ODI-LSE DESTIN DV406 Research Project:

Who Gains from Sugar Quotas?

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TABLE OF CONTENTS

GLOSSARY

ACP	African, Caribbean and Pacific Countries	IUF	International Union of Food
ACPSG	ACP Sugar Group	LDCs	Least Developed Countries
ADB	Asian Development Bank	LDCSG	LDC Sugar Group
BSG	Brussels Sugar Group	RSSC	Royal Swazi Sugar Corporation
BSI	Belize Sugar Industry	SACU	Southern African Customs Union
CARICOM	Caribbean Community and Common Market	SADC	Southern African Development Community
CIF	Cost Insurance Freight	SIS	Small Island States
COMESA	Common Market for Eastern and Southern Africa	SPS	Special Preferential Sugar
COMS	Common Market in Sugar	STAUK	Sugar Traders' Association of the United Kingdom
EBA	Everything But Arms	SUCOMA	Sugar Company of Malawi
EC	European Commission	TRQ	Tariff-Rate Quota
EU	European Union	UK	United Kingdom
FAO	Food and Agricultural Association of the United Nations	US	United States
FSC	Fiji Sugar Corporation	USD	United States Dollars
GDP	Gross Domestic Product	UNCTAD	United Nations Conference on Trade and Development
ISO	International Sugar Organisation	WTO	World Trade Organization

Table 1: Overview of preferential access markets

Countries Quotas for ACP* Sugar Protocol, SPS, EBA, US Market (metric tonnes, raw weight equivalent)				
	ACP SP (Fixed)	SPS (Average 2000-2002)	EBA (Average 2000-2002)	US Quota (Oct 1999-Sep 2000)
Barbados	50,312	-	-	7,372
Belize	40,349	6,391	-	11,584
Congo, Rep. of	10,186	2,809	-	7,258
Cote d'Ivoire	10,186	11,147	-	7,258
Fiji	165,348	24,297	-	9,478
Guyana	159,410	27,090	-	12,637
Jamaica	118,696	23,898	-	11,584
Kenya	0	8,557	-	-
Madagascar	10,760	973	0	7,258
Malawi	20,824	10,918	10,532	10,531
Mauritius	491,031	26,128	-	12,637
St. Kitts and Nevis	15,591	-	-	7,258
Suriname	0	-	-	-
Swaziland	117,845	38,908	-	16,850
Tanzania	10,186	2,734	9,191	-
Trinidad and Tobago	43,751	8,011	-	7,372
Uganda	0	-	0	-
Zambia	0	13,264	8,887	-
Zimbabwe	30,225	26,463	-	12,637
TOTAL ACP SP	**1,294,700**	**231,589**	**260,199**	**170,324**
TOTAL all quotas	**1,956,812**			
Production in Western Europe (av. 2000-2002)	**20,693,001**			
World Production (av. 2000-2002)	**403,444,000**			

*ALL ACP Sugar Protocol signatories are members of the ACP Sugar Group. All five EBA-Countries are also members of the LDC Sugar Group.
0 indicates that the country has a zero quota.
- indicates that the country is not eligible under the trade regime.

EXECUTIVE SUMMARY

Pressure to change current preference agreements between developed and developing countries is increasing. Recent WTO negotiations and the EU's Everything But Arms (EBA) Agreement are expected to result in a complete phase out of the EU's ACP Sugar Protocol, one of the longest standing and highest preference margin granting agreements (Williams and Ruffer 2003). Similarly, the US scheme is under comparable pressure.

The two most pressing reasons for addressing the negative impacts of preference erosion are: 1) developmental issues including job losses and likely increase of poverty; 2) resolving what may become an impasse for WTO trade negotiations (Williams and Ruffer 2003). Numerous proposals for helping affected countries deal with the impact of preference erosion have been suggested to policymakers. However, the extent to which preference erosion will affect current preference beneficiaries remains unclear, making it difficult to assess appropriate policy interventions.

The focus of this research report has been to gain, as far as possible, an understanding of who is currently benefiting from preferential access, not just in terms of which countries but wherever possible, which parties. The following research questions have guided the mix of policy and quantitative analysis in the following pages:

- What is the ownership and, if possible, employment structure of sugar production in the countries with quotas, especially the poorest countries?
- What is the share of income accruing to the country (including tax revenue) and the share going abroad?
- Which countries could expand production significantly in the absence of quotas, and which would lose; what would be the ownership structure and division of income?
- How well does the industry lobby group, the London sugar group, reflect the interests of the various sugar companies, sugar countries, and other interest groups?

Previous studies

Liberalisation is expected to result in augmented stability and world price increases in the short to medium term. However, consolidation in the sugar industry has already begun and the literature on agricultural commodity chains indicates that downward pressures on world prices are likely as supply increases to match the rising world market prices and competition intensifies. Few analyses consider the dynamic nature of the industry's competitive pressures in the medium to long term.

Results of economic analyses attempting to quantify outcomes and identify winners and losers of a reformed market vary considerably but agree on some likely outcomes: most of the beet sugar industry will be rendered uncompetitive (Reed 2004); most of the benefits resulting from full liberalisation of the EU sugar market will accrue to highly competitive producers such as Brazil, Australia and Thailand (Huan-Niemi and Niemi 2003; Reed 2004); Some ACP sugar producing countries may survive in a liberalized market. There is however no agreement on which countries these are likely to be or which factors would make them winners.

Research results

<u>Winners & losers:</u>

This report finds that countries with the following characteristics are more likely to be winners:

- Lower quota dependency (i.e.: lower dependence on exports to the EU and the US; potential for industry diversification; membership in regional trade blocks).
- Higher competitiveness (i.e.: lower cost of production; consolidated corporate ownership of milling/refining; scope for expanding production to take advantage of unlimited access to EU/US sugar markets under the reformed regime). Foreign Direct Investment (FDI) emerged as a major contributor to competitiveness, as virtually all countries with low production costs are at least partly owned by foreign corporations.

Results demonstrated significant variance both in terms of dependency and competitiveness (see Figures 2 to 4). The negative impact of erosion on some countries will be negligible as they are either net importers of sugar such as Kenya and Uganda (they will be affected not by a loss of revenue but by an increase in world prices) or export negligible amounts to the EU such as Tanzania, Zambia, Côte d'Ivoire, and Madagascar. Two countries that will most likely suffer greatly from the reforms are Mauritius and Fiji. Likely winners include Malawi and Zambia.

Financial benefits (current rent distribution)

Determining how erosion will impact each of the players in the industry (governments, farmers, millers, traders, refiners) from a revenue perspective requires detailed country specific value chain information. Obtaining this data has proven difficult due to the high specificity of the information requested and the sensitive, or sometimes confidential nature of the subject matter.

Despite these challenges, some insight into how erosion would directly impact government revenue has been achieved. Rough estimates of each country's dependency on the direct tax revenue derived from the sugar industry (requiring production cost data) were determined. Calculations revealed that a few countries, such as Guyana, Malawi, Mauritius, and Swaziland, corporate tax derived from the sugar industry accounts for over 1% of government revenues. This result indicates that this measure of dependency differs from other measures of dependency such as % of GDP, % of total exports, and % of foreign exchange earnings. Government income is key to service delivery and social welfare and should therefore be considered in more depth in future studies.

Also important is determining the share of earned income being sent abroad. This depends on the industry ownership (see Appendix B). In countries where foreign investors such as Illovo or Tongaat-Hullet operate, any profit after tax might be repatriated. However, our research could not confirm whether this is the case. Most companies invest in infrastructure and other social programs, so that it can reasonably be assumed that not all of the profits go abroad, even in the case of foreign ownership. Further research is required.

Industry Lobby Groups

Expected reforms have resulted in a significant increase in lobby activity. The lobbyists' discourse strongly emphasizes the fact that some of the world's poorest countries will suffer as a result of preference erosion. Predicted outcomes include the elimination of social programs, factory shutdowns resulting in the elimination of thousands of vital jobs and an inevitable rise in poverty. Their objective is clearly to postpone liberalisation as long as possible in order to preserve existing rents.

There are at least two groups that represent the interests of the countries benefiting from the EU's preference schemes, each in turn composed of subgroups:

- LDC Sugar Group (LDCSG) represents Least Developed Countries (LDCs) which produce sugar and which are signatories to the EBA Sugar agreement; comprises the London Sugar Group (LSG), representing the sugar industry, and the Brussels Sugar Group (BSG), consisting of the ambassadors of the 22 member countries;
- ACP Sugar Group (ACPSG) represents the 18 African, Caribbean, Pacific (ACP) states that are signatories to the ACP/EU Sugar Protocol; comprises the ACP London Sugar Group whose interests are unclear.

Public information on these groups is limited and attempts to contact the groups were generally unsuccessful. Information in the report concerning the lobby groups was mostly obtained from Informant A, a long-time industry insider, extremely well versed on the lobby groups' activities, and thorough internet-based research.

Relationships between the groups and the industry are rather obscure, but clearly they are industry-driven and led by a small number of people: Jean-Claude Tyack, general representative of the Mauritius Sugar Syndicate (MSS) in London; David Clark, employed by

Czarnikow, a major trader in sugar; and Julian Price, a broker with ED&F Man as well as Graham Clark, the Operational Director of the South African Illovo Sugar Group (Illovo).

Research into the lobby structure and objective has uncovered the following issues:
Within the LDCSG, although the BSG conducts the actual negotiations with the EU, the agenda for those meetings and the statements issued by the LDCSG are controlled by the LSG (i.e. the industry).

- The claims made by both these groups are unqualified generalisations. Certainly, some countries would be losers but others would likely be winners, in some cases capable of increasing revenues. The interests of the probable losers seem to be better represented than those of the possible winners.
- Their arguments for extending the terms of the agreement are based on the requirements to generate the capital required to reform their inefficient industries. Logically extended, this argument has two important implications:
  1. Due to competitive pressures to consolidate and cut costs, industry reform is also likely to result in varied negative social consequences in some countries. These include unemployment, lower wages, and a cut back in the social benefits currently provided by sugar millers.
  2. Some of these industries may not be viable even post-reform. As a result, the best course of action may involve investments in other industries.

Based on our findings, we recommend such further research, since this would result in gaining a more detailed picture of the sugar industry in each of the affected countries. It is then recommended that policy responses to the negative impacts of erosion consider each industry's situation separately and in relation to likely long-term developments within the global industry.

1 INTRODUCTION

1.1 Context and background issues

The effectiveness of preferences from a development standpoint has long been questioned. Since developing countries requested "Trade not Aid" at the UNCTAD Conference in 1968, there has been a number of non-reciprocal preferential agreements providing access to the domestic markets of developed countries (FAO 2003). The number of such agreements has multiplied over the last three decades in large part due to donor countries' perception that they are more effective than aid programmes (Mold 2004). However, evidence concerning the developmental effectiveness of preferences is mixed. Criticisms have been many: the most severe claim that preferences are an impediment to export diversification, economic liberalisation, and in the long run diminish a country's ability to build up long-term comparative advantages (Ozden and Reinhardt 2003).

Preferential market agreements have defined the sugar industry since the 19th century. In fact, the first issue of The Economist magazine, published in August 1843, debated the issue at length. The two surviving preferential arrangements are those of the European Union (EU) and the United States (US). Both have heavily subsidized industries with quotas, tariffs and, in the case, of the EU a guaranteed intervention price leading to artificially inflated domestic sugar prices. There are several schemes that allow low-income countries to sell to the EU/US markets.

1.1.1 EU policy

The 1975 agreement with the African, Caribbean and Pacific (ACP) countries was "inherited" during the EC/UK accession talks as a compromise resulting in the inclusion of the Sugar Protocol in the Lomé Convention. The British sugar giant, Tate & Lyle, and those sugar-exporting ACP countries threatened by preference erosion pressurised the UK, a net importer of sugar at the time with agreements with the ACP countries, to insist on the continuation of preferential access (Herrmann and Weiss 1995).

As a result, the ACP-EU Sugar Protocol came into being. Under this protocol, nineteen ACP countries are allocated guaranteed-price preferential quotas for the import of cane sugar (raw or white) annually, currently amounting to 1.3 million metric tonnes. In turn, these countries commit to supplying these volumes. This constitutes an important source of export revenues for some countries, since the stable EU intervention price (at which the quotas are sold) is approximately three times the highly volatile world market price.

In addition to the Protocol quotas, most ACP countries benefit from annually allocated "Special Preferential Sugar" (SPS) quotas, under which raw cane sugar is imported at 85% of the Protocol price. A minority of ACP countries also benefit from the EU's "Everything But Arms" (EBA) initiative, which provides for duty-free access of quota sugar for the Least Developed Countries (LDCs). Sugar imported under EBA is counted against SPS agreed quantities.

Responding to both internal and external pressures regarding its highly protected sugar market, the EU is currently reviewing and reforming the organisation of the Common Market in Sugar (COMS). Proposals include a reduction of the current intervention price by one third over the next three years, thus affecting the price obtained by ACP countries in the EU market. In addition, SPS is being phased out, while EBA quotas will be increased annually to provide duty-free access for all LDC sugar from 2009 onwards.

1.1.2 US policy

The US is the world's fourth largest sugar importer, and fifth largest producer. Its domestic industry has also long been protected by import tariffs and, since 1934, by the Jones-Costigan Act (USITC, 2001). In 1990, the current Tariff-Rate Quota (TRQ) import system was introduced.[1] The TRQs allow the entry of raw cane sugar, refined sugar and other sugar products at zero or nominal tariff rates from 40 countries, including many ACP countries based on their share of exports to the US between 1975 and 1981. The total minimum TRQ for raw cane sugar is 1,117,195 metric tons, which can be increased if domestic supply does not meet domestic demand. The Harmonized Tariff Schedule permits the import of sugars outside the TRQs, but at prohibitive tariff rates.

The US is proposing a two-phase process to eliminate export subsidies and to reduce worldwide tariffs and trade-distorting domestic support over a five-year period, leading to eventual full liberalisation.

As the US imports sugar at world prices, policy reform will have a far smaller impact than in the EU. Consequently, our analysis focuses on the effect of EU reform.

1.1.3 Resistance to preference erosion

The two main factors contributing to likely changes in the EU's sugar regime are the EBA initiative and the recent WTO negotiations (Williams and Ruffer 2003). As a result, sugar quotas are expected to be phased out between 2006 and 2010. Consequently, lobbying efforts by those who stand to lose from market liberalisation have increased, especially in the EU. Other than the European beet sugar growers and the ACP countries, industry traders and refiners (located in Europe) are also strongly opposed. This is understandable, as all gain significant economic rents from the guaranteed prices for refined sugar (Oxfam 2002).

The opposition's discourse strongly emphasises the fact that some of the world's poorest countries will suffer as a result of preference erosion. Their predicted outcomes include the elimination of social programmes, factory closures resulting in the elimination of thousands of vital jobs and an inevitable rise in poverty.

In a memorandum to the EU, the ACP Sugar Group (ACPSG) has indicated that industry restructuring in the ACP can only be achieved through the continuation of preferences: "There is thus a clear need to safeguard the value of the ACP guaranteed price from further erosion." (ACPSG 2002:16).

