



House of Commons
Environment, Food and Rural
Affairs Committee

**Reform of the EU
Sugar Regime:
Government Response
to the Committee's
Report**

**Fourth Special Report of Session
2005–2006**

*Ordered by The House of Commons
to be printed 15 February 2006*

HC 927
Published on 22 February 2006
by authority of the House of Commons
London: The Stationery Office Limited
£0.00

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.

Current membership

Mr Michael Jack (Conservative, Fylde) (Chairman)
Mr David Drew (Labour, Stroud)
James Duddridge (Conservative, Rochford & Southend East)
Patrick Hall (Labour, Bedford)
Lynne Jones (Labour, Birmingham, Selly Oak)
Daniel Kawczynski (Conservative, Shrewsbury & Atcham)
David Lepper (Labour, Brighton Pavilion)
Mrs Madeleine Moon (Labour, Bridgend)
Mr Jamie Reed (Labour, Copeland)
Mr Dan Rogerson (Liberal Democrat, North Cornwall)
Sir Peter Soulsby (Labour, Leicester South)
David Taylor (Labour, North West Leicestershire)
Mr Shailesh Vara (Conservative, North West Cambridgeshire)
Mr Roger Williams (Liberal Democrat, Brecon & Radnorshire)

Powers

The Committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No. 152. These are available on the Internet via www.parliament.uk.

Publications

The reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the Internet at

www.parliament.uk/efracom

Committee staff

The current staff of the Committee are Matthew Hamlyn (Clerk), Jenny McCullough (Second Clerk), Jonathan Little and Dr Antonia James (Committee Specialists), Marek Kubala (Inquiry Manager), Andy Boyd and Alison Mara (Committee Assistants) and Lizzie Broadbent (Secretary).

Contacts

All correspondence should be addressed to the Clerk of the Environment, Food and Rural Affairs Committee, House of Commons, 7 Millbank, London SW1P 3JA. The telephone number for general enquiries is 020 7219 5774; the Committee's e-mail address is: efracom@parliament.uk.

FOURTH SPECIAL REPORT

The Environment, Food and Rural Affairs Committee reported to the House on *Reform of the EU Sugar Regime* in its Second Report of Session 2005-2006, published on 17 November 2005 as HC 585-I. The Government's response to the Report was received on 8 February 2006.

Government response

Introduction

The Government is very grateful to the Committee for the efforts it made to reach the conclusions on the European Commission's proposals for sugar reform ahead of the Agriculture and Fisheries Council meeting on 22-24 November 2005, which the Commission and Presidency had set as the target date for concluding negotiations at a political level. It was very helpful to have this further analysis and accompanying recommendations as a contribution to establishing the UK negotiating position.

As the Committee will now know, agreement was reached at that meeting on the basis of a Presidency compromise supported by an overwhelming majority of the Council. Legislative texts reflecting this have still to be finalised and the process of formal adoption must also await delivery of an opinion from the European Parliament.¹ Secondary legislation implementing various aspects of the new regime also remains to be put in place by the Commission, through the Management Committee procedure, before entry into force of new arrangements from 1 July 2006. In addition Member States need to reach their own decisions on certain discretionary elements, notably in respect of compensation for growers and the operation of the voluntary restructuring scheme. Decisions are also still outstanding on adjustment aid for ACP Sugar Protocol countries for the period 2007-13, following agreement on an initial tranche of €40 million for the balance of 2006.

The overall framework and duration of the new regime is nevertheless now clear and very much in line with the Committee's latest recommendations as well as the findings in its predecessor's report. The Government believes this to be a very good outcome, which marks a major step change in a regime largely untouched by all previous CAP reforms since its inception nearly 40 years ago.

When fully implemented, the reformed regime should bring significant economic benefits to the EU and greatly reduce the market and trade distortions that have characterised the present arrangements. The new regime should also enable the EU to comply in full with its WTO and other international obligations and to advance its more general trade and development objectives.

¹ The European Parliament's opinion on sugar reform was adopted at a plenary session on Thursday 19 January 2006.

