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Sugar

Impact of the EU sugar reform on sugar exporters from ACP and LDCs

2009

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Report Highlights:
The implementation of the EU sugar regime continues as cuts in the in-quota sugar levels have reduced EU sugar production to 13.6 million MT. The EU is now a net importer of sugar. African, Caribbean and Pacific (ACP) sugar exporting countries are undergoing a difficult transition as industries are adjusting or shutting down due to lower EU prices. On October 1, 2009, the world's 50 Least Developed Countries (LDCs) will gain duty free access under the Everything-but-Arms (EBA) concession; however, it is unlikely that they will become major suppliers to the EU market.

Low cost operators, particularly in Brazil and Australia, will likely benefit the most from the EU's withdrawal from the world market. The EU reforms have also gradually shifted the international market from white to raw sugar.

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Introduction

As the world's largest sugar importer and third largest producer, the European Union (EU) has traditionally played a major role in the world sugar market. In 2006, partially in response to mounting pressure from the WTO, the EU instituted the first major reform since the sugar regime's inception. The reform will be completed in MY 2009/10, as price support for sugar is reduced by 36 percent while offering direct payments and quota buy-outs to growers and processors. In-quota sugar production has now decreased by about 5.5 million MT, and exports have correspondingly fallen. Imports have remained largely the same. As such, the EU has gone from being a net exporter to a net importer of sugar.

Internally, the reforms have altered the market structure for EU sugar producers, with greater quota reduction in least favorable areas for sugar production (i.e. Mediterranean and Eastern European countries) and leaving more productive areas (i.e. Germany and France) more or less intact. Because of the overall reduction in production, the reform has also changed the composition of intra-EU trade flows as sugar-deficit member states no longer rely on supplies from sugar-surplus member states. Notwithstanding these structural shifts, demand for bioethanol derived from sugar beet offers growers and processors an opportunity to remain active in sugar production.

The EU sugar reform is closely linked to several EU external policies, most notably the long-standing EU-ACP Sugar Protocol, which guaranteed Africa, Caribbean and Pacific[1] (ACP) countries a raw sugar duty-free access quota that enabled them to sell at the relatively high EU price. The EU unilaterally rescinded the EU-ACP Sugar Protocol in September 2007, with a Commission commitment to include sugar in the WTO-compatible Economic Partnership Agreements (EPAs). The transition from the EU-ACP Sugar Protocol to EPAs would be phased in from October 2009 to 2015, during which time the EU offers to provide budgetary assistance to ACP countries to adjust to any reductions in the EU price.

Least Developed Countries (LDCs) are set to receive open access to the EU market beginning October 2009 under the Everything-but-Arms[2] (EBA) concession. The agreement, signed by the 50 LDCs, which include 25 sugar producing countries, allows for duty and quota-free access beginning in 2009.

However, the reform has not changed the WTO bound import duty rates for non-preferential states, which remain at EUR 419/MT for white and at EUR 339/MT raw sugar. Still, lower cost suppliers such as Brazil and Australia will likely benefit from the EU's withdrawal as major exporter to the world market. The reform has caused the international market to shift away from white sugar[3] to raw.

Background to reform

The EU's sugar regime, created in 1968, has been highly criticized both internally and externally for its overproduction, regulated prices, export subsidies and discriminatory trade agreements with former European colonies. EU sugar sold at prices three times higher than the world price, which encouraged production even in adverse agronomic areas for beet

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[1] ACP, or African, Caribbean and Pacific, countries consists of 79 states that were signatories of the Lome convention. Unless otherwise mentioned, ACP countries will refer to the ACP Sugar Protocol countries as of 2007: Barbados, Belize, Guyana, Jamaica, Trinidad and Tobago, St Kitts and Neviz, Fiji, Republic of Congo, Ivory Coast, Kenya, Madagascar, Malawi, Mauritius, Mozambique, Swaziland, Tanzania, Zambia and Zimbabwe.

[2] European Commission: "EBA" – Everything But Arms Initiative: Special Arrangements for Least Developed Countries http://ec.europa.eu/trade/issues/global/gsp/eba/index_en.htm

[3] Unless otherwise mentioned, figures are given in raw sugar equivalents. The conversion factor from white to raw equals the amount of raw sugar divided by 92%.

growing. The oversupply of EU sugar created unsustainable market conditions in which 5-6 million MT of sugar were put on the world market, suppressing world prices for white sugar. The EU offered export subsidies to close the gap between the world price and Community prices on 2.6 million MT of the so-called C-Sugar (sugar produced out of quota) exports. In September 2004, the WTO ruled that the EU was in breach of its export limits and had been cross-subsidizing its C sugar exports by A and B (or in-quota) sugar.

