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Executive brief

Sugar sector

1. Background and key issues

To date, high global sugar prices have insulated ACP sugar producers from the worst effects of EU reference price reductions. In 2010 and 2011, market prices in US dollar terms were 16.7% and 12.8% below the average dollar price in 2006, compared with a 36% reduction in EU reference prices.

In the context of the abolition of ACP supply obligations under the renounced Sugar Protocol, the high global sugar prices have led to sugar shortages emerging on the EU market. This has posed financial problems particularly for traditional EU cane sugar refiners, while greatly improving the balance sheets of beet sugar operators, who have begun refining both cane and beet sugars.

During 2011, the functioning of the EU sugar production quota system compounded supply shortages, despite good sugar beet harvests. This required the adoption of stop-gap measures to address supply shortfalls (expanded tariff-rate quotas/TRQs releasing of out-of quota sugar onto the domestic food market). These market difficulties have served to increase pressure for further reform of the EU sugar regime, with the abolition of sugar production quotas now firmly on the policy agenda and growing demands for further liberalisation of EU sugar import arrangements.

With the abolition of price guarantees for ACP sugar from 1 October 2012, and continued projected high global sugar prices, the way that specific ACP–EU sugar supply chains function will increasingly determine the volume of ACP sugar exported to the EU and the prices obtained by ACP sugar exporters.

These new sugar market realities have had effects across the ACP, and increasingly sophisticated production mix and marketing strategies are needed to maximise ACP sugar sector revenues.

In the Southern and Eastern African and Caribbean regions: Increasing consumer demand, along with efforts to move up the sugar value chain, is reducing the volumes of raw sugar available for export to the EU. This is also bringing new opportunities and challenges.

In West and Central Africa: Efforts to develop sugar production in some countries are focused on expanding sugar cane output and processing for both national and regional markets, while in other countries the focus is on expanding refining capacity, based on globally sourced supplies of raw sugar. This is likely to throw up trade policy conflicts in the sugar sector.

In the Pacific: The region faces continuing challenges in maintaining and expanding sugar production. Major opportunities do, however, exist for reorienting marketing arrangements in order to meeting growing consumer demand in Asia.

In both the Caribbean and the Pacific: Financial challenges are faced in successfully undertaking the necessary restructuring, suggesting a continued role for more effectively deployed 'Sugar protocol accompanying measures' programme support.

2. Latest developments

Global sugar price developments and the EU sugar sector

It was assumed that following EU sugar sector reforms initiated in 2005, EU prices would remain above world market prices, ensuring that the EU remained the market of choice for ACP producers. From 2006 to 2008 this was the case. However, in the 3 years 2009–2011 average world market prices rose by 46%, 68% and 113% respectively, compared to the previous year. This saw EU cost, insurance and freight (c.i.f.) prices below world market free on board (f.o.b.) prices in 8 of the 16 months to January 2012, and more than 3 US cents/lb above the world market price in only 2 of these 16 months.

This served to undermine the planned functioning of the EU sugar market, by generating a substantial gap between projected ACP sugar exports to the EU market (3.3 million tonnes for the 2011/12 season) and actual sugar exports (only 1.7 million tonnes for 2011/12).

By the end of 2011, raw sugar prices in New York had fallen some 27% from the 30-year high of 36.08 cents/lb reached in March 2011. During 2012, world market prices are projected by various analysts to fluctuate between 22 and 28 c/lb (see *Agritrade* article 'Short-term global sugar market trends', 19 February 2012). The shortage of imported sugar that characterised the EU market in 2010–11 could then re-emerge. Indeed, in the medium term the US Department of Agriculture (USDA) argues that it will be difficult for the EU market to attract imports under current conditions. This will be compounded by growing demand for sugar in sub-Saharan Africa. This scenario of increased competition for supplies of sugar is consistent with the shift in global demand for sugar, and led the OECD to warn that failure to revise the EU sugar quota system 'risks a repeat of the shortages seen [in 2010/11]'.

The EC however takes a different view, believing that the EU will be able to import between 3.4 million and 4 million tonnes of sugar per annum up to 2020 (see *Agritrade* article 'EC projections of EU sugar market developments after the expiry of the production quota system', 6 February 2012). Despite this positive EC prognosis, global developments are generating a degree of uncertainty around supplies of imported sugar to the EU market. The EC is therefore giving high priority to establishing a policy framework that can meet the challenge of global sugar price volatility.

