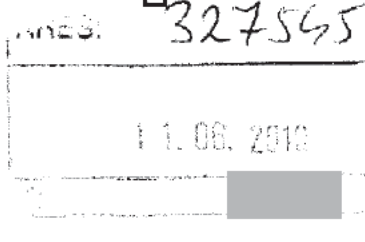


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Brussels, 9 June 2010

**Mr. Jerzy Plewa**  
Deputy Director General for Agriculture and Rural Development  
European Commission  
Rue de la Loi 130  
1040 Brussels  
Belgium

Dear Deputy Director General,

### Post 2013 Reform of the EU Common Agricultural Policy

On behalf of the ACP sugar suppliers, I am pleased to submit a document outlining our initial position on the preferential sugar arrangements in the context of the discussions on the reform of Common Agricultural Policy - Post 2013.

I also wish to inform you that the ACP Group recently convened an ACP Experts' workshop to reflect on and offer an ACP perspective on key concerns that deserve attention in the public consultation launched by the Commissioner.

The Workshop reiterated that appropriate policy tools are essential to ensure stable, predictable and remunerative markets for EU producers and ACP suppliers. This will require the inclusion of specific provisions in the single CMO to accommodate the specific needs of particular commodities, such as sugar. Moreover, it was necessary to ensure that management tools, including quotas, withdrawal and storage mechanisms, market data transparency, independent monitoring mechanism are deployed in ways that ensure a level playing field for ACP suppliers.

Despite the obligations under the Cotonou Agreement and EPAs to consult with ACP on any policy changes which may impact on the ACP-EU trading relationship, it is unfortunate and regrettable that no formal invitation had been extended to the ACP to make an input to the process of preparing for the 2013 round of CAP reforms. In this context, the Workshop concluded that, given the importance to ACP countries of food and agricultural exports to the EU market, consultations on the future direction of the CAP are essential and necessary in order to ensure the maintenance of the balance of rights and obligations negotiated under the Cotonou and the Economic Partnership Agreements.

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A copy of the response adopted by the Workshop to the four questions posed by the Commissioner in the context of public consultations is attached for your reference. The ACP States concerned endorsed fully the submission and urged the Commission to take them into account in the ongoing consultations and, more importantly, in the proposal on the post-2013 Common Agricultural Policy. In particular, we request that appropriate and commensurate accompanying measures be included in the new Common Market Organisation.

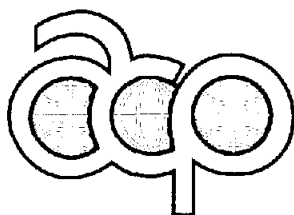
We appreciate that the discussions on the future of the CAP has just begun and stand ready to actively engage with you on the future policy especially with respect to sugar, given the sugar regime's significance for the CAP and the multifunctional role it plays in our economies.

Yours sincerely,



Ambassador of the Republic of Guyana  
Chairman of the ACP Consultative Group on Sugar

Groupe des Etats d'Afrique  
des Caraïbes et du Pacifique  
(Groupe ACP)



African, Caribbean and  
Pacific Group of States  
(ACP Group)

