CEFS – Olivier LIPPENS

Introduction

CEFS recognises the need for adapting the European sugar sector to the CAP reform and to the international commitments of the Union. But this clearly means no more no less than what is necessary in the aim to give to the European sugar sector a sustainable future, in other words a sustainable farming and a sustainable industry. Having this in mind, CEFS has to stress that the Commission's current proposal falls short of meeting the objectives of sustainability and competitiveness of the European sugar sector and contain important omissions.

On the short term

On one hand CEFS welcomes the proposal to implement a voluntary restructuring scheme during a limited period of time in the beginning of the reform. It was already mentioned to Mr Fischler when he wrote his own text but he did not saw the positive of this proposal and we are happy to see that you did. But, on the other hand, CEFS does stress that nobody can predict how this tool will work and what will be the real impact on the annual balance of the European market.

Therefore during that restructuring period CEFS cannot understand why the Commission is not proposing to keep two important management tools for the market.

The first tool is a reasonable sugar export program. A reasonable sugar export program means a reasonable reference in WTO and a reasonable use of this reference. Therefore CEFS invites the Commission to incorporate the reference given by the ACP reexport in its WTO export commitment and not leave it for free after the report of the Appellate Body on the European sugar regulation. This means that day one of the reform, EU should be allowed to export up to 2,5 million tonnes of sugar instead of a limited 1,274 million tonnes. This is for the level of the ceiling. Then the Commission should use what the Appellate Body said and should fulfil this ceiling with *ACP sugar equivalent* **or** *quota sugar* **or** *out of quota sugar*. In the proposal the *out of sugar production* cannot be exported. We consider that this is a mistake during the transitional period. Of course the figure for the ceiling will evolve depending on the result of the Doha Round agreement. But what is requested by CEFS is to use all the flexibility given by the WTO in the aim to properly manage the sugar market during the restructuring period.

The second tool is the maintenance of the intervention mechanism. Why keeping this mechanism when the Commission proposes to remove it? The reason is clear: the sugar industry must pay the minimum beet price and, especially during the restructuring period nobody knows how the balance of the market will be. If the Commission believes that its proposal is the right one, it must be confident on it and therefore there is no reason to pass the risk attached to the market balance to the sugar industry. Indeed in case of an unbalanced market first of all there will be the solution of a reasonable export program, but the risk exists that this could not be enough as one saw this 2004/2005 campaign. Therefore, as today, for crisis situations, the sugar industry must have the possibility to sell some sugar to the intervention agencies and by the way to be able to pay the minimum beet price to the growers. This is different from the private storage scheme of the draft proposal which is not the result of an economic decision of the sugar industry as the intervention is, but the result of a political decision adopted by the Sugar management committee after being sure that the market is really in trouble.

<u>Now let me have a look on the long term perspective</u>

The reform which is proposed means that the European sugar industry will face an enormous change. The Commission's proposal means that the European sugar industry will face a more than 50% turnover cut within three years due to lower prices and to lower production. This is enormous.

Therefore it is quite normal that the European sugar industry wants to make sure that for example the 3 billion euros per year gift given to the European sugar users will be counterbalanced by some security on its own long term profitability. And here is a problem because the Commission's proposal provides no security at all concerning the sustainability of the sector after the proposed revolution. The reason is that the Commission's proposal is completely missing the external policy pillar of the reform.

On the export side, CEFS cannot understand why the European sugar industry would be the only one in the world being prohibited to export without refund sugar produced with beets paid as the same price as for the domestic market when all the other sugar exporting countries are allowed to do it. Such market opportunities which are denied by the present Commission's proposal could represent up to 1 million tonnes of quota sugar.

On the import side CEFS cannot understand why the Commission is still dreaming that the preferential imports can be managed by a price cut. Without any quantitative management of the preferential imports it will be impossible to manage the domestic market. Fluctuations of the world market price and fluctuations of the currencies will be translated in more or less imports of sugar originating from the LDCs thanks to the triangular trade (SWAPs) with the world market. Once again after being the first beneficiary of the reduction in volume of the European sugar exports on the world market, Brazil will take the benefit of this triangular trade. CEFS cannot understand why the Commission is making a Trojan horse from its Initiative EBA to the benefit of Brazil and takes a huge risk with frauds on rules at origin. Therefore CEFS strongly recommend to the Council and to the Parliament to prohibit the SAWPs in the Initiative EBA. This would give to this Initiative an aim to work for development in LDC and would avoid international traders transforming this Initiative in a Trojan horse for their own interest and the one of Brazil. It would also avoid to play with the risk of fraud.

<u>AS A CONCLUSION</u>

Last let me insist on the fact that as a consequence of not considering the need of a quantitative management of the market and of not optimizing the possibilities of coming to agreements which allow a higher volume of exports from the EU the Commission is bound to propose prices and production cuts far above what should be required and which jeopardize the short term survival of the sugar activity in many regions and the long term sustainability of the whole European sugar sector.

CEFS is confident that the Council and the European Parliament will correct and adapt this proposal to compensate the negative impact of the reform with a completed framework assuring a real sustainable future for the remaining reduced European sugar sector.