EPA-EBA London Sugar Group

Representing the ACP and LDC sugar industries supplying the EU

10th February 2013

[redacted]

DEFRA

CAP Reform and its impact on ACP/LDC sugar suppliers

Dear [redacted]

This is a personal message from me. I have not yet had an opportunity to share the text with my colleagues at the London Sugar Group nor with Ambassadors in Brussels. However I have had the benefit of a recent meeting with them and the general sense of discussions is I think fairly reflected in the following paragraphs. As time available for discussion on the CAP reform debate is rapidly diminishing I feel it is important to air some questions which concern ACP/LDC sugar suppliers to the EU market

Firstly some admin matters. I used to send [redacted] a courtesy copy of the EPA EBA group forecasts of sugar supplies to the EU market. I realise that I did not continue this to you when I submitted our latest estimate to DG Ag in late January. I now attach a copy ****** **:** perhaps you could confirm that you wish to receive these as they are submitted. . As usual I have to place a "health warning" on the forecast as the crops of the Southern Hemisphere had only just closed when the figures were compiled and their 2013 harvests do not begin for several months yet. We are therefore still dependent on unpredictable tropical weather . However as you will note the forecast if achieved will mark a significant increase compared to recent years even though it still includes lower than historic performances by some of the traditional suppliers (eg Guyana and Fiji) . These countries are recovering slowly from some difficult times and their plans are to increase supplies again as fast as resources will allow . This brings up the matter of the Accompanying Measures (AMSP)

At [redacted]'s (and DFID's request) I have regularly provided data on the progress of the AMSP which we receive from time to time from Dg Dev in Brussels. I am afraid that I have lost touch with the appropriate addressee in DFID for this information . I note that in your recent meeting with the Swaziland delegation DFID was represented by [redacted]. Should I also send the reports to him?. I have recently analysed the latest advice received in January and attach this **.

The importance of raising the matter of the AMSP together with our discussions on CAP Reform is our deep concern at the apparent lack of coherence in the triple policy areas of Agriculture,Trade and Development which underpin the overall ACP/EU relationships as defined under the Cotonou Agreement . These are more specifically referred to in the EPA's which in the case of CARIFORUM has particular regard to the "competitive positions of traditional agricultural products including sugar bananas rice and rum in the market of the EC party". For the traditional Commonwealth producers of sugar the ending of the Sugar Protocol and its associated price reduction of 36% from October 2009 was a dramatic event which required a significant adjustment to industry plans and economic structures. We were grateful for the EU's recognition of this and the overall budget allocation of 1.245 Bn Euros to assist in the necessary adjustments to improve industry operating efficiencies and to contribute to the social costs of change. Sadly the AMSP has not as originally indicated by the EU been front loaded and the subsequent surge in energy prices and the financial crisis has eaten into its intended overall value . It has also been disturbing that there has been a considerable difference in the experience of the beneficiary countries in accessing the promised funds. This is illustrated in the attached Analysis. Overall the delayed disbursement has been an important factor in slowing down the planned productivity improvements and diversification projects . Together with the not unexpected slower than anticipated expansion of output from new green field projects in Africa it is not surprising that overall deliveries from EPA EBA countries has not reached expectations .Of course it has not been helped by the sequence of poor weather in the main supplying countries.

The relevance of all this is that we are strongly of the view that any change in the EU sugar market management would be premature and indeed that a target for further Reform as proposed by the Commission should be delayed until 2020 at the earliest . Unlike sugar beet which is an annual crop the cane plant involves high front ended expenditure which takes up to 7 years to recover the investment in the agricultural sector and even longer in the heavy capital expenditure in the processing units and infrastructure. It is encouraging that Comagri has approved the Dantin proposal which headlines a recommendation to extend beet quotas until 2020 and the European Parliament is now expected to vote in plenary on 13th March . However we sense a drift in some capitals including the UK for a compromise date between the Commission's proposed 2015 and Comagri's 2020 . We would urge that HMG takes account of our views that as the sugar quota is not a production limiting arrangement the termination of the beet quota system earlier than 2020 will place the vulnerable industries of the ACP in direct competition with substantial existing Out of Quota beet sugar tonnages which if there is a lapse in quotas will be attracted to the food market . Market Price volatility would be inevitable and hurt ACP/LDC ability to contribute self generated funds for investment .This in turn will adversely affect investor and commercial lenders' confidence and potentially damage the existing financing plans for the ACP suppliers' long term programmes to achieve the improved efficiencies defined in the Adaptation Strategies submitted to the EU in 2006 to justify the AMSP support. It is essential to understand that many private sector sugar operations have invested considerable amounts which are already being damaged by the slow disbursement of "***Accompanying*** Measures" which were intended to complement industry investments. In many instances we are facing a discordant contribution record .Stability and predictability are now even more vital to the fulfilment of these plans if we are to prepare for a more competitive environment in the EU which is our main market and to underpin continued supplies to our traditional customer in the deficit market of the UK.

The ACP Sugar Sub Committee in Brussels has welcomed the Comagri headline proposal but has submitted some suggested variations.(I will forward the Ambassador's letter to you separately)****** These are related to the objective of protecting the value of the ACP and LDC preferences which are threatened by the proposal to allow duty free cane imports and levy free OOQ releases to cater for serious market shortages. These preferences are enshrined in Cotonou and the EPA's. In a similar vein we are attempting to draw attention to the EU commitment to consult us on any possible extension of duty free status for sugar imports within any new FTA's. With a prospect of a possible structural surplus any increase should be the subject of consideration of EU policy coherence towards the ACP/LDC countries. Market price disturbance and attacks on preferences could have irreparable negative consequences on the ACP/LDC developmental strategies.