The WTO ruling provided a springboard to launch a fundamental review of the EU Sugar Regime. The European Commission also recognized that if EU prices were to remain high, the expected influx of sugar from LDCs under the EBA agreement would likely cause significant oversupply. In light of these considerations, the Commission proposed a reform package[4] in 2005 that addressed WTO compatibility, member state interests, ACP policies and interests of LDCs under the EBA agreement. The EU Agriculture ministers adopted the Commission reform proposal in February 2006, with the understanding that it would be completed over a four year transition period from July 1, 2006 to September 30, 2010.

The main goals of the reform are:

i. Align the sugar regime with the Common Agricultural Policy (CAP), which would make future reforms to the CAP apply to the sugar regime.
ii. Curtail production and create a more sustainable and competitive market.
iii. Limit C-Sugar exports to fall within WTO guidelines.
iv. Prepare for the impending influx of sugar imports from LDCs under the EBA concession.

The reform's impact on the EU

A. Production

Table 1	Pre-reform	2006/07 (july-sept)	2007/08 (oct-sept)	2008/09 (oct-sept)	2009/10 (oct-sept)
Reference Price for white sugar (€/MT)	632	505	458	428	404
Reference Price raw sugar (€/MT)	524	497	497	449	335
Restructuring Aid (€/MT of renounced quota)	730	730	625	520	-
Quota renounced (Cumulative) (MT)	-	1,469,612.5	2,178,379.6	5,512,174.2	n.a.
Production of sugar and isoglucose (Yearly) (MT)	-	17,658,000	14,913,000	13,675,000	n.a.

Table 1 Data collected from Agra Informa CAP Monitor and DG Agriculture

Table 1 outlines the structure of the price cuts and payouts to encourage EU growers to renounce quota early on, as both prices and Restructuring Aid decrease through the reform's lifespan. So far, the Commission has almost reached its goal of 6 million MT of quota renounced, reducing in-quota sugar production to about 13.6 million MT.

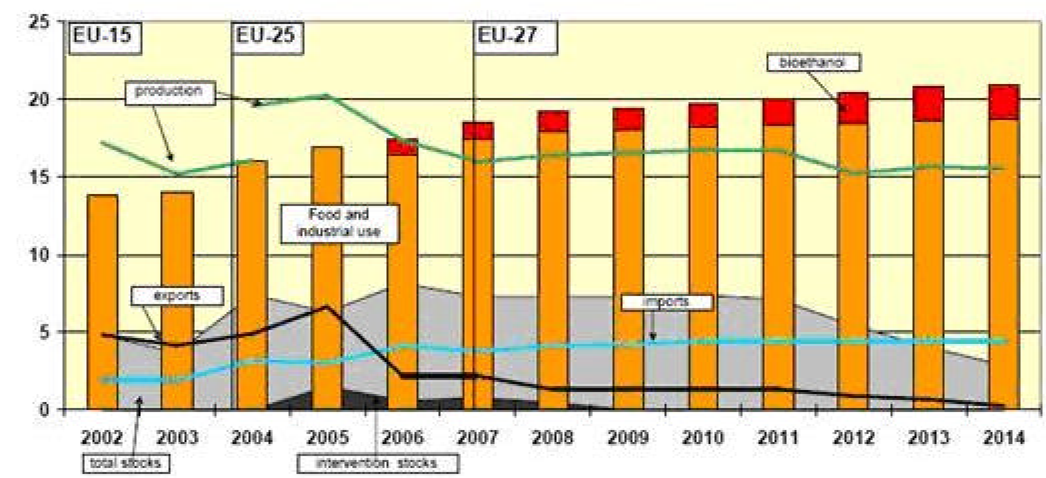
[4] Proposal for a Council Regulation establishing a temporary scheme for the restructuring of the sugar industry in the European Community and amending Regulation (EC) No 1258/1999 on the financing of the common agricultural policy {SEC(2005) 808}

As intended, the reform displaced many sugar producers in lesser productive areas. Seventy-five, or over one third of EU sugar factories, have now closed. While the Commission has estimated job losses at around 4,500 to 6,500 jobs, European Trade Unions fear that these figures are grossly underestimated. Production of inulin syrup has ceased in France, Belgium and the Netherlands; while Bulgaria, Ireland, Latvia and Slovenia have completed exited from sugar production, returning their entire quota.

