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EBA-equivalence for non-LDC Sugar Exporters?

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1. Introduction

The EU's Everything but Arms (EBA) initiative provides preferential access to the EU for least developed countries' (LDCs) agricultural exports. This involves unrestricted duty-free access for most of these products, though in the case of a few sensitive products including sugar the liberalisation is to be phased between 2008 and 2009. EBA offers the agricultural-exporting LDCs the opportunity to increase agricultural production and exports. In the case of those agricultural products, including sugar, which are particularly highly protected it offers the opportunity to gain a high margin of preference and a large potential income transfer associated with the excess of the EU over the world price (and potentially also in excess of the cost of production in these developing countries). Of course this margin of preference and any associated income transfer will be eroded by the expected reform of the EU's Common Agriculture Policy over the coming years, which will reduce EU domestic prices and lower EU tariffs on agricultural products. The recently announced reforms to the EU's sugar regime illustrate this development.

The case of sugar is complicated by the fact that the EU already has a special regime of preferential access for some developing countries (least developed and other) in the ACP (African Caribbean and Pacific) grouping. These Sugar Protocol (SP) countries have both fixed (guaranteed) and additionally negotiated (SPS) quotas for sugar exports to EU at approximately EU domestic prices. For the LDCs with SP status then EBA clearly offers scope for exporting sugar to the EU beyond their current SP (and additional quotas) on preferential terms similar to their SP sugar exports. But the non-LDC SP countries are currently excluded from this opportunity to increase their sugar exports to the EU beyond their protocol quotas. Of course some may not have the capacity to expand, especially where their protocol quotas are large and account for all or most of their sugar exporting capacity. But the pattern of protocol quotas has been historically determined and there is not an even distribution across protocol countries, nor is the ratio of the quota to each country's export capacity. In which case some non-LDC protocol countries may have an interest in gaining equivalent treatment for sugar as EBA offers to the LDCs, either to increase their exports to the EU or to offset some of the likely losses from EU sugar reform.

Interest in EBA-equivalent treatment for their sugar exports is not necessarily restricted to the non-LDC membership of the protocol grouping of ACP countries. There are also some non-protocol countries (e.g. Dominican Republic and Papua New Guinea) that have traditionally exported sugar, and there are some that may have potential to generate an export capacity. EBA-equivalence may offer these countries scope for expanding sugar exports.

This article reports on the findings of a larger study (Milner, 2005) into the nature of EBA-equivalence and its implications for a range of non-LDC sugar exporters.

2. EBA and Sugar

The full EBA arrangements came into force in March 2001 for an unlimited period, except for three products (bananas, rice and sugar) for which there were phase-in periods to full market access. In the case of the sugar sector full liberalisation of sugar is to be phased in between 2006 and 2009 by gradually reducing the Community MFN tariff to zero; a quota for duty-free access for LDC raw sugar of 74,185 tonnes (white-sugar equivalent) in 2001/2 is to be raised by marketing year 2008/9 to 197,355 tonnes. The provisions of the EU-ACP Sugar Protocol (SP) arrangements are still to remain in place. Post the full implementation of the EBA for the sugar sector there will therefore be two regimes for duty-free access for sugar to the EU; unrestricted access under EBA for all LDCs and quota constrained access for a mixture of LDCs and non-LDCs under the Sugar Protocol. For non-protocol LDCs therefore there is an unambiguous opportunity to benefit from higher prices and increased export volumes; the extent of the benefits depending on price competitiveness and on the responsiveness of export supply. For protocol LDCs there is also an unambiguous opportunity to gain from EBA. Under SP their duty-free access is quota-constrained, but with EBA they have an opportunity to expand duty-free sugar exports to the EU beyond their SP quotas. (Again the extent of the gains will depend on cost and domestic supply conditions in these countries' sugar sectors.)

For non-LDCs the outcome is more ambiguous. Non-protocol LDCs in general may experience losses to the extent that sugar trade is diverted away from them towards EBA-receiving LDCs. Such countries clearly have an interest in gaining equivalent treatment to or status as EBA countries (EBA-equivalence). With EBA-equivalence the scope for and extent of gains will depend on the same factors as determine the gains for actual EBA treatment. The non-LDC protocol countries have continued duty free access, and EBA-equivalence may not offer any additional opportunities if their SP quotas are large and the scope for expanding production and export supply is constrained. Some non-LDC SP countries, whose SP quotas are relatively small and have the capacity to expand their exports to the EU, could however gain from EBA-equivalence.

