

SWEET LIKE SUGAR: DOES THE EU'S NEW SUGAR REGIME BECOME FIJI'S BITTER REALITY OR WELCOME OPPORTUNITY?

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INTRODUCTION

The European Union (EU) itself is currently among the top three sugar producers, importers and exporters in the world.¹ So far, its sugar production has occurred at a very high cost and needed a complicated system of tariffs, quotas and intervention buy-ins to protect EU farmers and guarantee them high revenue to cover their uncompetitive costs of production. For reasons of colonial ties, development policy goals and in order to moderate the heavy impact of the common market organisation for sugar on non-EU countries, the EU has generated a special preferential trade system for various countries from the ACP group.² This system consists of three main instruments: the Sugar Protocol, the Special Preferential Sugar (SPS) Agreement and the Everything but Arms initiative (EBA). These instruments allow a limited amount of ACP sugar to be sold on the EU market at a higher price than elsewhere in the world. This practice results in high revenues for African, Caribbean and Pacific (ACP) sugar producing countries and secures the buy-in of previously agreed amounts of raw sugar.

As a result of its sugar market policy, the EU has hitherto subsidised sales of an estimated amount of five million tons of excess sugar on world markets each year.³ It thereby distorted markets outside the EU by artificially depressing prices and preventing competitive producers from entering the world markets.⁴ The EU's old common market organisation (CMO) for sugar allowed for surplus production of sugar outside the common quota. This so called C-sugar was declassified and could not be freely marketed within the EU. Its exports caused Brazil, Thailand and Australia to bring a dispute against EU's sugar policy before the World Trade Organisation (WTO) Dispute Panel in 2002. On 15 October 2004, the panel ruled the C-sugar exports illegal as being cross subsidised.⁵ Moreover, it found the EU in

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¹ Estimates for 2005/06, see Sugar Statistics, World of Sugar <http://www.illovo.co.za> (Accessed 9 October 2006).

² These participating Sugar Protocol countries have changed over the years, but in 2007 they are: Barbados, Belize, Guyana, Jamaica, Trinidad and Tobago, St Kitts and Nevis, Fiji, Republic of Congo, Ivory Coast, Kenya, Madagascar, Malawi, Mauritius, Mozambique, Swaziland, Tanzania, Zambia and Zimbabwe. Previous SP countries Uganda and Suriname have ceased exporting to the EU.

³ European Commission, DG Agriculture, 'The common Organization of the Market in Sugar', AGRI/63362/2004, September 2004.

⁴ D. Mitchell, 'Sugar Policies: Opportunity for Change' (Working Paper 3222, World Bank Policy Research, February 2004) <http://econ.worldbank.org> (Accessed 26 April 2006).

⁵ Reports of the Panel WT/DS265/R, WT/DS266/R and WT/DS283/R of 15 October 2004 <http://www.wto.org> (Accessed 16 January 2007).

breach of its WTO export subsidy limitations.⁶ The EU appealed against the panel's findings but the Appellate Body upheld the panel report on 28 April 2005.⁷

Pressure for reform from the WTO as well as internal political and economic pressure led the European Commission in 2004 to propose a substantial reform of the EU's sugar policy.⁸ In February 2006, EU agriculture ministers formally adopted this radical reform of the EU sugar sector, which came into force on 1 July 2006.⁹ The reform's main aim is to bring a system which has remained largely unchanged for almost 40 years into line with the rest of the reformed Common Agricultural Policy (CAP). Results are to be achieved through price cuts of up to 36% for ACP raw sugar and EU production quota cuts of up to 2.8 million tons per annum. However, financial compensation will only be available for EU sugar producers and no increases in ACP sugar quota are planned.¹⁰ The impact of this reform will thus be felt not only by EU sugar producers but also by ACP countries currently enjoying preferential market access under the 1975 Sugar Protocol for their raw sugar exports.

The topic is of specific importance for Fiji. Being the only Pacific ACP country signatory to the Sugar Protocol and beneficiary of the SPS Agreement, Fiji is greatly dependent on preferential access to the EU's sugar market.¹¹ Moreover, it is expected that Fiji's interest in sugar has the potential to affect the South Pacific's major international trade choices, such as those concerning ongoing Economic Partnership Agreement (EPA) negotiations involving all Pacific Island Forum member countries.¹² Fiji's final position on the EPA depends on the outcome of the EU sugar sector reform since Fiji faces the prospect of losing its preferential access to the EU market for sugar.¹³

Acknowledging these facts, the European Commission has proposed various accompanying measures for Sugar Protocol countries affected by the proposed reforms.¹⁴ These support measures range from development of regional markets and creation of diversification opportunities to improvement of the competitiveness of the sugar sector. In order to ensure ownership and dialogue with affected countries, all EU support measures will be based on national adaptation strategies as drafted and approved by the governments of the Sugar Protocol countries. However, the EU has

⁶ Ibid.

⁷ WTO Appellate Body Reports WT/DS265/AB/R; WT/DS266/AB/R; WT/DS283/AB/R of 28 April 2005 <http://www.wto.org> (Accessed 16 January 2007).

⁸ European Commission's Communication on EU Sugar Regime reform of July 14, 2004, COM (2004) 499 final.

⁹ Council Regulation (EC) No 318/2006 of 20 February 2006. OJ L 58/32.

¹⁰ Dr. R. Insanally, 'EU Sugar Regime Reform: The ACP Perspective' (Conference on Trade, Agriculture and IP: Issues in the Lead-up to Hong Kong Helsinki, Finland, 19 April 2005).

¹¹ Fiji derives from sugar over 80% of its EU export earnings and a quarter of its total export earnings.

¹² The Member Countries of the Pacific Island Forum Secretariat are Australia, Cook Islands, Federated States of Micronesia, Fiji, Kiribati, Nauru, New Zealand, Niue, Palau, Papua New Guinea, Republic of Marshall Islands, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu. Australia and New Zealand do not belong to the Pacific ACP countries.

¹³ Overview of the regional EPA Negotiations: Pacific-EU Economic Partnership Agreement, ECDPM In Brief 14D, Maastricht, 2006, <http://www.ecdpm.org/inbrief14d> (Accessed 28 October 2007).

¹⁴ Commission's Action Plan on accompanying measures for Sugar Protocol countries affected by Sugar Regime reform, January 17, 2005, SEC (2005) 61 and Regulation (EC) No 266/2006 of 15 February 2006 establishing accompanying measures for Sugar Protocol countries affected by the reform of the EU sugar regime, OJ L 50, 21.2.2006, 1.

been very careful regarding any assurances of concrete financial assistance, detailed implementation proposals or even the continuation of the Sugar Protocol itself. Demands from sugar producing ACP countries for concrete measures and legally enforceable obligations have often been answered by common EU rhetoric. To date, the 2005 EU Action Plan has not been translated into real action aimed at easing the impact of the EU's sugar reform on Fiji's sugar sector. This is in part no doubt due to the most recent *coup d'état* in December 2006.

This article gives an overview of the commodity market for sugar in the EU and demonstrates the interdependency of decisions at an EU level with WTO trade policy and the resulting implications for ACP producers. It investigates conditions which led to the Commission's reform decision and presents the current state of the EU's CMO for sugar. An analysis of the impact of the reform on overall welfare transfers to ACP countries and especially on Fiji's socio-economic situation follows next. Given that economists foresee an immense drop in revenues, appropriate remedial measures to be adopted by the national government in Fiji and post-coup developments are of particular interest. In addition, potential EU involvement needs attention and objective assessment.

THE EU COMMON MARKET ORGANISATION FOR SUGAR

The pre-reform EU sugar regime

When created in 1968, the main purpose of the common market organisation (CMO) of the sugar sector was to guarantee its producers a fair income and to supply the EU market from its own production.¹⁵ Sugar production was effectively protected from third country competition by a system of levies and import quotas. The CMO for sugar has escaped the overall 1992 reform of the Common Agricultural Policy (CAP), which essentially concentrated on increasing competitiveness by compensating necessary price cuts with direct income payments to European producers of agricultural products.

According to the so called Basis Regulation¹⁶, which until 2006 regulated the CMO for sugar, the key features were price arrangements, production quotas, preferential trade arrangements with ACP countries and self financing. A main market management tool was (and remains) the intervention price, guaranteeing producers the buy-in of eligible sugar. This was done by so called intervention agencies. Additionally, manufacturers were required to buy sugar beet from growers at a minimum price while import duties and restrictions of available quantities kept EU sugar prices artificially high. The purpose of the quota system was threefold, namely: to limit the total quantity of sugar; to limit the potential cost of intervention purchases and to guarantee each member state a certain share of the EU sugar market. The total quota amount was set at 17.4 million tons for EU-25 and split into A quotas and B quotas set on a state by state basis.¹⁷ Sugar produced outside the quota was not supported by any mechanism, nor could it be freely marketed within the EU. This so called C-sugar was declassified and had to be exported at lower world prices, without

¹⁵ Council Regulation (EC) No 1009/67 of 18 December 1967 OJ 308, 1.

¹⁶ Council Regulation (EC) No 1260/2001 of 19 June 2001 OJ L 178, 30.6.2001, 1.

¹⁷ European Commission, DG Agriculture, 'The Common Organization of the Market in Sugar', AGRI/63362/2004, September 2004.

compensation. One way of reducing C-sugar was the so called “carryover” into A quota, whereby the next year’s A quota was reduced by the same amount as was added in the form of the C-sugar. The choice between carryover or export of the surplus sugar lay with the growers and manufacturers. Under the pre-2006 CMO, it was more lucrative to export C-sugar in order to avoid a quota cut at all costs.¹⁸ This practice turned out to be the major external complication of the EU sugar regime as it led to a world market distortion and to losses for competitive producers outside the EU through dumping.