However, some sugar production in less-favorable areas remains. Finland, Lithuania, Spain, and parts of Poland renounced some but not their entire quota, forcing some higher-yielding producers in France and Germany to renounce quota. In 2007, to encourage more renunciations, the Commission issued further incentives to growers along with the threat of a compulsory across-the-board quota cut to take effect in 2010/11.

B. Sugar beet production for ethanol

Figure A:
Development in the EU sugar market 2002-2014 (million MT)



Source: DG Agriculture, Prospects for agricultural markets and income 2007-2014.

Sugar beet production for ethanol is not subject to sugar regime quota, though only about 800,000 MT are currently produced in the EU. In certain areas, demand for ethanol has spurred enough sugar beet production to make up for the loss of sugar quota. The European Commission approved €43 million in German aid to Suedzucker Bioethanol GmbH for the construction of a bioethanol plant which uses sugar beet as a feedstock. Beet growers in North Germany also reached a deal with Nordzucker to supply beet for ethanol production. Under Council Regulation (EC) No 670/2003, Germany is exempt from EU restrictions on the type of aid offered in the ethyl alcohol market until January 1, 2010. In France, planted area of sugar beet has remained the same despite the reduction in quota because of demand for bioethanol.

Overall, strong expansion for bioethanol production from sugar beet is expected to remain in these and other competitive areas like Belgium. The Commission has forecasted an increase in sugar for ethanol to reach 2.2 million MT by 2014, assuming a constant worldwide expansion of biofuel demand (Figure A). While bioethanol is currently stabilizing Community sugar production, the situation may change depending on future investment decisions[5].

[5] DG Agriculture: Prospects for agricultural markets and income 2007-2014
http://ec.europa.eu/agriculture/publi/caprep/prospects2007a/index_en.htm

C. Trade – EU now a net importer

EU-27 Sugar Trade (Oct/Sept: '000 MT)					
IMPORTS	**2003/04**	**2004/05**	**2005/06**	**2006/07[6]**	**2007/08**
Sugar imports total	1,992	2,549	2,630	4,338	3,650
Raw sugar imports, total	1,742	1,807	1,950	3,495	2,950
White sugar imports, total	250	742	680	843	700
EXPORTS	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**2007/08**
Sugar exports total	4,715	6,028	8,345	2,162	1,386
Raw sugar exports, total	15	3	20	5	5
White sugar exports, total	4,700	6,025	8,325	2,157	1,381

Table 2 Source: Post estimates from EU FAS posts

Because of the reductions in sugar production, the EU has gone from being a net exporter to a substantial net importer. In MY 2005/06, the EU was a net exporter of over 5.7 million MT, but by MY 2007/08 the EU was already a net importer of around 2.3 million MT. The EU is expected to increase imports to close to 4 million MT in the near future, as sugar deficit regions in the EU that previously relied on surplus EU sugar must now look elsewhere due to reduced production. On October 1, 2009, countries under EPAs and the EBA will be have duty-free access; however it is still unclear how quickly these changes will impact the EU sugar market.

In 2007/08, despite decreased EU sugar production, white and raw sugar imports fell as excess stocks from previous cycles were still being utilized. White sugar imports from Africa doubled, while supply from Serbia and Croatia fell. The reform's price reductions may lead to further decreases from Baltic countries.

For EU refiners importing raw sugar, the EU reforms have had an impact on Traditional Supply Needs [7](TSN's). Cane sugar refineries in Bulgaria, Finland, France, Italy, Portugal, Romania, Slovenia and the United Kingdom had raw sugar supply quotas of 2.4 million MT. Beginning 2009/10, the quotas are no longer specifically allocated to each Member State, but are applied to the EU as a whole. Furthermore, beginning October 2009, EU raw sugar cane refineries will no longer have a monopoly on ACP import licenses (although full-time refiners will retain exclusive rights to obtain import licenses for the first three months of the MY).

The EU reforms have lowered C-sugar exports to the 1.6 million MT allowed by the WTO, and as of MY 2008/09 have cut out export subsidies. The traditional destinations for EU sugar exports have also changed. EU sugar exports to Asia rose by a third in 2007/08, while exports to the Americas and Africa have fallen by a third.