It is not clear in advance of any negotiations whether specific non-LDCs offered EBA-equivalence for sugar would be included within the global EBA quotas during the transitional period, or whether additional country-specific quotas would apply and for a time period specific to that country. A further complication in the case of non-LDC protocol countries is that any improvement in market access arising out of EBA-equivalence may be offset in part or whole by adjustments to SPS preferential quotas. In assessing Market Supply Needs and SPS quotas the EU is likely to take into account EBA quotas (as well as domestic production and SP and other preferential sugar). SPS quotas may be reduced over the transitional period. This provides non-LDC countries an incentive to seek to offset SPS quota reductions with EBA-equivalent treatment.

Finally, the analysis of the EBA or of EBA-equivalence cannot be separated from the wider EU sugar regime and in turn the impact of the EU regime on world sugar prices. In September 2002 Australia, Brazil and Thailand filed complaints at the WTO concerning the EU's sugar regime.

They complained that the volume of the EU's subsidised exports (subsidised explicitly through export refunds or indirectly through the cross-subsidisation provided to intervention sugar) exceeded the levels that the EU had committed itself under the Uruguay Round Agreement. The WTO subsequently judged the EU sugar policies to be illegal (upholding its judgement in April 2005 following an appeal by the EU). The Appellate Panel of WTO interestingly also viewed the subsidised re-export of an amount equivalent to the imports from the ACP Protocol countries (and from India under a special bilateral agreement) as contributing to the excess of subsidised EU exports. (This ruling of the WTO panel did not however affect the right or legality of the EU to import sugar from the ACP and India on preferential terms.)

The need for reform of the EU sugar regime was recognised by the EU prior to WTO ruling on sugar exports. The rejection of the EU appeal against the WTO ruling has forced the EU to consider deeper reforms. Reforms announced in June 2005 propose a cut in the EU intervention price by 39% over two years starting in 2006, with a reference price of €475 per tonne in marketing year 2007/8 and €385 per tonne for 2008/9. These reforms will clearly lower substantially the benefits of EBA, but will not eliminate them since the EU price will be higher than the world price.

3. Possible Candidates for EBA-equivalence in Sugar

Non-protocol Candidates for EBA-equivalence

Data on the production of sugar (in raw tonnes), and their gross and net exports in 2001 were reviewed for the ten ACP countries which are both non-LDCs and non-protocol countries . No data are available for two of these (Djibouti and Botswana), but both are not expected to have sugar export potential. One country (Ghana) has no recorded production or exports in 2001. Again we can ignore them for the present exercise. Three further countries (Senegal, Nigeria and Gabon) have some sugar production but no exports in 2001. The large negative net exports figures for two of those countries, especially for Nigeria, suggests that export potential looks unlikely. In Gabon's case current production is very small and again the prospect of export potential seems very limited. Finally, in the non-positive net export category is Cameroon. It, however, does have some exports (all incidentally to non-industrial country markets) and a higher level of production than one of the net exporters.

Of the three remaining countries (South Africa, Dominican Republic and Papua New Guinea) South Africa is the dominant existing producer and exporter. We presume however that South Africa's access to the EU market will be governed, in due course, by the EU-South Africa Free Trade Agreement (FTA). That leaves two countries with both positive gross and net exports. In the case of the Dominican Republic all of those exports in 2001 went to USA, while about 80% of Papua New Guinea's exports in 2001 were to the USA. Even if there were preferential terms of access to the USA in both of these cases (as quota suppliers exempt under GSP or the Caribbean Basin Initiative), it does indicate a capacity to export and at terms that may be less favourable than EBA-equivalence.

Protocol Candidates for EBA-equivalence

All of the SP countries may be interested in EBA-equivalence in order to offset any loss in SPS quotas. This is particularly so for some of the African SP countries for whom the SPS quota is large relative to the SP quota (e.g. Cote d'Ivoire, Kenya, Malawi, Zambia and Zimbabwe) and for those countries with a sufficiently large absolute SPS quota (e.g. Mauritius, Swaziland). In fact all of these countries may have an interest in EBA-equivalence on this criteria, but for some of the countries (e.g. Barbados, St Kitts & Nevis) the SPS is in absolute terms quite small and the scope for offset benefits therefore quite limited in absolute terms.

For the SP non-LDC countries the major source of potential benefit from EBA-equivalence lies in the scope to export to the EU beyond their current SP and SPS quotas. Those countries for whom exporting under preferential terms to the EU currently accounts for all or the bulk of their production and export capacity have limited capacity to benefit from EBA-equivalence. This group of countries includes Mauritius, Barbados, St Kitts & Nevis, Jamaica and Trinidad.

