ASI

Association of Sweets Industries of the EU

"REFORMING THE EU SUGAR REGIME"

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Master's Project
Commercial Diplomacy

CONTENTS

INTRODUCTION

Issue

Thirty years ago, the European Community was a net importer of sugar. Now, thanks to Europe's Common Agricultural Policy (CAP), the European Union is the world's second largest sugar exporter; only Brazil ships more sugar abroad.1[1]

The CAP clearly has been a boon to Europe's sugar industry. Yet the so-called sugar regime also has had a severe negative impact on the European economy. As a result of the regime, EU sugar prices are up to three times higher than world sugar prices.

- The regime hurts consumers by raising prices for sugar and processed food products.
- The regime puts the European Union's fast-growing food processing industry at a significant disadvantage in world markets. The food-processing industries are increasingly reliant on foreign markets for revenues, and sugar is a major input for many of these industries.
- The regime, more than any other subsidy program, constrains the European Union's limited leverage to negotiate robust foreign market access commitments in food and processed-food products.
- Extension of the current EU sugar regime to EU applicant countries in Central and Eastern Europe will only lead to further and substantial economic losses for the European Union.

The European Commission and the European Union's agricultural ministers must be persuaded to overhaul Europe's sugar subsidy program.

Scenario

For the purpose of this project, I assume the fictitious role of trade consultant to a fictitious industry association, the Association of Sweets Industries (ASI), which represents national associations from each of the 15 EU member states.

Given that sugar is a major input to ASI products, the association's trade division has decided to design a strategy aimed at persuading European Union officials to reform the sugar regime.

The attached proposal will be presented to ASI's board of directors for approval.

Structure of the Document

The background section of this document presents the key features of the EU sugar regime, the key elements of the European Union's sugar manufacturing industry, and current issues related to the regime. The commercial and economic analyses respectively outline the interests of the confectionery industry and the interests of the EU economy as a whole. The project also includes an analysis of the political environment in Europe and the stakeholders that have an interest in the sugar regime, and it lays out both recommendations for action and a dual-track strategy for carrying out the recommended actions.

EXECUTIVE SUMMARY

Issue

The European Union's price support system for sugar is putting its food processors in an increasingly difficult competitive position in the world market. As a result of this support system, EU food processors pay two to three times the world market price for sugar—one of their most important inputs. Although processors receive some export refunds, these subsidies do not cover the difference between the European Union's internal price of sugar and the world market price. Even if they did now, they are subject to Uruguay Round reduction commitments and will soon be phased out. EU officials need to recognize and rectify the detrimental impact of sugar subsidies on the European food business' ability to compete in world markets.

Background

The EU's sugar regime consists of a price support system, a quota system, and a separate system for selling sugar to "third" (non-EU) countries. Under the price support system, intervention boards buy up all the sugar offered to them by EU producers at an annually set price. The minimum price for sugar beets is also set annually, and both prices are higher than the world market price.

Anti-competitive behavior on the part of sugar processors pushes the price still higher. Indeed, the EU produces five million tons more sugar annually than is required to meet domestic demand. If the EU market were allowed to function properly, this over-production would lead to downward pressure on prices and production. In the EU sugar market, however, the opposite phenomenon occurs. The only possible explanation for this is that sugar processors keep the supply to local markets tight by off-loading sugar on the world market and thereby creating an artificial shortage of sugar within the EU. As a result, EU sugar prices are on average two to three times higher than the government-set price.

To date, the EU sugar regime has escaped every reform of Europe's Common Agricultural Policy (CAP), and it was left virtually untouched by the Uruguay Round Agreement on Agricultural. One of the primary reasons for this is that the regime is self-financing so it does not impact any EU or individual state budgets. The costs involved in off-loading sugar surpluses are born by EU sugar beet and refined sugar producers, who pay a levy for this purpose.

Commercial Issues

Sugar currently accounts for up to 40 percent of the cost of the ASI industries' products; it has a large impact on the industries' profitability. The EU must reform its sugar regime in order to ensure that its exports of processed products do not become a loss-making business. Indeed, if food processors decide to move their businesses overseas where sugar and other production factors are cheaper, the EU would undoubtedly lose not only jobs in this sector but also sugar beet cultivation and processing jobs. Together, the industries represented by ASI are the EU's largest consumer of refined sugar, accounting for 25 percent of total consumption (3 million tons).

Economic Issues

The EU sugar regime has several impacts on Europe's economy:

- It hurts European consumers, who pay up to three times the world market price for their sugar—an annual "sugar bill" of seven billion Euros.
- It is increasingly placing the EU's fast-growing food processing industry at a competitive disadvantage in the world market, which in turn jeopardizes the 1.5 million jobs supported by the industry.
- It encourages excessive and intensive sugar beet cultivation, which in turn encourages environmentally damaging pesticide and fertilizer use.
- It limits the EU's leverage to negotiate robust market access commitments in food and processed-food products.

Moreover, extension of the current EU sugar regime to the applicant countries of Central and Eastern Europe would lead to tremendous economic losses for the EU and would be a significant blow to these countries economic reform efforts.

Political Issues

The need for reform of Europe's sugar regime is becoming more urgent in light of EU enlargement and the impending start of the Millennium Round of trade negotiations. However, achieving sufficient support for such a change will not be easy. Past attempts to reform the EU sugar regime have all failed for lack of political support. Subsidy reforms for other products such as cereals and dairy products have succeeded primarily because of their large burden on the EU budget. Because the sugar regime is self-financed, there is no budgetary pressure for reform. Sugar production has also not been a focus of concern for Europe's politically powerful environmental groups. Although sugar price supports encourage intensive agriculture, but sugar beets are usually grown in mixed farming enterprises and therefore have not been among environmentalists major agricultural concerns.

Recommendation

EU negotiations concerning reform of the EU sugar regime are set to start next January. In order to ensure a desirable outcome from these negotiations, ASI should form a broad-based coalition of consumer, business, and environmental interests to put pressure on the

European Commission to reduce support prices by a percentage similar to past (and future) export subsidy reductions. A measure to decrease incentives for sugar producers' anti-competitive behavior should also be sought.

Strategy

In an effort to persuade the EU to reform the sugar regime, ASI has formulated a dual-track strategy: a strategy to be carried out in each of the fifteen EU member states, and a strategy to be carried out in Brussels. The member state strategy aims at influencing member states' agriculture ministers, who together make up the EU Council. The Brussels strategy is designed to put pressure on the Council, the Commission, and the various interest groups and processes that participate in EU policymaking.

Together, the two strategies have the potential to push the Council to actually look beyond the narrow interests of sugar producers and beet farmers and undertake meaningful reform of the sugar regime.

BACKGROUND INFORMATION

1. The Common Agricultural Policy for Sugar2[2]

The European Union's sugar regime was established in 1968 and has been left virtually untouched since then. It is designed to support the production of sugar within the Community, in order to "maintain employment and standards of living for EU growers of beet sugar."3[3] The last revision of the sugar regime was completed in May 1995, when the Council decided to extend the regime until the 2000/2001 marketing year.

Under the regime—which is essentially a price support system—each member state is allocated two quotas, an "A" quota and a "B" quota. The total A quota equals, in principle, the Community's annual sugar consumption. The B quota is intended to provide a surplus, so that demand can be met even in the event of crop failure. Any sugar production above the A and B quotas is referred to as "C" sugar, which must be either sold on the world market or stored and used as part of the following year's A and B quotas. The Council determines what portion of the total A and B quotas will be assigned to each member state. The quotas allocated to each country are then divided among national sugar producers by individual country governments.

The Council is responsible for managing the price support system for A and B sugar. Each year the Council fixes an "intervention price," which is the price at which any manufacturer may sell A and B sugar to national intervention boards. In practice, however, intervention boards pay not the intervention price but rather an "effective support price," which is the intervention price plus 1) a storage levy that covers annual storage expenses; 2) an allowance for transportation costs; and 3) regional premiums for high-cost countries. The intervention price is set with the aim of making sugar beets sell at a price known as the "target price," which is also set by the Council and regarded as the "optimum price a farmer should receive." The Council also fixes minimum prices that processors must pay to beet growers for A and B beets (two separate prices).

Most imports of sugar into the European Union are subject to a tariff, which ensures that imported sugar is more expensive than domestically produced sugar. An exception is made for sugar imported from former British and French colonies. These countries receive their own quotas and are treated in a manner parallel to EU sugar producers.

In reality, the A and B quotas plus preferential imports always exceed domestic demand. This "C" sugar is not eligible for price support assistance, but the European Union does offer export subsidies to enable sugar producers to sell "C" sugar on the world market. These subsidies, set by tendering with producers, make up the difference between the world price and the intervention price. C sugar receives no export refunds.

Export subsidies are paid for by a production levy on sugar producers. The levy is limited to two percent of the intervention price for A quota sugar, but it fluctuates with exports up to 37.5 percent of the intervention price for B quota sugar. Because production levies cannot be fixed until the end of the marketing year, producers pay an estimated levy at the beginning of each production year. If in a particular year total subsidy expenses are not fully covered by the estimated levies, an additional levy is charged to fully cover expenses.

2. Structure, Competition, and Profitability within the European Sugar Processing Industry

2.1 Structure of the European sugar processing industry

The E.U. sugar processing industry is characterized by an oligopolistic structure. In some countries, the industry is even monopolistic. Ten companies control about 70 percent of the E.U. sugar market, and just four (Südzucker, Eridania Béghin-Say, Saint-Louis Sucre/ Eurosucre, British Sugar) control approximately 50 percent of the market. 4[4]

The largest companies mostly operate in just one or two markets:

- Südzucker and British Sugar respectively sell 70 and 80 percent of their overall sugar volume in their home markets.
- Eridania Béghin-Say sells percent of its volume in France and Italy.
- Saint-Louis Sucre / Eurosucre sells 96 percent of its volume in France.
- Danisco sells nearly 90 percent of its volume in Denmark and Sweden.

2.2 Competition

Although official policy states that processors of beet sugar may sell A and B sugar freely throughout the Community, the institutional structure of the regime prevents competition in the sector. Since national A quotas (set by individual governments) equal national consumption, there is limited competition at best (B quota), and manufacturers only have significant market positions in countries where they have production. There is competition for C sugar sales, but these only occur outside the E.U. market.

Given this market structure, sugar processors are able to keep sugar supplies in their own markets artificially tight and thereby create an upward pressure on prices—pressure that pushes prices an estimated 10 to 15 percent higher than the already high target prices.5[5] Indeed, the European Union produces five million tons more sugar than is needed to meet internal demand every year.6[6] In properly functioning markets, this over-production would lead to downward pressure on prices. In the EU sugar market, however, the contrary phenomenon occurs, even in areas where supply is 50 percent greater than demand. The only possible explanation for this phenomenon is that sugar processors create an artificial shortage of sugar in their own markets by off-loading excess sugar on the world market, and in fact, in the past five years, several sugar-processing corporations have been heavily fined by the Commission for creating cartels designed to extract high prices from shoppers.7[7]

At the beet growers level there is no competition either. Because each farmer's production allotment and price guarantee is linked to a specific sugar-producing factory, individual farmers have no choice but to deliver their crops to their pre-assigned processors.

2.3 Profitability

With input and output prices fixed and production volumes guaranteed, it follows that gross margins are guaranteed. According to a report produced by the ABN-AMRO bank in November 1995, the theoretical gross margin for sugar manufacturers is 28 percent.8[8] However, this measure allocates the sugar beet cost over sugar sales only. It does not take into account by-products from sugar production, such as beet pulp and molasses. The sales from these by-products (usually for animal feed or alcohol) are treated more or less as a credit that boosts the gross margin considerably. In addition, this theoretical model does not take into account the fact that EU sugar prices are in reality well above the intervention price. The study concludes that these two factors "could well lead to more than doubling of actual gross margin over theoretical gross margin."

2.4 E.U. exports to the world market

As seen above, the profitability of the E.U. sugar processing industry is generated by the high sales volumes and high margins in its protected domestic market (A quota) and the partially protected market (B quota). Exports to the world market (B and C sugar) generate substantially lower prices. These are often about a third of the domestic market price.

2.5 Conclusions

Although the CAP was intended to support farmers, it is helping sugar processors make profits that would be unattainable in a competitive market. Because these profits are a drag on the food processing industry, which uses large quantities of sugar, the CAP should be modified.

3. Current Trends

3.1 Sugar under past CAP reforms9[9]

The sugar regime has been bypassed by every CAP reform to date. In 1992, the MacSharry agricultural reforms were instituted in response to deregulation pressures and budgetary constraints, but sugar was not affected. The Agenda 2000 reform package repeated this pattern; dairy, cereals and beef were included, but sugar was excluded.

3.2 Sugar under the Uruguay Round (UR) Agreements10[10]

The Uruguay Round Agreement on Agriculture (AoA) disciplined agriculture via three main mechanisms: market access, domestic support and export subsidies. Nonetheless, it left the fundamentals of the sugar regime unchanged.

- The AoA requires the EU to cut its tariffs on white and raw sugar, but only by 20 percent11[11] at a rate of just 3.3 percent per year—the lowest UR rate for all CAP commodities. Although the official line is that the EU is removing variable tariffs, the EU has been able to circumvent the bound tariff for sugar through the use of special safeguard provisions.12[12]
- The AoA requires the EU to reduce its expenditure on export subsidies for sugar, and the EU has made provisions to cut member states' sugar quotas on an annual basis if it looks like the EU will be in danger of

breaching the UR ceiling on such expenditures. (In a regulation published in February 2000, the Commission said that a 500,000-ton quota cut is not far away.) However, the enlargement of the EU to include the Scandinavian countries, which previously imported sugar, has enabled the EU to circumvent the 21 percent UR export subsidy cut.

3.3 EU enlargement and the sugar regime

A report published in December 1997 by the UK-based economic consulting firm NERA (National Economic Research Associates) argues that the EU's planned enlargement to the East makes rapid reform of the sugar regime imperative because the prospect of extending the current regime to the applicant countries of Central and Eastern Europe (CEECs) is hindering those countries' efforts to liberalize their sugar industries. 13[13]

The problem is particularly acute in Poland and Hungary, which are both major sugar producers.14[14] During the early reform years, states the report, these countries began dismantling their state-run sugar monopolies. Since they began making moves toward joining the EU, however, they have been reversing their liberalization policies.

The NERA report finds that the CEEC's combination of low average incomes and huge unsatisfied demand for goods and services makes their economies particularly unsuited to the price fixing provisions of the EU sugar regime. The regime would aggravate overproduction problems, and the inevitable price increases that accompany the sugar regime would seriously delay the development and structural adjustment of the CEEC sugar sector. The report estimates that bringing the applicant countries into the EU sugar regime will cost Europe three million Euros.

The essential message of the NERA report is that waiting to reform the sugar regime will only complicate and increase the price of market liberalization in the applicant countries.

Footnotes:

15[1] For details on the leading sugar trading nations and largest sugar producers, see Exhibit 17.
16[2] For details on the key features of the EU sugar regime, see Exhibit 26.
17[3] Council Regulations (EEC) 1785/81 and subsequent legislation based thereupon.
18[4] For details on the structure of the EU sugar industry, see Exhibit 14.
19[5] Committee of Industrial Users of Sugar, "Sugar and the Single Market: The Differential in Prices and Availability within the Union," 1998.
20[6] See Exhibit 15 for details on the European sugar market 1998/1999.

