Kitts-Nevis, Swaziland, Tanzania, Zambia and Zimbabwe.

substantial price cut is necessary in order to reduce EU sugar production and eliminate the need for the subsidised exports of surpluses. The Council of Ministers did not agree the originally proposed cut of 39 percent but we believe a cut of 36 percent will provide a clear and appropriate signal to the industry about its future pattern of investment. We are, however, concerned about the impact of the cut on growers in certain ACP countries. We consider this issue in greater detail in Chapter 5.

CHAPTER 3: SOFTENING THE BLOW—COMPENSATION AND RESTRUCTURING

27. The Council of Ministers has agreed to an attractive carrot in order to soften the blow of the price cut. Producers will receive a very generous ongoing annual compensation package of an average of 64.2 percent of the price cut (rather than 60 percent previously envisaged) if they decide to stop growing sugar. This measure will only be available to producers within the EU—we consider what measures will be available to ACP suppliers in Chapter 5.
28. Sugar processing factories in the EU will be able to opt into a voluntary restructuring scheme, lasting four years, designed to aid processors to leave the market and thus lower EU production. It will consist of a high degressive payment to encourage factory closure and the renunciation of quota. The rate of reduction of the payment has been reduced and the total incentive increased compared to the scheme presented in the June proposals (see Table 2 below). An additional diversification fund for Member States where quota is reduced by a minimum amount has also been announced, with payment increasing as more quota is renounced. Funding for the schemes will come from a specific amount charged on industry holders of quota, lasting three years.

TABLE 2

Changes to the proposed voluntary restructuring scheme

	Payment in € per tonne	
	22 June proposal	24 November agreement
Year 1	730	730
Year 2	625	730
Year 3	520	625
Year 4	420	520

29. The Commission believes that processors in areas where sugar production is most costly will find these grants attractive. Faced with lower prices sugar producers are likely to drop out as given lower throughput these factories will become less profitable. The Commission's impact study anticipates a significant take up of these grants among Mediterranean, Irish and Finnish producers. Farmers affected by the closure of the sugar processor to whom they consign their beet will receive additional payment from the restructuring grant.
30. Restructuring plays a major role in securing the overall contraction of EU sugar production which is required to bring the market into balance. The weighting of the compensation arrangements favours early decisions by sugar processors to leave the industry and is thus intended to facilitate rapid adjustment of the industry.

Compensation to producers

31. The Commission intends to compensate sugar farmers for 64.2 percent of the price cut through the single farm payment system (see Box 6 below). The

agreed compensation package appears even more generous than the original 60 percent scheme proposed, which Commissioner Boel described to us as “the chance of [farmers’] lifetime” (Q 46).

BOX 6

What is the single farm payment?

The single farm payment is the main feature of the 2003 CAP reforms. It provides the means to sever the link between subsidy and production—so called “decoupling”. EU farmers are free to produce in response to market demand, rather than to maximise subsidy income. The single farm payment is also designed to improve the environmental impact of farming by making payment conditional upon compliance with environmental standards (“cross-compliance”).

32. Our witnesses were critical of the 60 percent level, even before a level of 64.2 percent plus the possibility of further coupled payments and national aid had been suggested. The Environment Agency considered 60 percent compensation payments to be “unjustifiable” and argued that direct support for growing sugar beet should be at an equivalent rate to that for other crops (p 230). The World Wildlife Fund was similarly critical, describing the proposed compensation as a “very generous offer” to an industry which had already “benefited massively from 40 years of market management” (p 260).
33. During the November negotiations, even more generous terms of support were agreed for Member States. In those countries giving up at least 50 percent of their quota, the possibility of an additional coupled payment of 30 percent of the income loss for a maximum of five years, plus possible limited national aid to remaining beet growers, has been agreed¹⁶.
34. **The transitional measures will continue coupled aid for some remaining beet growers. This will sustain high cost production, preventing the sugar industry from becoming fully competitive and weakening the EU’s ability to respond to the requirements of the WTO and developing countries.**
35. **We consider that the compensation being offered to growers is now too generous and we note that there is no similar treatment for workers who lose their jobs on farms or in the processing factories.**
36. Compensation will be delivered to farmers through a “decoupled” payment. This is in line with CAP reforms introduced in 2003 which aim to cut the connection between subsidy for production; instead farmers must produce for the market. To enable them to adapt growers are given direct payments which relate to the loss of revenue from subsidy reductions. One payment is made per farm in respect of the different commodities that may be produced and is known as the single farm payment. Payment is dependent on meeting environmental and land management standards¹⁷.

¹⁶ *EU radically reforms its sugar sector to give producers long-term competitive future*, Commission Press Release IP/05/1473, 24 November 2005.

¹⁷ For more on the single farm payment see the Commission’s factsheet, “*Single Payment Scheme: the detail*”: http://www.europa.eu.int/comm/agriculture/capreform/infosheets/paymod_en.pdf. For analysis of the working of the single farm payment see our earlier report, *The Future Financing of the Common Agricultural Policy*, 2nd report, session 2005-06, pp 23-25.

37. An anxiety expressed by our witnesses was that in the process of negotiations there would be compromise arrangements that would allow some Member States to “partially couple” their sugar production. Such an arrangement would distort the EU market, as it would allow high cost production to continue, forcing out more efficient, lower cost producers. This has already happened in the case of cereals, beef, sheep, olive oil and cotton and provides a worrying precedent for farmers in those Member States where the decoupling is complete.
38. Failure to decouple fully would also undermine the Commission’s strategy for bringing the sugar market into balance. More sugar would be produced than can be sold at home or exported leading to unmanageable costs for the budget. Failure to decouple would also undermine the status of the direct payment as a permissible payment within the context of the WTO “green box”¹⁸. The English Development Agencies said that compensation must be fully decoupled in all Member States if the United Kingdom is not to be “unduly penalised” (p 227). The Royal Society for the Protection of Birds agreed with the English Development Agencies, and said that “a patchwork of different support levels across Europe” was highly undesirable (p 247).
39. **We share the concerns of witnesses that direct payments might not be immediately completely decoupled in all Member States. If that were the case, sugar growers and processing companies in the United Kingdom would be placed at an unjustified competitive disadvantage. The strategy of the Commission in responding to the requirements of WTO would be undermined and within the EU there would be a substantial continuing distortion in the use of resources.**
40. **We are very concerned that the November agreement raises the possibility that, in those countries giving up at least 50 percent of their quota, farmers could receive an additional coupled payment of 30 percent of the income loss for a maximum of five years, plus national aid. This contradicts the strategy of bringing production into line with market opportunities through price cuts and the restructuring programme.**
41. **Given that the EU must reduce production by approximately 8 million tonnes, the effect of this coupled payment would be that producers who are more efficient would be forced to reduce production to accommodate those who are high cost. We call on the Council and Member State national governments to ensure that all direct payments to sugar producers are fully decoupled. Failure to comply should result in a penalty being imposed by the Commission, such as the withholding of future compensation payment.**

¹⁸ The WTO identifies agricultural subsidies by “boxes”. In order to qualify for “green box” or permissible status, subsidies must not distort trade, must not involve price support, and have to be government-funded.

CHAPTER 4: IMPACT OF REFORM WITHIN THE EU

42. The Government's Regulatory Impact Assessment of the EU's proposed reform, indicated significant reductions in EU sugar production as a result of the reform. The Government anticipated that after 2010 production would fall from 19.8 million tonnes to between 14.7 and 13.4 million tonnes per year¹⁹. This would be coupled with a welcome reduction in the economic cost of the regime, with the Government estimating benefits in the order of €2.4 billion to €2.9 billion²⁰
43. The Commission's updated impact assessment identified three groups of Member States: those in which production might cease, those where significant reductions in production would take place, and a third group where there would be likely to be only a limited impact on the amount of sugar produced²¹. The study suggested that the employment impact would be most marked in the processing sector, where factories would close, rather than on farms where only part of the time the labour force would be committed to sugar beet growing.

Employment

44. Where margins are low in both processing and growing, as is the case in some EU regions, the incentive to cease production and benefit from the restructuring grants and compensation packages will be very powerful. Commissioner Boel told us that, on the basis of the proposals, there would be "a loss of 54 factories, a reduction in agricultural jobs of about 6,500, industrial jobs of about 25,000, and indirect jobs 51,000" (Q 25).
45. The social impact resulting must not be overlooked. High cost sugar producers in the Northern and Southern areas of the EU will be hardest hit: the Agriculture and Forestry Committee of the Finnish Parliament concluded that "sugar beet cultivation and sugar refining could end completely in Finland" (p 211). Even the United Kingdom, one of the most efficient sugar producers in the EU, will face job losses. The English Development Agencies highlighted that many of the processing factories in the UK were located in very rural areas where there would be few alternative large employers (p 224).
46. That said, the consequence of not undertaking reform would have been far worse. The Lord Bach, Parliamentary Under-Secretary for Sustainable Farming and Food at the Department of Environment, Food and Rural Affairs, told us that "failure to reform would mean twice as many jobs would be lost" (Q 92). Reform will aid those who can compete to stay in the market and those who cannot to leave under a generous funding scheme.
47. **We recognise that job losses will result from the reform. However, we agree with the Government that these losses are unavoidable if a competitive EU sugar industry is to be built. As in other sectors, it**

¹⁹ RIA , table 13, p 55

²⁰ RIA, table 15, p 70

²¹ Reforming The European Union's Sugar Policy Update Of Impact Assessment [SEC(2003) 1022] {COM(2005)263 Final} Group 1- Greece, Portugal, Ireland and Italy, Group 2 – Czech Republic, Denmark, Finland, Hungary, Spain, Latvia, Lithuania, Slovakia and Slovenia, Group 3 – Austria, Belgium, France, Germany, Netherlands, Poland, Sweden, UK

will be the responsibility of Member State governments to mitigate the impact on displaced workers.

