



House of Commons
Environment, Food and Rural
Affairs Committee

Reform of the Sugar Regime: Government Reply to the Committee's Report

Sixteenth Special Report

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The Environment, Food and Rural Affairs Committee

The Environment, Food and Rural Affairs Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Department for Environment, Food and Rural Affairs and its associated bodies.

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*These Members were nominated as members of the Sub-committee on the Reform of the Sugar Regime. Mr Paddy Tipping was the Chairman of the Sub-committee.

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Committee staff

The current staff of the Committee are Matthew Hamlyn (Clerk), Fiona McLean (Second Clerk), Jonathan Little and Dr Antonia James (Committee Specialists), Marek Kubala (Inquiry Manager), Louise Combs and Jim Lawford (Committee Assistants) and Anne Woolhouse (Secretary).

Contacts

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SIXTEENTH SPECIAL REPORT

The Environment, Food and Rural Affairs Committee reported to the House on the *Reform of the Sugar Regime* in its Twelfth Report of Session 2003–04, published on 10 July 2004 as HC 550. The Government's Reply to the Report was received on 13 September 2004.

Government response

Introduction

The Government welcomes this constructive, well-informed and wide-ranging contribution to the political debate on options for sugar reform launched by the European Commission's Communication of September 2003. Since the Committee's report was published, the European Commission has brought forward a further Communication (presented to the Agriculture Council on 19 July 2004) which explains in detail their preferred approach. This is expected to be followed by formal legislative proposals later this year. These further documents will be submitted for Parliamentary scrutiny in the normal way. But it is already clear that the Commission's thinking is very much in the direction of the Committee's report, bringing prices significantly closer to world levels and moving towards a more liberalised market-based system.

At the July Council the Government expressed support for this approach as an important step in the right direction. But we made clear that we thought more should be done in a number of respects, including measures to address the impacts of price reductions on the EU's existing preferential suppliers and in terms of a greater initial deregulation of the internal EU market, in order to bring about a more rapid improvement in the balance of supply and demand and help to eliminate the subsidised export of surplus production. We also drew attention to the role which a liberalised sugar regime could play in advancing the WTO Doha process, the potential for which has been reinforced by progress on a Framework Agreement in the weeks following the Council discussion. The publication in September 2004 of the WTO Panel Report on complaints against aspects of the EU sugar regime from Australia, Brazil and Thailand is likely to be a further key driver for early change.

We will be seeking to build on all these elements as discussions and negotiations develop from this autumn. We will also be looking for the EU to engage with its preferential suppliers, particularly in the African, Caribbean and Pacific (ACP) Group of countries, in response to the concerns which they have expressed in order to find a sustainable and rational way forward for all interested parties.

In addition to this the Government will continue to press for an end to the trade distorting effects of the CAP on a whole, as most recently re-affirmed in the White Paper on Trade and Investment – Making Globalisation a Force for Good.

Against this background, the Government has the following responses to the Committee's recommendations.

Recommendation 1

Reform of the EU sugar regime is inevitable and long overdue. The changes implemented must be sufficient to allow the Community to honour its existing and future international commitments. Reform of the sugar regime should be consistent with that undergone by other parts of the Common Agricultural Policy. (Paragraph 27)

The Government agrees. We have consistently made clear that the existing regime is unsustainable in its current form. The EU's commitments, especially to the ACP suppliers, are an area of particular interest to us. We have always advocated that sugar reform should be in line with the successful CAP reforms agreed in June 2003.

Recommendation 2

We believe that, if reform is going to address properly the challenges facing the sugar sector, then it must take a significant step towards liberalisation. However, it would not realistically be possible to move from such a highly managed market to a fully liberalised position in a single step. (Paragraph 32)

The Government agrees that significant steps must be taken towards liberalisation during this reform round. It remains to be seen how far down that road it is possible to go at this stage.

The Government agrees that lower prices, lower import tariffs and the ending of quotas are all highly desirable objectives for this reform round, whilst taking into account the need to avoid massive disruption to ACP preferential suppliers.

Recommendation 3

Therefore, our preferred approach to reform is broadly consistent with the Commission's second option. It envisages the following changes to the existing arrangements:

- **the phasing out of the quota system;**
- **a reduction in the internal market price; and**
- **a lowering of the import tariff rate. (Paragraph 33)**

The Government agrees that lower prices, lower import tariffs and the ending of quotas are all highly desirable objectives for this reform round, whilst taking into account the need to avoid massive disruption to ACP preferential suppliers.