The EU sugar trade regime and internal competition issues

The EU applies different tariffs on sugar imports from different preferred suppliers, within bound duties that range from €339/tonne to €419/tonne. All least developed country (LDC) suppliers and ACP suppliers whose governments have initialled interim Economic Partnership Agreements (EPAs) enjoy duty-free, quota-free access to the EU market, within an overall safeguard ceiling (i.e. indicative rather than regulatory limit) of 3.5 million tonnes. Balkan countries enjoy duty-free access for a total of 380,000 tonnes of white sugar, while Moldova (treated under same policy framework as Balkan countries) and India (as an established preferential arrangement) enjoy a duty-free quota of 34,000 and 10,000 tonnes respectively. Various TRQs at a duty of €98/tonne are available for the import of 666,925 tonnes of raw sugar, and are set out in Table 1.

Table 1: Export quotas for non-ACP/LDC countries

Country	Quota (tonnes)	Import duty (€ per tonne)
CXL raw sugar import quota		
Australia	9,925	98
Brazil	334,054	98
Cuba	68,969	98
Ergo omnes[1]	253,977	98
India	10,000	0
Total	**676,925**	
Balkan and other import quotas for white sugar		
Albania	1,000	0
Bosnia & Herzegovina	12,000	0
Croatia	180,000	0
Macedonia	7,000	0
Serbia or Kosovo	180,000	0
Total	**380,000**	
Moldova[2]	34,000	0

Note:
1. i.e. available for import from all sources
2. Moldova is treated under the same policy framework as the Balkan countries, but not included in that total.

Source: USDA, 'Post reform European Union Sugar – prospects for the future', Table 5. *GAIN Report* No. E60078, 21 December 2011.
http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Post-Reform%20European%20Union%20Sugar%20-%20Prospects%20for%20the%20Future_Brussels%20USEU_EU-27_12-21-2011.pdf

The EU sugar companies have different supply relationships with various preferred suppliers, and hence different levels of access to duty-free and reduced-tariff sugar imports. Sugar supply chains characterised by close strategic partnerships between ACP producers and European distributors (e.g. Mauritius) enjoy secure access to sugar supplies. Similarly, EU sugar companies with share ownership in sugar estates and sugar milling in preferred supplying countries, as well as close corporate ties with sugar trading companies and sugar refiners, are also less likely to have problems in securing imported supplies of sugar. Other European sugar companies whose patterns of overseas investments have focused on less-preferred suppliers, or who have yet to internationalise their operations, can face particular supply problems.

"7 sugar companies control 80% of sugar production in the EU"

These factors raise important competition issues within an increasingly concentrated EU sugar sector – seven sugar companies now control 80% of sugar production in the EU (for more details, see *Agritrade* Special report 'Corporate restructuring in the EU sugar sector: Implications for the ACP', 30 April 2010). This is reflected in the different corporate financial results of the companies concerned: beet processing companies with good links to preferred suppliers are enjoying strong profit growth, while some traditional cane refiners are working at 60% capacity and facing losses.

This differential access of EU sugar companies to zero-tariff and reduced-tariff imports is likely to take on increased significance in the coming period and generate new pressures for further reform of the EU sugar regime.

The impact and shortcomings in EU sugar sector reform to date

The underlying objective of EU sugar sector reform since 2005 has been to enhance the competitiveness of EU sugar production by eliminating unprofitable production capacity. While national sugar beet production quotas were reduced by 24% to 13.3

million tonnes, USDA's *GAIN report* of December 2011 observed that 'quota abandonment occurred across all productivity categories', and some 2.4 million tonnes were renounced in the most competitive sugar producing areas. This resulted in a 10% decrease in production (1.4 million tonnes) in the areas best suited to sugar production, while 15.9% of EU sugar production remained in high and very high cost production areas.

This led USDA analysts to conclude that abolition of production quotas would address one of the main shortcomings of the 2006 reforms by unequivocally encouraging a shift of production to low-cost production areas of the EU and eliminating production in high and very high cost areas (see *Agritrade* article 'How successful has EU sugar reform been in enhancing underlying competitiveness?', 19 February 2012).

