

Brussels, 28 April 2005

European Commission regrets attack on EU sugar regime, but will abide by WTO Appellate Body ruling

Reacting to today's ruling of the WTO's Appellate Body, Mariann Fischer Boel, Commissioner for Agriculture and Rural Development, said: "We presented our case forcefully and I had hoped that the Appellate Body would take greater account of our arguments: both on 'C' sugar and our exports of sugar equivalent to imports from the ACP and India. Naturally, I will take account of this verdict when I finalise the reform proposals we are due to publish on 22 June. We will continue to defend the valid interests of sugar producers and consumers in both the EU and the ACP countries. I am determined now to modernise our sugar regime to ensure it has a viable future. With such a reform, the EU will stand strongly in the WTO DDA negotiations in Hong Kong. We expect a balanced outcome with contributions from everyone."

Peter Mandelson, Commissioner for Trade, added: "We will abide by our international obligations on the sugar regime and will work closely with Member States on the necessary reforms ahead of the WTO Ministerial in December."

The Commission will now examine the final verdict in detail and look at the reasoning behind it.

The Appellate Body has called into question texts and commitments agreed upon by all WTO members during the Uruguay Round.

The Appellate Body's reading implies that the EU agreed to reduce its subsidised exports of sugar by 72% rather than the 21% which was agreed in the Uruguay Round.

The ACP countries' strong intervention in the case shows their concern at the effect this ruling could have on their preferential access to the EU market. The Commission shares this concern.

Having said all this, the EU respects the multilateral trading system and will of course comply with its international obligations.

Quite independently of this case, the Commission has already committed itself to a far-reaching reform of the EU's sugar market regime, in full consultation with all interested parties.

This is vital to guarantee a competitive future for sugar production in the European Union and to make the policy more trade-friendly.

The Commission expects a political agreement on a sugar reform in the Council of EU Agriculture Ministers before the WTO Ministerial in Hong Kong in December.

This will reinforce efforts to reach a comprehensive package in the Doha Development Agenda at that meeting.

The reform will cut internal prices and quotas, reduce exports and export refunds and abolish intervention, while providing tailored assistance to the ACP sugar exporting countries affected by the reduction in EU prices.

The EU has, of course, already pledged to phase out all agricultural export subsidies in the DDA, as long as all other parties do the same. It expects everyone to deliver.

Any changes that need to be made to the EU sugar market organisation to take account of this ruling will be included in the Commission's sugar reform proposals, which will be published on 22 June.

Background

In this dispute, Australia, Brazil and Thailand challenged two types of EU exports of sugar as being subsidised contrary to the WTO Agreement.

The first claim related to the export of so-called "C sugar". The complainants alleged that these exports benefit from export subsidies by being cross-subsidised with revenues from production under A and B quotas.

The second point related to export refunds on 1.6 million tonnes of sugar which are equivalent to preferential EU imports from ACP countries and India.

The complainants alleged that, as a result, the EU exceeds its export subsidy reduction commitments and is in breach of the Agreement on Agriculture.

The EU's position was that exports of "C sugar" do not benefit from export subsidies, among other things because this claim was based on interpretation of the WTO provisions on agricultural export subsidies which the EU considers erroneous and inconsistent with the obligation of good faith. The EU also insisted that exports of ACP/India equivalent sugar are in full conformity with the EU's schedule of commitments and WTO provisions regarding agricultural export subsidies. Therefore, the EU considered that the complainants called into question the texts and commitments negotiated and agreed upon by all WTO Members during the Uruguay Round.

Irrespective of the WTO dispute, the EU has started a major reform of its sugar regime with a view to making the EU sugar sector more competitive, in line with the objectives of the CAP reform.

For more information on the Commission's Communication on sugar reform of July 2004 and the EU sugar market see IP/04/915 and MEMO/04/177.

The Appellate Body upheld the following findings of the panel:

Footnote 1 to Section II, Part IV of the EC Schedule concerning ACP/India equivalent sugar does not enlarge or otherwise modify the EC commitment levels specified in that Schedule.

Both the provision of low-priced C beet to sugar producers and the cross-subsidisation involved in the production of C sugar resulting from the operation of the EC sugar regime are export subsidies subject to the reduction commitments of the Agreement on Agriculture.

As a result, the EC has been providing export subsidies in excess of its final quantity commitment level of 1,273.500 tonnes per year.

Moreover, the Appellate Body considered that the panel erred in not addressing the claims under the WTO Subsidies Agreement, but the Appellate Body was not in a position to rule on these issues itself.

The Appellate Body recommends that the EC bring its sugar regime into conformity with its obligations under the WTO Agreement on Agriculture.

Once the Appellate Body report is adopted, which must happen within 30 days from today, the EU will have a “reasonable period of time” to comply with this recommendation.