REFERENCE **ACP/63/013/10 REV.1**  
**SED/**

**Brussels, 9 JUNE 2010**

## **ACP Submission**

### **The Future for ACP Sugar in the European Union**

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## Introduction

1. The reform of the EU Sugar Regime inaugurated in 2006 has had several major consequences for ACP and LDC suppliers benefiting from preferential access arrangements. Institutional prices have been sharply reduced and the EU domestic production has been cut. The direct impact of the 36% price reduction on ACP and LDC suppliers, many of whom are small, island, landlocked and vulnerable economies has, and will continue, to seriously affect their terms of trade and balance of payments. The EU, on the other hand, has been converted from a net exporter to a net importer, and preferential imports are now more than ever an integral and major element in the EU's sugar supply arrangements alongside domestic beet sugar. Accordingly, whilst the main points hereunder are made from the perspective of ACP/LDC sugar suppliers, the main thrust of the arguments in favour of a stable EU sugar regime are also strongly shared by EU domestic suppliers
2. Although the EU sugar market structure is now agreed until 2015, planning and investment decisions for sugar cane are being made which require a view of market conditions well beyond that date. It is therefore of major concern that several imminent intertwined factors could materially influence the prospects for ACP and LDC suppliers. These are:
  - EU CAP reform and the linked new EU Financial Perspective for 2014/20;
  - the WTO Doha Development Round;
  - the rapid expansion of EU bilateral FTAs;
  - the launch of the seven new ACP-EU Economic Partnership Agreements.
3. EU actions on some of these factors (e.g. on FTA's) is already threatening the future stability of the EU regime.
4. It is particularly worrying that Commissioner for Trade Karel de Gucht recently inferred that "Free Trade" is beneficial to developing countries. This reference to a theoretical OECD global estimate of the effect of total Free Trade is dangerously simplistic and misleading. In a speech in Georgetown Guyana in January 2006, the then Trade Commissioner Mandelson was more circumspect when he contrasted the position of the giants of the developing world (e.g. China and India) compared to others such as the ACP. He stated  
"for poorer countries in Africa the Caribbean and Pacific free trade is not such a magic wand. Wrongly used, it can be a brutal, blunt instrument. Open trade cannot take place before the framework for economic development is in place".
5. It is also of concern that in his speech to the European Parliament on the EU-Colombia and Peru FTA's Commissioner De Gucht, stated that:  
*"The main drive of this agreement for our Andean partners has been the **substantial** new market access that is offered to them on bananas and sugar. The new regime of importation of these two products into the EU under this agreement – though preserving the vital margin of preference for our producers and our ACP partners -will trigger **massive** tariff savings for Colombia and Peru,"*
6. The emphasis on the perceived scale of benefits which will be multiplied many times in the Central American FTA is bound to lead to market instability for all suppliers when the planned growth in ACP/LDC supplies materialises "*The vital margin of preference*

*for our producers and our ACP producers* “referred to Commissioner de Gucht is bound to be at considerable risk

7. The Free Trade view on sugar being espoused by the current Commission is based upon a few basic tenets as follows:
  - The benchmark for price comparison is the so-called world price.
  - Brazil as the driver of the world price has achieved a competitive position solely due to true comparative advantage.
  - The benefits from a reduction in price will largely be captured by the end user (i.e. “the housewife”).
  - Other countries must be allowed to enjoy access to the EU market to improve competition.
8. But the above arguments, put across by the EU Commission, are questionable and, at the very least, dependent upon often unrealised assumptions. In effect, a continuation of uncontrolled increases in access for new suppliers will open the door for greater profitability of a few large producers plus certain major multi-national sugar-using food and beverage industries at the expense of poorer ACP suppliers and EU domestic suppliers without real benefit to the end consumer in Europe.

### **Objectives**

9. The primary objectives for ACP/LDC sugar suppliers can be simply stated as:
  - EU market prices which are fair, stable and reasonably remunerative to producers
  - Guaranteed priority of access;
  - Long term predictability with continued preference assured by tariff barriers and robust mechanisms for market management.
10. Stable and balanced market.
11. These **four** objectives are closely linked and effectively form a policy **quartet**. A weakness in any one part will jeopardise the chances of success overall.

### **Rationale**

12. The expectation of a fair and **remunerative price** for efficient producers is enshrined in the fundamental purpose of the EPAs and **also in the purpose of the EBA arrangement**. **Guaranteed access-EPAs, Stable price, adequate and effective border measures are important for investment because of the return of the crop which, unlike sugar beet, has a seven-year production cycle.** It is clear that without this basic **guarantees** for growers and processors, EPA agreements with the EU have little developmental role.
13. The negative impact of EU price cuts on traditional ACP suppliers in the last CAP Reform can be easily demonstrated. The current reference price for raw sugar is €335.2 compared with €523.7 before the reform process began. Thus on the approximately 1.6 million tons of traditional supplies (without taking account of new LDC suppliers) the annual loss of revenue is over **€300 million**. This has been matched by a reduction in EU white sugar prices of about €200 per tonne, but end consumer prices for sugar-containing food and drinks have not fallen. The sole beneficiaries of this revenue

transfer are the sugar-using food and beverage industries and large retail companies of the EU.