An additional border protection for the EU sugar regime is achieved by the Special Safeguard Provisions under the Uruguay Round Agreement on Agriculture. The fixed-standard tariffs and additional import duties under the Special Safeguard Provisions have made the import of non-preferential sugar uneconomic.¹⁹ Under the General System of Preferences (GSP), the safeguard measures are considered the most important non-tariff barrier to trade as any preferential arrangements provided under the GSP Regulation may be temporarily withdrawn once imports covered by these arrangements massively exceed the usual levels of export and production of the respective third countries.²⁰ According to recent studies, EU sugar policies hit developing countries in four different ways: by restricting market access through tariffs and quota; by undercutting developing countries’ export opportunities through dumping of C-sugar on third markets; by undermining value-added processing in developing countries through limiting market access to raw sugar only; and by depressing world prices through export subsidies.²¹ The international trading community represented through the WTO saw these effects of EU sugar policies as the main weaknesses of the EU sugar regime, affecting third countries in a way that is no longer approved under the present WTO trading system. Competitive, large sugar producers such as Brazil for example have never had a real market access to the EU internal market.²²

Before the 2006 reform, EU-25 sugar production amounted to approximately 20 million tons while total consumption was 16 million tons.²³ Hence, the main problem of the pre-2006 CMO sugar regime is easily described: too much sugar. Colonial ties and awareness of the trade distorting effect of the EU’s sugar market policy have added to a further extension of the system through the introduction of special

¹⁸ An inherent problem of the system was that farmers wanted to avoid quota cut at all cost, so they had to grow beets even under very poor growing conditions to meet their quota; there was no open market available to buy any shortfall or sell any excess. This system led to the over production of C-sugar.

¹⁹ E. Huan-Niemi, J. and Niemi, ‘The Impact of Preferential, Regional and Multilateral Trade Agreements’ (Working Paper No. 1, ENARPRI, September 2003).

²⁰ Article 30:1:b, Council Regulation (EC) No. 2501/2001 of 10 December 2001, OJ L 346/1; according to Article 31, Common Customs Tariff duties may be applied at any time to imported goods when the imports from a beneficiary country cause or threaten to cause serious difficulties to a Community producer of like or directly competing goods.

²¹ ‘The Great Sugar Scam’, Oxfam Briefing Paper No.27 (August 2002)

http://www.oxfam.org.uk/what_we_do/issues/trade/bp27_sugar.htm (Accessed 22 April 2006).

²² Under GATT-MNF, a tariff quota of 85,000 tons/year has been opened for Brazil and Cuba since 1996 but the overall production capacities of both countries does not amount to significant EU market access.

²³ See <http://www.acpsugar.org> (Accessed 15 July 2006). According to the USDA annual review for 2007, in the first year of reform EU sugar production declined from 21.4 million tons to 17.6 million tons, with production in 2007/08 estimated at 16.7 million tons: USDA GAIN Report E47029-10/04/2007 <http://www.fas.usda.gov/gainfiles/200704/146280862.pdf> (Accessed 2 July 2007).

preferential trade agreements for sugar exporting countries from the ACP group. The extended system was (and remains) very complex and worked to the advantage of a couple of highly protected sugar industries largely situated in Germany, France, Poland and the United Kingdom – all of which are member countries with a significant employment base in the sugar industry.²⁴

EU commitments towards ACP sugar exporters

The relationship between the EU and the 77 countries of the ACP group has developed on the basis of successive conventions, which have formed, since 1975, the basis for cooperation structures and mechanisms between these two groups. The CMO for sugar was opened up to third countries following the United Kingdom's accession in 1975. At that time, the CMO took over some of United Kingdom's commitments as a former colonial power, particularly towards the ACP countries. The *Lomé Conventions*²⁵ constituted the core of the EU's development co-operation policy until the expiry of *Lomé IV* on 29 February 2000. The *Cotonou Agreement*,²⁶ in force since April 2003, marks the start of a new approach in the relations between the EU and the ACP countries, adapting the co-operation and development programmes to the new era of globalisation in the world economy. Two of its dimensions, trade and development, are central to the commitments made by the EU in the context of agricultural commodities. More specifically, Article 36 of the *Cotonou Agreement* demands the EU and ACP countries to seek new, WTO compatible trade agreements in the form of the EPAs currently being negotiated.

In relation to agriculture, the European Union has engaged in specific arrangements with the different groups of developing countries for which agriculture is an essential part of their economies. In this context, special agreements regarding sugar have been concluded at different levels in order to facilitate the ACP countries' access to the Community market. Trade in sugar between ACP sugar producers and the EU is currently based on the following three agreements:

1. The ACP-EU Sugar Protocol as annexed to the *Cotonou Agreement*
2. The Agreement on Special Preferential Sugar (SPS Agreement)
3. The Everything but Arms Initiative (EBA)

The Sugar Protocol

The Sugar Protocol²⁷ is an integral part of the European Union sugar regime. It opened the Community market to a 1.6 million ton cane-sugar quota from eighteen ACP countries, which benefit from preferential access to the EU for sugar imports at Community prices. The Sugar Protocol, a government-to-government agreement, was first annexed to the *Lomé Agreements* in 1975 and was continued through successive

²⁴ Graham Bowley, *International Herald Tribune* 'Europe's sugar industry taking a hit', June 23, 2005, <http://www.iht.com/articles/2005/06/22/business/sugar.php> (Accessed 17 June 2007).

²⁵ *Lomé Conventions I-IV*, 1975-2000, published in O.J. L 25, 30 January 1976, 2, O.J. L 347, 22 November 1980, 2, O.J. L 86, 31 March 1986, 2 and O.J. L 229, 17 August 1991, 1.

²⁶ Agreement between the ACP States on the one part, and the European Community and its Member States, on the other part, signed in Cotonou on 23 June 2000 and entered into force on 01 April 2003, OJ L 317, 15 December 2000.

²⁷ Protocol No 3 to Annex IV of the *Cotonou Partnership Agreement* Article 5.

Lomé Agreements. With the expiry of *Lomé IV*, the Sugar Protocol has now been annexed to the 2000 *Cotonou Agreement* and is currently under negotiation to be included in the Economic Partnership Agreements (EPAs) with individual ACP countries and regions. This will inevitably lead to a reform of the Sugar Protocol itself, a prospect that has generated fierce opposition from ACP countries, who point out that any reform would be contrary to the spirit of the ACP-EU Sugar Protocol, which so far has provided a guaranteed market and guaranteed prices.²⁸ The terms of the Sugar Protocol have not been amended on its latest renewal and it remains to be seen which amendments will be thought necessary for inclusion in the EPAs.

By its nature, the Sugar Protocol discriminates against countries which are not signatories and therefore outside the Protocol. This in itself is contrary to the goals of the current WTO trading system. The fundamental principles enshrined in the Sugar Protocol are: agreed quantities; guaranteed prices; and its indefinite duration.²⁹ Here the reason why the Sugar Protocol might become a decisive factor in current EPA negotiations becomes obvious: sugar producing countries might appear reluctant to sign new EPAs should export conditions deteriorate in real terms – a development which might undermine regional solidarity between respective ACP regions such as the South Pacific or the Caribbean. As the Protocol is not limited in duration, ACP countries claim that the EU should not invoke economic difficulties in order to justify any modification to the indefinite nature of its commitments towards Sugar Protocol countries. It is said that without a guaranteed price, the Sugar Protocol would become ‘an empty shell’.³⁰ Although this might be true from an economic perspective, legally the Sugar Protocol is very clear and precise in its judicial guarantees towards ACP countries. Article 1 of the Sugar Protocol states that

the [European] Community undertakes for an indefinite period to purchase and import, at guaranteed prices, specific quantities of cane sugar, raw or white, which originate in the ACP states and which these States undertake to deliver to it.

This Article is restated in similar terms in the *Cotonou Agreement*.³¹ Also, Article 3(2) of the Sugar Protocol confirms the legal obligation that ‘these quantities may not be reduced without the consent of the individual states concerned’.

While it is true the EU cannot unilaterally discontinue the granting of preferential market access to the EU sugar market to ACP countries, it has no legal obligation to prevent any external erosion of the Sugar Protocol, for example through worldwide trade liberalisation measures such as Free Trade Agreements (FTAs) or as direct effect of changes in the WTO trade regime itself. Also, the post-reform price cut is

²⁸ The Cotonou Agreement: Selected Issues, Effects and Implications for Caribbean Economies (14 December 2005), Report of the UN Economic Commission for Latin America and the Caribbean <http://www.eclac.cl/publicaciones/xml/1/23581/L.66.pdf> (Accessed 01 July 2007).

²⁹ Article 1 and Article 3(2) of the ACP/EU Sugar Protocol.

³⁰ African, Caribbean and Pacific Sugar Group <http://www.acpsugar.org/protocols.htm> (Accessed 10 April 2007).

³¹ Article 13 of Annex V to the *Cotonou Agreement* states that ‘[i]n accordance with Article 25 of the ACP-EEC Convention of Lomé signed on 28 February 1975 and with Protocol 3 annexed thereto, the Community has undertaken for an indefinite period ... to purchase and import, at guaranteed prices, specific quantities of cane sugar, raw or white, which originates in the ACP States producing and exporting cane sugar and which those States have undertaken to deliver to it.’

not directed at ACP producers only, but initially hits EU sugar producers to the same extent; it is thus applied in a non-discriminatory manner. The fact that EU producers will receive direct compensation is irrelevant as direct compensation is outside the scope of the legal commitments contained in the Sugar Protocol. According to Article 5(4) the guaranteed price is fixed each year by a Council decision, 'taking into account all relevant economic factors'. This provision gives the EU enough flexibility to proceed with price reductions in the course of the sugar sector reform.