These changes led to an increase in 'out-of-quota' production from 13% of total beet production to 20%. The processing campaign (i.e. the milling period) has been increased by one-third, from 90 to sometimes over 120 days, which has lowered overall average processing costs.

Developments in the EU sugar sector in 2010–2012

In the course of 2010 and throughout 2011, sugar shortages began to emerge on the EU market. This was in part a result of traditional ACP/LDC sugar suppliers directing sugar exports to more attractively priced non-EU markets. According to the Committee of European Users of Sugar (CIUS), this created a situation where in the 12 months to September 2011 EU sugar supplies were '1.1 million tonnes short of demand'.

However, sugar shortages are also a product of the functioning of the production quota management system. Restrictions on the use of 'out-of-quota' sugar mean that this sugar cannot be used for food production in the EU. Even bumper harvests therefore do not address sugar shortages under the current regulations. This situation has led to continued complaints from food manufacturers, who expected 'prices for sugar based foods in the EU to rise 20% by April [2012] because of higher costs of the sweetener' (see *Agritrade* article 'Good EU sugar crop in prospect, while quota abolition proposal leaked', 20 October 2011). In October 2011, CIUS complained that despite high global production and falling prices, 'trade barriers mean the European Union is contending with a second consecutive annual shortage' (see *Agritrade* article 'Regulatory framework generates difficulties on EU sugar market', 28 November 2011).

In the course of 2011, the EC tried to address the supply shortages by adjusting the use of market management tools:

- The EC first reversed its policy of encouraging out-of quota sugar exports and in February 2011 announced a special dispensation for the sale of 500,000 tonnes of out-of quota sugar for use on the domestic EU food product market and the opening of an additional duty-free TRQ for the import of 300,000 tonnes of sugar.
- On 26 May 2011, the EU member states agreed to an EC proposal 'to open a further 200,000 tonne import quota for raw or refined sugar at zero import duty', with the possibility also for reduced-duty imports under a tendering system (see *Agritrade* article 'EU continues to manage opening to third-country sugar imports', 5 July 2011).
- Also in May 2011, the Polish government published a proposal to increase sugar production quotas by 15% in order to bring stability to the EU sugar market, although this was swiftly rejected by the EC.

In December 2011 the European Sugar Refiners Association was highly critical of the operation of the tendering system introduced in May 2011, claiming that it forced cane refiners to pay three times the tax burden of other players in the industry. It was argued that 'the cane refining industry simply cannot continue to bear these costs without an impact on our viability and jobs in the long term.'

These market development and ad hoc policy responses provide the immediate market background to the tabling in October 2011 of EC proposals for further sugar sector reforms.

The future of the EU sugar regime

In October 2011 the EC proposed the abolition of sugar production quotas as a market management tool. Two options were advanced:

- the immediate abolition of production quotas in the 2015/16 season; or
- the abolition of production quotas slightly later in the 2017/18 season.

According to the EC's accompanying Staff Working Paper, the abolition of sugar quotas is expected to lead to higher production and lower prices. The precise production and price effects will depend on which scenario for phasing out production quotas is adopted. However, according to the EC analysis in their staff working paper, 'prices are projected to fall below the current support prices for sugar beet and white sugar under each scenario' (see *Agritrade* article 'EC proposals for sugar sector reform', 28 November 2011).

In addition, according to press reports the abolition of production quotas could lead to 'a 6.9% rise in EU sugar exports and 4.7% cut in imports'. The alternative would be the progressive accumulation of sugar stocks in the EU. Given the scale of EU production, any expansion of EU sugar exports could carry implications for global sugar prices that would be to the detriment of ACP sugar producers.

According to Agriculture Commissioner Dacian Cioloş, EC proposals for quota abolition would not involve the abandonment of market management, but would mean the introduction of 'a framework of modernised market management instruments with true safety nets, a clearer, strengthened role for producer organisations and obligatory contracts, before sowing, between growers and processors' (See *Agritrade* article 'EU sugar market management measures cause controversy', 22 January 2012).

> *"Reform should not involve complete abandonment of market management measures but would mean modernised market management instruments"*

This strongly suggests that the new EU policy tools – designed to strengthen the functioning of food supply chains and insulate EU producers from the worst effects of global price volatility by providing effective safety nets – will be extended to the sugar sector.

