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WWF's position on reform of the EU sugar regime

The EU sugar regime was set up in 1968 to guarantee a 'fair', or rather a high, and stable income for EU sugar beet producers and to ensure that Europe produced the sugar it consumed. When the UK joined in 1975 the EU took on British commitments to their former colonies to buy their sugar cane at the high internal price and because there was no cut in production within Europe the EU had to start exporting sugar to get rid of surpluses. Similarly, when Portugal and Finland joined their imports were absorbed and re-exported. All re-export is at a cost to the EU budget. Sugar was not included in the 1992 or Agenda 2000 reforms of the CAP – but has come under increasing pressure to be reformed now. The current regulation (European Commission) No 1260/2001 runs until 30 June 2006.

WWF has an interest in the sugar regime because of its impacts on the environment and people both in the EU and globally.

EUROPEAN SUGAR BEET AND THE GLOBAL ECONOMY

Since 1968 the EU sugar regime has prevented the development of a sustainable global sugar industry that could meet high environmental and ethical standards. It has resulted in Europe consistently producing more sugar than it consumes and having to dump more than 6 million tonnes of that excess on world markets. It is estimated that the EU sugar regime depresses the world price of sugar by some 17% which alone loses the global industry about $1.4 billion a year. On top of that is the lost revenue from the unfair competition from European sugar dumped at a price below the cost of its production. By rigging Europe's trade rules the regime has rewarded beet growers and processors in Europe at the expense of thousands of farmers in some of the world's poorest countries where sugar can be produced more efficiently from cane. It is estimated that Europe is growing up to 12 million tonnes of sugar to consume or export that it could buy more cheaply on the world market. That is sugar that should be grown where it could contribute to real poverty alleviation. Analysis has shown that growth in agriculture benefits the poor most and can contribute directly to achieving the Millennium Development Goals. A 1% growth in agricultural yields reduces the percentage of people living on less than US$1 a day by between 0.6 and 1.2%. With targeted assistance extra value in the global sugar sector should also lead to environmental improvements. Extra money could be either directly invested in better management practices or could reduce pressures to intensify or expand production to retain value in a depressed world market place. This is precisely the focus of WWF's engagement with the sugar industry.

The EU sugar regime costs the European tax-payers €1.5 billion a year in direct subsidies but costs all those who consume sugar a further €7.5 billion in higher prices. That money has been squandered on subsidising some of the richest farmers and food-industries in Europe. It should be spent on improving the environmental performance of the industry in Europe and treating the rest of the world more fairly.

EUROPEAN SUGAR BEET AND THE ENVIRONMENT

Sugar beet is cultivated in Europe as part of a rotation of intensive arable crops. Amongst the impacts of greatest concern are the high use of herbicides, soil erosion during cultivation and harvesting and the over-use of water by irrigation. Although drought tolerant, sugar beet is widely irrigated to ensure consistent productivity and quality. Irrigation occurs across a number of river basins in Europe, from the Duero in northern Spain, the Tagus in Portugal to the Danube in both Austria and Hungary.

Across Europe the main types of environmental impact arising from irrigation include pollution from nutrients and pesticides; damage to habitats and aquifer exhaustion by over abstraction; the loss of formerly high value semi-natural ecosystems to intensive irrigated agriculture; increased erosion; and salinisation and mineral contamination of groundwater. In Spain, irrigation for sugar beet reduces the water reaching wetlands in the Daimiel National Park home to water fowl including the marbled teal which has declined in population by between 33% and 50% since 1991 due to the loss of habitat and mismanagement of water resources.

The only reason that beet is irrigated in Europe is because the regime has set a price three times the prevailing world price. Without this support there would be no economic case for irrigation. If beet was no longer irrigated producers would certainly shift to alternative crops indicating the need for wider ranging solutions to unsustainable water use by agriculture.

SUGAR AND THE GLOBAL ENVIRONMENT

Sugar is produced in 121 countries and global production exceeds 120 million tons/year. Annual consumption is expanding at a rate of about two million tons per annum. Around 60-70% is produced from sugar cane, and the remaining 30-40% from sugar beet.