Additionally, the WTO Appellate Body expressly stated that its decision, and therefore the implementation of the WTO decision by the EU through its CAP reform, does not impede the existing preferential regime between the EU and the ACP countries under the various sugar specific agreements.³² Any claims to the contrary are thus unfounded and it lies in the nature of things that the EU is prioritising internal compensation before assessing assistance for producers in third countries who have been adversely affected by decisions concerning EU sugar sector reform.

The SPS Agreement

In 1986, at the time of the accession of Portugal and Spain to the EU, the ACP asked to supply the raw sugar deficit of the Portuguese sugar refineries. On 1 June 1995 the SPS Agreement³³ was reached. Similarly to the Sugar Protocol, it is a government to government agreement. In contrast to the Sugar Protocol, the SPS Agreement is of fixed duration and will be progressively phased out by the marketing year 2010/11. Under the SPS Agreement, ACP states are jointly and severally liable to supply the agreed quantities of sugar.³⁴ The price paid for SPS Agreement sugar amounts to 85 percent of the guaranteed Sugar Protocol sugar price and the import quantities are set each year in July/June for each following sugar marketing year. The key to the SPS Agreement is the concept of maximum supply needs, established with reference to the needs of seven large EU sugar cane refineries.³⁵ In 2002/2003 the SPS Agreement sugar imports amounted to 217,000 tons, in comparison to 344,000 tons in 1995/1996.

As the maximum supply needs of EU refineries are jointly met through the fixed Sugar Protocol quota, the Indian quota, the exportable production of French Overseas Territories and the Finnish MFN quota, the SPS Agreement quota has a residual function only. In other words, the amount of imports under the SPS Agreement varies according to the fulfilment of maximum supply needs through other quota arrangements. The more sugar is imported through other channels, the less imports are possible under the SPS Agreement. This is the main reason why ACP countries speak of erosion of the SPS Agreement while the EU claims it has 'no effect' on the market.³⁶ Although the 2006 reform did not formally change the SPS Agreement with a total of 215,580.3 tons of sugar³⁷, SPS Agreement sugar exporters will be affected by the price reductions introduced in 2008/09 and 2009/10, when prices traditionally

³² See above n 7, 66-67.

³³ Council Regulation (EC) No 1260/2001, OJ L 178, 30.6.2001, 1-45 repealed by Council Regulation (EC) No 318/2006 of 20 February 2006 OJ L 58, 28.2.2006, 1-31.

³⁴ Paragraph 1 of the SPS Agreement.

³⁵ CTA Executive Brief, January 2004, see: http://agritrade.cta.int/sugar/executive_brief.htm (Accessed April 2005).

³⁶ Above n 19.

³⁷ Fiji's preferential sugar export under its SPS Agreement quota amounts to 19,181.8 tons.

received for these sugar exports will fall by 12.6 percent and 32.6 percent respectively.³⁸

The EBA

On 26 February 2001, the EU decided within the ambit of its development strategy to adopt the Everything but Arms initiative (EBA)³⁹ to grant duty free access to products from the world's 46 least-developed countries (LDCs), 39 of which are in the ACP group, including six signatories to the Sugar Protocol.⁴⁰ The proposal covers all goods except arms and munitions and suspends all common customs tariff duties that would normally apply on imports to the EU. This sharply contrasts with the original GSP concession to LDCs that focused on manufactured products.⁴¹ However, special provisions have been made for imports of three sensitive products: fresh bananas, rice and sugar. These products would exceptionally be liberalised at a progressive rate, over the next four to eight years. In 2002 duty free access for ACP sugar was opened, with an increasing import rate of 15 percent annually. Between 2006 and 2008 customs duties will be gradually reduced, without quantity restrictions, by 20 percent, 50 percent and then by 80 percent respectively so that full tariff elimination for sugar imported under EBA should be reached by July 2009.

The duty and quota free market will thus start its operation in about two years' time. In the meantime, there will be duty free quotas for sugar LDCs. Notwithstanding the incorporation of the provisions of the EBA into the GSP Regulation⁴², the special arrangements for EBA imports of sugar are untouched by the expiry date of the GSP Regulation, which currently implements the GSP for the period 2006 – 2008. Given its conditions, the EBA has great potential to develop into the main door to the EU internal market after full liberalisation. This is because some of its beneficiaries produce under competitive conditions while having a large supply capacity on-hand.⁴³ Concerns that the EBA might further erode other concessions currently granted under the SPS Agreement do not seem to have materialised since the EU decided on the establishment of a complementary quota until 2009. This will temporarily avert the loss of preferential access for SPS Agreement countries like Fiji.

However, critics from ACP countries and some NGOs point to a major inherent weakness of the EBA; the surge provision. Under this procedure, the EU may review all EBA sugar exports to the EU and may, should they increase by more than 25% per

³⁸ 'Sugar: Executive Brief Agritrade', April 2007

<http://agritrade.cta.int/en/layout/set/print/content/view/full/1570> (Accessed 01 July 2007).

³⁹ Council Regulation (EC) No. 416/2001 of 28 February 2001, OJ L 60 of 1 March 2001; the provisions have been incorporated into the GSP Regulation of the European Council (EC) No.2501/2001, OJ L 346 of 31 December 2001 as amended by Regulation (EC) No 2211/2003, OJ L 322 of 19 December 2003.

⁴⁰ Council Regulation (EC) No. 2501/2001; for the purpose of this article it has to be noted that Fiji does not belong to the group of countries currently benefiting from the EBA initiative. However, due to the alleged erosion that the EBA initiative may cause to the SPS Agreement, the EBA initiative itself is thought to be of indirect importance for Fiji.

⁴¹ In effect, EBA means that a further 919 agricultural products are freed from *ad valorem* specific duties and import quotas.

⁴² The GSP sets out preferential arrangements for duties on Community imports of goods originating in the beneficiary countries; Council Regulation (EC) No 2501/2001, OJ L 346 of 31 December 2001 as amended by Council Regulation (EC) No 980/2005 of 27 June 2005, OJ L 169, 30 June 2005, 1–43.

⁴³ These countries include Zimbabwe, Zambia, Sudan, Ethiopia and Mozambique.

year, impose restrictions or even unilaterally withdraw all concessions granted to a particular country under the EBA. This is a real risk for ACP exporters with EBA concessions as the EBA is a contractual agreement which can, at any time, be unilaterally terminated by the EU. This could occur despite promises that these safeguard measures would be handled with the utmost care and after consideration of all circumstances. Another criticism relates to strict rules of origin under the EBA, which are not met by 'refining, flavouring, colouring, packaging as well as mixing with less than 80% of products fully originating in the country concerned, on the condition that raw sugar incorporated in this collaboration is entirely produced in EBA countries.'⁴⁴

WTO ISSUES

Under the CAP, sugar has traditionally been categorised as a sensitive product and has had the highest tariff peaks for import into the EU market. This was done to protect EU farmers against cheap imports and price decline, with the effect that the pre-reform EU sugar price was threefold the world market price. Protection for sugar comprised a fixed duty per ton and an additional duty, which varied depending on the world price.⁴⁵ Pre-reform EU average exports amounted to around five million tons due to one million tons of exportable sugar from the A and B quotas, the exports of a quantity equivalent to ACP preferential imports (1.6 million tons) and around 2.5 million tons of C-sugar. On completion of the Uruguay Round trade negotiations, the EU limited itself to 2.6 million tons of exports with a refund, including the 1.6 million tons of ACP sugar.⁴⁶ Therefore, it has not been in compliance with its own commitments made during the Uruguay Round of trade negotiations.

Another issue concerning the EU and the WTO trading system in connection with sugar is the uncertainty created through the vulnerability of the EU sugar regime to challenges before the WTO Dispute Settlement Body if the regime is not fully WTO compliant. The EU has to comply with WTO rulings and it has to incorporate these into its long-term reform strategy. It has therefore been claimed that 'as a consequence, a certain degree of interaction is emerging between the CAP reform process and the WTO'.⁴⁷ This in turn may result in the EU having a certain leeway in WTO multilateral trade negotiations; ACP countries however may find that the EU is less prepared to concede to ACP lobbying for prolonged, non-WTO compliant preferential access to the EU's sugar market.

The 2002 WTO Challenge

The effect of an unreformed sugar sector left the EU a net exporter of sugar, due to its own over production and the imports of ACP sugar. Its leading position in the world

⁴⁴ Summary of the final agreement on EU sugar-sector reform AGRIFAFACTS No. 94/05-24/11/05 http://www.dgroups.org/groups/CoOL/docs/Sugar-EU_Reform-ACP-AGRIFAFACTS_251105.pdf (Accessed 12 May 2007).

⁴⁵ Commission Regulation (EC) No 1423/95 as amended by Commission Regulation (EC) 1127/96 of 24 June 1996, OJ L 150, 25 June 1996, 12–12 and Commission Regulation (EC) No 1166/2003, OJ L 162, 1 July 2003, 57–58.

⁴⁶ European Commission, DG Agriculture, 'The common Organization of the Market in Sugar' AGRI/63362/2004, September 2004.

