

**AN ANALYSIS OF THE IMPACT OF THE EUROPEAN
UNION'S POLICY OF EXPORT SUBSIDIES HAS ON
SOUTH AFRICA'S AGRICULTURAL SECTOR**

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Submitted in partial fulfilment of the requirements for the Legum
Magister (LL.M) Degree at the University of the Western Cape.

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11 NOVEMBER 2007



I, Lee-David Carolissen, declare that this thesis is my own original work. It has not been submitted to any other University or institution. The sources I have used or quoted have been indicated and acknowledged by complete reference. It is hereby presented in partial fulfilment of the requirements for the award of the Degree Legum Magister.

Signature:

Date:



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1.ABSTRACT

What the European Union has achieved over the last fifty years in the field of agricultural production can be regarded as simply phenomenal in the light of the circumstances which faced the architects of the European Union. European nations were still recovering from the effects of World War Two, one of them being the lack of food resources and food security. The implementation of the Common Agricultural Policy in 1962 appeared to be a masterstroke at first for the European Community. Food shortages across Europe were eliminated and farmers and those dependent on the agricultural sector for their livelihoods were guaranteed a sustainable future in the agricultural sector. However the European dream has over time degenerated into a nightmare not only for the citizens of the European Union, who have to bear the massive costs of sustaining the EU's support for the CAP and the agricultural sector, but most importantly for the farmers, rural communities and agricultural sectors within the developing world.

It appears that farmers and the agricultural sectors in developing countries are trapped in an almost inescapable vicious circle with the European Union. As a result of multilateral trade agreements, farmers in these nations have to compete with heavily subsidised European agricultural imports. These imports are significantly cheaper than their domestic rivals. Of course in this battle for the consumer there is only one winner. Domestic producers simply cannot compete at the same level as their European counterparts. What makes the situation even more galling is that if agricultural producers in certain developing nations tried to export to the European Union, they would be subject to high tariffs and duties. This in turn makes it harder for these producers to gain a foothold within the European market.

In this thesis, I will be examining the factors I believe are instrumental in this trade imbalance between the European Union and the developing world in the agricultural sector. I will be focusing my attention on the main reason I believe an imbalance exists: the continued use and implementation of export subsidies by the European Union.

The issue of export subsidies has been the bane of many World Trade Organisation negotiations and an issue that I believe has to be dealt with decisively once and for all to ensure equal playing fields between the EU and developing nations in the agricultural sector.

2.KEYWORDS

Export subsidies, international trade law, European Union, Common Agricultural Policy, South Africa , agriculture , developing nations, exports, prohibition, fair trading practices, competition, World Trade Organisation.

3. AIMS OF THIS STUDY

In my discussions I will attempt to highlight the inadequacies which exist in the current trade relationship between the European Union and developing nations in particular South Africa with regard to agricultural produce. Through my arguments and research I will show that the European Union has maintained a policy of hypocrisy by giving certain agricultural producers in developing nations a few benefits while on the one hand continuing to supply the ailing agricultural industry in Europe with massive amounts of subsidies and incentive packages. In the end I will attempt to show that the abolishment of export subsidies by the European Union would truly result in tangible benefits for farmers in the developing world and in particular in South Africa.

4.PROBLEM STATEMENT

The issue over export subsidies has long proved to be a controversial subject in multilateral trade negotiations between developed and developing nations. The European Union have always used the argument that the use of agricultural export subsidies is necessary to support their farmers and producers economically and that it is vital to retain the so called ‘rural way of life’.

The argument by the Europeans seems incongruous considering that European farmers are not facing a struggle to survive or to generate a living or the fact that 2003 statistics show that only about 5% of the Union's population is still involved in some way with the agricultural sector. The statistics for 2003 show that 1.3 billion euros of the Union's budget was devoted to providing export subsidies to the farmers.

Surely this seems to be a heavy price to pay for EU citizens in order to maintain a sector of the economy which has become inflated with all the EU government aid and subsidies being pumped in order to prop up the agricultural sector. I believe most EU citizens are labouring under the impression that the export subsidies are used to assist poor farmers living in a picturesque rural countryside. In reality a huge chunk of that EU export subsidy budget makes its way into the coffers of large, commercial agribusiness enterprises.

The issue that will be of particular significance to the South African agriculture sector is EU support for its sugar industry. In 2003, the EU spent about 3.30 euros in subsidies for every 1 euro's worth of sugar. These figures make for interesting reading. Britain is not the first country that springs to mind when one thinks of large scale producers of sugar on the world stage. Yet because of EU export subsidy support, Britain and other European nations have been able to surpass traditional producers such as South Africa. In a study conducted by Oxfam in 2003, it was found that twenty-seven of the largest sugar-beet farmers in the United Kingdom benefited from subsidies to the tune of 206,910 euros. No wonder with all this support the "poor" sugar farmers of Europe have been able to produce five million tonnes of surplus sugar. This surplus of course ends up on the world markets and leads to a depression in the price of sugar, making it that much more difficult for the sugar farmer in South Africa to compete with his heavily subsidised European counterparts.

5.THE SIGNIFICANCE OF THE STUDY

The significance of this research is to understand and evaluate the impact the European Union's export subsidy program, through its Common Agricultural Program, has had on the South African agricultural sector. In this mini-thesis, the focus will mainly be on the South African sugar industry as well as a few other agricultural commodities which are able to compete effectively on the world market.

If the export subsidies provided to European farmers were eliminated, South African sugar producers would move a step closer to competing on level playing fields with their European counterparts. This would of course have a significant impact on the South African sugar industry and the approximately 51 000 sugar producers in South Africa, the majority of which are mostly small scale farmers.

Together with these farmers, a further 85 000 people are reliant on an income closely related to the sugar industry. So if the EU were serious about its promises to reform the CAP and in particular export subsidies, these possible reforms would not only have an important economic impact on South Africa (significant percentage of South Africa's workforce is in some way connected to the agricultural industry.) but would also have socio-economic implications for South Africa

6.METHODOLOGY

The methodology undertaken to conduct my research will be primarily based on a literature review. I will be focusing my attention on literature sources related to EU's CAP policies, export subsidy programs, the relationship between South Africa and the EU with a particular emphasis on the Trade and Development Cooperation Agreement. Sources and information related to WTO agreements relevant to the issue such as the Agreement on Agriculture as well as other relevant sources will be utilised. Information and studies conducted by organisations such as OXFAM are relevant in assessing the socio-economic impacts of the EU export subsidies program.

7. CHAPTER OVERVIEW

Chapter one is basically the introduction for the whole process of research for this mini-thesis. It sets out the scope and area of investigation for this topic as well as the methodology to be employed in conducting the research.

Chapter two will be a review of the relevant international treaties and trade agreements relevant the central point of this mini-thesis namely the abolishment of export subsidies by the EU. The relevant sources in this instance will relate to the EU treaties such as the CAP and the TDCA as well as relevant WTO agreements. This chapter will generally be an exposition on the definition and scope of which EU support programmes amount to export subsidies.

Chapter three focuses on the impact the European Union's agricultural policies has had on the South African agriculture sector. In this respect the focus of research will mainly be on South Africa's sugar industry..

Chapter four will be a discussion and evaluation of the various arguments put forward by the proponents as well as the opponents to the European Union's policy of providing export subsidies to the agricultural producers. Are the EU's current policies and support programmes beneficial to developing nations such as South Africa or are these very same policies and programmes a burden for these nations as well as the citizens of the European Union?

Chapter five will be the concluding chapter. I will put forward my reasons for the abolishment of the system of export subsidies within a multilateral world trading system. Chapter five will be a an evaluation and conclusion on the work set out in the paper.



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1.INTRODUCTION

This chapter will primarily be an exposition of the relevant multilateral trade agreements which are relevant to the issue over the use of export subsidies when it comes to agricultural products. This will be relevant to exploring the main issue of this thesis, namely how Europe's agricultural policies impact on the South African agricultural sector. In this regard I will be focusing on the agreements related to the World Trade Organisation (WTO), European Union (EU) and South Africa. The relevant agreements are: the WTO Agreement on Agriculture, the Agreement on Subsidies and Countervailing Measures(SCM), the EU's Common Agricultural Policy as well as the trade agreements concluded by the EU and South Africa, namely the Trade and Development Cooperation Agreement (TDCA).

The use of export subsidies has always been a highly contentious issue in international trade circles. From the development of the GATT Agreement of 1947 and the 1955 GATT amendments to the present day, this was an issue which was guaranteed to cause much controversy when it came to negotiations related to trade agreements. The use of export subsidies in the agricultural sector seems to be especially controversial with equal amounts of opponents and proponents who are vociferous and determined in their support or opposition to the use of export subsidies.

“Agricultural sector...is the most heavily subsidised sector in almost all countries that are capable of doing so. This is not simply accidental.”¹

The use of export subsidies was for many years if not expressly condoned, tacitly allowed especially by the industrialised states. In public a great show was made over the use of export subsidies; i.e. that they should be limited and prohibited.

¹ Desta M, *The Law of International Trade in Agricultural Products: From GATT 1947 to the WTO Agreement on Agriculture*, p100

Nevertheless developed states continued to support their local industries and producers through the use of export subsidy programmes.

The international trade rules and principles that were supposed to govern the use of export subsidies were weak and ineffective in preventing this trade distorting practice.

“The principle of free trade requires that such market distorting measures such as tariffs and non-tariff barriers be eliminated or at least minimised...the use of subsidies simply destroys the benefits that could otherwise accrue from such moves. That is why the practice of subsidies just like that of dumping is labelled as one of the so called ‘unfair trade practices’...”²

With the process of negotiations underway at the WTO Uruguay Round (1986-1994), countries realised the importance of setting up an international framework in order to govern the use of export subsidies.

“...brief summary of Uruguay Round negotiations...in the specific area of export subsidies demonstrates that agriculture in general and agricultural export subsidies in particular, held the key to the success or failure of Round”³

The Agreement on Agriculture was the end result of this need for an international framework. One of the main aims of this multilateral agreement is set out in its preamble:

² Desta M, *The Law of International Trade in Agricultural Products: From GATT 1947 to the WTO Agreement on Agriculture*, p103

³ *Supra* p 211-212

“Members, Having decided to establish a basis for initiating a process of reform of trade in agriculture...committed to achieving specific binding commitments in each of the following areas: market access, domestic support, export competition...”⁴

With the introduction of the Agreement on Agriculture, Member States undertook to take concrete steps towards a reduction in the levels of export subsidies utilised. This turn of events would mean a significant change in agricultural policy for many states including the United States, OECD(Organisation for Economic Cooperation and Development)states, developing countries as well as various other member blocs(e.g. Cairns Group)

However for one member of the WTO, this change in sentiment regarding export subsidies in the agricultural sphere was particularly hard to adapt to due to its internal policies and regulations. In the European Community (and later the European Union), agricultural policy is directed by the Common Agricultural Policy (CAP) framework. Agriculture is one of only two economic sectors (the other being transport) where the European Union exercises full sovereignty over decision making and a common policy exists. With its origins in 1962, the CAP was originally aimed at ensuring Europe’s food security and that Europe would become self-reliant in the agricultural sector.

“The CAP’s main instruments include agricultural price supports, direct payments to farmers, supply controls and border measures.”⁵

However the CAP dream has turned into a nightmare not just for the Brussels bureaucrats, but also for the citizens of Europe and nations around the world especially developing and Least Developed Countries (LDC).

⁴ World Trade Organisation: *Results of the Uruguay Round of Multilateral Trade Negotiations*, Agreement on Agriculture, p33

⁵ www. ers.usda.gov, European Union :Policy: Common Agricultural Policy (accessed on 8 August 2007)

By implementing various measures and policies, particularly in relation to the export of agricultural surpluses, the EU has caused significant distortions in international trade.

In this chapter I shall be highlighting how the whole system of export subsidisation operates within the CAP framework. I will also be reviewing the WTO Agreement on Agriculture to see how it aims to reduce and eventually eliminate the use of export subsidies for agricultural products.

2.WORLD TRADE ORGANISATION: AGREEMENT ON AGRICULTURE

The Agreement on Agriculture represents a significant step in the gradual reduction in the use of export subsidies. The agreement tackles the issue over the use of export subsidies within the agricultural sector. Along with measures such as high tariffs and domestic support, the use of export subsidies is regarded as quite a significant trade distorting measure.

“Although most countries wanted to see them eliminated as being the most trade distorting form of support, others believed that they were necessary as long as world and internal prices continued to diverge.”⁶

This statement by Art De Zeeuw, chairperson of the negotiating group on agriculture at the Uruguay Round, reflects the division in opinion which existed in world trade circles prior to the implementation of the AoA. Therefore there was a strong need to have a central regulatory framework in order to effectively discipline the use of export subsidies.

⁶ Desta M, *The Law of International Trade in Agricultural Products...* p209

This need for a regulatory framework was especially important when it came to the export of agricultural surpluses onto the world market.

“Once again, the EC made specific offers in all other areas of agricultural trade except on export subsidies...”⁷

Even at the negotiation stage of the Agreement on Agriculture, the EC (and later the EU) was cast as the villain in the piece due to its policies allowing excessive use of export subsidies in order to offload agricultural surpluses. Europe’s reputation would not change much at subsequent WTO negotiation rounds

“...perhaps no GATT contracting party had engaged in subsidies as elaborate or extensive as those created over the years by Europe’s Common Agricultural Policy.”⁸

3. DEFINITIONS WITHIN THE AGREEMENT ON AGRICULTURE

The first step in the regulation of export subsidies is the definition of what actually amounts to an export subsidy. The Agreement on Agriculture defines it as follows:

“...refers to subsidies contingent upon export performance, including the export subsidies listed in Article 9 of this Agreement.”⁹

So not only are these subsidies that are contingent upon export performance, but in an attempt to prevent the circumvention of the agreement’s guidelines, the drafters of the agreement have also included a further category of subsidies and supports which qualify as export subsidies. What we have here is an attempt to cast a wide net so as to prevent possible loopholes in the framework, because as past incidents have proven, Member States especially developed states, are quite adept at exploiting loopholes in order to circumvent the regulations of the multilateral agreement.

⁷ *Supra* p210

⁸ Dillon S, *International Trade and Economic Law and the European Union*, p 176

⁹ *Agreement on Agriculture*, Part 1, Article 1(e)

To cite a current example to serve as an illustration: the provision food aid, especially by developed countries. At first glance the provision of food aid would seem a worthy thing to do, but then again how do you distinguish between actual food aid and simply an attempt by a country to get rid of his excess food surpluses?

“The distinction between food aid to overcome crises and hardship, which may be termed bona fide food aid and a situation where quantities are provided effectively as export subsidies...can be very blurred.”¹⁰

Article 9 of the AoA is the relevant article since it is the one that sets out the subsidy and support programmes which are subject to reduction commitments. What are these reduction commitments? These are the commitments made by the Member States to reduce the levels of export subsidies they use for certain economic sectors and products. The period from 1986 to 1990 was used to calculate the base period necessary to calculate these reduction commitments.

“In the first half of the 1980’s, US and EU agricultural support was provided primarily through price support backed by public stockholding policies. These policies...resulted in huge surpluses, with governments becoming purchasers of last resort. In the second half of the 1980’s, these surpluses were systematically moved onto world markets with the aid of subsidies.”¹¹

Therefore the period between 1986 and 1990 was justified in being used as the base period. This was the period when the use of export subsidies was at its highest. Consequently Member States have to ensure that their levels of support through export subsidies does not exceed the limits imposed by their commitments in terms of Article 8 as well as taking steps to eventually reducing their use of export subsidies from the peak levels of the 1986-1990 base period.

¹⁰ Andrews N *et al*, *Agriculture in the Doha Round*, p26

¹¹ Andrews N *et al*, *Agriculture in the Doha Round*, p28

As stated previously, Article 9 opts for a wider interpretation of what is considered to be an export subsidy. These include:

- Article 9 (1)(a)- Direct Subsidies
- Article 9(1)(b)- Sales for the export market at prices lower than the domestic market price.
- Article 9 (1) (c) – Payments directly or indirectly from a public body or agency for the export of agricultural products.
- Article 9 (1) (d) – Payments of subsidies in order to reduce the costs of marketing agricultural products destined for the export market.
- Article 9 (1) (e) – Subsidisation of the transport costs associated with the export of agricultural products.
- Article 9(1) (f) – “Upstream Subsidies”: in this instance payments are made on agricultural products that are incorporated at a later stage into other products that will be exported.

It is important to bear in mind two important considerations when reviewing these articles of the AoA. First that these payment and subsidies all have to originate from a public institution and body. If the institution in question is involved in the exercise of public power or authority, then the institution will inevitably fall under the scope of the Agreement on Agriculture. Secondly in the instance of subsidies related to marketing, transportation costs or export credits, these are subsidies which are provided at a rate substantially lower than what is available in the normal commercial market.

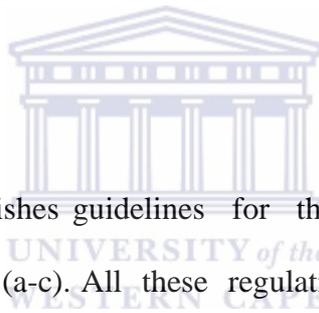
“subsidy...a case that can only take place if the transfer is made for less than full consideration on a comparable commercial benchmark. Just like a monetary payment in as long as the recipient pays the market price for whatever he receives in kind, there is no subsidy.”¹²

Article 10 is attempt by the drafters of the agreement to plug any gaps which may be exploited by certain Member States. As the heading of Article 10 states: “*Prevention of Circumvention of Export Subsidy Commitments.*” Article 10 is utilised in order to regulate the use of :

I.Export Credits

II.Export Credit Guarantees

III.Insurance Programmes



Article 10 also establishes guidelines for the provision of food aid by donor countries- Article 10 (4) (a-c). All these regulations are a means of ensuring that the guidelines and regulations set up by Article 9 are not made redundant and ineffectual by countries simply exploiting loopholes and bypassing the regulations.

Export credits is one particular form of subsidy that is being utilised with increasing frequency. Although it is not in the form of a direct subsidy paid by a public institution, the provision of export credits nevertheless have the potential to lead to distortions in international trade. Within the agricultural sphere, it provides farmers and agribusiness corporations with a means of disposing of agricultural surpluses as a result of stimulated overproduction

¹² Desta M, *The Law of International Trade in Agricultural Products...*, p226

“...export credits reduce the cost of exporting, thereby providing greater incentives to export rather than to sell the quantities domestically. Governments can intervene to provide credit for exporters where it is considered to be in the national interest...and/or where commercial credit is not forthcoming.”¹³

The reasoning behind inserting a clause in the Agreement on Agriculture dealing with the possible circumvention of export subsidy commitments is reflected in this quote:

“There is always a risk that if WTO agreements provide effective disciplines that reduce direct export subsidies, some countries will turn increasingly to the extension of food aid programmes and concessional export credits as substitutes for direct export subsidies”¹⁴

It is interesting to note that although it has been widely accepted that export subsidies are trade distorting measures and the Agreement on Agriculture has called on significant reductions in the use of these subsidies, the Agreement still permits countries to make use of export subsidies.