21[7] These include British Sugar, Tate & Lyle and Irish Sugar. In addition, anti-trust regulators are investigating Südzucker and Danisco for abusing their dominant positions to raise the price of sugar.
22[8] ABN-AMRO HOARE GOVETT, "The Reinvestment Dilemma: A Comparison of the European Sugar Manufacturers," 1995.
23[9] For details on the recent reforms of the CAP, see Exhibit 2.
24[10] For details on the Uruguay Round Agreement on Agriculture, see Exhibit 1.
25[11] The maximum cut for any commodity is 36 percent and the minimum 15 percent.
26[12] The EU has a price safeguard on white sugar of Euros 531/ton. At the current exchange rate (Euro/Dollar=1.133), this price translates into a white sugar price of $601.92/ton. Below this price (i.e. always), the EU is able to enact special safeguard measures.
27[13] NERA, "The Economic Costs of Extending the EU Sugar Regime to Central and Eastern European Countries," 1997.

28[14] After the collapse of Communism, producer and consumer subsidies to the sugar industry in Hungary ceased. In 1991, for the first time, no minimum sugar prices or production quotas were set. See OECD (1994) Review of Agricultural Policies in Hungary.

COMMERCIAL ISSUES

The cost of sugar is a crucial factor in the competitiveness of the chocolate, biscuit and confectionery industries; it accounts for up to 40 percent of the cost of a product. Thus, it is not surprising that the EU's artificially high sugar prices seriously threaten the internal and external competitiveness of ASI's member industries. Unless substantial reforms are enacted, the export of processed products is at risk of becoming a loss-making business. The ASI industries simply can not afford to continue to pay two to three times what their non-EU competitors pay for sugar.

Food processors do benefit from some assistance in the form of export refunds. However these subsidies do not fully cover the difference between EU and world sugar prices, and even if they did, they are subject to Uruguay Round reduction commitments in the near future. Indeed, confectionery products are subject to cuts on export refunds for Non-Annex II products.29[15] From 2000/01 onwards, the maximum budgetary outlay for such refunds for processed foods is restricted to 415 M Euros, yet the needs of the industry are estimated at 550-600 M Euros annually.30[16]

Failure to reform the sugar regime will severely curtail the ability of ASI businesses to compete in world markets—which is particularly threatening to these businesses because they are increasingly reliant on foreign markets to achieve their revenue and profitability goals. In 1999, they exported high-value products worth a total of 3.14 billion Euros to countries outside of the EU. In value terms, this represents more than 10 percent of the

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ASI sector's production volume and 10 percent of the total value of EU agri-food exports.

ASI products are generally branded products that incur heavy investment costs to become established in a market and require continuity of supply in order to stay in a market. Losses in foreign market share are likely to be long-term losses.

ECONOMIC ISSUES

1. The Food-Processing Industry's Contribution to the EU Economy

ASI alone represents 1,900 companies, over 290,000 employees, and an annual turnover of 39 billion Euros. ASI and all the other food and beverage industries affected by the sugar regime together employ around 1.5 million people in the EU. These are far greater numbers than employment in just sugar beet farming and processing. Indeed, the Committee of Industrial Users of Sugar (CIUS) estimates that only 25 jobs are created for every 10,000 tons of exported sugar, while the equivalent quantity of sugar exported in Non-Annex II products generates up to 500 jobs or 20 times the number of jobs created by the basic product.31[17] Considering jobs alone, exports of processed products are highly preferable to equivalent exports of basic sugar.

Value-added processed foods are also important to European agribusiness because they expand domestic agricultural production by stimulating demand for raw materials and first stage processing. And value-added processing increases contributions to the state in the form of taxes. Currently, food-processing industries account for 15 percent of total EU industrial production.

Given these considerations, it is clear that supporting the food-processing industries is in the EU's economic interests. However, because the cost of sugar accounts for up to 40 percent of the cost of a product, and because European food-processors pay up to three times more for sugar than their foreign competitors, exports of processed products are at risk of becoming a loss-making business.

In fact, it is realistic to expect that, because of the European price of sugar, value-added food-processing companies will begin considering the possibility of relocating to third countries that can provide better sugar prices, more favorable production conditions, or preferential agreements with the EU and/or other trade partners. If a mass migration of companies were to occur, it would displace thousands of workers and result in significant losses of tax revenues at all levels of government. The food-processing industry is a growth sector in many parts of the globe, and it is imperative that the EU take part in this development.

2. The Cost of the EU Sugar Regime

The European sugar industry has long claimed that the current sugar program is self-financing and has no effect on the EU budget. Though this is true in purely budgetary terms, the higher sugar prices associated with the regime mean that European consumers pay an annual “sugar bill” of seven billion Euros to protect, primarily, the interests of sugar producers.

Reform of the sugar regime is also important because of the environmental damage it causes. By guaranteeing high returns to farmers, the regime stimulates production, which in turn stimulates the demand for fertilizers and pesticides. Excessive use of fertilizers and pesticides pollutes the environment, increases disease and pest resistance, and increases human and animal morbidity and mortality.

Finally, the sugar regime hampers EU credibility in the WTO. No other trade barrier constrains the Commission’s leverage to negotiate robust trade agreements more than the EU sugar regime.

POLICY RECOMMENDATIONS

For the previously discussed reasons, the European Commission and the Agriculture Council must now recognize and move to rectify the inequities and inefficiencies linked to the sugar regime. ASI asks the Commission to reduce the sugar support price by a percentage similar to past (and future) export subsidy reductions, which would cause subsidies to ASI industries and the need for subsidies to decline in tandem.

In addition, ASI proposes that if domestic food processors cannot find adequate A and B sugar sold at the target price (because sugar manufacturers create an artificial shortage), they should be allowed to buy C sugar.

Benefits of the Recommendations

The reform, if introduced as recommended above, will do the following:

1. Gradually phase out the costs and inefficiencies of the status-quo;
2. Decrease the EU sugar processing industry's incentives for anti-competitive behavior; and
3. Help Europe comply with the export subsidy reduction commitments of the Uruguay Round. (The Commission has already published a regulation stating that a cut in A and B quotas will be necessary next year in order to comply with GATT limits on export subsidies, although cutting the price of sugar would negate the need to cut quotas.)

POLITICAL ISSUES

1. Past attempts to reform the EU sugar regime

Reform of the CAP for commodities other than sugar (e.g. cereals or dairy) were successful largely because subsidies for these products placed a large burden on the EU budget. Since the sugar regime is self-financing, there is no similar budgetary pressure for sugar. Neither has there been pressure from environmental groups. Although price supports encourage intensive agricultural methods—methods that generally attract the attention of such groups—sugar beets are usually grown in mixed farming enterprises and therefore are not a major concern for environmentalists.

Nonetheless, the need for reform of the sugar regime is becoming more urgent in light of recent reports that, in anticipation of joining the EU sugar regime, the five "first wave" Central and Eastern European applicants for EU membership are reversing their initial actions toward liberalizing their sugar sectors.32[18] The Millennium Round will put the EU under additional pressure to reform the sugar regime.

2. The sugar lobby

In most developed countries, agriculture is unique among other industries; its political lobby organizations are extremely powerful and effective. This is especially true in the EU (not to mention the US), where the agriculture lobby has diverted decision-makers from any radical change of the CAP.33[19]

Nonetheless, sugar producers' arguments in favor of maintaining the regime in its current form are unconvincing:

Argument #1: The world price of sugar is not a true price, but instead, reflects a "dumped" price. In fact, since most countries have already reformed their agricultural policies and lowered trade barriers, the world price of sugar has become more representative of sugar's actual value. Australia, Thailand and Brazil have expanded their sugar production by 59, 26, and 66 percent respectively over the past five years because their producers were making profits at current world prices. The world price is actually a solid reflection of the value at which efficient producers in these and other countries can profitably produce and export sugar.

Argument #2: Reforming the sugar regime will force most, if not all, producers out of business and cause a loss of jobs and investment for the Community. In reality, the regime enables a handful of large producers to reap windfall benefits, and it diminishes the EU's ability to obtain market-opening commitments in trade negotiations concerning other products. Moreover, employment in the EU sugar refining sector (52,000 full-time jobs) pales in comparison with the more than 1.5 million workers affected by the sugar regime via their employment in the EU food and drink industry.

Argument #3: Beet growers need the sugar regime's price supports to remain profitable. In fact, it is generally accepted that sugar beet is one of the most profitable crops to grow in the EU, second only to potatoes.34[20] If sugar beet subsidies were reduced, many growers would simply switch to other crops that they can grow more efficiently. This is especially true since sugar beets are commonly grown in mixed farming enterprises.

Argument #4: That EU sugar regime costs European taxpayers nothing because sugar producers finance it through their exports to third countries. In fact, European consumers bear the burden of the regime by paying an extra seven billion Euros annually for their sugar.

Argument #5: The EU needs to protect its sugar industry because most other countries have protectionist sugar programs that put EU producers at a disadvantage in world markets. As previously mentioned, several countries have already reformed their sugar policies and lowered trade barriers. Of the major trading nations, only the United States and Japan have sugar prices comparable to EU prices. While it is true that most countries do have policies that intervene in their sugar markets, these policies often are aimed at protecting or subsidizing consumers rather than just supporting producers.35[21] The EU sugar regime is focused only on ensuring high returns for sugar producers at the expenses of consumers. The EU sugar lobby is particularly critical of the U.S. sugar program, which does heavily distort trade and is the only U.S. agriculture protection program that was not reformed by the FAIR Act of 1996 (Farm Bill). Yet several organizations in the United States representing business, consumers, environmentalists, think-tanks, and other interests are strongly lobbying the U.S. government with the goal of reforming the U.S. sugar program. The Coalition for Sugar Reform was organized in 1997 and has since successfully pushed for the introduction of two bipartisan bills in the U.S. Congress. If approved, these bipartisan bills would phase out the U.S. sugar program over a three to four year period. If the EU's true goal is to force the United States to reform its sugar subsidy program, the EU's best strategy is to reform its own sugar regime first.

3. Stakeholders

3.1 Council of Agriculture Ministers/Member States' Agriculture Ministers

This Council is responsible for formulating agricultural policy for the EU. Because each minister's priority is to respond to the political pressure in his or her own member state rather than to fix the problems of the system as a whole, this group is a primary target for agriculture lobbies.36[22] In order to persuade the Council to take up the reform cause, widespread support will be needed in the member states that carry the most votes on the Council.

3.2 Special Committee on Agriculture

This body plays a key role in advising the Council of Agriculture Ministers. It is made up of officials from member states' agricultural ministries who, like the ministers themselves, have proven to be fairly impervious to the influence of interests other than agriculture (such as consumer interests).

3.3 The African, Caribbean and Pacific Countries (ACP)

The ACP countries that are party to the so-called Sugar Protocol benefit from the EU's sugar policy and will therefore oppose reform of the EU sugar regime. The Protocol allows its 18 signatories to export to the EU annually specified quantities of cane sugar at prices closely related to the high prices received by EU sugar beet farmers.

3.4 European Fertilizer Manufacturers

By reducing the price of sugar, sugar beet production will drop, which will, in turn, cause a decrease in the demand for fertilizers and pesticides. The European fertilizer and chemicals industries therefore will be negatively impacted by reform of the sugar regime and will oppose any reform of the present regime.

3.5 The Commission

The Commission has also shown itself to be responsive to the sugar lobby. Common sense dictates that those who have responsibility for the Community as a whole are likely to give higher priority to its general interest than to those who represent only the interests of a single member state. It is fair to say that reform of the sugar regime is in the long-term interest of the Community as a whole.

3.6 The European Parliament

The European Parliament operates on a partisan rather than national basis. Members of the European Parliament (MEPs) are nominated by political parties that have organized within several countries, if not on a Europe-wide basis. Once selected, MEPs sit by party, not by nation. With the growth of this party system (nine party groups are currently represented in the Parliament37[23]), it has become more and more likely that MEPs will represent the interests of all European citizens. In 1995, for example, the Parliament called for " real reform of the sugar regime, which would reduce over-production, sort out quotas and stop damaging the interests of consumers."

3.7 Member States' Trade Ministers

Because these ministers generally support trade liberalization, they are also likely to support reform of the EU sugar regime. The regime is the most trade-distorting program of the CAP; it complicates the European Union's trade relations with countries all over the world; it poses a serious threat to the food-processing industry's export potential (which is a growing industry in the majority of member states); and it reduces the efficiency of EU sugar production to the point that producers must rely on support to compete in third countries.

3.8 Consumer Groups

Given their high stake in this issue, consumers represent a very important source of potential support for reform of the sugar regime. In the past, however, consumers have not been able to make their voices heard on this issue, partially because the sugar regime is only one of many targets for consumer groups. Joining consumer voices with a broader and more focused coalition will increase the visibility of their position on sugar.

3.9 Environmental Groups

The Green Party has become a serious political force in Europe along with other environmental organizations. Even though, for the previously mentioned reasons, they have not made reform of the sugar regime one of their priorities, they can lend a strong voice to ASI's efforts. There are two reasons why environmental groups should become more vocal on the sugar issue. First, high sugar prices stimulate intensive production and therefore the use of fertilizers and pesticides. Second, reform of the EU sugar regime will force the United States to reform its sugar program—which will help mitigate environmental degradation in the Everglades wetlands by reducing the incentive for sugar farming in that area.

3.10 Food Manufacturing Sector

Second stage food processors' export potential is threatened by the sugar regime. Accordingly, these industries are going to be very eager to support sugar reform.

3.11 Media

Europeans pay over seven billion Euros every year to finance the sugar regime. Yet, largely because this payment takes the form of high sugar prices—instead of a tax or a budgetary item—the common EU citizen does not know about it. Gaining media coverage of the problems associated with the sugar regime will be critical to enhancing public awareness of the issue and influencing decision-makers.

3.12 The EU Member States

The quota (A and B) allocations in six member states are significantly higher than those of other states.38[24] It will be particularly important to convince these countries to support reform because their votes are heavily weighted in the Council. Votes by England, France, Germany, and Italy are weighted by a factor of ten. Spain is weighted by eight, and the Netherlands is weighted by five.39[25]

England and the Netherlands have already expressed their willingness to reform the regime. These countries are very efficient at both the farmer and the manufacturing level and therefore see no reason for the high burden on consumers.

Footnotes:

40[15] Products not listed in Annex II of the CAP, for example biscuits.|

41[16] Association of Chocolate, Biscuit and Confectionery Industries (CAOBISCO), "CAOBISCO Position on the Forthcoming WTO Negotiations," 1999.

42[17] Committee of Industrial Users of Sugar, "Sugar Export Refunds for Non-Annex II Products," 1998.
43[18] The five "first wave" countries are Estonia, the Czech Republic, Hungary, Poland, and Slovenia. For further information, see the background section of the project.
44[19] See Brussels Strategy for details.
45[20] Committee of Industrial Users of Sugar, "The value to the farmer of growing sugar relative to alternative crops," 1998.
46[21] For details on government policies of major exporters and importers of sugar, see Exhibit 21.
47[22] The Amsterdam Treaty of 1997 considerably increased Parliament's legislative powers by extending the so-called "co-decision procedure" to several new areas. Under the co-decision procedure, the Parliament has a right to amend a Council decision or reject it. Agriculture, however, was exempted; the Council needs only to consult the Parliament on agriculture issues.
48[23] See Exhibit 20.
49[24] For details on sugar quota allocation in the EU, see Exhibit 16.