Competition

48. Sugar users expressed concern about the apparent failure of competition within the current EU sugar market. Cadbury Schweppes told us that there was “no true competition in the EU sugar industry ... clearly demonstrated by the fact that we are paying 8-22 percent more than the institutional price for sugar in different countries across the EU, in spite of a situation of surplus supply” (p 158). The Australian High Commissioner, H. E. The Hon. Richard Alston, echoed this sentiment: “the sugar regime holds to ransom downstream manufacturers of food and beverages ... by forcing them to buy sugar at three to four times the world price, which effectively taxes their exports” (p 200).
49. **The arrangements for the setting of quotas per Member State and the prevention of quotas being traded across frontiers is at the heart of the distortion of competition within the EU.** Within the United Kingdom, farmers receive a deficit area premium for sugar of €1.90 per tonne in addition to the minimum beet price set by the Commission at €46.63 per tonne. As a result prices at the farm gate are higher in the United Kingdom. There is only one processor available within the United Kingdom for sugar beet, British Sugar Plc, so competition at the processing level is non-existent.
50. Control of sugar beet processing at Member State level raises concerns that competition within the Community is frustrated. The Biscuit, Cake, Chocolate & Confectionery Association (BCCCA) told us that “the exceedingly high price of sugar has contributed significantly to the loss of up to 16,000 jobs (more than 20 percent of the workforce) in the United Kingdom biscuit, cake and confectionery sector in the last five years alone” (p 154). BCCCA members were more readily able to produce goods for the United Kingdom market in other Member States where it was more economic to do so (e.g. where the cost of sugar for industrial use is cheaper). There has been a decline in production within the United Kingdom which has become a net importer of BCCCA products (pp 155-6).
51. Any hope of the reform creating a fully competitive market seems low. **It is disappointing that the failure of the reform to remove quota or to make it transferable between Member States seems likely to continue this distortion of competition across Member States.**
52. Competition also exists between cane refiners, who are given a subsidy in the form of a “refining margin” in order to balance the market between beet and cane, and sugar producers from beet. Under the new regime, the refining margin is to be withdrawn. To cane refiners this was highly unwanted. Tate and Lyle, the only cane refiner in the United Kingdom, indicated that, although in an unregulated market they would be able to operate profitably, the loss of this margin within the protected EU market could lead to the potential closure of their plant in the East End of London, where 1,000 workers are employed, even though it is said to be among the most efficient in the world (p 68).
53. On the other hand, British Sugar Plc, the only beet processor in the United Kingdom, argued against any restoration of the cane refining margin which

they believed would “severely upset the competitive position between beet and cane” (p 82). However, the ACP suppliers of raw sugar resented their lack of freedom to look for alternative refining possibilities within the EU as, within the United Kingdom, ACP producers are effectively locked into a refining relationship with Tate and Lyle.

54. We have heard this evidence with concern. The agreement reached allows for transitional aid for the period up to 2009/10 to assist full time refiners to adapt. This represents a response to the need to ensure that the terms of competition between the cane and beet sugar sectors are equal. However, **the Committee notes that the need for a transitional aid payment for full time refiners arises because the market is both regulated and, at the processing level, monopolistic. We believe it is the responsibility of the Commission to monitor the working of the market and ensure continued and robust competition between the cane and beet sectors.**

Environment

55. In general, environmental groups accepted the need for reform and the reduction in sugar beet production. The Environment Agency told us that the current EU sugar regime had “no environmental safeguards ... any environmental benefits of sugar beet production [were] an accidental by-product rather than a specific objective of support” (p 227). That said, the “accidental by-product” was considered by other witnesses to be significant. Mr Tom Meikle, a United Kingdom sugar beet grower, explained that sugar beet provided a valuable habitat for birds and small mammals and the optimum rate of use of pesticide was consistent with the survival of enough weeds to provide seed for chicks (p 237). The RSPB also emphasised the importance of sugar beet for migratory birds, not least pink footed geese of which over half the world’s population wintered in Norfolk (p 246).
56. The Environment Agency painted a less comfortable picture of the environmental impact of growing sugar beet in the United Kingdom, emphasising concerns about soil erosion, diffuse pollution and pesticide use (p 228). The RSPB drew attention to the damaging impact of growing sugar beet in unsuitable conditions such as Southern Europe where the needs for irrigation and intensive chemical use had adverse environmental impacts (p 247).
57. Several witnesses expressed concern that as a result of the reform, changes would take place elsewhere in the world that would have adverse environmental impacts. The lower prices received by some ACP countries might lead them to limit or end production of cane sugar. Booker Tate Ltd, a provider of management and technical services to the international sugar industry, explained to us that, especially in the Caribbean, cane sugar played an important role in preventing soil erosion and withstanding storms. Other commercial crops did not offer the same advantages (p 217).
58. **We note the concern of witnesses about potential threats to the environment and the risk that habitats valuable for some species of wild life might be lost. It will be important that these issues are addressed by specific environmental policies, where appropriate, during implementation of the new regime.**
59. Mr Nick Wells, Vice-Chairman of Sugar at the National Farmers’ Union, suggested that sugar might make a positive contribution to the environment

by being used as a raw material for the production of biofuel (QQ 147-154, pp 65-8). New measures recently announced²² by the Government would require five percent of all United Kingdom fuel sold on United Kingdom forecourts to come from a renewable source by 2010. This may provide sufficient confidence for investment to take place to create a viable ethanol industry in the United Kingdom.

BOX 7

What is Biofuel?

Biofuel is any fuel that derives from biomass—recently living organisms (such as sugar plants) or their metabolic byproducts, such as manure from cows. It is a renewable energy source, unlike other natural resources such as petroleum, coal and nuclear fuels. Biofuels include ethanol, biodiesel, and methanol.

TABLE 3

Estimated Ethanol Yields

Crop	Tonnes of crop required per tonne of ethanol produced	Estimated ethanol yield (kilogramme/hectare/year)
Sugar (53 tonnes/ha)	11.0-12.5	4240-4818
Potato (40 tonnes/ha)	11.0	3600
Wheat (8 tonnes/ha)	2.5-3.0	2600-3200

Source: *Supplementary evidence provided by National Farmers' Union (p 65), based on HGCA Research Review (April 2005)*

60. The economic rationality of such a process depends heavily on the price of oil and the values placed on the environmental gain from substituting ethanol for petrol. However, even if that case is strong it is not clear that sugar beet, despite its higher yield per hectare, would prove to be most suitable raw material. **There is a strong case for exploring the possibility further of establishing a biofuel industry, but in establishing such an industry, it is important that sugar should be seen as only one potential source of raw material and be used only where it could compete and could do so without specific subsidy.**

²² *Darling takes action to make transport fuels greener*, Department for Transport News Release, 10 November 2005

CHAPTER 5: EFFECT OF REFORM ON ACP COUNTRIES

61. A group of ACP states have long-standing agreements with the EU which enable them to import sugar into the EU at preferential rates. These agreements date from the Sugar Protocol signed in 1975²³ and give an undertaking for an indefinite period that the EU will purchase and import at guaranteed prices specific quantities of cane sugar.
62. The Sugar Protocol currently allows for 1.3 million tonnes of sugar to enter the EU tariff free, where it receives the guaranteed price paid for sugar on the domestic EU market. If the proposals are agreed these countries will face significant challenges to their sugar industries, because their sugar cane will receive reduced prices in the same way that EU farmers will be paid a reduced price for their sugar beet.

BOX 8

The ACP

The African, Caribbean and Pacific Group of States (ACP) is an organisation created by the Georgetown Agreement in 1975. It is composed of African, Caribbean and Pacific State signatories to the Georgetown Agreement or the Partnership Agreement between the ACP and the European Union, officially called the “ACP-EC Partnership Agreement” or the “Cotonou Agreement”.

The Group was originally created with the aim of coordinating cooperation between its members and the European Union. Its main objective was to negotiate and implement, together, cooperation agreements with the European Community.

Over the years, the Group has extended its range of activities. Since then, cooperation among its members has gone beyond development cooperation with the European Union and covers a variety of fields spanning trade, economics, politics and culture, in diverse international fora such as the World Trade Organization.

Source: The Secretariat of the African, Caribbean and Pacific Group of States

63. The initial and current quantities that ACP countries and India can import per marketing year are shown below in tonnes:

TABLE 4
ACP/India imports

ACP Country	1975	2003/04
Barbados	49,300	50,312
Belize*	39,400	40,349
Congo	10,000	10,186
Côte d’Ivoire	-	10,186
Fiji	163,600	165,348

²³ ACP-EEC Convention of Lomé

ACP Country	1975	2003/04
Guyana	157,700	159,410
Jamaica	118,300	118,696
Kenya	5,000	0
Madagascar*	10,000	10,760
Malawi*	20,000	20,824
Mauritius	487,200	491,031
St Kitts and Nevis	14,800	15,591
Surinam	4,000	0
Swaziland	116,000	117,845
Tanzania*	10,000	10,186
Trinidad and Tobago*	69,000	43,751
Uganda	5,000	0
Zambia*	-	0
Zimbabwe	-	30,225
India	25,000	10,000
TOTAL	1,304,300	1,304,700

*ACP and Least Developed Countries

Source: A description of the Common Organisation of the Market in sugar, European Commission, September 2004, p. 27.

64. ACP countries do not object in principle to the need for reform but do find issue with the speed and depth of the cuts. Discussion of the reform was an emotive topic with ACP representatives. H.E. Mr B Bowler, the Ambassador of Malawi, told us that sugar was “a lifeline ... the heart and soul” of his country. He explained: “sugar is part of society, it is part of the fabric of life, and the industries that have grown up in these communities know nothing else” (Q 74).
65. The reliance upon sugar in these countries is markedly different from within the EU. ACP sugar industries typically contribute a much higher percentage to national Gross Domestic Product and the employment and social benefits provided by the industries are central to the social cohesion of communities. H. E. Ms Gail Mathurin, the Jamaican High Commissioner, described “the manufacture and export of [sugar ... as having] helped to shape the social and cultural identity of the Jamaican people” (p 235).
66. Booker Tate Ltd told us that in Guyana, which sells over 50 percent of its current sugar output to the EU, the sugar industry accounted for 18 percent of Gross Domestic Product, provided employment for 25,000 people and impacted “upon the livelihoods of 125,000 employees and their dependants out of a national population of 725,000”. In Swaziland, the sugar industry

was a “key component of the economy contributing 18 percent to national output”. The Royal Swaziland Sugar Corporation employed over 5000 people, making it the largest employer in the country (p 214).

67. Guyana is classified by the World Bank and International Monetary Fund as a Heavily Indebted Poor Country with 35 percent of the population living below the poverty line (Oxfam evidence, p 243). Booker Tate Ltd explained that, in its experience, “sugar projects act as development platforms” in such countries (p 215). Oxfam took a similar view, suggesting that reform of the EU’s sugar regime would be likely to “hurt, rather than benefit, the chances of some of the world’s poorest countries to benefit from trade in sugar” (p 242)
68. We were greatly concerned at the detrimental consequences the reform would have on ACP Sugar Protocol countries. The Jamaican High Commissioner went as far as to advise us that one result was likely to be heightened levels of crime (particularly in urban areas) and greater illegal drug production and export in Jamaica (p 235). The dominance of the sugar industry has meant that it is the hub around which many social services and infrastructure developments have developed. The most serious impact of the reforms may be the loss of health and educational services funded in part by the sugar industry.
69. Some countries, such as Mauritius, were already making adjustments to their sugar industry to produce ethanol or to generate electricity using bagasse²⁴, in order to adapt and survive the reform. In others, such as St Kitts, where natural conditions, remoteness and small scale mean that sugar cane could not compete with world suppliers, the decision had already been taken to abandon sugar production.