Of the remaining seven countries, two (Kenya and Cote d'Ivoire) have significant domestic production but no or virtually no non-preferential exporting and they also have net trade deficits on their sugar trade. These are problematic cases. The other five countries (Swaziland, Zimbabwe, Belize, Guyana and Fiji) have from non-negligible to significant shares of non-EU exports in their total exports. These are therefore less problematic cases for viewing as potential beneficiaries from EBA-equivalence.

4. Quantifying the Possible Implications of EBA-equivalence

There are three possible ways in which a candidate country might benefit from EBA-equivalence. These are:

(i) the offset or compensation for any loss of exports and income associated with a reduction in SPS quota (the SPS substitution effect)

(ii) the increase in export earnings and income associated with the diverting of current sugar exports from un- or less preferentially-treated markets to preferential treatment under EBA-equivalence (the export diversion effect)

(iii) any increase in overall exports induced by the availability of preferential treatment under EBA-equivalence (the export creation effect).

SPS Substitution Effect

It is not a requirement of EBA-equivalence that existing protocol countries should experience falls in their SPS quotas. It is not unreasonable, however, to expect with the need to meet WTO obligations with regard to subsidised exports and to fully liberalise exports after 2008 from LDCs under EBA arrangements that the EU may well be pressured into reducing and feasibly eliminating SPS quotas.

Clearly all of the protocol countries are better off with SPS under current arrangements than with EBA-equivalence under proposed or projected EU and world prices. At an EU intervention price of €612 (post-cif adjustment) then SPS exports are valued at nearly €115 million, generating an excess of export income over above the world price (or 'income transfer') of €75.6 million overall for the protocol countries. By contrast the EU intervention price indicated for 2008/9 by the EU under recent reform proposals would reduce the total value of SPS exports by about 40% (from €114.9 million to €68.5 million). In turn this reduction in the EU price, combined with the assumed reform-induced rise in world sugar prices, would reduce the total income transfer to protocol countries from €75.6 million to approximately €17.1 million. These reductions vary ***in absolute terms*** across the protocol countries as the SPS quota varies (assuming the quota is filled), with Mauritius and Swaziland experiencing particularly large discrepancies in the value of exports and the income transfer under the two regimes. Of course, for some other countries SPS quota may also be of ***relative*** importance. The SPS quota (e.g. Cote d'Ivoire, Kenya, Malawi, Zambia and Zimbabwe) is large for some countries relative to the normal protocol agreed or guaranteed quantities.

The current SPS arrangements may dominate prospective EBA-equivalence, but EBA-equivalence dominates the complete loss of SPS quotas. Without EBA-equivalence and with the loss of SPS quotas there would be a complete loss of the export earnings and income transfer as valued above. ***Providing that the protocol countries are cost-competitive at the reduced EU intervention price (which may not be the case)***, the protocol countries may offset possible SPS losses (from quota reduction) by negotiating EBA-equivalent access to the EU for sugar. If loss of SPS quota is the appropriate anti-monde, then table 1 shows in total that up to €17.1 million (about 23%) of the potential income transfer currently earned by SPS exporters can be retained through EBA-equivalence. (We record a lower limit for the SPS substitution effect as zero for all countries either because SPS quotas may not be reduced or because if quotas are eliminated a country may not be cost competitive at the reduced post-reform EU price.)

Export Diversion Effect

EBA-equivalence may provide an incentive to divert exports from non- or less preferential markets to the preferential EU market, if the EU intervention (or tariff-inclusive) price under EBA terms is greater than the price received in non-EU markets. For those countries we value their current exports of sugar to non-EU markets at the proposed 2008/9 EU import price, where either all of these exports are diverted or where only those exports not to the USA are diverted. We report the corresponding minimum and maximum income transfers associated with these indicators of potential export diversion in Table 1.

In volume terms the large non-EU exporters are Swaziland, Zimbabwe and Dominican Republic, and its these countries that are potentially large gainers from export diversion. In the case of the Dominican Republic (Cameroon) all non-EU exports are (may be) to the USA, and the scope for gains and incentive for diverting to the EU market may be very limited (with similar preferential terms in both the USA and EU under EBA-equivalence). All countries with some exports to other than the EU and USA would have a potential incentive to switch exports towards the EU under EBA-equivalence. Even for the lower estimates the income transfer involved is estimated to range from €0.1 million (Papua New Guinea) to €14.5 million (Swaziland), with the protocol countries accounting for the bulk of the total income transfer (€27.6 million).

