



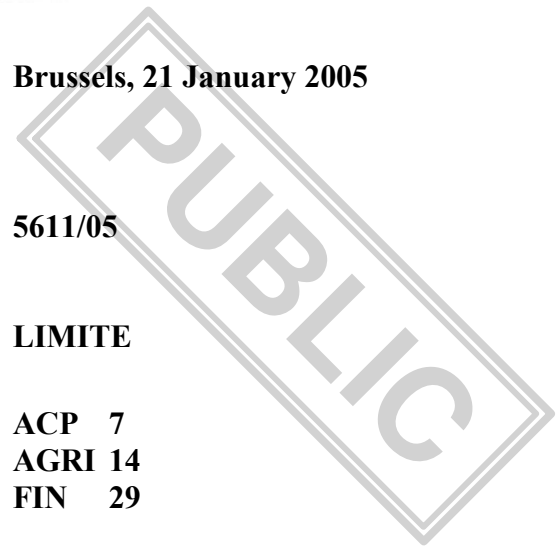
**COUNCIL OF  
THE EUROPEAN UNION**

**Brussels, 21 January 2005**

**5611/05**

**LIMITE**

**ACP 7  
AGRI 14  
FIN 29**



**COVER NOTE**

---

from: Secretary-General of the European Commission,  
signed by Ms Patricia BUGNOT, Director

date of receipt: 18 January 2005

to: Mr Javier SOLANA, Secretary-General/High Representative

---

Subject: Commission Staff Working Document: "Action Plan on accompanying  
measures for Sugar Protocol countries affected by the reform of the EU sugar  
regime"

---

Delegations will find attached a Commission staff working document SEC(2005) 61.

---

Encl.: SEC(2005) 61



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 17.1.2005  
SEC(2005) 61

**COMMISSION STAFF WORKING PAPER**

**Action Plan on accompanying measures for Sugar Protocol countries affected by the reform of the EU sugar regime**

## TABLE OF CONTENTS

1.	The sugar sector .....	3
1.1.	International trade in sugar.....	3
1.2.	Context of the ACP-EU Sugar Protocol.....	3
2.	Framework for EC support to Sugar Protocol countries .....	5
2.1.	Rationale for EC action .....	5
2.2.	Objectives and principles of EC support.....	5
3.	Improving trading conditions on external markets .....	7
3.1.	Multilateral level: in the framework of WTO .....	7
3.2.	Bilateral level: EPA negotiations with ACP countries .....	8
3.2.1.	Access to EU markets under EPAs .....	8
3.2.2.	Development of regional markets and diversification opportunities .....	9
4.	Responding to the development needs of affected countries .....	9
4.1.	Key questions for targeting of development assistance .....	9
4.2.	Supporting sustainable improvement of the competitiveness of the cane sector.....	10
4.3.	Promoting diversification of sugar dependent areas .....	11
4.4.	Addressing broader adaptation needs.....	12
5.	Implementation considerations and sources of funding.....	13
5.1.	Delivery mechanisms .....	13
5.2.	Financial endowment .....	13
5.3.	Timing .....	14
5.4.	Dialogue, evaluation, and review .....	14

Recognising the likely needs of Sugar Protocol countries to adapt to the new market conditions to be created by the reform of the EU sugar regime, the Commission is committed to accompanying this adaptation process. This is an integral part of the Commission's proposal for reform, as stated in its Communication "Accomplishing a sustainable agricultural model for Europe through the reformed CAP – sugar sector reform"<sup>1</sup>. The objective of the present Commission Working Document is to set the broad lines along which the Commission could propose to support the ACP countries while providing a basis for dialogue with them. Thereafter, the Commission will adopt and propose to the EU Council and Parliament a formal document, incorporating as much as possible the views of ACP countries. Specific strategies will have to be elaborated or updated by the concerned countries themselves, to ensure relevance and efficiency of any adaptation scheme at national level.

## **1. THE SUGAR SECTOR**

### **1.1. International trade in sugar**

Sugar is a widely traded commodity with international trade representing about 30% of world production<sup>2</sup>. Therefore, prices on international markets are of significant importance, including for those ACP countries who export at world-market prices. As for many internationally-traded commodities, international sugar prices are extremely volatile and subject to long-term price decline. Since 1995, prices have been on a decreasing trend, which can be mainly explained by an overall excess of production over consumption. Price volatility makes it difficult to forecast world sugar prices but analysts estimate that prices will remain on a decreasing trend over the short and medium term, whether or not reform takes place in the EU. Most international trade takes place under agreements, so the spot trade is considered residual.