With the decrease in EU white sugar exports, international sugar markets have generally shifted away from white sugar trade to raw sugar. EU raw sugar exports have increased from 25.6 million MT in 2005/06 to close to 29 million MT in 2008/09. An increasing premium between white and raw sugar appears to be fueling the development of raw sugar refineries in the Middle East and North Africa, which have traditionally been large sugar deficit regions. Israel, an important buyer of EU sugar, has opened a sugar refinery owned jointly by Gadot of Israel and the UK firm Tate & Lyle.

[6] MY 2006/07 lasted 15 months in accordance with Council Regulation (EC) No 318/2006
[7] Reg. 1234/2007, Art. 153

D. Processed products containing sugar

Figure B: Net exports for products under transitional surveillance mechanism (€, billions)

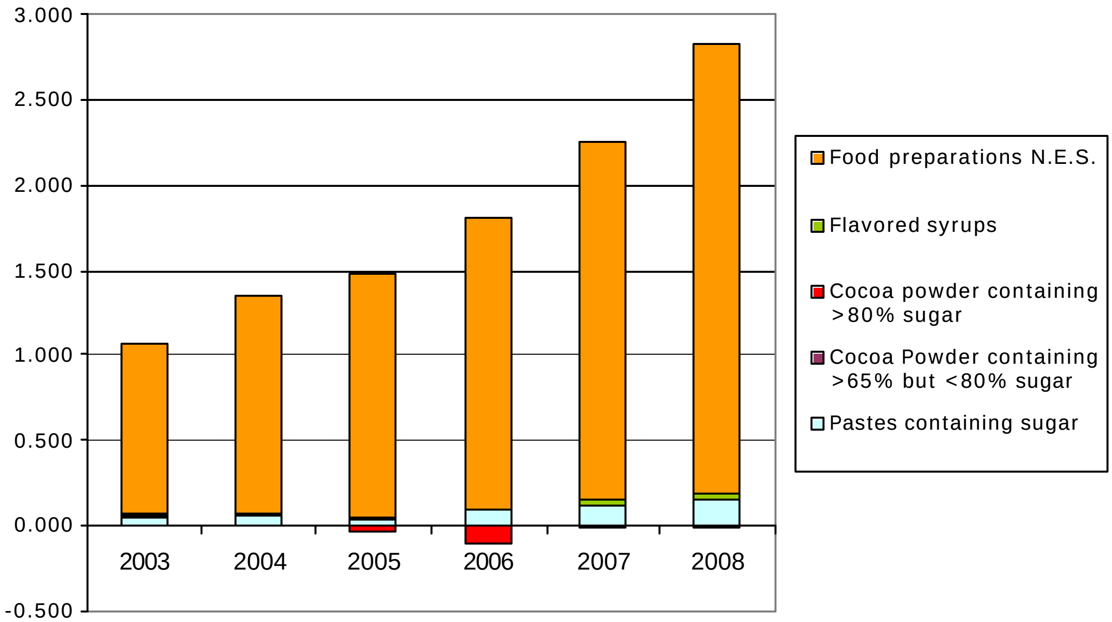


Figure B Source: Global Trade Atlas

As EU agriculture is generally oriented toward "value added production," (see for example the EU Commission Green Paper on agricultural product quality), the EU sugar reforms favor value-added industries using sugar as an input. Import duties for processed products with sugar content remain in place, as do export subsidies for most of these products. A list of products eligible for export subsidies can be found in Council Regulation (EC) No 1234/2007. To prevent EPA imports from "circumventing tariff rate quotas[8]" through high sugar-content products, the Commission has established transitional surveillance mechanisms on a list of import products[9], such as sweetened cocoa powder and flavored sugar syrups. In case of surges of over 20 percent from the previous twelve-month period, the EC can suspend duty-free access.

Figure B illustrates the net export value of the products under the transitional surveillance mechanism. The EU runs a net deficit in sweetened cocoa powder containing more than 80 percent sugar content (Commodity 18061090), though the deficit has fallen since 2006 (and in 2008 reached a net surplus in MT of sweetener exported, though the net value was still in the red). Other net surpluses in export value have grown for food preparations containing sugar and pastes, nearly reaching 3 trillion USD in 2008.

[8] European Commission: Reg. 1528/2007, Art. 10 http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2007:348:0001:0154:EN:PDF
[9] Products with CN Codes: 1704 90 99, 1806 10 30, 1806 10 90, 2106 90 59, 2106 90 98.