“...makes it clear that members are not precluded from providing export subsidies, they only need to be in conformity with the rules of the Agreement and their respective Schedules of Commitments.”¹⁵

And further:

“The obligation to respect the reduction commitments each Member incorporates into its Schedule constitutes the condition for the lawful use of the practices enumerated under this provision.”¹⁶

¹³ Andrews N *et al*, *Agriculture in the Doha Round*, p26

¹⁴ *Supra* p27

¹⁵ Desta M, *The Law of International Trade in Agricultural Products...*, p 231

¹⁶ *Supra...*, p231 para

4.THE ISSUE OVER LISTED AND NON-LISTED EXPORT SUBSIDIES IN
RELATION TO THE AGREEMENT ON AGRICULTURE

Member states of the Agreement have an opportunity to list the specific agricultural products that will be subject to export subsidy reduction commitments in their Schedules. Article 3(3) of the Agreement imposes further restrictions in that the possible categories of permissible export subsidies is limited.

“ Subject to the provisions of paragraphs 2(b) and 4 of Article 9, a Member shall not provide export subsidies...in respect of the agricultural products or groups specified in Section II of Part IV of its Schedule in excess of the budgetary outlay and quantity commitment levels specified therein and shall not provide such subsidies in respect of any agricultural product not specified in that Section of its Schedule.”¹⁷

These export subsidies are regarded as being listed and hence it is still permissible to use them (according to the Agreement on Agriculture), provided that the Member State utilises them in the manner envisaged in Article 9.

Article 10,as already stated is aimed at ensuring that there is no circumvention of the reduction commitments. Therefore it lists support programs, which although not expressly stated in the reduction commitments, they nevertheless have the potential to be trade distorting measures. It is an attempt at ensuring all the bases are covered.

¹⁷ WTO, *The Legal Texts: Agreement on Agriculture*, Article 3(3) ,p35

“...The whole purpose of Article 10 is to prevent circumvention of the export subsidy commitments resulting from Article 3, 8 and 9 of the Agreement on Agriculture by resorting to non-listed export subsidies.”¹⁸

And further:

“...the commitment not to exceed the scheduled export subsidy reduction levels with respect to specified agricultural products and the commitment not to provide listed export subsidies on non-specified products.”¹⁹

To sum up:

(1) Member states are permitted to provide listed export subsidies on specified agricultural products i.e. those products listed in their commitment Schedules, provided they do not exceed their reduction commitment levels.

(2) Member states are permitted to provide non-listed export subsidies i.e. those referred to in Article 10 on the condition that they are not utilised in a manner which would lead to a circumvention of their reduction commitments.

(3) Member states are expressly prohibited from utilising non-listed export subsidies in order to subsidise non-specified agricultural products i.e. agricultural products which are not listed in their Schedules.

5.FINAL THOUGHTS ON THE AGRICULTURE AGREEMENT

The Agreement on Agriculture is a worthy attempt at introducing a framework to regulate certain aspects of the international trade in agricultural products. The Agreement makes credible strides in not only regulating issues such as market access and domestic support but also focuses on the need to be aware of the historical difficulties facing developing and least developing countries.

¹⁸ Desta M, *The Law of International Trade in Agricultural Products...*, p235

¹⁹ *Supra...*p237

By raising this awareness on the challenges faced by developing nations *et al* , developed nations can assist certain vulnerable developing nations through principles such as special and differential treatment when concluding multilateral trade agreements. This is particularly important if one considers the significant role played by agriculture in certain Least Developed Countries.

However I am of the belief that the Agreement on Agriculture does not go far enough in its stated objectives. Although its rules regarding export subsidies represents a significant improvement to that of prior attempts at regulating export subsidies, I don't think the rules are effective enough. Countries continue to make use of export subsidies. Even if they follow the guidelines of the Agreement to the letter, the fact is that these export subsidies still result in major trade distortions(as I will show, when I review the EU's policies) and the possibility exists that countries may nevertheless persist in their attempts to circumvent Article 10.

6.THE COMMON AGRICULTURAL POLICY

Originating in 1962, Europe's CAP has had its fair share of ups and downs. Originally set up in order to ensure Europe's food security, the CAP was premised on three main objectives:

- (1)A unified market in which there is a free flow of agricultural commodities within the EU;
- (2)Product preference in the internal market over foreign imports through common customs tariffs; and
- (3)Financial solidarity through common financing of agricultural programs²⁰.

²⁰ www.ers.usda.gov, *European Union: Policy: Common Agricultural Policy* (accessed on 23 August 2007)

The CAP represents a quite enigmatic program. On the one hand it has resulted in Europe no longer being dependent on agricultural food imports. In fact the EU is a leading exporter of certain agricultural products onto the world market. As a result of CAP, Europe's food security is secured and shortages of basic foodstuffs are the stuff of legend. The CAP has also resulted in the establishment of major agribusiness corporations which compete on the global stage further strengthening globalisation. And the biggest beneficiary of this program?- well of course the humble farmer. As a result of CAP, the livelihoods of thousands of farmers have been secured and has eventually lead to the creation of a class of middle to upper income farmers.

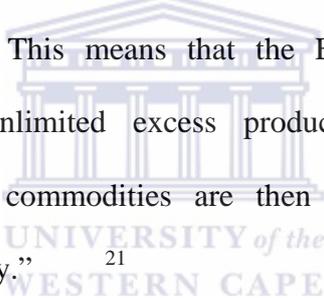
Just as CAP has its many admirers, it also has just as many detractors. The CAP is the second biggest consumer of the EU's total budget with the cost being estimated at 40 to 43 billion euros. The incentives given to farmers under CAP, have stimulated them to overproduce agricultural products. This of course leads to surpluses, which in turn incur further costs. This overproduction of agricultural foodstuffs created the notorious "mountains and lakes" of various foodstuffs in the late 1970's and 1980's.

When it comes to WTO trade negotiations, agriculture always seems to be a major sticking point, with the European Union and its CAP always being accused as the major reason why there can be no headway in negotiations and no major reform.

How exactly does the CAP operate? Well the primary instruments that are utilised include direct payments made to farmers, the imposition of import controls and barriers as well as EU assistance in the export of agricultural foodstuffs namely the use of export subsidies. In this instance I will be focusing on how the program of export subsidies is implemented and applied.

European farmers are guaranteed a certain price for whatever foodstuff they produce. This is known as the intervention price. The important thing about the intervention price is that it is always higher than the world market price for the particular foodstuff. In some instances the intervention price is up to three times higher than the world price. This would appear to be quite a beneficial system for the farmer. Whatever volume of crop he produces year in and year out, he is guaranteed to receive the same price every year which is almost always higher than the world price. So even if he has had a bad year, he will be able to generate an income. Of course the system of intervention prices has led European farmers to overproduce resulting in surpluses.

“Farmers are guaranteed intervention prices for unlimited quantities of eligible agricultural products. This means that the EU authorities will purchase, at the intervention price unlimited excess products...that cannot be sold on the market. The surplus commodities are then put into EU storage facilities or exported with subsidy.”²¹



As stated these surpluses have to be eliminated somehow and one of the measures applied in terms of CAP in this regard is the provision of export subsidies

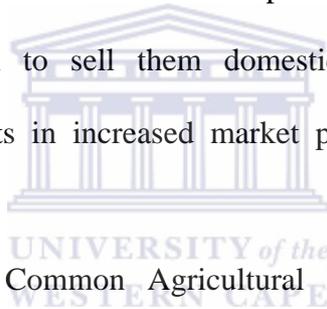
“Export subsidies are...used to maintain internal prices at above world market levels and to transfer domestic surplus supplies onto the world market. While they are designed to support internal market prices in the countries applying them, they also affect world markets by increasing export supplies.”²²

²¹ www.ers.usda.gov, *European Union: Policy: Common Agricultural Policy* (accessed on 23 August 2007)

²² Andrews N, *Agriculture in the Doha Round*, p26

Export subsidies allow farmers to get rid of their surplus produce by exporting them. The provision of these subsidies obviously serve as an incentive to overproduce. The farmer would prefer to direct his production towards the export market because whatever he cannot sell on the domestic market, he can simply ship off the surplus and still receive a monetary reward for it. Herein lays the flaw in the program. Production is increasingly focused on the export market. As a result this has a negative impact on the available supplies within the domestic market. Therefore the simple economics equation of supply and demand dictates that if there is a limited supply of agricultural products, then there will be an increase in the price of the product due to its demand.

“Export subsidies are incentives to exporters that encourage them to export products rather than to sell them domestically. They reduce internal market supplies, which results in increased market prices.”²³



In the context of the Common Agricultural Policy, the citizens of Europe are paying doubly for the continued implementation of the export subsidy policies. Firstly they have to pay high prices for foodstuffs as a result of production being focused on the export market and the imposition of high tariff barriers. Secondly the citizens of the EU eventually have to foot the bill for the continued use of export subsidies. In the 2002 to 2003 period the estimated expenditure on export subsidies amounted to 1.3 billion euros.

“One effect of the CAP has been to keep overall food prices relatively high for EU consumers...Despite price reductions food is still more expensive in the EU than in the United States and EU consumers spend a larger share of their income on food and alcoholic beverages than their U.S. counterparts.”²⁴

²³ *Supra...*p27

²⁴ www.ers.usda.gov, *European Union: Policy: Common Agricultural Policy* (accessed on 23 August 2007)

Not only does the continued use of export subsidies have an impact on the average European's pocket, but also on some poor farmer living in one of the countless third world countries. In most developing nations and all Least Developed Countries, agriculture makes a significant if not crucial contribution to the particular country's Gross Domestic Product (GDP). For these states the agriculture sector represents the only realistic opportunity of generating revenue besides taxes. The agriculture sector allows these nations to compete with industrialised nations because in most instances the domestic producers in these countries are able to produce agricultural products at a cheaper rate than their counterparts in developed countries. Therefore farmers in developing countries and Least Developed Countries face attack on two fronts: firstly they can only just compete against heavily subsidised agricultural exports from the EU. These subsidised exports are significantly cheaper than the available domestic products. Secondly, if an agricultural producer does manage to expand sufficiently enough to export to the EU, the producer would face a further obstacle in the form of high import barriers imposed by the European Union.

“In terms of its relative position, the EU gives relatively high protection to agriculture compared with the rest of the OECD(Organisation for Economic Cooperation and Development) group and appears to offer greater support to its farmers than do many other countries. Moreover in terms of explicit export subsidies, it accounts for nearly 90% of all such support...”²⁵

²⁵ Milner C, *Agricultural export subsidies and Developing Countries interests*, p13

In this thesis I am advocating for the total prohibition on the use of export subsidies as means of preventing distortions within the sphere of agricultural trade. However I have come to realise that certain measures imposed together with export subsidies lead to a distorted world trade market. These measures are specifically related to high import barriers that are imposed. The EU is particularly fond of this measure. In order to sustain the high prices and subsidies they pay to the farmers, the EU has to ensure that the price of foodstuffs remains high within the Union. To achieve this, import barriers are extended making it very difficult for food exports from other states to compete with domestically produced foodstuffs. Therefore local producers are able to keep their prices high, safe in the knowledge that do not have to fear the competition from international producers



“Where comprehensive support arrangements involving export subsidies along with other measures exist, export subsidies may not be considered separately as a market distorting form of support so much as an integral part of a system of distorting support.”²⁶

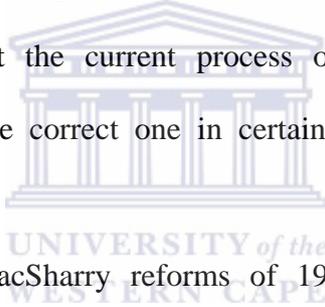
It would appear that it would not be sufficient just to tackle the issue of export subsidies as a whole but the whole EU system that is used to protect its farmers and agricultural sector. However this issue is quite a hot topic within Europe, with important social, economic as well political issues to be considered. Whenever possible reforms of the CAP and its associated policies is proposed, it almost always generates a flurry of debate.

²⁶ Andrews N, *Agriculture in the Doha Round*, p26

Almost always we have either French farmers staging protests and causing general mayhem, claiming that proposed reforms will harm their livelihoods and “way of life” or we have vocal NGO’s asking for drastic cuts in farm spending and clamouring for more debt relief for the poorest countries.

“Because of the interactions of the various forms of support and the ability to substitute the various forms of support for each other, reducing export subsidies does not necessarily reduce overall levels of assistance or market distortion.”²⁷

However at this stage of its development, I do not think that the European Union is ready or prepared to opt for a radical overhaul of its agricultural policy. Therefore I believe that the current process of gradual reform of the Common Agricultural Policy is the correct one in certain respects



Starting of with the MacSharry reforms of 1992 (the last major reform process was in 2003), most of the reforms have been centred around the issues of market access and domestic support. The EU has made some credible reforms in these areas such as the EBA initiative(Everything But Arms), allowing imports from certain developing and least developed nations free access into the European market. On the domestic support front, the process of decoupling was implemented. Payments to farmers were no longer associated with how much they produced or their production levels but instead received direct payments related to rural development.

“...feature of the 2003 reforms is the move from a price support policy to an income support policy through decoupled payments.”²⁸

²⁷ Andrews N, *Agriculture in the Doha Round*, p26

²⁸ www.ers.usda.gov, European Union: Policy: Common Agricultural Policy (accessed on 23 August 2007)

“...Mr Fischler emphasised the need to respond to growing public concern and was anxious to underline that the reform did not mean the end of support for agriculture but a better protection of public goods and a simplification of the policy for farmers”²⁹

And further:

“The CAP of 2006 is therefore profoundly different from the CAP of 1984 or even 1991: customs duties have been dropped: 80% of the budget goes to direct aid rather than to export subsidies or market procurement...”³⁰

However when it comes to the issue of export subsidies, the European Union seems quite hesitant to commit to significant reforms or reductions. The fact that the EU accounts for 90% of all agricultural export subsidies utilised in the world does not seem to bother the powers that be in Brussels or Strasbourg.

“ While the US and the EU and a number of other countries have significant allowances for export subsidies, for most commodities the EU remains the only major user of export subsidies.”³¹

To sum up:

The European Union’s Common Agricultural Policy is something that has never been attempted before. What it has achieved over the last 45 years is quite remarkable if you consider that it has transformed an entire continent from a net importer of foodstuffs into the second largest exporter of agricultural products and foodstuffs in the world.

²⁹ Garzon I, *Reforming the Common Agricultural Policy-History of a Paradigm Change*, p104

³⁰ www.diplomatie.gouv.fr, *Agriculture: Common Agricultural Policy* (accessed on 23 August 2007)

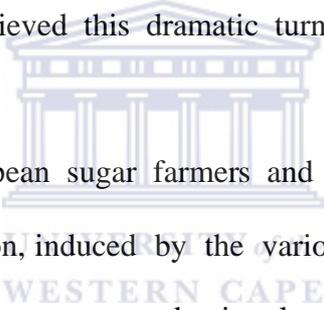
³¹ Andrews N, *Agriculture in the Doha Round*, p30

However CAP has since the 1980's begun to show signs of its old age. Policies that have worked and been successful in the 1960's are no longer so in the 21st century, necessitating urgent reforms. However one area that has been impervious to these reforms appear to be the policy of export subsidies. As I will elaborate in further chapters, export subsidies are a relic of the past which is not compatible in this day and age where market liberalisation, globalisation and development assistance for developing and least developed countries are the major themes.



1.INTRODUCTION

The focus of this chapter will be the use of export subsidies in relation to the European Union's sugar regime. As stated in the previous chapter, Europe's agricultural policies are directed by the Common Agricultural Policy. Therefore it is necessary to conduct an examination of the mechanisms employed by the CAP with reference to the production of sugar. How is it possible that an entity that used to be a net importer of raw sugar, has now, in the space of two decades, transformed itself into the world's second largest exporter of sugar (second only to Brazil)? I mean France, the UK, Sweden and other northern European countries hardly spring to mind when one thinks of the major producers of sugar, which is essentially a crop suited to tropical climates. How have the Europeans achieved this dramatic turnaround?



I believe that the European sugar farmers and producers have tended to follow a policy of overproduction, induced by the various CAP support measures dangled in front of them. Of course overproduction leads to surpluses. These surpluses are inconsistent with the EU policy of maintaining high prices for certain commodities within the domestic market and therefore have to be eliminated. One way is the granting of export subsidies, enabling European producers to offload their excess supply onto the world markets.

In this chapter I will be examining the operation of the CAP measures within the sugar sector. These measures relate to the different categories of quotas concerning the production of sugar, how these quotas are applied in practice and how the policy of export subsidies facilitates the offloading of excess European sugar onto the world market. But what sort of an impact do the European policies have on other major sugar producers, who are mostly developing and least developed countries.

Sugar represents for many of these states, especially the least developed states, an opportunity to earn major export revenue. Sugar is one of the few commodities where these states enjoy a comparative advantage due to the low cost of production in these states.

More importantly, how do Europe's agricultural policies impact on the South African sugar industry? Do the European policies and measures have an impact on the South African agricultural sector and the economy as a whole? If European agricultural policies do have an impact on South Africa, are they merely limited to the economic sphere or do they have relevant social ramifications? These are the questions I will attempt to answer in this chapter.

2.THE EUROPEAN UNION'S SUGAR REGIME

Sugar production within the EU appears to be an issue which generates equal measures of opposition and support. The EU has undertaken significant reforms with respect to other agricultural commodities, yet it appears when it comes to sugar, the pace of EU reform seems quite slow (or non-existent if you ask certain aid agencies and developing countries). However the European Union has come under increasing pressure at WTO negotiation rounds to undertake significant reforms of the sugar sector.

“what is being questioned in the current Sugar Market Order, inter alia, is the concentration of production, the intensity of production, dumping of surpluses onto world markets and the state-related excessive advantage of sugar against other European crops.”¹

¹ CIDSE-APRODEV, Position Paper: *Reform of the Sugar Regime in the European Union*, Policy Recommendations from a development perspective, April 2005

With the World Trade Organisation (WTO) moving closer to its goal of global trade liberalisation, Europe has been forced to rethink the use of one of the pillars of the CAP system, namely export subsidies with regard to the sugar sector. In this instance it has been the persistence of developing states which has brought about this rethink in EU policy.

No longer are these developing countries unable to confront the major sugar producers over their use of export subsidies. These countries have organised themselves into equally powerful groupings such as the G-20 and the Cairns Group. This point was illustrated in 2004, when a WTO dispute resolution panel found in favour of Brazil's complaint that the EU's use of export subsidies to offload excess sugar resulted in significant distortions in world trade. Brazil, together with Thailand and Australia, requested a panel decision in terms of the WTO's Dispute Resolution. The European Union was accused of exceeding its reduction commitments with regard to export subsidies in terms of the Agreement on Agriculture. Brazil accused the European Union of cross-subsidising 2.7 million tonnes of its 'C' quota sugar with the high internal prices paid for the 'A' and 'B' quota sugar. The EU was also accused of using sugar imports from India and African, Caribbean and Pacific (ACP) countries, amounting to 1.6 million tonnes, as a way of bypassing its reduction commitments. The EU was accused of providing export subsidies in the re-export of the ACP and Indian sugar imports.