50[25] For details on EU decision-making in agriculture, see Exhibit 4.

OVERALL STRATEGY

ASI should adopt a dual-track strategy for persuading the EU to reform the sugar regime:

Member states strategy: This strategy should be carried out by ASI's member associations in the 15 EU member states. As explained in the political issues section, it is the Agriculture Council that formulates EU agricultural policy, and member states' agricultural ministers make up this Council. The only way to influence these ministers is to build support within each state, and therefore a separate, tailored strategy should be created for each state. For the purpose of this project, however, I will lay out only the Italian strategy as an example. The member states strategy should include:

- *Coalition building*: In order to build national support for reform of the sugar regime, each association should build support from interest groups that have concerns about the regime, as well as from the public as a whole. Widespread support and commitment in each state will be necessary for reform to actually be enacted.

- *Legislative strategy*: Key players in both the legislative and executive branches of government should be targeted at the state level. The main goal is to convince government officials to pressure the agriculture minister to support reform of the sugar regime. The effort should include both direct lobbying and grassroots campaigns.

- *Public relations strategy*: This strategy should be used in support of the legislative strategy. It should aim to convince legislators and the public in each state of the need for reform. Key journalists and newspapers should be targeted, as well as journals and TV stations. The campaign should also include academic institutions in order to help raise awareness of the negative economic and social effects of the sugar regime.

Brussels strategy: This strategy should be carried out by ASI in Brussels. The strategy should include:

- *Coalition building*: In order to persuade the Council and the Commission to reform the EU sugar regime, ASI should join forces with interest groups that share its concerns at a Europe-wide level. Widespread support will be critical if the reform is to be introduced.

- *Legislative strategy*: ASI, together with the members of the coalition, should put pressure on the Council, the Commission, and the various interest groups that participate in EU policymaking.

ITALIAN STRATEGY51[26]

The main goal of this strategy is to put pressure on Italian Minister of Agriculture Paolo de Castro to support reform of the sugar regime. De Castro's vote is particularly important because Italy's vote in the Council is weighted by a factor of ten.

Coalition Building

ASI, together with its Italian member associations should organize the Italian Coalition for Sugar Reform (ICSR). As the name implies, the coalition's objective would be to bring about reform of the sugar regime.

Organizations that represent consumer, business, environmental, and other interests should be included in the coalition. The following organizations, which cover the full political spectrum from the center-left governing coalition to the center-right opposition, should be recruited for coalition membership:

- The Italian Association of Pastries (AIDI)
- The Italian Association of Food Products (AIIPA)
- The Italian Association of Soft Drinks (ASSOBIBE)
- The Italian Association of Consumers (ADOC)
- The Italian Association for the Defense of Consumers and Citizens (ATC)
- National Union of Consumers (NUC)
- Amici della Terra
- Greenpeace italia
- World Wildlife Fund

In carrying out the legislative strategy, the coalition should also seek support from the following:

- Labor Unions
  - The Italian Confederation of Workers' Unions (the Catholic CISL)
  - The Italian General Confederation of Labor (CGIL, Communist-dominated)
  - The Italian Union of Labor (UIL, Socialists and Republicans)
- La Confindustria

(Italy’s industrial federation, which represents the interests of large manufacturing and services corporations.)

- Foodarea

(Italy’s federation of food industries.)

- “Parastatali”
  - Ente Nazionale Energia Elettrica (ENEL)
  - Ente Nazionale Idrocarburi (ENI)
  - Istituto per la Ricostruzione Industriale (IRI)

(These groups are currently in the midst of privatization and have all had food restaurant and hotel-related business.)

- Unioncamere

(Italy’s Chamber of Commerce, which is headquartered in Rome but has regional, provincial and municipal offices.)

Opposition

Both beet growers and the sugar industry will oppose reform of the sugar regime. Beet growers in Italy are represented by the National Association of Beet Growers (ANB), which is connected to the most powerful Italian farmer organizations such as the National Confederation of Direct Cultivators (Coldiretti), and the General Confederation of Agriculture (Confagricoltura), as well as labor unions such as Uil and Cisl.

The sugar industry is represented by the National Association of Sugar Manufacturers (ASSOZUCCHERO). Like ANB, ASSOZUCCHERO is a very powerful group.

The National Association of Fertilizer Manufacturers (ASSOFERTILIZZANTI) will also oppose reform.

Legislative Strategy

The objective of the legislative strategy is to build support in the Italian Parliament and Cabinet to persuade Minister Paolo De Castro to support reform of the EU sugar regime.

The Parliament

As a result of Italy's 1992 electoral reform (see Exhibit 3), it now makes sense to target members of Parliament in their districts. ICSR should place special emphasis on lobbying those members that sit on both of the two coalitions within the Standing Committee on Agriculture.52[27] The lobbying effort should include:

- Testimony given by CEOs, association directors, labor representatives, environmentalists and consumer groups.
- Meetings with legislators.
- Letter writing campaigns to legislators and their staffs.
- Debates that engage legislators in the issue.
- A 'Dear Colleague' letter campaign in which district representatives will be encouraged to write to other members.

The Green Party, which is part of the center-left governing coalition, should be asked to put additional pressure on other Parliament members, Cabinet members and Minister De Castro.

The Cabinet

Because Minister De Castro is likely to be influenced by the Prime Minister's position on the sugar regime, ICSR should lobby the Prime Minister, as well as selected members of the Cabinet and relevant staff from the various ministries. The lobbying effort should include arranging meetings with and sending informational materials to the Prime Minister and relevant ministry staff.

Prime Minister Massimo D'Alema was a member of the Communist Party until 1989 when it seceded. He then participated in the creation of the more moderate Democrats of the Left Party, of which he became National Secretary in 1994. On the one hand, D'Alema is responsive to farmers and is concerned with maintaining rural lifestyles. On the other hand, he is supportive of consumer and environmental groups because they represent important votes for the political parties of the coalition.53[28] Currently, one of his main objectives is job creation.

ICSR should also target the Minister of Foreign Commerce, Piero Fassino, and his staff. Fassino also became a member of the Democrats of the Left Party after the secession of the Communist Party. Given that the EU sugar regime hampers Italian credibility at the WTO and prevents Italy from gaining the benefits of the multilateral trading system, Fassino is likely to support the reform. His support will create additional pressure on Minister De Castro.

Lastly, ICSR should lobby Minister De Castro and his staff directly. Among the staff, Undersecretary Roberto Borroni and Undersecretary Aniello Di Nardo should receive special attention. These two individuals are very important because they are members of the EU Council's Special Committee on Agriculture.

Members of EU Parliament

ICSR's lobbying effort should also devote special attention to Italian members of the EU Parliament. In particular, ICSR should concentrate on Italian members of the Parliament's Committee on Agriculture and Rural Development.

The Brussels coalition should also lobby members of Parliament. Although they have no legislative authority vis-a-vis the Council in the agricultural sector, they are important in influencing the Commission in the drafting stage of the policy, and they can also put pressure on the Minister of Agriculture and the Council.

Italian Members of

the EU Parliamentary Committee on Agriculture and Rural Development

On. Lavarra Vincenzo – Vice-Chairman
On. Berlate Sergio – Member
On. Celli Giorgio – Member
On. Fiori Francesco – Member
On. Procacci Giovanni – Member
On. Cesaro Luigi – Substitute
On. Lombardo Raffaele – Substitute
On. Messner, Reinhold – Substitute
Sig.ra Poli Bortone, Adriana – Substitute
On. Turco Maurizio – Substitute

Public Relations Strategy

Because few Italians are aware of the negative impacts of the EU sugar regime, and because citizen support for reform will put pressure on legislators to enact meaningful reform legislation, gaining media coverage of the issue will be crucial. To foster media interest in the sugar problem, ICSR should prepare the following documents:

- A white paper on the threat that the sugar regime poses to the Italian agri-food industry.
- Articles on the economic and social impacts of the sugar regime on Italy's economy, on the potential cost of extending the regime to Central and Eastern European applicants, and on the potential negative effects of the regime in light of the Millennium Round.

The coalition should focus on the following media outlets:

Mainstream Newspapers

The most influential newspaper in the country is Il Corriere Della Sera, which has been in the Agnelli family since the 1920's and is moderate and sensitive to social concerns. ICSR should also target three other papers that are relatively independent, widely read, and have established themselves as the voice of the Italian people. They are:

- Il Giornale (operated by ENI)
- Il Tempo
- La Stampa (also in the Agnelli family)

In addition, ICSR should target Il Sole 24 Ore. This newspaper is focused on economics and is read by a narrower and more educated public (it can be seen as an Italian Financial Times).

Business Journals

The two most influential Italian business journals are the following:

- L'Espresso
- Panorama

News Reporters

ICSR should provide information on the sugar issue to influential Italian news reporters with special focus on reporters who view themselves as having a mandate to inform Italians of economic and social inequities. At the same time, ICSR should avoid news reporters that are very "noisy" but are not well respected and could actually be detrimental to the reform effort. The following reporters should be approached:

- Giorgio Bocca (L'Espresso)
- Enzo Biagi (RAI TV RAI 1)
- Bruno Vespa (RAI 1)
- Emanule Scarci (Il Sole 24 Ore)
- Michele Santoro (RAI 1)

Television

ICSR should focus on TV shows that are hosted by the previously selected news reporters. Bruno Vespa and Michele Santoro host debates between politicians, experts, academics, other news reporters, etc. If these two individuals buy into the idea of reform, they will certainly be willing to take the issue up in their debates. These debates draw large audiences and can have a tremendous impact on citizens and politicians.

Academic Institutions

ICSR should target selected academic institutions with the goal of getting experts to publish articles and reports on the need to reform the EU sugar regime. The following universities are highly respected in Italy. If academics at these schools support reform, Italian politicians and the public at large will be inclined to follow suit.

- Università Bocconi (Milan)
- Università La Sapienza (Rome)
- Università La Normale (Pisa)

Footnotes:
54 [26] For Italy's political profile, see Exhibit 3. For the Italian Strategy Chart, see Exhibit 24.
55[27] See Exhibit 19 for details.
56[28] As mentioned in Exhibit 3, a disgruntled intraparty faction can withdraw its support from a coalition cabinet, thereby causing that Cabinet to fall.

BRUSSELS STRATEGY57[29]

The main goal of this strategy is to persuade the Commission to propose reform of the sugar regime and to create additional pressure on Agriculture Ministers to support the proposal.

Coalition Building

In Brussels, ASI should organize the European Coalition for Sugar Reform (ECSR). The coalition should be comprised of organizations that represent consumer, environmental, business, and other interests. The following organizations should be invited to join:

- ASI

- Committee of Industrial Users of Sugar (CIUS)
- European Ice-cream Association (EUROGLACES)
- European Dessert Mixes Manufacturers Association (EDMMA)
- European Snacks Association (ESA)
- Manufacturers of Frozen Food Products (FAFPAS)
- Association of European Fruit & Vegetable Processing Industry (OEITFL)
- Union of the EU Soft Drinks Association (UNESDA)
- European Consumers' Organization (BEUC)
- Consumers' International (CI)
- Friends of the Earth Europe (FoEE)
- Greenpeace International
- World Wildlife Fund
- The Consumer Committee

The coalition should set up a website with information about the coalition, publications, legislative efforts, etc.

Opposition

Both beet growers and the sugar industry will oppose reform of the sugar regime. At the European level, beet growers are represented by the International Confederation of European Beet Growers (CIBE). CIBE is affiliated with the most influential EU farm organizations:

- The EU farmers' union federation, Comité des Organisations Professionelles Agricoles (COPA), and
- The General Committee for Agriculture Co-operation in the European Community (COGECA).

Together these organizations share a secretariat that is in permanent contact with officials within the EU government. They have constitutional rights of consultation in EU policy formulation, and together with their constituent national organizations, they have considerable influence with the Council of Agriculture Ministers, as well as with the EU Commission and Parliament.

The sugar industry, represented by the European Sugar Manufacturers Committee (CEFS), and the European Fertilizer Manufacturers' Association (EFMA) will also strongly oppose reform of the current regime.

Legislative Strategy

The European Commission is responsible for initiating legislation, but it must listen to the opinion of the various Committees and the Parliament from the earliest stages of drafting the legislation. Because the procedures for adopting legislation are complicated and involve other institutions, the Commission is unlikely to introduce any legislation that does not have a high probability of succeeding. This makes it all the more important for ECSR to exert comprehensive pressure as soon as drafting begins. Failure to do so will likely mean that the Commission will not even introduce the reform.

1. The Commission

In order for the reform to be introduced, Commissioner for Agriculture Franz Fischler will have to be convinced of its merits and viability. Accordingly, ECSR should target members of his "Cabinet"—officials who are close to the Commissioner and act as his personal advisors. Cabinet members are closely involved in the formulation and refining of policy, and they are direct points of contact with Fischler. ECSR should contact them personally in order to influence the decision-making process. ECSR should also schedule meetings between Cabinet members and presidents of ECSR member associations. ECSR should also send written materials on the issue, write letters and make phone calls. The following Cabinet members are good targets for ECSR:

- Head of Cabinet: Corrado Pirzio-Biroli.
- Deputy Head of Cabinet: John Bensted-Smith. He is in charge of the market organizations of the CAP and relations with agricultural professional organizations.
- Deputy Head of Cabinet: Rudolf Strehmeier. He is in charge of budget and relations with the EU Parliament.
- Deputy Head of Cabinet: Michael Losh. He is in charge of relations with the Economic and Social Committee.

1.1 Directorate-General for Agriculture (DG VI)

The staff for agricultural policy formulation (and implementation) in the Commission is located within DG VI. Just as it plans to lobby Cabinet members, ECSR should lobby selected DG VI staff members in order to build support for the reform. ECSR should focus on several individuals, including:

- Director-General: Mr. Guy Legras (also chair of the various management committees).
- Deputy Director-General: Mr. Franco Milano. He is in charge of Directorate C, Organization of Markets in Crop Products.

- Deputy Director-General: Mr. Joachim Heine. He is in charge of Directorate AII, Relations with the European Parliament, and Directorate BI, Agro-Economic Legislation.

Special emphasis should be placed on members of the Unit C.3. Sugar.58[30] These individuals will have to support reform if legislation is even to be drafted.

1.2 Economic and Social Committee (ESC) and Advisory Committee

ECSR should be present at these committees' meetings and should maintain a unified front before them. Industry representatives and consumer and environmental groups should express their concerns with one voice in order to increase the chances of influencing the Commission. Past reform efforts have failed partially because of a lack of coordination among reform proponents.

2. The Parliament

The main objective of lobbying MEPs is to put pressure on them to weigh in with the Commission during the drafting stage of the reform. MEPs can also influence the Council of Agriculture Ministers. Each MEP is assigned to a committee at the beginning of his five-year term of office and therefore serves long enough to develop substantial policy expertise. Moreover, because the committees meet in Brussels (unlike the Parliament itself, which conducts its plenary sessions in Strasbourg), they have the capacity to influence the Commission.

ECSR should focus specifically on Parliament's Committee on Agriculture and Rural Development. This Committee reflects the Commission's DG structure, and cooperation between MEPs on this committee and their bureaucratic counterparts in the Commission is important. ECSR should also target the Greens in the EU Parliament. The lobbying effort should include:

- Testimony given by CEOs, association directors, labor representatives, environmentalists and consumer groups.
- Meetings with legislators.
- Letter writing campaigns to legislators and their staffs.
- A 'Dear Colleague' letter campaign in which district representatives will be encouraged to write to other members.