The production and processing of sugar produces a number of negative environmental impacts, through the conversion of natural habitats, the intensive use of water, the use of agro-chemicals, discharge and runoff of polluted effluent and pollution of the air. These processes lead to the erosion and degradation of soil and a decline, in agro-biodiversity and downstream ecosystems, and in livelihoods.

Sugar cane, in much of the world, is highly dependent on irrigation and has major impacts on some of the world's most sensitive rivers. 95 000 ha (25%) of irrigated land within the Zambezi river basin in southern Africa is under sugar. Zambia, Zimbabwe, Mozambique and Malawi alone account for 93 000 ha of irrigated cane and by 2025 it is expected that the region will be using more than 60% of its total water supply for irrigation. The region desperately needs to be able to invest in more efficient and sustainable irrigation practices. It will only do that if it earns more from sugar and is helped to invest that in better management practices. Closer to home 334 000 ha (10%) of irrigated land in the Konya river basin in Turkey is under sugar beet. Between 50-88% of the useable water in the basin is diverted to irrigation and other demands have led to water being imported from outside. Again a healthier global market in sugar with targeted assistance would see environmental improvements in Turkish sugar production.

Across the world the EU sugar regime shapes the price of sugar and the size and performance of regional and national sugar markets and industries. By depressing the world price, unfairly out-competing other producers and preventing imports the EU sugar regime is holding back higher environmental standards and preventing sugar from playing a part in reducing poverty. The EU has a responsibility to ensure that its policies not only stop damaging people and nature globally but also that it helps the industry to raise its standards.

WHAT WOULD BE THE IMPACTS OF GLOBAL SUGAR LIBERALISATION?

About 80% of world production and 60% of world trade of sugar is at subsidised or protected prices. Only three major producers—Australia, Brazil, and Cuba—now operate at world market prices. The FAO states that OECD expenditure on producer support is well over half the total value of the world sugar trade. The EU, the US, and Japan, which together account for 20% of world production, have average producer prices that are more than double the world market price.

Although there has been only little liberalisation of sugar to date some further *is* expected to occur as a result of US and EU commitments under WTO and other multilateral agreements. Many developing countries have already moved to increase the role of the market, although important subsidies and trade barriers remain in place in some major producers such as Thailand.

Several studies have examined the probable impacts of liberalisation and have come to similar conclusions:

- Reduced support to developed country sugar producers would lower domestic sugar prices (by between 25-65% depending on the current level of support), and so reduce production (from 21-44%), increase consumption because of lower prices, reduce exports and increase net imports by circa 15 million tons a year.
- Since EU and US policies are currently depressing international prices, removal of support would increase the world price of sugar by around 40% and spark increased exports from developing countries (15-25%) and from some efficient developed country exporters.

Global welfare gains from liberalisation are estimated at between US$ 3 billion and US $6.3 billion per year. Brazil will benefit the most, with a net gain of US$ 1.6 billion[1]. Western Europe would experience a net gain of US$ 1.5 billion[2]. Japan would see a net gain of US$ 0.4 billion as a result of lower consumer prices. The US would see a small loss, US$ 0.2 billion, since producer loss would slightly outweigh consumer gains.

Direct environmental impacts of liberalisation will depend on the type and location of sugarcane expansion, and on the fate of lands taken out of sugar production in declining markets. To what extent the shifts in production would entail conversion of current agricultural land or uncultivated land to sugarcane, and to what extent production increases could be obtained through intensification on current land, is unclear. However, the similarity of sugar production yields around the globe suggests that there are few opportunities for disbursing more productive technologies. Continuing oversupply in world markets would also heavy cost competition which suggests that implementing environmental measures that do not have immediate productivity returns would be difficult.

It is also important to consider the impact of liberalisation on some of the small developing countries that are currently trading on preferential terms with protected markets like the EU and US. These gain about US$ 0.8 billion per year from this access, given that they receive prices above the current world price. While these countries stand to lose with removal of the special preference system and with falling prices in the US and EU, this loss would be partially offset by the rising world price. Estimated net losses of US$ 0.45 billion are predicted for these countries. However, since some are high-cost producers, they would reduce production in the face of a lower export price and would suffer a decline in export earnings.