What can be done to aid ACP economies?

70. The Commission suggests “restructuring and reconversion can best mitigate the likely effects of the reform”²⁵ on ACP countries. The Commission proposes to assist ACP countries to adapt to the reform through a package of “accompanying measures”²⁶. Commissioner Boel told us that this funding “is meant to be targeted to those countries that can stay in the sugar business to try to help them be more competitive, and to help those who will never, ever survive come out of sugar and try to do something else”(Q 12).
71. Assistance will be delivered though country-specific, multi-annual Action Plans designed in consultation with each of the countries concerned. Since the complexity of restructuring and diversification processes requires a sustained effort, assistance would then be integrated into an eight year scheme. **We support the Commission’s approach of implementing country-specific Action Plans in order to mitigate the impact on ACP Sugar Protocol countries of the reduction in the EU sugar price.**
72. The Commissioner explained that an initial budget of €40 million had been earmarked to cover the first six-month period from 1 July until the end of 2006 (Q 10). However, the political backdrop to these negotiations is one of much wrangling and uncertainty. The Financial Perspective, which will

²⁴ The fibrous material left after sugar has been removed from the cane

²⁵ Amending letter No 1 to the preliminary draft budget for 2006, 19 October 2005, SEC (2005) 1269 final

²⁶ COM (2005) 266 final

determine the expenditure of the European Union for the period 2007-2013, remains unresolved (see Box 9). Until this is finalised, no budgets for reform can be agreed. The Government suggested that increased funding would be made available from 2007²⁷ but no firm commitments can currently be made. The agreement reached in November promises further long term assistance but this remains dependent upon the outcome of the discussions on the Financial Perspective.

BOX 9

What is the Financial Perspective?

The EU's Financial Perspective is a seven-year framework for EU spending. It sets a ceiling on the amount the EU can spend in each of its policy areas, in any of these years. In June 2005, EU heads of state and government failed to adopt the Commission's proposed Financial Perspective for the period 2007-2013. Main issues of contention concern the continuation of the United Kingdom's €5 billion rebate, the amount spent on agriculture and the overall size of the budget. While the Financial Perspective remains unresolved no EU spending commitments can be made beyond 2006.²⁸

Will the Action Plans work?

73. The strongest criticism of the plans was the amount of funding being provided. The vast majority of our witnesses considered the proposed €40 million for six months of 2006 to be totally inadequate to enable ACP countries to adapt successfully to the new market conditions following the reform. The amount is far less than the loss in annual revenue, estimated to be in the order of €450–500 million, anticipated from the fall in the sugar price. The Jamaican High Commissioner estimated that at least €200 million would be required for the adaptation, restructuring and development of Jamaica's sugar industry alone (p 236). Booker Tate Ltd estimated that the cost of reform to Swaziland's sugar industry would be €30 million per year which was almost equal to the EU's total aid allocation to Swaziland under the 2002-2007 European Development Fund (p 216).
74. The Swaziland Sugar Association told us that the EU had “underestimated” the difficulties faced in putting together a “coherent and comprehensive country-specific response strategy”. Approximately 80 percent of the Swaziland rural population lived below the poverty line of \$7 per capita per month. A main problem was that most ACP sugar suppliers lacked the necessary human resources to create a response strategy (p 252).
75. It can be argued that the initial €40 million is seed corn with which ACP countries can begin to prepare to adapt. Mr Gareth Thomas MP, Parliamentary Under-Secretary at the Department for International Development, told us that the Government had provided resources, along with the Commission, to assist some Caribbean countries to prepare their “transitional assistance plans in a speedy and timely way to be able to take advantage of the transitional assistance funding that is available” (Q 347).

²⁷ Explanatory Memorandum from Mr Gareth Thomas MP, 19 July 2005, paragraph 9

²⁸ For more on the 2007-2013 Financial Perspective see our Report, *Future Financing of the European Union*, 6th Report, session 2004-05, HL paper 62.

76. **The gap between the sum of money being offered and the estimated assistance required is vast.** Indeed, the Parliamentary Under-Secretary for International Development told us that there was “potentially an impact of some €500 million per year on the ACP affected countries” (Q 359), and implementation of this figure was vigorously backed by some witnesses (Oxfam, p 243, World Wildlife Fund UK, p 256). In this context, **an offering of 40 million euros without firm commitments on further funding justifiably fuels the fears of ACP countries that the funding required to adapt their sugar industries may fail to be provided.**
77. **Witnesses from the ACP countries were understandably anxious about the precise sources of support money. We recommend that the Commission provides clarification as soon as possible to the ACP countries of which Directorate will have overall budgetary responsibility for the Action Plans.**
78. **Implementation of the proposals will create an immediate crisis of reduced revenue for the ACP countries but the Action Plans can only offer solutions for the long term. This makes it essential that assurance of funding beyond 2006 is given by the Council of Ministers now in order that ACP governments can begin the process of transition.**
79. Many of our witnesses indicated that the whole process of adjustment was being made especially difficult due to the uncertainty over the Financial Perspective. Booker Tate Ltd pointed out that the funding arrangements for EU producers and processors have been clearly spelt out whereas the Accompanying Measures arrangements for the ACP states are still the subject of speculation (p 215).
80. Dr Riyad Insanally, Senior Trade Adviser at the Guyana High Commission, said Guyana had formulated its Action Plan which, if applied, could ensure its sugar industry adapted and survived. However, no progress could be made until financial resources were available. Guyana needed “bankable assurance” if it was to be able to borrow to bridge the gap between the date when prices fell and the time at which funding for Action Plans was delivered (Q 384).
81. **The Committee shares concerns that continuing uncertainty impedes the necessary process of adjustment to lower prices in the Sugar Protocol countries. It is imperative that agreement is reached on the Financial Perspective soon in order that firm commitments can be made on the future funding to ACP countries. The uncertainty over the financing is a key contributor to the anxiety the ACP countries are experiencing as they prepare for reform.**

Timing of proposals

82. Witnesses gave evidence on the basis of the June proposals which recommended that the price cut be implemented over a two year period. ACP countries considered this timetable to be very ambitious. In their view, given that sugar production is based on long term investment, few businesses and industries would be able to respond to the scale of the changes under the timetable without significant impacts on sugar workers. Oxfam suggested to us that a more gradual cut in prices over a longer transition period of between eight to 10 years would aid ACP countries in restructuring their

industries (p 243); the World Wildlife Fund UK also called for a longer time period for implementation (p 256).

83. Following agreement at the November Council, **the reform will be introduced over a more gradual timeframe than the two years originally proposed. It is important that this should not delay the action that is needed to adjust ACP sugar industries to the longer term level of price cut.** As Ms Sheila Page, Senior Research Associate at the Overseas Development Institute reminded us, “delay cannot be classified as transitional assistance since countries must still face the costs of adjustment” (p 175).

What more can be done?

84. In practice, adjustment to lower revenues from sugar is bound to present problems for many of the ACP Sugar Protocol economies. The relative lack of development means that there are few alternative industries that can absorb resources released from farming. Agronomic conditions mean that cane, which is a robust and labour intensive crop with good resistance to hurricanes, cannot readily be replaced by other crops. Gerald Barrack CF, CBE, Chairman of the Sugar Commission of Fiji, noted that “options for diversification are limited” with sugar proving in the long term to be “the only viable agricultural crop” (p 212).
85. We sympathetically heard from ACP representatives and we fully understand the reasons for anxiety. However, this preferential arrangement places the ACP countries in a stronger position than other cane sugar producers who do not benefit from the Sugar Protocol. Even after the reform, Sugar Protocol countries will receive roughly twice the world price for the guaranteed 1.3 million tonnes of sugar they sell to the EU.
86. **Ultimately the process of adjustment cannot be escaped. For the ACP countries concerned, the greatest benefit would come from aid to a longer term development strategy rather than sustaining a high cost sugar industry.**
87. **We accept the need for assistance to be tailored to the needs of each country and designed to facilitate each country’s long-term economic development. However, the funding provision remains totally unsatisfactory. We strongly recommend action by the Commission’s DG Agriculture and DG Development should be co-ordinated to ensure that funds are available on a scale and at a time that reflects the scale of the problem the ACP countries face.**

CHAPTER 6: IMPACT OF REFORM ON NON-ACP COUNTRIES AND THE WORLD MARKET

88. Even if the reform is deemed “successful”, the EU will continue to protect its sugar price. The proposed internal price will still be twice the current world market price. Nevertheless, the end of export subsidies on 4.3 million tonnes of sugar must be expected to raise world prices. The extent of this increase will depend upon the degree to which other suppliers expand to fill any gap in the market. This provokes considerable questions as to what impact the reform will have on developing countries, particularly those outside the benefits of the Sugar Protocol.
89. In February 2001, the European Council adopted the so-called “Everything But Arms (EBA) Regulation”²⁹. This grants duty-free access to imports of all products (except arms and munitions) without any quantitative restrictions from the 49 countries categorised as Least Developed Countries (LDCs). Under the terms of the EBA agreement, imports of sugar will not be fully liberalised until July 2009. From that date, the qualifying LDCs will be entitled to export unlimited amounts of sugar from their own production into the EU.
90. It has been reported³⁰ that, in order to prevent triangular trade,³¹ the November agreement includes a procedure which enables the EU to invoke a safeguard clause potentially to limit the amount of sugar being imported into the EU. If, in any given year from 2008-09 onwards, sugar imports into the EU from an EBA country were to increase by more than 25 percent in comparison with imports from that country in the previous marketing year, the Commission would automatically open procedures to decide whether safeguard measures need to be applied. **It is important that the EBA safeguard procedure only applies to triangular trade and is not interpreted as the EU backtracking on its commitments to EBA countries.**
91. Lowering the price of sugar within the EU may make it a less attractive export market for EBA countries come 2009. It is unclear precisely what volume of imports will take place but the Commission’s estimate is that, if no reform takes place, EBA imports are expected to rise to 3.5 million tonnes per year by 2012/13. With reform, the imports are estimated to be around 2.2 million tonnes per year³². The English Development Agencies described this negative impact of lower prices within the EU on countries covered by the EBA arrangement to be “an inevitable consequence” of the way the reform is structured (p 223).