For example, Tony Currie, Manager of the Maragra sugar company, said that eliminating preferences meant Maragra may have to cut support of social development projects and potentially lay off employees (AllAfrica 2005). Maragra, 50% owned by the South African Illovo Sugar Group (see box in Section 2.1), operates in Mozambique, which exports small amounts to the EU under the EBA Agreement.

1.1.4 Who really loses?

There is agreement that liberalisation would generally benefit poor countries on a global level. However, it is also accepted that this aggregated benefit will come at the expense of some of the countries benefiting from the status quo (Gillson and Page, 2004). At this stage, it is not clear who will lose and how they will lose (Panagariya 2004) – see section 2. Nevertheless, there are many pressing reasons to address the negative impacts of preference erosion, two of the most important being: 1) developmental issues including job losses and likely increase of poverty; 2) resolving what may become an impasse for WTO trade negotiations (Williams and Ruffer 2003).

Numerous proposals for helping affected countries to deal with the impact of preference erosion have been suggested to policymakers. Understanding the effects of preference erosion, and therefore assessing appropriate policy interventions, requires a clear understanding of how erosion will affect current preference beneficiaries. Doing so requires an understanding of who is currently benefiting from the Sugar Protocol – not just in terms of which countries, but wherever possible, which parties within the countries.

[1] As well as the TRQ system, US sugar policy includes a loan program, which creates a price floor of 18 cents/lb for domestic producers and processors.

1.2 Study objectives and report structure

The study's objective is to answer, as far as possible, the following research questions through a mix of policy and quantitative analysis:

1. What is the ownership, and, if possible, employment structure of sugar production in the countries with quotas, especially the poorest countries?
2. What is the share of income accruing to the country (including tax revenue) and the share going abroad?
3. Which countries could expand production significantly in the absence of quotas, and which would lose; what would be the ownership structure and division of income?
4. How well does the industry lobby group, the London sugar group, reflect the interests of the various sugar companies, sugar countries, and other interest groups? (North/South interest representation)

The report is structured as follows:
Following an outline of the data sources and methodological considerations used in this report, a short overview of the most relevant literature presents important findings on the topic. Section 2 contains regional analyses of the ACP-Sugar countries in Africa, the Caribbean, and the Pacific. This section describes a detailed list of factors influencing the likely impact of the sugar reforms on these countries. Section 3 outlines the financial benefits accruing to individual parties in the countries. Section 4 addresses the issues regarding the representation of interests through the two main lobby groups. Finally, the conclusion contains a summary of the major findings and points to factors for which further research is required.

1.3 Data sources and methodology considerations

Research for this report has included numerous sources: industry reports, academic papers, NGO publications, and interviews with industry analysts and participants. The main source of sugar statistics is the International Sugar Organization (ISO) Sugar Yearbook 2002. Complementary sources of statistics were also used and are duly cited.

Specific information concerning the sugar cane industry value chain is limited via secondary sources. Efforts were undertaken to acquire this information by means of primary data collection, in the form of interviews and survey requests. Due to the high specificity of the information requested and the sensitive nature of the subject matter being discussed, a number of challenges were encountered.

- Most of the data, interpretation and analysis included in the report were discussed with industry representatives during the course of meetings held in March and April 2005. Participation was agreed to on the condition that their identities not be revealed. As a result, interviews and correspondence with Informants A, B and C are included as sources.
- Surveys were sent to numerous parties in Africa and the Caribbean. Although the response rate was acceptable (approximately 20%), the content of the responses provided limited useful information. Most acknowledged receipt of the request for information or alluded to the fact that this information was not publicly available. Many respondents indicated that they required approval from a third party, or that we should contact a different body altogether.

We believe that field research, beyond the scope of this report, would prove fruitful in obtaining the detailed country-specific data required for a thorough analysis of the sugar cane industry value chain.

Unless otherwise stated, units used in this report are metric tonnes of sugar, raw value ("tonnes"), although sugar is priced in US cents/lb. National currencies were converted into United States dollars (USD) at the relevant average annual exchange rates.

1.4 Literature review

Much has been written about the likely outcomes of trade liberalisation, with respect to both world market prices and the probable “winners” and “losers”.

1.4.1 World market prices

Sugar has always been one of the world’s most volatile and heavily traded commodities, consistently ranked in the top ten agricultural futures and options markets (New York Board Of Trade, no date). The freely traded world market for sugar is described as a “residual” market as only a small percentage of world production (approximately 20%) is traded in this manner. The remainder is covered by trade agreements. Consequently, changes in the worldwide market for sugar are magnified in the free market because many countries use the market to dispose or dump their domestic surpluses. This results in volatility and low world market prices (Goodwin 1989).

Liberalisation is expected to result in augmented stability and world price increases in the short to medium term. Estimates of expected price increases under full liberalisation have been as high as 70% but average around 30%, depending on assumptions (Reed 2004; Milner 2004). Most studies overlook the effects of liberalisation on prices in the medium to long term. Although difficult to predict, value chain research of agricultural commodity industries indicate that downward pressures on world prices are likely as supply increases to match the rising world market prices and competition intensifies (see below).

For the purposes of this report, we have assumed a maximum rise of 70%. This would mean that at current prices of about 8-9 cents/lb, competitive prices in the absence of sugar quotas would be around 15 cents/lb. This assumption is only for the short- to medium-term, since a prediction of long-term world market prices is not possible with the information collated for this report.

1.4.2 Industry value chain

Liberalised markets will undoubtedly lead to: increased competition, due to the lack of entry barriers; decreasing margins due to competition; and consolidation of different points along the value chain to achieve economies of scale (Kaplinsky 1998). A characteristic of agricultural commodity value chains in recent decades has been consolidation, both vertical and horizontal, and the push towards standardization and non-differentiation of the commodities, thereby making location of production irrelevant (Gibbon 2001).

Integration in the sugar industry is already under way: the number of refiners in the EU shrunk by two thirds during the 1990s (Oxfam 2002); Illovo (see Box in Section 2.1) has expanded across southern Africa. Increasingly competitive markets, and the growing importance of scale, will further the consolidation process. Small producers and millers will struggle to compete and to maintain profit margins, as power and profit shift downstream along the value chain.

1.4.3 Winners and losers

As a result of variations in assumptions, data and factors included in economic models, outcomes of analyses attempting to quantify outcomes and identify winners and losers vary considerably from author to author. There is however some general consensus on likely outcomes of a liberalised market:

- Most of the beet sugar industry will be rendered uncompetitive, mostly due to the elimination of subsidies and to the inability to compete due to the natural price advantage of cane sugar production (Reed 2004);

- Most of the benefits resulting from full liberalisation of the EU sugar market will be captured by highly competitive producers such as Brazil, Australia and Thailand (Huan-

Niemi and Niemi 2003; Reed 2004). Some estimate Brazil will capture 50% of any markets opened up by EU reform (Clay 2001).

- Whereas the sugar industries of a number of ACP sugar producing countries will become financially unviable, some are likely to survive in a liberalised market (see Appendix D). There is however no general agreement on which countries these are likely to be. The following table summarises the results of a notable subset of the numerous studies on the issue:

Table 2: Literature Overview

Study	Scope of preference erosion	Assumptions / methodology	Conclusions on impact of full trade liberalisation
Williams and Ruffer (2003)	ACP Sugar	Compares current industry profitability to post-reform profitability based on estimated production costs.	Results point to 3 groups: • Viable under current domestic industry structure /restructuring plans: Congo, Malawi, Swaziland, Tanzania, Zambia, Zimbabwe; • Possibly viable if restructuring beyond existing plans is undertaken: Fiji, Guyana, Mauritius; • Not viable: Barbados, Belize, Côte d'Ivoire, Jamaica, Madagascar, St. Kitts, Trinidad and Tobago.
Wohlgenant (1999)	ACP Sugar & SIS (Small Island States)	Equilibrium model of global sugar market used to project impact on prices, production, consumption, and trade under various scenarios.	SIS gain under partial liberalisation but both SIS and ACP countries lose under full liberalisation.
Milner et. al. (2004)	ACP Sugar	Analyses effects of reforms under several scenarios whereby world market prices increase.	Reforms impact variability is high. Key determinant is the differential dependence on EU market. • Losers: Guyana, Jamaica and Mauritius. • Winners: Congo, Cote d'Ivoire, Zambia and Zimbabwe.
Alexandraki and Lankes (2004)	Middle-income sugar producers	Analyzes effects of "realistic shock" of 40% preference margin decrease.	Mauritius and Guyana suffer highest reduction in GDP. Small island states particularly challenged by threats posed by erosion due to export dependence.

2 REGIONAL ANALYSIS

We have identified two main factors which contribute to determining a country's position in light of the threat of preference erosion, namely dependency on preferential market access and competitiveness. As a proxy for the measurement of these factors we have identified several indicators listed below. Countries which are expected to be impacted less severely, or which could actually win from liberalisation, share one or more of the following characteristics (see Appendix B):

- **Low quota dependency**
  - Little country dependency on revenues from sugar exports to the EU and the US
  - Diversification within the sugar industry (e.g. speciality sugars, downstream products, etc.)
  - Membership of regional trade blocks

- **Competitiveness/Productivity**
  - Low cost of production
  - Consolidated corporate ownership of milling/refining
  - Scope for expanding production to take advantage of unlimited access to EU and US sugar markets under the reformed regime

In many of the countries in which significant negative impact is expected there is a high cost of production, heavy dependence on exports to the EU and the US, and domestic, or government, ownership. This last factor is not necessarily the cause of inefficiency, but it is a common feature of the losing countries. Another shared feature is that most are small and/or island states with little room for expansion. (See Figure 1)

Below, the African, Caribbean and Pacific regions are analysed according to these factors; countries in which a particular factor is expected to have a significant impact are described in more detail.

The sugar industries in several African countries are majority-owned by foreign corporations, most notably Illovo. All sugar industries in the Caribbean, as well as in Fiji, are domestically owned, predominantly by the government, with the exception of Belize where the industry is owned by the workers. Foreign direct investment appears to be a major factor when analysing future competitiveness, as virtually all countries with low production costs (under 15 cents/lb) are at least partly owned by foreign corporations (see Appendix B). As an illustration, we have included below a case study on Illovo's activities in Africa.

Some countries are likely to feel little negative impact from preference erosion. Kenya, Tanzania and Uganda are all net importers of sugar. In Kenya and Uganda, the price on the protected domestic market is even higher than the EU market price, while Tanzania's sugar exports – all to the EU – account for only 12.5% of sugar production and just 1.2% of total country export revenues. Zambia is one of Africa's lowest-cost producers (7.5 cents/lb) and currently exports negligible amounts to the EU market. Since it sells the majority of its production at world market prices, the country is expected to benefit from the anticipated rise in the world market price. Similarly, Côte d'Ivoire, and Madagascar depend very little on exports to preferential markets. In addition to this, we could not obtain much information on the situation in these countries. Thus, they will not be discussed in great detail.

Two countries that will most likely be hard hit by the reform are Mauritius and Fiji (see below). Zimbabwe, and Congo (Rep. of) might be winners, but information was scant, thus discussion of these two countries is limited.

All production costs quoted in these sections were obtained from either Informant A or Sommer (2003).

2.1 Africa

Illovo - an indicator of success?

The South African Illovo Sugar Group (Illovo) is invested in four Protocol signatory countries: Malawi, Swaziland, Tanzania and Zambia. In Congo (Rep. of), the French Vilgrain Group owns the majority of the country's only sugar mill. In Zimbabwe, one of the two big mills is owned by the South African manufacturer Tongaat-Hulett and the British mining company AngloAmerican. These countries are likely to benefit from reform. This appears to make a strong case for foreign direct investment; however, it is worth investigating the causalities: are these countries better off because a foreign investor came in, or did the foreign investor come in because the conditions were favourable?

To answer this question in full, more research needs to be undertaken. The following section suggests a possible direction of causality in the “Illovo countries”. Illovo was chosen for two reasons: firstly, the group has pursued the most active expansion policy; secondly, it publishes detailed annual reports allowing for several tentative conclusions.

Illovo’s strategy is to become “the leading sugar and downstream operator in Africa and to be the lowest cost producer in every country in which it operates” (Tralac 2004). It can therefore be assumed that the countries in which Illovo invests have good conditions for cheap and competitive production. Illovo then contributes to an industry's success through its know-how in agriculture and production (Sommer 2003).

Illovo appears to have (in spite of its lobbying efforts, see Section 4) a realistic outlook on the EU sugar reform: it is very selective in its investments. In 1997, Illovo bought the sugar operations of the British company Lonrho in Malawi, Mauritius and Swaziland. In 2001, however, Illovo sold the Mauritius operations to a local conglomerate (Mauritius News 2001). This was in spite of the fact that the sugar regime was still to exist for at least a further five years. Illovo could have made substantial profits for the remaining period of time, but chose to pull out of the country instead. Mauritius is expected to be very hard hit by the sugar reform, and must undertake substantial reforms in order for its sugar industry to survive.

It appears that, rather than contributing to these reforms, Illovo preferred to invest in countries with already favourable conditions for expansion. These investments contribute greatly to the efficiency in “Illovo countries” as the potential for expansion is bolstered by Illovo’s know-how. Thus, the causality runs in both directions: the countries benefit Illovo and Illovo benefits the countries.

However, there is a note of caution. Illovo’s dominance in Malawi and Zambia, its strong position in Tanzania at the Kilombero mill and also in Swaziland may have positive effects on those countries competitiveness in the sugar industry. At the same time, this creates a dependency on a single investor, who is likely to repatriate as much of the profits as possible.

2.1.1 Dependency on exports to the EU and US (see Figure 1)

EU and US sugar quotas vary across countries, resulting in different dependency levels. Malawi exports 32.3% of its sugar production, the rest is consumed domestically: 16.5% of production fills its EU quota and a further 6.2% the US TRQ. The industry is therefore not wholly reliant on exports, but 70.2% of those exports are bound for the EU and US, and revenues from EU and US exports account for 1.3% of GDP. Malawi is also a strong regional player, supplying sugar to Kenya, South Africa, Tanzania, Mozambique and Zimbabwe.

While Swaziland is dependent on exports and gains significantly in revenue terms from its EU quota, 53.2% of production is exported to other markets, including South Africa, Kenya, Malaysia and Pakistan.

Madagascar exports very little to the EU and the US. Its sugar industry was very hard hit by two cyclones in 2003 and 2004 as well as political unrest in the country, preventing it from fulfilling its export commitments (Informant D). But even before these troubles, Madagascar produced only little more than its allocated EU quota. This quota is very small, so the economy as a whole will not be significantly affected. However, the sugar industry itself is highly export dependent and is likely to be wiped out.

2.1.2 Diversification

Malawi's focus on specialty sugars, which it exports to Whitworth's and Billington's in the UK, and a reputation for good quality sugar helps to distinguish the industry. RSSC in Swaziland has also diversified into ethanol production to take advantage of the US' Sugar for the Production of Polyhydric Alcohol Program (IUF African Sugar Project 2002). Dependency on raw or white sugar thus decreases for both these countries.