“The European Union sets quotas for sugar production for the European market, and farmers must export any surplus sugar at lower prices. In its complaint, Brazil accused the European Union of exporting more subsidized sugar than is allowed under global trade agreements.”²

² *WTO Says EU Sugar Export Subsidies Are Illegal*, www.organicconsumers.org (accessed on 29 August 2007)

A senior Brazilian government official, Mr Clodoaldo Huguency, went on to say that:

“This ruling, just like the cotton decision, confirms that there are immense distortions in international agricultural markets, and it also confirms that serious negotiations need to take place to do away with farm subsidies, both for export and domestic consumption.”³

It would appear that the WTO panel decision will eventually pave the way for the elimination of export subsidies within the European agriculture sector. However it is not as simple as that. When billions of euros worth of support payments are at stake, there never seems to be a simple solution. The presence of various interests and lobby groups within the European agriculture sector makes it difficult for Brussels to undertake any worthwhile reforms of its agricultural policies especially in relation to sugar.

“Pascal Lamy indicating that the EU is perfectly entitled to protect its local industries by these measures...it should be borne in mind that Lamy is subject to great deal of pressure from major EU sugar producers and processors.”⁴

However the EU Commission has undertaken certain reforms of its sugar regime in response in 2004 in response to the WTO panel decision and growing dissatisfaction of other sugar exporting states and significantly the European consumer. To establish whether these reforms are worthwhile, I will firstly be reviewing the status quo which existed prior to the reforms, secondly the reforms themselves and lastly whether or not these reforms have achieved their desired outcomes.

³ *Supra*

⁴ www.tralac.org , *EU sugar subsidies hurting South Africa* (accessed on 28 July 2007)

3.THE SWEET TASTE OF SUCCESS: EUROPEAN SUGAR POLICY IN TERMS OF THE COMMON AGRICULTURAL POLICY

As stated, CAP policies have transformed the European Union into a significant exporter of refined sugar. This system has been underpinned by the use of production quotas, the high levels of import barriers keeping sugar prices within the Union high and the use of export subsidies to eliminate sugar surpluses.

“The EU has a highly regulated system for sugar that is designed to provide substantial support for domestic producers. An internal support price...intervention price is maintained primarily through import restriction and the subsidising of exports to prevent excessive stock increases as producers and consumers respond to high internal prices.”⁵

The CAP policies have enabled European farmers and large agri-corporations to export about six million tonnes of refined sugar annually. According to the OXFAM report “Dumping on the World”, it costs the EU about 3.3 euros to export one euro worth of sugar. Clearly the current policies in place appear to be quite a drain on the EU’s financial resources.

4.PRODUCTION QUOTAS IN THE SUGAR REGIME

The production of sugar is centred around the three different categories of quotas. The ‘A’, ‘B’ and ‘C’ quota categories each have their own characteristics and specifications.

“ Under EU sugar regime, the volume of production that receives price support is limited by a quota system.”⁶

⁵ Andrews N, *Agriculture in the Doha Round*, p79

⁶ Andrews N, *Agriculture in the Doha Round*, p79 para 3

In terms of the quota requirements:

- ‘A’ quota: this is the flagship production quota within the European Union. It is also the largest production quota of three with production of sugar capped at about 11.89 million tonnes (according to the 2001/2002 figures)
- The ‘B’ quota is significantly smaller than the ‘A’ quota, with the production of white sugar pegged at 2.59 million tonnes
- The use and application of the ‘C’ production quota is the one which causes the most controversy in agricultural trade circles. This quota relates to sugar that is produced in excess of the ‘A’ and ‘B’ quotas and is therefore unlimited. This is the quota that is closely associated with the use of export subsidies. This overproduced sugar cannot remain within the domestic EU market because it would lead to a depression of sugar prices. Export subsidies are provided as a further form of compensation to EU sugar producers. Producers offload their surplus sugar supplies onto the world market. World prices are significantly lesser than EU internal prices. Export subsidies are a way of making up that shortfall.

“ The intervention price for quota sugar is supported through intervention arrangements designed to provide a floor to the internal price at the administratively set intervention price plus an amount to cover a storage levy.”⁷

⁷ *Supra...* p 80

The OXFAM report, 'Dumping on the world', indicates that:

“Effectively all non-quota sugar produced in excess of the quota amounts, gets subsidised and is then sold outside of the EU, effectively making it profitable to produce sugar in excess of local needs in spite of the massive cost of production in the EU.”⁸

It is interesting to note that even though the EU is one of the highest cost producers of sugar, European sugar producers are still able to compete effectively against their counterparts in Brazil, South Africa and the other major sugar producers. In fact according to the 2004 OXFAM report 'Dumping on the World', it costs the major EU sugar producers 25 cents to produce one pound of white sugar. Compare this with the cost of production of Brazilian producers: 4 cents per pound or their Indian counterparts, who are slightly more expensive at 9 cents per pound. It does not make economic sense that a producer with such high costs of production is still able to compete with their low cost competitors.

“Europe is one of the highest cost producers of sugar. According to a study by the Netherlands Economic Institute (NEI) the production costs of the lowest cost beet producers in the EU were 60% higher than the costs of low-cost cane...It costs Europe around 673 euros to produce one tonne of white sugar, compared to just 286 euros for competitive countries like Brazil, Colombia, Malawi...”⁹

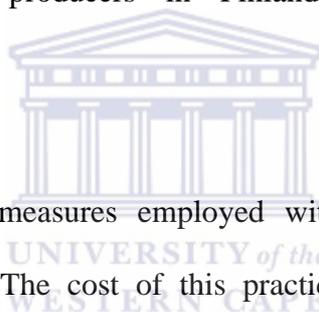
⁸ www.tralac.org , *EU sugar subsidies hurting South Africa* (accessed on 28 July 2007)

⁹ CIDSE-APRODEV Position Paper *Reform of the Sugar Regime in the European Union*, Policy Recommendations from a development perspective, April 2005 p4

The fact that European sugar producers are still able to compete effectively with their overseas rivals is all based on the support the industry receives through CAP policies. Not only are these producers supported by the supra-national EU Commission, but also by various Member States of the EU.

Certain large agri-business corporations receive national grants from Member States. These national aid packages complement what the sugar producers already receive under CAP policies. It would appear that these producers are quite weak - look at all the support they receive!

“Spanish producers are the largest recipients of national aid, although it is also provided to some producers in Finland, Ireland , Portugal and the United Kingdom.”¹⁰



One of the significant measures employed within the EU’s sugar regime is the use of export subsidies. The cost of this practice amounts to between 1 billion to 1.3 billion euros annually. EU support for the sugar industry is not limited to these payments.

“In addition to the 1.3 billion euros in export subsidies recorded annually in its budgets, the EU provides hidden support amounting to around 833 million euros on nominally unsubsidised sugar exports. These hidden dumping subsidies reflect the gap between EU production costs and export prices”¹¹

¹⁰ Andrews N, *Agriculture in the Doha Round*, p79 para 4

¹¹ www.seatini.org , *Issue: Development, Cotton, Sugar*, 30April-15May 2004 Volume 7 no 7, p6

5.MEASURES UTILISED TO MAINTAIN THE STATUS QUO AND THEIR IMPACTS ON THE GLOBAL SUGAR MARKET

In order to prop up their local sugar producers against foreign competition, EU policy is directed at two main measures: export subsidies and high import duties. By utilising export subsidies, European sugar producers are able to get rid of their surplus supplies and the high import duties serve as an effective barrier against cheaper foreign competitors entering the EU market, thus preserving the artificially high prices within the EU. This whole system is geared towards supporting the average EU farmer. Even though agriculture accounts for an ever decreasing economic activity (i.e. about 2 to 4% of Europe's workforce is involved in agriculture), it nevertheless consumes quite a significant proportion of the EU's budget.

A significant result of the EU's policy of export subsidies is that it has a negative impact on the global market price for the particular commodity. This is especially so when it comes to sugar. The cheap European sugar is offloaded onto the world market. This flooding of the world market leads to a depression in prices. Overseas competitors especially in the developing world struggle to compete against these subsidised exports. Their European rivals are able to undercut them even though in many instances, particularly in the case of sugar, developing country producers are able to produce more cheaply and efficiently.

“By driving down prices and dumping such a large surplus of exports, the EU sugar regime contributes to volatility in the world sugar market. It has also contributed to the downward trend of global sugar prices since 1995. Developing countries lose foreign exchange earnings, markets and their sugar producers lose valuable revenue.¹²

¹² CIDSE-APRODEV, *Reform of the Sugar Regime in the EU- Policy recommendations from a developmental perspective*, April 2005, p5

The most recent available figures relating to the use of export subsidies within CAP is definitely food for thought. In the 2001 to 2002 financial period, 1,493 million euros was paid in export subsidies. This large amount was used to export about 3,488,000 tonnes of sugar. Bearing in mind that that these figures only relate to the sugar sector, it illustrates the scale at which Europe's agricultural sector operates. Not surprisingly developing and least developed nations struggle to compete with EU agricultural produce on the world stage.

In the sugar 'game' it is not only export subsidies which assist the European producers. Import tariffs work in tandem with the export subsidies, making it almost nigh on impossible for foreign sugar producers to compete with their European rivals in the EU market.

“...the EU slaps on a tariff which is so high that it becomes uncompetitive for exporters to export to the EU. The current tariff stands at a whopping 324%.”¹³

And further:

“Countries such as Brazil, Thailand, US, South Africa and Australia face a prohibitively high entry tariff into the EU(33.90 euros per 100kg for raw sugar plus permanently applied safeguard duty of 12.89 euros per 100kg). while there are arguments about the exact *ad valorem* equivalent, it will certainly amount to considerably more than 200%¹⁴

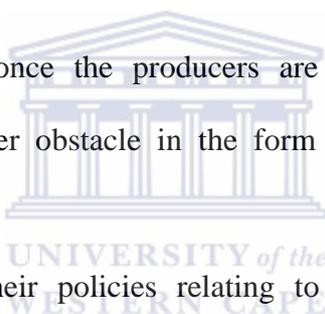
¹³ www.tralac.org , *EU sugar subsidies hurting South Africa*, (accessed on 28 July 2007)

¹⁴ *Position Paper on Sugar and the Doha Development Round*, American Chamber of Commerce to the European Union, May 27th 2005, p3

It is clear from these figures that sugar producers from developing and least developed countries face challenges on many fronts. In their home markets they have to compete with heavily subsidised sugar from the EU. Let us face it: as things stand now, this practice amounts to dumping by the EU - European sugar will always be cheaper and in this battle for the consumer, there is only one winner. The subsidised EU sugar not only floods the domestic market of the producers, but also third country markets.

“In 2001 for example, Europe exported 770,000 tonnes of white sugar to Algeria and 150,000 tonnes to Nigeria-countries that would be potential export markets for competitive African exporters like Malawi, Zambia and Mozambique.”¹⁵

If this is not enough, once the producers are ready to export to the European Union they face a further obstacle in the form of import tariffs and duties.



When challenged on their policies relating to export subsidies and payments to farmers, the EU has constantly cited the need to protect the rural way of life as a reason for continuing with these particular policies. EU officials maintain publicly that these support measures enable Europe's farmers to earn a decent and sustainable income.

The impression is created that these CAP policies are quite benevolent, that they are targeted to assist small-scale farmers make ends meet. I believe this is the impression the average EU citizen has of the CAP regime. I think they are willing to go along and continue to support the Union's agriculture policies if they believe that the payments are directed at supporting small-scale and subsistence farmers.

¹⁵ CIDSE-APRODEV Position Paper, *Reform of the Sugar Regime in the European Union-Policy Recommendations from a development perspective*, April 2005,p5

Preserving the countryside - what a myth! Apart from the fact that the agricultural sector accounts for a very small percentage of the Union's workforce, CAP payments in most instances end up with rich, large scale farmers and agri-business corporations and multinationals. This is particularly so within the sugar industry. Large corporations lead the way in the who's who of sugar payment beneficiaries. These payments are almost always in the form of export subsidies and export refunds.

“The largest individual payments made to the UK under the much criticised common agricultural policy are going to multinational food companies and not, as commonly assumed to farmers...millions of pounds are being paid to manufacturers of bulk fats and sugars used to produce processed foods.”¹⁶

And further:

“While most people still believe that Europe's agricultural subsidies have been used to protect farmers, particularly small farmers, it is now emerging that among the main beneficiaries are large multinationals.”¹⁷

Some of the largest beneficiaries of CAP sugar payments make for interesting reading as they range from the usual suspects such Nestle and Cadbury to interesting recipients such as Eton College and pharmaceutical companies such as GlaxoSmithKline and ACS Dobfar.

¹⁶ www.sucre-ethique.org , *Multinationals, not farmers, reap biggest rewards in Britain's share of CAP payouts* (accessed on 6 September 2007)

¹⁷ *Supra...*p2

Among the interesting facts to arise from the investigation conducted by the Guardian newspaper include:

- Tate and Lyle, a British multinational received the largest amount of CAP subsidies in the 2003 to 2004 period. These payments amounted to 227 million pounds
- Premier Foods, a company accused of using the banned Sudan 1 dye in its production process(Sudan 1 is carcinogenic) received about 60 000 pounds in export subsidies.
- Eton College has also benefited from CAP payments amounting to 2,652 pounds in the 2003-2004 period. Yet strangely Eton cannot explain why or for what purpose the payment was for.

It appears that when it comes to CAP payments, every conceivable loophole is being exploited. Airline catering companies qualify for export subsidies because they provide small servings of sugar and milk to airline passengers. Pharmaceutical companies qualify for CAP support because they use sugar in the production of certain drugs and cough mixtures. Basically everyone is trying to get their snout in the CAP trough.

According to Jack Thurston, a former special advisor to the UK Ministry of Agriculture:

“The CAP is not a small farms policy, even though most people still think it is. There has been tremendous resistance to publishing the figures in France, but most of it will be going to agribusiness and the really big farm companies, not small farms.”¹⁸

¹⁸ www.sucre-ethique.org , Multinationals, not farmers reap biggest rewards in Britain's share of CAP payouts (accessed on 6 September 2007)

An illustration of Mr Thurston's comments is that of British Sugar. It is a subsidiary company of the Associated British Foods corporation. In the 2003 to 2004 financial period, British Sugar was able to achieve a 25% profit margin. This is quite remarkable considering that their main area of operations is in agriculture and agriculture is a notoriously tough economic sector. The 25% profit margin places British Sugar at the top of the EU's manufacturing sector.

“British Sugar is among the most vigorous lobbyists for maintaining the current regime, having built an entire campaign on a selective and misleading interpretation of facts.”¹⁹

Clearly this is a status quo that cannot be maintained for long. As was stated by the EU Commissioner for agriculture, Mr Franz Fischler, in a speech to the European Union parliament in 2004:

“The status quo is however no longer sustainable and we must prepare the sugar industry to withstand duty-free imports of sugar from least developed countries under the EBA initiative...First and foremost we must become more competitive.”²⁰

¹⁹ www.seatini.org, *Issue: Development, Cotton and Sugar*, 30 April-15May 2004, Volume 7 no.7,p6

²⁰ Speech: Franz Fischler to the Agriculture Committee of European Parliament, Brussels 21 September 2004

6.REFORM OF THE EU/CAP SUGAR REGIME

Due to increasing pressure in international agriculture trade circles, the European Union has been forced to adjust certain policies of the Common Agricultural Policy. WTO regulations, the ever increasing cost of the CAP as well the various trade disputes as a result of certain CAP policies have forced the Brussels bureaucrats to rethink their strategies. Reform is especially necessary within the sugar sector.

“Reform of the EU’s policies offer challenges, therefore to EU policy makers offering on the one hand the opportunity for reduced budgetary commitments, but on the other the problem of meeting income and other targets for the agricultural sector with reduced production levels”²¹

The European Union has been slow to reform the more controversial issues of their sugar policy namely the use of export subsidies to dump excess surpluses onto the world market and the issue of market access to the EU for developing and least developed countries. On the export subsidy front, the Europeans have always taken the position that any reform on their part is contingent on the USA and other industrialised states undertaking significant reforms of their own. Already in the year 2000, this was the position taken by EU negotiators in the first real concrete attempt to reform the export subsidy program.

“...EU released a proposal indicating that it would consider making further reductions in its export subsidies provided other WTO members reciprocated with cuts in agricultural support measures.”²²

²¹ Milner C, *Agricultural export subsidies and Developing country interests*, p35

²² www.ictsd.org, *EU willing to address export subsidies at next WTO AG Talks*, Volume 4, No 26, 4 July 2000 (accessed on 3 August 2007)

Mr Fischler went further:

“...Franz Fischler emphasised that any reductions in the EU export refunds could only be done if all forms of export subsidisation were made transparent and subject to agreed disciplines.”²³

One of the sectors that have been subjected to an overhaul is the sugar sector. This change can be attributed chiefly to the 2004 WTO panel decision between EU and Brazil and other interested countries such as Thailand and Australia. Within the sugar sector most of the reforms have centred around the structure of the payment system to sugar producers and the sugar production quotas.

Payment System

A major reform was that the policy of maintaining an intervention price was abolished. The system of intervention pricing was a means of ensuring that European sugar producers remained competitive despite the high costs of production. Farmers were guaranteed a price at which they could sell their sugar. This system was quite beneficial to EU sugar producers: they were guaranteed to generate an income despite the fact that the world price for sugar tended to be quite volatile. The fact that the intervention price was always higher than the world price was of course always a bonus. In most instances the intervention price was about three times higher than the world price. The reforms as proposed by Mr Fischler in 2004 state that:

“And the first step towards this is to reduce support prices. We propose doing away with intervention in the sugar markets and replacing the intervention price with a reference price about one third less than the current intervention price”²⁴

²³ www.ictsd.org , EU willing to address export subsidies at next WTO AG Talks, Volume 4 No 26, 4 July 2000 (accessed on 3 August 2007)

²⁴ Speech: Franz Fischler speech to the Agriculture Committee of European Parliament, Brussels 21 September 2004

This cut in the support price equates to 632 euros per tonne reduced to 421 euros per tonne by the end of the 2007-2008 financial period. In addition to the abolishment of the intervention price system, a proposal was made to create a fund to support the small-scale farmers who would eventually be forced out of the sugar industry as a result of the reforms. This fund would be supported through payments and levies from the remaining large scale sugar farmers and processors.