The impact of liberalisation on sugar-sector employment in developing countries would also be significant. If current employment patterns in cane producing countries continue to hold, liberalisation would increase employment in developing countries by between 0.8 and 2.0 million jobs. The net global employment effect would be slightly less because of the loss of jobs in the protected markets. Job loss may be low, however given, for example, that in the US there are only about 9,000 sugar-beet producers. However, as with the

[1] This is a gain of US$2.6 billion for producers, and a loss of US$ 1 billion for consumers who will pay higher prices (Borrell and Pearce 1999).
[2] This reflects a loss of US$3.3 billion for producers and a gain of US$ 4.8 billion for consumers.

environmental impacts of liberalisation it is the distribution of benefits and costs that is going to determine where the impacts are felt. Production is expected to shift from those countries that are more labour-intensive to those with lower labour requirements.

In large part, liberalisation will benefit the low-cost producers which, apart from Australia, are primarily developing countries. Sugar liberalisation can, therefore, be seen as a case of transferring benefits to developing countries (and Australia). Reallocation of benefits among developing countries, however, from the current beneficiaries of import quotas to the lower-cost producers, can also be expected to create some economic losers. The major role of sugar exports in the economies of some of these countries—Fiji, Kenya, Belize, Dominican Republic, Cape Verde, Mauritius, and many more—means that these structural shifts may be devastating.

I**ndirect environmental impacts, of liberalisation** will depend on the ability of those countries gaining market share to capture the development benefits of expanding sugar exports. While sugar clearly provides foreign exchange earnings and employment for many tropical developing countries, the development benefits of the sector are not obvious. According to a study by the European Commission in 1996 "The impact of trade preferences has been disappointing" although a few ACP countries have benefited "the bulk … have lacked the economic policies and the domestic conditions need for developing trade." This suggests that again places like Brazil, Thailand, and Cuba, along with Australia are likely to capture benefits.

Finally, at least in some places, the poor spend a large portion of their income on sugar. While sugar cannot be considered a staple in the same class as grains or oils, it nevertheless plays an important role in many diets and a price increase in the order of 40% will affect poor consumers substantially.

THE WAY FORWARD

The sugar Europe consumes should be produced in ways and in places that have the least damage to the environment and the greatest impact on the alleviation of poverty.

The tools available within the current EU sugar regime – price support, export subsidies and restrictions on production and imports – are incapable of delivering a European sugar sector that is good for people or nature globally. Ultimately, the European consumer, the sugar industry and politicians and policy makers should work towards making the sugar imported, produced and consumed in Europe more sustainable. It can do this by freeing the industry from inefficient interventions such as quotas and tariffs and replacing the regime with a combination of market led standards and criteria for importing, growing, processing and buying sugar. Some policy interventions will be needed to address market failures. Any support for EU producers, where it is deemed to be necessary for environmental or socio-economic ends, must take the form of payments to cover the direct costs of the benefits delivered and must not result in any subsidising of the production or export of sugar. At the same time the EU has a responsibility to support, through aid and trade, the development of a global sugar industry with higher environmental and ethical standards, one which can reduce the environmental impact of sugar production and can help reduce poverty in poor countries.

However, a sustainable global sugar industry is some way off and the starting point for EU sugar reform is the current regime and the flawed set of tools available. Radical liberalisation without managing its consequences is equally unattractive. The first changes to the regime must result in Europe's sugar having less impact on the global environment and ensure it contributes more to alleviating the world's poverty. More than that the EU has a responsibility to favour developing countries and the environment with its policies, at least in the short term, in order to redress the historic imbalances created by the regime. Only after a period of re-adjustment should the regime be revisited to assess its impacts and pursue further liberalisation in ways that ensure that sugar is sustainable.

FIRST STEPS TOWARDS A MORE SUSTAINABLE ALTERNATIVE

We believe that the aim of the EU sugar regime should be to increase sugar earnings in developing countries. Increased earnings from sugar will enable the global industry to achieve higher environmental standards and will decrease the pressure to expand or intensify production in damaging ways simply to maintain income. Higher earnings could also contribute to poverty alleviation. But the EU must use targeted development assistance to help poor sugar producers to improve their environmental and ethical performance or to develop alternatives to sugar where appropriate.