²⁹ Council Regulation (EC) No 416/2001 of 28 February 2001 amending Regulation (EC) No 2820/98 applying a multiannual scheme of generalised tariff preferences for the period 1 July 1999 to 31 December 2001 so as to extend duty-free access without any quantitative restrictions to products originating in the least developed countries. [2001] OJ L60/43.

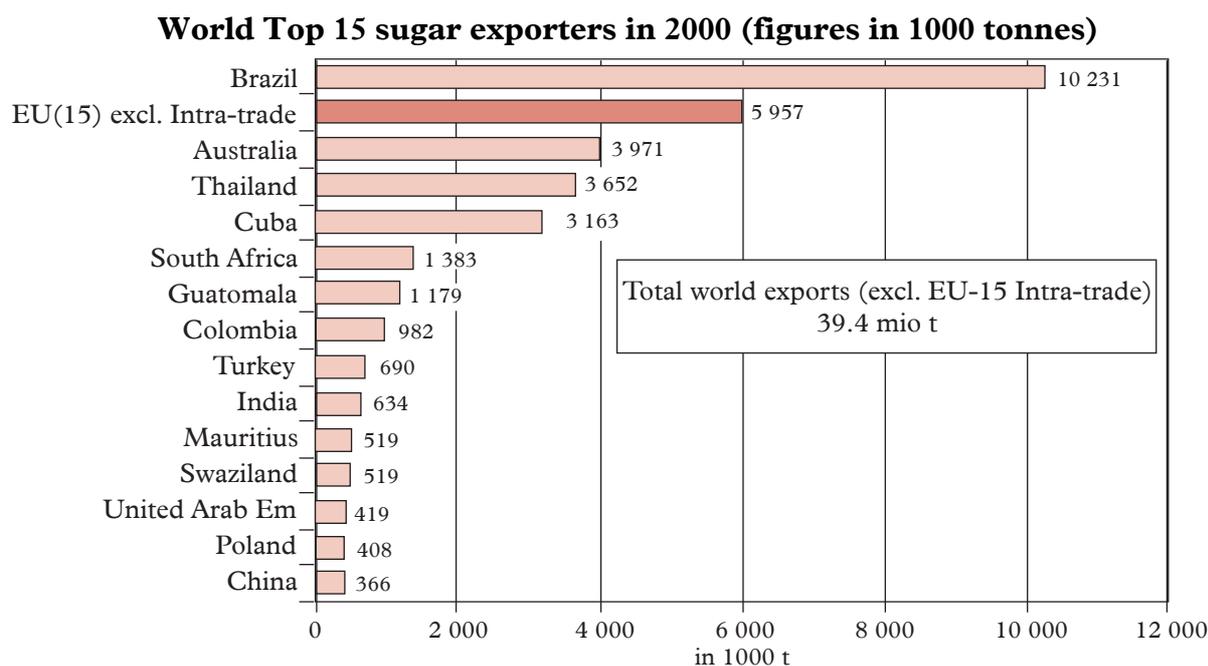
³⁰ *Ministers agree on sugar reform with 36% price cut*, Europe Information, 26 November 2005

³¹ A trade situation in which goods exported from country A to B are then exported from B to C, and C to A. The concern is that countries eligible under EBA to export unlimited supplies of domestic sugar into the EU, could instead import supplies from third countries and import this to the EU for higher prices.

³² Reforming the European Union’s Sugar Policy—Update of Impact Assessment [SEC (2003)1022 Commission of the European Communities {COM (2005) 263 final}

92. The impact of the reform on developing countries in general varies considerably among the countries involved. The price guarantee is for delivered sugar, so that access to the EU market is worth less to those who are distant or are land locked. It must not be forgotten that countries such as Republic of Congo and Zambia, although facing lower prices, will from 2009 have unlimited access to the EU market at prices above world levels.
93. Indeed, Ms Sheila Page of the Overseas Development Institute told us that “the countries that will gain from ... reforms in sugar in fact include a much larger number of people, and a much larger number of poor people, than the ones who are going to lose” (Q 311). For all sugar exporters, including developing countries that do not enjoy preferential access to the EU market, the end of subsidised exports by the EU should lead to higher prices in the world market, offering a benefit for their exports. This will be the impact of the WTO ruling which requires the EU to end subsidies on 4.3 million tonnes of exports.
94. Higher world prices will encourage greater levels of production by low cost sugar growers in Sub-Saharan Africa as well as Brazil and Australia. The driving force will be the ending of dumping of EU sugar on the world market rather than the method by which the EU brings its internal market into balance.

FIGURE 1



Source: *Sugar: International Analysis and Production Structures within the EU*, European Commission, September 2003, p. 19

95. Brazil, “the powerhouse of sugar” (as it is described by Booker Tate Ltd), dominates the world sugar market, accounting for 25 percent of global sugar production and 34 percent of global exports (p 216). However, the expansion of sugar production in Brazil, as a possible consequence of the decline of EU exports, will depend on the existence of a profitable market.
96. The World Wildlife Fund UK saw low-cost hired labourers living below the poverty line as being the population sector that could be most affected by price-based competition increase (p 258). A report submitted by the International Confederation of Free Trade Unions to the WTO in 2004

concluded that forced labour, although prohibited by law, was a serious problem in Brazil, particularly in rural and remote areas. The report also concluded that child labour was common, including in agriculture where children worked on plantations.³³

97. Minister Ana Maria Sampaio Fernandes, Head of the Economic Section of the Brazilian Embassy, explained that, in some rural areas of Brazil, employees were unable to bear their own financial costs and were dependent upon their employers. Such “insolvent employees” remained in a constant state of debt from which they were unable to escape. The Minister assured us that the Brazilian Ministry of Justice had a plan in place to combat the situation (Q 420).
98. Witnesses also voiced concerns over the “environmental dangers” (as described by Henry Fell, Chairman of the Commercial Farmers Group) of possible expansion of production in Brazil. The World Wildlife Fund UK argued that production would expand into the cerrado (see Box 10), threatening habitats of great importance for a diversity of plants and animals and possibly leading to further inroads into the remaining rain forest (p 261).

BOX 10

What is the cerrado?

The cerrado is the world’s most biologically rich tropical grassland savannah. Located in Brazil’s central high plains region, the cerrado covers approximately 23 percent of Brazil’s surface area.

99. The Government’s RIA of the reform proposals suggested that these anxieties might be exaggerated. Sugar cane is not grown in the rain forest area and currently accounts for 0.3 percent of the cerrado. The Government concluded that even in a full liberalisation scenario, expansion of sugar cane production would still represent less than 2 percent of the cerrado³⁴. Minister Fernandes told us that whilst Brazil would hope to supply part of the market opened up by the ending of subsidised exports from the EU, sugar cane production represented a small part of land use in Brazil, was undertaken in areas distant from the Amazon rain forest and expansion would depend upon market opportunities for both sugar and ethanol (QQ 349, 422).
100. **The Committee notes the concerns of witnesses worried by possible environmental implications of changes in world production brought about by reform of the EU sugar regime. However, we conclude that significant changes in the global environment are unlikely to result from the EU reform.**

³³ *Internationally recognised core labour standards in Brazil – report for the WTO General Council Review of the Trade Policies of Brazil*, International Confederation of Free Trade Unions, 2004.

³⁴ RIA, pp 107-108

CHAPTER 7: LOOKING AHEAD TO 2014—WILL THE REFORM WORK?

101. The agreement reached in November represents a substantial and radical improvement in the EU sugar regime. It responds to the need to reduce subsidised exports, it provides incentives to withdraw resources from the highest cost sugar beet production within the EU and it offers a generous package of compensation to EU producers and processors. The first test of its success will be whether the reform will rapidly bring production within the boundaries set by WTO commitments. A second test must be how soon compensation packages can be phased out allowing the resources to be deployed in other directions. The agreement effectively locks these resources in position until 2014.

The November agreement—sending conflicting signals?

102. Overall, the reform is intended to give an unequivocal signal to the EU sugar industry that its future must depend upon its ability to compete. However, it could be argued that the Council of Ministers' November agreement sends a conflicting signal. **Although the transitional arrangements for coupled payments³⁵ would only become effective when a Member State reduces its quota by 50 percent, coupled payments sustain high cost production. The transitional arrangements are therefore in conflict with the underlying policy objective of creating a competitive EU sugar industry. Furthermore, the allocation of an additional 1.1 million tonnes of 'C' sugar³⁶ appears to dilute the impact of the original proposal, whilst the decision to allow Finland to provide a national aid of up to 350 euros per hectare to its sugar producers provides a further conflicting signal. This causes us considerable concern.**
103. At the same time, there are features of the final agreement that may further encourage a reduction in production. The more generous incentives for higher cost processing factories to close and the higher rates of compensation provided via the single farm payment should encourage marginal producers to withdraw. The fact that restructuring payments are to be funded by a levy on quota holders will also diminish the attraction of continued production. In addition, to assist Member States to make adjustments at the regional level, an additional diversification fund is to be made available on a scale that increases as more quota is renounced.
104. Overall, however, uncertainty about how sugar beet processors and sugar beet growers will respond to the changed policy pervades the debate as to whether the reform will be successful. Success will depend upon the uptake of the restructuring grants and the extent to which sugar processing factories will offer prices above the minimum level to sugar producers (thus keeping prices higher than intended). The Australian High Commissioner was sceptical of the ability of the financial incentives offered to reduce the EU's sugar production due to the voluntary nature of the restructuring (Q 399). The EU's plans to make an additional amount of C sugar available to

³⁵ See paragraph 33

³⁶ Sugar produced above both 'A' and 'B' quotas is known as 'C' sugar and must be sold outside the EU - see Box 2.

producers seemed, to the High Commissioner, at odds with the overall ambition to reduce production (Q 401)³⁷.