⁴⁷ P. Goodison, 'EU Sugar Sector Reform, the WTO and Preference Erosion' in (2007) 11(4) *Bridges* <http://www.ictsd.org> (Accessed 30 June 2007).

sugar market was therefore a result of domestic policy and not due to a competitive advantage in sugar production.⁴⁸ This situation was challenged before the WTO Dispute Settlement Body by Brazil, Australia and Thailand in 2002. These countries filed a complaint opposing two aspects of EU sugar policy. First, they argued that A and B quota sugar subsidies led in practice to a cross-subsidisation of the excess C-sugar, which in turn amounted, in effect to a form of illegal export subsidy resulting from government intervention. Second, the complainant countries maintained that the EU was in breach of the WTO Agreement on Agriculture since it did not reduce its export subsidy commitments nor did it include the export subsidies for the ACP sugar in its WTO notifications of export subsidies. The need for a WTO complaint was evident when looking at estimated losses from world market distortions associated with EU sugar policies. The cost for Brazil alone for example was estimated at some US \$ 494 million annually.⁴⁹

In its report of 15 October 2004, the WTO Dispute Panel found against the EU on both of the central complaints. The panel ruled that the EU subsidises its sugar exports beyond the level formally notified to the WTO in its schedule of commitments; according to the panel, a footnote in this schedule, which exempted ACP sugar from the European Commission's export reduction commitments, had no legal effect. Furthermore, the panel found that C-sugar exports benefited from export subsidies.⁵⁰ In other words, as much as half of EU sugar exports violated global trade rules under the then-CMO for sugar. Following an extension of the appeal period under the revised Working Procedures for Appellate Review, the EU filed an appeal against the WTO Dispute Panel findings on 13 January 2005.⁵¹

2005 WTO Appellate Body Report

On 28 April 2005, the WTO Appellate Body upheld its previous ruling, forcing the EU to reduce its subsidised exports of sugar by 72 percent, rather than the 21 percent as was agreed in the Uruguay Round Agreement on Agriculture.⁵² This has resulted in an estimated maximum export of one million tons of EU sugar, instead of the five million tons exported previously. The WTO decision gave the EU a maximum of fifteen months to bring itself into compliance with global trade rules.⁵³ In a first reaction, Mariann Fischer Boel, Commissioner for Agriculture and Rural Development responded that the 'European Commission regrets this attack on EU sugar regime, but will abide by [the] ruling.'⁵⁴ Indeed, changes needed to be made to

⁴⁸ L.Kerkelä and E. Huan-Niemi, 'Trade Preferences in the EU Sugar Sector: Winners and Losers' (Government Institute for Economic Research, Helsinki, January 2005).

⁴⁹ 'Dumping on the world – How EU sugar policies hurt poor countries' (Oxfam Briefing Paper No.61, March 2004) http://www.oxfam.org.uk/what_we_do/issues/trade/downloads/bp61_sugar_dumping.pdf (Accessed 27 April 2007).

⁵⁰ Reports of the Panel WT/DS265/R, WT/DS266/R and WT/DS283/R of 15 October 2004 <http://www.wto.org> (Accessed 07 June 2007).

⁵¹ (2005) 9(1) *ICTSD Report* <http://www.ictsd.org/weekly/05-01-19/story6.htm> (Accessed 14 April 2007).

⁵² WTO Appellate Body Reports WT/DS265/AB/R; WT/DS266/AB/R; WT/DS283/AB/R of 28 April 2005, see <http://www.wto.org> (Accessed 07 June 2007).

⁵³ This is not a firm deadline set by the WTO ruling; rather the EU would be expected to act within fifteen months.

⁵⁴ <http://europa.eu/rapid/pressReleasesAction.do?reference=IP/05/506&format=HTML&aged=1&language=EN&guiLanguage=en> (Accessed 12 December 2007).

the EU sugar market organisation in order to take account of the 2005 WTO ruling. They have been included in the Commission's 2006 sugar reform.

Although chances to persuade the WTO on C-sugar were predicted to be slim⁵⁵, it is somewhat surprising how easily the European Commission paid deference to the ruling. In theory, there are several options for the EU to take in response to a WTO ruling. It can comply with the Appellate Body's report; it can negotiate a settlement with the disputing parties, or it can accept retaliatory measures.⁵⁶ The outcome would usually depend on a cost analysis, comparing the cost of domestic political and economic imperatives for compliance against those of retaliation. For instance, following the "banana disputes" of the 1990s, the EU negotiated a settlement, whereas it accepted retaliation in the more recent "beef hormones dispute".⁵⁷ This time, the EU decided to abide by the WTO ruling and cut its subsidies, which ACP countries have continuously claimed distorts trade.

This acquiescence in demands which even go beyond the EU's Uruguay Round commitments has set three signals. First, the EU was and still is very determined in its sugar sector reform plans and sees the WTO ruling as paving the way for political support within the EU-27. Hence, a rather swift finalisation of the reform has been possible. Second, the EU enlargement to 27 member states sets a very tight financial budget, which the EU is not willing to extend easily in order to comply with its traditional bilateral commitments towards the ACP group. Hence, the pre-reform sugar subsidy system, which cost the EU an estimated one billion euro annually and has been unchanged for 35 years, was deemed financially unbearable and undesirable. Even member states with substantial employment at stake, such as France, Germany and Poland have agreed to the most radical reform steps since the establishment of the CMO for sugar. Third, the EU stance indicated that it is committed to a successful conclusion of the Doha Development Round; the EU also demonstrated its will to finalise WTO compatible bilateral negotiations with ACP countries in 2008. Contrary to what was expected in the light of the EU's forceful appeal, the 2005 WTO ruling did not seem to disappoint the European Commission. Rather, it made argumentation in favour of reform easier.

The WTO ruling from 28 April 2005 has since been implemented in the 2006 reform. The EU has substantially reduced its high intervention price for sugar and its subsidised exports of C-sugar. Furthermore, the A and B quota have been merged and cut. In particular, the continuation of export and production of C-sugar, even if at lower levels, was deemed inadequate. According to economic theory, the consequences of the 2006 sugar sector reform must be subdivided into trade diversion and trade creation. The positive effect of trade creation will result in a shift towards production in countries with a competitive advantage in production factors, such as Brazil and India, where labour is cheap and production is large. In the EU, Member States with an inefficient production, such as Italy, Ireland, Greece, and Finland will

⁵⁵ *International Herald Tribune*, January 11 2005 <http://www.ihf.com/articles/2005> (Accessed 17 April 2007).

⁵⁶ As a WTO Contracting Party, the EU is not mandated to conform to a Panel's decision.

⁵⁷ R. Knapp and P. Talks, 'Sugar and the European Union: Implications of WTO Findings and Reform' <http://www.fas.usda.gov> (Accessed 07 October 2006).

be forced out of production due to their competitive disadvantage.⁵⁸ It is likely that in the medium term, EU production will decline and sugar exports will be significantly reduced while imports from ACP countries will not rise but fall. Trade diversion is expected to happen in cases of continued preferential access for less competitive countries, possibly within the EBA framework.

For what the reform will bring, one thing is clear: agriculture is the linchpin of success in the current, extremely complex Doha Round of WTO negotiations. Global agriculture reform is hard to achieve though, as was shown in June 2007 when negotiations within the Doha round broke down at a conference in Potsdam, as a major impasse occurred between the US, the EU, India and Brazil which 'were attempting to overcome deep differences over how far to open up agricultural and industrial markets and cut rich nation farm subsidies.'⁵⁹ The EU sugar sector reform, which brings the system into line with WTO requirements, is thus of extreme importance to a successful conclusion of the Doha Development Round.

2006 REFORM AND ITS IMPACTS

As mentioned previously, obligations under the WTO trade regime, unilateral trade concessions and ongoing trade negotiations within the Cotonou framework formed the main pressures for the EU to undertake a substantial reform of its sugar regime. Additionally, there is enormous internal pressure for reform resulting from the 2004 and 2007 enlargements. The new member states include, among others, Europe's fourth biggest sugar producer Poland. The new member states accumulated large stocks of sugar before their accession dates and these quantities were adding pressure to a market which was already over supplied due to a lower level of apparent consumption and more quota sugar production.⁶⁰

By reason of these challenges, in June 2004 the Commission published a reform proposal for its highly criticised sugar policy.⁶¹ According to the European Commission, the reform intended to 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. This was an ambitious all-in-one pack, intended to simultaneously satisfy the WTO trading system, EU member states, the non-ACP and non-LDC countries, the ACP sugar producing countries under the Sugar Protocol and the LDC countries under the EBA. It was also a very demanding and determined move, given the fact that the EU sugar regime had remained unchanged for over 35 years while the international trade scenery had never been changing so quickly.

⁵⁸ *Ibid.* Of the new member states, the reform will most probably lead to a cessation of production in Latvia, Lithuania, Hungary, Slovenia and the Slovak Republic.

⁵⁹ D. Palmer and L. MacInnis, 'G4 talks collapse, throw trade round into doubt' Reuters Press Release 2 June 2007 <http://www.reuters.com/article/topNews/idUSL2179513320070621> (Accessed 2 July 2007).

⁶⁰ Comité Européen des Fabricants de Sucre, CEFS Communiqué of 18 April 2005 <http://www.cefs.org> (Accessed 19 November 2006).

⁶¹ European Commission Reform Proposal 'Accomplishing a sustainable agricultural model for Europe through the reformed CAP - sugar sector reform', COM (2004) 499 final of 14 July 2004.

The EU reform proposal originally contained the following key features, intended to bring EU common market organisation for sugar in line with WTO trade rules:

- a reduction of EU sugar production from a pre-reform 20 million tons to 16 million tons with a 60% compensation of revenue loss to farmers by means of direct income payments;
- a replacement the intervention price with a reference price, which will determine the minimum price paid to sugar producers, set the guaranteed prices for preferential sugar imports, and determine the level for import tariffs;
- a reduction of EU's sugar price for external suppliers while maintaining ACP sugar quota under preferential trade schemes;⁶²
- an extension of the guaranteed minimum price on limited quota beyond 2006, with full liberalisation of EBA sugar exports in 2009;
- the removal of cross-subsidised C-sugar exports.

