SPEECH BY OTTO VON ARNOLD AT THE CIBE/CEFS/EFFAT COLLOQUIUM ON 28TH JUNE 2005

Chairman, Ladies and Gentlemen

For the last two years, the EU COMMISSION has been making great communication efforts to justify the CMO Sugar reform. I think that it has succeeded in convincing the Ministers of Agriculture that reform was necessary.

The loss of the World Trade Organisation panel on EU sugar exports, WTO negotiations on tariff and export subsidy cuts and the precedent of the reform of the Common Agricultural Policy which transfers *product* support to *producer* support are obviously factors that we cannot ignore.

We know that there have to be price cuts.

We know that subsidised exports will be significantly reduced and possibly even disappear in time.

We know that European sugar production must be reduced.

We know that, because of this, the restructuring of the sugar industry is necessary.

We know all of this. But it does not necessarily justify a reform as brutal as the one proposed by the COMMISSION with a drop in production and prices of around 40%.

Why - on the question of imports - has the COMMISSION turned a deaf ear

- to the unanimous requests of European sugar beet and sugar producers,
- to the requests of producers and ministers in the ACP states and Least Developed Countries,
- to the requests of refiners,
- to the requests of NGOs for development,
- to the requests of the European Economic and Social Committee,
- to the requests of European Parliament and
- to the requests of many European Ministers?

Why, so far, has there always been a one way communication?

The main defect of the proposal - something we have been warning the COMMISSION about for two years - is the lack of control on sugar imports from the LDCs. The proposal confirms our fears. We warned against this risk again in May, in an open letter prepared with the processors, in which we said that the textile disaster was a foretaste of what the COMMISSION was preparing for sugar.

If only the COMMISSION limited sugar imports from LDCs to their net export capacity, the system could be controlled. But the possibility it gives the LDCs to send us all their sugar through triangular trade, in other words through SWAP, makes it impossible to make any forecasts.

This makes European sugar and sugar beet production suffer insane risks.

It puts unbearable economic pressure on the ACP states.

SWAP does nothing to fulfil the millennium goal of fighting poverty and nothing to help the development of LDCs. It merely favours the enrichment of a few international trading companies and encourages fraud and corruption in the LDCs. We have to protest about this. I hope that sooner or later, we will be heard by the Council of Ministers and the COMMISSION.

My second criticism of the COMMISSION is that it believes that market balance can be achieved mainly through prices. In the case of sugar, this is an economic mistake.

As admitted by Commissioner Fisher-Boel in her speech before the Parliament on June 22, no one can fight against Brazil and its economic, monetary, social and environmental production conditions. If SWAP remains authorised, on the EU market we are in competition with Brazil and the world market. Brazil possibly enters the European market through the back door, and through SWAP it is on the European market from 2009.

Quantities imported through SWAP are variable. Simple fluctuations of the Euro make any predictions impossible. How much will the Euro be worth in 2008 or in 2012? One dollar, 1.5 dollars?

Nobody knows.

How much will sugar be worth, 6 cents a pound? 8 cents a pound or 12 cents a pound?

Nobody knows.

How - in these conditions - can we believe in a certain stability of sugar imports from the LDCs and in the balanced management of the sugar market in Europe?

The beet production cycle, from buying the seed to the sale of the end product – sugar – is spread over 2 years. It involves enormous investment and a considerable number of jobs in rural areas.

An international trading company only needs a good trader and a good telephone to take advantage of monetary fluctuations or a passing collapse in the world sugar price. In just a few hours, by organising and financially arbitrating a sugar SWAP operation between Brazil, a least developed country and the EU, it can destabilise the EU sugar market. It can ruin several hundred beet growers, cause sugar factories to close down in Europe and mean lost jobs for hundreds of employees.

The COMMISSION's proposal puts all the risks on the European beet sugar sector and the people working for it. It is far too generous to the international trading companies.

With its drastic price cuts, the COMMISSION's proposal also makes agricultural producers considerably poorer - whether they are European, or citizens of an ACP or LDC.

So, who has anything to gain from this? The consumer? That is hardly likely.

No, the only one to benefit from this is the industrial sugar user or leading distribution. The industrial sugar user will have a cheaper raw material but will not necessarily reduce the selling price of a Cola drink or a bar of chocolate.

The profit is very easy to measure. European sugar consumption is about 16 million tonnes. 75% of this is in the form of processed products. If the sugar price passes from 632 Euros to 385.5 Euros, this means an annual benefit of 3 billion Euros for the industrial user. These 3 billion Euros are taken from the beet growers, from the sugar processors from their employees and from the ACP countries. Very little will be passed on to the European end consumer.