3. The Council

ECSR should also lobby, in the same way as the Commission staff, the Committee of Permanent Representatives (COREPER). This Committee is made up of one representative from each member state. Appointees are usually high level diplomats or civil servants. Their main task is to act as a first filter for proposals from the Commission. COREPER carries out much of the Council's routine work and much of the preparatory work on its non-routine issues.

The Council also has a Secretariat that carries out all the necessary work for the activities of the Council and COREPER. ECSR should make sure that selected officials in the Secretariat are well informed on the sugar issue by sending information and letters, making phone calls, and scheduling meetings. The lobbying effort should target several individuals, including:

- Mr. Vittorio Griffo: Director General B—Agriculture and Fisheries
- Mr. Luigi Mazzachi: Directorate BI—Agricultural Policy (including international aspects); organization of the markets in agricultural products. ECSR should focus on several officials in Directorate BI in charge of arable crops:
    - Mr. David Swift: Head of Division
    - Mrs. Alda Silveira Reis
    - Mr. Joachin Holstein Hans
    - Mr. Laurent Benhamou

NEGOTIATING STRATEGY59[31]

Preferred Outcome

Negotiations on the revision of the sugar regime will begin in Brussels next January. This represents a very important opportunity to bring about change. As proposed in the recommendation section of the project, ASI's preferred outcome is to see reform introduced by mid-2001.

Best Alternative to a Negotiated Agreement (BATNA)

If ASI does not succeed in persuading EU authorities to introduce the reform by next spring, the target date should be pushed back to August 2002 when the Council will fix the price for the marketing year (July to June) 2003/2004.

Talking Points60[32]

- European consumers pay approximately seven billion Euros every year to maintain the sugar regime.
- Europe will lose jobs and business if it does not reform the sugar industry. Highly competitive industries are being forced to consider moving their plants to other countries where they can buy sugar at one-third of the domestic price.
- Europe's exports will suffer as other countries continue to point to the EU's protectionist sugar regime as the basis to justify and continue their own protectionist policies.
- Extending the regime in its current form to the Central and Eastern European countries will have tremendous negative consequences.
- Sugar creates trouble for the environment by encouraging intensive farming techniques that use large amounts of fertilizers and pesticides.
- The regime will need to be reformed to bring it into compliance with the EU's WTO commitments.

Important Facts

- The European food and drink industry represents around 1.5 million jobs.
- The European beet sugar processing industry represents 52,000 jobs.
- European beet farming represent 350,000 jobs.
- The CAP's current guaranteed profit margins for sugar are so high that, even with a reduction in price supports, both sugar producers and beet farmers will still be competitive.

Negotiating Tactics

Member States Strategy

Given the issues discussed in the political issues section of this paper, the Member State Strategy will require special emphasis in four countries: France, Germany, Italy and Spain. Of these, France and Germany, which are by far the largest EU sugar producers, have historically opposed reform. If they cannot be convinced to support the reform, support from Italy and Spain will become crucial. In fact, if support from these two latter countries can be secured, a reform proposal will be approved even if one of the smaller countries votes against it along with France and Germany.61[33]

Brussels Strategy

ECSR will have to exert unified pressure on all the various institutions, interest groups and individuals that participate in EU policymaking from the very beginning of the reform campaign. The Commission will not propose legislation that does not have a high likelihood of success.

CONCLUSION

The time is right for ASI to finally succeed in influencing EU authorities to reform the sugar regime. Although past attempts to reform the regime have failed, the combination of the EU's planned enlargement and the start of the Millennium Round provide an historic opportunity to exert pressure to achieve change. The EU can no longer allow the interests of a few to outweigh either the interests of the EU economy as a whole or those of consumers.

Reform of the EU sugar regime would not only directly benefit Europeans in the form of reduced sugar prices, it would also put tremendous pressure on the United States to reform its own sugar program. Once the EU has reformed its regime, it can take a pro-active stand vis-a-vis the United States, which uses the EU sugar regime as an excuse for not reforming its own sugar program.

Both the EU and the US have ambitious goals for the Millennium Round. To achieve these goals, sugar markets will likely need to be liberalized just like other trade-distorting programs.

Footnotes:
62[29] For details on the EU's institutional structures and its policymaking processes for agriculture, see Exhibit 4. For Brussels Strategy Chart, see Exhibit 25.
63[30] See Exhibit 18 for details.
64[31] Exhibit 27 identifies the different stakeholders, as well as their interests and options.
65[32] Similar talking points and important facts can be applied to the Member States' strategies, with some correction of the numbers.
66[33] See Exhibit 4 for details on the qualified majority voting in the Council.

EXHIBITS

1. AGRICULTURE IN THE URUGUAY ROUND
2. RECENT CAP REFORMS
3. PROFILE OF ITALY
4. EU POLICY-MAKING PROCEDURES FOR AGRICULTURE ISSUES
5. SAMPLE WHITE PAPER (ECSR)

EXHIBIT 1

AGRICULTURE IN THE URUGUAY ROUND

Agricultural trade was first included under the rules of the World Trade Organization (WTO), previously the General Agreement on Tariffs and Trade (GATT), as a result of the Uruguay Round of negotiations. Most of the Uruguay Round's provisions, including the Agreement on Agriculture, went into effect on January 1, 1995.

The Uruguay Round of multilateral trade negotiations was the eighth such negotiating round and was based on a mandate given by trade ministers in the September 1986 Punta del Este Declaration. The Declaration called for, among other things, substantial progressive reductions in agricultural protection and support in order to prevent and correct distortions in world agricultural markets.

The Uruguay Round Agreement on Agriculture (AoA)

The AoA covers all agricultural products contained in Chapters 1 to 24 of the Harmonized System of tariff description, excluding fish and fishery products, but including some other products, for example, sorbitol, cotton, silk and flax. In addition to primary agricultural products, the AoA also covers export subsidies on incorporated products (for example biscuits), known in the EU as Non-Annex II products. Unlike other commodities such as oilseeds and cereals, sugar was not specified as an area for negotiation during the Uruguay Round.

The AoA was mainly concerned with rules and commitments in three key areas: market access, domestic subsidies and export subsidies.

1. Market Access

Tariffication

Under the AoA, WTO member countries agreed to convert non-tariff barriers for imports into tariffs. Developed countries agreed to cut unweighted average tariffs by 36 percent by the year 2000, and developing countries agreed to unweighted average cuts of 24 percent by 2005. Each member agreed to make its total cut in equal annual installments during the implementation period. Least-developed countries were not required to reduce their agricultural tariffs. In order to facilitate tariffication, the AoA included a "Special Treatment" clause, which sets out conditions (detailed in AoA Annex 5) under which member countries could maintain import restrictions up to the end of the implementation period.

Market Access Opportunities

The AoA also established so-called "market access opportunities," under which members committed themselves to guarantee the same access granted during the base-period of 1986-1988 (current market access opportunities). In addition, members agreed to establish "minimum access" opportunities for those products for which imports during the base-period were less than three percent of domestic consumption. The minimum access quantity was set at three percent of domestic consumption in the base year period, rising to five percent by the year 2000 (2004 for developing countries). Commitments were implemented through the establishment of so-called "tariff-rate quotas" with the in–quota tariff rate set at a "low or minimal" rate. Although some of these "in-quota tariffs" are still quite high, they are lower than the corresponding "most favored nation" (MFN) rate for the products concerned.

Special Safeguard Provisions (SSGs)

The AoA also provided for the temporary application of an additional duty on top of applied tariffs in cases of import volume surges or import price falls. The additional duty can be activated under a volume-based or price-based trigger, but not both concurrently. Because SSGs do not require an "injury test," they are much easier to invoke than the safeguard mechanism provided through Article XIX of GATT 1994.

2. Domestic Support

Reduction Commitments

The AoA established a method for calculating each member's total-trade-distorting domestic support that is provided to domestic producers in a year, as well as the equal reduction installments that were to be made to that support between 1995 and 2000 (2004 for developing countries). Members also agreed to reduce this measure, the Aggregate Measurement of Support or AMS, by 20 percent of its 1986-88 level (13.3 percent for developing countries with no reduction commitments for least-developed countries during the implementation period).

Blue Box Measures

Although so-called "blue box measures" are considered to be trade distorting, they were not subject to the AoA reductions or limits. These measures included payments made directly to producers to get them to limit production as long as these are based on a fixed area and yield (or a fixed number of head), or are made on 85 percent or less of the base level of production.

Green Box Measures

Domestic support policies that have "little or no" impact on trade were excluded from reduction commitments and came to be known as "green box measures." The criterion for exclusion was that the measures should be provided through a publicly funded government program that does not involve transfers from consumers. The green box covered many public service programs, including general services provided by governments. Thus, the green box provided for the continuation, and possible enhancement, of programs such as research, pest and disease control programs, marketing and promotion services, agricultural training activities and advisory services.

De Minimis Levels of Support

Countries were allowed to exclude from their calculation of the Total Aggregate Measurement of Support (Total AMS) trade-distorting subsidies that made up only a small proportion (five and 10 percent for developed and developing countries respectively) of the value of production of individual products or, in the case of non-product-specific support, the value of total agricultural production.

3. Export Subsidies

Developed-countries agreed to reduce direct export subsidy expenditures by 36 percent over six years (using 1986-90 as the base period). They also agreed to cut the volume of supported exports by 21 percent over six years from the same base period. Developing countries were given 10 years to make their reductions and were allowed reduction levels of 24 and 14 percent respectively. No reductions were applied to least-developed countries.

4. Article 20

Under Article 20 of the Marrakech Agreement, WTO members agreed that negotiations for continuing the progressive reductions of agricultural support would begin one year before the end of the implementation period. Thus, although the Seattle Ministerial Conference failed to officially launch a new negotiation round, negotiations on agriculture are schedule to begin in the year 2000 as part of the built-in agenda.

EXHIBIT 2

RECENT CAP REFORMS

In 1992 the European Council adopted a package of measures, commonly referred to as the MacSharry reforms, with the goal of making the CAP more market-oriented. The idea was to reduce intervention prices and increase compensation payments. Although the reform was successful for some commodities, such as cereals,[1] the Council rejected MacSharry's proposal to reform the milk regime, and sugar was completely excluded from any reform.

In 1999, at the Berlin European Council, the EU heads of states agreed on the need to further reform the CAP. This led to a political agreement on Agenda 2000, which included the measures listed below, among others. Sugar, however, escaped the reform entirely:[2]

- *Arable Crops*
- The present intervention price was to be reduced by 15 percent in two equal stages of 7.5 percent (in the 2000/2001 and 2001/2002 marketing years respectively).
- Area payments were to be increased in two equal stages from 54 to 63 per ton (multiplied by the historical regional reference yields for cereals).
- Ten percent set aside requirements were established for producers who received area payments.
- *Dairy products*
- The milk quota regime was extended to 2006, and quotas were increased for young farmers who wanted to start production (an increase equivalent to one percent of the existing quota allocation)

and for producers in mountain areas (an increase equivalent to a further one percent, but with a very uneven allocation between member states).

- Intervention prices for butter and skim milk powder were to be reduced by 15 percent over a four-year period
- A new dairy cow premium was introduced to compensate for the reductions in milk prices.

EXHIBIT 3

PROFILE OF ITALY

The Republic of Italy is a parliamentary democracy. The president of the country is the head of state. He or she appoints the prime minister, subject to parliamentary concurrence. The president can also dissolve Parliament and call for elections if it is clear that no governing majority can be formed. The president is elected for a term of seven years by the members of the Chamber of Deputies, the Senate and representatives of the 20 regions. Carlo Azelio Ciampi was elected president of the Republic in May 1999.

The Cabinet

Executive authority is vested in the Cabinet (officially titled the Council of Ministers) and the prime minister (whose official title is president of the Council of Ministers). The ministries form the basic structure of the state's public administration. The current government, headed by Prime Minister Massimo D' Alema, has 25 ministers, seven without portfolios.

Because Italy's party system is complex (there are currently 16 parties), it is necessary to provide each party in the governing coalition with adequate representation in the Cabinet. In addition, each party contains within its ranks a number of highly organized factions. These, too, demand representation in the Cabinet. A disgruntled intraparty faction is just as capable as a disaffected party is of withdrawing its support from a coalition cabinet and causing that cabinet to fall.

Because the cabinet usually consists of several parties, and because even one-party cabinets are usually torn by factional strife, the cabinet cannot and does not function as a united team. Its members, even when they belong to the same party, regard one another as political rivals, often operating at cross-purposes. In fact, the Prime Minister is becoming more dominant because of his ability to mediate differences among various power centers within and outside the cabinet and thereby give some measure of central direction to the government.

The Parliament

The Italian Parliament consists of the Chamber of Deputies (630 members) and the Senate (325 members). The Chamber of Deputies is the most influential body, although the cabinet is equally responsive to both houses. No single political party commands a parliamentary majority and coalition governments are the norm. Much of Parliament’ s work takes place in its standing committees, which means these committees wield a great deal of power—sometimes even enough to pass bills.

Italian Cabinets can be forced to resign in a variety of ways by either parliamentary house. The legal procedure prescribed by the constitution stipulates that, if 10 percent of the members of either of the houses of parliament sign a motion of no confidence, and if a majority of those voting in that house supports the motion within three days after it has been presented, the cabinet must resign.

In 1993, a new electoral law was adopted, which provided for the election of most deputies and senators from single-member districts with election by plurality.

Lobbying

The Italian interest-group system is moving in the direction of fragmented pluralism. Old established interest groups that speak on behalf of business or labor as a whole are weakening and a multiplicity of new groups is gaining strength, each expressing a narrower range of interests and concerns. These new groups are referred to in Italy by the newly coined term "lobbies," and like American lobbies, they are concerned only with serving the short-run interests of their members.

Major Political Parties

<u>Center-left Governing Coalition</u>:

(Led by Prime Minister Massimo D'Alema)
Democrats of the Left (DS)
Italian People's Party (PPI)
The Democrats (DEMOCRATICI)
The Greens (VERDI)
Italian Communists (PDCI)
Italian Renewal (RI)
Union of Democrats for Europe (UDEUR)
Democratic Union for the Republic (UDR)
Italian Socialists (SDI)
United Christian Democrats (CDU)
Italian Republican Party (PRI)

<u>Center-Right "Freedom Pole" (POLO) Opposition Coalition</u>:

(Led by Former Prime Minister Silvio Berlusconi)
Forza Italia (FI)
National Alliance (AN)
Christian Democratic Center (CCD)

<u>Others in Opposition</u>:
Northern League (LN) - (Led by Chamber Deputy Umberto Bossi)
Communist Renewal (RC) - (Led by Chamber Deputy Fausto Bertinotti)

EXHIBIT 4

EU POLICY-MAKING PROCEDURES FOR AGRICULTURE ISSUES

The European Commission is vested with the power of initiative, i.e. the power to make policy proposals. It is the Council of Agriculture Ministers, however, that decides based on a qualified majority vote whether or not to adopt the Commission's policy proposals. The Council also establishes regulations for any approved policies. The Council entrusts the preparation of its proceedings to the Special Committee on Agriculture (SCA), which is a committee of senior officials.