The EU is a major player on the export market (third largest exporter of sugar, with exports stabilised over the last years, and far behind Brazil which now dominates the export market and whose increase in production and exports accounts for the bulk of the recent decline in world prices). However, with the European Commission's (EC) reform proposal, EU exports are expected to decrease, which will open opportunities on the international market. The EU is also amongst the largest importers; its imports come mostly from developing countries and are particularly important for the ACP countries signatories to the Sugar Protocol. With the proposed reform, the EU is expected to become a net importer of sugar.

### **1.2. Context of the ACP-EU Sugar Protocol**

Preferential trade arrangements for developing countries are a notable feature of the EU import regime and play a significant role for the beneficiaries. These special sugar trade arrangements have long historic roots between certain EU Member States and former

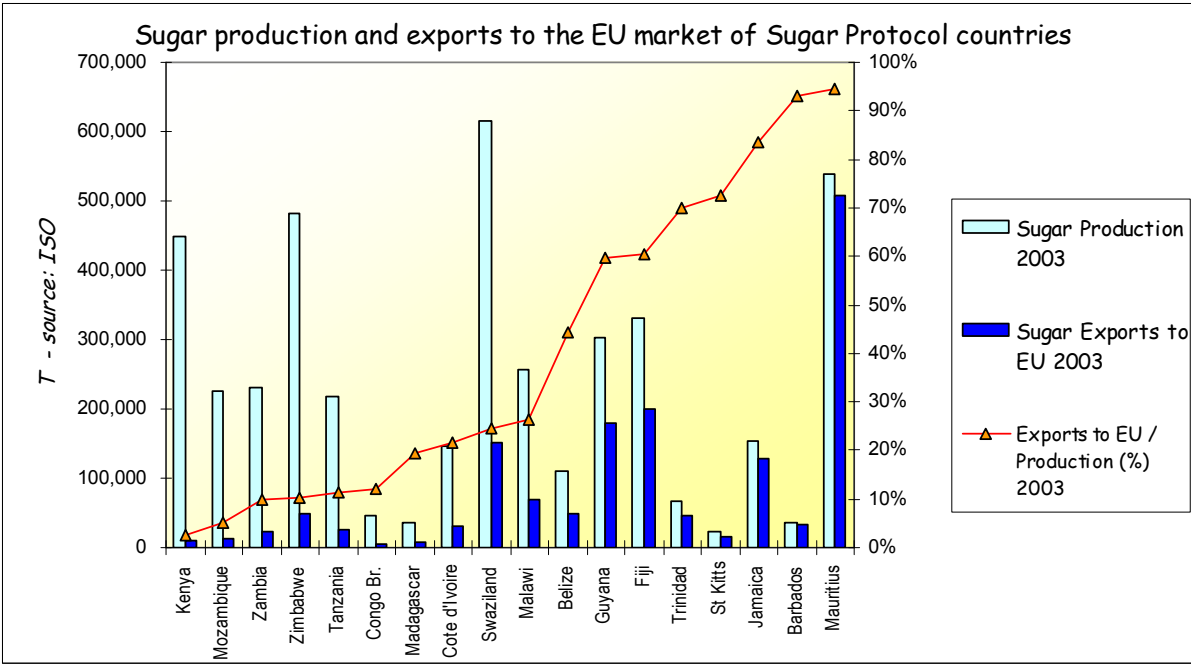
---

<sup>1</sup> Commission Communication COM(2004)499.

<sup>2</sup> In 2004, world sugar production totalled 140 million tonnes and world exports 45 million tonnes. The seven biggest producers (Brazil, India, EU, China, USA, Thailand and Australia) together produced 92 million tonnes, around 65% of world production. The four biggest exporters (Brazil, Thailand, EU and Australia) exported nearly 30 million tonnes, or 65% of world exports. The EU exports are relatively stable while Brazil exports increased drastically since the 90s. Today, Brazil is the world leading sugar exporter with 25 % of the world exports.

colonies<sup>3</sup>. Since 1975, these arrangements have been incorporated into the Sugar Protocol, agreed between certain ACP States and the EU alongside the wider EU-ACP Partnership Agreement<sup>4</sup>. Under the Protocol, the EU has undertaken to purchase and import 1,3 million tonnes of sugar at guaranteed prices from these States, who, in turn, have committed to supply these volumes.