105. A price cut that failed to reduce sugar production by 4.3 million tonnes would not enable the Community to meet its WTO obligations. In that situation, to avoid the accumulation of unsaleable stocks, the Commission has retained the possibility of imposing a flat rate quota cut across all production if, after four years, the sugar market has not achieved an acceptable balance. This would cause the most damage to those sugar sectors that are best able to compete in the market place.
106. Quotas are the antithesis of a competitive market. EU quotas restrain the quantity of sugar reaching the market in order to protect producers who would not be viable if consumers had access to all sources of supply. Quotas define a geographical distribution of production that denies the logic of a common market, within which production should gravitate to those businesses whose costs are lowest.
107. **We are concerned that the price cut may not be severe enough to reduce overall production. In that situation, the Commission should implement a further price cut rather than a flat rate quota cut.**
108. The reform retains the continuation of quota but in a more competitive EU sugar industry of the future its use should come into question. Opposition to the continuation of quota is particularly marked from isoglucose producers (UK Industrial Sugar Users Group p 159). Isoglucose is a natural sweetener derived from wheat or maize starch. The EU isoglucose quota amounts to less than 3 percent of the sugar quota which frustrates development of the isoglucose industry within the EU—in countries that have high sugar prices isoglucose has a much larger share of the total sweetener market.
109. The British Starch Industry Association told us that the granting of a substantial additional volume of isoglucose, if not the total removal of the isoglucose quota, was “essential to ensure the long term competitiveness” of the EU starch industry (p 219). Which? described the current policy on isoglucose as “propping up uneconomic sugar production by hampering the production of competitive alternatives”, a policy which was “never justified” (p 254). The Food and Drink Federation similarly was vocal in calling for production quotas to be abolished in order to let a market price develop for sugar and sweeteners (p 232).
110. Resistance to the reform by many Member States, especially in the southern EU, reflects their awareness of their inability to compete (Greek evidence p 239). However, propping up high cost producers diminishes the overall competitiveness of the EU sugar industry and will reduce its capacity to survive in a more fully liberalised market.
111. **We recognise the widespread resistance to the removal of quotas among Member States but believe that if the price cuts and restructuring process are successful, quota will become redundant and should be removed. In that context the requirement to leave the new regime unchanged until 2014 is inappropriate.**

³⁷ Under the proposals, an additional sale of 1 million tonnes of C quota would be made available, but this would be a one off sale. The November agreement increased the amount to 1.1 million tonnes.

Will the reform satisfy the needs of current WTO negotiations?

112. Which? said the current regime “penalises customers” through its restrictive system of imports, levies and quotas, forcing consumers to “finance an unethical policy of dumping surplus EU sugar on the world market, to the disadvantage of some of the world’s poorest countries” (p 254). Witnesses from non-Governmental organisations criticised the Commission for not setting clear goals for the end of EU sugar overproduction and the elimination of sugar export subsidies (Oxfam p 245, World Wildlife Fund UK p 257).
113. Nevertheless, successful reform of the system may be the key to progress at the WTO Doha Development Round and to achieving the eventual end of export subsidies. Mr Pascal Lamy, WTO Director General, has said that improved market access for agricultural products into the EU and the USA are needed to “unlock the rest of the negotiations”³⁸. The stakes are very high for reform. The Hong Kong Commerce Secretary, John Tsang, has said in reference to the failure of the previous ministerial meeting that two ministerial meetings in a row that end in failure “would kill the credibility of the WTO”³⁹.
114. If a satisfactory conclusion cannot be reached in the Doha round, the Australian High Commissioner told us, there is a strong possibility that low cost exporting countries will seek to establish bilateral agreements outside the framework of WTO (QQ 418-419). This would be damaging for the EU economy, within which agriculture accounts for only 1.6 percent of the GDP of the EU-15 and less than 3 percent among the new Member States. It would be especially damaging for developing countries that might find their markets limited both for exports and for imports.
115. **As stated in our earlier report⁴⁰, we strongly support the need for the WTO to provide practical and effective means for agricultural liberalisation. The EU can no longer postpone action on difficult issues. Every effort should be made to reach agreement within the Doha Round.**

Will the reform be worth it?

116. The benefits of change will not be perceived immediately but will take time to deliver. The economic gain will go well beyond any impact of a reduction of the price of sugar to the consumer. Cumulatively the gain is the addition to the real income of the EU from moving resources to uses in which, in terms of what the market will pay, they are more valuable. The ultimate economic impact of the sugar reform will depend upon how rapidly resources no longer required to produce sugar find profitable employment in other activities.
117. It is not possible to provide precise forecasts about such benefits or when they will occur but it is essential that impediments to adjustment should be minimised. The reform as it stands promises a significant economic benefit but, as stated in the Government’s Regulatory Impact Assessment, will still impose a continuing annual economic cost of €2.1 billion on the EU

³⁸ Financial Times, 17 October 2005

³⁹ Financial Times, 18 October 2005.

⁴⁰ *The World Trade Organization: the role of the EU post Cancun*, 16th Report, session 2003-04, paragraph 169.

budget⁴¹. EU sugar will still be protected at up to twice the world market level. **While we welcome this reform, it must be seen as only a step towards a sugar industry that is able to compete in a world market without the need for levels of protection substantially greater than those given to other sectors of the EU economy.**

⁴¹ RIA, table 15, p 70

CHAPTER 8: SUMMARY OF CONCLUSIONS

Chapter 2 – Agreement to a new Regime

118. We welcome the Council of Ministers' decision to reform the EU sugar regime. To have left the regime unchanged would have signalled a distorted and wasteful use of resource within EU agriculture. (paragraph 17)
119. We understand the anxieties expressed to us by witnesses that a price cut of almost 40 percent is too large. However, we believe that a substantial price cut is necessary in order to reduce EU sugar production and eliminate the need for the subsidised exports of surpluses. The Council of Ministers did not agree the originally proposed cut of 39 percent but we believe a cut of 36 percent will provide a clear and appropriate signal to the industry about its future pattern of investment. We are, however, concerned about the impact of the cut on growers in certain ACP countries. (paragraph 26)

Chapter 3 – Softening the blow – Compensation and Restructuring

120. The transitional measures will continue coupled aid for some remaining beet growers. This will sustain high cost production, preventing the sugar industry from becoming fully competitive and weakening the EU's ability to respond to the requirements of the WTO and developing countries. (paragraph 34)
121. We consider that the compensation being offered to growers is now too generous and we note that there is no similar treatment for workers who lose their jobs on farms or in the processing factories. (paragraph 35)
122. We share the concerns of witnesses that direct payments might not be immediately completely decoupled in all Member States. If that were the case, sugar growers and processing companies in the United Kingdom would be placed at an unjustified competitive disadvantage. The strategy of the Commission in responding to the requirements of WTO would be undermined and within the EU there would be a substantial continuing distortion in the use of resources. (paragraph 39)
123. We are very concerned that the November agreement raises the possibility that, in those countries giving up at least 50 percent of their quota, farmers could receive an additional coupled payment of 30 percent of the income loss for a maximum of five years, plus national aid. This contradicts the strategy of bringing production into line with market opportunities through price cuts and the restructuring programme. (paragraph 40)
124. Given that the EU must reduce production by approximately 8 million tonnes, the effect of this coupled payment would be that producers who are more efficient would be forced to reduce production to accommodate those who are high cost. We call on the Council and Member State national governments to ensure that all direct payments to sugar producers are fully decoupled. Failure to comply should result in a penalty being imposed by the Commission, such as the withholding of future compensation payment. (paragraph 41)

Chapter 4 – Impact of Reform within the EU

125. We recognise that job losses will result from the reform. However, we agree with the Government that these losses are unavoidable if a competitive EU

sugar industry is to be built. As in other sectors, it will be the responsibility of Member State governments to mitigate the impact on displaced workers. (paragraph 47)

126. The arrangements for the setting of quotas per Member State and the prevention of quotas being traded across frontiers is at the heart of the distortion of competition within the EU. (paragraph 49)
127. It is disappointing that the failure of the reform to remove quota or to make it transferable between Member States seems likely to continue this distortion of competition across Member States. (paragraph 51)
128. The Committee notes that the need for a transitional aid payment for full time refiners arises because the market is both regulated and, at the processing level, monopolistic. We believe it is the responsibility of the Commission to monitor the working of the market and ensure continued and robust competition between the cane and beet sectors. (paragraph 54)
129. We note the concern of witnesses about potential threats to the environment and the risk that habitats valuable for some species of wild life might be lost. It will be important that these issues are addressed by specific environmental policies, where appropriate, during implementation of the new regime. (paragraph 58)
130. There is a strong case for exploring the possibility further of establishing a biofuel industry, but in establishing such an industry, it is important that sugar should be seen as only one potential source of raw material and be used only where it could compete and could do so without specific subsidy. (paragraph 60)

Chapter 5 – Effect of Reform on ACP Countries

131. We support the Commission's approach of implementing country-specific Action Plans in order to mitigate the impact on ACP Sugar Protocol countries of the reduction in the EU sugar price. (paragraph 71)
132. The gap between the sum of money being offered and the estimated assistance required is vast. An offering of €40 million without firm commitments on further funding justifiably fuels the fears of ACP countries that the funding required to adapt their sugar industries may fail to be provided. (paragraph 76)
133. Witnesses from the ACP countries were understandably anxious about the precise sources of support money. We recommend that the Commission provides clarification as soon as possible to the ACP countries of which Directorate will have overall budgetary responsibility for the Action Plans. (paragraph 77)
134. Implementation of the proposals will create an immediate crisis of reduced revenue for the ACP countries but the Action Plans can only offer solutions for the long term. This makes it essential that assurance of funding beyond 2006 is given by the Council of Ministers now in order that ACP governments can begin the process of transition. (paragraph 78)
135. The Committee shares concerns that continuing uncertainty impedes the necessary process of adjustment to lower prices in the Sugar Protocol countries. It is imperative that agreement is reached on the Financial Perspective soon in order that firm commitments can be made on the future

funding to ACP countries. The uncertainty over the financing is a key contributor to the anxiety the ACP countries are experiencing as they prepare for reform. (paragraph 81)

136. The reform will be introduced over a more gradual timeframe than the two years originally proposed. It is important that this should not delay the action that is needed to adjust ACP sugar industries to the longer term level of price cut. (paragraph 83)
137. Ultimately the process of adjustment cannot be escaped. For the ACP countries concerned, the greatest benefit would come from aid to a longer term development strategy rather than sustaining a high cost sugar industry. (paragraph 86)
138. We accept the need for assistance to be tailored to the needs of each country and designed to facilitate each country's long-term economic development. However, the funding provision remains totally unsatisfactory. We strongly recommend action by the Commission's DG Agriculture and DG Development should be co-ordinated to ensure that funds are available on a scale and at a time that reflects the scale of the problem the ACP countries face. (paragraph 87)

Chapter 6 – Impact of Reform on non-ACP Countries and the World Market

139. It is important that the EBA safeguard procedure only applies to triangular trade and is not interpreted as the EU backtracking on its commitments to EBA countries. (paragraph 90)
140. The Committee notes the concerns of witnesses worried by possible environmental implications of changes in world production brought about by reform of the EU sugar regime. However, we conclude that significant changes in the global environment are unlikely to result from the EU reform. (paragraph 100)

Chapter 7 – Looking Ahead to 2014 – Will the Reform work?