The EU sugar reform's impact on ACP countries

A. Changes in EU Policy – Economic Partnership Agreements

The EU sugar reform is also fundamentally changing the framework of trade between the EU and the ACP countries. The changing EU market has obliged ACP sugar industries to restructure operations, carrying significant economic, political and social repercussions.

ACP countries (the 48 African, 16 Caribbean and 15 Pacific countries) have had a special relationship with the EU for over 40 years. Beginning in 1975, the Lomé Conventions established preferential markets for ACP countries, specifically in an agreement known as the ACP Sugar Protocol. Under the Sugar Protocol, the EU agreed "to purchase, within the agreed quantities, preferential sugar which cannot be marketed in the Community at a price equivalent to or in excess of the guaranteed price[10]." The Sugar Protocol was renewed in the 2000 Cotonou Agreement. Within this framework, ACP countries consistently exported 1.3 million MT of white sugar equivalent to EU annually.

In September 2007, the European Union unilaterally withdrew from the ACP Sugar Protocol. This decision was based on two factors. First of all, the Sugar Protocol framework of guaranteed quantities and prices was fundamentally incompatible with the new sugar reforms. The sugar reforms phased out intervention buying from ACP countries. Second, the WTO special exemption waivers that had allowed discriminatory access under the Sugar Protocol was set to expire on December 31, 2007.

Article 37 of the Cotonou Agreement sets the framework for WTO compatible trade agreements in the form of Economic Partnership Agreements (EPAs). EPAs are regional trade agreements designed to gradually integrate ACP countries into the global economy by focusing on trade, agriculture, services and development issues. The EU has been negotiating EPAs with 6 distinct groups of ACP countries: West Africa, Central Africa, Eastern and Southern Africa, the Southern African Development Community, Caribbean and Pacific. Currently, only the Caribbean (or CARIFORUM) region has signed the only full EPA. The EU has established interim EPAs with the other regions.

The Commission will be replacing the ACP Sugar Protocol with a three-step transition period under the EPAs:

- January 1, 2008 to September 30, 2009: The ACP Sugar Protocol ceases to exist, but guaranteed prices remain. ACP countries receive additional quota, allocated by region.
- October 1, 2009 – September 30, 2015: Duty free access is granted to ACP sugar with an automatic volume safeguard clause. The EU will implement high surveillance mechanisms to ensure rules of origin.
- After October 1, 2015: ACP Sugar will be duty-free and quota-free, but will still be subject to the regular EPA safeguard clause.

The transitional safeguard mechanism for the period October 1, 2009 to September 30, 2015 was introduced to prevent import surges. It specifically applies to non-LDC ACP countries (see Figure 4 below) that have signed EPAs or interim EPAs. Imports from these countries may be subject to import duties for that marketing year if they exceed 1.38 million MT in MY 2010, 1.45 million MT in 2011 or 1.6 million MT from 2012-2015. Also, if total imports from the ACP states exceed 3.5 million MT, the safeguard is also triggered.

[10] Article 5(3) of the ACP/EU Sugar Protocol

B. Impact on ACP industries

Figure C: Estimated loss of revenue due to price reduction for ACP countries (USD / MT)