I am aware of the discussions you have had in London with the Minister from Malawi and the Swazi delegation . The Deputy PM of Swaziland accompanied by several Ambassadors also met with a number of Missions in Brussels including the UK representatives and the Irish Presidency. We understand that with the Financial Perspective for the EU to 2020 having been apparently confirmed last week the Presidency intends to move to obtain Council approval for CAP Reform by end June. Time is therefore of the essence if we are to influence the final debates. I would welcome having a further discussion on these matters either with yourself or if you feel it would be appropriate by arranging for a small Ambassadorial delegation to visit from Brussels to meet your Minister. The importance of a further formal engagement at a high level has been confirmed by a couple of quotations which have been noted and which have surprised us.

Minister Patterson was reported to have stated his full support for the removal of beet quotas to allow confectionery companies access to more sugar thereby allowing them to increase their exports. Allowing for the enthusiasm of the trade reporter leading to a misquotation of the Minister the general message seems clear and shows a surprising misunderstanding of the issue .

a) The Inward Processing Relief (IPR) provides EU manufacturers who wish to export their products the ability to import sugar and to obtain repayment of any duty paid on imported elements of their final product . This important factor seems to have been overlooked

b) The small manufacturers of sugar containing goods in developing countries and especially in EPA countries remain concerned at the potential power of large conglomerates to overpower them in their domestic markets. Curiously in the CARIFORUM EPA negotiations the reverse fear of competition from exporters of sugar containing goods to the EU was believed to be a contributory factor in the refusal by the EU to allow "cumulation" within the Caribbean region.

It would seem a perverse philosophy which now seeks to force down EU sugar prices for developing nations and simultaneously to encourage EU producers to compete even more effectively on sugar containing products in those same developing markets ! It begs a question on whose trade the EPA's are intended to encourage

I was also surprised to read the notes of the meeting with the Swazi delegation which quoted Ms Sarah Hendry as referring to the effect of quotas being an extra 1% on the average EU shopping basket. This is an often quoted but I had believed discredited calculation. It always was based on the fallacy that the intermediate (or secondary) processors (eg Cadbury/Coca Cola/Nestle etc)would pass on to the final consumer any price reductions by the primary producers and first stage processors . In the marketing year 2009/10 following the final price cut of 36% it has been estimated that 5 billion Euros was transferred by the first stage processors to the final product manufacturers without any discernible impact on final consumer prices. In the following years the turbulence in the World Market confused comparisons but as noted in a House of Lords debate in November 2011 on Food and Prices the PUS Lord Taylor of Holbeach accurately rebutted the claim of a connection between the CAP and high prices for basic food stuffs inc sugar(excerpt attached)**** . It would seem more important to challenge the pricing policies of the major sugar using companies if the real end consumer (ie the housewife) is a serious focus for support and is to be better protected. ACP/LDC producers understand the continuing desire for low cost food and were prepared to accept their contribution to this laudable objective. We do not agree that we should have been disadvantaged in order to boost the earnings of a less deserving part of the value chain which already also benefits from protection for most of its other ingredients. The Minister's championing of their interest does seem misplaced

We were pleased to hear [redacted]'s positive reference at the same meeting with the Swazi delegation to the importance of trade rather than aid .It is a philosophy with which we strongly agree . It adds to our concern that actions in the Reform of the EU's domestic CAP should not ignore the damage to trade and development which is posed by the proposal to end beet quotas in 2015. As I have outline above the AMSP was integrated into arrangements to assist ACP/LDC countries to adapt to a more competitive future. The beet sector and refiners received significant immediate sums to compensate for the 2005 Reform changes and I can still recall the words of the EU's Trade Commissioner in his visit to Georgetown in December 2004.

"Two things are required from Europe to off-set the impact of the reform proposals:

a)Maintenance of preferential access for their imports;

b) Accompanying measures for a robust adoption process

" The EU's assistance package must come into play as early as possible so as to anticipate rather than simply cushion change"

It was calculated by HMG that the losses from the 2005 Reform would cost the ACP suppliers 1.75 Billion Euros . This was cut back to 1.245Bn Euros but as you will see from the attached AMSP Analysis the payments to date still amount to only 504m Euros – some 8 years after Lord Mandelson's statement which was interpreted as a promise of early action . Of this you will note that the 9 smaller nations reliant on project financing rules have only received 68 million Euros or less than 18 % of the sum originally allocated to them. We really do need more time to adjust and are seeking the support of HMG as our oldest trading partner in extending beet quotas in a new sugar regime to at least 2020. We also need to ensure that the changes to the Dantin text takes account of our suggested changes to prevent erosion of ACP/LDC preferences as agreed in Cotonou and the EPA's.

I am sorry to batter you with such a long message which has grown to cover a range of issues all of which are tied together in our concern about the main policy areas affecting ACP/LDC sugar supplying countries. It is a personal message from me but I would be happy if you wished to use all or any part of it with your colleagues. I suspect that some ACP/LDC countries may wish to write directly about some of the subjects raised and as mentioned above I would also welcome the opportunity for a further discussion on some of the matters with you and /or your colleagues in DEFRA or DFID (or indeed Dept of Trade) . If you feel it is necessary I would happily write a formal much shorter and punchier letter to HMG

Kind Regards

Barry