Recommendation 4

To allow the European Union sugar industry time to adapt to the proposed changes, we believe it is desirable for the price reductions to be phased in over time. Production quotas should only be lifted when a market balance has been achieved, with levels of domestic production and preferential imports matching demand within Europe. (Paragraph 36)

The Government accepts that a transitional period is desirable for many sections of the industry, to allow them time to adapt. We recognise that without sufficient price cuts, the ending of quotas could create new surpluses within the European market. However, we also see a possible role for loosening or reallocating quotas to facilitate the transition to lower prices, particularly for the relatively efficient producers. Early liberalisation of quotas would also ensure that price cuts actually translate into lower market prices for consumers.

Recommendation 5

Reductions in the import tariff rate will also be made possible, as institutional prices for domestically produced and preferentially imported sugar are lowered. This will afford the European Union some leeway in WTO negotiations on the particularly contentious subject of market access. (Paragraph 37)

The Government agrees. Market access is the most difficult area of the WTO negotiations for the EU and sugar is one of the most sensitive products. A reform of the sugar regime which resulted in lower domestic prices would make it possible to reduce import tariffs on sugar, which in turn would lock in the benefits of lower prices and greater competition.

Recommendation 6

It is our strong recommendation that the United Kingdom adopt the position described above in negotiating with other Members of the European Union about reform of the sugar regime. (Paragraph 38)

Noted. The Government's approach is broadly in line with the above recommendations. At Agriculture Council on 19 July 2004, the European Commission tabled proposals for sugar reform, including significant cuts in EU price support with a further review of the regime in 2008. The Secretary of State gave a general welcome to the proposals as a step in the right direction, while urging a swifter end to quotas and emphasising the need to address urgently the impacts on those developing countries which currently enjoy preferential access to the EU market.

Recommendation 7

In recognising the potential losses to ACP countries resulting from reform, we believe that transitional aid programmes should be set up to assist their economies in diversifying away from dependency upon a European Union commodity regime that has lost its legitimacy. (Paragraph 39)

The Government agrees. We have always stressed the need to take account of the concerns of the current ACP beneficiaries. Transitional support will be required, in some cases to make their sugar industry more efficient, in others to assist the diversification out of sugar. We welcome the commitment in the Commission's latest Communication to draw up an action plan to define appropriate trade and development measures by the end of 2004 to assist the affected countries. We believe that this plan should be formulated in collaboration with the ACP and are keen to help facilitate dialogue on this. To this end we are commissioning a study with the Overseas Development Institute that will help those countries affected determine their priorities for a transitional package. This will hopefully be a useful contribution to discussions between the ACP and the EC on the action plan.

Recommendation 8

We agree with the Government that ways have to be found to ensure the cane refining sector is not put at an unfair disadvantage during an interim period when preferential suppliers are adapting to the reform. (Paragraph 40)

We note this and will continue to make the case for fair terms of competition between all operators.

Recommendation 9

We recognised that some form of producer compensation will be required to help farmers adjust to the new market conditions. To minimise market distortion, these payments should be fully decoupled from production activity, following the principles of the CAP reform agreed in 2003. (Paragraph 45)

The question of compensation will clearly be a significant issue as negotiations proceed. The Government agrees that any compensation should be fully decoupled as part of the Single Payment to farmers, which will start in other sectors from 2005.

Recommendation 10

Competition will be increased more by abolishing quotas than through any other policy change. However, if the new sugar regime does not contain provision for eliminating production quotas, we recommend that the competition authorities conduct an investigation into the UK processing industry. (Paragraph 52)

The Government fully shares the analysis that the current quota system gives rise to major issues of competition policy. The latest Commission proposals do not envisage the abolition of quotas during the initial phase of reform from 2005-08. But increasing competition will be a major UK negotiating objective and if sufficient progress is not made we agree that the competition authorities should consider the case for an investigation into the market.

Recommendation 11

Taking a lead on sugar would mean that the European Union would no longer have to be so defensive in trade talks, allowing it to argue its case from a position of strength. (Paragraph 55)

The CAP reforms of 2003 and 2004 have enabled the EU to adopt an ambitious stance in the WTO trade negotiations. Along with cotton, sugar liberalisation remains highly significant in these talks, so reform of this sector would further enhance the EU's negotiating position and increase the chances of an overall agreement.

Department for Environment, Food and Rural Affairs
September 2004