Committees

The Commission consults a large number of experts in drafting and implementing CAP policies. The Commission consults the European Parliament and the Economic and Social Committee (ESC), which is made up of representatives of all the different socio-professional categories, including farmers. It also consults relevant product group advisory committees.[3]

The Commission uses management committees to establish basic regulation parameters (e.g., export refunds) that are applicable for only a few weeks or months on average. These committees are made up of representatives from the member states and are chaired by representatives of the Commission. The committees prepare opinions on proposals submitted to them by the Commission.

Qualified Majority in the Council

Voting in the Council is weighted based on each member state's population size so that larger states get more votes than smaller states.

Member Countries	Number of Votes	
	Per Country	Per Group

France, Germany, Italy, United Kingdom	10	40
Spain	8	8
Belgium, Greece, Netherlands, Portugal	5	20
Austria, Sweden	4	8
Denmark, Ireland, Finland	3	9
Luxembourg	2	2
TOTAL		87

Source: Politics in Western Europe, 1998.

EXHIBIT 5

EUROPEAN COALITION FOR SUGAR REFORM (ECSR)

"Reforming the EU Sugar Regime"

Sample White Paper

Introduction

Thirty years ago, the European Community was a net importer of sugar. Now, thanks to Europe's Common Agricultural Policy (CAP), the European Union is the world's second largest sugar exporter; only Brazil ships more sugar abroad.

The CAP clearly has been a boon to Europe's sugar industry. Yet the so-called sugar regime also has a severe negative impact on the European economy.

- It hurts European consumers, who pay an annual sugar bill of seven billion Euros.
- By causing EU sugar prices to rise up to three times the world market price of sugar, it places the EU's fast-growing food processing industry in a disadvantaged position in the world market. (Sugar accounts for as much as 40 percent of the cost of some processed food products).

- More than any other subsidy program, it constrains the European Union's limited leverage to negotiate robust foreign market access commitments in food and processed-food products.

Extension of the current EU sugar regime to EU applicant countries in Central and Eastern Europe will only lead to further and substantial economic losses for the European Union.

How the EU Sugar Regime Works

The EU's sugar regime consists of a price support system, a quota system and a separate system for selling sugar to "third" (non-EU) countries. Under the price support system, intervention boards buy up all the sugar offered to them by EU producers at an annually set price. The minimum price for sugar beets is also set annually, and both prices are higher than the world market price.

Anti-competitive behavior on the part of sugar processors pushes the price of sugar still higher. Indeed, the EU produces five million tons more sugar than is required to meet domestic demand. If the EU market were allowed to function properly, this over-production would lead to downward pressure on prices and production. In the EU sugar market, however, the opposite phenomenon occurs. The only possible explanation for this is that sugar processors keep the supply to local markets tight by off-loading sugar on the world market and thereby creating an artificial shortage of sugar within the EU. As a result, EU sugar prices are on average two to three times higher than the government-set price.

To date, the EU sugar regime has escaped every reform of Europe's Common Agricultural Policy (CAP), and it was left virtually untouched by the Uruguay Round Agreement on Agricultural. One of the primary reasons for this is that the regime is self-financing so it does not impact any EU or individual state budgets. The costs involved in off-loading sugar surpluses are born by EU sugar beet and refined sugar producers, who pay a levy for this purpose.

Economic Impact of the Sugar Regime on the EU Economy

The food and beverage industries affected by the sugar regime represent around 1.5 million jobs. These industries use large quantities of EU agricultural products, which in turn makes them extremely important to European agribusiness; the food and beverage industries expand domestic agricultural production by stimulating demand for raw materials and first stage processing.

The added value created by processing also creates additional economic activity, jobs and wealth within the EU. In fact, value-added processed foods account for 15 percent of total EU industrial production. The Committee of Industrial Users of Sugar (CIUS) estimates that only 25 jobs are created for every 10,000 tons of exported sugar, while the equivalent quantity of sugar exported in Non-Annex II products generates up to 500 jobs or 20 times the number of jobs created by the basic product.[4] In this sense, exports of processed products are preferable to those of an equivalent quantity of basic sugar, particularly considering that added value increases contributions to the state in the form of taxes.

Because the cost of sugar accounts for up to 40 percent of the cost of a product, the substantial differential between European and international sugar prices significantly biases company decision-making and can turn the export of processed products into a loss-making business. In turn, this can lead to losses of market share, and insofar as the long term profitability and viability of enterprises is called into question, it can lead to job losses within the Community.

Against this background, it is realistic to expect that value-added food-processing companies will begin considering the possibility of relocating to third countries that can provide more favorable production conditions or have preferential agreements with the EU or with other trade partners. If such a mass migration were to occur, it would displace thousands of workers and result in significant losses of tax revenues at all levels of government. The food-processing industry is a growth sector in many parts of the globe, and it is imperative that the EU take part in this development.

The European sugar industry has long claimed that the current system is self-financing and has no effect on the EU budget. Though this is true in purely budgetary terms, the higher sugar prices associated with the regime mean that European consumers pay an annual "sugar bill" of seven billion Euros to protect, primarily, the interests of sugar producers.

Reform of the sugar regime is also important because of the environmental damage it causes. By guaranteeing high returns for farmers, the regime stimulates production, which in turn stimulates the demand for fertilizers. Excessive use of fertilizers pollutes the environment, increases disease and pest resistance, and increases human and animal morbidity and mortality.

Finally, the sugar regime hampers EU credibility in the WTO. No other trade barrier constrains the Commission's leverage to negotiate robust trade agreements more than the EU sugar regime.

Enlargement and the EU Sugar Regime

A report published in December 1997 by the UK-based economic consulting firm NERA (National Economic Research Associates) argues that the EU's planned enlargement to the East makes rapid reform of the sugar regime imperative because the prospect of extending the current regime to the applicant countries of Central and Eastern Europe (CEECs) is hindering those countries' efforts to liberalize their sugar sectors.[5]

The problem is particularly acute in Poland and Hungary, which are both major sugar producers.[6] During the early reform years, states the report, these countries began dismantling their state-run sugar monopolies. Since they began making moves toward joining the EU, however, they have been reversing their liberalization policies.

The NERA report finds that the CEEC's combination of low average incomes and huge unsatisfied demand for goods and services makes their economies particularly unsuited to the price fixing provisions of the EU sugar regime. The regime would aggravate overproduction problems, and the inevitable price increases that accompany the sugar regime would seriously delay the development and structural adjustment of the CEEC sugar sector. Moreover, the report estimates that bringing the applicant countries into the EU sugar regime will cost Europe three million Euros.

The essential message of the NERA report is that waiting to reform the sugar regime will only complicate and increase the price of market liberalization in the applicant countries.

The Arguments Against Reforming the EU Sugar Regime are Unconvincing

Sugar producers advance several implausible arguments in favor of maintaining the regime in its current form:

<u>Argument #1: The world price of sugar is not a true price, but instead, reflects a "dumped" price</u>. In fact, since most countries have already reformed their agricultural policies and lowered trade barriers, the world price of sugar has become more representative of sugar's actual value. Australia, Thailand and Brazil have expanded their sugar production by 59, 26, and 66 percent respectively over the past five years because their producers were making profits at current world prices. The world price is actually a solid reflection of the value at which efficient producers in these and other countries can profitably produce and export sugar.

<u>Argument #2: Reforming the sugar regime will force most, if not all, producers out of business and cause a loss of jobs and investment for the Community</u>. In reality, the regime enables a handful of large producers to reap windfall benefits, and it diminishes the EU's ability to obtain market-opening commitments in trade negotiations concerning other products. Moreover, employment in the EU sugar refining sector (52,000 full-time jobs) pales in comparison with the more than 1.5 million workers affected by the sugar regime via their employment in the EU food and drink industry.

<u>Argument #3: Beet growers need the sugar regime's price supports to remain profitable</u>. In fact, it is generally accepted that sugar beet is one of the most profitable crops to grow in the EU, second only to potatoes.[7] If sugar beet subsidies were reduced, many growers would simply switch to other crops that they can grow more efficiently. This is especially true since sugar beets are commonly grown in mixed farming enterprises.

<u>Argument #4: That EU sugar regime costs European taxpayers nothing because sugar producers finance it through their exports to third countries</u>. In fact, European consumers bear the burden of the regime by paying an extra seven billion Euros annually for their sugar.

<u>Argument #5: The EU needs to protect its sugar industry because most other countries have protectionist sugar programs that put EU producers at a disadvantage in world markets</u>. As previously mentioned, several countries have already reformed their sugar

policies and lowered trade barriers. Of the major trading nations, only the United States and Japan have sugar prices comparable to EU prices. While it is true that most countries do have policies that intervene in their sugar markets, these policies often are aimed at protecting or subsidizing consumers rather than just supporting producers. The EU sugar regime is focused only on ensuring high returns for sugar producers at the expenses of consumers. The EU sugar lobby is particularly critical of the U.S. sugar program, which does heavily distort trade and is the only U.S. agriculture protection program that was not reformed by the FAIR Act of 1996 (Farm Bill). Yet several organizations in the United States representing business, consumers, environmentalists, think-tanks, and other interests are strongly lobbying the U.S. government with the goal of reforming the U.S. sugar program. The U.S. Coalition for Sugar Reform was organized in 1997 and has since successfully pushed for the introduction of two bipartisan bills in the U.S. Congress. If approved, these bipartisan bills would phase out the U.S. sugar program over a three to four year period. If the EU's true goal is to force the United States to reform its sugar subsidy program, the EU's best strategy is to reform its own sugar regime first.

Recommendations

It is time for the European Commission and the Farm Ministers of the EU to recognize the inequities and inefficiencies of the sugar regime and introduce a reform of it. With negotiations for revising the regime set to start next January, the European Coalition for Sugar Reform asks for a gradual reduction of support prices together with actions to eliminate the anti-competitive nature of the current regime. Such reform serves the interests of consumers, the environment and the whole EU economy.

EXHIBIT 6

SAMPLE TESTIMONY BEFORE THE EU COMMISSION

Association of Sweets Industries of the EU (ASI)
On behalf of the European Coalition
for Sugar Reform (ECSR)

Before the Economic and Social Committee

Date

Presented by Pierre X
President, ASI

Mr. Chairman and members of the committee, thank you very much for allowing me the opportunity to testify before your panel today. My name is Pierre X and I am the President of ASI.

Negotiations concerning potential revisions of the sugar regime are set to begin in January. On behalf of my association, and of the European Coalition for Sugar Reform, I strongly urge the Commission to introduce a reform package that will allow EU sugar prices to drop closer to world market prices. The health of our industry depends on it.

In 1999, the EU's chocolate, biscuit and confectionery industries exported value-added products worth a total of 3.14 billion Euros to countries not belonging to the EU. This represents more than ten percent of the production volume of the ASI sector and ten percent of the total value of EU agri-food exports. Thus, both our industry sub-sector and the entire agri-food industry is strongly interested in and reliant on foreign markets for achieving revenue and profitability goals.

Thanks to the Common Agriculture Policy for sugar, however, EU sugar prices are threatening our export competitiveness. Because of the CAP, we pay two to three times the world price for sugar. And sugar is one of our primary inputs; it accounts for as much as 40 percent of the cost of our products.

The EU must reform its sugar regime in order to ensure that processed food exports do not become a loss-making business.

Food processors do benefit from some government assistance in the form of export refunds. However these subsidies do not fully cover the difference between EU and world sugar prices, and even if they did, they are subject to Uruguay Round reduction commitments in the near future. Indeed, confectionery products are subject to cuts on export refunds for Non-Annex II products. The maximum budgetary outlay for such refunds for processed foods from 2000/01 onwards is restricted to 415 M Euros, yet the needs of the industry are estimated at 550-600 M Euros annually.

Non-Annex II products are generally branded products, which require continuity of supply and which incur heavy investment costs to become establish in a market. They cannot be taken off markets on a temporary basis, as is sometimes the case for basic commodity products. Incomplete compensation can cause the cancellation of contracts and permanent market loss as third country competitors take up the slack in the market.

Given that export refunds already do not fully cover the cost difference between EU and world sugar prices and given that the refunds are expected to be further reduced and potentially eliminated in the Millennium Round, EU authorities must recognize the urgent need to introduce a reform of the present sugar regime. Failure to do so will severely curtail the ability of ASI businesses to compete in world markets.

Impact of the Sugar Regime on the EU Economy

ASI alone represents 1,900 companies, over 290,000 employees, and an annual turnover of 39 billion Euros. ASI and all the other food and beverage industries affected by the sugar regime together employ around 1.5 million people in the EU. These are far greater numbers than employment in just sugar beet farming and processing. Indeed, the Committee of Industrial Users of Sugar (CIUS) estimates that only 25 jobs are created for every 10,000 tons of exported sugar, while the equivalent quantity of sugar exported in Non-Annex II products generates up to 500 jobs or 20 times the number of jobs created by the basic product. Considering jobs alone, exports of processed products are highly preferable to equivalent exports of basic sugar.

Value-added processed foods are also important to European agribusiness because they expand domestic agricultural production by stimulating demand for raw materials and first stage processing. And value-added processing increases contributions to the state in the form of taxes. Currently, food-processing industries account for 15 percent of total EU industrial production.

Given these considerations, it is clear that supporting the food-processing industries is in the EU's economic interests. However, because the cost of sugar accounts for up to 40 percent of the cost of a product, and because European food-processors pay up to three times more for sugar than their foreign competitors, exports of processed products are at risk of becoming a loss-making business.

In fact, it is realistic to expect that, because of the European price of sugar, value-added food-processing companies will begin considering the possibility of relocating to third countries that can provide better sugar prices, more favorable production conditions, or preferential agreements with the EU and/or other trade partners. If a mass migration of companies were to occur, it would displace thousands of workers and result in significant losses of tax revenues at all levels of government. The food-processing industry is a growth sector in many parts of the globe, and it is imperative that the EU take part in this development.

The European sugar industry has long claimed that the current sugar program is self-financing and has no effect on the EU budget. Though this is true in purely budgetary terms, the higher sugar prices associated with the regime mean that European consumers pay an annual "sugar bill" of seven billion Euros to protect, primarily, the interests of sugar producers.

Reform of the sugar regime is also important because of the environmental damage it causes. By guaranteeing high returns to farmers, the regime stimulates production, which in turn stimulates the demand for fertilizers and pesticides. Excessive use of fertilizers and pesticides pollutes the environment, increases disease and pest resistance, and increases human and animal morbidity and mortality.

Finally, the sugar regime hampers EU credibility in the WTO. No other trade barrier constrains the Commission's leverage to negotiate robust trade agreements more than the EU sugar regime

Recommendations

Mr. Chairman, for the previously discussed reasons, the European Commission and the Agriculture Council must now recognize the inequities and inefficiencies that result from the sugar regime. In view of the upcoming negotiations concerning reform of the EU sugar regime, ASI asks the Council to reduce price supports by a percentage of the past (and future) export subsidies reductions. That way, both subsidies to the food processing industry and the need for subsidies can decline together. It is important to note that, as the Commission has recently recognized, a cut in quotas will be unavoidable next year if the

EU is to comply with the GATT limits on export subsidies. Price cuts will remove the need for cuts in quotas.

ASI also proposes that if domestic food processors cannot find enough in-quota sugar sold at the target price (because sugar manufacturers create an artificial shortage), they should be allowed to buy out-of-quota sugar. This will decrease incentives for the anti-competitive behavior in the sugar industry.