The final package endorsed by the Council is very closely based on the proposals considered by the Committee in its report, namely a substantial cut in institutional prices, abolition of permanent intervention, the introduction of a voluntary restructuring scheme to reduce production and a new decoupled direct aid for growers. Although certain changes have been made, the Government believes these are entirely consistent with the aims of the reform and in some instances help to address specific concerns raised by the Committee, notably in respect of possible discrimination against the UK as a result of the current deficit area status of UK beet production and the balance between the beet and cane sectors. A final Regulatory Impact Assessment incorporating these elements is in preparation, but is expected to confirm the broad efficiency and welfare gains resulting from the earlier analysis.

The main points of difference between the final compromise and the original proposals can be summarised as follows:

- the price cut will now be 36% instead of 39%, the initial reduction in 2006-07 being the same as proposed, but with new interim steps in 2007-08 and 2008-09 leading to the final cut in 2009-10;
- the budgetary provision for the decoupled grower compensation will remain as before, but, in Member States such as the UK where the level of existing prices has reflected their deficit status, additional compensation will be provided in the first four years of the reform;
- as a consequence of the re-phasing of the price cuts, ACP and LDC suppliers will have longer to adjust, and more money will be raised through the processor levy (thereby allowing the rate of restructuring aid to be maintained at €730 per tonne in 2007-08);
- a minimum of 10% of the restructuring aid is now reserved for sugar beet growers and machinery contractors to compensate them for the loss of their specialised machinery when production is abandoned, and the fund will now provide greater flexibility as regards the partial closure or re-use of buildings: also, Member States in which more than 50% of the quota is being given up can qualify for an additional diversification aid reflecting the extent to which their industry is closing, as well as some time-limited adjustment aid for remaining growers;
- there will be a limited safety net intervention scheme for four years, with a ceiling of 600,000 tonnes a year, set at 80% of the reference level for the following year;
- traditional cane refiners will receive a new transitional aid, totalling €150 million in the period to 2009-10, to adjust to new market conditions;
- ten Member States not included in the earlier allocation key for C sugar will receive additional quota, and three will receive additional isoglucose quota;
- there will be a 50% reduction in the levy contribution payable by the isoglucose sector;
- new assurances have been given about the availability of sugar at competitive prices for non-food uses, and on the possibility of exports within the revised limits set by the WTO;

- the circumstances in which the existing safeguard provisions under the Everything But Arms Agreement might be invoked where fraud is suspected have been clarified.

In the light of these developments, the Government has the following responses to the Committee's recommendations.

Recommendation 1

We were disappointed that, when the Minister for Sustainable Food and Farming gave evidence, he was so reluctant to confirm whether the issues that other witnesses had identified as being important would be raised by the UK Government in negotiations on the reform package. While we accept the problems that may arise in pursuing its national interests for the Member State that holds the EU Presidency, from the point of view of the growers, processors, refiners and environmentalists, it is important for them to be sure that concerns are being raised from a British standpoint. (Paragraph 11)

In its evidence to the Committee, the Government sought to explain the constraints on discussion of its negotiating position resulting both from the risk of prejudicing the possibility of achieving the objectives in question and from the additional obligation of impartiality in respect of the conduct of its Presidency responsibilities. Assurances were given, however, that this would not inhibit those representing the United Kingdom in the Council from pursuing appropriate national interests, including issues identified by the Minister and by other witnesses, those put to Government in the latest and then unpublished consultation exercise and in the various other extensive stakeholder contacts which had taken place as part of the wider reform debate.

The Government believes that the final compromise demonstrates the efforts which were made to safeguard UK interests and would draw attention to the wide range of supportive comments by relevant industry organisations and other representative bodies following the outcome of the negotiations.

Recommendation 2

Price cuts are an essential element in bringing the European sugar market into balance. We welcome the Commission's approach, centring on price reductions and not quota cuts, as this was what the UK industry told us it preferred. A lower internal price for sugar will make the EU market less attractive, not only to the least efficient beet growers, but also to the least competitive sugar producing countries outside Europe. Setting the price low enough to drive out the inefficient producers, but still sufficiently high for the most efficient producers to prosper, is clearly the critical balance that will define the success of the reforms. We welcome the two year period for implementing the price reductions, as this should allow sufficient time for the European sugar industry to adapt to the proposed changes. (Paragraph 24)