2.1.3 Membership of regional trade blocks

The sugar industry in Malawi is also likely to be bolstered by membership in the Common Market for Eastern and Southern Africa (COMESA), which provides for free movement of goods within the customs union and therefore gives preferential access to net sugar importers, especially the very large Egyptian market, but also Kenya and Uganda. COMESA has a theoretical near-zero tariff on sugar, but this has not been comprehensively implemented across member states. The Southern African Development Community (SADC) and the Southern African Customs Union (SACU), which do not have uniform tariffs on sugar imports,[2] have little impact on sugar producing member countries; in any case, most SACU members are net sugar exporters. Still, SADC sugar producers have non-reciprocal access to the SACU market (Kalenga 2004), and the SADC Sugar Cooperation Agreement may eventually lead to free trade in sugar within the SADC block, potentially benefiting Swaziland.

2.1.4 Cost of production (see Appendix D)

Production in southern Africa is generally low cost. Malawi and Zambia are already competitive on the world sugar market, while Swaziland, Tanzania and Congo all produce at reasonable cost levels.

The Malawi sugar industry is one of the most efficient in Africa and worldwide, producing at a factory gate cost of 7 cents/lb: it is therefore likely to benefit from liberalisation of the EU and US sugar regimes. Due to its landlocked position and poorly developed transport infrastructure, transport costs are an issue, adding 3-4 cents/lb (Informant A) to get the sugar to port in Maputo. Even including these costs, Malawi remains a low cost producer.

Zambia, with production cost estimated at 7.5 cents/lb, could also benefit from increased access to the EU and US markets.

While it is not clearly a winner, Swaziland's relatively low production costs of 12-14 cents/lb, are expected to help its sugar industry to survive a change to the current sugar regime.

In Tanzania, production costs of 15 cents/lb may enable it to compete on the world market, if it can increase production for export. Its export potential has been restricted by the low EU quota and lack of access to the US market. The country is a net importer, but there is scope for it to benefit from preference erosion.

The low cost of production is a strongly favourable feature of the sugar industry in southern Africa and is likely to create significant opportunities when world markets are liberalised. Mauritius however requires comprehensive industry restructuring in order to compete. Clearly, those countries which can reduce their production costs and increase productivity will be best placed to benefit from free access to the EU and US markets.

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[2] According to the United States Trade Representative (2005), SACU's overall tariffs have been reduced from a simple average of 20% to 5.8%, but still vary between 0-30%.

2.1.5 Ownership of production (see Appendix B)

The trend in southern Africa is towards industry consolidation. This has been a key factor in Malawi's success, as well as foreign ownership, helping to keep the industry competitive through economies of scale and strong management, and to ensure a high quality product. Illovo, the majority shareholder, and operator of the Sugar Company of Malawi (SUCOMA) which operates two large mills, dominates the sugar industry in Malawi. Zambia is in a similar situation, with Illovo owning 90% of Zambia Sugar, which produces 90% of the country's sugar.

The consolidated ownership of the industry in Swaziland is also likely to have a positive effect if the existing EU and US sugar regimes are removed. Swazi sugar is dominated by the Royal Swazi Sugar Corporation (RSSC), with a 65% market share, and by Illovo. RSSC is the largest Swazi-owned business group, 50% owned by Tibiyo Taka Ngwane (the king's own investment vehicle), 27% by CDC Capital Partners (part of French banking Group CDC IXIS), and with smaller stakes held by the Swazi and Nigerian governments, Coca-Cola, and Booker Tate.

Illovo has a 60% share in the Ubombo mill, with the remaining 40% held by Tibiyo Taka Ngwane. These two groups account for some 60% of the acreage under cane (IUF African Sugar Project 2002). In addition, the South African Tongaat-Hulett Group owns the Tambankulu plantation, with over 3,000 hectares under cane, supplying the RSSC mills.

The Tanzanian sugar industry went through a privatization process in the late 1990s, which left the industry in the hands of three groups: Illovo, which owns the Kilombero mill with ED&F Man and the Tanzanian government; Sucrerie des Mascarareignes (Mauritius/Reunion), which owns the Tanganyika Planting Company; and the domestically-owned Super Group, which owns the Mtibwa and Kagera mills. Again, the industry may benefit from improved productivity and greater efficiency as a result of consolidation and foreign investment.

Madagascar has signed management contracts with a French and a Mauritian group to mitigate the effects of the adverse conditions faced by its sugar industry (Informant D). Whether or not this will result in a more efficient sugar industry remains to be seen.

2.1.6 Access to EU and US sugar markets under the reformed regime

Oxfam (2004) estimates that Malawi has further export capacity of between 60-68,000 tonnes. Even at current world prices, this could increase foreign exchange receipts by approximately $14m per annum, or almost 1% of GDP. Like other lower cost producers in the region, it has suffered from EU sugar dumping. Malawi should therefore also be able to take advantage of new opportunities in countries that currently import from the EU, such as Kenya.

On the other hand, Swaziland's sugar industry is export-focused, with 83.9% of total production destined for other markets. It benefits from one of the largest EU quotas, and sugar exports to the EU account for 35.5% of total production. Overall, 46.8% of exports are bound for the EU and US, representing 13% of total export revenues and 8.3% of GDP. A change to the existing regime is therefore likely to have a serious impact on the sugar industry and the economy as a whole as revenues would inevitably fall, although these losses may be mitigated by the low-cost of production, good transport infrastructure, and the ability to increase exports.

Similarly, Zambia, currently exporting very little to world markets, will probably benefit greatly from increased access to these markets.

2.1.7 Impact on the population

As described and as shown in Appendix B, few African countries are expected to be significantly negatively affected by the anticipated reforms. The employment structure can therefore be assumed to remain largely the same. Negative impacts are expected in Mauritius (see Section 2.1.9). A detailed assessment of the number of people directly and indirectly involved in the sugar industry and the extent of the farmers' dependency on sugar cane will need to be completed in order to determine the impact of preference erosion on the respective populations.

2.1.8 Other possible winners

Congo and Zimbabwe come under the heading of “tentative winner”. These countries have some features that are characteristic of a winning country. Both have substantial foreign investment (see Illovo Box). Congo's production costs are at 15 cents/lb, putting it at the upper end of the low-cost producers. However, Vilgrain is committed to rehabilitating the country's sugar industry, thus indicating that further gains in efficiency are possible (Vilgrain 2003). Congo also suffers from the dumping of EU sugar, signifying that, similar to Malawi, it could expand its regional position in the absence of European sugar exports (Belgolaise 2003).

For Zimbabwe, because of the high inflation rates, little can be said with accuracy on production costs. Historically, they are around 10 cents/lb, making it a competitive producer for the world market. There is good access to port at Maputo, where Zimbabwe owns a sugar terminal jointly with Swaziland. It is already an exporter in the region, selling at world market prices. However, the political situation in Zimbabwe leaves a big question mark. Expansion plans for the sugar industry have been put on hold (Williams and Ruffer 2003). So far, the government has seized very few sugar cane farms (Informant A), but the situation remains unstable and may change dramatically should the government decide to redistribute ownership.

2.1.9 Mauritius – a definite loser of the reforms

Mauritius’ EU quota is larger than the rest of the African countries combined, and it has a negative record on nearly all the factors listed above: at 21 cents/lb, it has high production costs and it is extremely dependent on its preferential access to the EU and the US, which accounts for 6.3% of GDP and 17.1% of total export revenues. According to Informant C, 60,000 people depend on the sugar industry for their income. The government's restructuring plan includes the retrenchment of several thousand workers and reducing production. However, as described in a document received from Informant C, sugar cane is so established on the island, that if estates are abandoned, erosion and pollution of lagoons will result and may have negative consequences for the important tourist industry. Informant A was of the opinion that if the government’s action plan is fully implemented, the industry will survive. However, the country will lose a significant share of income now derived from the EU's high prices.

2.2 Caribbean

The EU market receives 83.6% of all sugar exports from Protocol signatories in the Caribbean region. The total volume exported to the EU is approximately 666,000 tonnes per year (average 2000-2002 delivery figures, ISO 2003); 33% of all ACP quotas are allocated to the Caribbean.

On a regional level, only Belize and Guyana are likely to successfully adapt to the ending of EU quotas. These two countries appear to have feasible reform plans and benefit from the lowest production costs of this group of countries (15 and 19 cents/lb respectively). They have the potential to reduce their costs to a level that will definitely be competitive within the CARICOM group (given the 40% group import tax), and perhaps competitive in the world market given the expected post-quota world market price rise. However, other more competitive countries are also working on increasing production to reduce costs further. For example, with liberalisation of the world market, Brazil anticipates reducing production costs from 8 cents/lb to just over 6 cents/lb by increasing production (Unica 2003). The exact impact on Belize and Guyana thus remains to be seen.

2.2.1 Dependency on exports to the EU and US (see Figure 1)

The extent of dependency on exports to the EU and the US appears to determine the efforts at reform within the individual countries. Those countries with a low dependency (1% of GDP or less, i.e. Jamaica, Trinidad & Tobago and Barbados) have apparently not pursued serious reform plans, while those with a relatively high dependency (4% of GDP or more, i.e. Belize and Guyana) have taken a more serious approach. St. Kitts and Nevis, at 2.7%, forms the middle ground, but has decided to abandon its sugar industry.

2.2.2 Diversification

In Guyana, research and development into speciality sugars such as organic, plantation white, muscovado and yellow crystal is being carried out, suggesting that diversification into niche markets is seen as a viable option for the future.

Belize Sugar Industries (BSI) in Belize has started development of an electricity co-generation facility, requiring 1.4m tons/year cane supply and generating 25MW electricity; this is scheduled to be completed by 2006. An investigation is also being carried out into the viability of expanding into ethanol production within the next 3 years (Beltraide 2005)

These countries also plan to expand their industries to benefit from economies of scale. While all other countries have introduced reform plans, the current high production costs make it unlikely that they will produce competitively in the post-quota era. Jamaica's reform plan aims to lower production costs to 19 c/lb (USDA 2003), still too high to compete on the world market. The plan is also behind schedule and looks unlikely to be completed satisfactorily. Moreover, Jamaica has a history of low crop yields, poor cane quality, labour overstaffing at inflated costs and severe credit constraints (ERS 2003).

Barbados is investigating moving to fuel-cane to supply domestic power. However, similar caveats are given for the country's reform plans.

2.2.3 Membership of regional trade blocks

As mentioned above, Belize and Guyana are likely to be able to expand their existing exports to the CARICOM market, as little competition within the market is expected to be left after EU reform. In addition, CARICOM maintains a 40% common external duty, which makes imports from outside the market unlikely.

2.2.4 Cost of production (see Appendix D)

With the exception of Belize and Guyana, who produce at around 17-19 c/lb, all Caribbean Protocol signatories are running highly inefficient and uncompetitive operations. Production costs range from 30 c/lb (Jamaica) to 50 c/lb (Trinidad & Tobago). St. Kitts and Nevis, with a production cost of 55 c/lb, has decided to terminate sugar operations after the 2004/2005 harvest. Suriname, once a major producer and exporter of sugar, and signatory to the Protocol, has virtually no sugar industry left and thus does not figure in the analysis of the region.

2.2.5 Ownership of production (see Appendix B)

All sugar milling in the Caribbean is domestically owned, with the exception of a 10% Booker Tate share of milling in Belize. Most are government-owned, again with the exception of Belize where the workers own 90% of production. BSI is also exceptional among these countries as its independent cane farmers form a cooperative called the Belize Cane Farmers Association.

As discussed in the context of Africa, foreign corporate ownership appears to be a decisive factor in the industry's success. Belize and Guyana form notable exceptions, in that their domestically owned industries appear to be comparatively successful and competitive.

2.2.6 Access to EU and US sugar markets under the reformed regime

Belize currently exports 51.5% of its production to the EU and 31.9% to the US. For Guyana, the figures are 73.7% to the EU and 6% to the US (2002 figures). While both countries are therefore expected to lose out significantly in revenue terms, the decline in EU prices might well be offset by increased efficiency. Whether, in the absence of quotas, the countries will be able to maintain the quantity of exports to these markets, depends on the extent of the world market price rise that is expected subsequent to the reforms.

2.2.7 Expansion potential

An important factor is also the ability to expand production to exploit economies of scale. The Caribbean countries all have a small land-area, particularly the islands. As opposed to most African producers, this is a major constraint for this region.

Jamaica has the largest area of farmable land at 285,100 hectares (based on total arable land, CIA 2004). Currently, only 40,000 hectares are under sugar cane, leaving room for expansion (Lancashire 2003). All the other islands have much smaller landmasses, and thus will not be able to expand considerably; Barbados has the smallest area with roughly 17,000 hectares, Trinidad and Tobago has about 120,000 hectares. To put this into perspective, Brazil currently farms 4,500,000 hectares of land for sugar cane, and has massive scope for expansion.

2.2.8 Impact on the population

As virtually all sugar production in the region is domestically owned, any revenue loss due to changes in EU quota will be felt entirely by the national economy. It remains to be seen how long the uncompetitive industries survive in face of the ongoing reforms.

Overall, approximately 61,000 people are involved in milling and farming in the countries whose sugar industry will be sharply affected by the EU reforms (ACP Sugar Group 2002). Again, more research is needed to determine the impact of preference erosion on the respective populations.

2.3 Pacific – Fiji

In Fiji, political considerations need to be taken into account when assessing the impact of the EU sugar reform, in addition to the factors outlined above.

2.3.1 Ownership and cost of production (see Appendices B and D)

The Fijian economy will lose significantly from any reduction in EU prices, as well as increased competition. Its government-owned monopolistic sugar industry is heavily loss-making and production costs are estimated at 20 cents/lb, well above the world market price (Informant A).

Fiji Sugar Corporation's (FSC) four mills are old, in need of modernisation, overstaffed and expensive to operate and maintain. Although the government is committed to restructuring the sugar industry and will guarantee loans raised by the company to upgrade transport and milling infrastructure as part of a five-year $100m programme, the sugar industry is expected to contract in 2005 (ADB 2004b and 2005).

2.3.2 Dependency on exports to the EU and US (see Figure 1)

Fiji's economy is heavily reliant on sugar production and exports, especially to the EU market. 71.7% of total sugar exported is sold to the EU (with 3.3% going to the US), generating 19.8% of total export revenues and 6.3% of GDP.

2.3.3 Restructuring plans and political considerations

Due to the importance of the industry as a source of employment and its contribution to foreign exchange earnings, a comprehensive restructuring programme has been prepared (see FSC (2002) for details of the restructuring plan). However, the industry faces various challenges: it requires significant government investment and guarantees to keep operating; the expiry of leases of sugar cane land needs to be managed; and, above all, the industry is heavily regulated and highly politicised (FSC 2002 and ADB 2005).

Ethno-political conflict and continuing political instability (the most recent of several coups occurred in 2000) involving indigenous Fijians and Indo-Fijians (traditionally the sugar growers) translates into complex and difficult negotiations between the numerous actors involved in the Fijian sugar industry (Field 2004, Keith-Reid 2002, Pacific Magazine 2002). Implementation of the restructuring programme depends on the co-operation and long-term commitment of all actors involved, and its success is therefore doubtful. The Asian Development Bank (ADB) is sceptical and supports programmes for the diversification out of the sugar sector and into the export of high-value products to niche markets rather than assisting the reform (ADB 2004a and 2005).

