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The Reform of the EU Sugar Trade Preferences toward Developing Countries in Light of the Economic Partnership Agreements

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This article provides a general overview of the evolution of the European Union² trade preferences with the African, Caribbean and Pacific (ACP) Countries, giving due attention to the reform of the Sugar Protocol (SP) in light of the anticipated Economic Partnership Agreements (EPAs). The EU sugar trade relationship with the ACP, as captured in both a reformed SP for ACP non-least developed countries and in the Everything-but-Arms initiative for the world's least developed countries, is analysed and contextualized within the ongoing negotiations toward achieving EPAs, which will substitute the Lomé Convention and give a new order to EU-ACP relationships.

Keywords: African Caribbean Pacific countries, development, Economic Partnership Agreements, European Union, sugar reform.

Europe would, with increased resources, be able to pursue one of its essential tasks; namely the development of the African continent.

Schumann Declaration, 1950

A Brief Historical Overview of the EU Trade Agreements with ACP Countries

Just after the Second World War, Europe was an agriculture-based economy. Farming accounted for a large share of Europe's Gross Domestic Product (GDP), and a large part of the working population was employed by the sector. Despite this, Europe was a net food importer because agricultural technologies were not modern (FAO, 2000).

The Common Agricultural Policy (CAP) was first introduced in 1961, a period in which the EU had just recovered after the reconstruction phase following the Second World War. The so-called 'boom years' brought a rapid outflow of labour from farming to jobs in the growing manufacturing and services sectors, and the structure of farming became increasingly differentiated, with a minority of large-scale, commercial producers and a larger number of smaller farms, often farmed on a part-time basis.

Thanks to the scientific innovations facilitated not only by the favourable European economic convergence but also by the high and stable prices guaranteed by the CAP, the European agricultural system changed drastically.

The favourable economic convergence in conjunction with the need to continue with colonial trade preferences led the EU, mainly France, to negotiate two reciprocal conventions, signed in Yaoundé, Cameroon, in 1963 and 1969, with 18 African francophone countries that were former French colonies. The intention of establishing a bilateral free trade zone failed, though. For their part, French international firms, which had been benefiting from traditional preferential positions in the ex-French colonies, were keen to protect themselves from other potential European partners. Additionally, many African countries, due to their newly independent status, embarked on self-centred development strategies that relied on protectionist trade policies. Therefore they showed no readiness to provide trade preferences to their European partners (Solignac Lecomte, 2001).

The reciprocity and non-discrimination principles stressed in the two Yaoundé agreements were not reaffirmed in the new rounds of conventions signed in Lomé (I [1975], II [1980], III [1985], IV [1990] and IV bis [1995]). All Lomé conventions in fact had the minimum common denominator of being based on the principles of non-reciprocal preferential trade concerning most exports from ACP countries to the EU; equality of the partners and respect for the sovereignty, interdependence and mutual interests of the partners; and the right for each state to determine its own policies and development strategy.

Given the considerable number of countries linked to the EU with the same trade preferences, the ACP states decided to give themselves a legal framework in 1975 by signing the Georgetown Agreement. Although the legal basis for relations with the ACP countries has changed over the years, the spirit and objectives of this association have been maintained. The organization, composed of a group of 79 member states, of which 48 are from Sub-Saharan Africa, 16 from the Caribbean and 15 from the Pacific, has the objectives of sustaining development among them, facilitating their gradual integration into the global economy—which entails making poverty reduction a matter of priority—and establishing a new, fairer and more equitable world order.

Despite the continuity of the Lomé Conventions, which were revised every five years, EU-ACP relations changed over the course of time, especially after 1990. In fact the first two conventions stressed the principle of trade cooperation while Lomé III introduced for the first time the principle of human dignity associated with economic, social and cultural rights. Lomé IV refers explicitly to civil and political rights, and was the first development agreement to incorporate a human rights clause (Art. 5) as a ‘fundamental’ part of cooperation. The revised version of Lomé IV (Lomé IV bis), refers not only to the democratic principles but also to the consolidation of the rule of law and to good governance (Frisch, 1997). An updated clause confirms human rights as an ‘essential element’ of cooperation; any violation could lead to partial or total suspension of development aid by the EU, after prior consultation with other ACP countries and the abusing party.