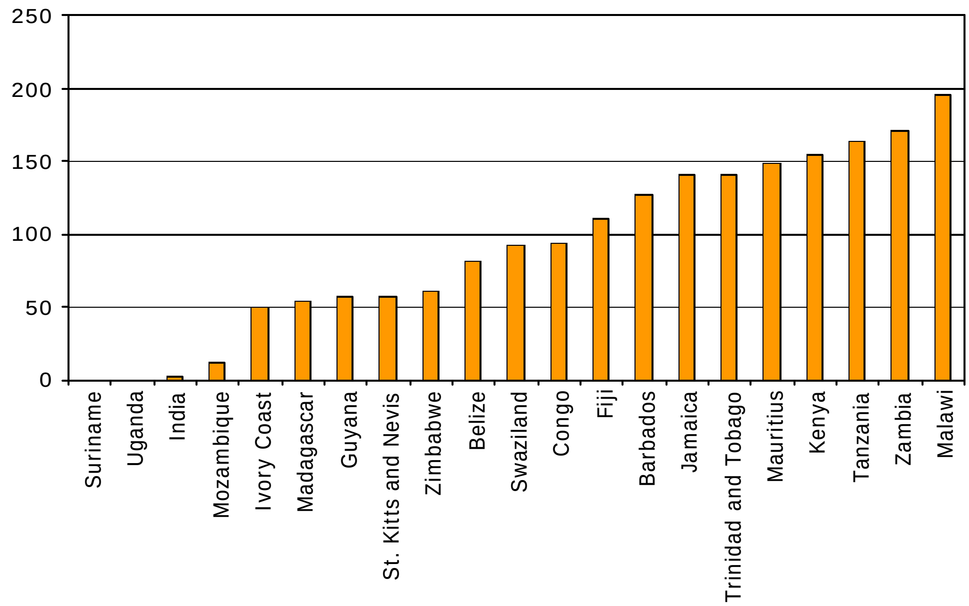


Figure C Source: Agricultural Attaches Report, FAS 2004

With the renunciation of the Sugar Protocol and the reduction in reference prices under the EU sugar reform, ACP sugar growers have seen prices fall. In 2005/06, EU importers paid €523.70/MT for ACP raw sugar. With the reform, EU importers pay at least 90 percent of the new reference price, or €301.68/MT c.i.f. The provision for a minimum price will end after 2012. During this transition, sugar prices are generally expected to stay above the EU reference price.

For many ACP countries, sugar has traditionally been a major source of export earnings. Figure C above shows the estimated the loss of revenue to ACP countries due to sugar price reductions.

To help improve competitiveness, countries like Mauritius and Guyana are introducing cost-reducing strategies to prepare for price decreases. Mauritius is reducing the number of refineries (from 14 to about 7 or 8), and is trying to "rightsize" its labor force. Guyana, through the state-owned Guyana Sugar Corporation (Guysuco), plans on increasing sugar production to achieve greater economies of scale. Using bagasse (or fibrous leftover of crushed sugar cane used for renewable energy), Guysuco will direct electricity for sale to the national grid. These countries may also benefit from the withdrawal of higher-cost producers in Barbados, St. Kitts and Nevis and Trinidad and Tobago. Many producers in these countries face extraordinary challenges, and are unlikely to all survive over the longer term. St. Kitts has already abandoned sugar production, while the government owned sugar mill in Trinidad and Tobago is over $130 million in debt.

As EU and ACP country sugar production decreases, lower cost producers like Brazil and Australia are likely to benefit, even as their export are subject to EU import duties. For the most competitive producers, there are strong incentives to consolidate, and there is evidence that ACP countries are already partnering with EU sugar companies. Associated British Foods acquired a 51 percent stake in Illovo of South Africa.[11] The French company Terreos has made investments in Mozambique.

C. Accompanying Measures

Whereas EU beet growers and processors are eligible for decoupled income payments and quota buy-outs, growers in ACP countries are not eligible for EU payments. Instead, they can receive financial support from the EU in the form of Accompanying Measures. €1.244 billion of general budget support is allocated from 2007 to 2013, and will be distributed based on National Adaptation Strategies (NAS) developed by each country. According to the EU Action Plan[12] on Accompanying Measures, there are three targets for assistance:

- To improve competitiveness for ACP sugar industries through technology and infrastructure improvements.
- To aid in diversification to other industries (i.e. tourism).
- To address broader adaption needs like unemployment and lower incomes created by the reform.

According to European Commission officials, this type of support is considered an exceptional measure, as the EU does not normally offer adjustment assistance when internal policy changes affect external markets.

ACP Countries	Accompanying Measures Allocation 2006 (€ 1,000)
Mauritius	6,543
Guyana	5,663
Jamaica	5,218
Swaziland	4,703
Fiji	4,038
Belize	3,038
St. Kitts and Nevis	2,854
Barbados	2,332
Malawi	667
Madagascar	567
Mozambique	562
Tanzania	562
Zambia	562
Kenya	502

Table 3 Source: DG Development

The Accompanying Measures are allocated on a project-basis as proposed through each nation's Multi Strategy Adaptation Plans. The plans take into account the social and political circumstances that surround ACP countries' sugar industries. The project-specific approach generally provides greater accountability of the true beneficiaries, as ACP countries must account for how the Accompanying Measures are spent. The European Commission maintains discretion in approving or denying funds for each project. The Commission will complete a midterm review of the MIP to determine the level of aid allocated until 2013.