The other great winner is Brazil who – via the LDCs - will send 2 million tonnes of sugar through SWAP.

I shall not dwell at length on the beet growers' income because another presentation will deal with this. But I have to underline that beet growing, apart from its agricultural advantages in crop rotation, is at the basis of the income of numerous agricultural holdings.

We are 320 000 (three hundred and twenty thousand) beet growers in the EU and we grow on average 6 to 7 hectares of beet per farm. So it is a huge mistake to think that all beet growers are rich and can easily bear a drastic drop in income. And yet, the proposal seriously threatens beet revenue and the family income provided by sugar beet. There are no good alternatives!

Therefore I would like to make a simple theoretical calculation to show you the loss in guaranteed income facing the growers. I emphasise here that it is the loss of guaranteed income and not necessarily the loss of individual income.

Today, based on the COMMISSION's figures, we have the guarantee to supply EU consumption about 16 million tonnes of sugar with beet at the basic price.

If we take a theoretical yield of 130 kg of sugar per tonne of beet, the guaranteed income amounts to

$$\frac{16\ 000\ 000 \times 47.67}{0.13} = 5.867 \text{ billion Euros}$$

With the proposal, based on the COMMISSION's figures, production of sugar under quota in 2012/2013 will be 12 000 000 tonnes (twelve million tonnes)

$$\frac{12\ 000\ 000 \times (25.05 - 6 \times 0.13)}{0.13} = 2.240 \text{ billion Euros}$$

To this, to be fair, we must add the compensation amount of 1.527 billion Euros. This is without taking account of the risks of cuts, modulation or inactivation. We reach a total of 3.767 billion Euros.

So this gives you a more accurate idea of what we can expect: a 2.1 billion Euro cut – which is a 36% cut – in guaranteed beet income for EU growers. This represents a loss of 6 500 (six thousand five hundred) Euros per beet grower. This is quite simply terrifying!

But I do not intend to criticise everything about the COMMISSION's proposal.

We appreciate the budget effort which will mobilise 1.527 billion Euros to grant compensation to beet and cane growers. But, if the price cut is limited by spreading it over time, the extent of their losses can be reduced. They can be offered an official percentage of compensation higher than the 60% announced. In reality, compensation is probably around 50%.

The other positive element that I can see in the proposal is the restructuring scheme. It should enable a voluntary – and therefore less painful – reduction in production.

However, I must make one criticism. The growers will be consulted, but what negotiating power will they have? Will they have to be against in order to obtain compensation, with the risk of preventing restructuring? It would be wiser for the COMMISSION to take its responsibility and propose an amount for restructuring aid for the growers, just as it does for the processors.

When I say an amount for restructuring aid, I do not mean the 4.68 Euros per tonne of reference quota beet to be paid in June 2007. No, I mean an amount which will enable the growers going out of production to restructure their farms, to enlarge them so that they can maintain a level of family income as near as possible to the one they have at the moment.

They must be given this opportunity, just as the processors who stop production and the employees who lose their jobs at the factories must be given the means for successful reconversion.

Finally I would like to make a last - but by no means less important - comment.

The draft new CMO regulation does not seem to have any ambition on exports. And yet, beet growing depends on climate. We will continue to have unexpected variations in yield and we must not neglect export. We have lost the Panel, but we still have the right to export 1 273 000 tonnes (one million two hundred and seventy three thousand tonnes). We will continue to have this right for a few more years if the COMMISSION is willing to defend us.

In the WTO negotiations the reduction in subsidised exports must be spread over a minimum of 10 years. Our export limitations should be renegotiated to maintain sufficient flexibility of the regime, at least during the years of restructuring.

Exports of quota sugar with refund and exports of non quota sugar must be explicitly programmed to cover our subsidised export possibilities.

Exports of quota sugar without refund must be added to this since the Panel did not condemn them.
Not permitting exports is like, and excuse me for using a strong but precise word, castrating a still viable system.

Europe must not close in on itself. It must honour its WTO commitments but there is no reason for it to impose additional restrictions on itself.

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Chairman, Ladies and Gentlemen

As Commissioner Fisher-Boel saw when we visited her at the beginning of April, our positions are not the same as hers. We have listened and tried to understand her but she has not changed particularly since then.

The COMMISSION's proposal has now been submitted to the European Parliament and the Council of Ministers.

I hope that these political bodies will ask her for substantial changes.

The proposal is unworthy for Europe. It is against European solidarity and cannot be good for the interests and the construction of the future Europe.

I hope that a solution will be found which is more bearable for the beet growers. A solution which, in particular, allows European beet growing to continue in a large majority of Member States.

This is essential if beet growing and sugar industry are to have a future in Europe.

OA 28 June 2005.