In order to assess the prospective success of the restructuring programme or identify suitable alternatives to sugar, further research, is required. A detailed assessment of the number of people directly and indirectly involved in the sugar industry and the extent of the farmers' dependency on sugar cane will need to be completed.

Given the difficult political structure and the large number of actors involved in the Fijian sugar industry, we are sceptical as to the restructuring programme's successful implementation, and we are unaware of any serious government plans to diversify out of the sugar sector.

2.3.4 Impact on the population

Any further detrimental impact on FSC through preference erosion will likely have significant impact on the Fijian population: the company provides a direct source of employment for over 20% of the labour force.[3] The majority of these – between 18,000 and 22,000 – are small-scale farmers (mainly Indo-Fijians) with an average farm size of 3-4 hectares, on which FSC relies for the supply with sugar cane. The average production of cane per farmer amounts to 148 tonnes per year, resulting in gross earnings of around $3,600 per annum (World Bank 1995 and Prasad 2003). FSC factory employment, on the other hand, is comparatively small, estimated around 3,000 full-time employees plus an additional 4,500 seasonal employees.[4] A more detailed analysis of the extent to which the Fijian population will be affected by changes of the EU and US sugar regimes warrants further research.

2.4 Dependency Analysis

The results of our data analysis are presented in Appendix B. Our assessment of quota dependency is based on the significance of sugar exports to the EU and US in each country's GDP, total export revenues, total sugar exports and corporate tax revenues accruing to the government.

Figure 1 illustrates the dependency levels across the regions covered by this study. It clearly shows that those sugar industries which depend most on the status quo are mainly island states in the Caribbean, Mauritius and Fiji. Figure 2 builds on this by plotting production costs, as a proxy for competitiveness, against revenues from sugar exports to the EU and US as a percentage of total export revenues, our first proxy for dependency. This chart highlights the very high levels of dependency displayed by Guyana, Belize, Fiji and Mauritius.

[3] Own calculation using World Bank (1995), FSC (2002), Prasad (2003) and Asian Development Bank (2004a) and (2005)

[4] Average of Prasad (2003) and ACP Sugar Group (2002)

Figure 1 Sugar Production by Destination

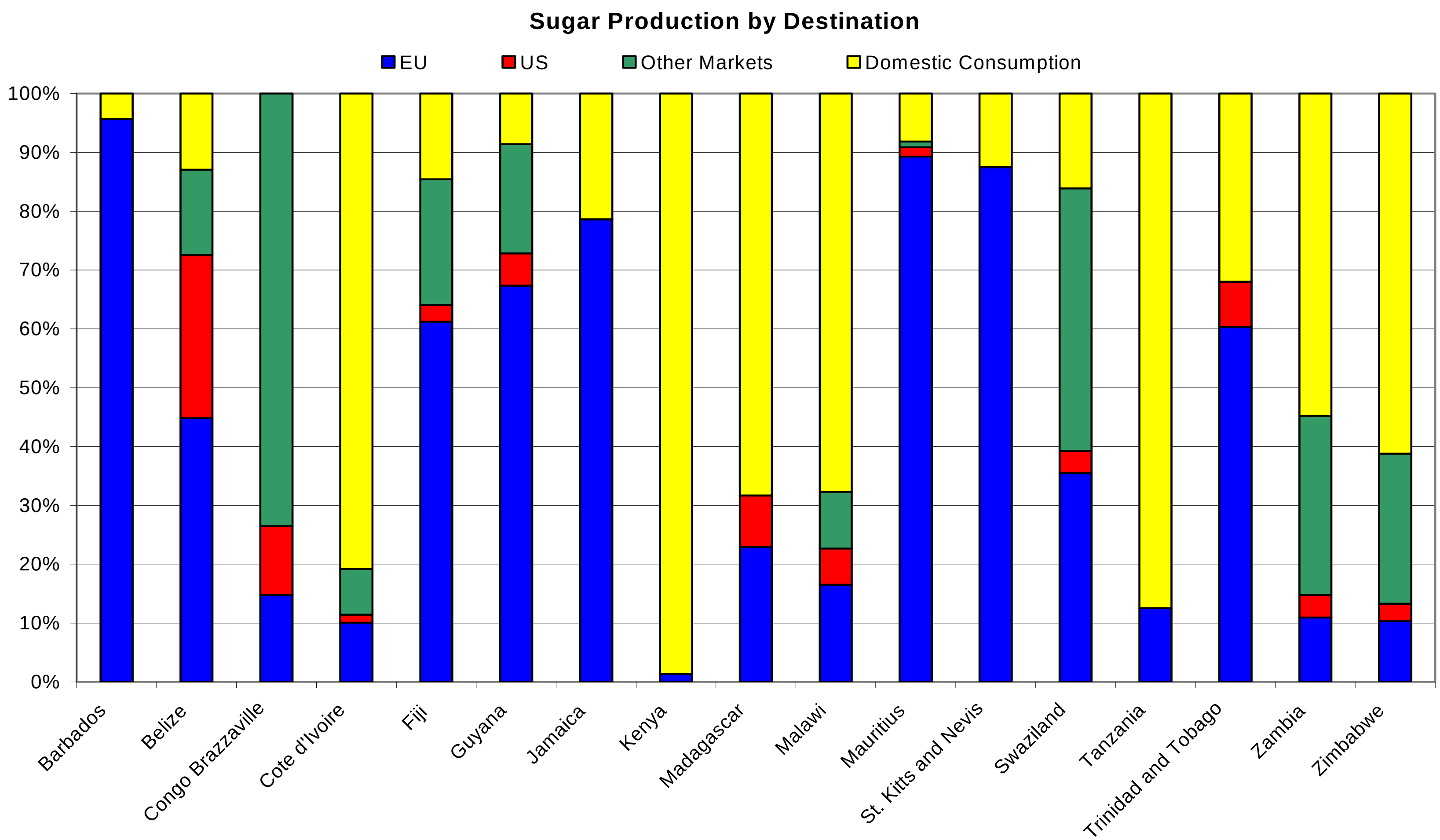
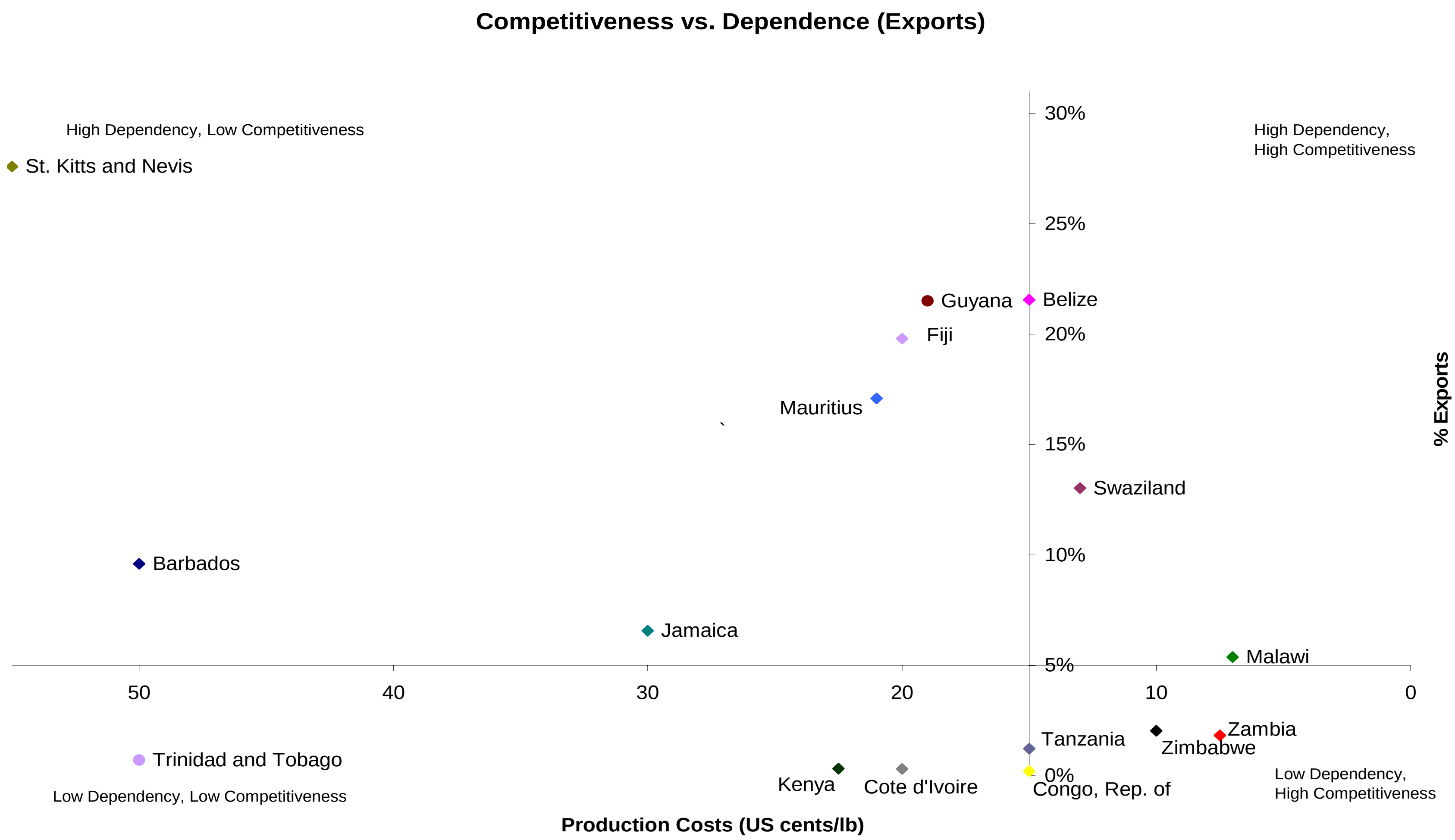
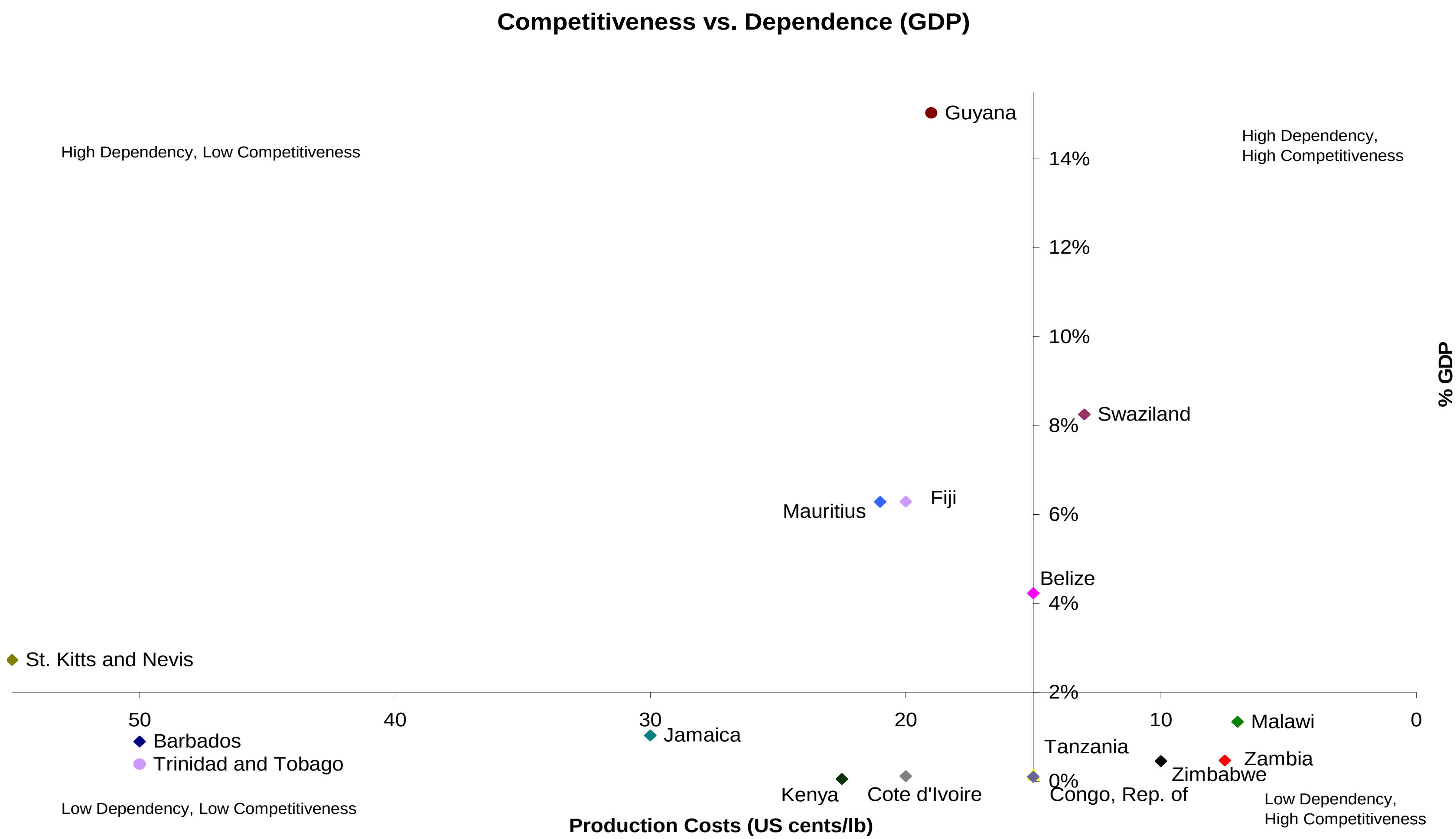


Figure 2 Competitiveness and Export Dependency on Sugar



While a country's sugar industry, or export sector, may be dependent on the status quo, this may not play a significant role in the country's overall economy. Figure 3 further develops the earlier analysis by plotting competitiveness against a broader proxy for dependency, namely revenues from sugar exports to the EU as a percentage of GDP. This scatter plot clearly illustrates Guyana's particularly high dependency level, while also showing that Mauritius, Fiji, Swaziland and Belize also benefit significantly from the status quo. Of these, only Swaziland currently produces at anything like competitive prices. Furthermore, Figure 2 emphasises that the southern African countries, particularly Malawi and Zambia, appear best positioned, while the remaining Caribbean countries have low dependency levels.

Figure 3 Competitiveness and GDP Dependency on Sugar



3 FINANCIAL BENEFITS (CURRENT RENT DISTRIBUTION)

Most studies focus on revenues as a proportion of GDP or total exports when analysing the impacts of preference erosion. However, a government's dependency on the actual revenue which it derives from the sugar industry is an important consideration which merits examination. Government income is crucial to service delivery and social welfare and should therefore be considered in more depth in future studies. Estimates of net earnings generated from sugar exports to the EU and the US were estimated using the production cost per tonne and the respective country's corporate tax rate.