Export Creation Effect

If EBA-equivalence offers higher export prices for marginal production, and in particular in excess of production cost, then countries have an incentive to increase export supply. We investigate the possible effects (again for those countries already exporting to other than the EU, and who may therefore have some existing capacity to export at less preferential terms than EBA-equivalence) given positive export supply elasticity. We conduct an analysis using a (relatively low) supply elasticity (0.3), to predict the export volume, value (at the proposed 2008/9 EU price) and income transfer impacts of the sugar export price being increased from the predicted world price to the proposed EU price (25.1%). We report here on taking total non-EU exports as the base for the calculation. One might view this as providing an upper estimate of the quantity and value of export expansion and of the income transfer associated with EBA-equivalence. We therefore also report a lower estimate of zero for all countries, either because there is no current non-preferential exporting currently or because production costs may exceed the proposed EU price.

The cross country pattern of results Table 1 is very similar to those for the export diversion effect in the previous section. The large, existing non-EU exporters (Swaziland, Zimbabwe and Dominican Republic) may be able to generate the largest export volume, value and income transfer effects for a given export supply elasticity. This effect is consistently, however, relatively small compared to the estimated export diversion effect.

Constraints and other issues

The above discussion identifies the incentive that EBA-equivalence may offer to increase export supply. But there may be significant constraints to increasing export capacity and supply, in particular at sufficiently competitive prices to take advantage of EBA-type opportunities. Natural conditions (e.g. land availability, climate factors) as well as organisational and infrastructural factors may not be conducive to the expansion of sugar production and exports, especially in the face of growing domestic incomes and consumption. In this regard, any assessment of an individual country's likelihood of taking advantage of the type of export opportunities suggested by table 5 needs to be set against an evaluation of cost competitiveness made. Higher cost producers are less likely to be able to achieve export creation effects towards the upper end of the estimation range. Indeed they may not experience any export creation benefits from EBA-equivalence.

Overall Effect

The range of combined effects is recorded in the final column of table 1. For only 6 countries is the lower limit positive (and only marginally so for two of these, namely Papua New Guinea and Belize). Of the remaining four countries, it is Swaziland and Zimbabwe that seem to have the strongest interest in EBA-equivalence; with the highest minima and maximum income transfers identified. Guyana and Fiji, however, also have an ambiguous interest in EBA-equivalence.

Of course there are a number of countries that may feel there is little to lose by seeking EBA-equivalence. There are non-negligible positive potential upper limit income transfers identified for Belize, Cote d'Ivoire, Mauritius and Dominican Republic. Of course for all the protocol countries an important judgement to make relates to whether opting for EBA-equivalence would increase the likelihood that the EU would want to reduce SPS quotas.

Table 1 Summary of Incidence and Possible Magnitude of EBA-equivalence Effects

	SPS Substitution Effect		Export Diversion Effect		Export Creation Effect		Total Effect
	Incidence of Effect[1]	Min→Max Income Transfer[2] (in mill €)	Incidence of Effect	Min→Max Income Transfer[1] (in mill €)	Incidence of Effect	Min→Max Income Transfer[1] (in mill €)	Min→Max Income Transfer[1] (in mill €)
a) Protocol countries							
Barbados	✓	0→0.26	x		x		0→0.26
Belize	✓	0→0.45	✓	0.60→4.28	✓	0→0.32	0.60→5.03
Congo	✓	0→0.23	x		x		0→0.23
Cote d'Ivoire	✓	0→0.91	✓?	0→3.62	✓	0→0.27	0→4.80
Fiji Islands	✓	0→1.74	✓	2.41→3.10	✓	0→0.23	2.41→5.07
Guyana	✓	0→1.81	✓	3.86→5.00	✓	0→0.38	3.86→7.19
Jamaica	✓	0→1.45	x	-	x		0→1.45
Kenya	✓	0→1.00	x		x		0→1.00
Mauritius	✓	0→3.82	x		x		0→3.82
St Kitts & Nevis	✓	0→0.17	x		x		0→0.17
Swaziland	✓	0→2.73	✓	14.54→15.48	✓	0→1.17	14.54→19.38
Trinidad	✓	0→0.23	x		x		0→0.23
Zimbabwe	✓	0→2.28	✓	12.91→14.76	✓	0→1.11	12.91→18.15
b) Non-protocol countries							
Cameroon	x		✓	0.93	✓	0→0.07	0.93→1.00
Dominican Republic	x		✓	0→12.48	✓	0→0.94	0→13.42
Papua New Guinea	x		✓	0.12→0.70	✓	0→0.05	0.12→0.75

[1] ✓ indicates presence and x absence of effect

[2] Annual amount at projected EU and world prices (expressed at current prices)

Again in judging the likelihood of where countries will fall in the range of possible outcomes one needs to consider whether there are cost competitive or other constraints affecting the scope for export diversion or creation.