The ACP response to quota abolition proposals

ACP/LDC sugar suppliers have condemned the EC reform proposals for jeopardising the EU market balance and 'the future of the sugar industries of the ACP/LDCs', describing the proposals as 'premature, unnecessary and almost certainly counterproductive'. It is also maintained that the decision is 'tantamount to a unilateral modification of an international treaty' – namely recently concluded EPAs. The ACP/LDC group has major concerns over the direct and indirect price effects of quota abolition, including, notably, the effect of further price reductions on ACP efforts to mobilise finance for sugar sector restructuring.

The ACP suppliers' reaction needs to be seen in the context of the complete abolition of price guarantees for ACP raw sugar exports from 1 October 2012. Currently the EU production quota system enables the operation of a two-tier pricing system for sugar beet:

- one price is paid for in-quota sugar which can be used within the EU in the production of food products for human consumption;
- a second lower price is paid for out-of-quota sugar beet which has to be used for industrial purposes in the EU or be exported outside the EU without the benefit of export subsidies.

Once quotas are abolished, this two-tier pricing system will no longer be able to operate, exerting a downward pressure on EU prices for sugar destined for human consumption. This will lead to EU and world market sugar prices becoming much more intimately linked, since quota abolition would also remove any WTO impediments to exports of EU refined sugar during times of high world market prices.

It is against this background that the ACP/LDC sugar group has called for the maintenance of EU production quotas until 2020 and an extension of 'Sugar protocol assistance measures' programme funding.

In addition to production quota abolition, the ACP are also concerned that the current commercial pressures building up in the EU sugar sector could lead to further EU sugar sector trade liberalisation, greatly increasing the competitive challenge faced by ACP sugar suppliers.

However, since there is no consensus at EU member-state level on the renewal of the production quota system beyond 2015, the EC in its December 2011 report 'Prospects for EU agricultural markets and income 2011-2020' assumed that the sugar production quota system would not be renewed, and based its projections for the future of the EU sugar sector on this assumption.

Regional developments in ACP sugar sectors

Southern and Eastern Africa

Different trends are apparent in sugar production in Southern and Eastern Africa. Since 2004, production in South Africa, Zimbabwe, and Mauritius has declined, reducing these countries' collective share of regional production from 53% to 42%. Production has grown in Zambia, Malawi and Mozambique increasing their share from 11% to 17%, while that of Uganda and Tanzania has increased from 6% to 10%. A noticeable feature in the region is the relatively small increase (Sudan +3.7%) and even marginal decline (Ethiopia) in sugar production in countries with state-led growth strategies for sugar production. These contrary trends saw a small contraction in regional sugar production between 2004 and 2011 (-5.6%), which was reversed to a projected small increase of 0.2% by 2012.

Consumer demand is growing rapidly in the region. Given high global sugar prices, this is stimulating increased investment in local sugar refining. Major investments in refining – initially designed to reposition its exports on the EU market – have taken place in Mauritius. The high global prices have also stimulated an increased focus on sugar self-sufficiency. In sub-regions such as the East African Community (EAC), this has given rise to considerable debate on an appropriate sugar trade policy. This needs to balance concerns over the impact of third-country competition on domestic production with periodic sugar shortages. A range of sugar trade restrictions and special import arrangements have been introduced across the region, which has fuelled smuggling.

Overall these trends are reducing the regional raw sugar surplus available for export to the EU, which is already projected to have declined over 50% between 2004 and 2012. Despite plans to expand production, the raw sugar available for export to the EU could continue to contract in the coming years. This would be compounded by any expansion of the use of lower grade sugar cane juice for ethanol or alcohol production as part of revenue diversification strategies in the region. (Indeed, this trend is already under way.)

South Africa accounts for one-third of the region's surplus sugar. Maintaining import duties on sugar against this ACP supplier, which now has a fully operational free-trade area (FTA) arrangement with the EU, would appear to be further limiting EU access to the region's diminishing raw sugar surplus.