Table 3: Financial benefits accruing to governments

Country	Average Net Earnings from Sugar Exports to EU Before Tax 2000-2002 (estimate, USD million)	Average Net Earnings from Sugar Exports to US Before Tax 2000-2002 (estimate, USD million)	Average Net Earnings from Sugar Exports to EU and US Before Tax 2000-2002 (estimate, USD million)	Corporate Tax Rate	Average Govt. Revenues from Sugar Exports to EU and US 2000-2002 (estimate, USD million)	Average Govt. Revenues 2000-2 (USD million)	Govt. Sugar Revenues as % of Total Govt. revenues (estimate, USD)
Barbados	-30.3	0.0	-30.3	37.5%	0.0	806.5	0.0%
Belize	9.7	-4.7	5.0	25%	1.3	189.2	0.7%
Congo Brazzaville	1.6	-0.7	0.9	40%	0.3	870.0	0.0%
Cote d'Ivoire	4.4	-0.7	3.7	35%	1.3	1,646.7	0.1%
Fiji	14.0	-2.5	11.5	32%	3.7	488.6	0.8%
Guyana	18.9	-4.1	14.8	45%	6.7	391.4	1.7%
Jamaica	-22.8	0.0	-22.8	33.3%	0.0	2,230.0	0.0%
Kenya	3.0	0.0	3.0	30%	0.9	2,910.0	0.0%
Madagascar	N/A	N/A	N/A	30%	N/A	553.0	N/A
Malawi	15.4	0.4	15.8	30%	4.7	490.0	1.0%
Mauritius	25.1	-2.7	22.4	25%	5.6	426.5	1.3%
St. Kitts and Nevis	-12.1	0.0	-12.1	38%	0.0	81.2	0.0%
Suriname	N/A	N/A	N/A	36%	N/A	393.0	N/A
Swaziland	45.4	-2.6	42.7	30%	12.8	432.0	3.0%
Tanzania	3.5	0.0	3.5	30%	1.0	1,076.7	0.1%
Trinidad and Tobago	-36.7	-7.3	-44.0	35%	0.0	1,540.0	0.0%
Uganda	N/A	N/A	N/A	30%	N/A	959.0	N/A
Zambia	10.6	0.3	10.9	35%	3.8	1,100.0	0.3%
Zimbabwe	21.8	-0.7	21.1	33%	7.0	2,500.0	0.3%

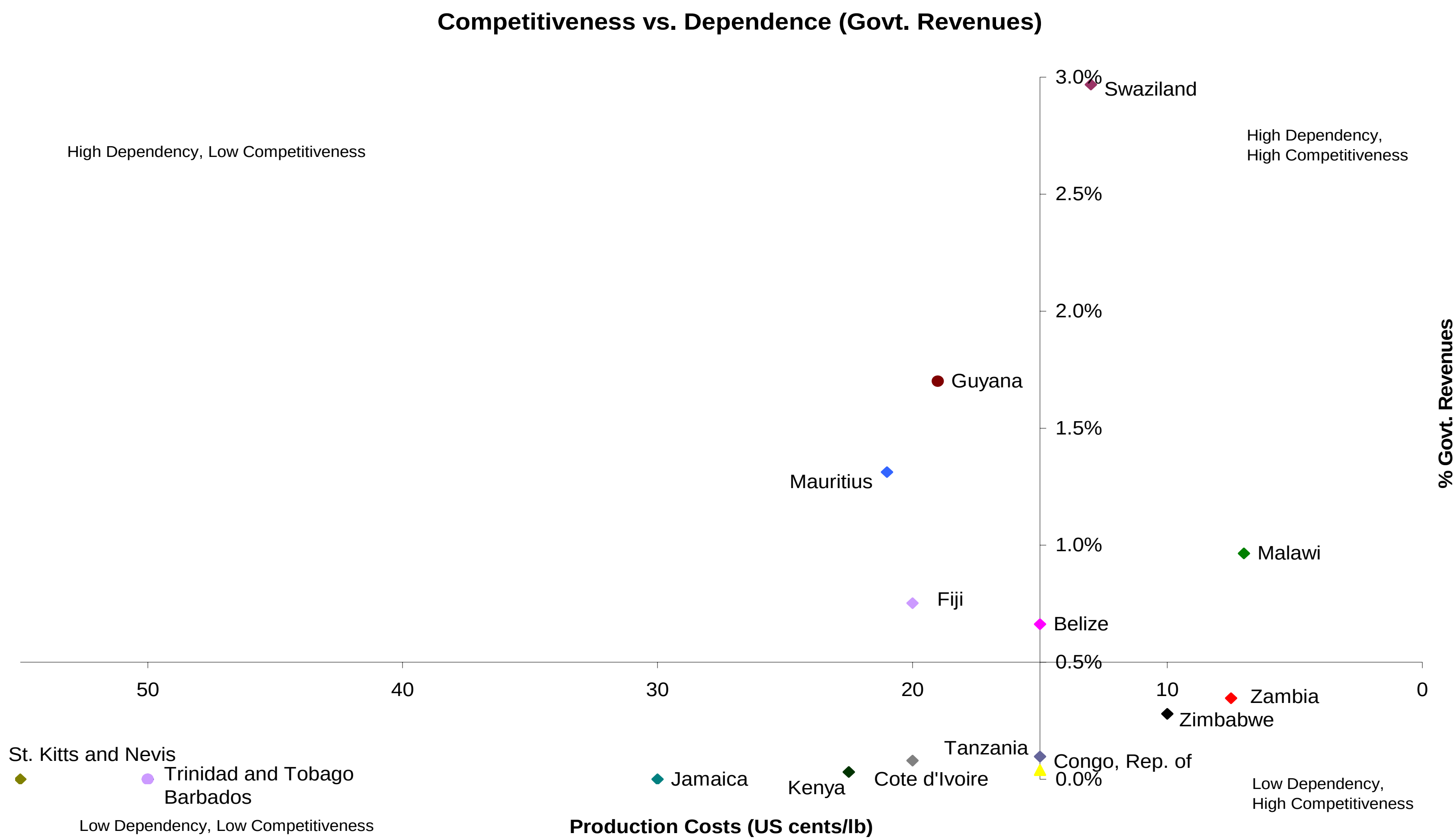
Admittedly, this only provides a limited approximation of government revenue dependency (presented in Table 3 above), as it solely takes into account corporate taxes levied. There may be tax exemptions for the sugar industry and government subsidies which count against the maximum revenue from corporate tax calculated above. Furthermore, it has been assumed that all profits are taxed and that – in case of foreign ownership – it is not possible to repatriate untaxed profits.[5]

Despite these challenges, some insight into how erosion would directly impact government revenue has been achieved. Calculations revealed that in a few countries (Guyana, Malawi, Mauritius and Swaziland), corporate tax derived from the sugar industry accounts for over 1% of government revenues. For other countries, such as Barbados, Jamaica, St. Kitts and Nevis, and Trinidad and Tobago, the industry is dependent on subsidies and a drain on state resources.

These results are displayed in Figure 4, which emphasizes the contrast with the results shown in Figures 2 and 3. Swaziland and Malawi's dependency levels are relatively low in terms of GDP but comparatively high in terms of government revenues. This could be due to the greater profitability of their more efficient industries. In contrast, Guyana and Fiji show lower dependency levels in terms of government revenue. In the case of Fiji, this may reflect the lower corporate taxes generated by its inefficient industry. This result indicates that this measure of dependency is important as it differs from other measures, such as percentage of GDP and percentage of total exports.

[5] A few countries also levy export taxes on sugar: Fiji (3%), Swaziland (5.75%), and Mauritius (ad hoc). Zimbabwe taxes foreign exchange earnings with 50% (Williams & Ruffer 2003). These have not been taken into account in the above calculation.

Figure 4 Competitiveness and Government Revenue Dependency on Sugar



The share of income going abroad depends on the industry ownership (see Appendix B). In countries where foreign investors such as Illovo or Tongaat-Hulett operate, any profit after tax might be repatriated. However, our research could not confirm whether this is the case. Most companies invest in infrastructure and other social programs, so it can reasonably be assumed that not all of the profits go abroad, even in the case of foreign ownership.

Further research is necessary to estimate the distribution of benefits accruing to a country from, and the corresponding dependency on, the sugar industry. It should take the following additional factors into consideration:

- Profit investment: is the remainder of the taxed surplus invested in the country or abroad? Are there capital controls that ensure that profits stay in the country?
- What are the labour costs, i.e. the benefits accruing to employees?
- Is the industry government-subsidised, and is it subject to tax exemptions?
- What are the backward and forward linkages generated by the sugar industry, and if so, is it possible to calculate the monetary benefits stemming from these linkages?
- Do companies undertake infrastructure or social investments, and can they be costed?

Research on these points is beyond the scope of this research project. However, apart from the last two points, which are difficult to cost, it is technically possible to estimate the additional benefits accruing from the industry, should the required data be available.

4 INDUSTRY LOBBY GROUPS

There is no single lobbying group that represents the interests of the Protocol signatories, but apparently at least two. Publicly available information on these groups is scant, and attempts to contact the groups were not very successful. The information provided below was obtained from one informant and through meticulous internet research. All groups considered in this research focus solely on EU reforms. Thus, lobbying in the context of the US reforms will not be discussed here.

The two main groups are the ACP Sugar Group (ACPSG) and the LDC Sugar Group (LDCSG). Both groups have subgroups. In the case of ACPSG, the subgroup is called the ACP London Sugar Group.

4.1 The ACP Sugar Group

There is very little that can be said about this group. The website (www.acpsugar.org) is superficial, and members are not listed. The website declares that the ACPSG “are the nineteen African, Caribbean and Pacific states signatories to the ACP/EU Sugar Protocol” (ACPSG 2005). The distinction between ACPSG and the ACP London Sugar Group is unclear, although the two groups have separate websites. The website of the ACP London Sugar Group has not been changed in several years: it can be concluded that it is more or less abandoned, or contains information for members only. There are three names that can be found on the web in connection with this group: Jean-Claude Tyack, general representative of the Mauritius Sugar Syndicate in London; David Clark, who works for Czarnikow, and Julian Price, a broker with ED&F Man (see Section 4.3).

4.2 The LDC Sugar Group

The LDCSG was created as a result of the EBA agreement, to manage the interim quotas, and to lobby for the countries, the industry and the brokers. It represents “the Least Developed Countries (LDCs) which produce sugar and which are signatory to the Framework Agreement on EBA Sugar" (LDCSG 2005a). The LDCSG comprises the London Sugar Group (LSG), representing the industry, and the Brussels Sugar Group (BSG), consisting of the ambassadors of the 22 member countries.[6] This split, according to Informant A, was made to give the group more political legitimacy via the ambassadors. However, all input is directed by the LSG, in other words, the industry. The LSG writes the agenda and the statements made by the LDC Sugar Group; the BSG then conducts the actual negotiation during meetings.

4.3 “Mapping” the lobby groups

The groups are heavily intertwined: the diagram in Appendix C shows how certain key figures appear to be the driving force behind these groups.

Unless stated otherwise, the information in the following section is publicly available on the internet.

ED&F Man One of the world’s largest sugar trading companies. Based in London, it has offices in over 60 countries. The company has a 20% stake in a sugar mill in Tanzania, but is otherwise not involved in production in ACP signatory countries. Illovo has a 55 % share in the same mill (Illovo 2004).

Illovo (see Box in Section 2.1) According to Tralac, Illovo has taken a leading role in assisting the proposals from least developed countries (Tralac 2004).

Czarnikow A major provider of sugar-related market services (Czarnikow 2005). Czarnikow is also listed as the registrant of the ACP London Sugar Group website (Nominet 2005a).

[6] Five members have preferential access and are thus also represented through the ACPSG: Madagascar, Malawi, Tanzania, Uganda and Zambia.

Sugar Traders Association of the UK (STAUK) Association of sugar traders registered in the UK. It has 14 members, including ED&F Man and Czarnikow.

Kenana In its own words, "the largest single integrated producer of white sugar in the world" (Kenana 2005). The plant is owned by a joint venture between the Sudanese government, the Government of Saudi Arabia, various Arab companies and Lonrho, the British mining company.

Julian Price A broker with ED&F Man. He is also listed as member of the STAUK committee (STAUK 2005), whose website he registered (Nominet 2005b). Furthermore, he is the representative of Malawi and Tanzania to the ACP London Sugar Group. In this function, he was a witness to an inquiry of the British Parliament's International Development Committee in 2003 (UK Parliament 2003). In 2004, he represented the LDC Sugar Group at the Select Committee on Environment, Food and Rural Affairs (UK Parliament 2004). He created the ACP Sugar website and is listed as contact person. Furthermore, he registered the LDC Sugar website (WHOIS 2005) and is listed as contact person on both websites of the LDCSG.

David Clark Secretary of the ACP London Sugar Group, works for Czarnikow, and is honorary secretary of the STAUK committee (STAUK 2003). According to Informant B, he is also a representative of the LDC Sugar Group. He was also a witness to the 2004 inquiry as representative of the ACP London Sugar Group (UK Parliament 2004).

Jean-Claude Tyack Chairman of the ACP London Sugar Group and general representative of the Mauritius Sugar Syndicate (MSS), which is affiliated with the Mauritius Chamber of Agriculture. He was a witness to two UK Parliamentary inquiries (UK Parliament 2003, 2004).

Graham Clark Chairman of the LDC Sugar Group and also Illovo's operations director. Illovo owns, jointly with ED&F Man, 75% of the Kilombero mill in Tanzania (Illovo 2004), of which Julian Price is a representative.

This web of industrial representatives appears to be the result of the overlap in interests between all stakeholders in a high EU sugar price, or to put it less politely, the possibility for rent seeking that the current situation provides.

The current signatory countries benefit because of the high prices they obtain in Europe and thus want to prolong the status quo. They also use arguments regarding the importance of the sugar industries in their countries to negotiate transition packages to assist with restructuring (document received from Informant A).

The EBA countries have only recently appeared in the lobbying context. They receive an annually increasing quota for sugar until 2009, after which they have full access to the EU sugar market. However, since they currently receive the high EU prices, they too have an interest in prolonging the status quo. These countries are represented by the LDC Sugar Group. According to Informant A, the chairmanship of the political representation in the BSG should rotate between Bangladesh, Zambia and Sudan. However, in practice, the chairmanship has remained with Sudan, since Bangladesh does not give high priority to sugar, and the Zambian ambassador is supposedly not well informed on sugar issues (Informant A). Since Sudan has a great interest in exporting to the high-price EU market via Kenana, its strong interest is understandable.

The traders receive 0.5-1% of the CIF price, which is the EU price plus the cost for insurance and freight. Their profit margin would obviously shrink if EU prices fell.

That **the producers** would want to keep their profit margins is self-evident and warrants no further explanation.

Although the countries definitively have some benefit from the sugar industry, even if it is foreign-owned (in terms of infrastructure, hospitals, education, taxes, etc.), the lobbying efforts and arguments are essentially industry-driven. As our analysis shows, few countries depend greatly on the EU sugar market. In countries where the dependency is less pronounced, the sugar industry still provides a valuable contribution on a regional level, in the form of social investment in healthcare, roads and schools. As many of these countries export to regional markets, the claim that their sugar industries would disappear without a guaranteed high EU price does not generally stand. This is especially true for countries that are low-cost producers, such as Zambia or Mozambique (see section 2.1.4).