The actual reform as implemented in July 2006 through Council Regulation (EC) No 318/2006 of 20 February 2006 has resulted in the following final main changes to the original sugar sector⁶³

- a reduction in the guaranteed price for sugar of 36% over four years, beginning in the 2006/07 season;
- the introduction of compensation to sugar beet farmers at an average of 64.2% of the price cut;
- the payment of an additional “coupled payment” equivalent to 30% of the price cut for a transitional period of five years;
- the merging of the A and B quotas;
- the maintenance of the intervention agency during the four year transition period;
- the allocation of an additional quota of 1.1 million tons to ‘C’ sugar producing countries against a one-off payment.

Although much of the original sugar regime structure has remained unchanged (especially the market interventions and the import quota regime), the outcome of the 2006 reform does constitute a move away from the previous *modus operandi* of the EU sugar sector and will unquestionably impact deeply on all stakeholders. First of all, due to the substantial price cuts the reform will result in income losses for sugar beet farmers in the EU and in ACP countries. Only EU growers are eligible for compensation through decoupled income payment, thereby relieving farmers from the obligation to grow sugar beets in order to avoid quota cuts. This is the central innovation for the prevention of excessive C-sugar production and export. With less C-sugar exported, world market distortion and hence criticism of the EU sugar regime should lessen. The total export reduction will make the EU in mid-term either trade neutral or a small net importer.

⁶² According to the 2004 proposal, the price decline would be introduced over three years in two stages, beginning in 2005/2006. During the first two stages, the total price reduction would amount to 20 percent and by 2007/2008 the total reduction would be 37 percent.

⁶³ ‘Sugar: Executive Brief Agritrade’, April 2007

<http://agritrade.cta.int/en/layout/set/print/content/view/full/1570> (Accessed 01 July 2007).

The main assistance for ACP and LDC countries in the present agreement will come from the delay in the cut to the raw sugar price until 2008/9, which should give these states more time to adjust.⁶⁴ However, the de facto assistance to sugar producers in ACP countries remains unclear. An important side effect has been an increase in premium between the cost of white and raw sugar, thereby making it more profitable for importers to refine sugar and produce value-added goods for the European market.⁶⁵ This particular development should not be overlooked by sugar producing ACP countries such as Fiji in their national adaptation strategy papers.

Due to price and quota cuts, several member states are expected to stop sugar production, as they will be not competitive enough in comparison with the large and more efficient sugar producers within the EU-27. Sugar production will most probably shift from Greece, Italy, Ireland, Finland, Spain and Portugal towards the United Kingdom, France, Germany, Austria, Poland and Sweden.⁶⁶ It is intended to cushion this disruptive internal effect in at least two ways: by introducing a cross-border quota trading system; and by convincing growers to agree to grow alternative crops to sugar. Both measures are strongly opposed by most Mediterranean countries as well as Ireland and Hungary who claim that the sugar production will concentrate in some competitive regions only, thereby causing social and economic dislocation within Europe.

Although the EU intends to maintain current quotas for ACP countries under the Sugar Protocol, the welfare distribution will fall, due to the price cuts of 36 percent over four years beginning in the 2006/07 season.⁶⁷ The progressive cuts will involve a cut of 20 percent in year one, 25 percent in year two, 30 percent in year three and 36 percent in year four, which effectively means that the price drops from €23.7 per ton sugar in the year 2006/07 to €35.0 per ton sugar in 2009/10.⁶⁸ The total losses on ACP sugar protocol export earnings amount to €467, 358, 540 in the period 2006-2010, with Fiji's current earnings of €4, 122, 723 dropping to €60, 208, 348 in 2009/10.⁶⁹

Compensation to ACP sugar producers following the example of direct payments to EU farmers has been firmly rejected by the European Commission. Furthermore, it is questionable whether ACP exporters will completely use the market access offered under the new conditions. EBA imports might increase slightly but this will be compensated with a decrease in the quota granted under the SPS Agreement. The revenue loss from lower EU prices is expected to especially hit those ACP sugar producers for whom sugar is the major source of income and who have fewer

⁶⁴ Summary of the final agreement on EU sugar-sector reform AGRIFAFACTS No. 94/05-24/11/05 http://www.dgroups.org/groups/CoOL/docs/Sugar-EU_Reform-ACP-AGRIFAFACTS_251105.pdf (Accessed 12 May 2007).

⁶⁵ Above n 57.

⁶⁶ 'Reforming the European union's sugar policy – summary of impact assessment', European Commission Staff Working Document, September 2003 http://europa.eu.int/comm/agriculture/publi/reports/sugar/fullrep_en.pdf (Accessed 19 April 2007).

⁶⁷ 'Contribution of the Sugar Sector to ACP Economies highlighted', *Business Customwire*, 25 January 2005.

⁶⁸ 'Sugar: Executive Brief Agritrade', April 2007 <http://agritrade.cta.int/en/layout/set/print/content/view/full/1570> (Accessed 01 July 2007).

⁶⁹ *Ibid.*

economic alternatives due to their geographic position and the limitation in their natural resources. Fiji is often named as the most prominent example of a country losing out as a consequence of EU level decisions. The EU has announced its awareness of the potential risk to ACP countries on multiple occasions and has proposed accompanying measures in a 2005 Action Plan. However, the final EU reform plan is seen by ACP countries as a disappointment, since the price cut is nearly twice as deep as the ACP requested, the transition period is substantially shorter and the refining aid has not been retained.⁷⁰

Finally, the reform will create an opportunity for the most efficient non-ACP producers of sugar, notably Brazil, India, Thailand and Australia. It is unclear whether the EU reform as it currently stands will have any significant effect on the world market prices for raw sugar, but considering a general downward trend worldwide this is doubtful. Still, it is clear that even after reform, a gap between the world market price and EU sugar price would remain, which suggests that the current reform proposal is still not far reaching enough and that it will not lead to a successful coherence between the EU system and the WTO trade regime.

The EU wishes to guarantee regular supplies, make the sugar sector more competitive, provide EU farmers with a fair standard of living and contribute to poverty reduction by giving trade from ACP countries a fair chance. From the four options presented by the European Commission in its impact assessment, the price fall option has been chosen as the underlying feature for the 2006 reform.⁷¹ This however is not the same as retaining an attractive export market. For third countries, a market is only as attractive as the price paid for a certain commodity. It is not surprising that with the post-reform price cuts ACP ministers are worried that sugar industries in ACP and especially ACP-LDC countries will become unsustainable and unviable. According to the Mauritanian Agriculture Minister, Mr. Nando Bodha, a 'very grave socio-economic impact'⁷² on ACP economies is expected, so that ACP countries will need time to allow their industries to consolidate. Faced with a deeply rooted development responsibility on one side and international demands for liberalisation and deregulation on the other side, the EU will have to propose concrete assistance measures.

The overall tendency in the EU's policy towards ACP countries is clear; free trade instead of artificial and outmoded trade protection schemes, combined with less or no stimulation of inefficient production. Trade is regarded as the more effective tool in reaching the main goal of poverty reduction worldwide compared with concessional aid donations. But ACP countries cannot count on subsidised preferential access in the wake of full liberalisation policies under the WTO trade regime. It is true that the EU intends to fulfil its commitments under the EBA and the Sugar Protocol. This does not mean though that the terms of trade will remain unchanged. The mere

⁷⁰ 'Joint ACP/LDC platform Brussels, September 15th 2005'
<http://www.sugartraders.co.uk/acpldceu/acp150905.pdf> (Accessed 25 May 2007) and ACP group press release, November 24 2005

http://www.acpsec.org/en/press_releases/sugar_group_22-06-05.htm (Accessed 25 May 2007).

⁷¹ 'Reforming the European union's sugar policy – summary of impact assessment' (European Commission Staff Working Document, September 2003)

http://europa.eu.int/comm/agriculture/publi/reports/sugar/fullrep_en.pdf (Accessed April 2007).

⁷² 'EU/ACP: ACPs attack EUs proposed sugar reform', *European Report*, 26 January 2005, 506.

existence of these instruments does not provide economic continuity based on colonial ties and preferential treatment. In this context, the start of the EPA negotiations in September 2002 already rang in the new age of free trade areas and the survival of the economically fittest.

The estimated impact the planned EU sugar sector reform will have on ACP sugar producers clearly shows the interdependency between decisions at the EU level and results in developing countries. Whether Fiji will be able to utilise opportunities in this new age of trade will be discussed in the following section.

FIJI: AN ILLUSTRATIVE EXAMPLE

Background

Fiji, together with Tonga and Samoa, was one of the first Pacific signatories to the *Lomé I Convention* in 1975. Today it is one of the fourteen Pacific ACP States which signed the *Cotonou Agreement* in 2000. Together with Papua New Guinea, the Solomon Islands, the FLNKS of New Caledonia and Vanuatu, it forms the Melanesian Spearhead Group.⁷³ This group represents the biggest population and the largest agglomeration of natural resources in the South Pacific region. In concert with Papua New Guinea, Fiji dominates the Pacific ACP States. With a population of over 880,000 it comprises 332 islands, 110 of which are inhabited, with an exclusive economic zone of 1.2 million km. The seat of government and the capital is Suva, on the island of Viti Levu.

Politically, Fiji became independent in 1970, after nearly a century as a British colony, and has since then experienced internal ethnic struggle over land ownership, political influence and economic power. Since the mid 1980s Fiji has experienced considerable civil unrest, which have been concentrated on disparities between two major ethnic groups, the indigenous Fijians (51 percent of the population, predominantly of Melanesian descent with a Polynesian admixture), and the Indian Fijians (44 percent of the population).⁷⁴ Major upheavals include two *coups d'état* in 1987, an attempted *coup* in 2000 and the most recent *coup d'état* of 5 December 2006, which has reconfirmed Fiji's entrapment in the vicious *coup* cycle. On 6 December 2006, Military Commander Bainimarama announced that, after dissolution of Parliament, the military had taken control of the government as executive authority in the running of the country.⁷⁵ Under pressure from major regional players such as Australia and New Zealand, as well as the EU, elections have been promised for March 2009 at the latest, but mistrust in any promises remains.