Production Quotas

As I have stated, the production of sugar is divided into three different categories. The misuse of these production quota categories has led to the problematic situation we have with export subsidies. Because of export subsidies, EU sugar producers have produced in excess of demand capacity, safe in the knowledge that there is a financial safety net in place for them.

“it is undeniable that there is a structural surplus on the EU sugar market-this is why the quotas need to be adjusted...For sugar production outside the quotas.”²⁵

The reform of the production quotas was centred on a merger of the ‘A’ and ‘B’ production categories as well as a reduction of the overall level of quotas. In actual terms this amounted to a reduction in quota levels of about 1,3 million tonnes within the first year of the transitional period(*this will be highlighted at a later stage). This first cut was followed by three further cuts of about 0.5 million tonnes each. These reductions in the quota levels would lead to the stated goal of a 2.8 million tonne reduction.

²⁵ Speech: Franz Fischler Speech to the Agriculture Committee of the European Parliament, Brussels 21 September 2004

The thinking behind adjusting the quota levels was that if the farmers were capped at certain quota levels, there would be no overproduction of sugar and consequently there would be no incentive to utilise export subsidies.

The reform of the sugar industry would of course also lead to a reduction in the level of CAP expenditure. A cost saving exercise is of course very important to most European citizens since they are the ones who ultimately bear the costs of CAP. In terms of the reforms, the sugar regime expenditure would be reduced from 1531 million euros to 1446 million euros in the 2008 to 2009 financial period. In 2004, an influential think-tank put forward their agenda for the reform of the sugar industry. The total reforms were set out as follows:

- A reduction of about 5.2 million tonnes, or one-third in the EU quota to end all exports, facilitate an increase in imports from least developed countries and a realignment of domestic production to come in line with consumption levels.
- An immediate prohibition on non-quota exports (2.7 million tonnes) and a domestic quota cut of around 2.5 million tonnes.
- An incremental, graduated cut in quotas over the period 2006-2013 to accommodate an additional 2.7 million tonnes from Least Developed Countries at prices linked to those on the EU market.
- The elimination of all direct and indirect export subsidies with immediate effect.
- A programme of increased aid and compensation for ACP exporters, financed by a transfer of the 1.3 billion euros now allocated to export subsidies. The programme would include a 'quota buy-back' option, under which ACP countries could sell their quota back to the EU in return for a guaranteed flow of assistance.

- A redistribution of CAP support towards smaller farmers, and an EU-wide investigation of the activities of sugar processors, conducted by national competition authorities.²⁶

7.THE ROLE THAT THE EBA INTIATIVE PLAYS WITHIN THE EU SUGAR REGIME

The EBA initiative was introduced in 2001 as part of EU efforts to assist ACP (African, Caribbean and Pacific) states, especially those classified as least developed, to develop their economies. The EBA (Everything But Arms) initiative granted certain states duty free access to the European market for specified products.

“The EU’s Everything-But-Arms Initiative...will provide a valuable source of market access and finance for Least Developed Countries. Reform proposals must look to secure this access, whilst more needs to be done by the Commission to ensure that this access supports development in LDC’s.”²⁷

With respect to sugar imports from ACP states, 1,3 million tonnes of sugar was given preferential access to the EU market annually. ACP sugar producers were able to receive the same price for their sugar that they imported to the EU as their European counterparts.

It would appear that the EBA initiative is a credible step forward in assisting third world producers and in some way, reforming certain European agricultural sectors. However later developments have impaired the effectiveness of the EBA initiatives.

²⁶ www.seatini.org ,Issue: Development,Cotton,Sugar,30 April-15 May 2004, Volume 7 No 7 p8 (accessed on 6 September 2007)

²⁷ CIDSE-APRODEV, *Reform of the Sugar Regime in the EU- Policy recommendations from a developmental perspective*, April 2005,p7

Sugar producers and lobbyists were able to force significant concessions from the EU Commission. The sugar sector was exempted from having to provide free market access. The current system of preferential market access could be retained. This concession will be in effect until 2009, the reasoning being that European sugar producers need more time to restructure in order to be more competitive. This is not the only concession that the producers managed to win.

“...adding a clause that will make it possible to block imports if the EU sugar price starts to fall. Development groups dubbed the initiative ‘Everything but Arms—and Sugar’.”²⁸

In a Position Paper, the American Chamber of Commerce to the European Union expressed its views on the reforms and what it hoped would be achieved:

“LDC’s however, will benefit from unrestricted duty free access to the EU as of 2009, and currently ACP and LDC countries benefit from restricted duty free access within quotas. Even if the EU decreases its external protection substantially, ACP’s and LDC’s will have a margin of preference over Brazil for exports to the EU...The conditions should be set to give LDC’s a sustainable competitive advantage, allowing them to realize the advantage they would naturally have, were it not for the market distortions caused by developed country agricultural policies...LDC countries should seek to ensure that the EU does not introduce any measures such as safeguard clauses that could prevent them from exporting freely to the EU as intended under the Everything But Arms (EBA agreement).”²⁹

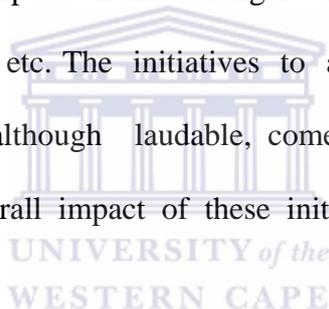
²⁸ Thurow R and Winestock G, *Addiction to Sugar Subsidies Chokes Poor Nations Exports: Byzantine System*, 16 September 2002, p5

²⁹ AMCHAM EU, *Position Paper on Sugar and the Doha Development Round: ACP and LDC countries will continue to benefit from a large preference margin for their sugar exports to the EU*, May 27 2005, p3,para5

It would appear that European producers have ensured that their interests are well protected despite attempts to allow more foreign sugar into the EU. The situation appears to be a classic case of 'leading them to the water, but not letting them drink'.

8.ARE THE REFORMS OF THE SUGAR REGIME GOING TO HAVE A SIGNIFICANT IMPACT?

The reform of the European sugar industry is a necessary process. However in certain policy areas, these reforms are not adequate enough. These reforms do not comprehensively deal with the issue of export subsidies, they do not address the issue over sugar imports from 'stronger' developing countries such as South Africa, Brazil, Thailand etc. The initiatives to assist certain developing and least developed countries although laudable, come with certain strings attached, detracting from the overall impact of these initiatives.



On the export subsidy front, the whole issue over their use is not addressed directly. The reforms relate to the level of sugar production that should be maintained within the Union. In an indirect manner it is hoped that if excess production is eliminated, then there will be no need to use export subsidies. I believe that this issue is serious enough that it should be dealt with directly. EU regulations at this stage do not expressly prohibit the use of export subsidies (in line with current WTO views). Nothing prevents EU producers from continuing to benefit from the export subsidy scheme. This 'crutch' for sugar producers represents a significant income earner for an industry that operates at quite a high cost of production.

“...the EU will remain a major subsidising exporter: the proposals will not end all directly subsidised exports, let alone all indirectly subsidised exports. As a result, sugar will remain a source of dispute at the WTO.”³⁰

Any concessions made are usually accompanied by ample time frames, allowing the sugar industry in Europe to take their time in implementing serious reforms. As I will argue in Chapter four and five, export subsidies within CAP will only be prohibited in 2013.

The European Union's policies regarding market access in terms of sugar negate some of the positive impacts of EBA initiatives. With regard to sugar, the EBA initiative will only have substantial benefits for a handful of ACP/LDC states, chief among this select group - Mauritius. Therefore there is hardly an equitable distribution of benefits as intended by the EBA initiatives. Europe also continues to block export opportunities for certain developing countries such as Brazil and South Africa. The sugar industries in these states are on par with their European rivals and can offer a product which can go head to head with EU sugar in terms of quality and value. Yet because of the high EU import barriers, the domestic EU market is almost impossible to penetrate for foreign sugar producers. The current EU reforms fail to adequately address these issues. To me the EU position is quite hypocritical. On the one hand they preach market liberalisation and want developing countries to open their markets to EU manufactured goods. Yet when it comes to agricultural goods, a sector where developing countries have a comparative advantage, EU policies are quick to revert to a protectionist stance.

³⁰ CIDSE-APRODEV, *Reform of the Sugar Regime in the EU-Policy recommendations from a developmental perspective*, April 2005, p10

The situation is made even more galling by the fact that EU sugar producers can offload their surpluses, thus flooding the market and depressing world prices, through state aid in the form of export and related subsidies. Developing states are at a further disadvantage, since they rarely have the economic resources to provide related export subsidies to match the Europeans.

“...they fail to address the concerns of developing countries. They ignore the LDC’s proposal to amend the EBA initiative to give them adequate time to build their sugar industries, and fail to offer increased aid and technical assistance to help LDC’s develop their supply capacity and improve it on a economically, socially and ecologically sustainable basis. There are no concrete proposals to assist ACP countries to adjust to EU reform.”³¹

Certain EU Member States are proving to be an obstacle in the road to reform. These countries stand to lose a significant amount of financial aid as a result of the CAP reforms. In certain Member States, this loss of revenue will have important social and political implications. The agricultural sector in countries like France and Germany is powerful and well organised, able to wield significant political clout. Member State governments are wary of these CAP reforms, as it could have significant implications come election time.

“The reform package would cut the guaranteed internal minimum prices for sugar to farmers and processing companies by 39 percent over two years starting in 2006. It would also compensate EU sugar beet farmers for 60% of the price cut, but only through direct payments decoupled from production...it offers grants to encourage less competitive producers to leave the sector through a four-year restructuring scheme.”³²

³¹ CIDSE-APRODEV, *Reform of the Sugar Regime in the EU-Policy recommendations from a developmental perspective*, April 2005,p10,para 3

³² www.ictsd.org , *Eleven EU Members reject Commission’s sugar reform*, Volume 9 No 37, 2 November 2007

Amongst the counter-proposals put forward by the disgruntled Member States:

“ ...Greece, Spain, Portugal, Italy, Ireland ,Finland, Poland, Hungary, Latvia, Lithuania and Slovenia-have demanded lower price cuts, longer transition periods and higher compensation. These countries can block the planned reforms and could complicate the EU’s negotiating position in the run-up to the Hong-Kong Ministerial Conference...”³³

Clearly some divisions exist within the European Union as to the nature of the CAP reforms. It is interesting to note that the majority of objections came from the recently added Central and Eastern European states. Even though these states were aware of the proposed reforms during their accession negotiations, it appears they are still somewhat rankled by the fact they are getting a smaller slice of the CAP pie.



9.THE ROLE OF THE SUGAR INDUSTRY WITHIN SOUTH AFRICAN SOCIETY

European policies have had a significant impact on the way most countries conduct business when it comes to the international trade in agricultural products. South Africa is no exception, especially when it comes to the sugar trade. South Africa is one of the leading exporters of raw sugar in the world. The majority of South Africa’s sugar production is destined for the export market. In the 2005 to 2006 financial period, the South African Sugar Association statistics showed that the sugar cane crop improved from 19,094 million tonnes the previous financial period to that of 21,052 million tonnes. Sugar production was increased from 2,226 million tonnes to 2,500 million tonnes.³⁴

³³ *Supra...*p2

³⁴ www.sasa.co.za , *Press Release: Recovery in the sugar industry’s financial returns reported on by Rodger Stewart, the South African Sugar Association Chairman at the Associations AGM held on 28 June 2006*, p1 (accessed on 3 September 2007)

The South African sugar industry is a significant role-player in the social and economic affairs of South Africa. On the economic front, the earnings generated from the export of sugar contributes significantly to the Gross Domestic Product (GDP), behind other commodities such as the mining resources. The sugar industry is also large scale employer, particularly in the provinces of Kwa-Zulu Natal, Mpumalanga and the Eastern Cape.

“ These estates, which stretch from the Eastern Cape Province through Kwa-Zulu Natal and Mpumalanga, are estimated to employ about five full-time and ten seasonal workers for each medium sized farm. Total employment figures for the South African sugar sector stand at 250 000 full-time workers and 500 000 seasonal workers”³⁵

These employed persons in turn make a significant contribution to the overall South African economy. Most of South Africa’s sugar production is concentrated at a grass roots level. The SA sugar industry is characterised by a large number of small to medium producers and a core group of large producers.

“ Current estimates of the number of South African sugar producers stands at about 51 000 small and medium-sized sugar growers with 2000 large scale estates.” ³⁶

The economic activities of the South African sugar industry are conducted in a manner so that they are in conformity and assist in achieving the goals of the South African government’s policy framework - ASGISA(Accelerated and Shared Growth Initiative for South Africa).

³⁵ www.tralac.org , *EU sugar subsidies hurting South Africa* (accessed on 28 July 2007)

³⁶ www.tralac.org , *EU sugar subsidies hurting South Africa* (accessed on 28 July 2007)

“...review the sugar industry’s role in the economic and social development of South Africa and more particularly in the areas in which the industry has a production footprint.”³⁷

Some of the ASGISA goals the sugar industry can play a part in include:

“The vision of ASGISA development path envisages a vigorous and inclusive economy, value addition to our products and services, reduction of costs of production and distribution, the absorption of labour into sustainable employment and the encouragement of new businesses to proliferate and expand”³⁸

The ASGISA framework represents a classic example of those ‘public-private partnerships’ which appear to be so in vogue these days. Some of the areas that were highlighted in the SASA 2006 AGM report, was the role that sugar producers and processors could play in areas such as:

- Education
- The improvement of infrastructure facilities
- The upgrade of skills of the workers employed within the sugar industry
- Environmental conservation
- Further research into the use of sustainable resources and bio-fuels.

In the field of education, it is understandable that sugar processors would want to invest in the improvement of educational facilities. An improvement in educational facilities will lead to an improvement in the skill level and competence of potential employees.

³⁷ Press Release: *Recovery in the sugar industry’s financial returns reported on by Rodger Stewart, the South African Sugar Association’s Chairman at the Association’s AGM, 28 June 2006 p1*

³⁸ *Supra*

“...provides ongoing impetus to the Sugar Industry Trust Fund for Education focus on school building. During the last 14 years of the Trust, with its funding partners, has facilitated the building of 420 classrooms and 36 administration offices. This is a small contribution to a fundamental infrastructure weakness that will require continued attention for the improvement in education, another ASGISA imperative.”³⁹

The upgrade of infrastructure projects is beneficial both to the private sector as well as government. For the private sector, in this case sugar processors, improved transport networks i.e. road and rail networks and the improvement of export facilities i.e. harbour facilities, will in the long term be beneficial since the producers and processors are able to reduce transport costs and delays in the shipping of sugar supplies will be reduced. For the public authorities, this initiative essentially means that the costs of maintaining and upgrading the relevant transport networks is shared with the private sector. It is basically a cost-saving exercise.

“ The maintenance and upgrade of the road systems used to transport 20 million tonnes of sugar cane each year are essential to ensure efficient and cost effective logistics. Co-ordination with the local planning authorities will be required to keep the industry’s local transport infrastructure in good order.”

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SASA has also contributed in efforts to create a more integrated market within Southern Africa. The sugar industries of Mozambique, Swaziland, Zimbabwe and South Africa are moving closer towards an integration plan which is especially beneficial to LDC producers such as Mozambique and Swaziland.

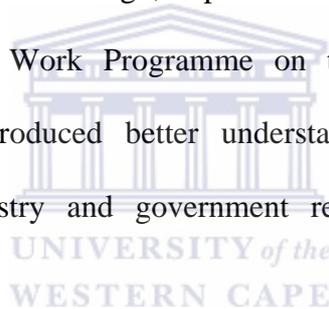
³⁹ Press Release: *Recovery in the sugar industry’s financial returns reported on by Rodger Stewart, the South African Sugar Association’s Chairman at the Association’s AGM, 28 July 2006, p2*

⁴⁰ *Supra*

“ With respect to infrastructure investment, a joint venture of the sugar industries of Mozambique, South Africa, Swaziland and Zimbabwe is in the final stages of a major upgrade of the sugar terminal in the Maputo harbour. This 70 million rand project is an example of the beneficial result of government’s focus on improved infrastructure and logistics in the Maputo Corridor. Further, this project is one of the fruits of the SADC Sugar Co-operation agreement.”⁴¹

And further:

“...SASA has likewise been interacting closely with government, and has played a key role in the design, implementation and management of the SADC Sugar protocol. The Work Programme on the Technical Committee on Sugar has incrementally produced better understanding of the SADC sugar sector amongst sugar industry and government representatives through a sharing of information.”⁴²



Bio-fuels and renewable energy sources is currently quite a hot topic in light of the debate surrounding climate change and global warming. The sugar industry worldwide is focusing more and more on the production of bio-fuels as means of adding supplementary incomes. The South African sugar industry is no exception, investing resources to establish the viability of bio-fuels such as ethanol and relatively new discovery: biobutanol.

⁴¹ Press Release: *Recovery in the sugar industry’s financial returns reported on by Rodger Stewart, the South African Sugar Association’s Chairman at the Association’s AGM, 28 July 2006, p2*

⁴² *Supra...*p3

“...working hard to ensure that the sugar industry continues to be a major player in the renewable energy debate...allow its members the opportunity to participate fully and on a level playing field in renewable energy production⁴³

10.IMPACT OF CAP POLICIES ON THE SOUTH AFRICAN SUGAR INDUSTRY

Certain CAP policies have had a significant impact on the way the domestic sugar industry operates. The use of support payments and export subsidies to assist their sugar producers, have placed European producers at a distinct advantage to their South African counterparts. South African producers face the challenge of competing on the international market as well as their domestic market against EU sugar that will be always cheaper because it is so heavily subsidised.

“...this has lead Ongaat-Hulett, a JSE-listed firm that operates in the agricultural sector, to say that ‘while world market prices can be expected to rise on production shortfalls induced by adverse climatic conditions, the long term solution to improving price levels generally lies in the elimination, under the auspices of the World Trade Organisation, of tariffs which afford protection to many high-cost producers in the world.’⁴⁴

The policies pursued by the EU have resulted in significant socio-economic consequences for South Africa. On the monetary front , South Africa has suffered considerable losses when it comes to export revenue. According to a 2002 report by OXFAM, ‘Sugar Scam’, it was estimated that South Africa lost about 150 million dollars in lost export opportunities. To highlight this point further, the

⁴³ *Supra...*p3,para 1

⁴⁴ www.tralac.org , *EU sugar subsidies hurting South Africa*, (accessed on 28 July 2007) p 2

developmental aid that South Africa receives from the EU is largely negated by the effect of EU agricultural policies.

“...the roughly 120 million dollars in aid the EU extends to South Africa every year is nearly erased by the more than 100 million dollars in potential export revenues the country loses to sugar dumping.”⁴⁵

As stated previously, a major share of South Africa's sugar production is set aside for the export market. A formula has been developed by agricultural economists whereby the various EU support measures are eliminated. With regard to South Africa, this formula indicates that if all forms of agricultural subsidies are eliminated, the sugar price would increase by 20% leading to an extra 40 million euros or approximately 400 million rand in the government coffers. This cash injection into the agricultural industry and in particular the sugar sector would result in the expansion of the sugar cane capacity and potentially 60 million euros or 600 million rand in extra export revenues ⁴⁶

Since the South African sugar industry is heavily dependent on the export market, any volatility in the world price of sugar would have negative repercussions for the industry. In most instances these repercussions or in the form of mass layoffs and unemployment.