Evaluating the Lomé Conventions, especially in a global context, is not an easy task due to several interpretations given to the conventions. Moss and Ravenhill stressed in 1982 that “the impact of the [Lomé] Convention on the trading relationship appears to be negligible” (Moss and Ravenhill, 1982, 853). In fact, the discrepancy between the EU development aid included in the conventions and its own protectionist domestic and trade policies undermined the EU’s credibility (Forwood, 2001). This, however, seems to be an overly narrow statement. Other studies analysing the effects on a country or sectoral basis did find that the Lomé preferences had been effective in

particular cases. McQueen (2002a, 2002b) gives an overview of studies analysing the effects for those ACP countries that did not have strong anti-export policies and traded in products that had a significant preference margin over third countries. He concludes that, for those countries, exports in non-traditional but preferential products “increased from very low levels in 1975 to 6.9% of ACP non-oil exports in 1987 and 13.5% in 1994.” Moreover, it should be noted that the ACP countries enjoyed many tariff preferences under the Lomé Conventions. Among them, the commodity protocols, allowing exporters of sugar, rum, bananas, beef and veal to export to the EU under preferential circumstances, are most renowned (Bjørnskov and Krivonos, 2001). The overall issue is to identify what Lomé was to achieve. Can we consider the Lomé Conventions a cornerstone of the New International Economic Order? In 1975, *The [EU] Courier* (31/3/1975, p.7) reported that the ACP expected “a new type of relationship ... revolutionary” with the EU, while the EU thought to give inception to a process of facilitating development in the ACP countries that would be subsequently reaffirmed in the Cotonou Agreement (Stevens, 1981). Green (1980) suspected that the conventions were a static framework that legitimized a system of dependency for the ACP countries.

In order to analyse and fully understand the Lomé Conventions, we have to look at the several contexts in which the conventions have been developed. The historical background of the ACP countries and their links with the EU policy cannot be divided from the historical period of the negotiations when European countries with different cultures and heritages were starting to operate together under the new European Community framework. The conventions must also be analysed within the global economic context of the 1970s and 1980s.

In 1996, just after the IV bis Lomé Convention, the EU released a Green Paper on “Relations between the European Union and the ACPs on the eve of the 21st century – Challenges and options for a new partnership” (EC, 1996). The report noted, among other observations, that nearly forty years of preferential non-reciprocal market access had not yielded the expected gains in terms of economic development for many of the ACP countries. This, in conjunction with commitments associated with WTO membership, pushed the EU to analyse new modalities for trade relationships with the ACP countries. Figure 1 depicts the complex net of events linking the EU to the ACP countries; this net will be explained in following sections of this article.