With rising consumer demand for sugar, and regional governments' aspirations to expand national self-sufficiency, issues of intra-regional trade arrangements for sugar and sugar products are likely to come to the fore in trade negotiations in the coming years. This is particularly the case under the proposed trilateral FTA of the EAC, the Common Market for Eastern and Southern Africa (COMESA) and the Southern African Development Community (SADC).

"Mauritius' move to refined sugar exports potentially positions the industry to supply high-value sugar products throughout the region"

In addition, the move in Mauritius to exporting refined sugar products potentially positions the industry to supply value-added sugar products throughout the region. The expansion of the Mauritian sugar refining industry also provides the background to growing Mauritian sugar sector investments on the mainland of Eastern Africa, and the increase in raw sugar exports to Mauritius to be refined there (see *Agritrade* article 'Mauritius continues to expand value-added sugar exports', 27 December 2011). This could give rise to intense discussions on rules-of-origin issues under regional preferential trade arrangements.

Caribbean

Caribbean sugar production, having declined sharply from 2005 to 2008 (-23%), has stabilised some 19% below 2004 production levels (-194,000 tonnes). Improved global sugar prices have renewed interest in sugar production in the Caribbean, and many Caribbean sugar sectors have aspirations to improve cane productivity and mill efficiency, and to expand the area under cane. However, the economic and financial downturn has complicated investment mobilisation for sugar sector restructuring.

With human sugar consumption rising in the region, this is further reducing the surplus available for export (-43% between 2004 and 2011). In addition, Caribbean sugar producers are looking to move up the value chain to produce refined and speciality sugar (Jamaican and Guyana) and to provide inputs to local value-added industries (Barbados) (see *Agritrade* article 'Sugar sector adjustment activities continue in Caribbean', 6 September 2011). These developments will further reduce supplies of raw sugar for export to the EU.

Close corporate links and higher US prices also pose challenges for EU efforts to source sugar from the Dominican Republic. Privatisation processes in Jamaica meanwhile are seeing a breakdown of traditional marketing arrangements as the new private companies seek to market their own sugar production (see *Agritrade* article 'Tate & Lyle seeking long-term sugar supply arrangement', 5 July 2011).

"ACP sugar exporters face the challenge of maximising earnings on sugar sales at a time of increasingly volatile prices"

The very different prices offered for Jamaican sugar in the 2010–11 period (according to press reports, US\$936.98/ tonne paid under an ED & F Man contract in August 2011, compared to €370/t and €333.2/t plus profit sharing under pre-financing contracts with Tate & Lyle and Eridania respectively) highlight the growing importance of getting to grips with strengthening the functioning of ACP–EU sugar supply chains (see

Agritrade article 'Short-term earnings windfall projected in Jamaican sugar sector',6 September 2011). The situation in Jamaica also highlights the general challenge facing ACP sugar exporters of how to maximise earnings on sugar sales, in view of increasingly volatile prices.

West and Central Africa

The West and Central African region has a large and rising deficit in raw sugar production. In sugar producing countries alone, the raw sugar deficit has risen from 1,538,000 tonnes in 2004 to 1,851,000 tonnes in 2011, an increase of 20%. Taking into account the wider West and Central African sugar market, the regional sugar deficit is approaching 2.5 million tonnes. From a trade perspective, the West and Central African region is a sugar importing region, with the triangular sugar trade having now disappeared.

A variety of initiatives are under way to expand sugar cane production for national and regional markets (see *Agritrade* article 'Chinese company to open sugar refinery in Niger' 31 March 2012). In Nigeria, the region's largest consumer and importer of raw sugar, further expansion of the sugar refining sector is taking place, based on globally sourced raw sugar imports. Significantly, given the size of the Nigeria sugar refining sector, there is a large informal cross-border trade between Nigeria and neighbouring countries: official exports of sugar to Ghana, Niger and Senegal are due to start soon, once refinery rehabilitation in Nigeria is completed (see *Agritrade* article 'Ambitious plans for rehabilitation of Nigerian sugar sector', 10 June 2011).

Given that some of Nigeria's target markets already have domestic raw sugar production, this could generate trade conflicts in the region with governments that are actively seeking to promote the development of sugar cane production to meet domestic sugar needs – such as Senegal, Côte d'Ivoire and Cameroon. Nigeria's expansion is also likely to create tensions with governments seeking to develop production for both domestic and regional market.