141. Although the transitional arrangements for coupled payments would only become effective when a Member States reduces its quota by 50 percent, coupled payments sustain high cost production. The transitional arrangements are therefore in conflict with the underlying policy objective of creating a competitive EU sugar industry. Furthermore, the allocation of an additional 1.1 million tonnes of 'C' sugar⁴² appears to dilute the impact of the original proposal, whilst the decision to allow Finland to provide a national aid of up to €350/ha to its sugar producers provides a further conflicting signal. This causes us considerable concern. (paragraph 102)
142. We are concerned that the price cut may not be severe enough to reduce overall production. In that situation, the Commission should implement a further price cut rather than a flat rate quota cut. (paragraph 107)
143. We recognise the widespread resistance to the removal of quotas among Member States but believe that if the price cuts and restructuring process are successful, quota will become redundant and should be removed. In that

⁴² Sugar produced above both 'A' and 'B' quotas is known as 'C' sugar and must be sold outside the EU. See Box 2 on p. 10 for more.

context the requirement to leave the new regime unchanged until 2014 is inappropriate. (paragraph 111)

144. As stated in our earlier report, we strongly support the need for the WTO to provide practical and effective means for agricultural liberalisation. The EU can no longer postpone action on difficult issues. Every effort should be made to reach agreement within the Doha Round. (paragraph 115)
145. While we welcome this reform, it must be seen as only a step towards a sugar industry that is able to compete in a world market without the need for levels of protection substantially greater than those given to other sectors of the EU economy. (paragraph 117)

APPENDIX 1: SUB-COMMITTEE D (ENVIRONMENT AND AGRICULTURE)

Sub-Committee D

The members of the Sub-Committee which conducted this inquiry were:-

Lord Cameron of Dillington
 Lord Christopher
 Lord Haskins
 Lord Lewis of Newnham
 Lord Livsey of Talgarth
 Baroness Miller of Chilthorne Domer
 Earl Peel
 Lord Plumb
 Lord Renton of Mount Harry (Chairman)
 Lord Sewel

The Sub-Committee records its gratitude to Emeritus Professor Sir John Marsh CBE for his services as Specialist Adviser.

Declaration of Interests

Members have declared the following interests:

Lord Cameron of Dillington
A farmer who grew sugar beet up to 2001.

Lord Christopher
*Self-employed Consultant (BNFL plc is a client)
 Director (Chairman), TU Fund Managers Ltd
 Office-holder in pressure groups or trade unions
 Members' Auditor (elected), International Confederation of Free Trade Unions (ICFTU)
 Office-holder in voluntary organisations
 Trustee, Trade Union Unit Trust Charitable Trust
 Trustee, Douglas Houghton Memorial Fund*

Lord Haskins
*We have a family farm, of which I am a Director, but we have never grown sugar beet.
 However, I am a Director of another farm business, J.S.R. Farms Ltd, which grows sugar beet, albeit a much lesser quantity than a few years ago.*

Lord Lewis of Newnham
No relevant interests.

Lord Livsey of Talgarth
*Trusteeships of cultural bodies
 Member, Brecknock Museum Art Trust
 Office-holder in pressure groups or trade unions
 Board Member, Prime Cymru (aims to get 50+ year olds into business start ups in Wales)
 Trustee, CPRW (Campaign for the Protection of Rural Wales)*

President, European Movement in Wales
Office-holder in voluntary organisations
President, Brecknock Young Farmers Clubs
President, Brecon & District Disabled Club
President, Keith Morris Fund (a charity that assists newly disabled people)
President, Seale Haynians (former students of Seale-Hayne College)
President, Abbey Cwmhir Society (helps to preserve Cwmhir Abbey, Radnorshire)

Baroness Miller of Chilthorne Domer

Non-parliamentary consultant
Occasional work for Improvement & Development Agency
Financial interests of spouse or relative or friend
Husband Chair of Regional Flood Defence Committee, brother-in-law cider maker and farmer
Office-holder in voluntary organisations
Vice President, Council for National Parks
Vice President, British Trust for Conservation Volunteers
Chairman, Somerset Food Links
President, Institute of Value Management

Earl Peel

No relevant interests.

Lord Plumb

Non-parliamentary consultant
Chairman, PRM Consultants
Regular remunerated employment
Farming
Landholdings
Properties in Warwickshire
Membership of public bodies
Chancellor, Coventry University
Office-holder in voluntary organisations
Hon. President, International Policy Council
President, Campden Food Research Association
President, Friends of Fergusson
President, National Ploughing Association
President, National Sheep Association
Trustee, International Agricultural Training Programme
Hon. Trustee, Royal Agricultural Society of England
President, Royal Agricultural Benevolent Institute
President, Former Members Association, European Parliament
Deputy President, National Federation, Young Farmers Club
Patron, Farm Africa
Patron, Cotswold Conservation Board

Lord Renton of Mount Harry (Chairman)

No relevant interests.

Lord Sewel

No relevant interests.

The Specialist Adviser to the inquiry has declared the following interests:

Emeritus Professor Sir John Marsh CBE

Provided written evidence to the House of Commons Environment, Food and Rural Affairs Committee's sugar inquiry (Reform of the EU Sugar Regime, 2nd report session 2005-06, HC 585)

Chairman of the Council of RURAL, (society for the Responsible Use of Resources in Agriculture and on the Land). The organisation arranges small-scale, closed workshops on emerging policy issues relating to land use, agriculture and environmental issues. RURAL's function is to act as a catalyst bringing together senior policy makers and those affected by policy, in order to discuss issues before positions become formalised. RURAL does not seek to make policy statements but to act as a catalyst for debate. RURAL is planning, with the support of Defra, a workshop on sugar in Autumn 2005.

APPENDIX 2: DETAILS OF THE NOVEMBER AGREEMENT

The EU Agriculture Council of Ministers reached political agreement on reform of the EU sugar regime on 24 November 2005. The main details of the agreement are as follows:

- A 36 percent price cut over four years beginning in 2006/07 to ensure sustainable market balance, -20 percent in year one, -27.5 percent in year two, -35 percent in year three and -36 percent in year four.
- Compensation to farmers at an average of 64.2 percent based on the final price cut of 36 percent. Inclusion of this aid in the single farm payment and linking of payments to respect of environmental and land management standards.
- In those countries giving up at least 50 percent of their quota, the possibility of an additional coupled payment of 30 percent of the income loss for a maximum of five years, plus possible limited national aid.
- Validity of the new regime, including extension of the sugar quota system, until 2014/15. No review clause.
- Merging of 'A' and 'B' quota into a single production quota.
- Abolition of the intervention system after a four-year phase-out period and the replacement of the intervention price by a reference price.
- Introduction of a private storage system as a safety net in case the market price falls below the reference price.
- Voluntary restructuring scheme lasting 4 years for EU sugar factories, and isoglucose and inulin syrup producers, consisting of a payment to encourage factory closure and the renunciation of quota as well as to cope with the social and environmental impact of the restructuring process.
- This payment will be 730 euros per tonne in years one and two, falling to 625 in year three, and 520 in the final year.
- The possibility to use some of this fund to compensate beet producers affected by the closure of factories.
- An additional diversification fund for Member States where quota is reduced by a minimum amount, which increases the more quota is renounced.
- Both these payments will be financed by a levy on holders of quota, lasting three years.
- Sugar beet should qualify for set-aside payments when grown as a non-food crop and also be eligible for the energy crop aid of 45 euros/hectare.
- To maintain a certain production in the current 'C' sugar producing countries, an additional amount of 1.1 million tonnes will be made available against a one-off payment corresponding to the amount of restructuring aid per tonne in the first year.
- Sugar for the chemical and pharmaceutical industries and for the production of bio-ethanol will be excluded from production quotas.

- Increase of Isoglucose quota of 300,000 tonnes for the existing producer companies phased in over three years with an increase of 100,000 tonnes each year.
- Possibility to purchase extra isoglucose quota in Italy (60,000 tonnes, Sweden 35,000 tonnes and Lithuania 8,000 tonnes) at the restructuring aid price.

Source: EU radically reforms its sugar sector to give producers long-term competitive future, Commission Press Release IP/05/1473, 24 November 2005

APPENDIX 3: CALL FOR EVIDENCE

THE REFORM OF THE EU SUGAR REGIME

Sub-Committee D (Environment and Agriculture) of the House of Lords Select Committee on the European Union (EU) is undertaking an inquiry into issues raised by the European Commission's proposals for reform of the sugar regime (COM (2005) 263 final).

The Commission is proposing a substantial reduction in the EU's sugar price support level, the first since its launch in 1968. In particular, the Commission proposes to:

- Cut the EU institutional support price for sugar by 39 percent;
- Abolish compulsory buying up of surpluses;
- Provide compensation to farmers for 60 percent of the price cut through a decoupled payment integrated into the Single Farm Payment.

The current legislation governing the sugar regime is due to end in July 2006. The Commission has brought out draft legislation to replace the existing Common Market Organisation, and is seeking to reform the system in order to bring it into line with the general reform of the Common Agricultural Policy. Reform of the sugar market is particularly difficult as it will not only affect Member States, but will also have an impact on the EU's relationship with the African, Caribbean and Pacific (ACP) group of nations who currently have access to the EU sugar market. The World Trade Organization (WTO) appellate body recently ruled in favour of Brazil, Australia and Thailand, stating that EU support was illegal under WTO rules.

The Sub-Committee seeks evidence in particular in the following areas:

African, Caribbean and Pacific (ACP) and less developed countries

What are the implications of the proposals for the sugar industries, national incomes, environment and social well-being of less developed countries currently dependent on concessional access to the EU market?

Is the package of compensation proposed by the Commission likely to be enough to assist countries in a meaningful way?

What calculation has been made of the economic cost to the EU of the future support for ACP countries and what alternatives exist to ensure that the resources provided by the Union have maximum effect in stimulating development?

What are the potential impacts of the Commission's proposed reforms of the sugar regime on non-ACP countries who will potentially receive a much lower price for sugar than originally believed under the Everything But Arms agreement?

Impact on EU Industry

What are the non-market benefits that retention of protection for sugar provides for the EU as a whole?

Assuming that the internal non-market benefits are environmental and social (employment etc)—why should the future amount and distribution of Direct Payments be determined on the basis of production of sugar in 2000–2002?

How robust are the Commission's calculations of the impact of sugar production within the member countries of the EU?

Can sugar production within the EU continue over the long term (i) at the prices proposed by the Commission? (ii) in a liberalised world market? Which Member States have realistic prospects of maintaining production and refining?

What are the concerns of the new Member States, and has their situation been fully taken into account by the Commission proposals?

What is the potential size of the market for isoglucose and other non-sugar sweeteners? In a market freed from quota restrictions, how would this impact on the amount of beet sugar that could be produced in the EU?

Impact on UK Industry

What are the critical components that will determine the viability of beet sugar processing factories? How many factories are likely to seek restructuring aids within the UK?