“ Between 1997 and 2000, an increase in South African imports of EU sugar and chocolate confectionary contributed to a 21% decline of consumption of domestically produced sweets and chocolates, reducing consumption and employment in South African domestic industry. Beacon Sweets, the largest employer in the industry, retrenched 1000 employees between 1997 and 2000 and the industry reduced its use of local sugar from 40 000 tonnes in 1995

⁴⁵ Thurow R and Winestock G, *Addiction to Sugar Subsidies Chokes Poor Nations Exports*, 16 September 2002, p3

⁴⁶ www.tralac.org , *The state of SA's trade agreements*, 18 August 2003, p3

to 35 000 tonnes in 1999, provoking significant losses in employment, mainly in rural areas.”⁴⁷

As an illustrative example, the Wall Street Journal conducted interviews with producers and role-players in the sugar producing area of Entumeni, Kwa-Zulu Natal:

“If the price was better, you’d see more cars, electricity and running water around here, said Eros Nene, the development officer of the local growers association...The area’s 3,700 small-scale growers...are being pushed to plant more land, even though it makes no economic sense at all...But it is a matter of survival”⁴⁸

11.THE ROLE OF THE TRADE AND DEVELOPMENT COOPERATION AGREEMENT (TDCA)

The Trade and Development Cooperation Agreement (TDCA) was concluded between the European Union and South Africa in 1999, with most of the provisions relating to agriculture coming into effect. South Africa and the EU share quite a close and important relationship. The EU is South Africa’s largest trading partner and also the biggest donor of development aid. About 40% of South Africa’s total agricultural exports is destined for the European market. South Africa enjoys a close trading relationship unlike any other developing countries

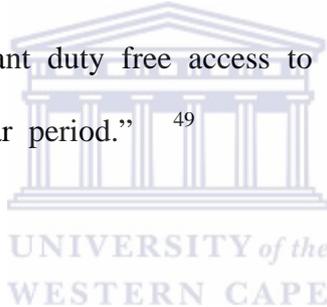
Therefore it should be no surprise that a bilateral agreement is necessary to regulate the finer points and issues of this trade relationship. The TDCA is essentially an attempt by the two entities to create a free trade area. This is in

⁴⁷ *Supra...*p1

⁴⁸ Thurow R and Winestock G, *Addiction to Sugar Subsidies Chokes Poor Nations Exports*, 16 September 2002, p6

line with the nature of trade relationship between the EU and South Africa. However this agreement does not purport to create a conventional free trade area. The free trade agreement envisaged in terms of the TDCA is asymmetric in nature. South Africa has been given more time to liberalise certain product sectors i.e. to reduce or eliminate import tariffs totally. South Africa is also permitted, in terms of the TDCA, to allow a smaller percentage of EU imports into the domestic market compared to what the Europeans are allowing into their market.

“...transitional period of 12 years, meaning that the EU and South Africa will open their markets to each other at a different pace...At the end of a 10 year transition period, 95% of South African imports will enter the EU duty free. South Africa will grant duty free access to 86% of all EU imports into South Africa over a 12 year period.”⁴⁹



However the familiar issue over the EU’s agricultural policies does create tensions within the trade relationship between the European Union and South Africa. In this instance the TDCA fails to adequately address these tensions particularly over the European Union’s use of export subsidies to export surplus quantities of agricultural produce. The TDCA does make mention over the use of export subsidies. Article 17.1 appears to me to be a sort of a *quid pro quo* provision. If the South African authorities feel that, EU export subsidies are having a negative impact on its domestic market, they can then approach their EU counterparts to negotiate a reduction in the use of support measures by the

⁴⁹ www.wwb.co.za , Meltzer S, Nzimande M, Harvey J, *South African trade relationships and Anti-Dumping*, (accessed on 10 September 2007)

EU in return for the South Africans liberalising further product sectors i.e. reducing import duties even further.

“ Article 17.1...basically what it does is to offer an opportunity to negotiate the removal of these subsidies where South Africa feels that its domestic market could handle duty-free imports.”⁵⁰

To me Article 17.1 is flawed in its application. There is no way of forcing the Europeans to comply with the requests and the South Africans can only effect changes if the Europeans are in agreement and willing to negotiate. This situation is highlighted by Article 17.2:

“ If the EU is not willing or unable to eliminate export subsidies in terms of Article 17.1, Article 17.2 gives South Africa the right to withdraw its offer of accelerated tariff liberalisation and the status quo remains.”⁵¹

So if they Europeans do not want to play along , there is basically nothing the South Africans can do in terms of the TDCA to force them to abandon their use of export subsidies.

This situation is reflected by the following statement:

“With the exception of Article 17.1, the EU has made no commitments to remove or reduce export subsidies on exports into South Africa. This implies that even after the end of the implementation period, the EU is still within its rights to utilise export subsidies or any other trade-distorting support measures.”⁵²

⁵⁰ www.tralac.org , Rolf Joachim Otto, *European Subsidies in Agriculture under the SA-EU Trade and Development Cooperation Agreement* (accessed on 10 September 2007)

⁵¹ *Supra*

⁵² www.tralac.org , Rolf Joachim Otto, *European Subsidies in Agriculture under the SA-EU Trade and Development Cooperation Agreement* (accessed on 10 September 2007)

12.CONCLUDING THOUGHTS

What the European's have achieved through their Common Agricultural Policy is very impressive if you consider the way the European agricultural sector has transformed itself in little more than 45 years. However the way the Europeans have gone about in achieving this remarkable transformation, has resulted in many disgruntled voices within the world agricultural market. Due to EU policies of domestic support and assistance in the export arena, European agricultural producers have been able to become major producers in the world. The groups most affected by the 'CAP miracle', are the farmers and producers from developing countries. They have been gradually squeezed out by the major European agri-business corporations.

There is no clearer example of this than the global sugar industry. Despite the fact that the cost of production is quite high in the EU and much of the sugar industry is made up of inefficient producers, Europe remains one of the leading exporters of sugar.

Despite the fact that South Africa is more economically stable than many of the other sugar producers, it nevertheless also incurs significant negative impacts such as the loss of export revenue and the loss of employment opportunities for the local workforce.

As I have stated, I believe the key to addressing the imbalances which exist in the international agricultural trade lie in the reform of CAP policies, most notably those relating to the use of export subsidies. In the next chapter, I will be examining the arguments for and against the use of export subsidies as well as the views of the major role players in this global debate.



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1.INTRODUCTION

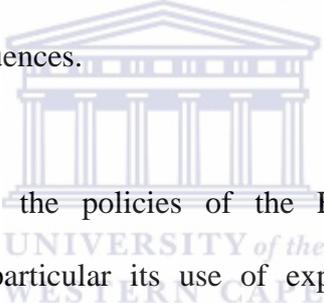
In the previous chapters I have examined the use of export subsidies within the multilateral trading system especially in the arena of international agricultural trade, the disciplines imposed on the utilisation of export subsidies by the World Trade Organisation (WTO) through the Agreement on Agriculture, the policies pursued by the biggest user of export subsidies within agriculture, the European Union and the impact of these policies on the South African agriculture sector, using the SA sugar industry to highlight the particular effects of EU policies through CAP.

In this chapter I will be exploring the various viewpoints of the major role-players in this ongoing debate surrounding the use of export subsidies. Is the continued use of export subsidies, particularly when it comes to agriculture, of benefit to more than just the large agri-business corporations in the industrialised world? Do the proponents of the continued use of export subsidies and support payments have valid arguments that extend beyond preserving their balance sheets? Does the use of export subsidies in the agricultural sphere have any worthwhile social welfare benefits?

On the other hand, are organisations such as Oxfam and other multinational NGO's correct in their view that the elimination of export subsidies in the agricultural sphere will result in an improvement in the welfare and standard of living of many millions in developing and least developed countries. Are major trading blocs such as the Cairns Group, the G-20 and the G-90 correct in their viewpoint that the export subsidies have created a major trade distortions within the international agricultural trade.

Why are major agricultural produce exporters such as Brazil , Australia and South Africa so determined to see an end in the use of export subsidies by the European Union, USA and other first world countries. What would the resultant benefits be to these states if agricultural subsidies were to be eliminated?

Economic simulation models have been undertaken by organisations such as the United Nations(through UNCATAD) and the Organisation for Economic Cooperation and Development (OECD) to analyse the potential consequences of a total elimination of export subsidies. The results of these studies have raised some interesting discussion points. These studies have shown that as in most things in life, there are winners and losers in the event of an elimination of export subsidies. Some countries will enjoy tangible benefits while others will endure negative consequences.



This thesis focuses on the policies of the European Union and its Common Agricultural Policy, in particular its use of export subsidies. By no means is the EU alone its use of trade distorting support measures, but in this context, the relationship between the European Union and South Africa is the decisive factor. How has European agricultural policy impacted on South Africa, seeing as the EU is South Africa's biggest trading partner? Will the reforms of the European agriculture sector have any significant impacts on SA?

And what about South Africa? Will the possible elimination of export subsidies in agriculture result in any significant benefits for the South African economy? What will the impact be on certain agricultural commodities such as sugar?

Will South Africa, as proponents of the elimination of export subsidies argue, benefit in terms of increased export revenue, increased employment within the agricultural sector and a general improvement in the welfare of many? Or will the elimination of export subsidies mean that South Africans will have to pay more for certain foodstuffs?

2.EUROPEAN UNION VIEWPOINTS REGARDING THE COMMON AGRICULTURAL POLICY AND THE USE OF EXPORT SUBSIDIES

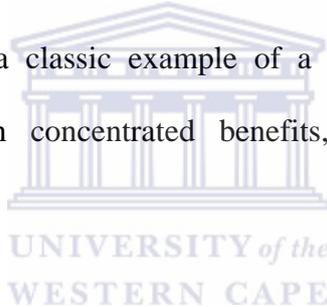
As has been laid out in the previous chapters, the EU agricultural policies are typical of the agricultural policies pursued by the industrialised nations. First world countries invest vast billions in economic resources into the agricultural sector. Developing and least developed countries cannot compete on this economic scale and thus the agricultural sectors in these countries have to make do with scarce resources. However the twist in the tale, is that many of the so-called third world states are leading producers and exporters of agricultural commodities. They are often able to produce their respective commodities in a more efficient and cost-effective manner than their competitors in the industrialised world. The market for agricultural goods is really the only international arena where developing and least developed states can outperform their first world rivals.

However the European Union is an entity that bucks this trend. It is a world leading producer of a number of commodities such as dairy products, sugar, wheat, cereals and bovine meat. It seems incongruous that the European Union should be such a significant exporter of certain agricultural commodities.

The geographical situation of many of the producers (tropical goods such as sugar produced in colder climates such as Sweden), the fact that just over 2% of the total EU workforce is employed in the agricultural sector and many of the commodity producers are not run in an efficient manner are factors which would mitigate against the EU being a major exporter of commodities.

The EU agriculture sector's existence is in a large part thanks to the Common Agricultural Policy. With its production quotas, support mechanisms and generous support payments, European farmers have been able to produce bumper harvests year in and year out. When the production quotas are exceeded, surpluses are simply offloaded onto the world market with the aid of export subsidies.

“Agriculture offers a classic example of a relatively small group of recipients being provided with concentrated benefits, while the costs are much more diffused”¹



And further:

“The extent of the influence of these policies may be seen from the fact that in the EU planting and investment decisions by farmers are often influenced by developments in the CAP...For example, consumers in the EU are rarely aware of how much higher their shopping bill is because the CAP leads to European prices being above world market prices for agricultural commodities.”²

¹ Cardwell M et al, *Agriculture and International Trade Law Policy and the WTO*, Grant W, Chapter 3: The Politics of Agricultural Trade p51, para 3

² *Supra...* p 49

The focus of this thesis is to expose the way a cog in the CAP machine leads to major distortions in the world trade in agricultural commodities namely: export subsidies. Although export subsidies make up a small percentage of the total CAP support system(about 3 billion of the 55 billion euros of the CAP budget), the eventual elimination of export subsidies will lead to benefits for agricultural producers in developing countries.

The European Union has for many years resisted calls for a significant reform of its CAP and the elimination of export subsidies. However increasing pressure on the EU at WTO Negotiation Rounds from blocs representing developing country interests such as the Cairns Group and G-20, has among other things, compelled the Union to undertake significant reforms of its agricultural policies.

“By 2003 it became clear that the EU could not take part in the WTO agreement on the basis of Agenda 2000 package ...This would indeed not be possible without reforming the CAP.”³

The European Union undertook further reforms of CAP in 2003, yet on the question of export subsidies the EU remained steadfast in their view that export subsidies were necessary to support its local farmers due to the low world prices for certain agricultural commodities. The then EU Commissioner for Agriculture, Mr Franz Fischler stated that:

“It was argued that (reforms of CAP) would simplify the CAP, make production more market orientated and enhance the compatibility of the CAP with the WTO... Commissioner Lamy (Former EU Commissioner for Trade) argued that with a less trade distorting support system, the EU was in apposition to take renewed commitments in the Doha Round.”⁴

³ Garzon I, *Reforming the Common Agricultural Policy- History of a Paradigm Change*, p100

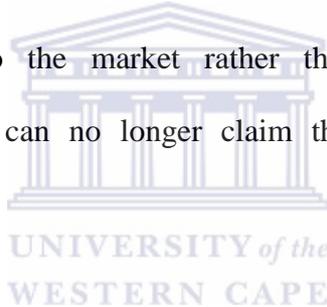
⁴ Garzon I, *Reforming the Common Agricultural Policy- History of a Paradigm Change*, p105

The current EU Commissioner for agriculture, Mrs Marianne Fischer Boel, in a speech to the Carnegie Endowment for International Peace stated that:

“The 2003 reforms to the Common Agricultural Policy(CAP) represented an important series of changes...the single payment scheme was created, which decoupled subsidies from production targets and instead based payments on past receipts and current land area... payments were contingent on respect for other European values on protection of the environment and food safety and quality.”⁵

Mrs Fischer Boel went on further to say:

“As a result of this reform, farmers have changed their mindsets and now increasingly look to the market rather than Brussels in making decisions. Critics of the CAP can no longer claim that productivity regardless of price is the rule.”⁶



It is all well and good that the EU has undertaken these reforms, but are these reforms of benefit to anyone outside of the European Union? The most pressing factors that brought about the most recent CAP reforms, was the growing expenditure of CAP(close to half of the total EU budget devoted to CAP) and the fact that the accession of new Member States meant that more resources would have to be devoted to CAP since many of the new Member States had quite sizeable agriculture sectors.

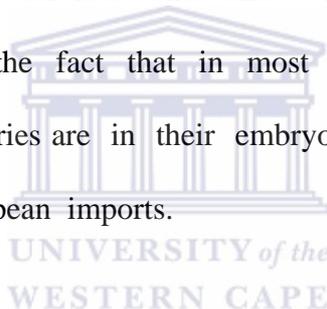
⁵ www.carnegieendowment.org , *EU Agriculture in Times of Globalisation*, Friday February 09 2007, p1(accessed on 27 September 2007)

⁶ Supra...p1 para 2

And on the international trade front? The EU use of export subsidies has always proven to be major stumbling block when it come to WTO negotiations.

“The removal of subsidies to agricultural production, the ending of dumping surplus food stocks in the developing world and the removal of export subsidies would all create significant economic and social consequences for the food and farming sector in the developed world” ⁷

The position of the EU when it comes to export subsidies is interesting to note. It is somewhat of a quid pro quo situation. When developing nations raise objections to EU policy, the standard European response is along the lines that developing countries should first liberalise their domestic markets with regard to industrial products and services and allow European products to enter their markets. This ignores the fact that in most instances, the industrial sectors in these developing countries are in their embryonic stages and cannot realistically compete with the European imports.



When the EU is confronted on its agricultural policy by other industrialised or OECD countries especially with regard to export subsidies, the European response is that they will be willing to introduce significant cuts to its agricultural export program if the other major agricultural exporters such as the United States and Japan undertake similar reforms and cuts of their export programs.

“The WTO negotiations being a matter of give and take, Mrs Fischer Boel stressed that the time has come for other WTO players to give in on other sectors and not demand more from the EU in agriculture.” ⁸

⁷ www.euromove.org.uk , *The EU and the Doha Round of World Trade Talks*, p2 para 2(accessed on 23 September 2007)

⁸ EU Commission, Directorate-General for Agriculture and Rural Development Newsletter, *Mrs Fischer Boel outlines her vision for the CAP at Berlin's 'Green Week'*, no. 71 February-March 2005

And further:

“...The EU reiterates that the dismantling of agricultural support has to lead to a level playing field among developed countries. The EU again requests commitments from the US on Food Aid, export credits and changes to the Blue Box criteria and from Canada, New Zealand and Australia commitments on State Trading Enterprises (STE).⁹

The European position is understandable. Developing and least developed countries are calling on reforms that will have a significant impact on the global agricultural trade. This cannot be realistically achieved if only the EU were to undertake the required reforms of its agricultural sector. Although the EU is a major player in global agricultural trade, it is but only one of the major role-players. The EU reforms have to be accompanied by equivalent undertakings by the USA, Japan, Canada and other first world countries. It appears that major powers such as the EU and the USA are engaged in a game of one-upmanship, with each new reform proposal from one side trying to outdo the other and paint it in positive light.

“The EU, however, has demonstrated reluctance in making such trade concessions unless other members, particularly the United States, and the Cairns Group, can reciprocate by reconciling issues of market protectionism for agricultural and industrial goods and services. In a recent statement in December 2006, Mandelson (Peter Mandelson, current EU Commissioner for Trade) has stated that the EU offer to eliminate export refunds in agriculture must be matched by a phasing out of all forms of export subsidization by other members: ‘We have received no matching offer from Australia, New Zealand, Canada and the U.S. We shall proceed in parallel or not all.’¹⁰

⁹ www.trade.ec.europa.eu , Doha Development Agenda (DDA): Chronology, (accessed on 3 October 2007)

¹⁰ www.g7.utoronto.ca , *Trade: Export Subsidies and Agriculture*, p119 para 3 (accessed on 27 September 2007)

However credit should be given to the European Union for taking the lead in agricultural reform especially when it comes to the issue of export subsidies. Last minute proposals and concessions by the EU 'saved' the Hong Kong Round of WTO negotiations in 2005. The EU has increasingly become a driving force for agricultural reform amongst industrialised nations. The EU got the ball rolling on significant reform in 2004 with an announcement that it would be willing to consider the elimination of export subsidies by an unspecified date and an undertaking to make significant cuts in other support payments and subsidies.

