IUF on the WTO Decision on EU Subsidised Sugar Exports, the Process of Reform of the EU Sugar Regime, and the Sugar Sectors in the ACPs/LDCs

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The WTO and the EU Process of Sugar Reform

On 28 April, the Appellate Body of the World Trade Organisation (WTO) upheld a previous WTO ruling that the European Union (EU) illegally subsidises a significant portion of its sugar exports, in excess of its commitments in the WTO, and cross-subsidises the production – and subsequent exports – of the so-called "C" Sugar. The decision is final. The EU had appealed the WTO ruling of October 2004, which had agreed with complains presented by Australia, Brazil and Thailand.

There is no solid argument in favour of the EU maintaining its subsidies on its sugar exports, beyond what the WTO has established as agreed limits in value and/or volume (including the re-exporting of ACP sugar), or to the practice of cross-subsidisation. The world sugar trade is too tightly knit as for any national policy not to have an impact on other countries, particularly when a country like the EU exerts such a dominant position in the international sugar sector: the EU-25 is the world's second largest sugar producer, and appears among the world's top three consumers, importers and exporters of sugar. The WTO ruling opens possibilities for many significant changes in the world sugar sector, with some probable scenarios discernable already, e.g. increasing Brazil's already predominant position in the sector (with the implicit risks the growing dependency of the stability of sugar markets on the performance of one player: cane is a crop from where sugar is manufactured; as a crop it is susceptible to changing weather patterns).

The WTO ruling would accelerate, and probably deepen, the process of reform of the EU sugar regime, which is an independent yet related process to reduce the support to EU beet growing and sugar manufacturing. First proposals for changes to some key aspects of the regime (production quotas, reference price) were announced in June 2004. The EU Agriculture Commission has said recently it would submit a new proposal by 22 June 2005, with the aim at finalising it by November, before the Hong Kong WTO ministerial meeting of December 2005.

The EU sugar sector is therefore at the brink of a major restructuring, notwithstanding the current political discussion about the pace and breadth of the reform. A study by the EU Agriculture Commission is quoted as saying that about 25,500 direct industrial/factory jobs would be lost and 54 factories be closed in the EU-15 as a result of the June 2004 proposed reforms. The European Committee of Sugar Manufacturers (CEFS) estimates that production would decline by one third within two years. EU sugar exports would practically cease.

A key issue raised by European trade unions is, as stated by European Federation of Trade Unions in the Food, Agriculture and Tourism (EFFAT), the IUF-European region, that the reform does not provide for the betterment of living and working conditions in the sector. EFFAT emphasizes that employment and protection of workers' rights are key elements in the reform. Important in the future implementation of any reform program is a Code of Conduct on Corporate Social Responsibility (CSR) in sugar, negotiated by EFFAT and the CEFS, the sugar social partners. The Code covers a number of areas including Human Rights, Health and Safety; Relations between the Social Partners; Fair Pay; and Restructuring, and is an instance of an advanced culture of industrial relations and social legislation. Basically, however, the Code is a product of decades of trade union work and struggles that has created high quality and decent jobs.

The Sugar Sectors in the ACPs and LDCs

Although the WTO ruling and, specially, the EU process of reform are primarily policy issues related to the EU, they will have a major impact on the sugar industries in the Africa, Caribbean and Pacific countries (ACP) and the Least Developed Countries (LDCs). The EU provides, along with the US tariff-rate quota system, one of the two preferential sugar markets, after the collapse of the Soviet Union and the ending of the USSR-Cuba sugar arrangements. What is important for workers, unions and policy makers to understand and act upon is the nature and characteristics of the connection between trade and development, between trade and decent jobs in these countries.

The ACP countries are traditional suppliers of (mostly raw) sugar to the EU under the 1975 EU/ACP Sugar Protocol, which in the past thirty years has allowed them to enjoy the relative high EU *domestic* prices on a fixed volume and in a long-term arrangement. (An agreement originally stated as of "indefinite" nature.) Since 1975, the ACPs have sold – and continue to do so – a significant volume of their sugar production in a high-priced market, even though prices have varied due to currency fluctuations. The EU's Everything But Arms (EBA) trade agreement passed in 2001 offers the LDCs a similar preferential treatment with prices linked to EU prices. The reduction in the EU domestic support (and therefore prices) sought by the reforms will only accelerate with the WTO ruling; the ACPs and LDCs are set to lose a quite attractive price, which, for some of them, seems to be the only apparent reason to continue producing sugar.

What a reduction in preferential prices means for ACP traditional sugar suppliers and potentially new LDCs exporters has already been described by governments and industry spokes-groups, with the basic argument that lower prices means the end of production of sugar for exports in some traditional industries, in particular those in the English-speaking Caribbean; and the possibility of frustrating the future sugar development in some "low cost" producers, particularly those in Africa. It needs to be said, however, that some traditional exporters have found in the EU reform a convenient explanation for their inability to maintain an efficient and well-run sugar sector, which, despite the preferential agreement with the EU, has been run-down by government policies and heavy political interference.