Concluding Remarks

Mr. Chairman, the main excuse the United States uses for not reforming its own sugar program is that the EU subsidizes its own sugar industry. By pro-actively reforming our own sugar regime, we would place the Americans under tremendous pressure to reform their own program.

Huge potential gains are at stake. If the EU desires ambitious results from the Millennium Round, sugar must be subject to reform and trade liberalization just like other trade-distorting programs.

The EU can no longer allow the interests of a few to outweigh the interests of the EU economy as a whole, and those of consumers.

Thank you very much for your attention, I will be happy to answer any questions that you may have.

EXHIBIT 7

SAMPLE LETTER TO MEMBER STATES' MINISTERS

OF AGRICULTURE & TRADE

Dear Sir:

As we are writing this letter today, trade negotiators from the World Trade Organization's member countries are gathering in Geneva for discussions that will help shape the future of international trade. Momentous issues will be debated. Among the EU's major goals for these discussions is further reform in agricultural trade. The EU hopes to be able to further open world markets to European food and processed-food products, and toward this end, it is crucial that we insist on the incorporation of all products and trade distorting policies in the negotiations. We must not permit our trading partners to exclude sensitive products from the talks.

Currently, however, European leverage in the negotiations is severely limited by the EU sugar regime. Failure to reform the regime next year will result in lost opportunities to increase export sales and jobs.

The enclosed white paper prepared by the (Member State) Coalition for Sugar Reform, discusses the importance of reforming the EU's sugar subsidy program and describes both the regime's current costs to our society and the opportunities for reform. A complete list of our coalition members is attached. Notwithstanding these groups' different views on many issues, we are united in our belief that the EU sugar regime is in need of reform and must not stand in the way of the well being of the whole EU economy. We believe that you share these concerns and hope you will support reform efforts.

Sincerely,
Members of the Coalition

EXHIBIT 8

SAMPLE OP-ED PIECE FOR AN ITALIAN NEWSPAPER

" A Sweet Deal"

How sweet is the deal for Eridania Béghin-Say? The multinational sugar-manufacturing corporation is worth 10 billion Euros, yet most Europeans have never heard of it because its name does not appear on consumer products. Still, we buy a lot from Eridania. Its sugar is an ingredient in many products that Italians eat every day. It would be difficult to eat without giving money to Eridania Béghin-Say.

Part of what the corporation earns is earned simply because it is good at what it does: purchasing sugar beet from farmers, processing it, and distributing it to consumers. Good for them. However, Eridania Béghin-Say tops the welfare list because of a special deal, the so-called EU sugar regime. Thanks to a complicated system of price supports and production controls established in Brussels, Eridania Béghin-Say and the other European sugar corporations are guaranteed high profits. The price supports are financed by sugar producers, so no taxpayer funds go to support the system. But what the sugar corporations don't want you to know is that the system also causes sugar prices to rise—generally two to three times the world price. European consumers and food manufacturers are not allowed to pay the world price.

Here, if say Bauli or Gazzoni want to buy sugar for their biscuits, they have to pay the EU's high price for the ingredient, which represents 20 to 40 percent of the cost of the biscuit. So, while Eridania Béghin-Say makes a killing, these companies are obliged to relocate in "third" countries in order to be able to compete internationally. The result: Italy loses jobs and investment. Not surprisingly, this also means that Italian consumers pay billions more to buy sugar and products that have sugar in them.

EXHIBIT 9

SAMPLE DEAR COLLEAGUE LETTER

Dear Sir,

As you probably are aware, European food processors have joined forces with consumer groups, environmental groups and other interests to create the European Coalition for Sugar Reform (ECSR). As the name implies, the coalition's objective is to bring about reform and change to the EU sugar regime. There are high stakes involved.

First, the sugar regime hurts European consumers, who pay up to three times more for their sugar than the world market price. Consumers pay an annual "sugar bill" of seven billion Euros. Second, it places the EU's fast-growing food processing industry (which uses sugar as an input) at an increasingly disadvantaged position in the world market. This industry represents around 1.5 million EU jobs, and insofar as the long term profitability and viability of food-processors is called into question, these jobs as well as investment may be lost in the Community.

The need for reform is becoming more urgent in light of recent reports that the five "first wave" Central and Eastern European applicants for EU membership are reversing their initial policy of sugar sector liberalization in anticipation of full extension of the EU sugar regime to their countries. It is important to reform the regime for the trouble it causes to the environment. The high prices guaranteed to farmers stimulate production, which in turn stimulates the demand for fertilizers. Excessive use of fertilizers and pesticides causes pollution of the environment, induces increased disease and pest resistance, and increases human and animal morbidity and mortality.

Finally, the sugar regime hampers EU credibility at the WTO. As trading nations initiate the Millennium Round of trade negotiations this year, there is the potential for the EU to open significant new markets for the EU in the food sector. But no other trade barrier constraints the Community leverage to negotiate robust trade agreements more than the EU sugar regime.

Next January's negotiations concerning revision of the sugar regime represents an historic opportunity for the EU to bring about change. The coalition needs the Parliament to support its efforts and to influence the Commission and the Agriculture Council to introduce a reform, which will be in the interests of consumers, environmentalists and the European economy as a whole.

Please join us in support of the efforts of the ECSR.

Best regards,
Parliament Members

EXHIBIT 10

SAMPLE LETTER TO POTENTIAL ENVIRONMENTAL

GROUP MEMBER

Dear NGO President:

We are writing to seek your support for reform of the EU sugar regime. The regime has severe consequence for Europe and the world. First, it harms European consumers, which pay up to three times more for their sugar than world market prices. Consumers pay an annual "sugar bill" of seven billion Euros. Second, it hurts European employment by placing the fast-growing food processing industry (which uses sugar as an input) at a competitive disadvantage in the world market. Third, the extension of the sugar regime in its current form to the applicant countries of Central and Eastern Europe would lead to tremendous economic and social losses for the EU.

The sugar regime also has a negative impact on the environment. Because the regime guarantees sugar beet farmers a high price for their crop, it stimulates production, which in turn stimulates fertilizer and pesticide use. As you are well aware, fertilizers and pesticides pollute the environment, induce increased disease and pest resistance, and increase human and animal morbidity and mortality. We are aware of the importance of sugar beet vis-à-vis monoculture. However, given that profit margins are currently very high, we believe that there is room to decrease sugar beet subsidies without making the crop unprofitable.

The U.S. government sugar program has encouraged the conversion of over 500,000 acres of Everglades wetlands to sugar cane production. Further, phosphorus-laden agriculture run-off is devastating the remaining natural Everglades. The United States uses the EU sugar regime as an excuse for not reforming its own sugar program. A reform of the EU sugar regime would place tremendous pressure on the United States to reform its own sugar program.

We believe that endorsement of this effort, and a commitment to its provisions by environmental groups, will send a strong message that Europe is no longer willing to tolerate this unfair regime just to protect the interests of a few. But efforts by all members of society will be crucial to achieve change.

To achieve such a critical mass, we have established the European Coalition for Sugar Reform (ECSR). We believe you share our concerns and goals and hope you will join our effort.

Sincerely,
President of the ECSR

Footnotes

[1]Under the MacSharry reforms, the support price for cereals was reduced by 30 percent, but farmers became entitled, by way of compensation, to claim arable area payments. These were designed to maintain the revenues a region earned from cereal production, but larger farmers could only receive the payment if they did not use a specified proportion of their arable land.

[2] The reform package also includes beef, which is outside the scope of this project.

[3] The Commission has established advisory committees for each product or product group that falls under a common market organization. There are twenty advisory committees, four specialized sections and four joint groups that meet regularly. Half of these committees' members are representatives of producers and their cooperatives. The other half are representatives of industry, trade, consumers and workers. The committees give an opinion on specific measures put before them by the Commission when it is drafting policies.

[4] Committee of Industrial Users of Sugar, "Sugar Export Refunds for Non-Annex II Products," 1998.

[5] NERA, "The Economic Costs of Extending the EU Sugar Regime to Central and Eastern European Countries," 1997.

[6] After the collapse of Communism, producer and consumer subsidies to the sugar industry in Hungary ceased, and in 1991, for the first time, no minimum sugar prices or production quotas were set. See OECD (1994), Review of Agricultural Policies in Hungary.

[7] Committee of Industrial Users of Sugar, "The value to the farmer of growing sugar relative to alternative crops," 1998.

EXHIBIT 11

SAMPLE LETTER TO EU PARLIAMENT MEMBER

Dear Sir:

As you know, negotiations on the revision of the EU sugar regime will kick off in Brussels next January. We are writing to seek your support for reform of the EU sugar regime as proposed by the European Coalition for Sugar Reform (ECSR). The regime has a severe impact on the European economy.

First, the sugar regime hurts European consumers, who pay up to three times more for their sugar than the world market price. Consumers pay an annual "sugar bill" of seven billion Euros. Second, it places the EU's fast-growing food processing industry (which uses sugar as an input) at an increasingly disadvantaged position in the world market. This industry represents around 1.5 million EU jobs, and insofar as the long term profitability and viability of food-processors is called into question, these jobs as well as investment may be lost in the Community.

The need for reform is becoming more urgent in light of recent reports that the five "first wave" Central and Eastern European applicants for EU membership are reversing their initial policy of sugar sector liberalization in anticipation of full extension of the EU sugar regime to their countries. Further, it is important to reform the regime for the trouble it causes to the environment. The high prices guaranteed to farmers stimulate production, which in turn stimulates the demand for fertilizers. Excessive use of fertilizers and pesticides causes pollution of the environment, induces increased disease and pest resistance, and increases human and animal morbidity and mortality.

Finally, the sugar regime hampers EU credibility at the WTO. As trading nations initiate the Millennium Round of trade negotiations this year, there is the potential for the EU to open significant new markets for the EU in the food sector. But no other trade barrier constraints the Community leverage to negotiate robust trade agreements more than the EU sugar regime.

We are delighted that you have supported reform of the regime in the past, and we believe that you will continue to do so in the future. A complete list of the current members of our coalition is attached. These organizations represent consumers, business, environmentalists, and other interests. We stand ready to assist you in any way we can.

Sincerely,
President of the ECSR

EXHIBIT 12

SAMPLE NEWSPAPER ARTICLE (MEMBER STATES

"Pressure Increases for Reform of the EU Sugar Regime

The European Commission and Council are under increasing pressure to reform the so-called EU sugar regime, which keeps the domestic price of sugar two to three times higher than world prices. Previously pressure has come mainly from the EU confectionery and soft drinks industries, which object to paying the high price. But the need for reform is becoming increasingly urgent in light of the future enlargement of the EU.

According to a report published by the UK-based economic consulting firm NERA (National Economic Research Associates), the Central and Eastern European (CEEC) applicants for EU membership are reversing their initial policy of sugar sector liberalization in anticipation of extension of the regime to their countries.

NERA estimates that bringing the applicant countries into the EU sugar market organization would lead to economic losses to the EU of at least three million Euros. More importantly, however, the current regime would have serious consequences for the CEEC countries. Indeed, the combination of low average incomes and huge unsatisfied demand for goods and services makes the CEEC economies particularly unsuited to the price fixing provisions of the EU sugar regime. In addition, the application of the regime would aggravate the problem of overproduction, and the inevitable price increases would also seriously delay the development and structural adjustments of the CEEC sugar sector.

The essential message of the NERA report is that, rather than deal with the consequences later, it would make more sense for the Council to reform the sugar regime now and thereby encourage the process of market liberalization in the applicant countries.

This view is endorsed by ASI, the EU association of confectionery products, which represents 25 percent of EU sugar consumption. "The scheduled revision of the regime set to begin next January represents an historic opportunity to bring about change," said ASI President Arnold Van Hecke. "I believe that the current situation in the Eastern European sugar sector will put the Council under extra pressure to make an early start."

EXHIBIT 13

EU SUGAR PRODUCTION QUOTAS

Country	**Total (A and B)**
Austria	376,428
Belgium-Lux	797,940
Denmark	407,019
Finland	143,651
France	3,652,918
Germany	3,302,320
Greece	312,207
Ireland	195,937
Italy	1,519,248
Netherlands	838,262

Portugal	78,510
Spain	986,220
Sweden	362,120
UK	1,119,637

Source: F.O. Licht previously from Agra calculations based on EU Official Journal.

EXHIBIT 14

EU SUGAR INDUSTRY STRUCTURE

(% Home market revenue)

Company	Home Market (s)	%
Südzucker	Germany	70%
Eridania Béghin-Say	France/Italy	60% / 35%
Saint-Louis Sucre	France	96%
British Sugar	UK	80%
Danisco	Denmark/Sweden	46% / 41%
Nadzucker	Germany	100%
P&L	Germany	100%
Suiker Unie	Netherlands	100%

Ebro	Spain	100%
CSM	Netherlands	100%

Source: Committee of Industrial Users of Sugar.

Country of Operation (market share)

	D	UK	F	S	NL	B	I	A	DK
Südzucker	X					80%		X	
Eridania Béghin-Say	.		X	.			X		
Saint-Louis Sucre			X	.					
British Sugar		X							
Danisco	.								X
Nadzucker	X								
P&L	X				>50%				
Ebro				X					
CSM					X				

X = major share in country
. = minor volume in country

Source: Committee of Industrial Users of Sugar.

EXHIBIT 15

EU SUGAR MARKET

The overall EU sugar balance (in million tons) in 1998/1999 can be summarized as follows:

A&B sugar production	14.218		
ACP imports	1.559		
Other preferential imports	0.206		
Opening stocks	2.383		
C sugar production		2.033	
Total EU availability			20.399
Total EU consumption			-12.748
EU sugar balance			7.651
Closing stocks		1.989	
EU Exports			
- with refunds*		3.629	
- without refunds (C sugar)		2.033	
Total Exports			5.662

Source: created on the basis of data from EU-DGVI-C3 Sugar.

EXHIBIT 16

Source: Comité Européen des Fabricants de Sucre.

EXIHIBIT 17

LEADING SUGAR TRADING COUNTRIES IN 1998/99

Exporters (1,000 metric tons, raw value)		**Importers** (1,000 metric tons, raw value)	
Brazil	8,550	Russia	3,500
EU	5,300	United States	1,839
Australia	3,739	EU	1,810

Thailand	3,200	Japan	1,542
Cuba	2,600	Indonesia	1,500
South Africa	1,436	South Korea	1,450
Guatemala	1,127	Malaysia	1,200
Mexico	955	Canada	1,110
Colombia	860	Iran	1,100
Pakistan	650	Algeria	930

Source: Economic Research Service, USDA

WORLD'S LARGEST SUGAR PRODUCERS IN 1998/99

(1,000 metric tons, raw value)		**(1,000 metric tons, raw value)**	
Brazil	18,300	South Africa	2,808
EU	17,816	Turkey	2,700
India	16,826	Poland	2,239
China	9,009	Colombia	2,180
US	7,324	Ukraine	2,000
Thailand	5,227		
Mexico	5,040		

Australia	4,874		
Pakistan	3,753		
Cuba	3,500		

Source: Economic Research Service, USDA.

