**Note of Meeting with DEFRA at Smith Square –Friday 5th August 2011**

**Present**

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| [redacted] | DEFRA |
| [redacted] | DEFRA |
| [redacted] | DEFRA |
| [redacted] | DBIS |
| Barry Newton | EPA EBA |

1. It was explained that whilst [redacted] continues to lead on sugar issues within DEFRA , [redacted] has a coordinating responsibility with regard to the single CMO within DEFRA's CAP Reform team
2. Similarly [redacted] although nominally part of the Dept for Business, Innovation and Skills (covering the old DTI) was specifically part of a Joint Trade Policy Unit which also embraced the interests of DFID.

**Agenda**

3. It was agreed that it was an informal discussion and no fixed agenda existed

**Ambassadors Meeting**

4. The request by Brussels Ambassadors for a meeting with HMG had been noted This was supported by officials and was expected to be approved with a date in early/mid September to be notified as soon as possible. It was not yet clear whether it would be with Minister Spelman but it seemed more likely to be with the Minister of State Jim Paice Both Ministers had a long prior association with the EU sugar industry and Mr Paice represented a beet growing constituency. However it was noted that the significance of this should not be overemphasised

**HMG Position**

5. HMG had not yet reached any firm views on the Reform and were in a "listening mode" It would therefore be an opportunity for ACP suppliers to present their case to the Minister This should be clear and important points made with an appropriate strength of practical rather than emotional argument . It would be important to avoid any confusion in the message

and to concentrate on matters which are relevant to the remit of DEFRA. Issues on AMS can be mentioned but be subordinate to the main message on CAP Reform

6. DEFRA wished to devote attention to long term CAP issues and suggested that it would be preferable to avoid reference to past legislative failings which have no relevance to future market conditions
7. Although not a firm policy it seemed likely that HMG would if possible wish to see the continued existence of both a strong beet sector and a viable port refining industry. In this regard it was noted that some MS were still keen to press for greater reliance on domestic beet sugar supplies and the recent Polish move for increased quotas reflected this view which was supported by a number of States

**CAP Reform programme**

8. DEFRA anticipated that the Commission's position on CAP Reform would be ready in early September and that its details would leak widely at that time. This "phoney war" would be followed by a period of informal exchanges leading to the start of formal meetings in November/December(or even into the New Year)  At this stage higher level debates would begin to include Ministers and the EP. with the aim of a legislative text being ready in Autumn 2012. It was emphasised that this was pure conjecture but would follow previous experience
9. Although the CMO single regulation was now in force it was suggested that sugar may once again be treated as a special case

**Commission Position**

10. All contacts indicated that the Commission still wished to end quotas and thee was general agreement amongst the professional economists (inc at DEFRA)that they were market distorting and should be abolished. However it was also clear that there was considerable support for their retention and the Dess report added further weight to this position.
11. The Commission would not be unaware of  current "noise" about this and the consequent difficulty of winning such a battle and may conduct a tactical campaign by suggesting a 1 or 2 year extension beyond 2015 .The 2020 target could then be accepted under duress in return for something else in the CAP package . It can also be expected that the Commission

would not accept a phrase such as "at least 2020" and would insist on 2020 as a final unalterable date for quota abolition

**EPA EBA Position**

12. It was emphasised that EPA EBA Group represents the sugar industries of the ACP plus non ACP suppliers to the EU under the EBA arrangements . Brussels Ambassadors are the main formal conduit for debate with the EU/EC on CAP Reform. However we do provide "expert" advice and have a mandate to pursue informal discussions such as the current meeting .We also maintain contact with DG Ag on market management matters and the implementation of Regulation 828/09 and join formally in regular Joint Technical meetings at which DG Ag , DG Trade and DG Dev also participate
13. The interests of EPA EBA have been articulated in several Aide Memoires provided to the Commission and also enunciated as Resolutions at ACP Ministerial meetings. The thrust of these remain
    - 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 ,including Special Safeguard Clause

14.We are reasonably certain that these objectives are in accord with those of the EU sugar industry and are in complete harmony with the aim of a balanced supply of home grown and imported sugar which will ensure long term food security and market stability

15. We share DEFRA's wish to concentrate on a long term view of CAP Reform In this context and together with the beet sector we are concerned at an apparent incoherence of EU policy as evidenced by the emphasis by DG Trade on EU offensive trade interests which are being accompanied by the award of incremental sugar TRQ's within bilateral FTA's . These extra commitments which have no regard for the long term balance of the EU sugar market were not foreseen when the existing Reform model was established .Moreover it has now been agreed in discussion with DG Ag that the original model was flawed to the extent of 1.3 million tonnes which confirms our view that the long term estimates of market supply indicate a structural imbalance which will inevitably exert downward pressure on the desired price. A new model is

therefore needed and full regard must be given to the treaty commitment in both the EPA and Cotonou for prior consultation with the ACP before embarking on any other award of TRQ

16. It must be noted that the ACP needs a Trade based solution with guaranteed access and a suitable market price The trend to Direct farm payments to offset low product prices will be of no benefit to importers who do not qualify for such financial support

17 Overall we remain concerned at suggestions for further radical change when the 2005 Reform of the sugar sector only reached its final price change in October 2009 and has since been affected by an unusual period of volatile World Prices which are only now being felt within the EU. This provides no basis for an assessment of the impact of the new Regime Furthermore ACP producers have committed funds to an adaptation of their industries based on longer term stability but most have not yet been able to access the Accompanying Measures finance promised by the EU to match the investment by industries.

18. HMG should recognise that if a period of instability is threatened such as would be almost inevitable without beet quotas the most efficient producers in NW Europe who are already producing significant quantities of out of quota sugar would probably drive the port refiners out of the market with many MS beet industries also coming under threat. For a number of ACP suppliers the loss of their traditional refinery outlet would be very damaging.

19. The dangers posed by any longer turmoil is currently masked by the short term market supply shortages and exceptional high price levels It should be noted that the levels of supply by the traditional Commonwealth producers is not significantly lower than expected .However the large increases expected from new LDC suppliers (Sudan Ethiopia) and from triangular swap trades with Brazil have not occurred as expected This is partly a function of relative short term prices and partly the inevitable slowness of new projects in the developing world. However the expectations are believed to be delayed not abandoned and as noted above even forecasts much lower than the 3.5 million Threshold suggest a serious structural oversupply situation . This is without any further FTA’s and without any consideration of the impact of declaring sugar “Sensitive” in the Doha Round

20. To assist DEFRA at MANCOM meetings it was agreed that they would be copied into the monthly supply estimates given to DG Ag

**Accompanying Measures**

21.HMG has expressed concern at the slow disbursement of AMS funds . However it is proving difficult to elicit any sensible rational response of the reasons for this from DG Dev in Brussels. It was explained that the experience of individual countries varied considerably and the first major difference was in the experience of countries eligible for budget support and those (usually less well organised at civil service level) who must rely on project appraisal methods. The data on drawdowns revealed some appallingly low levels with a very real danger of not meeting the deadlines for large scale opportunity loss of financial support. It was explained that many Govts are reluctant to complain for fear of further difficulties with EC delegations. It was also undoubtedly true that there are inefficiencies within some Govts.as well as policy changes since the Action Plans were submitted

22. It was agreed that there will be an exchange of information with EMacM to identify if there is any action which HMG might be able to suggest to improve matters

23. HMG is not sanguine that there can be any more AMS type funding. It was pointed out that the original programme owed much to the fact that the UK was in the presidency at that time and was fully committed to the provision of support

It was agreed that it would be worth maintaining contact on this complex scenario

BN 8th August 2011