The present analysis is not well equipped to capture changes in the fundamentals. The analysis of export diversion and creation focussed on those countries that have already some non-EU exports, on the grounds that this suggested the possibility of exporting at less than the full preferential terms. But even countries that are currently viewed as high cost producers and have limited export experience might in a different environment be able to substantially alter performance. Kenya did not even export in 2001 up to the limit permitted by its SPS quota, and had no non-EU exports. However significant liberalisation of the EU sugar market, and fundamental changes in economic policy and other conditions within Kenya may alter patterns of comparative advantage and international specialisation which can not be captured by the methodology used here.

5. Conclusions and Policy Implications

A number of clear conclusions come out of the analytical and empirical analysis, namely that:

(1) With the reform of the EU sugar sector and the lowering of the intervention price (and the likely, corresponding rise in world prices) the benefits arising from preferential access to the EU will be eroded. EBA should not impose quantity constraints on access (beyond the transitional period or unless safeguard measures are used). In which case a low cost producer may see EBA-equivalence as offering benefits arising as much from improved access (as from the tariff preference). Some tariff preference would remain from EBA-equivalence, however, as long as the EU price is in excess of the world price (i.e. the MFN tariff on sugar is positive).

(2) The scope for benefiting from EBA-equivalence differs between protocol and non-protocol countries, and between higher and lower cost producers. In the case of the protocol countries there may be an added incentive to acquire EBA-equivalent status in order to compensate for the likely reductions (with a reforming EU sugar market) in SPS quotas. The importance of this motive will be affected also by the (historically-determined) distribution of SPS and SP quotas across the protocol countries. For those countries with larger SPS quotas the SPS-substitution motive will be a particularly important consideration. Those countries with large SP quotas relative to their capacity have a more limited interest in EBA-equivalence since EBA offers no improvement in the margin of preference.

(3) Both protocol and non-protocol countries (non-LDCs) may have an incentive to seek EBA-equivalent treatment because it allows them to increase their exports and/or to switch their exports from export markets where their exports are less preferentially treated to the EU. The latter effect is only possible if there is currently exporting to non-EU markets, and on less favourable terms. Although export expansion may be possible for any country whether or not they export currently, it can be more credibly anticipated where there is current exporting at world prices or at prices no higher than is to be expected with EBA-equivalence.

(4) The countries that appear to unambiguously be the potential large winners from EBA-equivalence are Swaziland and Zimbabwe, largely because of the opportunity to divert exports from less preferentially treated markets. Fiji and Guyana have similar incentives for pursuing EBA-equivalence, though the scope for export diversion is substantially smaller.

Of the non-protocol candidates, Cameroon, Dominican Republic and Papua New Guinea look unlikely to be substantial gainers for EBA-equivalence. They have limited current exporting to non-preferential markets, and the post-reform EU price is unlikely to provide a strong incentive for export growth.

Transitional and Other Policy Issues

The present estimates of the effects of EBA-equivalence relate to the proposed EU sugar prices of 2008/9. The price before then will be higher, with correspondingly larger export values and income transfers associated with each of the effects (SPS substitution, export diversion and export creation) than indicated above. In this regard EBA-equivalence might be viewed as offering support for countries' own transitions towards reduced sugar production and export dependence, and of providing some offset (for the protocol countries) for anticipated reduction in SPS quotas. Indeed this offset will be sustained while ever EBA preference exists. Given EU enlargement and EBA supply, it is reasonable to expect SPS quota reductions to kick in quickly.

Of course the benefit claimed above for SPS substitution may be illusory. Access under EBA-equivalence may in fact be constrained by the use of safeguard measures. Indeed negotiating for EBA-equivalence by protocol countries may increase the incentive for the EU to reduce SPS quotas (and/or for widening the pool of countries that are offered SPS quotas to include LDCs with quotas under the transitional arrangements for EBA sugar). In this regard there would need to be considerable care exercised by protocol countries so that EBA-equivalence was negotiated to protect SPS quotas and status as much as possible. Similarly LDCs with interest in EBA sugar will be anxious that EBA-equivalence does not reduce the quotas available to them in the transitional period. Additional transitional quotas for the EBA-equivalent countries would be attractive, but may be difficult to negotiate in the face of internal resistance to the current EU sugar liberalisation.

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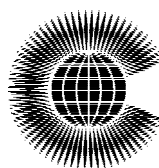

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