14. The question of price is closely linked to secured and priority access to the EU market. The EPAs (full or interim) that have been initialled or signed, do provide for preferential access, and it is essential that this is not further eroded by steep tariff reductions or the creation of new import quotas: otherwise it may lead to an imbalance in the rights and obligations that have been negotiated in the EPAs. It should be noted that the traditional ACP suppliers are all countries with a strong historic political and trading relationship with the EU and have small populations, and thus a structural need for exports in order to survive. The new suppliers namely LDCs, following the establishment of the EBA, have been recognised as countries with a special need for access to the EU as defined by the EBA arrangements.
15. The multifunctional role of sugar in small vulnerable economies is well documented. Sugar industries offer long term food security, both as suppliers and also as creators of export earnings to finance food imports. There is a growing awareness of the environmental benefits of sugar cane industries, notably as regards carbon sequestration and as an annually renewable source for bio-ethanol, and electricity co-generation. EU policy increasingly also recognises the role within Europe of agriculture in sustaining the rural economy and favours the creation and maintenance of sustainable environmentally friendly food industries over the drive to cut food prices at all costs. ACP suppliers are increasingly required to meet the international standards on labour practices, environmental protection and product quality demanded by EU consumers and are fully committed to the increased investments and maintenance costs involved.
16. For most traditional producers, diversification out of sugar is not a practical option as there is no sustainable large scale alternative agricultural product. However a range of added value outlets for sugar related businesses are being progressed in many countries. Furthermore all ACP countries are being encouraged by the EU and International Financing Institutions to invest considerable sums in modernisation and diversification of their sugar industries to meet the new challenges created by the reform of the EU and global trade liberalisation in the context of the drastic cut in sugar prices. This was less than what was provided for by the EU to the EU beet sugar producers and were less than the total loss arising from the price cut assessed at € 1.755 bn. Accompanying Measures finance has been made available to augment the basic investment of the old Sugar Protocol suppliers. However, the resources allocated were well short of expectations with some countries experiencing long delays in accessing the required financial support.
17. All suppliers, including those in the EU itself, will suffer from uncontrolled access and a further dilution of price. However it needs to be remembered that ACP suppliers cannot benefit from the new CAP policy of income support in lieu of price support arrangements. Thus the security needed by the ACP suppliers cannot be achieved through improvements to EU tax funded Single Farm Payments.
18. All ACP industries need to make continuous and significant investments to improve efficiency, diversification and meet more rigorous environmental standards. This requires a long-term perspective on price and access which will provide investors and Governments in all ACP countries a reasonable long term guarantee on which cane sector monoculture projects are usually measured.

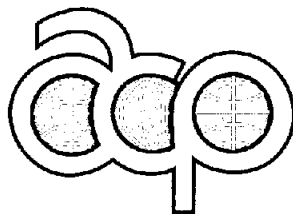
19. A remunerative price coupled with supply stability and predictability are the key factors that embrace all stakeholders. These cannot be sustained by an uncontrolled supply arrangement with weak border protection. (This should be the objective.)
20. To achieve these objectives available supply management tools should continue to ensure that supplies do not outstrip demand. The aim of achieving long term price stability remains paramount. The award of new import quotas in the context of new FTAs being negotiated by the EU (e.g. Andean and Central American) can easily destabilise the EU market which has an inelastic demand structure. These increases certainly threaten to undermine ACP preferential arrangement and the recent statement by the EC that the new FTA's anticipate offering quotas which only amount to 2% of EU demand seems to ignore the potentially damaging impact on prices of an annual increment of over 300 000 tonnes which was never anticipated in the Commission's own model for the market in its last reform of the EU sugar regime. This also ignores the possibility of further dilution of EPA preferences when other FTA's are under negotiation (Mercosur/Ukraine/India/S Africa). Continued widening of supply sources can only risk the non-least developed ACP States losing increased access under the EPAs.

### **Proposals**

21. In summary the ACP group of sugar suppliers propose that any review of the EU Sugar Regime should embrace the following principles:
  - **The maintenance of a stable commercially attractive price with effective tariff protection that will ensure predictable and sustainable export earnings to the ACP suppliers;**
  - **The effective management of the sugar sector with the objective of ensuring orderly and balanced market for sugar sufficient to meet the demands of the EU market;**
  - **Maintenance of an effective mfn and safeguard and no bilateral FTAs with quick and automatic triggers;**
  - **The continuation of a specific preference and priority of access for eligible ACP States sugar;**
  - **A long-term perspective that will provide the stability and predictability necessary for continued investment in improved efficiencies, diversification and environmental standards which will support sustainable and commercially viable ACP sugar industries.**

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Groupe des Etats d'Afrique  
des Caraïbes et du Pacifique  
(Groupe ACP)



African, Caribbean and  
Pacific Group of States  
(ACP Group)

REFERENCE **ACP/67/008/10**

**Brussels, 31 May 2010**

**PROPOSED EU CAP REFORMS 2013**  
**ACP SUBMISSION FOR CALL FOR PUBLIC COMMENTS BY THE EC**



**A. Why do we need a common EU CAP?**

**We need an EU CAP:**

1. To ensure the supply of quality food at reasonable prices while guaranteeing an adequate level of income to EU farmers and ACP suppliers.

The ACP recognizes the need for a common agricultural policy to ensure policy coherence across the EU and ensure the smooth functioning of a single EU market for food and agricultural products.