Recommendation 3

In the absence of a precise indication from the UK beet industry on what price levels it requires in order to survive, it is difficult to know whether the Commission's proposals are too severe. It seems certain, though, that pressure will be applied in the

negotiations, from other Member States, to dilute the price cuts significantly. If successful, these changes could leave the EU market with an unwanted surplus and necessitate mandatory quota cuts in the future that would adversely affect even the most efficient parts of the beet industry. Therefore, the UK Government's negotiating position must be to support the Commission in minimising any dilution of the price cuts that have been proposed and at the same time ensuring that these proposals do not act adversely on the UK's farmers because of the UK's ratio of 'A' and 'B' sugar. (Paragraph 25)

The Government agrees with this analysis and strongly supported the Commission in resisting calls for a different approach or for a less radical series of price reductions. The final compromise does provide for a longer period of adaptation and slightly smaller final cuts. But the Government shares the Commission view that this will not materially affect the expected benefits of reform or the prospects of achieving the necessary degree of rationalisation and restructuring within the EU sugar sector. The Government also believes that the additional compensation now secured for existing deficit area producers represents a satisfactory response to the potential distortions arising from the merger of the previous A and B quotas.

Recommendation 4

We share the concerns expressed to us about the operation of the reference price, for sugar which is intended to replace the intervention price. Defra should seek further assurances from the Commission that the reference price will provide an effective floor in the market before agreeing to its inclusion in the final reform package. While the retention of the production charge might seem unjustified, given that its original purpose will be superseded, we recognise the argument for its inclusion to help ensure the overall package is budget neutral. There does, however, appear to be little justification for the 'flexibility clause' as currently drafted. We therefore recommend that the proposals be amended to recognise the right of growers to benefit from a share in the extra margin when the market price is higher than the reference price. (Paragraph 29)

The Government notes the Committee's views. In the final compromise the Commission agreed to drop the "flexibility clause" provided for in its original proposals and also to the introduction of a limited safety net intervention scheme to help provide a floor to the market during the transitional phase. It is, however, important to recognise that one of the objectives of reform is to move to a situation where prices reflect the balance of supply and demand. This includes the possibility of processors paying growers more than the minimum price for beet. The circumstances in which this would be appropriate are a matter for commercial negotiation between the parties concerned within the framework of the inter-professional agreement provided for in the new regime.

Recommendation 5

We conclude that, given the highly competitive climate in which manufacturing operates, and the pressure which the large retailers can bring to bear on their suppliers, it is likely that consumers will benefit from some degree of price reduction in the medium to longer term. The Committee believes consumers should benefit in direct

relation to the reduction in the sugar price. One of the key determinants of the size of this price reduction will be the extent to which the processors pass on the price reduction to sugar users. We expect the UK's processors to pass on, to the fullest extent possible, the reduction in the sugar price. We recommend that the competition authorities be asked to investigate the UK processing industry if any evidence emerges that, as a result of over-concentration in the industry, this is not happening. A separate investigation should take into account the current inbuilt premium paid by sugar users in the UK compared to those in the rest of Europe. The export refund scheme should take into account the total market price in the early years of the regime which will include costs for restructuring and compensation. (Paragraph 36)

The Government notes the Committee's views. It remains to be seen how the market will respond to the radical reforms now agreed. If there is evidence of unfair practice on the part of commercial undertakings, the Government is confident that the UK competition authorities will act as appropriate.

The Government also notes the view of the Committee regarding export refunds. The detailed procedures for the setting of export refunds are delegated to the Commission and will be considered by the Sugar Management Committee. UK representatives at that Committee will judge proposals for the calculation of refunds on their merits and in the light of appropriate consultations with stakeholder interests.

Recommendation 6

Direct payments to growers must be fully decoupled from production, in order to minimise market distortion. We are pleased that Defra seems so committed to implementing direct payments to English farmers in a fully decoupled form. (Paragraph 43)

The Government welcomes the Committee's endorsement of its commitment to decoupling CAP direct payments.

Recommendation 7

The UK Government should strongly oppose any attempt to introduce the option of partial decoupling into a compromise package. Such a dilution of the original proposals could frustrate the success of the restructuring scheme and leave UK processors at a comparative disadvantage to processors in other parts of the EU. (Paragraph 44)

The Government is pleased that the final agreement provides for mandatory full decoupling, with a minor exception in the case of those countries giving up at least 50 percent of their quota, who will have the possibility of an additional coupled payment of 30 percent of the income loss for a maximum of five years.