As shown in the graph below, the ratio of sugar exports to the EU in relation to production volumes varies between ACP countries, depending in part on the size of their agreed quantity within the Sugar Protocol, on its size in relation to national production, and on the relative prices obtained in different markets.



In volume terms, 41% of all the production in the Sugar Protocol countries is exported to the EU. However, the value of this access is greater at on average 71% of sectoral revenue obtained from the EU market, due to the higher prices in the EU. This largely explains the need for adaptation of the sugar sector of many Protocol countries in the face of changes on the EU market. Reliance on the EU market is particularly marked for the Caribbean countries, Fiji and Mauritius. Some countries export all their production to the EU and import to meet domestic demand. The majority of African producers are less reliant on exports to the EU market, since production is also consumed locally or exported to other markets.

This preferential access has over the years affected the investments made in capital, land and human resources in ACP countries. The earnings generated by the Protocol have been a major source of foreign currency, have contributed to governments' budgets and to the balance of trade, and in many cases have represented a financial transfer larger than development assistance. There are cases where these earnings have played a role in the modernisation of the sugar industry or as a source of capital for investment in alternative activities.

<sup>3</sup> Including the 1951 Commonwealth Sugar Agreement.  
<sup>4</sup> the Lomé Agreements and now the Cotonou Agreement

Some ACP countries have managed to respond to the opportunities offered by preferential access under the Sugar Protocol, with the makings of a globally competitive industry or with the implementation of appropriate diversification policies. However, many ACP economies are still significantly dependent on sugar exports, and for different reasons have low levels of competitiveness in the sugar sector. They find therefore their sugar trade particularly affected by developments on the EU market.

The reform of the EU sugar regime will indeed involve a reduction of the EU sugar price. In conformity with the Sugar Protocol, this reduction will be reflected in the price obtained by ACP countries on the EU market. Analyses based on the proposed price cuts show that certain Sugar Protocol countries may experience a more or less significant disruption of their sugar sector, with related consequences for the different dimensions of their socio-economic development.

## **2. FRAMEWORK FOR EC SUPPORT TO SUGAR PROTOCOL COUNTRIES**

### **2.1. Rationale for EC action**

The Commission recognises that the EU sugar reform may lead to significant adjustment needs in ACP countries signatories to the Sugar Protocol, which have been relying on preferential sugar exports to the EU. In the framework of the Cotonou Agreement, it is committed to support ACP countries in their path to poverty reduction and sustainable development. Moreover, through the EU Action Plan for Agricultural Commodities<sup>5</sup> adopted in April 2004, the EU is engaged in supporting commodity dependent economies, including sugar dependent ones, to address the challenges related to these sectors. Finally, the ACP countries themselves, in their responses to the reform proposal of the Commission, called for adjustment programmes to be established. **For all these reasons, the Commission is committed to accompanying the necessary adaptation process** related to the EU sugar reform in ACP countries signatories to the Sugar Protocol.

The countries which the EC could propose to support are the eighteen ACP signatories to the Sugar Protocol, which currently export sugar to the EU: Barbados, Belize, Guyana, Jamaica, Trinidad and Tobago, St Kitts and Nevis, Fiji, Republic of Congo, Ivory Coast, Kenya, Madagascar, Malawi, Mauritius, Mozambique, Swaziland, Tanzania, Zambia and Zimbabwe<sup>6</sup>. The needs for adaptation and related support linked to the sugar reform will vary considerably between countries, depending on various factors, among which their dependence on EU preferences. Nevertheless, all will require some adjustment.

### **2.2. Objectives and principles of EC support**

Since the main roots of the challenges facing Sugar Protocol countries are to be found in the structure of international trade relations, the **EC response in support to these countries aims among others at improving international** (including regional) **trading conditions** for ACP countries, in the framework of foreseen trade negotiations. However, the adjustment process

---

<sup>5</sup> Commission Communication COM(2004)089, and General Affairs Council conclusions of 27 April 2004

<sup>6</sup> The denomination "ACP countries" refers in this document, from this point on, to this group of eighteen countries.

will require specific support, for which the **EC will propose to provide development assistance**.

**This document lays out the broad axes for possible support** to the ACP countries in this process. Different types of measures can be undertaken within this framework, as will be suggested in the following sections. The measures mentioned here are not exhaustive and should be seen as a **basket of potential measures, which could be supported** if integrated into a sustainable, comprehensive strategy. Their suitability, in isolation or in combination, will depend on the particular situation of the country concerned.