2. Because it is crucial to ensure food security.
3. It represents predictability and uniformity in agricultural trade with the EU as a whole.
4. To maintain a balanced market that will ensure stable prices represents a critical point of policy interface.
5. Because trade in food and agricultural products are of considerable importance to the ACP. In 37 ACP countries food and agricultural exports generate over 50% of export earnings from trade with the EU, while for a further 11 ACP countries it accounts for between 20 and 50% of exports.
6. Major products exported from the ACP to the EU are sugar, bananas, rice, horticulture, cotton, beef, cocoa, coffee, tea, palm oil, with a growing emphasis on moving into value added food products.
7. And because most of these CAP-covered products have benefitted from trade preferences; some are impacted by the external effects of the deployment of EU policy tools while all are affected by the EU's evolving food safety and quality standards.

Given the importance to ACP countries of food and agricultural exports to the EU market, consultations on the future direction of the CAP are essential and necessary in order to maintain the balance of rights and obligations negotiated under the Cotonou and the Economic Partnership Agreements.

**B. What are society's objectives for agriculture in all its diversity?**

1. To have access to quality food on a secure and affordable basis.
2. The importance of the multi-functional role of agriculture plays in the economy including for rural development and poverty eradication.
3. Like the EU, the ACP countries place particular importance on transforming their agriculture and food sectors into high value sectors which contribute to income growth, employment creation and economic development in general.

4. In an era of heightened price instability and volatility on international markets ACP shares EU concerns with regard to the impact of price declines on the agricultural production base. Like the EU, ACP is looking at the most appropriate policy measures and tools to sustain agricultural production in the face periodic price declines.
5. The ACP share EU concerns over climate change, indeed ACP concerns in these areas are even more acute.
6. Given the considerable overlap between EU and ACP concerns there is a need to clearly understand the impacts of the use of EU policy tools on markets of importance to ACP agricultural producers, so as to ensure that the 2013 CAP reform not only addresses EU concerns but also supports the development of ACP food and agricultural sectors.
7. CAP is intimately linked to the common external trade policy and this interconnection should be constantly borne in mind in designing CAP reform proposals.

### **C. Why should we reform the CAP?**

1. The 2013 CAP reforms should be undertaken in ways consistent with the EU obligations to the ACP in ways which:
  - enable the EC to meet its international obligations and to adjust to the changing dynamics of the EU internal markets;
  - facilitate ACP access to remunerative markets and reduce the negative effects of EU policies on markets served by ACP producers;
  - minimize adverse impacts of the use of EU policy tools on ACP food and agricultural sectors;
  - ensure a level playing field between EU and ACP producers;
  - build comprehensive development dimensions including flanking measures into its evolving policies on food safety and SPS controls; agricultural product quality policy; and the strengthening of the functioning of supply chains to the benefit of primary producers (including through the establishment of high level working groups on the functioning of the banana and horticulture supply chains);
  - respect ACP demands for the conclusion of a WTO cotton agreement, which improves prices
2. While EU farmers are compensated by direct aid payments for the price effects of liberalization, ACP countries do not have the necessary resources to do this. They will, therefore, need assistance to face up to the consequences of preference erosion and to prevent it adding to their problems of rural poverty.

**D. What tools do we need for tomorrow's CAP?**

1. Tools are needed which meet EU's evolving policy objectives, while responding fully to the EU's obligations to the ACP and common concerns and objectives.
2. The ACP expects that:
  - a) any changes to the use of the current market management tools should respect the underlying interests of the ACP;
  - b) further development of EU's SPS and food safety regimes and its emerging policy on agricultural product quality policy should facilitate rather than undermine ACP access to EU markets.
3. Appropriate policy tools to ensure stable, predictable and remunerative markets for EU producers and ACP suppliers are essential. This will require the inclusion of specific provisions in the single CMO to accommodate the specific needs of particular commodities, such as sugar.
4. Reference prices determined in a transparent manner using clear indicators.
5. Management tools including quotas, withdrawal and storage mechanisms, market data transparency, independent monitoring mechanism deployed in ways which ensure a level playing field for ACP suppliers.
6. Flanking measures to support ACP producers to adjust to the impacts of a reformed CAP, so as to ensure ACP suppliers can effectively benefit from preferential market access to the EU, secure an adequate level of earnings and progressively move up the value chain in supplying EU markets.
7. Appropriate consultative mechanisms to allow participation of ACP states in the SPS and food safety standards formulation and application. Provision of support for capacity building.
8. Impact assessment of measures/policies which may affect ACP trade in food and agricultural products.