Recommendation 8

In deciding how to implement the grower compensation element of the proposals, the Government must balance diverse and sometimes conflicting policy objectives, which include compensation, income support and the provision of environmental benefits. It is vital that Defra conduct a full impact analysis before reaching its implementation

decision. Whatever implementation method the Government decides on, it should not allow a system of 'compensation' to become simply 'income support' in the longer term, as such payments would neither compensate for price reductions nor induce any further compliance with environmental standards. (Paragraph 50)

The final agreement is clear that grower compensation has to be incorporated into the Single Payment Scheme model that Member States have already adopted. This still provides for an element of discretion on the details and the Government agrees that there are a number of issues that need to be considered carefully before decisions are taken on how that discretion will be used. The Government will be conducting a consultation exercise on this issue shortly.

Recommendation 9

We received insufficient evidence to show conclusively whether the 60% figure proposed by the Commission represented an appropriate level of compensation for beet growers. However, it does seem broadly consistent with reforms in other sectors. Defra's RIA did not fully take into account the degressive nature of payments over time, as would be experienced by English sugar growers under an implementation model that moved to a purely flat-rate system. We call on the Government to carry out an urgent study to assess the long-term impact on growers of making payments on this basis. (Paragraph 54)

As already explained, a final RIA reflecting the reform package as agreed is in preparation and will be published soon. This will take account of the fact that sugar compensation will need to be incorporated into the model of the Single Payment Scheme that Member States have already adopted.

Recommendation 10

The UK's beet growers will not be directly affected by the restructuring scheme, as British Sugar has stated it plans to continue production of sugar, although it will mean that benefits to manufacturers and consumers in terms of price cuts will be delayed. (Paragraph 58)

Uptake of voluntary restructuring within the UK industry is a matter for British Sugar, subject to compliance with the relevant terms and conditions, including consultation with growers.

Although the cost of restructuring will be borne by industrial users and consumers of sugar across the EU, the Council considered such a scheme to be preferable to mandatory quota cuts or to the financing from the EU budget or other taxpayer sources.

Recommendation 11

The Committee calls on the Government to clarify the position over the rights of producers to use quota in the event of British Sugar closing one or more of its existing plants and the redundant plant being operated by sugar beet farmers or another third party. (Paragraph 59)

Detailed rules for implementation of the restructuring scheme have still to be adopted by the Commission. But the Government's present understanding is that the principles underlying quota allocation in the current regime will continue to apply, subject to the requirement for quota to be cancelled where a processor is paid aid to close a factory. Where no aid is applied for, quota may be reallocated to other operators.

Recommendation 12

We are concerned about the unfair impact on the UK of applying the proposed price cut to the new unified quota. The Committee regards this as an important issue and we recommend that the UK Government negotiate for a change in the proposals, so that the UK's status as a deficit country is adequately recognised in the compensation package. It would not be fair if the price cut for UK growers were amplified by an accident of history. An increase in the amount of compensation for the UK could go some way to reducing the disproportionately negative impact of the proposals on the UK beet sector. Since the proposals are designed to be budget neutral and contained within the financial ceiling for agricultural expenditure, such negotiations will require acceptance from surplus countries that their envelopes will have to be cut by an equivalent amount. Furthermore, if quota cuts are required in the future, they must be made on the current basis, so as not to further disadvantage the UK. (Paragraph 66)

See also response to Recommendations 2 and 3. As explained in the Government's evidence, merging existing A and B quotas is in integral part of the Commission's approach to voluntary restructuring. The final package does, however, include a review of the effectiveness of the scheme in 2008. The Commission has made clear that this will inform any subsequent proposals for mandatory cuts.

Recommendation 13

We are disappointed that the Commission's reform proposals did not include the lifting of quota restrictions as a long-term objective, given the distortions caused by the existing system. We therefore recommend that the Government pursue the abolition of quota restrictions. While quotas do still exist, we believe that transferability between Member States would aid the relocation of sugar production from the least competitive sugar producing regions to the most competitive. The swift establishment of legal certainty on the issue of quota ownership, as well as being desirable in itself, would help facilitate future cross border trade in quotas. (Paragraph 74)

The Government notes the Committee's views. The UK has consistently argued in favour of phasing-out all production quotas in a reformed CAP. The difference between the agreed reforms and some of the Commission's earlier ideas is that the reduction in EU production capacity will be a voluntary process. By radically cutting prices, in order to discourage production in high cost regions and by facilitating increased quota production in more efficient regions as well as in alternative sweeteners, the agreed reform moves decisively towards a situation where quotas would no longer be necessary.