To achieve a greater value and higher standards in global sugar we must see:

Substantially less sugar produced within the EU. Production must be cut to levels that match consumption and imports but which go further to eliminate the production of sugar that can be exported at below the real costs of production. We want to see an end to all payments within the CAP and national budgets that encourage the over-production, use or storage of sugar.

Increased imports from developing countries. Poorer countries must have the option to access a high value EU market to boost their earnings to help alleviate poverty and invest in higher environmental standards.

An end to the dumping of EU sugar on the world market. Dumping acts as a brake on the development of a more sustainable global sugar industry by competing directly with sugar produced elsewhere and by acting to depress the world price for sugar. Direct and indirect support for export at below the cost of production must end.

Europe's sugar budget should help the global industry adjust. Assistance within Europe should be targeted at regions and businesses most disadvantaged. Funding must not lead to a cut in existing environmental or rural development budgets. It must take the form of environmental and rural development interventions aimed at delivering specified public benefits. It must not enable EU sugar to be sold on the world market at below its cost of production.

WWF is concerned that changes to the regime that see a reduction in EU production and an increase in imports of cane from third countries could simply "export" the environmental damage of sugar out of the EU. Assistance to developing countries must be targeted at improving the sustainability of their sugar industries or seeking better alternative livelihoods.

Access for sustainable sugar. European politicians, policy makers, businesses and consumers should also take a lead in developing an independent way of verifying the environmental and ethical standards of sugar and using these criteria to promote access to the EU.

EU beet must be grown to high environmental standards. The production of sugar beet within the EU has impacts on species, habitats, soil and water. Of particular concern to WWF is the role of beet as a driver of unsustainable water abstraction in Mediterranean Member States including Spain, Portugal and Greece.

We want to see an end to the irrigation of beet within the EU where it is has negative impacts on sensitive rivers. We want to see the enforcement of environmental standards that include the Water Framework Directive and Natura 2000.

We would like to see greater transparency in the EU sugar regime. Basic information about who benefits from the current regime and the process of decision making is not available to the European tax-payer, consumer and most stakeholders. Data and decision-making must be more open.

SPECIFIC WWF SUGAR REFORM ASKS, BY 2006:

Cut the amount of sugar grown in Europe substantially – by some 8 million tonnes

- A 40% cut in EU production quotas
- A reallocation of quota across the EU to areas of highest socio-economic need

Increase imports from developing countries – for LDCs to 2.5 million tonnes, ACP 1.3 million tonnes

- An increase in tariff free import quotas for LDCs to 2.5 million tonnes per year
- The maintenance of current preferential import quotas from ACP countries: 1.3 million tonnes
- The removal of barriers to sugar from LDCs now, not in 2009, with development assistance to ensure that production has high environmental standards

Stop export subsidies and other payments that stimulate production and export – all EU and national payments

- The removal of all export subsidies (CAP and levy funded)
- The removal of all national and EU incentives to sugar users and for the storage of sugar

Development assistance to ease any price cuts to ACP and other current preferential traders – linked to improving the environmental and ethical performance of their industries or other sustainable alternatives

Redistribute EU sugar expenditure (€1.5 billion) to:

- Sustainable rural development and environment benefits in Europe, even if not delivered by beet
- Development aid package for sustainable sugar sectors in developing countries

- The development of new non-trade distorting agri-environment and rural development schemes to replace beet price support where beet is shown to be important for biodiversity and/or rural development in the European Union
- Do not create a system of income payments even if decoupled.

- Development assistance to LDCs to ensure that any growth in sugar production as a result of these changes does not damage the environment and does help reduce poverty. This should aim to expand EU imports sustainably to c. 5 million tonnes a year by 2013

Enforce environmental legislation in European beet growing.

- All environmental legislation applied to beet specifically related to the Water Framework Directive and Natura 2000
- In particular standards for water abstraction should be set as a priority in areas where beet is irrigated and has environmental impacts

Greater transparency around the regime

- Full public disclosure of all payments made under the sugar regime to processors, users and exporters of sugar.
- Disclosure of transfers to producers
- Full public record and access to decision-making processes.

Ensure access for sustainable sugar.

- Work with the global industry and consumers to establish sustainability criteria for determining access to the EU.

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