Whatever the driver, all interests seem to be well represented by the two groups. Informant A argued that the sugar regime would not have existed for so long without the groups' lobbying efforts. Moreover, a high profile meeting such as that in January 2005 in Brussels would not have taken place for countries affected by the abolition of the banana regime. During this meeting of EU agricultural ministers, ministers of ACP and LDC countries as well as other members of the EU, the developing countries presented their case for a more gradual reduction of the EU sugar price. Their arguments are largely based on infant industry protection ideas: for the sugar industry to develop, there is a need for the remunerative prices currently guaranteed in the EU sugar market (LDCSG 2005b). In the case of ACP signatories, a longer transitional period would be needed to sustain reform efforts of local sugar industries. Without guaranteed prices, investment to increase efficiency would not take place (ACP Sugar 2004). Although the EU has not agreed on changing the time plan for the abolition of the sugar regime (as it stands this would occur in 2006), the lobbying efforts resulted in the transition package (financial and technical assistance) now proposed by the European Commission (EC 2005). As of yet, there has not been an official response to this from the lobby groups.

It is questionable if the very broad generalisations brought forward by the two lobby groups hold up to scrutiny: those countries currently producing at world market prices already benefit from large investments in their sugar industries (see Box in Section 2.1 on Illovo). Thus, their sugar industries will not be “devastated” as the ACP Sugar Group claims. Also, there are countries whose governments do not make profits EU prices (see Table 3). This suggests that their sugar industries will not be viable even if national reform plans are carried out. Instead of relying on an extension of the EU sugar regime, these countries should take the opportunity and diversify into other industries.

However, the groups seem to have partially achieved their objective: the postponement of the inevitable. Whether this is in the interests of LDCs who already produce at world market prices is the question. They would probably be better off with immediate full access. In sum, the interests of the probable losers are better represented than those of the possible winners (see Section 2.1).

5 CONCLUSION

This report has shown the following:

Although some ACP countries will suffer greatly post-reform if the current industry structure is maintained and no transitional assistance is provided, the negative impact of preference erosion on some countries will be negligible as they are not as dependent on the preference schemes as is commonly believed (see Appendix B). Some are net importers of sugar, export minimal amounts under current preference schemes, or are low cost producers that stand to gain from market liberalisation. However, due to competitive pressures to consolidate and cut costs, industry reform is also likely to result in varied negative social consequences in some countries. These include unemployment, lower wages, and a cutback in the social benefits currently provided by sugar millers.

Our findings can be summarised as follows:

- Countries with a lower quota dependency and a higher degree of competitiveness (as measured by various criteria) are more likely to be winners (see Appendix B). These winners, notably Malawi and Zambia, are also in the position to expand their industries in a liberalised market. Mauritius and Fiji, on the other hand, will suffer most from preference erosion due to their high quota dependencies and low competitiveness.
- It is possible to estimate the share of income that accrues to a country. We were able to approximate the tax revenue generated from the sugar industry. However, for a full assessment, further research is required (see below).
- The lobby groups' argument that all ACP sugar industries will be devastated as a result of preference erosion is largely a generalisation. Several implications follow from our analysis of this undifferentiated position. Most importantly, some of these industries may not be viable even post-reform, especially in the medium to long-term. As a result, the best course of action may involve diversification into downstream value chain activities or investments in other industries altogether.

In addition to these findings, further research is necessary to understand how reforms are likely to impact the different parties within the losing countries. Quantifying the distributional structure of rents currently accruing from preferential access within each country is key to doing so.

To date, studies assessing the impact of preference erosion have:

- Largely disregarded within-country impacts across different parties.
- Mostly focused on a static scenario whereby the viability of each sugar industry is assessed against an expected increase in world market prices. A medium to long-term view in which the current lowest cost producers further lower their production costs and competition increases is often lacking.

As a result, the extent to which preference erosion will affect current preference beneficiaries remains unclear, making it difficult to assess the policy interventions required to limit possible negative developmental consequences, and eliminate an impasse for WTO trade negotiations.

This report has taken a further step towards understanding each country's dependence on sugar from the point of view of government revenue rather than just exports or GDP, as is common in most analyses. Benefits accruing to farmers, millers and society at large under the current schemes must also be clearly understood.

Doing so requires further research focused on the following topics:

- Profit investment and capital controls.
- A detailed breakdown of all costs/profit margins[7] along each country's value chain.

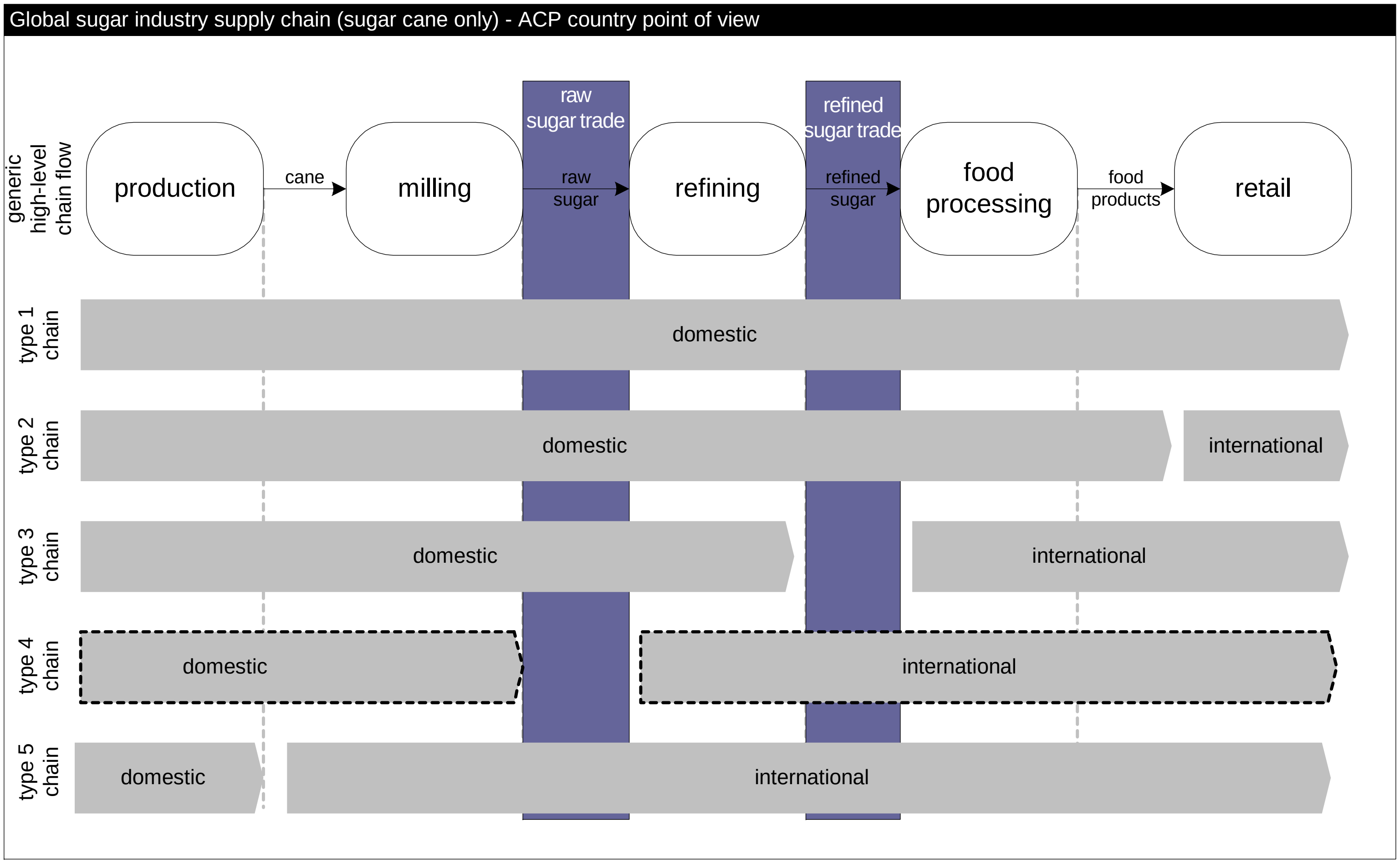
[7] "Preference margins are not net profits: part of the preference margin is absorbed by costs involved in the steps required for obtaining preferences. The major part of such transaction costs accrues in preference-receiving

- Subsidies and tax exemptions
- Scope of backward and forward linkages generated by the sugar industry
- Infrastructural and social investments by the industry

Based on our findings, we recommend such further research, since this would establish a more detailed picture of the sugar industry in each of the affected countries. It is then recommended that policy responses to the negative impacts of erosion consider each industry's situation separately and in relation to likely long-term developments within the global industry.

countries, because exporters have to prove and certify the origin of their goods. Such additional transaction costs and eventual losses of agricultural products due to procedural delays may absorb many of the preference margins." FAO (2003)

APPENDIX A – GLOBAL VALUE CHAIN



APPENDIX B – INDUSTRY DATA

Country	Winner/Loser	Quota dependency							Production costs (US¢/lb)	Industry ownership						Industry employment			Reform plans		
										Farming		Milling		Refining							
		Sugar export rev. (EU and US) as % of GDP	Sugar export rev. (EU and US) as % of total country export rev.	Exports to EU (as % of total sugar exports)	Exports to US (as % of total sugar exports)	Average Govt. Revenues 2000-2002 (est. USD million)	Average Govt.Corporate Tax est. revenue from Sugar Exports to EU and US, USD million	Govt. Sugar Revenues as % of Total Govt. Revenues		Domestic	Foreign	Domestic	Foreign	Domestic	Foreign	Indpendent (#) farmers	Milling (#) direct	Total employment (#)	Exist? (Y/N)	Started reform? (Y/N)	Expected competitiveness? (Y/N)
Barbados	Loser	0.9%	9.6%	100.0%	0.0%	807	0	0.0%	50	100%	0%	100%	0%	N/A	N/A	1,384	929	2,313	Y	Y	N
Belize	Possible winner	4.2%	21.6%	51.5%	31.9%	189	1	0.7%	15	100%	0%	90%	10%	N/A	N/A	10,299	639	10,938	Y	Y	Y
Congo, Rep. of	Possible winner	0.1%	0.2%	14.8%	11.7%	870	0	0.0%	15	100%	0%	34%	66%	34%	66%	N/A	N/A	4,500	N	N/A	Y
Cote d'Ivoire	No impact	0.1%	0.3%	52.4%	7.1%	1,647	1	0.1%	20	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	15,000	N	N/A	N/A
Fiji	Heavy loser	6.3%	19.8%	71.7%	3.3%	489	4	0.8%	20	100%	0%	100%	0%	N/A	N/A	22,000	7,500	29,500	Y	N	N
Guyana	Possible winner	15.0%	21.5%	73.7%	6.0%	391	7	1.7%	19	100%	0%	100%	0%	N/A	N/A	5,000	18,860	23,860	Y	Y	Y
Jamaica	Loser	1.0%	6.6%	100.0%	0.0%	2,230	0	0.0%	30	100%	0%	100%	0%	100%	0%	26,000	6,729	32,729	Y	Y	N
Kenya	No impact	0.1%	0.3%	100.0%	0.0%	2,910	1	0.0%	22.5	100%	0%	100%	0%	100%	0%	80,000	35,000	115,000	N	N	N
Madagascar	N/A	0.2%	0.9%	72.5%	27.5%	553	0	0.0%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	10,300	14,000	24,300	N	N/A	Y
Malawi	Winner	1.3%	5.4%	51.1%	19.1%	490	5	1.0%	7	N/A	N/A	24%	76%	24%	76%	1,634	11,587	13,221	N	N	Y
Mauritius	Heavy loser	6.3%	17.1%	97.2%	1.7%	426	6	1.3%	21	100%	0%	100%	0%	100%	0%	4,500	26,704	40 000	Y	Y	Y
St. Kitts and Nevis	Loser	2.7%	27.6%	100.0%	0.0%	81	0	0.0%	55	100%	0%	100%	0%	N/A	N/A	52	1,928	1,980	Y	N	N
Suriname	N/A	0.0%	0.0%	0.0%	0.0%	393	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0	0	0	N/A	N/A	N/A
Swaziland	Possible winner	8.3%	13.0%	42.3%	4.5%	432	13	3.0%	13	80%	20%	79%	21%	60%	40%	6,029	9,829	15,858	N	N	Y
Tanzania	Possible winner	0.1%	1.2%	100.0%	0.0%	1,077	1	0.1%	15	70%	30%	30%	70%	80%	20%	10,500	15,866	26,366	N	N	Y
Trinidad and Tobago	Loser	0.4%	0.7%	88.7%	11.2%	1,540	0	0.0%	50	100%	0%	100%	0%	100%	0%	18,648	6,229	24,877	Y	Y	N
Uganda	No impact	0.0%	0.0%	0.0%	0.0%	959	N/A	N/A	46	100%	0%	100%	0%	100%	0%	5,682	15,456	21,138	N	N	N
Zambia	Winner	0.5%	1.8%	24.2%	8.6%	1,100	4	0.3%	7.5	N/A	N/A	10%	90%	10%	90%	8,250	8,058	16,308	N	N	Y
Zimbabwe	Possible winner	0.5%	2.0%	26.6%	7.7%	2,500	7	0.3%	10	N/A	N/A	N/A	N/A	49.9%	50.1%	6,289	20,900	27,189	Y	N	Y

Source: Own calculations using ACP Sugar Group (2003), ISO (2003), UNDP (2004), CIA World Fact Book 2000-2003, Average 2000-2002