The consequences of this latest *coup* for Fiji's economy and sugar industry are far reaching. Not only has Fiji been expelled for the second time from the Commonwealth,⁷⁶ it is also facing a freeze on most of its international aid, travel

⁷³ For more information see the Agreement Establishing the Melanesian Spearhead Group, March 2007 <http://www.vanuatu.usp.ac.fj/library/Paclaw/Agreement%20Establishing%20the%20Melanesian%20Spearhead%20Group.pdf> (Accessed 28 October 2007).

⁷⁴ CIA World Fact Book 2004 <http://www.cia.gov/cia/publications/factbook/> (Accessed 06 April 2007).

⁷⁵ 'Fiji - Alone under the gun', *New Zealand Herald* (New Zealand) 06 December 2006.

⁷⁶ The second of the 1987 coups resulted in Fiji leaving the Commonwealth as a result of a decision of the Heads of Government taken during the 1987 Commonwealth Head of Government meeting. Ten

embargoes and even trade bans in retaliation of the interim government's undiplomatic behaviour. The main problem from the viewpoint of the sugar industry is that reforms are needed very urgently as the price cuts on the European side will not stop and wait for a solution to Fiji's political impasse. At a meeting in Brussels in April 2007, the EU discussed with Fiji senior political officials the return to democracy and the rule of law, together with the release of EU assistance to Fiji. The interim government made a series of commitments, including the holding of a democratic election by 28 February 2009, so that the EU is able to consider a resumption of financial and technical assistance to Fiji.⁷⁷ According to the recent EU decision of October 2007, implementation of the sugar reform accompanying measures may proceed and a financing agreement, albeit containing a suspension clause, was signed by Fiji on 19 June 2007.⁷⁸ Although the EU has set Fiji's 2007 sugar allocation at zero, it is willing to consider future sugar allocations subject to the interim government's progress towards democracy.

Fiji's Sugar Industry

Sugarcane farming and sugar processing techniques were introduced to Fiji in the 1880s. Throughout the colonial period, the Australian owned Colonial Sugar Refinery (CSR) controlled the entire Fiji sugar industry, which was initially based on a plantation system owned by European colonists and worked by indentured labourers from India.⁷⁹ Due to CSR's experience with smallholdings in Australia, the company set up settlement schemes for Indian tenants while retaining tight control over trade, production methods and agricultural processing. The apportionment of land resulted in an average farm size of 4.05 hectares per family, thereby setting the roots for today's fragmented system of smallholding.⁸⁰ In 1973, three years after independence, CSR sold its operations to the Fiji government, including its freehold property. Following nationalisation of the mills, the Fiji government created the Fiji Sugar Corporation (FSC) but it left the smallholder farming of Indo-Fijians mostly untouched. The land management system remained in the hands of indigenous Fijians, who were also in control of the FSC, which remained a publicly listed company with 70 percent of the shares owned by the government.⁸¹ These two features of fragmentation and ethnic partition distinguish the Fiji sugar industry from those of other sugar producing ACP countries such as Mauritius. Internally, they are a cause of

years later, on 1 October 1997 Fiji rejoined the Commonwealth. On 6 June 2000, Fiji was suspended from the Councils of the Commonwealth which meant exclusion from all meetings and bodies of the Commonwealth, rather than a full expulsion. Fiji was readmitted in December 2001.

⁷⁷ Council Decision 2007/641/EC of 1 October 2007 on the conclusion of consultations with the Republic of the Fiji Islands under Article 96 of the ACP-EC Partnership Agreement and Article 37 of the Development Cooperation Instrument, OJ 5 October 2007, L 260/15.

⁷⁸ *Ibid.*, 3.

⁷⁹ Vijay Naidu, 'The Violence of Indenture in Fiji', (No. 3, University of the South Pacific Fiji Monograph Series, 1980).

⁸⁰ S. Carswell, 'A family business: Women, children and smallholder sugar cane farming in Fiji' (August 2003) 44 (2) *Asia Pacific Viewpoint* 131.

⁸¹ For more information on Fiji's land tenure and management systems, see A. Tanner, 'On Understanding Too Quickly: Colonial and Postcolonial Misrepresentation of Indigenous Fijian Land Tenure' (2007) 66 (1) *Human Organisation* 69.

economic and political problems as well as a brake for general reform of the Fiji sugar sector.⁸²

Among the most complicated issues on land use and management in Fiji has been the optimal use of land as a productive resource and a fair market rent, especially for sugar land, which native Fijians own and Indo-Fijians cultivate. Due to discontinued land leases between 1997 and 2002, some 4000 farming families have been displaced with very little government assistance.⁸³ Most of the landowners want the land back from their lessees in order to grow sugar themselves.⁸⁴ Changes in government and disagreements on the rights of owners and tenants have made it difficult to reach mutually beneficial agreement.⁸⁵ Hence, the sugar production system remains fragile and suffers additionally from old and inefficient sugar processing plants. The latter problems add significantly to Fiji's high labour costs as compared with world-scale competitors such as India or Brazil.⁸⁶

Ever since independence, Fiji has pursued an employment oriented development strategy, focused on the continued exploitation of its natural resources.⁸⁷ Consequently, agriculture has been a major area of economic activity. In 2004, sugar cane processing was the main economic activity in the agricultural sector, accounting for one third of industrial plants, 17 percent of GDP and employment of more than 25 percent of labour force.⁸⁸ About 90 percent of sugar was being exported internationally, while preferential exports to the EU accounted for 75 percent of exports. The most compelling reason for producing sugar at an uncompetitive production price so far has been the preferential trade offered by the EU under the Sugar Protocol and the SPS Agreement. Ironically, it is the extreme dependency on the continuation of the preferential schemes which has so far been one of the main reasons for the government's difficulties in gaining political acceptance for sugar sector reform. The external pressure for reform from market liberalisation and the 2006 EU sugar sector reform have resulted in several reform attempts of the sugar sector. However, the complicated internal affairs in Fiji have made reform efforts difficult and not very effective.

Reform Attempts

⁸² E. M> Fleming, Research Options for High-Value Agricultural Exports in South Pacific Island Nations, International Service for National Agricultural Research (ISNAR) Research Report No. 10, <ftp://ftp.cgiar.org/isnar/Publicat/PDF/RR-10.pdf> (Accessed 29 October 2007).

⁸³ G. Coleman, 'Just Next Door: Development Themes for Fiji and Samoa, Global Education Centre and Family Planning International Development' 2004, 39.

⁸⁴ Snell and Prasad, 'Benchmarking' and Participatory Development: the Case of Fiji's Sugar Industry Reforms' (2001) 32 *Development and Change* 68.

⁸⁵ Osman, An Update on Fiji', *Pacific Economic Reports*, Economics Research Centre of the Bank of Hawaii, October 2000.

⁸⁶ For a thorough analysis of the challenges Fiji's sugar sector is currently facing and reform attempts undertaken by the government, see Narendra Reddy 'Survival Strategies for the Fiji Sugar Industry' (2003) 1 (2) *Fijian Studies* 265 http://www.fijianstudies.org/dload/vol1no2/n_reddy.pdf (Accessed 3 July 2007).

⁸⁷ Satendra Prasad, and A. Haroon Akram-Lodhi, 'Fiji and the Sugar Protocol: A Case for Trade-Based Development Co-operation' (1998) 16 (1) *Development Policy Review* 39.

⁸⁸ CIA World Fact Book 2005 <http://www.cia.gov/cia/publications/factbook/> (Accessed 11 April 2006).

Beginning in the early 1990s, the future of Fiji's sugar industry became a growing cause for concern. Realising the dependency on external trade,⁸⁹ the Sugar Commission of Fiji (SCOF) proposed in 1997 a Sugar Industry Action Plan.⁹⁰ The Plan recommended comprehensive reform to ensure that Fiji confronted the new market realities by acting on 'core inefficiencies'.⁹¹ According to the 1997 Action Plan, reforms to be implemented included a move away from payments according to weight towards payments according to quality of cane crop; a lowering of mill operating costs by targeting overstaffing and poor industrial relations; and the targeting of inefficiencies in the infrastructure and logistics sector. Despite the correctness of its proposals, the 1997 Action Plan had nothing new to contribute when compared with earlier reports. Another issue that remained unchanged was the resistance of political parties to implementation of this unpopular restructuring, which was commonly associated with high expenditure, employment loss and general insecurity. The Action Plan finally remained what it had always been; a plan.

In 2003, the FSC proposed another set of reforms in the wake of a changing trade environment and in particular as a reaction to the EU's sugar sector reform plans. This reform was rejected at the General Body Meeting of the National Farmers Union (NFU) in Lautoka, Fiji on 31st May, 2003.⁹² The cane growers, supported by the NFU, resisted any sugar industry restructure proposals as these would have resulted in a reduction of their income derived from the sale of sugar. The NFU blamed the FSC for 'mismanagement, abuse, negligence, extravagance, absence of financial discipline and corrupt practices in the operations of the company.'⁹³ Moreover, the NFU opposed the introduction of a cane sugar quality payment system as proposed by the Chief Executive of the Sugar Cane Growers Council (SCGC), while condemning the increase of sugar export tax from 3 percent to 10 percent as from 1 January 2003. The 2003 FSC reform proposal made it very obvious; any restructuring plans in the sugar sector would occur within a deeply politicised setting and distorted ethnic relations.⁹⁴ On March 16 2005, the Fiji Cabinet approved the tabling of a bill to establish an independent research institute in the sugar industry. The bill creates the basis for research in the area of technical advancement, efficiency and productivity of the sugar sector.⁹⁵

But the major break through occurred in the same year when Fiji's government invited an independent team of Indian experts to investigate Fiji's sugar sector. The report of this team, the so called Indian Experts' Plan, is thorough and wide ranging, addressing infrastructural and institutional problems within the industry, and outlining a plan that makes detailed recommendations for investment and reform.⁹⁶ The reform plan was approved by the Fiji Cabinet and agreement was reached to form a

⁸⁹ For an overview of the reasons for over reliance on external trade, see: A Pacific Strategy for the New Millennium, Asian Development Bank, September 2000.

