External aid: financial and technical assistance to ACP countries that are signatories to the Sugar Protocol following the reform of the common organisation of the market in sugar CMO

2005/0117(COD) - 22/06/2005 - Document attached to the procedure

COMMISSION'S IMPACT ASSESSMENT

For further information concerning the background to this issue, please refer to the summary of the Commission's initial proposal COM(2005)0266 of 22 June 2005 establishing accompanying measures for Sugar Protocol countries affected by the reform of the EU sugar régime.

1- POLICY OPTION AND IMPACTS: The Commission looks at three policy options.

Option 1 – No assistance measures to accompany the adjustment process required in Sugar Protocol countries: The EC could decide not to address the links between the EU sugar reform and the ACP countries signatories to the Sugar Protocol. In that case, the economic, social and environmental impacts would be fully felt by these countries, unless they can implement mitigation measures with resources of other origin (likely to be difficult due to the loss of financial resources as a result of the reform). It would also demonstrate little consistency with the EC's political commitment to the ACP regarding poverty reduction and the better integration of developing countries into world trade.

1.2- Option 2 - Trade measures: Trade policy is an important tool to foster economic growth in developing countries, and can have a positive impact for achieving sustainable development and poverty reduction. The Commission has committed itself to use these to support the adaptation process of Protocol countries to be implemented mainly through the negotiation of Economic Partnership Agreements (EPA) with the ACP. The EPA process can be utilised to enhance the prospects of the sugar sector within an ACP region, especially within those regions where consumption is growing. It also offers opportunities to improve the trading environment for other products and thus can promote the policy climate for both vertical and horizontal diversification. As regards more specifically the access of ACP sugar to the EU market, the Commission considers that the Sugar Protocol should be integrated into EPA in such a way that does not prejudice the EU's commitment to LDC for full market access for sugar from 2009 and thus ensure full compatibility with WTO rules. Trade measures can contribute to mitigating the impacts of the sugar reform, but only for certain Sugar Protocol countries, and for certain dimensions of the impacts. They should thus be used as a complement to development assistance and are being established in the framework of EPA negotiations.

1.3- Option 3: Development assistance to accompany the adjustment process required in Sugar Protocol countries: In addition to trade related measures, and in order to support the adjustment process of ACP countries affected by the sugar reform, a development assistance scheme can be established. Since the impacts of the reform can be expected to affect a relatively broad range of social, economic and environmental parameters, and since the situations of the different Sugar Protocol countries are very diverse, such an assistance scheme would need to cover a broad range of areas, including measures aiming at i) enhancing the competitiveness of the sugar sector, where this is a sustainable process, ii) promoting the diversification of sugar-dependent areas, and iii) addressing broader adaptation needs.

*CONCLUSION:***The Commission selected a combination of Options 2 and 3.**

IMPACTS: *Note:* These impacts refer to the proposed sugar reform *per se* and are the reasons for which the Commission has put forward the accompanying measures.

Competitiveness: With the price reduction scenario, the industry from an additional significant number of Protocol countries could cover their operational costs but not their overall costs anymore. In the medium term, the least competitive amongst them may no longer be able to profitably export to the European market. The modernisation of the industry in some of these countries (ongoing in several cases) will be a critical factor for their competitiveness level. For these countries, relatively small differences in the EU price level may not have a linear impact on their industries, since, in the order of magnitude of the price cut envisaged by the Commission, and according to the production cost data available, they are at a threshold in terms of profitability. Any additional loss of revenue is particularly sensitive for these industries and puts them in a vulnerable position. The industries of the Protocol countries benefiting from the lowest production costs will be in a position to continue to take profit from their access to the European market, even under the price reduction scenario.

Sugar exports to the EU: For the least competitive countries, the envisaged price reduction may likely lead to the eventual discontinuation of their sugar exports to the EU. For the non LDC group with higher competitiveness levels, the status quo and price reduction options have a similar impact on the export volumes, due to the hypothesis of fixed Protocol quotas. They might slightly increase their export volumes, in comparison with today's volumes, due to the reattribution of Protocol quotas following likely shortfalls by less competitive countries. For the most competitive LDC group, benefiting from free market access, the price difference between the status quo and price reduction options would have a marked impact on their export volumes that would rise. The price reduction imposes a general reduction of revenue for the group of Protocol countries, mitigated by the presence of LDC suppliers which, at the time horizon of 2010-11, would be likely significantly increase their export volumes to the EU.

The countries that might be led to halt their exports to Europe would undergo a total loss of revenue. The revenue of the group of non-LDC suppliers with a higher level of competitiveness will decrease in direct proportion to the price reduction.

Economic: Sugar is an important source of foreign exchange earnings for many Sugar Protocol countries. The loss of foreign exchange revenue to be expected from the reform will have a negative impact on their balances of payments, especially in those where debt sustainability is a sensitive issue. For countries with sugar sectors which depend highly on the EU market (e.g. Mauritius or St Kitts) and which weigh heavily in the economy (e.g. Guyana and Swaziland), the reform may affect their macro-economic situation.

Social: The restructuring of the industry to be expected following the sugar reform will have significant impacts in terms of employment and will affect different labour categories: factory workers, permanent and temporary estate workers, hired directly or indirectly, independent cane growers supplying to the industry, as well as a number of employment sectors indirectly linked to the sugar economy. Their relative importance will vary significantly between Protocol countries, depending on their production structures. Two general types of production structures can be distinguished. In the Caribbean, with the exception of Guyana and St Kitts, cane production is mainly in the hands of small producers, whose revenues depend heavily on this crop. In the African countries, cane production is essentially concentrated in agro-industrial companies, which manage both cane growing (estates) and sugar milling. The sugar companies, whether state-owned (often in the Caribbean) or private (often in Africa) play an important social role. They employ a large number of permanent and seasonal workers, and often provide essential social services to workers, suppliers, their families and / or the community: infrastructure (drinking water, electricity…), housing, health and schooling services. Restructuring due to the reform may lead in certain cases to jeopardising the capacity of these companies to keep providing these social services.

Environment: Like any agricultural chain, sugar production, either through factory operations or through cane cultivation, is linked to a number of environmental impacts, both negative (water consumption and alteration of water quality, biodiversity loss, soil depletion, for example), and positive (soil coverage and erosion control, renewable energy production, for example). In countries where cane plantations represent a significant share of agricultural land use (for example Mauritius, Barbados, Fiji or Belize), restructuring of the industry due to the reform may have significant impacts on these environmental parameters, especially if potential changes in land use do not take place in the framework of a planned process.

2- FOLLOW-UP: The proposed Regulation covers the year 2006, but the assistance scheme for Sugar Protocol countries should continue thereafter under the Development Cooperation and Economic Cooperation Instrument for an additional period of seven years.

For the first year, most countries are expected to be able to undertake priority actions with EC assistance. In some cases, assistance in this first year may be required to support the preparation of a national adaptation strategy. A common indicator to be evaluated for 2006 will be the availability in all countries of an adaptation strategy.

As regards the eight-year scheme, a “mid-term” evaluation will likely be undertaken, and may lead to proposals for adaptation of the assistance scheme, if relevant. The relevance of indicators to be used in the framework of this evaluation will vary between countries, depending on the strategy adopted. Overall export earnings, GDP and unemployment in targeted areas, as well as the effectiveness of implementation mechanisms will be common indicators.