What are the likely levels of future sugar production in the UK?

Direct payments are to be calculated on an historic basis. How will they be distributed within the UK?

What is the likely impact on cane sugar refining in the UK? Is excess capacity likely to result from EU beet sugar processors moving into cane sugar refining?

World Trade Organization (WTO)

Will the reforms meet the demands for elimination of cross-subsidisation of EU 'C' sugar (non-subsidised) exports embodied in the WTO Panel ruling against the EU sugar regime?

How far will the reforms meet the conditions of any new international trade agreement in the Doha Development Round?

Environment and Health

Such calculations as have been made visualize the environment in terms of "on farm" impacts on issues such as erosion and biodiversity. What estimates exist of the global impact taking account of matters such as changes elsewhere in the world in land use, water use and transport?

How significant are the changes in policy likely to be on consumption of sugar?

APPENDIX 4: LETTER TO LORD BACH FROM LORD GRENFELL DATED 10 NOVEMBER 2005

10514/05: REFORM OF THE EU SUGAR REGIME (Defra)

and

10598/05: ACCOMPANYING MEASURES FOR SUGAR PROTOCOL COUNTRIES (Dfid)

As you will be aware, Sub-Committee D (Environment and Agriculture) has been conducting an inquiry into the proposed reform of the EU sugar regime. In connection with this inquiry, the Sub-Committee has held under scrutiny the above proposals from the Commission. The Sub-Committee has heard evidence from producers, processors, sugar users, academics, ACP countries, the European Commission and yourself, representing the Government.

The Sub-Committee will soon complete its inquiry and will publish a full report in advance of the WTO ministerial talks in December. However, we think it imperative that we inform the Government of our preliminary conclusions before negotiations on proposal 10514/05 take place at the next Agriculture and Fisheries Council on 22-24 November. Accordingly, the following conclusions have so far emerged on the basis of the evidence heard. I trust that you will take full account of these recommendations when discussing the proposal at the next Agriculture and Fisheries Council meeting and during your preparations for the meeting.

The need for reform

The Committee fully supports the Commission's view that the sugar regime requires urgent reform. Globally, more people stand to gain from the proposals than will lose, and reform offers the opportunity for some of the poorest countries to adapt their sugar industries and become economically more efficient. The sugar regime has remained unchanged whilst other commodity policies have been radically reformed to ensure that production decisions are more closely related to market opportunities. An unchanged regime for sugar offers distorted and wasteful signals about the use of resource within EU agriculture. The existing arrangements are due to expire on 30 June 2006 and growers, processors and users of sugar need to know in advance what sort of market environment will exist after that date.

The ruling of the WTO panel that the existing regime effectively cross subsidises sugar exports means that there is no market for 4-5 million tonnes of EU produced sugar. Further pressures to reduce remaining export subsidies and to allow greater access for sugar to be imported into the EU market from third countries are likely to figure in any settlement of the Doha round. From 2009, under the Everything But Arms agreement, substantial additional tariff-free supplies of sugar are likely to come from Less Developed Countries.

Proposed price cut and restructuring grants

The centrepiece of the Commission's proposal is a substantial decrease in the level of institutional prices and a shift from an intervention system to a reference price system where present prices are expected to fall by 39 percent. **The Committee does not share the anxieties expressed to us by some witnesses during our inquiry that the price cuts are too large. Markets are self-regulating and if**

shortage occurs sugar users will have to pay higher prices in order to ensure supplies.

To facilitate adjustment, the Commission has offered restructuring grants to sugar processors who will be compensated at levels which decline from €730 to €420 over four years. Where processing plants close the related quota will be extinguished. This is intended to bring about the necessary reduction in supplies by making it attractive for the highest cost plants to close, leading to an increase in the overall efficiency of the industry. One effect is likely to be the end of sugar beet production in some Member States. **The Committee, whilst noting the concerns of some Member States about the future of their sugar industries, supports the Commission's proposal and the implicit changes in the pattern of sugar production within the EU.**

Part of the Commission's proposals includes the phasing out of the cane-refining margin. The Committee heard with concern that this, combined with the possibility that sugar beet processing factories might otherwise compete in the market for raw sugar, could threaten the survival of existing EU cane refiners, whose businesses would otherwise be competitive in a global unregulated market. **We believe that the balance between sugar beet and cane processing within the new regime should be made more equitable and we suggest the Commission should consider how this could be done.**

Retention of quota

The Commission's proposal retains quotas and offers an increase in quota of 1 million tonnes which will be sold on the basis of a once for all payment. **The Committee notes that there is widespread resistance to the removal of quota restrictions among Member States but believes that if the price cuts and restructuring process reduce production sufficiently quota will become redundant and could be removed. In that context the requirement to leave the new regime unchanged until 2014 is inappropriate. The Committee is however aware and concerned that quota would become necessary if price cuts proved insufficient in reducing production.**

Compensation payment

In common with the reform packages offered for other commodities the proposed sugar reform envisages direct payments to sugar producers amounting to 60 percent of the price cut. This is generous, especially to the less efficient producers⁴³. The direct payments are to be administered within the framework of Single Farm Payments that exist in member states. This means that, in most countries, they will continue to be based on historic criteria and go to former sugar producers. In the United Kingdom, in contrast, the historic basis will be phased out and the payment for sugar will be merged with other entitlements and paid on a regional basis. **The Committee shares the concerns of some witnesses that these payments might not be completely decoupled in all Member States. If they are not, sugar growers in other Member States, including the United Kingdom, may be placed at an unjustified competitive disadvantage. Partially decoupled payments lead to the continuation of a partially distorted market. We strongly recommend that all direct payments relating to sugar should be decoupled.**

⁴³ See RIA p114

The Committee accepts the need for transitional adjustment aid to sugar producers, however, we believe that such payment should be limited to assisting the process of adaptation and must not become a permanent payment to farmers. There is no net advantage in terms of cross compliance since all farmer recipients already have to observe the relevant conditions in order to receive Single Farm Payments that resulted from earlier reforms. We recommend that a date be set by which direct payments relating to the new sugar regime would be phased out.

Sugar Protocol countries

The reform of the sugar regime confronts countries that, under the Sugar Protocol, have been entitled to sell annually 1.3 million tonnes to the EU at the level of prices paid within the EU, with a sharp reduction in revenue. The 18 countries concerned form a diverse group. Many suffer from low incomes and their revenue from sugar not only provides foreign currency but also underpins a substantial level of employment. Some countries will be able to compete effectively at the new price and may benefit if, as a result of lower EU exports, sugar prices in the world market rise. Some may be able to diversify their sugar industries finding new uses for sugar as a source of locally produced energy. In others, sugar production may become wholly uneconomic.

The Committee shares the concerns expressed by witnesses from the ACP⁴⁴ countries. Sugar plays a very different role in the economies of each of the countries concerned. The Commission proposes that adjustment assistance should be given in the form of “Action Plans” devised with each country and supported by the Development Directorate of the Commission.

Changes are inevitable as the sugar regime is brought into line with other CAP regimes. Prices will be allowed to fall and production decisions made in response to market forces. Such changes will lead to lower prices which will result in lower revenues for Sugar Protocol countries. Sugar producers in these countries, like sugar producers in the EU, will have to adjust to this new situation. **Simply maintaining the sugar price in the Sugar Protocol countries would obstruct rather than promote adjustment.** The vulnerability of these economies to an EU policy regime demonstrates the need for a more widely based process of economic development. However, transition cannot happen immediately. It needs to start now but must be supported for a significant number of years.

Whilst the Committee agrees with the Commission’s analysis of the ACP situation there are serious grounds for concern about the effectiveness of the Commission’s proposed solution. The funds available in the first six months of the reformed regime, €40 million, fall far short of the loss of revenue from lowered sugar prices. However, they are a seed corn to begin transition upon which further action can be built. For later periods there are promises of continuing support, but no firm commitments can be given until a settlement is reached about the future financing of the EU itself.

Effective development programmes require joint planning and execution between the recipient country and the Commission. Understandably the Sugar Protocol countries look for firm assurance that the EU will find appropriate resources and workable support mechanisms. Simply transferring money is not enough.

⁴⁴ ACP – African, Caribbean and Pacific Countries – who were signatories to the Lomé Convention and benefit from the Sugar Protocol.

However, **the Committee has not seen robust evidence of the capacity of DG Development to provide and monitor this support.**

The Committee accepts the need for assistance to be tailored to the needs of each country and designed to facilitate each country's long-term economic development. However we are concerned that price reductions will take place before any adjustment assistance is made available. We believe that the funding provision is unsatisfactory. We seek assurance that more support for adjustment will be provided and evidence that this support will be effective in promoting sustainable economic growth among the countries affected.

Environmental impact and alternative land-use

The reform of the sugar regime will have a significant impact on land use in areas where sugar beet proves no longer to be viable. What happens to the land released will depend upon the competitiveness of alternative land uses. The range of alternative uses will depend upon the situation of the farms affected but in many cases this seems likely to be an extension of cereal production. The Committee notes the concern of some witnesses that habitats valuable for some species of wild life will be lost. The area concerned is not known with certainty although it will be only a small proportion of the total farmed area.

Several witnesses drew the Committee's attention to the potential use of sugar beet as a source of ethanol. Recent rises in the price of oil have made biofuels more attractive but the volatile nature of that market discourages investments in alternative sources which may ultimately find themselves competing with lower oil prices than prevail today. It was suggested that imposing a renewable energy requirement on the transport industry could provide a firmer basis for development of the biofuel industry. The Committee noted this suggestion and believed it deserved fuller analysis. However, **we concluded that in establishing a biofuel industry, it was important that sugar should be seen as only one potential source of raw material and be used only where it could compete and where it could do so without specific subsidy.**

Economic cost of reform

Evidence provided in Defra's Regulatory Impact Assessment indicates that the new regime will significantly reduce the economic cost of support for the sugar sector, from €4500 million to €2100 million. However, a substantial net economic cost remains. In effect the EU is made poorer by maintaining a larger sugar industry than would survive in a fully liberalised market. **The Committee concludes that whilst we welcome this reform, it must be seen as only a step towards a sugar industry that is able to compete in a world market without the need for levels of protection substantially greater than those given to other sectors of the EU economy.**

The Committee continues to hold the proposals under scrutiny. We would welcome a full report of the outcome of the discussions at the Council meeting on 22-24 November as soon as possible after the Council.

I am writing in similar terms to Gareth Thomas MP, Parliamentary Under-Secretary of State, Department for International Development.