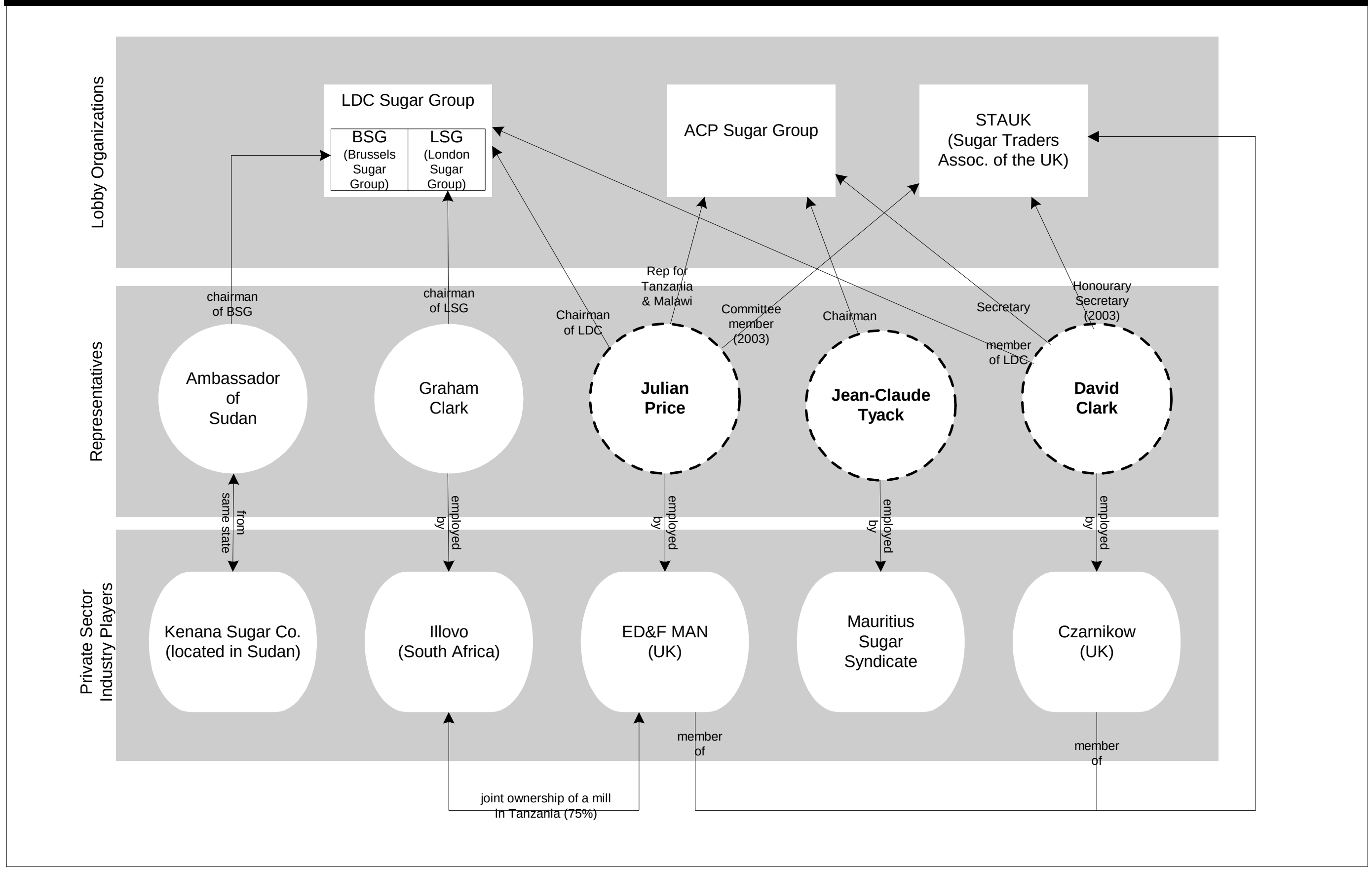
Source: Informant A; Som-mer (2003)

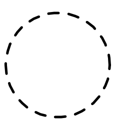
Source: company websites, various country websites

Source: ACP Sugar Report, company websites, Tanzania and Zambia both include seasonal workers,numbering 3,291 and 10,500 respectively.

APPENDIX C – LOBBY STRUCTURE

ACP/LDC Sugar Industry Lobby Groups and Representative structures



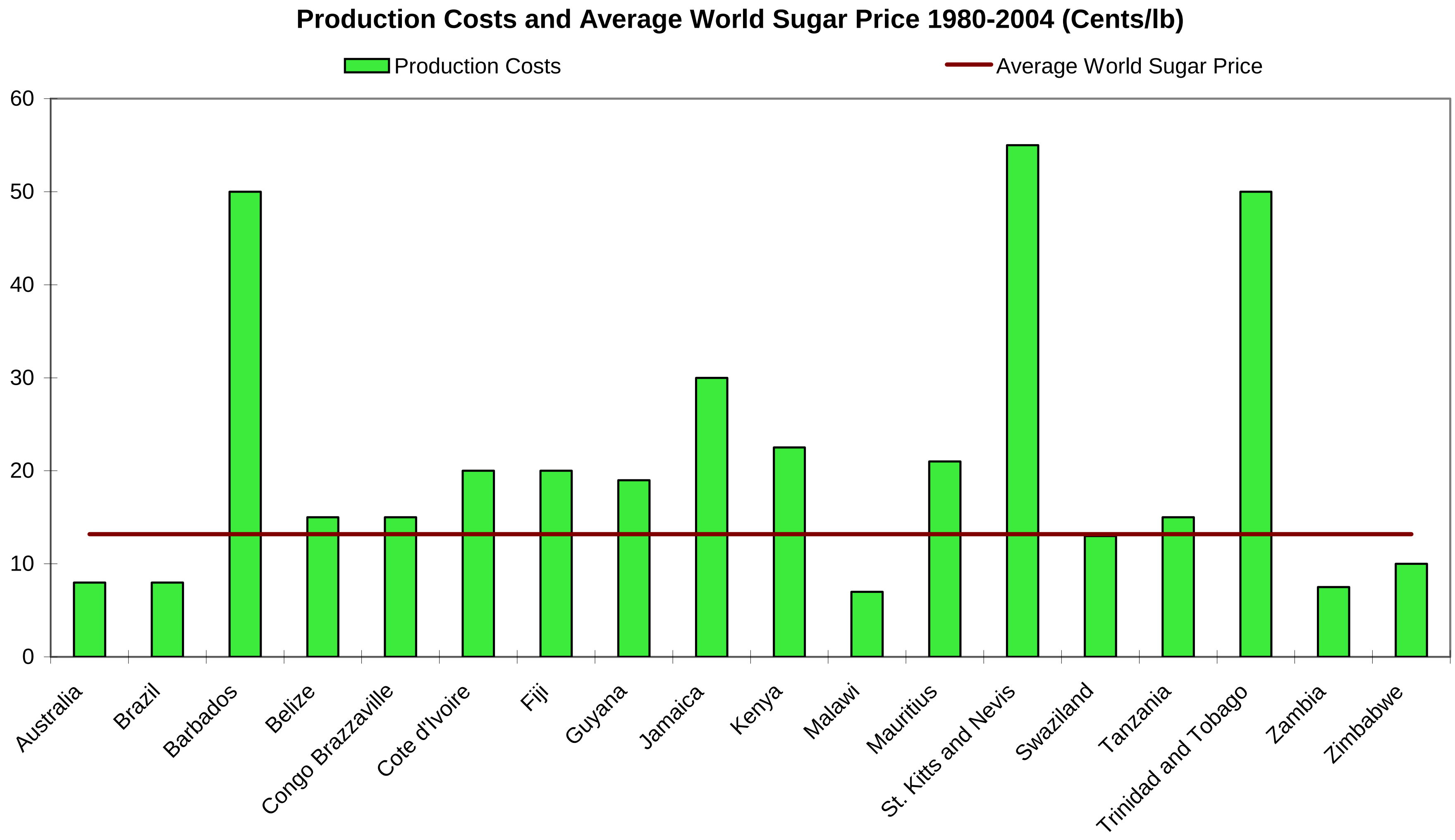


Witness to Select Committee (parliamentary inquiry) on:

Environment, Food and Rural Affairs
Julian Price- representative of the LDC Sugar Group,
Jean-Claude Tyack & David Clark - representatives of the ACP London Sugar Group.

The International Development Committee - Trade and Development: Aspects of the Doha Agenda
Julian Price - representative of the ACP London Sugar Group for Malawi and Tanzania
Jean-Claude Tyack - representative for Mauritius

APPENDIX D – PRODUCTION COSTS



APPENDIX E – BRUSSELS WORKING GROUP ON EBA SUGAR

*** DRAFT #2 **

Brussels Working Group on EBA Sugar

XX February 2005

Detailed rules concerning the EBA Framework Agreement, notably as regards participation in the EBA sugar quota and Constitution of the LDC London Sugar Group ("Detailed Rules on EBA Sugar")

Contents

Annex I

Standard Registration Form EBA-1

Detailed Rules on EBA Sugar

1. INTRODUCTION AND LEGAL BACKGROUND

The EBA Framework Agreement was signed on (or from) 23rd October 2001 by Ambassadors in Brussels on behalf of all Least Developed Countries with substantial interest in sugar.

The EBA Framework Agreement provides that detailed rules as to the registration procedure shall be established and agreed by the Working Group and shall be in accordance with the Framework Agreement unless otherwise agreed by the Ambassadors.

This paper sets out the Detailed Rules on EBA Sugar relating to the requirements and procedures for registration for all sugar manufacturers situated in LDCs wishing to ship sugar to the EU Sugar Refiners under the GSP "Everything But Arms" ("EBA") initiative (Council Regulation (EC) No 416/2001). This paper also clarifies the rules and offers such technical assistance as may be necessary.

In implementing the Detailed Rules on EBA Sugar, duly appointed LDC Commercial Representatives and Members of the LDC London Sugar Group have a pivotal role. It is therefore necessary that these Detailed Rules on EBA Sugar also to clarify the rules required for due authorization of commercial representatives, and to provide for a Constitution of the LDC London Sugar Group for the avoidance of doubt as to their rights and responsibilities as commercial representatives of LDC sugar exporting countries.

These Detailed Rules on EBA Sugar shall be governed by English Law. Any disputes between the parties arising in connection with these Detailed Rules on EBA Sugar which cannot be settled amicably shall be resolved by arbitration in London. Each party shall appoint the third arbitrator. In case of failure within 21 days of any party to appoint its arbitrator or the two arbitrators to appoint the third arbitrator, the same shall be appointed at the request of the moving party by the Chairman of the LDC London Sugar Group then in office. The arbitration shall take place in the English language. The rules of procedure for the arbitration shall be established by the arbitrators. The parties agree that the award shall be final and binding on the parties and to the extent permitted by applicable law both parties waive the right to appeal from the award as well as to bring an action to cancel the award ("recours en annulation").

2. REQUIREMENT TO SHIP TO A "REFINERY"

Under the terms of Council Regulation (EC) No 416/2000 and dependent EU legislation, until 30th June 2006, sugar traded under the interim EBA quota may only be shipped to a prescribed Refinery in the EU. Article 7.4 of Council Regulation (EC) 1260/2001 states that a "Refinery" means a production unit whose sole activity consists in refining either raw sugar or syrups produced prior to the crystallising stage. The "Erstein Case" (ECJ Case C-269/96) clarified the definition of a Refinery by ruling that a sugar beet factory complex cannot be regarded, either permanently or intermittently, or in whole or in part, as a "Refinery" within the meaning of Council Regulation (EC) No 1260/2001.

3. REQUIREMENT TO SIGN THE FRAMEWORK AGREEMENT

In accordance with the EBA Framework Agreement (Article 2a), all LDC Sugar Supplying States wishing to participate in the EBA Sugar Quota shall be required to sign Framework Agreement.

4. REQUIREMENT TO REGISTER BY 30TH APRIL

In accordance with the EBA Framework Agreement (Article 2a), all LDC Sugar Supplying States wishing to participate in the EBA Sugar Quota shall be required to to register with the EBA Sugar Working Group their intention to supply under the EBA Sugar Quota by 30th April in advance of each annual delivery period beginning 1st July

5. CONFIRMATION OF AVAILABILITY OF RAW SUGAR FOR REFINING

In accordance with the EBA Framework Agreement (Article 2b), registration shall confirm the availability of raw cane sugar for refining (HS Code 1701.11.10) in bulk for delivery to the EU ports during each annual delivery period between July and June.

6. PERSONS AUTHORIZED TO REGISTER

In accordance with the EBA Framework Agreement (Article 2c), registration may only be effected by duly appointed representatives of Sugar Industries of LDC Sugar Supplying States who have signed the Framework Agreement.

6.1 Appointment of persons authorized to register

In clarification of the requirements of the EBA Framework Agreement, the EBA Sugar Working Group shall require the following documentation duly authorizing each person from each LDC to register in accordance with the Framework Agreement:

- an original letter from the LDC Brussels Embassy concerned appointing one or more sugar industry(ies) and/or factory(ies) located in the LDC concerned to supply sugar under the EBA initiative; and

- an original letter from the sugar industry and/or factory appointed as above, on their official headed notepaper, appointing a natural person (who may also be appointed as their London Commercial Representative) who shall be authorized to register in accordance with the Framework Agreement as supplemented by the present Detailed Rules on EBA Sugar.

These letters shall be lodged and archived by the Secretariat of the LDC London Sugar Group. Photocopies of these letters shall be made available on request to all LDC government representatives and to all duly authorized LDC London Commercial Representatives.

In place of the above, the EBA Sugar Standard Registration Form EBA-1 referred to in paragraph 8.2 below may be used for the purpose of appointment of persons authorized to register.

All parties who are not duly appointed by means of the above letters of appointment shall not be authorized to register and may not supply or offer to supply any sugar under the EBA initiative.

7. CONSTITUTION OF THE LDC LONDON SUGAR GROUP

In accordance with Article 1 of the Framework Agreement, the LDC Commercial Group on EBA Sugar in London ("LDC London Group" or "LDC London Sugar Group") is established which shall coordinate all arrangements of a commercial nature including the certification of sugar production for the purposes of the EBA Sugar Quota Allocation Formula, negotiation of commercial contracts with the Refiners and shipping schedules.

i) In carrying out its responsibilities in accordance with the Framework Agreement, the LDC London Sugar Group shall liaise closely with the LDC Brussels Sugar Working Group on all matters of mutual concern. The LDC London Sugar Group shall also liaise with other commercial stakeholders in the EU sugar market, and with Government or European Commission officials on the basis of invitations from these officials. The office of the LDC London Sugar Group shall be situated in London.

ii) Membership of the LDC London Sugar Group shall be limited to duly appointed LDC London Commercial Representatives of Sugar Industries of LDC Sugar Supplying States who have signed the Framework Agreement. Representatives may from time to time and in writing appoint an alternative or alternatives to act on their behalf and in their absence. The rights and privileges of Members shall not be transferable.

iii) An LDC London Commercial Representative shall not be entitled to exercise any of the rights and privileges of membership of the LDC London Sugar Group until he shall have presented his credentials in the form of the Letter of Appointment as LDC London Commercial Representative from the Sugar Industry of Industies of LDC Sugar Supplying States who have signed the Framework Agreement and who have been authorized to supply sugar under the EBA initiative in accordance with the first indent of paragraph 6.1. The Letter of Appointment shall authorize the London Representative to act on behalf of each LDC sugar industry on commercial matters related to the operation of the EBA initiative as regards sugar, including the scheduling of vessels pursuant to the commercial contracts with EU Refiners and other matters of a commercial nature that arise in conjunction with the execution of these contracts and/or in pursuance of the responsibilities of the LDC London Sugar Group.

iv) The affairs of the LDC London Sugar Group shall be managed by a Committee whose membership shall be limited to Representatives representing in number not less than two thirds of the number of LDC Sugar Supplying States registered to supply under the Framework Agreement in any one year.

v) Members shall accept the rulings of the Committee as to their proper conduct in relation to the responsibilities of the LDC London Sugar Group and/or their individual responsibilities as LDC London Commercial Representatives.

vi) The Committee shall annually elect its own Chairman who shall also be the Chairman of the LDC London Sugar Group. The Committee shall also elect a Vice-Chairman who shall act for the Chairman in his absence.

vii) Each Member of the Committee shall have one vote, and in the case of an equality of votes, the Chairman shall have an additional casting vote.

viii) The Committee shall have power to make bye-laws, conduct and manage all the business and affairs of the LDC London Sugar Group and shall exercise the powers, authorities and discretions of the LDC London Sugar Group, and do all other things necessary for carrying on the business of the LDC London Sugar Group. The Committee may from time to time appoint any subcommittee and delegate thereto such powers upon such terms as they shall think fit and may from time to time cancel or remove any such Committee or any Member thereof.

ix) Meetings of the Committee and the Sub-Committees shall be held at such times as the Members of such committees shall think fit. Meetings shall be held in London and conducted in the English language unless otherwise agreed by a minimum of two thirds of the Committee.

x) An LDC Finance Sub-Committee shall be responsible for the receipt and disbursement of monies for account of the LDC London Sugar Group and for presenting a Balance Sheet and an Annual Budget. Where the LDC London Sugar Group Committee decides to procure goods and services from outside companies and groups, the LDC Finance Sub-Committee shall be responsible for drawing up terms and reference and invitations to tender, and for managing the tender process. A minimum of three bids shall be required before any procurement may be undertaken. The decision of the Committee of the LDC London Sugar Group in relation to any tender shall be final and binding; the Committee shall not bind itself to make any award whatsoever under any tender.

xi) A Secretary of the LDC London Sugar Group, who shall also act as Secretary of the Committee, shall be elected annually. The Secretary may act as the first point of contact for third parties to contact the LDC London Sugar Group. All contacts so made shall be reported to the Chairman and members as appropriate. The Secretary shall compile a mailing-list of all members to circulate all relevant messages and information. The Secretary shall assist in the organization of meetings of the Group, Committee and Sub-Committees and with external parties, and for taking the minutes of such meetings.