The recognition of the specificity of the challenges and potential responses of each country is at the heart of the present exercise. **Country-specific strategies**, designed to adapt to the new market conditions and to guide the delivery of EC assistance, should be the main policy frame to ensure relevance and efficiency of the scheme at national level. These national adaptation strategies should be elaborated or updated in the country itself, in dialogue with the Commission, and with financial support of the EU if needed. There are a number of essential principles for successful adaptation strategies:

- The strategy should mainly aim at facilitating the adaptation of sugar-dependent areas, adopting a **comprehensive** approach to territorial development. It should be based on an **objective assessment** of the constraints and potential of the sugar sector, as well as of alternative economic sectors both within and outside agriculture. Hence, it may not necessarily focus on the sugar sector. Indeed EC support aims at responding to the needs of these areas and not at “compensating” the sugar industry. The environmental dimension should not be underestimated.
- The strategy should strengthen and **complement national development strategies**. This concerns in particular existing sugar sector or diversification strategies (which may need updating in the face of the specific challenge of the sugar reform), as well as the Poverty Reduction Strategy. It should also be consistent with the EC co-operation strategy, and take advantage of synergies with support of other financial partners.
- Its goal should be **sustainable adaptation** and development. It should hence be **forward-looking**, taking into account forthcoming threats and opportunities, including foreseeable developments in international trade (multilateral and EPA level). The strategy should also evaluate the possibilities to make use of the trade related accompanying measures, to be proposed by the EC in the framework of this scheme (as presented in section III).
- The process of designing and implementing an adaptation strategy should be **owned by the concerned stakeholders**, in and around the sugar sector. It should seek consensus and collaboration between actors, whether private or public, including the definition of their respective roles and co-financing commitments.
- The **pro-poor** dimension should be actively incorporated into the strategy, rather than expected to occur through “spill-over” effects.

National strategies should also consider whether a **regional dimension** adds value, in which case co-ordination must take place within the regional organisations or fora.

### 3. IMPROVING TRADING CONDITIONS ON EXTERNAL MARKETS

Trade policy is an important tool to foster economic growth in developing countries, and has therefore a direct positive impact for achieving sustainable development and poverty reduction. The integration of developing countries into the multilateral trading system and the global economy is a key objective of the EU. In this context, the EU's trade policy is pursued in full complementarity and coherence at three levels: multilateral, bilateral and unilateral. At all levels, the development dimension is part of the core of the EU's approach, whether in the Doha Development Agenda (DDA) negotiations, the regional negotiations such as the Economic Partnership Agreements (EPAs), or the proposal for the new GSP. Moreover, EU action is guided by the principle that multilateralism and regionalism are complementary and, if properly designed and implemented, are mutually supportive.

At the bilateral level, this is particularly true in the case of ACP countries, where our multilateral approach is accompanied by our commitments under the Cotonou agreement and by the perspective of Economic Partnership Agreements which are being negotiated at present and will to enter into force on 1 January 2008. Finally, at unilateral level, the EU also provides full market access in the context of the "Everything But Arms" (EBA) regime which grants duty-free and quota-free imports for the 50 Least Developed Countries (LDC), 42 of which are also ACP countries. As regards sugar, EBA has allowed for a progressive increase in access to the EU market, with fully free access planned for 2009<sup>7</sup>; four of the five Sugar Protocol signatories which are also LDC have benefited until now from this preferential access.

While the Communication indicates that the provisions of the current Sugar Protocol will be retained within the framework of the reform, we are at present in a phase of negotiation at both the multilateral and the preferential level. These negotiations will determine the shape of future trade measures which will also concern sugar. This should be also seen from a more general perspective, as diversification of the economies of sugar dependent countries is one of the keys to adapting to the changes induced by the reform. Without pre-empting the results of the negotiations, the Commission outlines, according to its views, the possibilities for future developments in international trade to contribute to the adjustment process in the countries concerned. The framework for both levels of negotiations is indicated below.

#### 3.1. Multilateral level: in the framework of WTO

One of the European Union's main priorities for further progress in WTO negotiations after the Uruguay Round was to place development at the heart of a new round. This was reflected in the Doha Development Agenda. The European Union has since been active in seeking a successful outcome to the DDA. The EU firmly believes that further market opening can be an important contribution to the expansion of trade in agricultural products, and to sustained and continued economic growth for all countries. These objectives are in line with the Doha Declaration on agriculture which recalls the objective to establish a fair and market-oriented system, recognises the need for special and differential treatment for developing countries, and confirms that non-trade concerns will be taken into account in the negotiations.