Pacific

Fiji's sugar production has fallen 46% since 2004, while production in Papua New Guinea (PNG) has remained stagnant. Fiji is the only Pacific country exporting sugar to the EU. Since 2010, total sugar in Fiji production has been substantially below the traditional level of raw sugar exports to the EU.

The Fiji Sugar Corporation (FSC) and the Fijian government remain optimistic that sugar production will recover. However, production and export levels have consistently fallen below target levels. This is indicative of continuing difficulties in the management of the sector. In addition, a lack of due diligence in the implementation of investments has seen equipment failures which periodically undermine production.

> *"Addressing the deep-rooted and complex causes of sugar sector decline in Fiji will be a formidable challenge"*

The World Bank considers that addressing the deep-rooted and complex causes of sugar sector decline in Fiji will be 'a formidable challenge'. The IMF has called for full privatisation of the sector within 3 years, although the government has no immediate plans to pursue such a course of action, given a lack of bankable options (see *Agritrade* article 'Major challenges facing Fiji sugar sector', 2 May 2011).

High global sugar prices and shifting global sugar demand potentially open up new export opportunities for Fiji in the Asia–Pacific region, with growing interest from a range of countries. However, the absence of clear sources of investment for the modernisation of the Fijian sugar industry, continued political isolation, and the absence of new corporate linkages capable of assisting in developing processing to directly meet market requirements, all suggest that substantial obstacles need to be overcome before the Fijian sugar sector can hope to move in this direction (see *Agritrade* article 'FSC reiterates commitment to American Sugars under the Tate & Lyle agreement', 4 December 2011).

Throughout 2011, Fijian access to EU sugar protocol accompanying measures assistance continued to be blocked. Despite the lifting of the Public Emergency Regulation in the country, the introduction of other security legislation may mean that the EU restrictions on access to funding from the Sugar protocol assistance measures programme continue throughout 2012 (see *Agritrade* article 'Improved financial performance of Fiji Sugar Corporation', 25 October 2011).

The EC proposal of 30 September 2011 to amend market access Regulation No. 1528/2007) and uncertainties around the future of the Pacific EPA negotiations cast a further cloud over the prospects for securing strategic partners for the rehabilitation and reorientation of the Fijian sugar sector (see *Agritrade* article 'Pacific EPA to be concluded by 2012', 25 February 2012).

3. Implications for the ACP

Strengthening the functioning of ACP–EU sugar supply chains

Deferring the abolition of the quotas would buy some time for ACP restructuring. But for the future, Agriculture Commissioner Dacian Cioloş's reference to the introduction of 'a framework of modernised market management instruments with true safety nets, a clearer, strengthened role for producer organisations and obligatory contracts, before sowing, between growers and processors', is potentially of considerable significance.

The relevance of this framework needs to be seen in the context of:

- the vast inequalities in power relationships along ACP–EU sugar supply chains;
- the growing concentration of ownership in the EU sugar industry; and
- the increasingly vertically integrated nature of supply chains within individual corporate families.

EC proposals for strengthening the role of producer organisations and ensuring – on an obligatory basis – transparent contracts would appear to have a direct relevance to the future management of ACP–EU sugar supply relationships. The establishment of 'framework contracts' stipulating what should be included (e.g. delivery schedules, price, the basis of profit sharing arrangements, and permitted deductions) would be consistent with emerging EC proposals for future sugar market management arrangements in the EU.

If new private-sector methods of regulating supplies of ACP sugar to the EU market cannot be found, market disruptions (shortages) would be likely to recur, given the integral part that ACP exports play in EU supply management arrangements.

> *"A modernised EU regulatory framework could assist in maximising revenue flows to ACP stakeholders"*

In addition, such a modern regulatory framework would appear to have relevance beyond just the ACP sugar trade with the EU. It could also assist in maximising revenue flows to ACP stakeholders in an era of heightened global price volatility.

Intra-regional sugar trade issues in Southern and Eastern Africa

Given the experience to date of managing the regional trade in sugar in Southern and Eastern African (e.g. under the SADC Sugar Protocol and the special sugar safeguard permitted to Kenya under the COMESA agreement), it seems likely that sugar sector trade relations will be sensitive under the proposed trilateral FTA.