[11] South Africa is an ACP country but is not eligible for an EPA, as they have already concluded negotiations for under the Trade and Development Cooperation Agreement.
[12] Commission Staff Working Paper: Action Plan on accompanying measures http://www.fes.de/cotonou/downloads/official/ACPEU/COMMSUGAR2005.PDF

D. ACP Reactions

ACP countries have generally been skeptical of the EPA approach. While ACP countries enjoy duty and quota-free access to the EU market, they no longer benefit from the high sugar prices seen under the Sugar Protocol. The ACP Sugar Group and various NGOs[13] have openly criticized the drastic price cuts, the short transition time and insufficient financial assistance under the current EPA framework. With the WTO special exemption waiver set to expire on December 31, 2007, most EPA negotiations were forced into interim agreements, providing market access on goods like sugar, but leaving other issues like services and investment to subsequent negotiations. Only the CARIFORUM group managed to sign a full EPA before the deadline.

Notwithstanding the skepticism, the European Commission is confident that, in the end, ACP countries will see the benefit of the EPAs as an avenue for trade and development. The European Commission continues to reaffirm the EU commitment to support ACP countries.

The reform's impact on LDC/EBA countries

A. Background

Agreement Type	Country	Agreement Type	Country
ACP-EBA	Angola	**ACP NON-EBA** (By EPA region)	
	Benin	CentralAfrica-NON-LDC	Cameroon
	Burkina Faso		Congo
	Burundi		Gabon
	Chad	ECOWAS-NON-LDC	Ivory Coast
	Democratic Republic of Congo	SADC-NON-LDC	Swaziland
	Ethiopia	ESA-NON-LDC	Kenya
	Guinea		Mauritius
	Haiti		Zimbabwe
	Madagascar	PACIFIC-NON-LDC	Fiji
	Malawi		Papua New Guinea
	Mali	CARIFORUM-NON-LDC	Barbados
	Mozambique		Belize
	Niger		Dominican Republic
	Samoa		Guyana
	Senegal		Jamaica
	Sierra Leone		Trinidad & Tobago
	Sudan	**NON-ACP EBA**	Bangladesh
	Tanzania		Cambodia
	Togo		Laos
	Uganda		Nepal
	Zambia	Table 4 Source: CIRCA	

The Everything-but-Arms initiative has essentially liberalized EU markets for the 50 Lesser Developed Countries; however, full access for bananas, rice and sugar has been delayed. For sugar, LDCs are allocated duty free-quotas at ACP preferential prices until October 1, 2009,

[13] WWF and Oxfam Joint NGO Briefing Paper http://www.oxfam.org/sites/www.oxfam.org/files/critique.pdf

at which time the 26 EBA Sugar countries (See Figure 4) will have quota-free access to the EU.

Free access for LDC sugar will be phased-in under the EBA initiative so that LDC countries can receive complete free access at the same time as the ACP countries. Until then, regulations (Reg. 732/2008, Art. 11 and Reg. 1528/2007, Art. 8) ensure that LDC sugar has the same minimum import price scheme as EPA sugar (EU importers pay at least 90 percent of the yearly reference price until the provision expires in 2012).

As with EPA arrangements, sugar from LDCs is subject to rules of origin and the safeguard clause to protect against import surges. Under the EBA, imports from a third country that exceed by more than 25 percent the volume of shipments in previous marketing year will trigger a safeguard investigation. The safeguard remedy could include a temporary suspension of duty-free access or an increased surveillance on imports. Processed products are also monitored according to the supplemental rules of origin which regulate refining, flavoring, coloring, or substantial mixing of sugar.

B. Impact

Partner Country	Production, 1,000 MT			Exports to the EU, 1,000 MT		
	2008	2009 (Est)	2015 (Est)	2008	2009 (Est)	2015 (Est)
Bangladesh	175	175	184	12	11	12
Benin	7	7	11	15	7	12
Burkina Faso	40	40	42	0	0	12
Cambodia	0	20	105	0	8	75
Congo Dem. Rep.	75	75	63	0	15	20
Ethiopia	360	360	510	21	21	24
Laos	0	10	55	0	7	50
Malawi	290	250	350	64	55	80
Mozambique	285	265	530	76	55	220
Nepal	150	150	147	13	12	15
Sierra Leone	0	0	12	13	11	12
Sudan	825	860	1850	19	27	585
Tanzania	215	290	525	40	25	75
Togo	5	5	10	5	7	10
Uganda	220	220	255	0	0	0
Zambia	300	290	440	49	55	225

Table 5 Source: FAS PSD and Global Trade Atlas

Of the 26 EBA countries eligible for sugar licenses, only 7 actually exported sugar in 2001 (the first year of the EBA). By 2007, 14 countries applied for licenses (see Table 5) with two more, Cambodia and Laos, expected to join in 2008.