---

<sup>7</sup> EBA provides the LDC with full access to the EU sugar market from 2009/2010 on. Up to then, duty-free quotas for LDC sugar exports to the EU increase between 2001/02 and 2008/09 and customs duties on non-quota sugar from LDCs are reduced from 2006/07 on to 2007/08.

The Commission believes that the WTO General Council's Decision of 1 August 2004, and in particular the Framework for establishing Modalities in Agriculture, adequately address the special needs and concerns of developing countries and is a good basis to continue the negotiations, which should ultimately lead to a more level playing field for all, in particular developing countries striving to integrate into world economy.

As regards preferences, the agreed Framework fully recognises "the importance of long-standing preferences" and provides that the "issue of preference erosion will be addressed" in the negotiations.

Trade facilitation measures also have significant potential to contribute to trade and development, and can be an important tool in the adjustment process of Sugar Protocol countries. The EU is a strong supporter of trade facilitation and encourages the ACP to maximise their use of such measures, as well as to contribute to an ambitious outcome of negotiations on this matter under the DDA, which shall also aim at enhancing technical assistance and support for capacity building in this area.

### **3.2. Bilateral level: EPA negotiations with ACP countries**

The EU is currently engaged in negotiations with ACP regions on the establishment of Economic Partnership Agreements (EPAs), which will enter into force at the latest 1st January 2008. EPAs. The first priority is to support regional integration among ACP countries on the basis of their own configuration set-up, in order to build enlarged and stable regional markets with a common set of regional rules conducive for supply side development, investments and competitiveness. Moreover, EPAs are accompanied by appropriate development support measures, to implement the regional policies and build the capacities of the regional bodies and to help ACP business operators seize the opportunities offered by the EPAs (both in the EU and at the regional level). Therefore, while EPAs themselves will be mainly trade agreements, what could be called the "EPA process" is much broader and covers issues linked to development policy and support. Hence EPAs provide an ideal opportunity to support the adjustment process of the sugar sector.

#### *3.2.1. Access to EU markets under EPAs*

The Cotonou Agreement foresees the review of the ACP commodity protocols in the framework of EPA negotiations: "the Parties reaffirm the importance of the commodity protocols, attached to Annex V of this Agreement. They agree on the need to review the commodity protocols in the context of the new trading arrangements, in particular as regards their compatibility with WTO rules, with a view to safeguarding the benefits derived therefrom, bearing in mind the special legal status of the Sugar Protocol"<sup>8</sup>.

The Sugar Protocol should be integrated into EPAs in such a way that does not prejudice the EU's commitment to LDCs for full market access for sugar from 2009 and that ensures full compatibility with WTO rules. This will be covered by the review of the Sugar Protocol, to be negotiated jointly with the ACP in the framework of EPA negotiations.

---

<sup>8</sup> Article 36(4) of Cotonou Agreement.

### 3.2.2. *Development of regional markets and diversification opportunities*

The EPA process can be utilised to enhance the prospects of the sugar sector within an ACP region, especially within those regions where consumption is growing. By encouraging regional integration and by specifically supporting a regional trade policy and market-building, EPAs will help ACP regions to develop regional outlets. Therefore, by supporting free trade within a region and so trade preferences for regional production, EPAs will help to create additional markets for ACP sugar. The main beneficiaries of enhanced access to regional markets are likely to be those sugar industries with expansion potential, located in deficit regions, as well as the landlocked producers which are disadvantaged by higher transport costs for their overseas exports.

EPAs offer opportunity to improve the trading environment for other products as well as for sugar and thus can promote the policy climate for both vertical and horizontal diversification. 93% of ACP exports to the EU already enter duty free. On the Community side trade liberalisation shall build on the *acquis* and shall aim at improving current market access for the ACP countries. Concurrently, by tackling supply-side constraints and improving the climate for investment, the EPA process will support the environment for improving ACP trade to all destinations, not just the EU.

Within the EPA process, trade policies and regional integration will be linked and supported by development co-operation activities. This is already the case: approximately €650 million is being allocated under EC programmes to regional integration and trade. The EC will pursue and strengthen these programmes where necessary in the context of the EPA process.

## 4. **RESPONDING TO THE DEVELOPMENT NEEDS OF AFFECTED COUNTRIES**

### 4.1. **Key questions for targeting of development assistance**

In addition to trade related measures, and in order to support the adjustment process of ACP countries affected by the sugar reform, development assistance can be provided mainly along three different axes: i) enhancing the competitiveness of the sugar sector, where this is a sustainable process, ii) promoting the diversification of sugar-dependent areas, and iii) addressing broader adaptation needs. Favouring a comprehensive approach to adaptation, several of these axes are likely to be needed in a given country, and should hence be **combined**.