⁹⁰ Sugar Commission of Fiji (SCOF): Sugar Industry Strategic Plan, Suva, 1997.

⁹¹ Above n 84.

⁹² See Resolution adopted by the NFU at the General Body Meeting in Lautoka, Fiji on 31 May 2003 <http://www.flp.org.fj> (Accessed 19 November 2006).

⁹³ Ibid.

⁹⁴ Above n 84.

⁹⁵ Fiji Government Press Release, 16/3/2005 <http://www.fiji.gov.fj> (Accessed 19 November 2006).

⁹⁶ 'The Fijian Sugar Industry: Investing in Sustainable Technology' (*Oxfam Briefing Paper* No. 77, September 2005) <http://www.oxfam.org.nz/imgs/fijian%20sugar%20industry.pdf> (Accessed 01 July 2007).

Parliamentary Select Committee to oversee the reform.⁹⁷ The main recommendation of the Indian Experts' Plan, the most comprehensive industry adjustment plan in the history of Fiji's sugar industry, is a major infrastructural upgrade and a recommendation for Fiji to produce energy and bio fuel as a sustainable way of using Fiji's sugar production. More specifically, the plan recommends extensive electricity generation from bagasse⁹⁸ and fuel ethanol development.

Fiji's Sugar Sector and Impacts of EU 2006 Reform

Due to global interdependencies and the proven interconnection between policy decisions in Europe and regimes in third countries, European policy makers have the power to decide the fate of thousands of sugar workers and producers in Fiji's sugar sector. With a sugar industry that is inefficient, insolvent, and dependent on government loans, the impact of the 2006 EU reform will be intensified. In addition, with the falling production of cane and output of sugar, the sector is currently facing an efficiency crisis, a situation that could have a major negative effect on both macroeconomic and social stability and the poverty status of the entire nation.⁹⁹

Clearly, if poverty were to be reduced, the policy change would work for the better. Nowadays it is thought that poverty reduction can be achieved in two ways: by walking the classic road of concessional development aid or by giving poor countries the opportunity to trade their way out of poverty.¹⁰⁰ Trade in sugar is able to reduce poverty in some of the poorest countries in the world¹⁰¹ and positive side effects like employment, increased revenues and opportunities in education cannot be overstated, but only if countries like Fiji are not left alone with adjustment processes intended to cope with the consequences of reduced preferential market access to the EU's sugar sector. Also, the timing and political circumstances will be of crucial importance for Fiji. With most EU development assistance currently put on hold, it is difficult to estimate a time frame for the implementation of measures mentioned in the EU Action Plan. The quickest way forward for implementation would include swift elections of a new democratic government for Fiji and the support of the international community in return.

Post-coup Fiji has entered yet another period of economic decline and eroded confidence of foreign investors. Both trends are negative as they have a direct impact on investment and capital formation. In such an environment the impact of the sugar reforms will have a much larger impact. Currently, Fiji may expect a total loss of

⁹⁷ Ibid.

⁹⁸ Bagasse refers to the crushed stalks of the sugar cane plant, after cane juice has been extracted for sugar production. Bagasse is an extremely combustible by-product, and is currently used to power Fiji's sugar mills.

⁹⁹ 'Export-Import Bank of India, *Agri Export Advantage*' November 2005, Vol.4 Issue 6 <http://www.eximbankindia.com/agri-exp-adv/agri-nov05.pdf> (Accessed 12 June 2007).

¹⁰⁰ Lustig, et al 'Poverty Reduction and Economic Growth: A Two-Way Causality' (Inter-American Development Bank, Sustainable Development Department Technical Papers Series, No. POV-111, March 2002). See also 'Driscoll and Evans, 'Second Generation Poverty Reduction Strategies', Overseas Development Institute, London, September 2004, <http://www.prpsynthesis.org/synthesis10.pdf> (Accessed 28 October 2007).

¹⁰¹ 'A Sweeter Future? The potential for EU sugar reform to contribute to poverty reduction in southern Africa' (Oxfam Briefing Paper, November 2004) http://www.oxfam.org.uk/resources/policy/trade/downloads/bp70_sugar.pdf (Accessed 28 October 2007).

some 32 million euros in direct consequence of the 2006 EU sugar sector reform.¹⁰² Traditionally, the current high price for sugar on the EU market and a stable quota system were guarantors for foreign direct investment, without which competitive production facilities are out of reach. Not being able to import its sugar to the EU market under the EBA scheme, an unreformed Fiji sugar sector would see its preferential access eroded by more competitive sugar producers from other ACP countries or third country producers such as Brazil or India. Social and ethnic problems arising from the decline of Fiji's sugar industry might lead to disruption and worsening political instability for the country as a whole. Hence future harvesting and processing of Fiji's sugar will not only depend on the weather conditions or extension and expiration of sugar land leases. It will foremost depend on the government's ability to implement economically and socially acceptable reforms and on the EU's ability to assist in this process.

EU Adjustment Assistance

With a safe and sound level playing field for economic growth, there is hope for sugar sector reform and subsequent production of Fiji sugar at competitive rates. In this respect, the ongoing negotiations of EPAs within the *Cotonou Agreement* framework represent an attractive option to absorb the losses in revenue and cushion socio-economic effects in Fiji. The inclusion of sugar in EPA negotiations would offer duty free access without quantitative restrictions. But the free trade area to be completed by 2008 does not provide any immediate assistance with the consequences of the EU sugar sector reform. The EU wishes the Sugar Protocol to be integrated into EPAs in such a way that does not prejudice the EU's commitment to LDCs for full market access for sugar from 2009 and that ensures full compatibility with WTO rules. This, according to the EU, will be covered by the review of the Sugar Protocol, to be negotiated jointly with the ACP in the framework of EPA negotiations.¹⁰³ However, in fact the EU is proposing a 'mutual renunciation'¹⁰⁴ of the Sugar Protocol, with the incorporation of trade arrangements for sugar into EPAs. In reaction to these proposals, Pacific ministers issued a press release on 18 May 2007, setting out the minimum requirements for the conclusion of an EPA, including clarification of transitional arrangements for sugar.¹⁰⁵ According to the ministers, the review of the commodity protocols within the EPA process can neither result in neither a unilateral withdrawal of the EU nor in a mutual renunciation of legal obligations.

Development and Trade

The main goal of EU development policy is to encourage sustainable development, help eradicate poverty in developing countries and integrate those countries into the

¹⁰² This loss cannot be compensated under the EBA initiative since Fiji is excluded from participation by its status as a developing and not least developed country.

¹⁰³ EC working document on the 'Action plan on accompanying measures for sugar-protocol countries affected by the reform of the EU sugar regime' SEC (2005) 61 of 17 January 2005 <http://register.consilium.eu.int/pdf/en/05/st05/st05611.en05.pdf> (Accessed 28 May 2007).

¹⁰⁴ 'Sugar: Executive Brief, Agritrade', April 2007 <http://agritrade.cta.int/en/layout/set/print/content/view/full/1570> (Accessed 01 July 2007).

¹⁰⁵ Pacific Forum press release, May 18th 2007 <http://www.forumsec.org/pages.cfm/newsroom/press-statements/2007/minimum-requirements-epa-with-eu-set-out.html> (Accessed 20 May 2007).

global economy.¹⁰⁶ A key part of the EU's adjustment assistance strategy is the improvement of international trading conditions and support for affected countries through the provision of development assistance. This is in line with the main features of the Cotonou framework, namely the complementary use of aid and trade on the way to achieving the overriding goal of poverty reduction. Trade in sugar could become an example of how these ambitious goals are put into practice.

So far, the EU has committed itself to 'support ACP countries in their path to poverty reduction and sustainable development'.¹⁰⁷ In order to help ACP countries cope with the immediate effects of its reform, the EU has therefore introduced the Action Plan to accompany the 2006 sugar sector reform.¹⁰⁸ More specifically, the Action Plan presents a basket of potential measures to be supported by the EU, when integrated into a sustainable, comprehensive strategy. The EC has identified three axes for EU assistance:

- the enhancement of competitiveness;
- the promotion of diversification;
- the support of broader adjustment processes, including addressing the short to medium term social impacts and the establishment of well targeted safety nets.

¹⁰⁹

In order to comply with the EU's conditions on a sustainable reform strategy, the Fiji Cabinet approved on 27th September 2006 a National Adaptation Strategy (NAS) proposed by the sugar industry. The NAS will be used as the main road-map for the strengthening of the Fiji sugar industry for an eight year period from 2007 to 2013.¹¹⁰ According to the NAS, Fiji will need to replant up to 70 percent of its existing crop area with quality cane within a planned five year period. The strategy is based on the assumption that costs for replanting would be shared between the EC and the Sugar Growers Fund with the future EC grant covering land preparation and supply of planting material.¹¹¹ In accordance with areas selected under the NAS, the EU's support for Fiji's sugar industry adaptation will include sugar sector assistance for the development of other income generating activities (principally agricultural) and for mitigating the expected adverse social impact of lower sugar revenues.¹¹²

¹⁰⁶ Joint declaration by the Council and the representatives of the governments of the Member States meeting within the Council, the European Parliament and the Commission on the development policy of the European Union, entitled "The European Consensus", OJ C 46/01 of 24 February 2006.