“On 1 August 2004, WTO members adopted a General Council decision on the Doha Work Programme informally known as the Framework...Under the package wealthy industrialized countries agreed to major concessions... Wealthy states, in particular the EU, agreed to place all trade distorting agricultural subsidies on the table for discussion and committed to making significant cuts; wealthy countries agreed to ‘down payment’ on this deal in the form of an immediate 20% reduction in total current trade distorting agricultural subsidies.”¹¹

The 2005 Hong Kong WTO Negotiation Round was regarded as a success only because of an 11th hour concession by the European Union. The EU specified a date for the elimination of export subsidies, with the date being set for the year 2013. As emphasised by Commissioner Mandelson in November 2005:

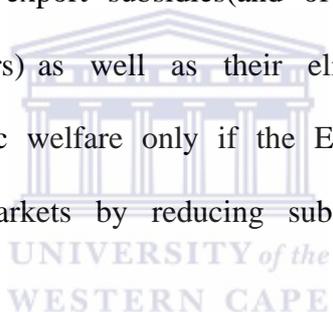
“The Doha Round is too big to fail. It is not just about trade. It is about maintaining the credibility of multilateral cooperation showing that multilateral institutions can find global answers to global issues, proving that trade can be put at the service of development.”¹²

¹¹ Supra...p113, para 2

¹² www.trade.ec.europa.eu , *Doha Development Agenda (DDA): Chronology*, (accessed on 3 October 2007)

So the Europeans seem to have committed themselves to the elimination of export subsidies by setting an end date. Whether or not the EU follows through with their decisions to the end depends on other variables such as the level of support within the EU Member States for the reforms, the political will of Member States to proceed with reforms and the level of reduction commitments and concessions by other countries such as the U.S. with regard to export support for farmers.

“The very modest outcomes of the WTO Ministerial in Hong Kong makes the year 2006 crucial. A WTO agreement is essential, in particular for Europe. The reduction of the EU export subsidies (and of the equivalent measures used by other WTO Members) as well as their elimination by 2013 will bring an increase in economic welfare only if the EU (and other WTO Members) open their agricultural markets by reducing substantially their tariffs and internal support.”¹³



3. THE ROLE OF SPECIAL INTERESTS IN DETERMINING EU

AGRICULTURAL POLICY

It has only been in the last three years or so that the European Union has taken concrete steps towards addressing the grievances of developing nations with regard to agriculture. Why has the EU been so tardy in committing to significant reforms, if agriculture is such a thorny issue in international trade negotiations? Do these reforms adequately address the concerns of the developing world?

¹³ www.gem.sciences.pro.fr, Boulanger P, *Export Subsidies: An Endangered Species- Beyond the WTO Hong Kong Ministerial*, p 4, para 2

A possible answer to the European reluctance to overhaul their agricultural policies is the fact that the farming lobby represents a number of powerful groups which have vested interests in the continued EU agricultural policies. Having grown used to the high level of support from Brussels, farmers and in particular the multinational agri-business corporations will not allow the reforms to go through without some sort of protest or alternatively, the reforms are implemented slowly so as not to meet the deadlines imposed by the European Commission.

“In Britain groups such as the Countryside Alliance and the National Farmers Union, which consists mostly of large-scale farmers, have often had considerable influence in government circles.”¹⁴

And further:

“Farmers score well with the public and this in turn influences policy...The strong European farming lobby has successfully tapped into an emotional strain among the public, says Christopher Stevens of the Overseas Development Institute, a London-based think-tank. Many people in Europe therefore go along with the view that a high level of government support for farming is necessary.”¹⁵

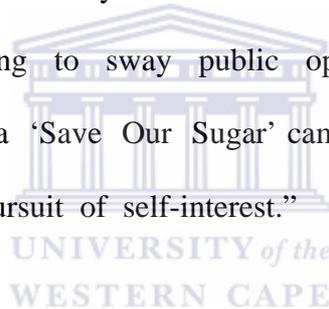
The farming lobby has always tried to paint the picture that CAP support through the various payments is essential in ensuring the survival of the rural way of life, yet little attention is paid to the fact that much of the CAP funds are not channelled to the small farmers, but to the large agri-business corporations.

¹⁴ Madeley J, *The Enduring Racket: Why the Rich Won't Budge on Farm Subsidies*, www.globalpolicyforum.org, July 28 2006 p3, para 3 (accessed on 27 September 2007)

¹⁵ *Supra...* p3 para 4

In this game, public perception is vital in ensuring the continued support of the farming lobby. An interesting example of this is the lobbying within the EU sugar industry. (I have used sugar as one of the highlighted commodities in this thesis). The sugar industry in Europe is one agriculture sector that is in urgent need of reform, yet powerful lobby groups have resisted these reforms at every stage.

“There is a growing danger that corporate interest groups will exploit the debate about reform of the CAP for their own ends, overriding public interest in the pursuit of subsidised profit. Sugar processors and large farm organisations have launched a Europe-wide lobbying effort aimed at perpetuating the current system...British Sugar and the National Farmer’s Union are attempting to sway public opinion against reform behind the populist banner of a ‘Save Our Sugar’ campaign. That campaign is built on distortion and the pursuit of self-interest.”¹⁶



As I have stated earlier, the European public’s perception of how their various foodstuffs are produced is very important to the Brussels bureaucrats. A Eurobarometer survey was conducted in 25 Member States, polling about 26 000 respondents between 22 November and 19 December 2004 (after the introduction of the 2003 CAP reforms). The purpose of the survey was to gauge the views of the general public about the CAP and the associated reforms. The survey results indicated that the majority of respondents were willing to support the continued funding of Europe’s farmers.

¹⁶ www.seatini.org , *Issue: Development, Cotton and Sugar*, Volume 7 no 7, 30 April-15 May 2004, p8 para 3

“...first Eurobarometer survey into public attitudes to the CAP conducted in the enlarged EU...indicates that two thirds of citizens approve of the current direction of agricultural policy...EU citizens believe that directing funds towards the protection and development of the overall rural economy and for direct support to farmers, is a good thing.”¹⁷

I believe EU citizens have the perception that the majority of CAP funding is directed towards the countryside and the rural inhabitants, yet as I have pointed out in the previous chapter, large agri-business multinationals are the largest beneficiaries of CAP support payments. In a article published in July 2005, Marita Wiggerthale raised an interesting point in that the CAP subsidies are not meant to benefit the farmers products such as milk or sugar per se, but rather the secondary or processed products which contain the agricultural commodity such as cheese or confectionery.

“The EU subsidies were not applied to products of farmers, but to the most important products of the big co-operatives and the food industry. Which means no support for milk of the farmers, but for butter, skimmed milk powder and cheese of the dairy industry...So the food industry and the big co-operatives were much of the support system formerly in place, whereas family farms benefited less.”¹⁸

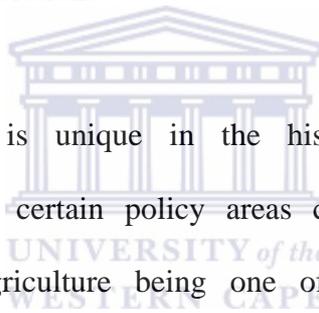
The gist of Ms. Wiggerthale’s article is that CAP payments and subsidies should not be directed towards the multinationals but rather as it has always been publicly heralded, to the European farmer.

¹⁷ European Commission Directorate-General for Agriculture and Rural Development , *Strong Support for the CAP in the EU of 25*, Newsletter no 72 April 2005

¹⁸ Wiggerthale M, *What’s wrong with EU agricultural subsidies?*, p2 para 4 www.attac.de (accessed 13 September 2007)

“Instead of fuelling an anti-subsidy debate, we need to focus on the reorientation of subsidies towards sustainable agricultural development and end detrimental dumping ..that subsidies are not per se bad, to the contrary they are an indispensable instrument to provide incentives for needed policy changes in the Common Agricultural Policy.”¹⁹

In my opinion, the views expressed by Ms. Wiggerthale are a bit naïve. It would be perfectly reasonable if the CAP support payments were indeed directed to the small-scale farmer. Yet in reality these farmers receive only a small percentage of these payments directly. Nothing in the past history of CAP indicates that the support payments would find their way anywhere else but to the pockets of the large agri-business corporations.



The European Union is unique in the history of multilateral organisations. Member States have in certain policy areas ceded their sovereignty in decision making to EU, with agriculture being one of those policy areas. Yet when it comes to WTO negotiations, some Member States are not willing to make certain concessions which the EU Commission may think is necessary in order to reach a compromise in the negotiations. At the 2005 Hong Kong WTO negotiations, France was particularly upset with the EU Commission’s offer to end export subsidies and make significant cuts in domestic support. France has consistently been intransigent in agricultural negotiations and in making concessions to developing countries. The French agricultural sector is immensely powerful and able to exert a lot of influence in political circles. With regard to export subsidies, France was at its most defensive.

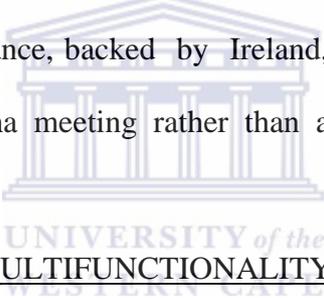
¹⁹ Wiggerthale M, *What’s wrong with EU agricultural subsidies?*, p1 para 1, www.attac.de (accessed on 13 September 2007)

When the EU Commission made the proposal to end export subsidy use by 2013, France accused the Commission of exceeding its negotiating mandate.

“To EU governments and farmers such as Mr. Fievez, however the tension between these subsidies and the ideals of sustainable development in poorer countries is less of an issue than political pressure, social stability and financial security at home”²⁰

And further:

“The text of the accord on agriculture agreed at the start of the Doha Round commits the participants to comprehensive negotiations aimed at reductions of; with a view to phasing out, all forms of export subsidies...This clause was seen by CAP traditionalists as striking a blow at the very heart of European farm policy, and France, backed by Ireland, signalled its willingness to bring down the whole Doha meeting rather than agree to it without qualification.”²¹



4.HOW DOES THE MULTIFUNCTIONALITY ISSUE APPLY TO EUROPEAN AGRICULTURE?

As stated earlier, the majority of Europeans continue to support CAP and its associated policies. What is interesting from the Eurobarometer and other surveys conducted, is the emphasis Europeans now place on food security, the quality of the foodstuffs produced as well as the protection of the environment.

“ 30% of respondents want agricultural products that are healthy and safe and 28% want CAP policies to promote respect for the environment.”²²

²⁰ Thurow R and Winestock G, *Addiction to Sugar Subsidies Chokes Poor Nations Exports*, p1

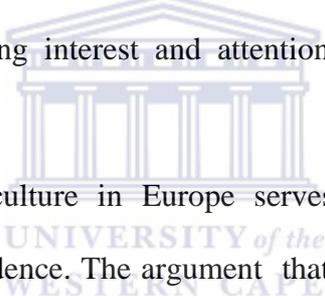
²¹ Cardwell M et al, *Agriculture and International Trade Law Policy and the WTO*, p58

²² EU Commission Directorate-General for Agriculture and Rural Development Newsletter no 72 April 2005, *Strong Support for the CAP in the EU of 25*

These viewpoints are playing an ever more prominent role when CAP reforms are discussed. They fit into the argument that agriculture in Europe performs a multifunctional role within society. Agriculture and CAP policies have a role to play in ensuring sustainable incomes for the rural areas of Europe, ensuring food security, maintaining food quality standards and ensuring the protection of the environment.

Multifunctionality in agriculture has been described as:

“...has been suggested as a ‘new paradigm’ for European agriculture and rural development, requiring ‘a fundamental rethinking of the position of agriculture within society’ and ‘a complete rethinking of the institutional system surrounding agriculture. Whether this is be true or not, it is a concept which has attracted increasing interest and attention-within the EU and beyond.”²³

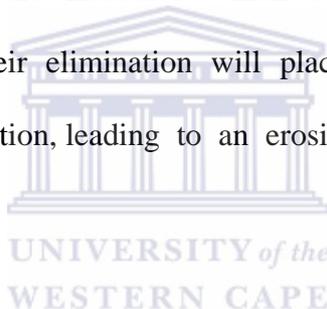


The argument that agriculture in Europe serves a multifunctional role in society has steadily gained credence. The argument that the role of CAP extends beyond more than just providing billions in subsidies to farmers is a very attractive one to the supporters of EU agricultural policy. If it can be shown that the continued financial support for agriculture within Europe is necessary to ensure food quality and safety standards as well as ensuring that the environment is protected (very relevant in light of issues such as global warming and sustainable development), this will go a long way in ensuring continued public support.

²³ Thomson K, *Agricultural Multifunctionality and EU policies: Some Cautious Remarks*, p 3 para 4

“...the reform process has been in part a response to the changing public perceptions of the role of agriculture...the EC Comprehensive negotiating Proposal expressly articulated that, to meet the goals of further liberalisation and expansion of trade of agricultural products,’ it is vital to muster strong public support which can only be achieved if other concerns are met in particular the multifunctional role of agriculture.”²⁴

Of course the multifunctionality argument is a godsend to those in the EU agriculture sector who support the continued use of export subsidies. They can argue that as part of the measures which support agriculture, export subsidies should be retained. Their elimination will place farming communities in a more precarious financial position, leading to an erosion of the countryside and the rural way of life.



5. WORLD TRADE ORGANISATION NEGOTIATIONS: WHAT ARE THE NEGOTIATING POSITIONS OF THE MAJOR TRADE BLOCS?

The major blocs and cliques within the WTO are unanimous in their view that export subsidies within agriculture should be eliminated. As the European Union is the dominant user of export subsidies in the world - almost 90% of the total amount of export subsidies utilised, it is the bloc which is singled out for the most criticism by the other major groupings within the World Trade Organisation. It would seem that since the 2005 Hong Kong Ministerial, all the major WTO groupings are reading from the same page when it comes to export subsidies and other support payments: namely that they should be eliminated.

²⁴ Cardwell M et al, *Agriculture and International Trade Law Policy and the WTO: Multifunctionality of Agriculture: EU Perspective*, p152

However this is where the similarity ends. Divergent views exist with regard to the timetable for the elimination of export subsidies, what disciplines should be imposed to regulate quasi export subsidies such as export credit, food aid and State Trading Enterprises (STE) and what concessions the developing world should reciprocate as a result of the EU decision to end the use of export subsidies.

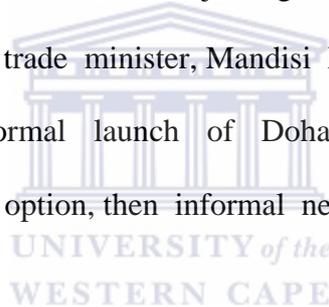
The major players in WTO negotiations has always been the European Union, the United States and other industrialised states such as Canada and Japan. However over the last twenty years or so the position of the developing world has steadily grown into a powerful one at WTO negotiations. This was reflected by the formation of the G-20 prior to the 2003 Cancun Ministerial. At Cancun, the developing world was able to flex its muscles in the area of agricultural trade. Cancun ended unsuccessfully due in large part to the developing countries unwillingness to bow to developed nations demands for increased market liberalisation without substantial reform in the agricultural sphere.

The major groupings which have emerged in terms of developing country interests are the G-20 and the Cairns Group. Additional groupings exist such as the G-33 as well as the G-90. On the side of the developed nations, the major blocs are the European Union and the United States. In some blocs there is overlapping membership. For instance Brazil is member of the Cairns Group as well as the G-6(which includes the EU and the US).

“The G-33(group of developing countries) remains committed to engage constructively with all WTO members to secure their development concerns in the Doha outcomes, while specifically addressing the livelihood concerns of small, poor and vulnerable farmers worldwide...”²⁵

With regard to the stance assumed by South Africa with regard to agricultural reform by the EU, I will be referring to the views expressed by the Cairns Group as well as the G-20 since South Africa , as member of both groupings, has a prominent role to play due to the fact that it is a significant exporter of agricultural commodities. Any reform in agricultural trade by the industrialised entities such as the EU will be of major significance to South Africa.

“The South African trade minister, Mandisi Mphahlele, told IPS that ‘ all African countries want a formal launch of Doha trade negotiations...a multilateral outcome is the best option, then informal negotiations.’”²⁶



6.CAIRNS GROUP PROPOSAL REGARDING AGRICULTURAL REFORM I.E.

THE ELIMINATION OF EXPORT SUBSIDIES

The Cairns Group is made up of countries which are major agricultural commodity producers and consumers. In most instances the producers in these countries are on a par, if not better than their counterparts in the industrialised world in terms of cost-efficiency and quality. Within this grouping, Brazil, Australia, Thailand and South Africa are the leading lights. With regard to the issue of export subsidy use, the Cairns Group has been clear in its stance that their use should be eliminated.

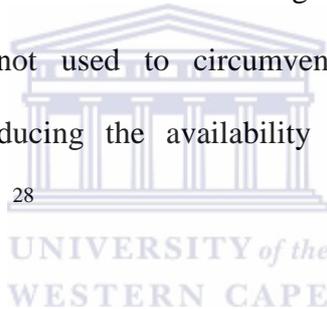
²⁵ www.globalpolicy.org , Devarakonda R, World Economic Forum: G-33 Pushes Trade Powers on Farm Issues, p1 para 2 (accessed on 26 September 2007)

²⁶ *Supra*...p1 para 6

“ According to para 6 of the Hong Kong Ministerial Declaration, we have agreed to ensure the parallel elimination of all forms of export subsidies and disciplines on all export measure with equivalent effect to be completed by the end of 2013. This will be achieved in a progressive manner, to be specifies in the modalities, so that a substantial part is realised by the end of the first half of the implementation period.”²⁷

The attention of the Cairns Group is not focused solely on the use of direct and indirect export subsidies, but also measures such as food aid and export credit, which may potentially be used as a means to circumvent the WTO regulations regarding the use of export subsidies.

“It also proposes that rules should be tightened to ensure that export credits and food aid are not used to circumvent commitments to remove export subsidies, without reducing the availability of genuine food aid to meet the humanitarian needs.”²⁸



The Cairns Group proposal regarding export subsidies is essentially one of a gradual and staggered reduction of export subsidies. This represents quite a sensible approach by the group. They are not calling for an overnight elimination of export subsidies but rather that they should be reduced in stages over a period from January 2008 to December 2013. In the first year of the implementation period, Member countries would have to eliminate 50% of their export subsidies. This initial cut has to be followed by 3 successive cuts of 10% annually. The remainder of the export subsidies has to be eliminated by the end of 2013.