One of the key questions to address in the elaboration of a national adaptation strategy is whether the sugar industry, possibly after restructuring, could be sustainable in the future market environment. Where the competitiveness gap between a sugar industry and the world market, or selected markets, is the result of major structural problems, directing assistance towards maintaining the sugar industry would not be sustainable in the long term, and would correspond to an inefficient use of financial resources. This analysis will have to examine key points, such as:

- Identifying **the threats and opportunities of the future market environment** of the sugar and cane industry, as well as for other products, although this unavoidably involves a degree of uncertainty. This should include future consumption trends in the country concerned as well as the development of potential trading partners in neighbouring regions. As regards the EU sugar market, its price level will be closer to the world market price,

and the review of certain elements of the sugar regime in 2008, as proposed by the Commission, brings in an additional element of uncertainty regarding the longer-term. As regards access of products to the EU market, it has to be seen in the light of the EPAs.

- Understanding the **strengths and weaknesses of the cane industry** in its present situation, considering the different levels of the chain and the different factors with an incidence on competitiveness. The prospects for the sector to adapt to future market conditions should be estimated, taking into account the total costs and benefits of adaptation, as well as the time scale required by this process.
- Analysing the place to be given to the sugar sector in the long-term development strategy of the country.

Considering differences between production areas or sugar factories, the outcome of such an assessment may not be uniform in a given country. But a positive assessment of the viability of at least part of the industry is an essential pre-requisite for directing EC support towards enhancing the competitiveness of that industry. If not, priority should be given to measures of axes ii) and iii).

#### 4.2. Supporting sustainable improvement of the competitiveness of the cane sector

A strategy for competitiveness enhancement of the cane sector will depend on the specific opportunities and weaknesses identified. It should clearly define the roles of the different stakeholders. The entrepreneurial sector, which includes small and large enterprises, farms and other businesses, and private and para-statal companies, plays a main role in the development of the cane industry. The public sector however also has an important role to play in supporting the sustainable development of the industry. The strategy could include, **mostly at entrepreneurial sector level:**

- Improving **technology and management** in field (independent suppliers and estates) and factory operations, with a view to reduce unit production costs.
- Rightsizing **production structures** at field and factory levels, aiming at efficiency gains, taking into account social and environmental implications.
- Enhancing organisation and **co-ordination** across the chain.
- Developing the use of co-products of sugar (including goods, like bagasse-generated electricity, animal feed and others, and services, like tourism and others), and of **alternative cane-derived products**, such as ethanol, rum or others, considering the market, policy, technology and investment related requirements.
- **Diversifying sugar markets**, e.g. by adding value to sugar products (refined or specialty sugars, packaging, etc.), developing quality guarantees, and diversifying sales arrangements.
- Developing and implementing a code of best practices in terms of **corporate social responsibility**, in particular as regards labour conditions, agreed across the industry. In addition to enhancing the sustainability of sugar sector development, it could be used by ACP industries as a commercial asset, in particular in its relations with certain European sugar buyers.

- Developing and implementing a code of best practices in terms of **environmental management**, including possibly provisions for financial support to comply.

Different lines of action **to be undertaken to a large extent by the public sector**, to facilitate the above-mentioned developments of the industry, could include:

- Adapting the **policy and institutional context** of the sugar sector (including in the fields of public enterprises, agricultural support services, land and water tenure, energy policy, environmental regulations, labour laws, social services, export promotion, price controls, taxation, etc.).
- Stimulating, if needed, chain organisation and **co-ordination**, in particular as regards the development of codes of best practices.
- Promoting **research and extension**, to support the above-mentioned developments.
- Investing in **infrastructure**, with a view to reduce costs and improve marketing (e.g. transport, storage, harbour facilities, ...), or to enhance productivity (e.g. irrigation).
- In specific cases, facilitating **access to finance** for private sector (SME) investment.

Increasingly, policies in favour of **renewable energies** could offer opportunities to the cane sector, which few ACP sugar industries have tapped so far. Bagasse co-generation could partly contribute to milling profitability, as well as to reducing emissions of greenhouse gases. This could provide an additional revenue stream by monetising carbon emission reductions, through the Clean Development Mechanism of the Kyoto Protocol. Relatively new policy initiatives in favour of biofuels in different parts of the world are expected to expand significantly the demand for fuel ethanol.