EU sugar imports from EBA countries are expected to increase over the longer term, assuming current projections for production and consumption growth. Table 5 and Figure D show projected EBA exports to EU in 2015.

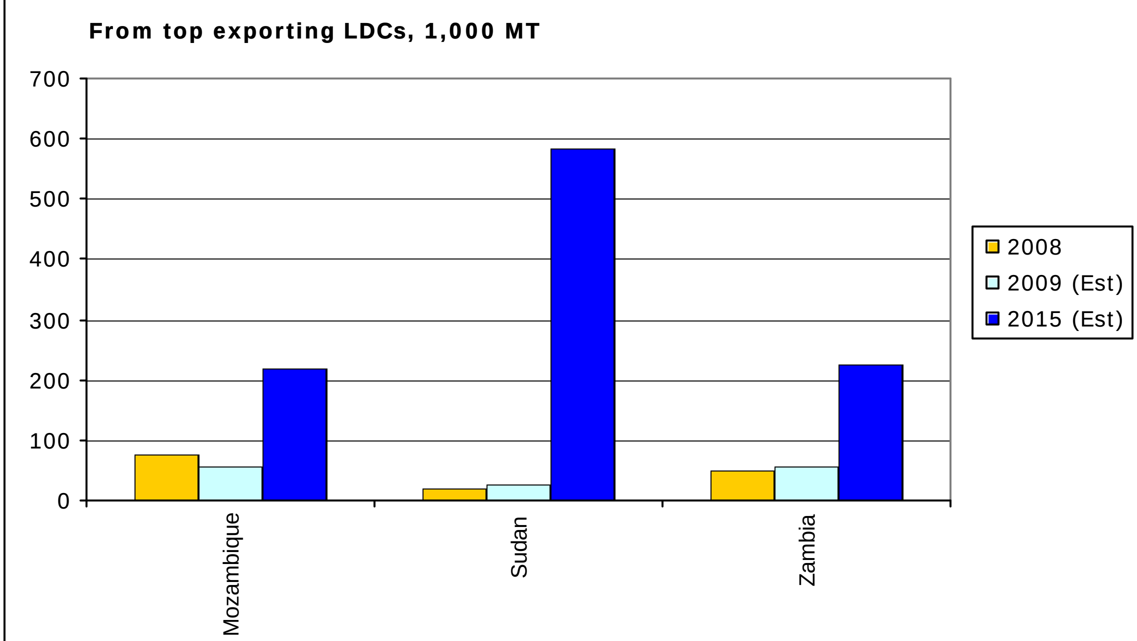


Figure D

Of all the LDCs, Sudan, Mozambique and Zambia are currently the leading exporters, supplying the EU with an estimated 238,000 MT of sugar in 2008/09. According to some industry sources, Sudan could be in a very favorable position under the EBA, potentially increasing its exports the EU to 585,000 MT by 2015.

Conclusion

- EU sugar production has fallen to 13.6 million MT and will continue to fall as 6 million MT of quota is renounced by 2009/2010. EU sugar production for ethanol remains steady with production at around 800,000 MT, keeping sugar producers in business in areas like France and Germany.

- The EU is now a net importer of sugar, as C-sugar exports have fallen to 1.6 million MT and export subsidies for sugar have been eliminated. Export subsidies and import duties remain for processed products containing sugar. Transitional surveillance measures will remain in place to prevent surges of imports from EPA countries.

- ACP sugar producing countries are also undergoing a significant transition, with some countries unable to compete given lower EU sugar prices. St. Kitts and Nevis has already shut down production. Investments to improve competitiveness may help some producers stay in business, with the EU co-financing some projects through Accompanying Measures from 2007-2013.

- Under the EBA, the world's 50 LDCs gain completely free access for sugar starting on October 1, 2009. As with ACP countries, the LDCs will receive at least 90 percent of the new reference price, or €301.68/MT c.i.f. However, restrictions on processed sugar remain in place, and it is unlikely that EBA countries will become major suppliers to the EU market due to lower prices and limitations in infrastructure investment.

- The EU reforms have triggered international trade to shift away from white sugar to raw. Lower cost, versatile industries like those in Brazil and Australia will benefit from the EU's 6 million MT sugar withdrawal.

- This shift complies with EU policy emphasizing higher-added value products containing sugar over raw sugar.

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E35082	EU loses appeal in WTO EU Sugar Export Subsidies Panel	4/29/05
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