EXHIBIT 18

GENERAL DIRECTORATE VI / UNIT C.3. SUGAR

Juan Fernandez Martin	Head of Unit
Gilbert Mignon Jacqueline Janssens	Intervention Regimes (denaturing, premiums, production, refunds for the chemical industry, food aid), isoglucose and insulin syrup regime, legal matters; administrative questions and procedures, management and advisory committees.
Norbert Tanghe	Institutional prices regime, production and income costs, national aids, inter-professional agreements, agreements under GATT/WTO, agri-monetary matters.
Franz Empl Patrick Raes	Regimes of preferential imports and raw sugar supply, ACP sugar protocol, refining, world market, international sugar agreement, relations with third countries, documentations and statistics.

Gilbert Van Schandevijl	Trade with third countries (tariff, export refunds, cif price), balance and forecasts, periodical reports, statistics.
Raymond Eddy	Production quotas regimes, self-financing (production levies) and compensation system for storage costs, budget and financial control, Court of Auditors, research.

Source: Committee of Industrial Users of Sugar.

EXHIBIT 19

AGRICULTURE COMMISSION

(Italian Chamber of Deputies)

PRESIDENT

PECORARO SCANIO Alfonso (Mixed)

VICE PRESIDENTS

DI STASI Giovanni (DS-Ulivo)
de GHISLANZONI CARDOLI Giacomo (Forza Italia)

SECRETARIES

OLIVERIO Gerardo Mario (Ds-Ulivo)
COLOSIMO Elio (AN)

NATIONAL ALLIANCE (AN)

(6 Members)

ALOI Fortunato
CARRARA Nuccio
CARUSO Enzo
COLOSIMO Elio (Segretario)

FRANZ Daniele
LOSURDO Stefano

ITALIAN COMMUNISTS (PDCI)

(1 Member)

MUZIO Angelo

THE DEMOCRATS (DEMOCRATICI)

(1 Member)

PRESTAMBURGO Mario

DEMOCRATS OF THE LEFT (DS)

(12 Members)

ABATERUSSO Ernesto
CORVINO Michele
DI STASI Giovanni (Vice Presidente)
MALAGNINO Ugo
OLIVERIO Gerardo Mario (Segretario)
RAVA Lino
ROSSIELLO Giuseppe
RUBINO Paolo
SEDIOLI Sauro
TATTARINI Flavio
TRABATTONI Sergio

FORZA ITALIA (FI)

(9 Members)

AMATO Giuseppe
de GHISLANZONI CARDOLI Giacomo (Vice Presidente)
DELL'UTRI Marcello
FRATTA PASINI Pieralfonso
GIUDICE Gaspare
MISURACA Filippo
ROSSO Roberto
SCALTRITTI Gianluigi
SCARPA BONAZZA BUORA Paolo

NORTHERN LEAGUE (LN)

(3 Members)

ANGHINONI Uber
DOZZO Gianpaolo
VASCON Luigino

MIXED

(6 Members)

BRUGGER Siegfried
COMINO Domenico
D'ALIA Salvatore
GRILLO Massimo
MALENTACCHI Giorgio
PECORARO SCANIO Alfonso (Presidente)

DEMOCRATIC UNION FOR THE REPUBLIC (UDR)

(5 Members)

CASILLI Cosimo
FERRARI Francesco
PEPE Mario

UNION OF DEMOCRATS FOR EUROPE (UDEUR)

(3 Members)

CAVANNA SCIREA Mariella
LAMACCHIA Bonaventura
PAGANO Santino

EXHIBIT 20

POLITICAL GROUPS IN THE EU PARLIAMENT

1. PPE/DE
Group of the European People’s Party (Christian Democrats) and European Democrats

2. PSE
Group of the Party of European Socialists

3. ELDR
Group of the European Liberal Democrat and Reform Party

4. Verts/ ALE
Group of the Greens/ European Free Alliance

5. GUE/NGL
Confederal Group of the European United Left/Nordic Green Left

6. UEN
Union for a Europe of Nations Group

7. TDI
Technical Group of Independent Members – Mixed Group

8. EDD Group for a Europe of Democracies and Diversities

9. NI
Non-attached Members

EXHIBIT 21

GOVERNMENT POLICIES OF THE MAJOR SUGAR TRADING NATIONS

Australia	Australia has phased out tariff protection of its domestic sugar market, leaving domestic prices free to move with changes in world prices. Excess refining capacity has made it a buyer's market for industrial users.
Brazil	Brazil has steadily reduced direct management of its sugar sector, leaving the industry relatively free to respond to market signals. Brazil is the world's largest sugar exporter and a very low cost producer. Its domestic prices are close to world price levels.
Canada	Canada has one of the most open sugar markets and imports 85-90% of its needs at the world market price. Its domestic prices move more or less in parallel with world prices.
Colombia	Colombia is a low cost producer and domestic prices are quite modest. The government does not provide price supports, credit, technical

	advice or research; it does provide a 2.5 percent rebate of taxes for exported sugar, except sugar going to the United States.
Cuba	Cuba's sugar economy has been in disarray. Production has declined from seven to three million tons. Internal prices are heavily subsidized and supplies are rationed.
Egypt	The Government continues to subsidize sugar consumption through a national ration system, which keeps prices low on a fixed quantity of sugar. But the Ministry of Supply and Trade has announced plans to phase out the sugar subsidy.
EU	The European Union has a highly protected sugar market. Consumer prices are maintained at a very high level, production for the domestic market is constrained by fixed production quotas, and exports of several million tons are subsidized using a self-financing system.
Guatemala	The industry is very export oriented and internationally competitive. There is a 20 percent tariff on imports.
Indonesia	As with most basic food commodities, the government exercises a lot of control over prices, but mostly to ensure moderate consumer food costs. With the recent currency devaluation, domestic sugar prices are very low in Euro terms.
Japan	Japan has the highest retail sugar prices in the world due to its protective import regime designed to provide sugar producers a high return.
Mauritius	Almost all Mauritian sugar is exported at preferential prices to the European Union or the United States. The domestic market is only 44,000 tons and prices are held well below production costs to subsidize domestic consumers.
Mexico	As a result of NAFTA, Mexico imposes import barriers similar to those of the United States. However, prices in Mexico have been lower than those in the United States because of excess production and lower distribution and retailing costs.
Russia	After the Soviet Union collapsed, Russia's markets were opened up to the West and most of the protection of its inefficient domestic industry

	has disappeared.
South Africa	Deregulation started in 1994. The domestic price is increasingly determined by market forces rather than set by the South African Sugar Association.
South Korea	Korea imposes a three percent tariff on raw sugar and a temporary 50 percent tariff on refined sugar. The wholesale price is controlled by the government.
Thailand	Higher domestic prices are averaged with lower world prices to give producers a return that is normally remunerative. A recent currency devaluation made domestic prices look rather modest in Euro terms.
United States	The United States has a long history of sugar protectionism. The domestic price is supported by a preferential tariff rate quota and a loan system that acts as a price support mechanism. These loans allow sugar producers to simply forfeit their sugar (and keep the government's money) rather than repay the loan.

EXHIBIT 22

TIMELINE[1]

	BRUSSELS STRATEGY (ECSR)	**MEMBER STATE STRATEGY**
May 2000	Form coalition	Form coalition
June 2000	Begin lobbying	Begin lobbying and aggressive media campaign
December 2000	Convince the commission to propose the reform	

January 2001		Convince Minister of Agriculture of the need to reform the present regime
January to July 2001	Follow the negotiations closely	
August 2001	Adoption of the reform as proposed in the recommendations section of the project	

EXHIBIT 23

ESTIMATED FIRST YEAR BUDGET

ICSR[2]

Staff

Coordinator	**40,000 Euros**
Lobbyist	**50,000 Euros**
Media	**40,000 Euros**
Administrative	**10,000 Euros**

Office

Office Space (Provided in Rome by AIDI)	
Office Expenses	**6,000 Euros**

Coalition Recruitment	**10,000 Euros**
Travel and Lodging	**7,000 Euros**
Media Campaign	**30,000 Euros**
Total Cost	**193,000 Euros**
Cost for Each Association (3 Associations)	**60,000 Euros**

Total In-kind Contributions	**13,000 Euros**

ECSR

Staff

Coordinator	**60,000 Euros**
Lobbyist (1 Senior and 1 Junior)	**140,000 Euros**
Administrative	**35,000 Euros**

Office

Office Space (Provided by ASI)	
Office Expenses	**15,000 Euros**

Coalition Recruitment	**15,000 Euros**
Travel and Lodging	**10,000 Euros**
Web Page	**2,500 Euros**
Total Cost	**278,000 Euros**
Cost for Each Brussels-based Association (8)	**35,000 Euros**
Cost for Member State Associations (Average 15)	**2000 Euros**

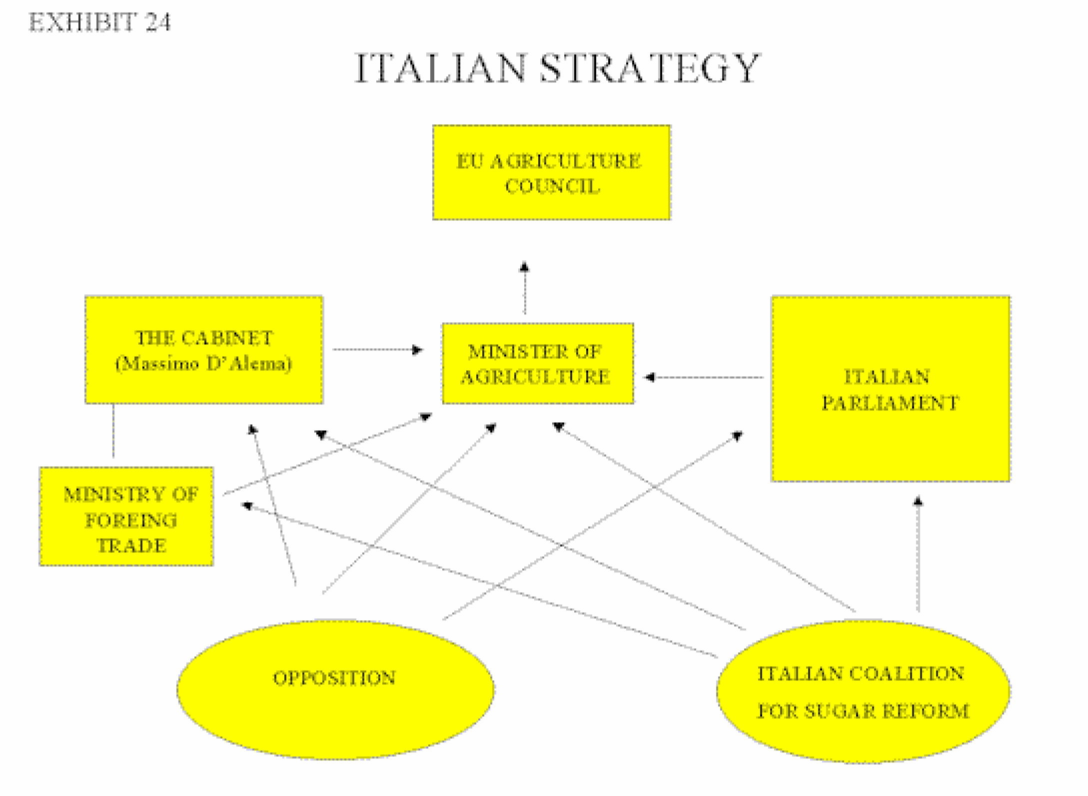


EXHIBIT 24
ITALIAN STRATEGY
EU AGRICULTURE COUNCIL
THE CABINET (Massimo D'Alema)
MINISTER OF AGRICULTURE
ITALIAN PARLIAMENT
MINISTRY OF FOREING TRADE
OPPOSITION
ITALIAN COALITION FOR SUGAR REFORM

EXHIBIT 25

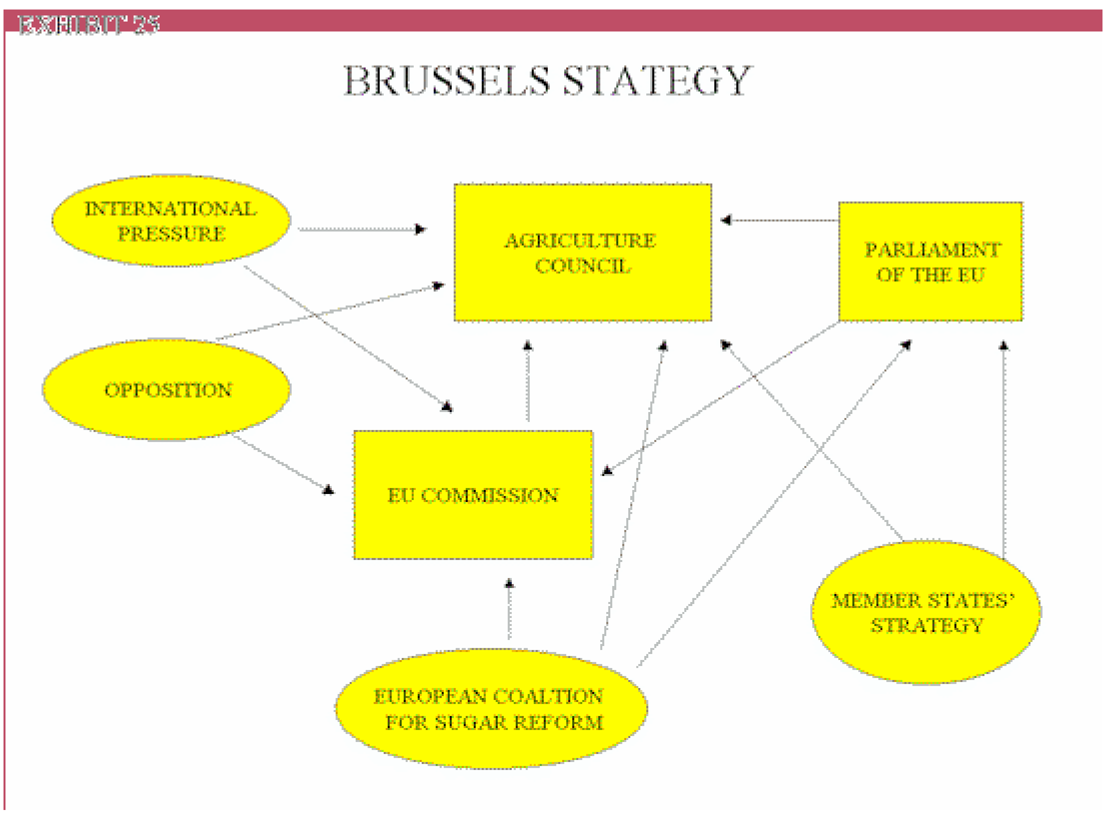
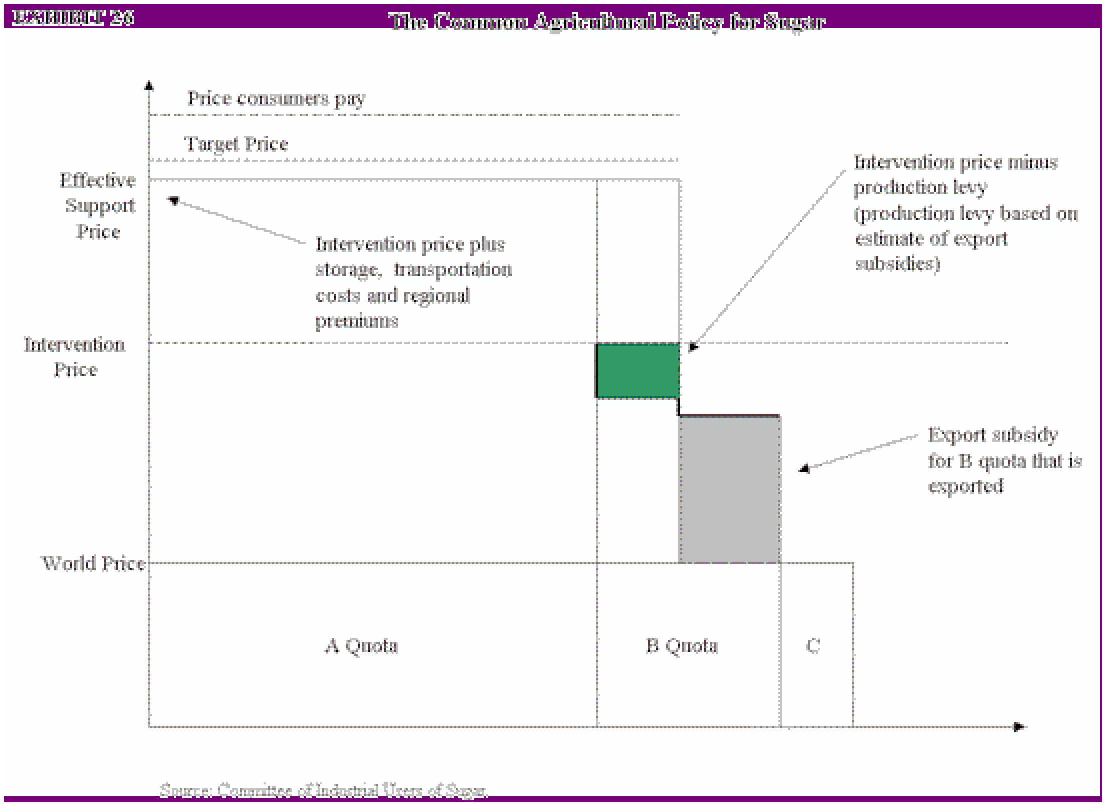