#### 4.3. Promoting diversification of sugar dependent areas

Diversification can range from changes within the cane-based production system (e.g. in the cases of associated crops between cane rows or of development of alternative cane products), to a complete reorientation of the area's economy. In any case, diversified income sources are an important factor to reduce vulnerability of areas which presently depend on sugar, whether **in addition to or in replacement of** this sector.

Many sugar industries and cane growers can build on two important assets for diversification: the availability of capital generated by past and present sales under the Sugar Protocol, and of water, through irrigation or a relatively favourable rainfall regime. The Commission is however well aware of the **difficulties involved** in this process. Especially for poor and / or small economies or holdings, bottlenecks to the development of alternative sectors can be significant: high transaction costs, insufficient level of skills and organisation, limited endowments, restricted access to capital and investment, vulnerability to weather instability, etc. Diversification also involves risks, which are not always affordable to the poor.

All policies conducive to an enabling business environment and to the sustainable integration of the poor into the economy usually contribute to sustainable diversification. However, some **key elements of a pro-poor diversification strategy** can be put forward:

- The **identification of market opportunities**, rather than production capacities, should be the first driver of a diversification strategy.
- The development of an alternative economic sector requires a **comprehensive sectoral strategy**. This means taking into account: i) all levels of the chain, and the diversity of enterprises at a given level; ii) the complementary roles of both the private and public sector; and iii) all factors which influence the diversification potential, whether in the field of market opportunities, economic and financial conditions, policies and regulatory settings, human resources and knowledge, production structures and services, natural resources, technology, research and development, infrastructure, etc.
- A certain **stability of markets** plays an important role in the growth of a sector, especially in its initial stages. Measures to reduce market and price risk, such as commodity risk insurance schemes, could be a useful instrument for that purpose.
- As regards **timing issues**, the strategy should be designed on a sufficiently long-term basis, to take into account the complexity of diversification processes, and should offer corresponding policy stability in key areas. Where alternative economic activities are meant to progressively substitute (rather than add to) sugar production, their development should be programmed in adequate sequencing with the downsizing or phasing out of sugar production.

#### 4.4. Addressing broader adaptation needs

Beyond the economic impacts of the sugar reform on ACP countries, broader impacts can be felt in different fields, in particular in the event of major downsizing of the sugar industry. Adaptation strategies should address these too, and assistance measures should have the flexibility to cover them. These measures should however be designed in complement to economic development ones (axes i) and ii)).

A major concern is the short to medium term **social impacts** of potential industry closures, despite the progressive development of alternative sources of livelihood. Employment loss in mills and estates could significantly impact on poverty, as well as lower income for independent cane farmers, cut-backs in industry-provided social services, reduced government budgets affecting social expenditures, etc. Adaptation strategies should definitely address such impacts. Well targeted safety nets could be provided to accompany the transition for affected population categories, taking into account that, in addition to retrenched mill or estate workers, vulnerable populations can also include employees of labour contractors and smallholder farms. Public provision of social amenities may also need to be expanded or upgraded, in case industry-provided services are affected by the impacts of the reform.

Closures or downsizing of the sugar industry should take into account the potential **environmental consequences**. Changes in land use, if relevant, should be a planned process. Re-conversion of milling sites may also require specific support measures.

In certain Sugar Protocol countries, the sugar sector plays an important role in a number of **related policy areas**, beyond economic and rural development policies. This can be the case for the energy policy and infrastructure. Valuable research institutions and skills have also in some cases been developed around the sugar sector. The adaptation of such policies and institutions may also need to be part of a comprehensive national strategy.

Finally, for ACP countries whose industries are most concentrated on exporting to the EU, their macro-economic situation may be affected by the reform, in particular their foreign exchange reserves, balance of payments and fiscal revenues. A few of the concerned countries also rely for part of their government budget on taxes or levies on sugar exports. Where this affects the government's capacity to perform its core functions and deliver public services, this should also be addressed within the adaptation process.

## **5. IMPLEMENTATION CONSIDERATIONS AND SOURCES OF FUNDING**

### **5.1. Delivery mechanisms**

The basis for delivery of EC assistance will be the **country-specific strategies**, described in section 2.

The choice of **delivery mechanisms** should be left open to adapt to country specificities. Where the adaptation strategy covers a broad range of objectives and activities, where the government is committed to implementing the participatorily designed strategy, and where the conditions for budget support are met, non-targeted budget support should be the preferred instrument. In cases where the strategy is more focused on specific sectors, for example agriculture or social services, a sector-wide approach could be more appropriate. Project support should not be ruled out, but the corresponding administrative and management burden should be explicitly catered for.