²⁷ Committee on Agriculture Special Session, *Schedule for the Elimination of all Forms of Export Subsidies: Joint G-20 – Cairns Group Contribution*, p1 para 1

²⁸ Andrews N et al, *Agriculture in the Doha Round*, p40

“In this regard, export subsidies as specified in each Member’s Schedule, according to Article 9.1 of the Agreement on Agriculture will be eliminated by the end of 2013, based on values and quantities on a product-specific basis. Elimination commitments shall be undertaken on an annual basis for each product.”²⁹

It does not require a degree in rocket science to understand the negotiating position of the Cairns Group. The elimination of export subsidies will primarily affect the European Union. The EU is the major export market for many of the Cairns Group countries. If export subsidies were to be eliminated, European producers would have no incentive to overproduce. With no surpluses to offload onto world markets, the world price for agricultural commodities will increase. This will mean an increase in export revenue for many of the Cairns Group countries. Some may be able to benefit from the elimination of export subsidies more than others such as Brazil because its agricultural sector can produce enough to meet the demand of the export market at a lower cost. In the case of the European Union, if the elimination of export subsidies is coupled with a decrease in the tariff levels, Cairns Group exporters can increase their exports to the EU and thus exploit the advantage they have over their European rivals i.e. their products are cheaper than their European counterparts.

The Cairns Group has also made proposals regarding issues such as the provision of food aid, the use of export credits and State Trading Enterprises.

²⁹ Committee on Agriculture Special Session, *Schedule for the Elimination of all Forms of Export Subsidies: Joint G-20–Cairns Group Contribution*, p1, para 2

These instruments may not expressly fall into the same category as direct export subsidies per se, but they potentially have the same effect as export subsidies i.e. distortions within world agricultural trade. The proposals by the Cairns Group essentially calls for disciplines and guidelines to be put in place in order to regulate the use of these instruments.

- Food Aid: The Cairns Group proposal wants to ensure that any provision of food aid is not used as a means of dumping surplus subsidised foodstuffs. The food aid must be used for its intended purpose: namely for humanitarian reasons.

“...including the prohibition of food aid tied directly or indirectly to commercial exports of all commercial goods and services to recipient countries and the prohibition of food aid linked to market development objectives of the donor Member...”³⁰

- Export credits: The provision of export credits by national authorities can be used to circumvent the WTO commitments regarding the use of export subsidies if the credit is provided at a cheaper rate or at more favourable terms than would be normally obtained. The Cairns Group proposal regarding export subsidies is:

“Additional and specific disciplines shall be phased in from the first day of the implementation period of the Doha Round. Non-conforming export credits, export credit guarantees and insurance programmes shall be eliminated within the binding levels of Member’s export subsidies elimination schedules.”

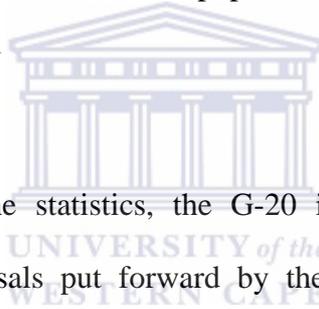
The Cairns Group has had little to say over State Trading Enterprises, besides calling for disciplines to be imposed on their operation during the implementation period of the Hong Kong declaration.

³⁰ Committee on Agriculture Special Session, *Schedule for the Elimination of all forms of Export Subsidies- Joint G-20-Cairns Group Contribution*, p1 para 3

7.PROPOSALS PUT FORWARD BY THE G-20 REGARDING
AGRICULTURAL TRADE REFORM.

The G-20 in 2005 called for the elimination of export subsidies within five years. The stance of the G-20 is to be expected since its membership is made up exclusively of developing countries. Export subsidies, in the view of many developing countries, is one of the three policies pursued by the developed world negatively impacting on their agriculture sectors (the other two being market access and domestic support).

“Other leading members of the alliance, formed in 2003 to seek a better deal for third-world farmers, include Brazil, China and South Africa. The G-20 accounts for 65% of the world’s population, 72% of its farmers and 22% of agricultural output.”³¹



As we can see from the statistics, the G-20 is a significant role-player in world trade circles. The proposals put forward by the G-20 is not too dissimilar to the Cairns Group proposals for export reform. As stated the G-20 wants to see an end to export subsidies within five years i.e. by the end of 2010.

“...that direct export subsidies be eliminated over five years, with 60% at the end of the first year, 20% at the end of the third year and the remainder at the end of the fifth year.”³²

The G-20 proposal calls for a speedier elimination of export subsidies than the Cairns Group. The proposal envisages a more rapid timetable for the final elimination of export subsidies as put forward by the European Union.

³¹ www.comcom.co.za , Rakhudu M, An Overview of the WTO 6TH Ministerial Meeting in Hong Kong, p1 para 3

³² www.twinside.org , Khor M, *Review of different positions in WTO Agriculture Negotiations*- 4 August 2005,p 2 para 4 (accessed on 2 October 2007)

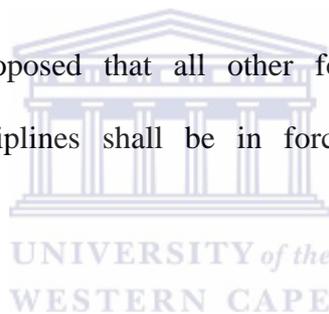
“G-20 Framework Proposal...Export subsidies on products of particular interest to developing countries would be eliminated over a longer period.”³³

The reform proposals of the G-20 extends to the use of export credits and food aid as well. In this respect however, the G-20 does not provide specific proposals regarding these two issues. The G-20 only calls for disciplines to be imposed in order to govern the use of these instruments.

“The G-20 called for the implementation of disciplines on a rules based approach in order to identify and eliminate the subsidy component of export credits, export credit guarantees and insurance programmes.”³⁴

And further:

“The G-20 also proposed that all other forms of export subsidies shall be eliminated and disciplines shall be in force on equivalent measures by the same end date.”³⁵



8.SOUTH AFRICAN VIEWS REGARDING GLOBAL AGRICULTURAL REFORM

South Africa is a member of both the Cairns Group as well as the G-20, so whatever position these two blocs assume, will be supported by the South African authorities. The overriding policy mantra of the South African government, is to approach the question of global agricultural reform through multilateralism.

³³ Andrews N et al, *Agriculture in the Doha Round*, p43

³⁴ Andrews N et al, *Agriculture in the Doha Round*, p43 para 3

³⁵ www.twinside.org , Khor M, Review of different positions in the WTO Agriculture Negotiations- 4 August 2005,p 2 para 5 (accessed on 2 October 2007)

“...clearly support South Africa’s objective at the multilateral level to facilitate a substantial, real reduction in trade-distorting domestic support. The target is that those countries competing with each other on world markets should have more or less the same Producer Support Equivalent resulting in a so-called ‘level playing field.’”³⁶

South Africa, as a member of the Cairns Group and the G-20, has predictably called for the end of export subsidy use in agricultural trade. South Africa has also made proposals regarding market access and domestic support by industrialised countries.

“Finally , on this front we hope that negotiations will resume soon ensuring that the laudable objectives agreed upon by the Doha Development Round can be achieved. South Africa is ready to resume the negotiations and we hope that the major trade partners have the necessary political will to take difficult political decisions to ensure a speedy resumption of the negotiations.”³⁷

With regard to the relationship between the European Union and South Africa, the issue of trade is largely regulated in terms of the Trade, Development and Cooperation Agreement (TDCA). The TDCA does not expressly mention the issue of agricultural export reform, but it does make provision for a review of the agreement after five years of operation. This review is important considering the monetary impact the agricultural trade between South Africa and the EU has.

³⁶ Address by the Minister of Land Affairs, Ms Lulu Xingwana-28 July 2006, p3

³⁷ Address by Minister for Land Affairs, Ms Lulu Xingwana.

“The Agreement plays a vital role in improving the export potential of agricultural products to the EU. From 2004 to 2005, exports of these products to the EU increased from R10 885 million to R10 973 million. In 2005 South African exports of agricultural products to the EU had a 42% share of total agricultural exports to the rest of the world.”³⁸

With regard to a specific agricultural commodity, namely sugar, the South African authorities have consistently called on their European counterparts to enact reforms so as to bring the EU sugar regime in line with global standards. This entails calling for an end to the use of export subsidies to dump excess quota sugar onto the world market, a reduction in the level of support and production payments to European farmers and a lowering of the import tariff levels so as to allow major sugar producers in the developing world access to the EU market and not just those benefiting under the EBA initiative.

“...widely accepted that developing countries are seriously hampered by the high level of protectionism that still exists in the developed north, which distorts markets and drives world market prices down to levels often below production costs, making it impossible for cost competitive producers to survive without financial support from their governments who cannot afford subsidies.”³⁹

And further:

“These countries only hope of raising their standard of living is through freer and fairer trade. Instead the reverse is happening, with some African countries

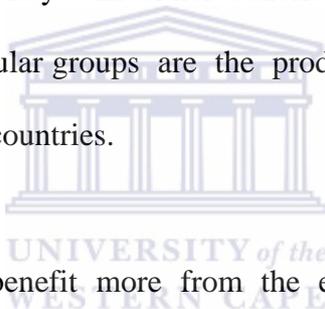
³⁸ Supra...p4 para 1

³⁹ www.info.gov, Address by Alec Erwin (then Minister for Trade and Industry) Opening Ceremony- 21st International Sugar Organisation- 28 May 2002 para 4 (accessed on 2 August 2007)

virtually abandoning large-scale agricultural production under the pressure of these unfair subsidies.”⁴⁰

9.CAN THE POSSIBLE ELIMINATION OF EXPORT SUBSIDIES LEAD TO NEGATIVE CONSEQUENCES FOR CERTAIN COUNTRIES AND SECTORS.

Generally speaking the total elimination of export subsidies would be a good thing. However according to two simulation models, the elimination of export subsidies would also lead to negative results for certain sectors and countries. Whether or not a country experiences adverse consequences will greatly depend on whether the country is a net importer of foodstuffs or an exporter. As I said certain categories of society will either benefit or lose out if export subsidies are eliminated. These particular groups are the producers and consumers in developed as well as developing countries.



Certain countries may benefit more from the elimination of export subsidies and other countries may actually lose rather than gain. Although most countries with a significant agricultural economy stand to gain from the elimination of export subsidies, some such as Brazil, India, South Africa etc. may be able to turn their natural advantages in agricultural commodity production i.e. low cost production into tangible economic benefits. Countries which stand to possibly lose out are mostly what one would consider a Least Developed Country(LDC). The most significant impact for these LDC’s is the fact that since many of them are net importers of foodstuffs, the elimination of export subsidies would lead to an increase in the world price for certain staple foodstuffs, thus increasing the cost of living in these countries.

⁴⁰ *Supra...*para 5

The impact of the elimination of export subsidies also varies according to the particular agricultural commodity. For instance, the elimination of export subsidies for bovine meat, dairy and sugar would be generally welcomed, with significant improvements in the world price. Yet with regard to wheat and other cereal commodities, the export subsidy elimination could actually result in a negative impact on global welfare.

For the consumer in both developed and developing countries, the elimination of export subsidies will result in an increase in the price of foodstuffs, particularly in the short-term. This is particularly evident in South Africa, where there has been an increase in the price of certain staple foods such as bread, milk, maize meal etc. over the past year. The question is: are consumers willing to fork out more for their food in the knowledge that they are supporting their domestic agricultural producers or would they prefer paying for cheaper subsidised foodstuffs and commodities imported from the European Union? Are consumers willing to bite the bullet when it comes to paying for their food?

A further issue to be resolved is whether the elimination of export subsidies will in fact lead to significant gains to producers and consumers in the developing world. This is important if you consider that export subsidies is but only one cog in the machine used by the industrialised world, such as the European Union, to support its agriculture sectors. By eliminating export subsidies, will this lead to the gains expected by the developing world? How significant will the impact be if export subsidy use is adequately addressed, yet nothing significant is done regarding market access and domestic support?

10.THE OUTCOMES OF THE SIMULATION MODELS REGARDING THE ELIMINATION OF EXPORT SUBSIDIES

Both the OECD and the United Nations(through UNCTAD Agricultural Trade Policy Simulation Model or ATPSM) have conducted simulation models to analyse the impact the elimination of export subsidies in agriculture will have. The major conclusions of these studies is that the elimination of export subsidies would lead to an improvement in the welfare of most sectors in society. The groups which stand to benefit most are the producers in the developing world and the consumers in the developed world. The producers in the developing world gain because their domestic markets will not be flooded by subsidised imports and the elimination of export subsidies will lead to an increase in the world price for most commodities thus increasing their export revenues.

For consumers in the developed world, the elimination of export subsidies means that they will be able to reduce their cost of living. Take for example the European Union, the Europeans will have to fork out less to support CAP since there will be no need to provide export subsidies. The EU Commission would be able to wipe off about three billion euros in expenditure on export subsidies.

“Major winners are producers in agricultural exporting countries such as Cairns Group members, producers in other developing countries and consumers and taxpayers in developed countries” ⁴¹

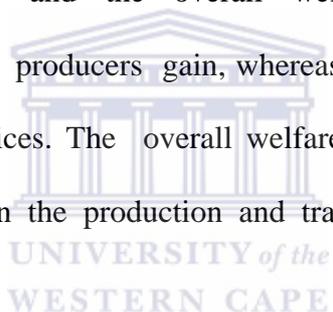
⁴¹ Peters R, *Roadblock to Reform: The Persistence of Agricultural Export Subsidies*, p3 para 2

The positive impacts of export subsidy elimination does not end there for developing countries:

“...developing countries would benefit from liberalizing their own markets and the elimination of export subsidies would make this more feasible without costly adjustments. Furthermore, a reinforcement of the rural population, which depends heavily on agricultural production and is in general disproportionately poor, may contribute to poverty alleviation.”⁴²

The general results of the UNCTAD study is summed as follows:

“Globally, the total welfare effect is positive, but some countries lose while others gain. In highly protecting developed countries consumers and taxpayers gain, producers lose and the overall welfare effect is positive. In most developing countries producers gain, whereas consumers lose as the result of higher domestic prices. The overall welfare effect varies from country to country, depending on the production and trade structure.”⁴³



As I have stated earlier, some developing countries may be able to take a bigger slice of the world market due to the elimination of export subsidies. Major exporters such as Brazil, India, South Africa, Thailand may be able to increase their export revenue from agricultural commodities. This increase may however come at the expense of other developing countries or for that matter Least Developed Countries.

⁴² *Supra...*p3 para 6

⁴³ *Supra...*p24 para 1

“Although there is a general expectation that agricultural trade reforms which raise world food prices and increase export market opportunities are in the overall interest of developing countries, however the developing countries are not a homogenous group.”⁴⁴

It seems odd to say that developing countries have actually benefited from the use of export subsidies by the industrialised world. But they have. This is particularly the case with Least Developed Countries. These countries are net importers of food and they have benefited from the low cost of foodstuffs due to export subsidies. These countries have become so dependent on food imports from primarily the European Union and the United States that their own agricultural sectors have gone into decline and cannot meet the consumption needs of the local population. Yet these countries have realised that the long term benefits of agriculture reform outweigh the short-term gains from cheap foodstuffs.

“What is most interesting about this conflict though is that least developed countries and net food importing countries have sided with the latter in favour of eliminating export subsidies. Consumers in these countries actually benefit from lower food prices so it would seem that they should support these subsidies. One potential reason for this seemingly irrational position is that governments in these countries might disproportionately value the welfare of agricultural producers, who unambiguously lose in this situation.”⁴⁵

⁴⁴ Milner C, *Agricultural export subsidies and Developing countries interests*, p35 para 3

⁴⁵ www.itd.org , Smith A, *Agriculture Subsidies and the Fate of the Developing World*, p2 para 3 (accessed on 27 September 2007)

And further:

...the long term interest of developing countries lies in undistorted world policies and better access for their exports to industrial country and developing country markets. This would imply that they should accept the EU's offer and push for the elimination of all export subsidies.”⁴⁶

Some commentators and economic experts however, hold a pessimistic view regarding the impact agricultural reform will have on developing and in particular, least developed countries. Professor Jagdish Bhagwati, a senior economics professor at Columbia University, has stated that although agricultural subsidies should be eliminated, he does not believe that their elimination will lead to any significant improvements for developing nations. In fact the elimination of subsidies will increase the burdens on these countries, especially if they are net importers of foodstuffs.

“Agricultural subsidies are certainly undesirable. But the claim that removing them will help the poorest countries is ‘dangerous nonsense’ and a ‘pernicious’ fallacy.”⁴⁷

Professor Bhagwati's views are supported by Arvind Panagariya. The main thrust of their arguments regarding agriculture reform is not against the elimination of export and other subsidies itself, but against the belief that the elimination of subsidies in agriculture will definitely result in gains for the developing world. The argument often presented to support this conclusion is that the elimination of export subsidies will lead to an increase in world prices for agricultural commodities. This in turn leads to an increase in the price of foodstuffs. This is an increase that many least developed countries can ill-afford.

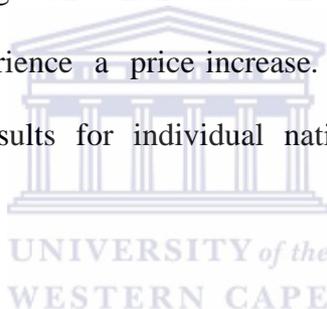
⁴⁶ Milner C, *Agricultural export subsidies and Developing countries interests*, p36 para 1

⁴⁷ www.globalpolicy.org , Sharma D, *Bhagwati, Globalisation and Hunger*-March 29 2005, p1 para 4 (accessed on 18 October 2007)

“Some of the World’s poor will end up as losers from a WTO agreement. Cutting back subsidies to rich country farmers could be good news to the farmers who compete with them in the developing world, but it is surely bad news to the consumers of these crops. They will have to pay more for their food. Some developing countries are net importers of agricultural products. They will end up as losers because they will be paying higher prices for their imports or no gain on their exports.”⁴⁸

The impact of reform on specific agricultural commodities.

The elimination of export subsidies will have varying impacts on certain commodities depending on their use in the staple diet. All agricultural commodities will experience a price increase. Whether or not the increase has positive or negative results for individual nations depends on the staple diet of the local population.



Dairy: The global dairy industry benefits from about 40 % of the total amount of export subsidies used. In this instance, the European Union is not surprisingly the world leader by providing 80 % of the export subsidies on dairy products. If export subsidies were to be eliminated, the biggest beneficiaries are likely to be the dairy producers in Cairns Group countries such as Argentina, Australia and New Zealand. They would benefit due to increased export opportunities.

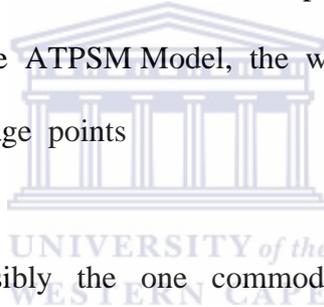
Bovine meat: again the European Union is leading provider of export subsidies accounting for 98% of the total export subsidies provided for bovine meat. The elimination of export subsidies has certain consequences

⁴⁸ www.globalpolicy.org , Baker D, *The WTO and the World's Poor*, p1 para 1 (accessed on 18 October 2007)

“The world market price for bovine meat increases by an additional 1.86 percentage points...and its additional welfare gain is 1.85 billion U.S. dollars.”⁴⁹

The positive results of export subsidy elimination by the EU will be felt on two fronts. Firstly EU consumers benefit from a decrease in domestic prices estimated to be about 5.16 billion U.S dollars in total. The EU Commission benefits due to the reduction in subsidy expenditure.