¹⁰⁷ EC working document on the 'Action plan on accompanying measures for sugar-protocol countries affected by the reform of the EU sugar regime' SEC(2005) 61 of 17 January 2005 6 <http://register.consilium.eu.int/pdf/en/05/st05/st05611.en05.pdf> (Accessed 28 May 2007).

¹⁰⁸ 'Action Plan on accompanying measures for Sugar Protocol countries affected by the reform of the EU sugar regime' (2005) 61 *Commission Staff Working Paper SEC*.

¹⁰⁹ Ibid and Regulation (EC) No 266/2006 of 15 February 2006 establishing accompanying measures for Sugar Protocol countries

¹¹⁰ Fiji Government Online, Press Release 27 September 2006 http://www.fiji.gov.fj/publish/page_7496.shtml (Accessed 12 May 2007).

¹¹¹ Islands Business May 2007, <http://www.islandsbusiness.com> (Accessed 22 May 2007).

¹¹² EC Delegation to Fiji, 'EC Adopts Support to Sugar Protocol Countries', Press Release 20 November 2006

http://www.delfji.cec.eu.int/en/press_release/EC%20Media%20Statement%20Sugar%20Adaptation%20Strategies%20201106.doc. (Accessed 12 March 2007).

As regards the trade aspect of EU assistance, the EU has clearly been shown to be in favour of further market opening in the process of trade liberalisation and the expansion of regional trade co-operation. Trade facilitation measures are meant to further regional strategies. Here, the EU clearly sees an opportunity for Fiji, within the EPA framework, to develop new regional outlets. This view might prove to be too optimistic though. EPAs might help create additional markets for sugar, but only for countries with an expansion potential and countries located in deficit regions. Considering Fiji's ailing industry, the poor quality of its cane crops, rising production costs, political instability and isolation and a geographically remote location, the EU scenario does not seem convincing.

However, any action is based on a pre-assessment of the viability of the sugar sector. Being characterised as an inefficient, overstaffed and highly politicised sugar industry¹¹³, it is doubtful whether the EU will see Fiji's sugar sector as "worth" adjusting. Instead, the EU might support the Indian Experts' Plan recommendation for Fiji to focus on diversification of the agricultural sector. Rather than exporting raw sugar at lower EU prices, Fiji could turn to the production of value-added sugar based products. The latter option, in line with the Indian Experts' Plan, would represent a less radical step for Fiji and might therefore be politically more acceptable than replacing a whole industry, thereby risking an overall collapse of the economy and further political instability. The EU also seemed prepared to consider financial assistance for the emerging tourism sector or Fiji's fishing industry¹¹⁴ – the latter being of specific interest to Europe due to persistent difficulties with fresh fish supply in recent years.

Financing

No doubt, the EU's development goals are noble and desirable from a poverty reduction perspective. However, one essential question remains, what about the funding? Setting aside the fact that the EU has put financial assistance on hold until election day in 2009,¹¹⁵ the European Commission clearly favours either non-targeted budgetary support or budgetary support to a sector-wide approach rather than a project-based approach to restructuring. The latter would place a heavy management burden on the delegations on the ground without making a contribution to the effective use of financial resources.

As a general rule, it is the European Commission's view that the EU budget cannot form the sole source of financial assistance.¹¹⁶ Financing offered by the European Investment Bank, in particular the Investment Facility, has to be considered, as well as assistance from development banks operating throughout the region, the International Monetary Fund and the World Bank. The total envelope for assistance, based on the individual needs of the region, will be divided into national envelopes

¹¹³ Above n 57, 17.

¹¹⁴ S. Dearden, 'EU aid policy towards the Pacific ACPs with special reference to Fiji and the Cook Islands' (European Development Policy Study Group Discussion Paper, Manchester Metropolitan University, November 2004).

¹¹⁵ 'The Fiji interim administration has assured the European Union that it will hold elections no later than March 2009, possibly earlier' *Islands Business*, July 2007 <http://www.islandsbusiness.com> (Accessed 3 July 2007).

¹¹⁶ The EC Action Plan does not make any reference to the EDF; instead it notes the Development and Economic Cooperation Instrument of the general budget as a possible source of financial assistance.

with additionally a common envelope for projects of general interest to the South Pacific region. The EU has categorically rejected any direct compensation to ACP sugar producers on several occasions but it agreed to provide financial assistance for reform proposals in form of national action plans.¹¹⁷

Although Fiji's interim government had expressed hopes it would receive F\$350 million in European Union grants to fund reforms of its ailing sugar industry. However, the Head of Delegation of the European Commission in Fiji, Ambassador Roberto Ridolfi confirmed in June F\$265 million, with F\$132.6 million for the 2007 – 2010 period, and most probably a similar allocation for 2011 – 2013.¹¹⁸ Ridolfi also stated that 'continued progress in programme implementation and preparation of this assistance remains dependent on the interim government fulfilling the commitments it made on human rights, the rule of law and democratic principles...'¹¹⁹ With this, the ball is now in Fiji's court, independent of further reform developments in the EU sugar market.

CONCLUSION

Decisions made at the EU level have direct effect not only on EU Member States but also on third countries. These external trading partners are often economically weaker and depend on some sort of preferential treatment in asymmetrical trade liberalisation agreements. In the case of sugar, the most important instruments are the Sugar Protocol and the EBA. In this context, the interdependency of the EU, third countries and WTO policies becomes increasingly evident. The EU sugar sector reform has repercussions for the sugar sectors of all ACP sugar exporting countries. A particularly worrisome situation is expected in Fiji due to its high dependency on sugar exports to the EU at guaranteed high prices.

Currently, the EU is remedying the trade distorting effects of its sugar policy by cutting prices, lowering tariffs and minimising exports of subsidised sugar within the framework of its 2006 sugar sector reform programme. All these measures became necessary due to internal pressure for reform and as a consequence of the recent WTO Appellate Body ruling. The WTO ruling has on one hand paved the way for reform as it has lessened the political opposition of WTO Member States. On the other hand, it has complicated the reform process by requiring more aggressive reform than originally proposed. Hence, the main weaknesses of the current regime, the high prices and the distorting effect of subsidised exports, especially the cross-subsidised C-sugar exports have been addressed in a more radical way, even leading to the EU being on its way to becoming a net importer of sugar. With regard to ACP countries, the WTO ruling can be said to be neutral in that it does not directly inhibit any existing preferential ACP-EU agreement. However, the price cuts to be imposed over the next years will inevitably result in great revenue losses for ACP sugar producers.

Overall, the EU does acknowledge the fact that its sugar sector reform will have a greatly negative impact on ACP countries. It is therefore willing to assist countries forecasted to experience economic difficulties. Fiji has been categorised as one of the

¹¹⁷ Agritrade Commodities Review <http://agritrade.cta.int/sugar/> (Accessed 18 April 2007).

¹¹⁸ Ibid.

¹¹⁹ Ibid.

most affected countries. Fiji is dependent on preferential market access to the EU internal market at artificially high prices. The effects of a price cut, which range from income losses, enhanced unemployment and general socio-economic disruption to a worsening of the existing political crisis, therefore are estimated to be massive for Fiji's sugar sector. Quite obviously, the precise effects depend on the government's response and cooperation in preparing for new elections in 2009. Should the reaction be quick, effective and acceptable to all stakeholders involved, the sugar industry could be restructured and diversified. This point has been made in several reform proposals, including the 2005 Indian Experts' Plan and the 2006 National Adaptation Strategy, used by the EU for the formulation of concrete adjustment assistance measures in Fiji's case. However, these measures need further clarification from the EU side, especially in relation to their implementation. The time frame for EU fund release is currently also very uncertain due to the unpredictability of the Fiji interim government's actions in relation to the return of a democratically elected government in Fiji.

As has been demonstrated, a highly uncertain future awaits the sugar sector and indeed Fiji's economy as a whole. For Fiji as a developing country within the Pacific ACP group, the multilateral trade liberalisation within the WTO as well as bilateral trade liberalisation in EPA negotiations poses a threat in the form of preference erosion. Much will therefore depend on two complementary issues. First, how well Fiji's interim government can respond to the internal and external challenges and how quickly the newly elected government can proceed with the implementation of reform proposals (which are currently frozen due to external funding having been put on hold). Second, in what way exactly will the EU contribute to internal adjustment processes as outlined in the National Adaptation Strategy? This second issue gives rise to three further questions: can the EU overcome past problems of delayed fund releases and bureaucratic fund administration?; will it be able to carry over ownership for adjustment?; and how should results be monitored in a politically unstable environment?

It is difficult to give precise answers at a time when both actors have been caught in current political events in Fiji. Frozen assistance funds mean that at present only agreement on the need for reform in Fiji is certain. Time is pressing with EU reform progressing through its stages as planned and with the EPA negotiation deadline approaching in December 2008. Any current case study can only estimate the outcome from the interweaving of policy options. However, there are clear signs of a new roadmap to be followed by both actors. Fiji will have to stabilise politically, open up, diversify its sugar industry and integrate into the world economy if it wants to reap some of the advantages offered by free trade agreements such as the EPA. Europe however will have to let go of its colonial ties if it wants to comply with the trends of trade and be freer in its strategic choices in the global trading community. The real challenge for the EU is to combine these tactical economic goals with the ethical aims of its development policy and poverty reduction commitments.