Recommendation 14

The UK Government should negotiate for the reinstatement of the mid-term review clause in the final reform package, as this would provide an opportunity to revisit these

important issues. Failure to secure such a clause could lock into the new regime all the distortions of the quota system for another 10 years. (Paragraph 75)

The Government notes the Committee's comments. As indicated in response to Recommendation 12, the Commission will be reporting on the progress in reducing production through the restructuring scheme by the end of 2008. But in other respects the Council supported the Commission's view that the industry needed a sufficiently long term perspective to be able to take the necessary commercial decisions on restructuring and that the prospect of a wider-ranging mid-term review could inhibit this process.

Recommendation 15

The UK Government should ensure that the final reform package allows the UK's sugar beet industry to exploit its position of relatively high efficiency. It is important that no distortions are allowed into a compromise deal that could discriminate against the UK beet sector. (Paragraph 85)

The Government notes the Committee's comments and believes that, under the approach now agreed, the UK beet industry will be as well placed as any in adapting to the new regime.

Recommendation 16

We note the interdependent relationship between the growers and the processors and recommend that Defra work closely with both parties in ensuring that a proper balance between them is achieved in the post-reform era. As British Sugar works so closely with UK farmers, we recommend that it looks at whether it can share some of its processing margin with the beet growers to ensure continuity of beet supply. (Paragraph 86)

The Government notes the Committee's comments. As explained in response to Recommendation 4 the contractual relationship between beet growers and the processor is governed by an inter professional agreement, the framework for which is set out in the regime itself. The agreed reforms will not alter this basic arrangement.

Recommendation 17

We are disappointed, on behalf of sugar beet growers, that British Sugar appears to have changed its position, and now regards wheat as being the best source of bioethanol in the UK. We suggest that British Sugar reconsiders its position on the viability of producing bioethanol from sugar beet. Efforts should also be made to explore the feasibility of converting redundant sugar processing factories to the manufacture of biofuels, thus encouraging the increased production of renewable transport fuels. (Paragraph 92)

The Government has announced two measures which are designed to promote the use and production of biofuels in the UK. A Renewable Transport Fuels Obligation, expected to be introduced in April 2008 will require suppliers of transport fuel to source 5% of their supplies from renewable sources by 2010. Subject to State Aid approval, an enhanced capital allowance will be introduced for environmentally beneficial biofuel processing plants in the UK from 2007.

British Sugar and other operators will need to make their own commercial judgements in the light of these developments. However the Government notes that British Sugar did announce in December 2005 that they are starting construction of an ethanol plant which will use sugar beet as feedstock.

Recommendation 18

We also support the European Parliament Development Committee's proposal that bioethanol production should be encouraged in the ACP countries, as this could help support the viability of some ACP countries' sugar industries, given the increasing worldwide demand for bioethanol. (Paragraph 93)

The Government notes the Committee's support for the proposal that bioethanol production should be encouraged in the ACP countries. There is an increasing demand worldwide for biofuels and many European Member States are considering ways of providing incentive for biofuels in accordance with the EU Biofuels Directive. The European Commission has published a Biomass Action Plan, which states that it will bring forward a report in 2006 on the implementation of the Biofuels Directive with a view to possible revision. It will address national targets for the market share of biofuels and the using of biofuels obligations, which the Commission see as a cost-effective way of achieving targets. The Commission favours a balanced approach for domestic production and imports and says that it will support developing countries that wish to produce biofuels and develop their domestic markets. They will address this further in a communication on biofuels.