**APPENDIX 5: LETTER FROM LORD BACH TO LORD GRENFELL
DATED 22 NOVEMBER 2005**

10514/05: REFORM OF THE EU SUGAR REGIME (Defra)

and

**10598/05: ACCOMPANYING MEASURES FOR SUGAR PROTOCOL
COUNTRIES (DfID)**

Thank you for your letter of 10 November summarising the emerging conclusions of the inquiry by Sub-Committee D (Environment and Agriculture) into the proposed reform of the EU sugar regime, to which I myself gave evidence on 12 October.

I am extremely grateful to you and the Committee for sharing these with us ahead of the November Agriculture and Fisheries Council, when we hope that it will be possible for agreement to be reached on the Commission's approach.

I am also grateful for the very clear and constructive analysis and support of the Commission's aims in these negotiations, which we, as Presidency are trying to bring to a successful conclusion.

I hope you will understand my not responding in detail at this stage. But I should be more than happy to agree to your request to let you have a full report of the outcome of discussions at the Council meeting as soon as possible afterwards.

May I conclude by thanking you once again for this very valuable and timely contribution to our preparations for the Council, both as Presidency and in representing the United Kingdom interest.

I am copying this to recipients of your letter.

**APPENDIX 6: LETTER FROM GARETH THOMAS MP TO LORD
GRENFELL DATED 23 NOVEMBER 2005**

10514/05: REFORM OF THE EU SUGAR REGIME (Defra)

and

**10598/05: ACCOMPANYING MEASURES FOR SUGAR PROTOCOL
COUNTRIES (Dfid)**

I am writing to thank you for your letter of 10th November, setting out the conclusions that you have reached on the above topic, from the evidence presented to your inquiry.

I thought it would be helpful to set out developments since the submission of the Explanatory Memorandum in July 2005, and the process going forward. On 22nd June 2005 the Commission released a draft Regulation setting out their proposals for the provision of transitional assistance in 2006. This Regulation contained the financial reference amount of €40m (£27.1m). All aspects of the Regulation have been agreed upon by Member States and the European Parliament, apart from the level of funding for 2006 assistance. This will be finalised as part of the broader negotiations between Member States and the European Parliament over the European Community's 2006 budget. There have been no official proposals by the Commission as yet on levels of funding for 2007-13. This would in any case be determined as part of the broader negotiations on the next Financial Perspective.

Once this issue of funding is resolved, we are aiming for approval of the Regulation by the Committee of Permanent Representatives (COREPER) and the Plenary of the European Parliament in early December, in time for approval by the General Affairs and External Relations Council on 12th December. I would therefore be grateful if your Committee could re-consider sugar reform at your next available meeting, prior to this date.

The Regulation would then be implemented in the beginning of 2006, at about which time Africa Caribbean and Pacific (ACP) countries should be completing their country plans.

The approach outlined by the Commission in their proposal for an Action Plan (released in January 2005) and the Regulation itself, is an appropriate one for the delivery of transitional assistance. Individual country plans will allow assistance to be tailored to each country. The involvement of the countries themselves and the Commission in the drafting of these plans, should also ensure that they are appropriate to individual country needs. Whilst it is unfortunate that total levels of funding are not yet known, this is a function of the timetables under which the relevant budget processes operate. Within the parameters of the Presidency, we will be aiming for agreement to be reached in a timely manner, and for adequate levels of assistance to be provided.

APPENDIX 7: LIST OF WITNESSES

The following gave evidence. Those marked * gave oral and written evidence. Those without an asterisk gave written evidence only.

The Agriculture and Forestry Commission, Parliament of Finland

*H.E. Dr AY Ahmed, Ambassador of the Republic of Sudan

*H.E. The Honourable Richard Alston, the Australian High Commissioner, Australian High Commission

Mr Celso Amorim, Minister of Foreign Relations, Ministry of Foreign Relations, Government of Brazil

*Mr L Anand, Second Secretary, Embassy of Mauritius

*The Lord Bach, Parliamentary Under-Secretary of State (Sustainable Farming and Food), Department for Environment, Food and Rural Affairs

Mr Gerald Barrack, CF, CBE, Sugar Commission of Fiji

Booker Tate Limited

*Mr Klaus-Dieter Borchardt, Head of Section, DG Agriculture, The European Commission

*His Excellency Mr B Bowler, Ambassador of Malawi

The British Starch Industry Association

*Dr Mark Carr, Chief Executive, British Sugar plc

*Mr Chris Carter, Corporate Affairs Director, British Sugar plc

*His Excellency Mr ST Cavuilati, Ambassador of Fiji

*Mr A Chipasula, Counsellor, Embassy of Malawi

*Mr David Clark, Honourary Secretary, ACP London Sugar Group

The Commercial Farmers Group

*Mr Demétrio de Calvalho, Counsellor, Economic Section of the Embassy of Brazil in London

Mr Juri Dogsa, Ormoz sugar factory, Slovenia

The East of England Development Agency, East Midlands Development Agency and Yorkshire Forward

The Environment Agency

*Mr Carlton Evans, Team Leader, International Trade Department, Department for International Development

*Commissioner Mariann Fischer Boel, Agriculture and Rural Development Commissioner, The European Commission

*Ms Elise Ford, Political Researcher, Office of Glenys Kinnock MEP

The Food and Drink Federation

*Mr Jean-Marc Gazagnes, Head of Unit, DG Agriculture, The European Commission

*Mr V Gnassounou, Expert, ACP Secretariat

- *Mr G Govinden, Overseas Representative Brussels/Geneva Mauritius Sugar Syndicate
- *Mr Tim Green, Economist, International Trade Department, Department for International Development
- *His Excellency Mr S Gunessee, President of the ACP Secretariat, Ambassador of Mauritius
- *The Guyana High Commission and the Guyana Sugar Corporation (Guysuco)
- *Mr Simon Harris, Adviser, British Sugar plc
- *Mr Martin Haworth, Director of Policy, National Farmers' Union
- *Mr Lars Hoelgaard, Deputy Director-General, DG Agriculture, The European Commission
- *Mr A Hussein, Economic Counsellor, Embassy of the Republic of Sudan
- *Dr Riyad Insanally, Senior Trade Adviser, Guyana High Commission
- *Ms Patricia Jamieson, Director, Raw Sugar Supply & EU Affairs, Tate & Lyle Sugars Europe
- *Mr David Jessop, Executive Director, Caribbean Council for Europe
- *Her Excellency Mrs I Kamanga, Ambassador of Zambia
- *Mme M King-Rousseau, Embassy of Trinidad and Tobago
- *Mrs Glenys Kinnock MEP, Co-President of the ACP EU Joint Parliamentary Assembly
- *Mr Andrew Kuyk, Head of Arable Crops Division, Department for Environment, Food and Rural Affairs
- *Mr Richard Laming, Public Affairs Manager, British Soft Drinks Association and UK Industrial Sugar Users Group Secretary
- *Ms Anna Lucuk, External Affairs Manager, Cadbury Schweppes and Biscuit Cake Chocolate & Confectionery Association Committee Member
- H.E. Ms Gail Mathurin, High Commissioner for Jamaica
- Mr Tom Meikle, Sugar Beet Grower
- The Ministry of Rural Development and Food, the Hellenic Republic of Greece
- *Mr Barry Newton, former Managing Director of Booker Tate and former Board Member of the Guyana Sugar Corporation
- The National Sheep Association
- Oxfam
- *Ms Sheila Page, Senior Research Associate, Overseas Development Institute
- *Ms P Pilime, Minister Counsellor, Embassy of Zimbabwe
- The Royal Society for the Protection of Birds
- The Royal Thai Embassy
- *Minister Ana Maria Sampaio Fernandes, Head of Economic Section of the Embassy of Brazil in London
- *Dr Colin Smith, Economic Adviser, Department for Environment, Food and Rural Affairs

Swaziland Sugar Association

*Mr Gareth Thomas MP, Parliamentary Under-Secretary of State, Department for International Development

*Mr Jean Claude Tyack, Chairman, ACP London Sugar Group

*Mr Chris Tyas, Nestlé Group Supply Chain Director, UK & Ireland and Biscuit Cake Chocolate & Confectionery Association Commercial Committee Chair

*Mr Nick Wells, Vice-Chairman, Sugar, National Farmers' Union

*Ms Clare Wenner, Political Adviser, British Sugar plc

Which?

*Mr Mark White, Chief Executive, Tate & Lyle Sugars Europe

H.E. Mr Jan Winkler, The Ambassador of the Czech Republic

*Mr Greg Williamson, Minister-Counsellor (Agriculture), the Australian High Commission

The World Wildlife Fund UK

Information was also received from Mr Ben Mayo, Innovation Consultant. It has not been printed, but is available for inspection at the House of Lords Record Office (020 7219 5314).

Supplementary evidence was also received from the following and is also available for inspection at the House of Lords Record Office:

- His Excellency The Honourable Richard Alston, the Australian High Commissioner
- Ms Sheila Page, Senior Research Associate, Overseas Development Institute
- The Biscuit Cake Chocolate and Confectionery Association

We would like to take the opportunity to thank all our witnesses for their submissions to our inquiry.

APPENDIX 8: RECENT REPORTS

Recent Reports from the Select Committee

Session 2005-06

Scrutiny of Subsidiarity: Follow up Report (15th Report, Session 2005-06, HL Paper 66)

Evidence by Commissioner Franco Frattini, Commissioner for Justice, Freedom and Security on Justice and Home Affairs Matters (1st Report, Session 2005-06, HL Paper 5)

Ensuring Effective Regulation in the EU (9th Report Session 2005-06, HL Paper 33)

Evidence from the Minister for Europe – the European Council and the UK Presidency (10th Report Session 2005-06, HL Paper 34)

Reports prepared by Sub-Committee D (Environment and Agriculture)

Session 2002-2003

Reform of the Common Fisheries Policy: The Current Crisis over Fish Stocks (2nd Report Session 2003-04, HL Paper 16)

Mid-Term Review of the Common Agricultural Policy: External Implications (10th Report Session 2003-04, HL Paper 62)

Progress of Reform of the Common Fisheries Policy (25th Report Session 2003-04, HL Paper 109)

Revision of the EC Bathing Water Directive (46th Report Session 2003-04, HL Paper 193)

European Waste Management Policy (47th Report Session 2002-03, HL Paper 194)

Session 2003-2004

The EU and Climate Change (30th Report Session 2003-04, HL Paper 179 Volumes I-II)

Session 2005-2006

The Future Financing of the Common Agricultural Policy (2nd Report Session 2005-06, HL Paper 7)

European Union Fisheries Legislation (7th Report Session 2005-06, HL Paper 24)

The United Kingdom Presidency: Defra's Priorities, (12th Report Session 2005-06, HL Paper 36)