The regional sugar sector context is evolving: high global prices, rising demand and a shrinking regional sugar surplus are creating new realities. A notable development is the importation of raw sugar into Mauritius for processing within an expanding sugar refining sector. While the expanded refined sector is currently targeting EU markets, after 2015 when EU prices are likely to further decline, the Mauritian sugar sector may begin to target expanding regional markets, using the experience gained in serving European markets.

As neighbouring governments in the region push for greater self-sufficiency, this could give rise to some tricky rules-of-origin issues for trade in sugar and products containing sugar, as noted above. Flexibility is likely to be needed in dealing with these issues.

The origin of regional sugar traded in West Africa

Some countries in the region are planning to expand sugar cane production beyond national consumption needs, e.g. notably Mali and Niger. Other sugar-cane producing countries, notably Nigeria, are currently attracting more investment into sugar refining based on imported raw sugar, while actively promoting regional sugar imports. Sugar sector trade conflicts could thus emerge between inland exporters of domestically grown sugar cane and coastal sugar refiners, who source their raw sugar globally for value-added processing to supply national and regional markets. This could take on considerable significance, given Nigeria's economic weight in the region.

It is far from clear how this emerging trade conflict will be dealt with in terms of rules of origin applied to intra-regional trade in refined sugar and value-added sugar products.

The situation is further complicated by the involvement of major Nigerian companies in efforts to expand sugar production in neighbouring West African countries (e.g. by the Dangote industrial group's planned investments in sugar production in Senegal). This could open up possibilities for the development of more integrated sugar supply chains across the region.

It remains to be seen how these sugar sector sensitivities will be addressed in establishing the common external tariff and rules of origin under regional integration initiatives in West Africa.

Scope for intra-regional trade in the Caribbean

While the regional surplus in the Caribbean is declining and supply chains are still currently oriented towards supplying the EU market, the potential exists to substantially meet growing sugar consumption needs from regional production. This will require:

> *"The potential exists in the Caribbean to substantially meet growing sugar needs from regional production"*

- the consolidation of production aspirations;
- the establishment of quality refining capacity;
- the development of efficient regional supply chains;
- the maintenance of a supportive regional trade policy framework.

However, the current production and financial difficulties faced across the region's sugar industries and the unreliability of current intra-regional supply arrangements cast a long shadow over any efforts to reorient regional sugar production towards meeting growing regional sugar needs.

The future of the EU sugar protocol assistance measures programme

Given the global economic and financial context, the ongoing process of EU sugar sector reform and the continuing restructuring challenges faced in ACP countries, an extension of the EU Sugar protocol assistance measures programme, through the allocation of additional funding, would appear to be appropriate. However, if this is to constructively assist ACP sugar sector restructuring, then the positive experience of Mauritius will need to be replicated elsewhere, and new ways will need to be found of working directly with farmers and millers in countries where the use of budgetary support mechanisms is not a viable option.

The effects of uncertainty on investment in the Pacific

The experience of Illovo's investment in the Swazi sugar sector highlights the importance of securing access to remunerative markets in order to ensure investment. It was only after duty-free market access for sugar had been agreed under the EU's EPA-related tariff offer that investment in the expansion of the sugar mill to accommodate expanding smallholder production went ahead in Swaziland.

The September 2011 announcement of EC proposals to amend market access Regulation No. 1528/2007 for ACP exports under interim EPAs needs to be seen against this background. The balance of probability is that the government of Fiji, having signed the interim EPA, will duly ratify the full EPA before the stipulated deadline. Nevertheless, the current uncertainties generate additional complications to an already difficult internal situation for the Fijian sugar sector in terms of identifying a strategic partner.

Policy initiatives to remove this uncertainty would appear to be appropriate if the EU market is to remain the primary focus for Fijian sugar exports. However, this being noted, global growth in sugar consumption is almost exclusively outside the EU, with strong growth in Asia. This offers considerable potential for the reorientation of Fiji's commercial relations in the sugar sector.

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About this update

This brief was updated in June 2012 to reflect developments since July 2011.
The 2011 publication was based on a fuller briefing published in January 2009, and is available on request from agritrade-mail@cta.int
Other publications in this series and additional resources on ACP—EU agriculture and fisheries trade issues can be found online at http://agritrade.cta.int/

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