Sugar: Basically the same scenario applies to sugar. The major beneficiaries are the consumers of the EU as well as the various EU governments in terms of savings in expenditure on export subsidies. Major sugar producers such as Brazil benefit because of an increase in the world price and increased opportunities for export. According to the ATPSM Model, the world price for sugar is expected to increase by 2.3 percentage points



Wheat: Wheat is possibly the one commodity which will result in negative consequences should export subsidies be eliminated. Wheat and other cereals form part of daily staple diet of many in least developed countries. The projected increase in wheat prices is 2.55 percentage points. According to the ATPSM model, least developed countries will experience losses to the tune of 395 million U.S. dollars. According to the same model these losses may be offset.

“However , since parts of the least developed country imports are provided as food aid and thus not fully paid for by the beneficiaries, the negative impact may be overstated if food aid is continuing to be provided.”⁵⁰

⁴⁹ Peters R, *Roadblock to Reform: The Persistence of Agricultural Export Subsidies*, p28 para 2

⁵⁰ Peters R, *Roadblock to Reform: The Persistence of Agricultural Export Subsidies*, p30 para 7

With all of these commodities, major developing world producers such as South Africa, Brazil and India gain as a result of the increased export opportunities. The big losers in the event of export subsidy elimination are the farmers and commodity producers in the developed world. By eliminating one of the support mechanisms, farmers, especially in the European Union, will have to become more efficient and cost-effective in their production methods. They cannot afford to produce in excess of the consumption needs of the EU and they will have to contend with the added concern of cheaper commodities from developing country producers.

11.FINAL THOUGHTS

It is generally accepted that the complete elimination of export subsidies would be a good thing for the global economy. This is especially true when it comes to agriculture. At many WTO negotiations the issue over export subsidy use in agriculture by the developed world has been a constant sticking point. There are not many commentators or experts willing to openly call for the retention of export subsidies. They all agree that export subsidies should be eliminated. Where they diverge however, is how the elimination of export subsidies will benefit the global economy. It is clear that the elimination of export subsidies in world agriculture trade will result in higher world prices for commodities. This is good news for developing world producers. However the increase in world prices also means that the price of food will increase.

For countries that are net importers of food, this may result in certain social and economic problems for them. i.e. more of the government budget has to be set aside for food procurement or the consumers have to bear the brunt of the increased food prices. This can lead to political dissatisfaction with the present government.

It is understandable that least developed countries would not be entirely in favour of the elimination of export subsidies. They have become accustomed to receiving heavily subsidised and cheap foodstuffs from the leading users of export subsidies, the European Union and the United States. The elimination of export subsidies represents an opportunity to wean these states of EU support and force them to take the hard steps in developing their own agriculture sectors.

For South Africa, the elimination of export subsidies offers many opportunities. As a major, low cost agricultural commodity producer, South Africa can take advantage of the increased export opportunities. This will result in an increase in export revenue and a healthy boost to the country's GDP. On the domestic front, the elimination of export subsidies will mean a drastic reduction in the amount of imported subsidised foodstuffs. Since the agriculture sector will be able to generate more revenues, this would eventually lead to improvements in the sector as well as increased employment opportunities. With regard to South Africa's trade with the European Union, the elimination of export subsidies can probably give full effect to the stated goal of creating a Free Trade Area (FTA) as envisioned by the TDCA. With the elimination of a major trade distorting instrument, EU trade with South Africa in the agriculture sphere will have to be conducted on a more even playing field.



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1.INTRODUCTION

The role that agriculture plays in a society cannot be underestimated. One of the functions of any government is ensuring that a strong agriculture sector exists, strong enough to meet the various needs of the population i.e. the provision of foodstuffs and sustenance. Other activities related to the agriculture sector include job creation and revenue generating activities. This is particularly true in developing and least developed countries, where the major source of employment remains in the primary sector, specifically the agriculture sector.

However the role of agriculture as changed noticeably over the past few decades. This transformation can be attributed to the increasing focus on the global economy and concepts such as liberalisation and free trade. In the past, the major concern of national governments with regard to their domestic agriculture sector, was ensuring that the population had enough to eat and that surplus supplies were exported. Governments were free to support their domestic sectors in any way which they deemed fit. The imposition of import tariffs, the provision of support payments to farmers and the provision of export support such as export subsidies were some of the measures applied by national governments.

The global economy has however transformed, particularly over the last two decades. The concepts of free trade and market liberalisation has become the global trade mantra. Free-market adherents argue that market liberalisation is the way to ensuring an improved standard of living for everyone. This has meant that the global agriculture sector has come under increased scrutiny.

Practices such as high import tariffs, domestic support payments and export subsidies are regarded as hindrances to free trade and as such are outmoded and need to be eliminated.

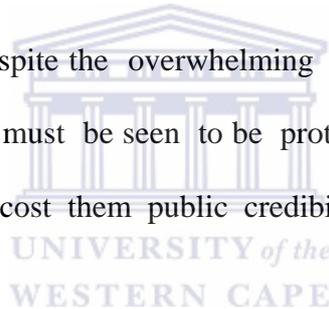
Many, if not all the countries which have engaged in the large scale support of their agriculture sectors are first world industrialised states. These countries have the wealth and resources to effectively support and insulate their farmers. This is not the case with regard to developed and least developed countries. These countries have a natural advantage in agriculture commodity production, yet they do not have the financial resources to compete with their first world counterparts.

The increasing calls for the liberalisation of global agricultural trade has galvanised developing countries into taking a more assertive role in trade negotiations. Developing country blocs such as the G-20 and the G-90, have called on the industrialised world, in particular the European Union and the United States of America, to undertake significant reforms of their agriculture sectors. The key goals developing nations hope to achieve with a reformed global trade, is increased market access to first world markets and an end to the massive subsidy payments which lead to lower world commodity prices and the dumping of cheap agriculture commodities on third world markets.

Agriculture is quite a sensitive topic in international trade circles. Developed countries seem unwilling to undertake significant reforms of their agriculture sectors unless developing countries reciprocate by opening up their markets to industrialised goods and services.

The developed world is essentially playing the 'carrot-and-stick' game. In return for reform of the global agricultural trade, they want to expand the markets for their manufactured goods. If the developing countries do follow suit and lower their import tariffs on manufactured and processed goods, this will lead to piecemeal solution. The agriculture sectors will benefit ,but at the expense of the domestic manufacturing industries.

There is no easy solution where both sides emerge as winners. Although agriculture employs a very small amount of the total workforce in developed countries, the agriculture sector remains powerful through various lobby groups. For some reason the protection of farmers and their livelihoods scores highly in public opinion polls despite the overwhelming urbanised population of developed countries. Governments must be seen to be protecting rural communities and their livelihoods or it could cost them public credibility or worse, votes.



In developing, and especially least developed countries, the issue of agriculture reform is much more important. With many of the population still employed in the primary sectors such as agriculture, the reform process could result in a significant improvement in the standard of living for billions of people. Therefore groups such as the G-20 have become increasingly forceful in their demands for a fully liberalised global trade in agriculture.

One of the targets of the ire of developing country farmers and the subject of this thesis, is the use of export subsidies by first world countries to offload surplus commodities onto the world market. As I have explained earlier, the biggest offender in this instance is the European Union.

The export subsidies not only enable farmers in developed countries to dump their surplus production onto foreign markets, this surplus flood leads to a reduction in world prices, thus further impacting on the incomes of farmers in the developing world.

The use of export subsidies has finally been subjected to closer scrutiny and guidelines as a result of the World Trade Organisation's Agreement on Agriculture. The Agreement has finally imposed restrictions on the use of these trade distorting subsidies.

2.CAN THE AGREEMENT ON AGRICULTURE EFFECTIVELY REGULATE THE USE OF EXPORT SUBSIDIES?

The Agreement on Agriculture does not entirely do away with export subsidies but rather calls on Member countries to gradually reduce their levels of export subsidy use. Developed countries have to undertake deeper cuts in their export subsidy levels over a shorter implementation period than developing countries.

“Developed countries agreed to reduce the volume of export subsidies by 21% and the expenditure on export subsidies by 36% by 2000; and Developing countries agreed to reduce the volume of export subsidies by 14% and the expenditure on export subsidies by 24% by 2004.”¹

The question is: are the rules and guidelines imposed by the WTO through the Agreement on Agriculture stringent enough to ensure that Member countries comply and start reducing their use of export subsidies.

¹ www.worldbank.org , *World Bank Group: Agricultural Trade: Export Subsidies*, p1(accessed on 26 September 2007)

The whole purpose of reducing the levels of export subsidies is that they should eventually be eliminated. Are Member countries, especially rich industrialised states willing to do that? Publicly, all the WTO Members have committed themselves to reduce and eventually eliminate the need for export subsidies, however loopholes do exist, which may be exploited by certain countries to continue supporting their agriculture sectors.

Issues exist which may limit the effectiveness of the Agreement on Agriculture's framework for the elimination of export subsidies. These issues include the: 1) the choice of a base period to determine the reduction commitments of Member countries, 2) practices such as 'frontloading' and 'banking' with regard to export subsidies and 3) the fact that the Agreement on Agriculture does not adequately address indirect export subsidy programmes.

The fact that export subsidy commitments can be potentially circumvented is worrying. Although certain Member countries may profess to complying with the reduction commitments of the Agreement on Agriculture, nevertheless some countries have engaged in practices that can be described as using indirect subsidies.

'Front loading' and 'Banking'

These are two ways in which the reduction commitments of the Agreement on Agriculture can be bypassed. With regard to 'front loading', countries could use the 1991-1992 base period instead of the 1986-1990 period if their export subsidy levels was higher than the intended base period. Countries could then increase their export subsidy expenditure levels in excess of the 1986-1990 levels.

'Banking' is a practice which the Agreement on Agriculture allows, but has been exploited by certain Member countries. The 'banking' practice involves the rollover of unused subsidies from one year to the next. By using the 'banking' practice, countries may be able to undertake lower reduction commitments for certain commodities in a given year.

"The 'banking' practice weakens the effect of the reductions, because it allows for strategic trade behaviour in exploiting market share. Banking unused subsidies could allow an increase in subsidies for some commodities during the implementation period."²

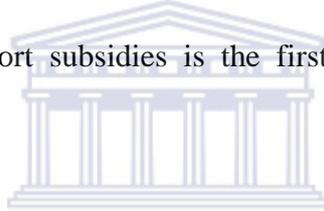
Other policy instruments

Although the Agreement on Agriculture imposes restrictions on the use of direct subsidies, there are other policy instruments which can be possibly used as a way to circumvent those restrictions. These instruments include export credit, the provision of food aid, State Trading Enterprises and export subsidies paid on commodity inputs for processed goods. At this stage, none of these practices is adequately regulated by an international multilateral framework such as the one which applies to direct export subsidies. They all have the potential to be used to circumvent the export subsidy reduction commitments.

Another issue which needs to be addressed, is whether the elimination of export subsidies without reforms to domestic support and market access for developing countries to first world markets is sufficient in meeting the goals of the proponents of export subsidy elimination. Export subsidies is but one of the pillars in the support structure for first world farmers.

² www.worldbankgroup.org , *World Bank Group: Agriculture: Export Subsidies*, p1 para 6 (accessed on 26 September 2007)

In many instances the particular country's export subsidy program goes hand in hand with high import tariffs (market access) and major support payments and subsidies to farmers (domestic support). Many commentators have argued that the reduction and eventual elimination of export subsidies has to be accompanied by serious reform with regard to domestic support payments and market access. I agree with these sentiments to a certain extent. Yes, it is true that developed countries have to take a serious look at their support programmes for their agriculture sectors. But this argument cannot be used as means to detract from the need to eliminate export subsidies. The elimination of export subsidies is but the first step in the process of agricultural reform. The reform of the global agricultural trade has to be undertaken in stages. The effective regulation and then elimination of export subsidies is the first step in that reform process.



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3.SOUTH AFRICA AND THE EUROPEAN UNION: WHERE DOES AGRICULTURE FIT IN THIS RELATIONSHIP?

As I stated earlier, South Africa and the European Union share quite a close trading relationship. In terms of agriculture, the European Union accounts for 40% of South Africa's exports. The ties between South Africa and the European Union were strengthened further with signing of the Trade, Development and Cooperation Agreement (TDCA). South Africa enjoys a unique relationship with the EU, that is certainly unparalleled amongst other developing nations. The eventual aim of the TDCA is of course the creation of a free trade area between South Africa and the European Union. The question is, will this be a free trade area in name only or will there be real benefits to South Africa?

This is an important question to mull over if you consider the European Union's track record when it comes to free trade, especially in the agriculture arena.

The essential provisions of the TDCA with regard to agriculture states that:

“The EU will give duty free access to 61% of South African agricultural products and another 13% will be subject to preferential tariff rules.”³

And further:

“Approximately 26% of South African agriculture exports have been put on the reserve list, in other words, excluded from the agreement for now.”⁴

It would seem that the provisions of the TDCA with regard to agriculture have been structured in such a way that both sides are kept satisfied. South Africa has gained duty free access for most of its agricultural commodities while European farmers are appeased by the fact that agricultural products where South Africa has a competitive advantage such as dairy, sugar, canned fruit and cut flowers, have been excluded from the ambit of the free trade deal for now.

An interesting situation arises as a result of the calls for reform of the European Union agriculture sector. Will South Africa be better served by enjoying the benefits under the TDCA such as duty free access for certain products or will our interests be best served by a more transparent and reformed EU agriculture sector within a globally liberalised agriculture market? South Africa as a member of both the Cairns Group and the G-20, stands to gain in terms of export opportunities if the EU reforms with regard to export subsidies are carried through.

³ Greenberg S, *Raw Deal- South Africa-EU trade pact*, Southern African Report Archive, volume 15 no 4, May 2000, p16

⁴ Supra...p16,para 5

South Africa, along with major agriculture producers such as Brazil and India, are in the pound seats to take advantage of the reform process concerning export subsidies. These countries agriculture sectors are able to produce their commodities at a lower cost and in a more efficient manner.

In this thesis, I highlighted South Africa's sugar industry to serve as an illustrative case in point. The European sugar industry is one of the most heavily subsidised agriculture sectors, creating major distortions within the global trade in sugar. European sugar producers and processors, although operating at highly inefficient levels, are nevertheless able to sell their sugar more cheaply than their counterparts in Brazil, South Africa and other developing country producers. If the European Union follows through with its Hong Kong 2005 proposal to end their use of export subsidies by 2013, this will lead to a rebalancing of the status quo. The European Union's position as the second largest exporter of sugar will be usurped by smaller producers such as South Africa. Although Brazil stands to gain the most from a fully liberalised sugar trade (due to the large scale nature of sugar production in Brazil), other smaller sugar producers such as South Africa will be able to add hundreds of millions of rand in export revenues to the country's coffers.

If we take the sugar industry as a microcosm of South Africa's agriculture sector, the increased revenue from exported sugar can be ploughed back into the industry and the rural communities whose sustainability invariably depends on the success and growth of agriculture.

But what about the TDCA? Would South Africa's agriculture sector not be better served by the provisions of the agreement which purports to create a free trade area. South African agriculture exporters already enjoy preferential access for certain commodities despite the minimal reforms undertaken by the European Union. Essentially it boils down to the question: shouldn't the South African agriculture sector be satisfied by what it already enjoys under the TDCA and not push the European Union for further reforms of its agriculture sector?

In an article written in the year 2000 entitled *Raw Deal- South Africa-EU trade pact*, Stephen Greenberg highlighted what he thought were several shortcomings of the TDCA. He is of the view that South Africa drew on the short end of the stick when it came to the outcomes of the TDCA. Mr Greenberg is of the view that there would be no 'trickle-down' effect when it came to the revenues generated from increased commodity exports. In other words, rural communities would not share in the benefits from increased revenue in agriculture, but that the money will be concentrated amongst the large scale farmers.

"Export earnings remain in hands of select few- large privately owned farms. The TDCA does not offer transformation, merely intensification of the privileges of a small and already wealthy segment of the population."⁵

Basically Mr Greenberg feels that the TDCA will be detrimental for the South African agriculture industry, leading to job losses in certain sectors and a serious knock in the production of certain agriculture commodities.

"The Agreement is liable to result in a shift in commercial production patterns to emphasize more profitable high value crops. The increased global competition will lead to cuts in prices and profits."⁶

⁵ Greenberg S, *Raw Deal-South Africa-EU trade pact*, Southern Africa Report Archive, volume 15 no4, p16

⁶ Greenberg S, *Raw Deal- South Africa-EU trade pact*, Southern Africa Archive, volume 15 no4, p16

4.FINAL THOUGHTS

In this thesis I have argued for the elimination of export subsidy use when it comes to agriculture. It is strange that when it come to industrial products, export subsidies are expressly prohibited but when it comes to agricultural products, there is a tacit allowance to continue using export subsidies. Despite the fact that the cornerstone of WTO policy has been the promotion of free trade among Member countries, trade distorting measures such as export subsidies has been tolerated for a number of years.

However with the blocs who have bore the brunt of export subsidy use, namely developing countries, organising themselves into powerful cliques within the WTO, the issue over export subsidies use has been more effectively addressed.

Steps have been taken in the right direction at a multilateral level to eliminate export subsidies. However the reduction commitments of the Agreement on Agriculture have to be stringently enforced and guidelines have to be developed to regulate the use of practices such as food aid and export credit in order to bloc attempts to circumvent the disciplines imposed on direct export subsidies.

With regard to the European Union, they have taken an admirable stance regarding their offer to end their use of export subsidies by the year 2013. this is a major step in the right direction, if you consider that the EU was the overwhelming user of export subsidies (90% of the total export subsidies used).

It is up to the European Commission to follow up their 2005 proposals with concrete steps to reform their agriculture sector to bring it line with WTO principles.

The elimination of export subsidies will be beneficial for the global economy. Major third world commodity producers are the ones to benefit the most from the elimination of export subsidies, particularly the elimination of the EU's export subsidies. Countries such as Brazil, India and South Africa will surpass the EU in the production and export of certain commodities such as dairy products, sugar and bovine meat.

Certain least developed countries will experience negative impacts as a result of export subsidy elimination. These countries have become dependent on cheap, subsidised food imports (particularly from the EU). These countries will have to become self reliant in the provision of their own foodstuffs. To assist these countries in their period of adjustment, the first world, represented by the EU and the USA, should develop assistance programmes to help these countries bring their domestic agriculture sectors back on track.

South Africa will benefit along with other major third world producers, when export subsidies are finally eliminated in agriculture. Although South Africa enjoys a close trading relationship with the European Union, leading to the creation of the TDCA, South Africa will benefit much more if the EU agriculture sector is liberalised and brought in line with the tenets of free trade.

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