Recommendation 19

As the Committee has said before, more needs to be done to develop biomass for energy production. We hope that beet growers seeking an alternative crop, following reform of the sugar regime, will consider the potential of energy crops where these are viable on the land in question. The Government, in implementing the reforms in the UK, should ensure incentives (including those referred to in our predecessor Committee's reports on biofuels) are in place to encourage this kind of diversification. (Paragraph 94)

The Government notes the Committee's wish to see incentives for diversification into energy crops. As part of the reform of the CAP, crops grown for energy use can be grown on set aside land and the energy aid payment (€45 per hectare) was introduced for crops grown for energy use on non set-aside land. These measures offer an incentive to grow crops for energy use, but are subject to controls, including the necessity for contracts and the lodgement of securities to ensure that they do go for energy use. The Commission intend to report to the Council on the energy aid accompanied, if appropriate with proposals.

In addition, the England Rural Development Programme supports the establishment of energy crops for heat and power (short rotation coppice and miscanthus). The current programme ends in 2006, but consideration is being given to continuing support in the successor programme. A number of markets are now developing for heat and electricity and the report of the Biomass Taskforce in October 2005 made recommendations as to how the biomass industry might be further developed. The Government will respond to the Taskforce recommendations in April 2006.

Recommendation 20

We have found it difficult to draw detailed conclusions about the comparative environmental impacts of different kinds of sugar production in different areas of the world. However, it is clear to us that the UK and the other EU Member States must pay particular attention to the important issue of the environment when considering how to reform and retain a viable European sugar sector. Brazil's questionable track record relating to the environmental impact of its agricultural expansion should be fully weighed in this regard. (Paragraph 102)

The Government notes the Committee's concerns and confirms that environmental issues were considered as part of the reform process, the principle objective of which was to provide a sustainable framework for sugar production in the EU and for ACP and LDC suppliers. The agreement itself gives no new access to EU markets for Brazilian sugar. Any future substitution of Brazilian sugar for reduced EU exports would be a reflection of world market conditions.

Recommendation 21

As far as the UK is concerned, we recognise the benefits in terms of biodiversity provided by beet growing. But we believe that these benefits should be secured, and funded, through targeted agri-environmental programmes under the CAP. We therefore recommend that the Government ensure sugar beet farmers have access to appropriate environmental stewardship schemes under the reformed CAP, thus enabling them to continue to provide environmental benefits on their land. In this way, public funding would be used to provide a public good—enhanced biodiversity—rather than to support an outdated element of the CAP. (Paragraph 103)

The Government notes the Committee's views on the biodiversity benefits of sugar beet, in particular for the Pink-footed Goose and farmland birds. We agree that any benefits lost through a decline in beet production can be addressed through agri-environment schemes. Indeed, building on the successes of previous agri-environment schemes, the Government launched the Environmental Stewardship Scheme in March 2005 which aims to secure widespread biodiversity and other environmental benefits. With Entry Level Stewardship (ELS), which is open to all eligible farmers and land managers in England, the aim is to cover 70% of farmland within the next three years and, thus, to tackle countryside problems such as general biodiversity loss and diffuse water pollution. Higher Level stewardship (HLS) aims to deliver significant biodiversity and other environmental benefits in high priorities and situations. There are ample options in both ELS and HLS to provide a range of habitat features such as winter seed and diverse cereal stubbles for farmland birds and for Pink-footed Geese. In addition, monitoring is either in place or under development that will allow us to assess the effectiveness of the schemes in offsetting any biodiversity losses due to changing farm practice.

Recommendation 22

The Government must negotiate to ensure equitable terms of competition between the cane and beet sectors in the UK. On the balance of evidence received, we conclude that the cane sector is unduly disadvantaged by the proposals as they currently stand. (Paragraph 116)

The Government notes the Committee's comments and can confirm that in the final Presidency compromise an additional amount of €150 million is to be made available during the transition period (up to and including 2009/10) to assist full-time cane refiners to adapt to the new regime. These funds will be distributed proportionately between EU refiners, on which basis approximately €110 million would be available for the UK refiner. Distribution of funds will be subject to the provision of a business plan to be approved by the government of the member state concerned.

Recommendation 23

We were concerned to establish what would be in the best interests of the ACP suppliers. On balance, we thought the continued viability of Tate & Lyle refining operations would be better for them. Therefore, we accept that the proposals to restrict beet processors from refining cane are necessary in the interim period while the ACP suppliers are adapting to reform. We are also sympathetic to the suggestion of retaining some form of refining aid. However, funds for this corrective mechanism would have to be deducted from the package of support for the beet industry in order for the reforms to remain budget neutral. (Paragraph 117)

The Government notes the Committee's views and can report that maximum supply needs for existing cane refiners are to be retained on a national basis for a transitional period up to 2009. Thereafter traditional refiners have first call on available licences for the first 3 months of succeeding years. As noted above (Recommendation 22), refining aid is not reinstated, but a total of €150 million is available to existing companies to help them adjust to new market conditions.