The challenge to ACP and LDC sugar that emerges from the WTO ruling and the EU process of reform is the readjustment of the sector in those traditional exporters able and willing to continue growing cane and manufacturing sugar, and the building and rebuilding of industries in some LDCs. Understandably, political leaders and trade negotiators in these countries have as a cornerstone of their sugar policies a continued EU preferential trade (fixed volume, relative high prices, long-term period), or at least a longer-than-proposed transition period. Access to export markets is the crucial factor: they understood trade as an engine for development.

Workers and unions contest the argument that access to export markets *per se* produces development, development that – as unions, workers and communities understand – is to be defined by the availability of decent jobs. The challenge from the WTO ruling and the EU process of reform has to be answered not only in terms available in the current, or to be created, trade policies and instruments but, most importantly, in terms of the long-term sustainability of the sugar sector.

The potential loss of a number of decent jobs in the EU sugar sector has to be a concern for every sugar worker in the world, any sugar consumer in the EU, and, in fact, for *anyone involved in the international sugar industry.* With a reformed EU sugar regime, production would certainly fall from present levels, but it would be unwise to accept that the quality of the sugar jobs in the EU depends on subsidising exports or supporting domestic beet growing. The EU sugar regime does not require workers to be paid a certain level of wages or salaries, be granted social benefits, or be assured safe working conditions. These are the result of negotiations between the social partners, which eventually have become or influenced social and labour legislation. The quality of the EU sugar jobs has mostly depended, and will continue to do so, in the ability of workers and unions to negotiate improved terms and conditions. A decline in EU sugar production does not lead inevitably to low quality jobs in the sugar sector. (A finer analysis would require a clearer distinction between West European countries and East European countries in transition.)

This is relevant for unions and workers in other latitudes. Internationally, sugar workers and their unions do understand that improving the quality of their jobs depends primarily on their ability to organise and negotiate (and the respect for workers' rights), independently from policies that may guarantee revenues for the sector, such as the sugar intervention price and the basic and minimum beet prices in the current EU sugar regime or the non-recourse loans to processors that depend on minimum beet/cane prices paid to the growers in the US domestic sugar program. Initial findings of an IUF research on trade, development and decent jobs suggest that the EU/ACP Sugar Protocol, which has provided reasonable revenues to the ACP sugar exporters over the past 30 years, have had a limited direct impact on workers' conditions in those countries.

Exercising union and worker rights is where the sugar sectors of different countries may become comparable: practicing social dialogue as understood in the context of the tripartite ILO or good faith collective bargaining negotiations do not require the partners to be rich. They are perfectly feasible in any circumstance.

The situation in many LDCs and ACPs, whose industries will be affected by the WTO ruling and the EU reforms, is not as clearly defined by the strength of unions, however. Increased trade, even if preferential, does not necessarily translate in decent jobs in these countries. As the IUF Mozambican sugar affiliate states, the rehabilitation of the sugar sector in their country has created some 25,500 new jobs but, it adds, 75 percent of them are seasonal or casual, even when some workers labour for more than eight months during the year and some have worked for several years in a row. The IUF affiliate also asks about the future that awaits their country, when presently sugar workers have no comprehensive pension plans in place. The lack of such a crucial social security feature (pension plans) is not privy to new or rebuilt industries like the Mozambican: evidence being collected by the IUF research shows that pension plans for sugar workers in one traditional exporter in the English-speaking Caribbean are, for practical reasons, non-existent, despite the country's centuries-long sugar history and the thirty years of preferential prices in the EU. Recent collective bargaining negotiations in the sugar sector of the United States had companies seeking (and achieving) cutbacks in workers' benefits, like pension plans and medical care, and not necessarily lower wages.

It is an ironic coincidence that the number of jobs created by the recovery of sugar production in Mozambique is identical to the number of jobs foreseen to be lost with the reforms of the EU regime, but no cause-effect relationship should be construed or is even suggested here. What this may imply is that, globally, the sugar sector seems ready to exchange decent jobs for much less protected ones. This model of sugar industry will never lead to sustainable development anywhere; it leads to an industry looking for ever-increasing profits as investors respond to movements in financial markets, like the operations of the two South African companies that dominate the sugar sector in Southern and East Africa demonstrate.

Understanding development requires evaluating several interrelated aspects: from economic growth to wealth creation to the well being of people. However, the relevant question is whether production systems actually provide decent jobs: Trade only realises what production has first created.

The IUF Sugar Program is based on two principles when dealing with trade issues: (a) the long-term sustainability of the sector is the primary concern, and is a concept that evolves from the availability of decent jobs and the use of environmentally sound production practices, (b) trade policies and instruments at the national, regional and international levels, are there to encourage and support the long-tem sustainability of producing sugar. In the centuries-old international history of sugar manufacturing and trade, however, this concept of sustainability has not been widely used. That history also shows that trade by itself does not necessarily foster decent jobs and development for all the parties involved.

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