EXHIBIT 25
BRUSSELS STATEGY
INTERNATIONAL PRESSURE
AGRICULTURE COUNCIL
PARLIAMENT OF THE EU
OPPOSITION
EU COMMISSION
MEMBER STATES' STRATEGY
EUROPEAN COALTION FOR SUGAR REFORM

EXHIBIT 26



Footnotes:

[1]If ASI does not succeed in influencing EU authorities by August 2001, the target date should be moved to August 2002 when the Council will fix the price for the marketing year 2003/2004.

[2] The estimated budget was originally calculated in Italian Liras and then converted into Euros. The current exchange rate is L 1,936 per Euro.

EXHIBIT 27

NEGOTIATING CHART

Preferred Outcome:

European Food Processors: Introduce a reform of the EU Sugar Regime
Environmental Groups: Introduce a reform of the EU Sugar Regime
Consumer Groups: Introduce a reform of the EU Sugar Regime
Member State's Trade Ministers: Introduce a reform of the EU Sugar Regime
EU Parliament: Introduce a reform of the EU Sugar Regime
EU Commission: Introduce a reform of the EU Sugar Regime
EU Council of Agriculture Ministers: Undecided
African, Caribbean and Pacific Countries (ACP): Avoid the introduction of the reform
EU sugar Farmers and Manufactures: Avoid the introduction of the reform
Fertilizer Manufacturers: Avoid the introduction of the reform

US Government: Undecided

PEOPLE	INTERESTS	OPTIONS	OBJ CRITERIA	BATNA
ASI and the other European food processor associations affected by the sugar regime	• Build membership • Protect the competitiveness of members • Expand trade for members • Avoid anti-competitive behavior of sugar producing industry • Reduce price of input cost such as sugar • Promote growth of the industry	• Set up a strategy to introduce a reform of the EU sugar regime • Lobby Member State's authorities • Lobby EU authorities • Build coalition • Aggressive media campaign • Educate the EU citizens on the negative effect of the sugar regime	• Show the importance of the food processing industry in the EU, i.e. employment, investment and importance because of expansion of domestic demand for basic products • Show importance of high value added as the amount of remuneration of all factors of production (labor, investment, profits) and contribu	• Wait for the next opportunity to reform the regime • Companies to relocate in foreign countries • Lobby strongly to push for a real liberalization of the sugar sector in the Millennium Round

			tion to the State (taxes) • Show the high cost of the sugar regime on EU consumers, i.e. 7 billion Euros annually • Show the importance of reforming the regime in view of the applicant countries from Central and Eastern Europe, i.e. NERA study • Show the importance of reforming the regime in view of the Millennium Round • Show the importance of	

			reforming the regime for environmental reasons, i.e. fertilizers and interconnection with the Everglades in Florida	

Environmental Groups	• Build membership • Avoid the negative effects of extensive use of fertilizers • Avoid the negative effect of sugar cane in the US, i.e. Florida Everglades • Promote sustainable development • Avoid monoculture in Europe	• Agree to support the effort to reform the EU sugar regime • Lobby Member State's authorities • Lobby EU authorities • Build coalition • Aggressive media campaign • Educate the EU citizens on the negative effect of the sugar regime on the environment	• Show the importance of reforming the regime for environmental reasons, i.e. fertilizers and interconnection with the Everglades in Florida • Show the high cost of the sugar regime on EU consumers, i.e. 7 billion Euros annually • Show the importance of reforming the regime in view of the applicant countries from Central and Eastern Europe, i.e. NERA study	• Maintain status-quo • Wait for the next opportunity to reform the regime • Keep on pushing hard in the US for a reform of the US program

			• Show the importance of reforming the regime in view of the Millennium Round	

Consumer Groups	• Build membership • Avoid high prices for consumers • Avoid for consumers to pay 7 billion Euros every year for sugar • Promote the well being of European citizens • Promote sustainable development	• Set up a strategy to introduce a reform of the EU sugar regime • Lobby Member State's authorities • Lobby EU authorities • Build coalition • Aggressive media campaign • Educate the EU citizens on the negative effect of the sugar regime • Organize manifestations against the sugar regime	• Show the high cost of the sugar regime on EU consumers, i.e. 7 billion Euros annually • Show the importance of the food processing industry in the EU, i.e. employment, investment and importance because of expansion of domestic demand for basic products • Show the importance of reforming the regime in view of the applicant countries from Central and Eastern Europe,	• Wait for the next opportunity to reform the regime • Lobby strongly to push for a real liberalization of the sugar sector in the Millennium Round • Organize manifestations against the EU sugar regime

			i.e. NERA study • Show the importance of reforming the regime in view of the Millennium Round • Show the importance of reforming the regime for environmental reasons, i.e. fertilizers and interconnection with the Everglades in Florida	

Members States Trade Ministers	• Good approval rating • Good media coverage • Establish good reputation • Promote trade for Member States • Reform trade-distorting programs such as the CAP • Maintain good trade relations with other EU Members but also with "third countries" • Promote export for Member States • Promote efficiency of industries in the Members States	• Agree to support the effort to reform the EU sugar regime • Lobby Member State's authorities • Lobby EU authorities • Educate the EU citizens on the negative effect of the sugar regime	• Show the importance of the food processing industry in the EU, i.e. employment, investment and importance because of expansion of domestic demand for basic products • Show importance of high value added as the amount of remuneration of all factors of production (labor, investment, profits) and contribution to the State (taxes) • Show the high cost of	• Maintain status-quo • Wait for the next opportunity to reform the regime • Lobby strongly to push for a real liberalization of the sugar sector in the Millennium Round

			the sugar regime on EU consumers, i.e. 7 billion Euros annually • Show the importance of reforming the regime in view of the applicant countries from Central and Eastern Europe, i.e. NERA study • Show the importance of reforming the regime in view of the Millennium Round • Show the importance of reforming the regime for environmental reasons, i.e.	

			fertilizers and interconnection with the Everglades in Florida	

The EU Parliament	• Get re-elected • Promote the interests of the European citizens • Protect EU consumers against high prices • Reduce the inefficiencies in the EU • Establish the importance of the EU Parliament vis-à-vis other EU institutions • Establish and gain reputation	• Agree to support the effort to reform the EU sugar regime • Lobby Member State's authorities • Lobby EU authorities • Educate the EU citizens on the negative effect of the sugar regime	• Show the high cost of the sugar regime on EU consumers, i.e. 7 billion Euros annually • Show the importance of the food processing industry in the EU, i.e. employment, investment and importance because of expansion of domestic demand for basic products • Show importance of high value added as the amount of remuneration of all factors of production (labor,	• Maintain status-quo • Wait for the next opportunity to reform the regime • Lobby strongly to push for a real liberalization of the sugar sector in the Millennium Round

			investment, profits) and contribution to the State (taxes) • Show the importance of reforming the regime in view of the applicant countries from Central and Eastern Europe, i.e. NERA study • Show the importance of reforming the regime in view of the Millennium Round • Show the importance of reforming the regime for environmental reasons, i.e.	

			fertilizers and interconnection with the Everglades in Florida	

The EU Commission	• Serve the long-term interests of the Community • Promote the interests of the European citizens • Reduce the inefficiencies in the	• Agree to propose a reform of the EU sugar regime • Include compensation payments to farmers • Lobby the Council for approval	• Show the importance of the food processing industry in the EU, i.e. employment, investment and importance because of expansion of domestic demand for basic	• Maintain status-quo • Wait for the next opportunity to reform the regime • Try to push for a real liberalization of

	EU • Establish and gain reputation • Maintain power vis-à-vis the other institutions of the EU • Protect rural life in the EU		products • Show importance of high value added as the amount of remuneration of all factors of production (labor, investment, profits) and contribution to the State (taxes) • Show the high cost of the sugar regime on EU consumers, i.e. 7 billion Euros annually • Show the importance of reforming the regime in view of the applicant countries from Central and Eastern Europe, i.e. NERA study • Show the importance of reforming the regime in view of	the sugar sector in the Millennium Round

			the Millennium Round • Show the importance of reforming the regime for environmental reasons, i.e. fertilizers and interconnection with the Everglades in Florida • Show the importance of maintaining rural life in Europe	

EU Council of Agriculture Ministers/Member State' Agriculture Ministers	• Good approval rating • Good media coverage • Establish good reputation • Respond to political pressure in Member States • Promote agricultu	• Agree to support a reform of the EU sugar regime • Agree not to reform the EU sugar regime • Include compensation payments to farmer	• Show the importance of rural life for Europe • Show that the world price for sugar is not a true price but is instead a "dumped" price • Show that with a reform, European	• Maintain status-quo • Postpone the reform

	re in the Member States	s	farmers will go out of business • Show that the EU will lose jobs and investment • Show that the EU sugar regime does not cost anything to European because it is self-financing • Show that the US has also a very protectionist program, and if the EU reforms the sugar regime, EU farmers will be placed at a competitive disadvantage with US producers • Show the high cost of the	

			sugar regime on EU consumers, i.e. 7 billion Euros annually • Show the importance of reforming the regime in view of the applicant countries from Central and Eastern Europe, i.e. NERA study • Show the importance of reforming the regime in view of the Millennium Round	
The African, Caribbean and Pacific Countries (ACP)	• Expand exports for members • Maintain preferential agreement with the EU	• Set up a strategy against the reform of the EU sugar regime	• Show the importance of exporting sugar to the EU for developing countries • Show the	• Maintain status-quo • Export to the EU anyway • Find alternative

	• Gateway to big EU market • Maintain good relations with the EU • Maintain public credibility	• Lobby Member State's authorities • Lobby EU authorities • Build coalition • Get media attention	importance of rural life for Europe • Show that the world price for sugar is not a true price but is instead a "dumped" price • Show that with a reform, European farmers will go out of business • Show that the EU will lose jobs and investment • Show that the EU sugar regime does not cost anything to European because it is self-financing • Show that the US has also a very protectionist	markets for exports

			program, and if the EU reforms the sugar regime, EU farmers will be placed at a competitive disadvantage with US producers	
EU Sugar Manufacturers	• Maintain the profitability of the industry • Maintain the large margins currently guaranteed by the sugar regime • Avoid any reform of the present regime • Maintain competitive position vis-à-vis US competitors	• Set up a strategy against the reform of the EU sugar regime • Lobby Member State's authorities • Lobby EU authorities • Build coalition • Get media attention	• Show the importance of rural life for Europe • Show that the world price for sugar is not a true price but is instead a "dumped" price • Show that with a reform, European farmers will go out of business • Show that the EU will lose jobs and investme	• Maintain status-quo • Continue to produce sugar but with lower margins • Pump resources into expanding production of other kinds of products

			nt • Show that the EU sugar regime does not cost anything to European because it is self-financing • Show that the US has also a very protectionist program, and if the EU reforms the sugar regime, EU farmers will be placed at a competitive disadvantage with US producers	

EU Beet Farmers	• Maintain the profitability of the industry • Maintain the margins currently guaranteed by the sugar regime • Avoid any reform of the present regime • Maintain competitive position vis-à-vis foreign competitors	• Set up a strategy against the reform of the EU sugar regime • Lobby Member State's authorities • Lobby EU authorities • Build coalition • Get media attention	• Show the importance of rural life for Europe • Show that the world price for sugar is not a true price but is instead a "dumped" price • Show that with a reform, European farmers will go out of business • Show that the EU will lose jobs and investment • Show that the EU sugar regime does not cost anything to European because it is self-financing • Show that the US has also a very	• Maintain status-quo • Continue to produce sugar beet but with lower margins • Pump resources into expanding production of other crops

			protectionist program, and if the EU reforms the sugar regime, EU farmers will be placed at a competitive disadvantage with US producers	
European Fertilizer Manufacturers' Association (EFMA)	• Build membership • Maintain profitability for its members • Avoid any reform of the present regime	• Set up a strategy against the reform of the EU sugar regime • Lobby Member State's authorities • Lobby EU authoriti	• Show that the fertilizers industry will go out of business • Show the importance of rural life for Europe • Show that the world price for sugar is not a true price but is instead a "dumped"	• Maintain status-quo • Find alternative markets

		es • Build coalition • Get media attention	price • Show that with a reform, European farmers will go out of business • Show that the EU will lose jobs and investment • Show that the EU sugar regime does not cost anything to European because it is self-financing • Show that the US has also a very protectionist program, and if the EU reforms the sugar regime, EU farmers will be placed at a competitive disadvantage with US producers	

US Government	• Expansion of US exports • Maintain	• Agree to reform its own sugar program	• Show that the world price for sugar is not a true price	• Maintain status-quo • Postpone

	profitability of US sugar producers • Potential important gains in the EU market • Maintain good relations with the EU • Attempt to reap benefits of the Millennium Round for US efficient agricultural sector	• Agree not to reform its own sugar program	but is instead a "dumped" price • Show that with a reform, US farmers will go out of business • Show that the US will lose jobs and investment • Show that the EU has also a very protectionist program, and if the US reforms the sugar program, US farmers will be placed at a competitive disadvantage with EU producers • Show the cost of the sugar program on US consumers • Show the importance of the food processing industry in the US, i.e. employment, investment and importance because of expansion	the reform

			of domestic demand for basic products • Show the importance of reforming the sugar program in view of the environmental concerns in the Everglades in Florida • Show the importance of reforming the regime in view of the Millennium Round	

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