Recommendation 24

We note that Defra, the Foreign and Commonwealth Office, the Department of Trade and Industry and the Department for International Development are all working on the sugar reform's impact on ACP countries. We believe the various Government Departments which have an interest in reform of the EU sugar regime and its impact on ACP countries must now issue a clear statement outlining the UK's position. (Paragraph 126)

The Government believes that, overall, the effect of reforming the EU sugar regime will be beneficial for developing countries, as it will reduce the market distortions caused by the existing regime. We do however recognise that reform will have a negative effect on some of the ACP Sugar Protocol countries. This is why the UK Government continues to attach great importance to securing adequate and timely transitional assistance to help ACP Sugar Protocol countries adjust to reform.

Recommendation 25

We share the concern of the European Parliament's Development Committee that the assistance to be made available for the ACP countries is insufficient, especially when compared to the €1.5 billion to be made available annually to beet growers within the EU, if they wish to withdraw from sugar production. We urge the UK Government to support the maximum possible increase in the level of assistance for the ACP countries, both in 2006 and in the subsequent years covered by the Commission's Action Plan.

Such assistance should seek to ensure that countries that are currently dependent on income from sugar exports to the EU have a realistic chance of diversifying into other forms of agriculture and land use. (Paragraph 127)

The €40m proposed by the European Commission for assistance in 2006 is now in the final stages of being agreed by Member States and the European Parliament. This figure is less than the UK would have liked to have seen, and the Government did try through various routes to increase the level of funding. But unfortunately there was not sufficient support for this.

Funding for transitional assistance for the 2007 to 2013 period is still to be determined in the context of the now agreed next Financial Perspective, but we envisage that the levels of funding for this period will be significantly higher than for 2006. In these negotiations the UK will continue to press for adequate funding for transitional assistance for the ACP. Given the different timetables, it was not possible for these funding decisions to be taken in parallel with decisions on the broader sugar reform, but the UK will be pushing for this issue to be resolved in a timely manner and for assistance to be delivered as soon as possible.

Recommendation 26

We further urge the Government, in its Presidency role, to seek agreement on the development aspects of the reforms at the same time as agreement is concluded on the agricultural elements. (Paragraph 128)

The Government notes the Committee's comments. We worked actively as Presidency to help progress the Action Plan process, providing national UK funding (through DfID) to assist a number of countries in the necessary technical work. Following agreement on the reform of the EU sugar regime, the Government gives the highest priority to agreeing the necessary transitional assistance to enable existing preferential suppliers in the African, Caribbean and Pacific (ACP) countries to adapt to these changes.

Recommendation 27

Defra Ministers have a difficult hand to play in the negotiations over reform of the EU sugar regime, seeking to achieve consensus while ensuring the UK's interests are accommodated. We were pleased to hear from the Secretary of State that the UK's presidency will not inhibit UK Ministers from pursuing the UK's national interests in the negotiations. We hope that the UK representatives will take fullest advantage of the opportunities provided by meetings with the Presidency and the Commission to put forward the concerns of the UK sugar industry and producers. (Paragraph 131)

The Government notes the Committee's comments and can confirm that UK representatives engaged with the Commission and the Presidency in the same way as representatives from other Member States in support of national concerns.

Recommendation 28

We hope that, in its role as President, the UK Government will use all its efforts to achieve agreement. The sugar regime has remained unchanged while the rest of the CAP has been reformed. Change is overdue, inevitable and necessary: it would be a

great disappointment were the EU to miss this opportunity for reform. (Paragraph 132)

As already noted, the Government is grateful for the Committee's support and for the broad consensus within the UK industry in favour of early decisions to bring sugar into line with other aspects of CAP reform. Conclusion of these negotiations under the UK Presidency represents a significant achievement and demonstrates the EU's commitment to continued progress towards its wider trade and development objectives.

Department for Environment, Food and Rural Affairs

February 2006