8. COMMUNICATIONS

In accordance with Article 2c of the Framework Agreement, registration of potential availability to supply sugar under the EBA initiative for each annual delivery period between July and June must reach the Working Group in writing no later than the date indicated in paragraph 4 above (30th April), and must either be handed in, in return for a receipt, or be sent by registered post, fax or electronic-mail. In all cases of electronic communication, copies of required signatures and stamps shall be transmitted and encoded in standard GIF, TIF, JPEG, JPG, PNG or BMP formats, and it shall be the responsibility of the sender to confirm receipt of the communication.

8.1 Copies of registrations

Registations made to the Working Group must immediately be copied to the Secretary of the LDC London Sugar Group either by registered post, fax or electronic-mail.

8.2 Standard Form for Registration

In order to assist the process of communication and registration, an EBA Sugar Standard Registration Form EBA-1 to be filled in by each duly authorized representative may be used, a specimen of which is set out in Annex I hereto.

9. INFORMATION REQUIRED TO REGISTER

In accordance with Annex I of the Framework Agreement, certain information concerning sugar production is required to be certified by the duly accredited LDC Commercial Representatives.

9.1 Detailed Information

In order to comply with the legitimate requirements of the Refiners as regards:

- Refiners compliance with EU and national legislation, including but not limited to compliance with rules of origin, classification of goods under the Common Customs Tariff, legislation as regards import licences, due diligence and money laundering;
- compliance with the Refiners rights and responsibilities under the commercial contract between LDC sugar industries and EU Refiners (Statement of Intent and Standard Contract Terms); and

- Refiners commercial requirements as to quality, reliability of supply, and logisitical constraints;

and in order to enable:

- the calculation of the EBA Sugar Allocations in accordance with the formula provided for in Annex I of the Framework Agreement; and

- the proper arbitration by the LDC Working Group on EBA Sugar, in case of dispute, of matters relating to Registration and the calculation of EBA Sugar Allocations;

all Registrations of availability to supply raw cane sugar for refining under the terms of the Framework Agreement shall be accompanied by the following:

- a photocopy of the letter of the appropriate LDC government representative authorizing the LDC Sugar Industry concerned to supply sugar under the EBA initiative in accordance with paragraph 6.1 above;

- a photocopy of the letter appointing the Representative of the LDC Sugar Industry to make the Registration in accordance with paragraph 6.1 above;

- unless covered in the above letter, a copy of the letter appointing the LDC London Commercial Representative of the LDC concerned to the LDC London Sugar Group in accordance with paragraph 7 (iii) above;

- certified declaration of the quantity of tel quel centrifugal sugar produced during the most recent October/September crop year from cane grown and harvested in the LDC country for which an EBA Sugar Allocation is to be Registered; and

- a certified declaration that the LDC Sugar Industry concerned has the technical capacity to produce and supply raw cane sugar for refining of fair average quality in bulk below a maximum of 99.3 degrees polarization at the time of shipment.

In place of the above, the EBA Sugar Standard Registration Form EBA-1 referred to in paragraph 8.2 above may be used for the purpose of appointment, registration and declaration.

Any Registration which is not accompanied by the above documents, duly certified where applicable, shall be declared null and void.

9.2 Certification

For the purposes of paragraph 9.1 above, certification shall be conducted as follows:

Certification of the quantity of sugar produced shall be certified by the duly authorized LDC London Commercial Representative of the LDC concerned. However, should any duly authorized LDC London Commercial Representative have reasonable cause to doubt the quantity so certified, the LDC London Sugar Group may by simple majority decide that certification of the quantity produced in the country concerned be conducted by an internationally recognised supervision company acceptable to a majority of the LDC London Commercial Representatives who are members of the Committee of the LDC London Sugar Group and who are also currently employed by companies which are Full Members of the Sugar Association of London. Acceptance of any supervision company shall not be unreasonably withheld nor delayed failing which the LDC Sugar Industry concerned shall proceed with the certification.

The certificate of quantity made out by the the duly authorized the LDC London Commercial Representative of the LDC concerned, or the supervision company, as the case may be, shall certify and bear the words, “the quantity of centrifugal sugar produced during the most recent October/September crop year [state year e.g. 2004/05] from cane grown and harvested in [insert name of LDC country which is to be Registered] was [quantity in tonnes tel quel]”.

For certification of the quality of sugar, the supervision company shall draw representative samples from raw sugar clearly segregated and identified by the LDC Sugar Industry concerned to be the cargo available to fulfil the shipment(s) to be shipped in the relevant annual delivery period between July and June. In the event that the LDC Sugar Industry concerned is unable to segregate the sugar to be loaded then samples shall be drawn at the time of loading onto the vessel. These samples shall be sent to an internationally recognised laboratory acceptable to the LDC London Commercial Representatives mentioned above to be analysed. On the basis of the samples so drawn, the internationally recognised laboratory shall issue certificate representative of the polarisation of the whole cargo(es) to be shipped under the EBA Sugar Allocation.

The costs of certification and analysis shall be borne by the LDC Sugar Industry to be Registered and debited directly by the supervision company and laboratory.

10. FINAL PROVISIONS

In accordance with Annex I of the Framework Agreement, the LDC Working Group on EBA Sugar shall, in case of dispute, be the sole arbiter of the calculation of EBA Sugar Allocations.

In accordance with Article 2c of the Framework Agreement, members of the Working Group shall reserve the right to examine the credentials of representatives of the LDC Sugar Industries and may, in their sole discretion, declare null and void any registration which does not fulfill the conditions relating to registration.

All LDC Sugar Supplying States which fail to register in accordance with the Framework Agreement shall be afforded the opportunity to register to supply during the next annual delivery period.

These Detailed Rules on EBA Sugar are directly applicable in all LDCs wishing to ship sugar to the EU under the EBA Framework Agreement on Sugar.

Done at Brussels, XX February 2005

for the Brussels Working Group on EBA Sugar

Dr Ali Youssif AHMED

Ambassador
Chairman of the Brussels Working Group on EBA Sugar

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Annex I

Standard Registration Form EBA-1

Registration forms EBA-1 shall be made out on the form of which a specimen appears in this Annex. This form shall be printed in the English or French language. The EBA sugar exporting States reserve the right to print the forms themselves or may have them printed by approved printers. Each form must bear a serial number, either printed or not, by which it can be identified.

Form EBA-1
Serial number: _______________

Page 1 of 2

EBA Sugar Standard Registration form for Regisitration to Supply Raw Sugar for Refining in Accordance with the EBA Framework Agreement on EBA Sugar.

Note: In accordance with paragraph 8.2 of the Detailed rules concerning the EBA Framework Agreement, notably as regards participation in the EBA sugar quota and Constitution of the LDC London Sugar Group ("Detailed Rules on EBA Sugar"), this form EBA-1 may be used to provide the certifications, authorization and information required in paragraph 9 of the Detailed Rules on EBA Sugar.

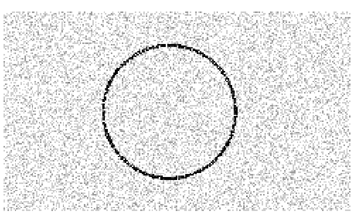
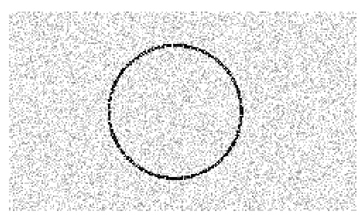
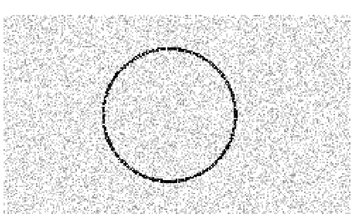
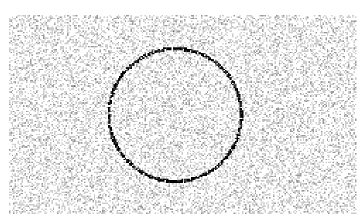
1. EU marketing year for sugar to which this registration applies, e.g. July 2005 to June 2006.	**Box 1. EU marketing year.** ____/_____
2. Full name of LDC country	**Box 2. LDC country.**
3. Name and co-ordinates of the Sugar Industry or Sugar Industries and/or Sugar Exporter(s) authorized in accordance with the EBA Framework Ageement by the Government of the LDC Country specified in Box 2 to supply all EBA sugar during the EU marketing year specified in Box 1.	**Box 3. Authorized EBA sugar exporter.** 3a) Name of Sugar Industry: 3c) Postal address: 3d) Telephone number(s): 3e) Fax number(s): 3f) Email(s): (if more than one authorized exporter, continue overleaf)
4. Name of representative of the LDC Sugar Industry authorized to make the Registration in accordance with paragraph 6.1 of the Detailed Rules on EBA sugar.	**Box 4. LDC Sugar Industry Representative authorized to make the Registration.** 4a) Full name: 4b) Postal address: 4c) Telephone number(s): 4d) Fax number(s): 4e) Email (s):
5. Name of LDC London Commercial Representative of of sugar industry(ies) specified in Box 3. who is appointed to represent the sugar industries on the LDC London Sugar Group in accordance with paragraphs 7(ii) and 7(iii) of the Detailed Rules on EBA Sugar.	**Box 5. LDC London Commercial Representative.** 5a) If same as in Box 4 tick here [ ]; otherwise: 5b) Full name: 5c) Postal address: 5d) Telephone number(s): 5e) Fax number(s): 5f) Email (s):

Form EBA-1.
Serial number: _______________

Page 2 of 2

6. Quantity of tel quel centrifugal sugar produced during the most recent October/September crop year from cane grown and harvested in the LDC country for which an EBA Sugar Allocation is to be Registered.	**Box 6. Quantity of sugar production.** I, the LDC London Commercial Representative appointed and specified in Box 5, do hereby certify that the quantity of centrifugal sugar produced during the October/September crop year immediately preceding the EU marketing year specified in Box 1 from cane grown and harvested in the LDC country specified in Box 2 was ________ metric tonnes tel quel. In accordance with paragraph 9.2 of the Detailed Rules on EBA Sugar, I understand that the costs of any independent certification (if required) shall be borne by the LDC sugar industry specified in Box 3.
7. Declaration that the LDC Sugar Industry concerned has the technical capacity to produce and supply raw cane sugar for refining of fair average quality in bulk below a maximum of 99.3 degrees polarization at the time of shipment.	**Box 7. Technical capacity.** I, the LDC London Commercial Representative appointed and specified in Box 5, do hereby certify that the LDC Sugar Industry specified in Box 2 has the technical capacity to produce and supply raw cane sugar for refining of fair average quality in bulk below a maximum of 99.3 degrees polarization at the time of shipment.

Required Signatures and Stamps

8. Signature and stamp on behalf of the Government of the LDC Country specified in Box 2. 	9. Signature and stamp of the authorized EBA sugar exporter specified in Box 3. 
10. Signature and stamp of the duly authorized LDC Sugar Industry Representative specified in Box 4. 	11. Signature and stamp of the duly authorized LDC London Commercial Representative specified in Box 5. 

Note: All four signatures and stamps are required to authenticate the Registration.

APPENDIX F – LDC LONDON GROUP

The LDC Commercial Group on EBA Sugar in London

Country	Registration received?	Authorized EBA sugar exporter	LDC Sugar Industry Representative	LDC London Commercial Representative	Registered sugar production 2003/2004
Angola					
Bangladesh	Yes	Deshbandhu Sugar Mills Ltd	Sucre Export London Ltd	Sucre Export London Ltd	182,000
Benin	Yes	SUCOBE	SEM Euloge Hinvi	Saccharis (UK) Ltd.	12,123
Burkina Faso	Yes	Nouvelle Sté. Sucrière de la Comoé	Ecosucre SA	Jean Hasaerts / Roger Thiesen	40,930
Burma					
Burundi	Yes	Sté. Sucrière du Moso SM	Ecosucre SA	Jean Hasaerts / Roger Thiesen	22,000
Cambodia					
Centrafrique					
Chad					
Congo DRC	Yes	Compagnie Sucrière scarl	Groupe Sucrier SA	C. Czarnikow Sugar Ltd.	78,306
Ethiopia	Yes	Ethiopian Sugar Industry Support Center Sh. Co.	Tesfaye Eshete	HE Fisseha Adugna	280,000
Guinea					
Haiti					
Laos					
Madagascar	Yes	Sté. Siramamy Malagasy	Saccharis (UK) Ltd.	Saccharis (UK) Ltd.	26,134
Malawi	Yes	Illovo Sugar (Malawi) Ltd	Ray de Allende	ED&F Man Sugar Ltd.	243,956
Mali	Yes	SUCALA - SA	SUCALA - SA	Saccharis (UK) Ltd.	34,500
Mozambique	Yes	Distribuidora Nacional de Açúcar	APAMO	Peter McKerchar	221,924
Nepal	Yes	National Trading Ltd	Sucre Export London Ltd	Sucre Export London Ltd	130,000
Niger					
Rwanda					
Sierra Leone	Yes	Complant Magbass Sugar Complex Co Ltd	Sao Xintai	Saccharis (UK) Ltd.	2,000
Senegal	Yes	Compagnie Sucrière Sénégalaise	Saccharis (UK) Ltd.	Saccharis (UK) Ltd.	80,091
Somalia					
Sudan	Yes	Kenana Sugar Company Ltd	Mekki Merghani Osman	Crescent Resources Ltd	760,000
Tanzania	Yes	Sugar Board of Tanzania	ED&F Man Sugar Ltd	ED&F Man Sugar Ltd	223,157
Togo	Yes	Sté. Sino-Togolaise	Saccharis (UK) Ltd.	Saccharis (UK) Ltd.	7,065
Uganda	Yes	Kinyara Sugar Works Ltd	Kinyara Sugar Works Ltd	Saccharis (UK) Ltd.	204,805
Zambia	Yes	Sugar Producers Association of Zambia	Rebecca Katowa	Comfin Trading Ltd.	280,229
Total					**2,829,220**

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