The Commission recognises the importance of ensuring that the specific role and needs of **enterprises** (SMEs and larger companies, agricultural or other) are taken into account in the support schemes. Private sector development instruments (potentially existing ones), aiming in particular at building human and physical capacities, should be part of national adaptation strategies, whether financed by the EC or not. The specific needs of SMEs, including small farmers, should particularly be accounted for. Enterprises are also encouraged to use the financial instruments offered by the EIB, in particular the Investment Facility which is already contributing to sugar-relevant investments in some of the countries concerned. Targeted financial support, such as start-up grants or SME-focused loan facilities (as much as possible through domestic financial institutions) for example, could also be considered through development banks operating in the concerned regions, with possible complements through EC supported capacity building.

The delivery mechanisms for this scheme should seek to make maximum use of **existing instruments**, available either through EC cooperation (e.g. focal sector programmes, the EPA support programme, TRTA instruments, the EU energy facility, etc.) or through other bilateral donors or international organisations (e.g. the Trade Integration Mechanism of the IMF, the Commodity Risk Management initiative led by the World Bank, etc.).

### **5.2. Financial endowment**

The total envelope for assistance will be based amongst others on overall needs of Sugar Protocol countries. It will be divided into national envelopes, with additionally a common envelope for projects of general interest, e.g. at regional level, and a specific provision for administration costs, to ensure speedy management of the scheme. Financing of such measures will be covered by the « Development Cooperation & Economic Cooperation »

Instrument within the next financial perspectives, with preparatory support to be granted prior to this.

The **level of support of each of the eligible countries** should reflect the diversity of level of needs, which can be captured with criteria such as impact of the reform on the sugar sector (considering e.g. expected increase or reduction in exports to the EU, future viability of the sugar sector, and the impacts of potential industry downsizing), and dependency on sugar exports to the EU market (considering e.g. the magnitude of preferences). The measurement of such criteria will be based on data of campaigns preceding the reform proposal.

In particular in the **case of countries in a crisis situation**, e.g. Zimbabwe and Ivory Coast, EC support should be delivered insofar as the situation allows it, and be adapted to its potential effectiveness to address the consequences of the sugar reform.

It is worth recalling also the possibility for the ACP countries to make use, where relevant, of the existing **FLEX** mechanism, which can support national budgets in case of significant losses of government revenues due to a shortfall in export earnings.

Finally, collaboration between public and private stakeholders should be well defined, including as regards commitments and modalities for **co-financing** of the adaptation strategy.

### **5.3. Timing**

It is essential to facilitate the opportunities for the ACP countries to **anticipate** as much as possible the impacts of the sugar reform. The Commission therefore proposes to proceed with the establishment of accompanying measures for Sugar Protocol countries, independently from the decision process on the reform itself. However, the level of support will be linked to the impact of the reform, and will hence have to be fine-tuned once its final shape is known. Where possible, the implementation of the support scheme could hence begin as soon as: i) at EU level, there is a legal basis to provide support to the affected countries, and ii) at recipient country level, complete national adaptation strategies give an adequate basis for financial support.

Considering the complexity of restructuring and diversification processes, the Commission proposes a length of **eight years**, as a maximum, for the accompanying measures. Within this margin, the recipient country should determine, as part of its adaptation strategy, the duration of EC support requested (considering that this choice will not affect the level of financial support from the EC).

### **5.4. Dialogue, evaluation, and review**

The views of the concerned ACP countries are essential for the definition of relevant and efficient accompanying measures. Their role will in any case be central in designing national adaptation strategies. To ensure the present framework for accompanying measures is as relevant as possible to them, the elaboration of that framework will follow a two-step approach. First, the present working document will serve as a basis for a meaningful dialogue with the ACP countries. Thereafter, the Commission will adopt and propose to the EU Council and Parliament a more formal document, incorporating as much as possible the views of the ACP countries.

The Sugar Protocol accompanying measures should be **evaluated at mid-term**, in dialogue with the concerned countries, at a date to be specified in function of evolutions of relevant factors. The conclusions of the evaluation, as well as the analysis of new market developments, would be the basis of a potential revision of the accompanying measures, if relevant. The mid-term evaluation of the scheme should also correspond to the time horizon of the multi-annual programmes to be established in each recipient country to guide the delivery of EC assistance.