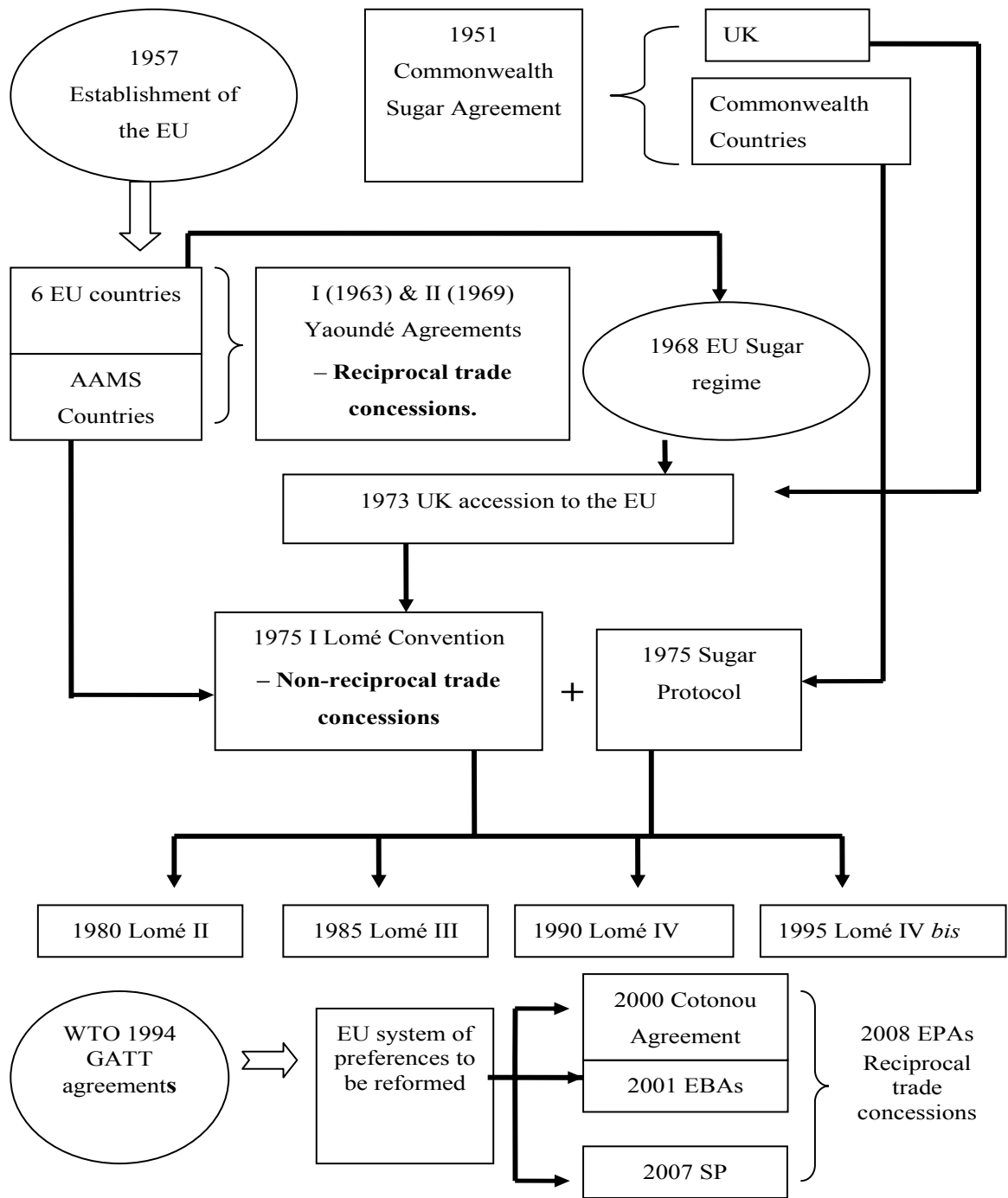


Figure 1 Graphical overview of the EU-ACP trade relationships

A Brief Historical Overview of the EU Sugar Trade Preferences with the ACP Countries

Sugar was first included in the CAP in 1968 (Council Regulation No. 1009/67/EEC). According to Mitchell (2004), supply control through the system of the so-called quota A and quota B sugars, export subsidies and the import system combining quotas and tariffs have been predominant in EU sugar policy. The purpose of the sugar programme was to grant high and stable prices to EU sugar beet producers. This measure had a twofold effect: on the one hand it encouraged production, but on the other it reduced consumption and imports due to high prices. In fact, consumers paid high prices partly to keep producer prices high and partly to fund the producer levy, which paid for surplus disposal; and the 'quota' regime limited the volume eligible for support. Thanks to this policy the sugar regime incurred scarcely any budget expenditure (EC, 2004). Moreover, the expanded production contributed to making the EU the second largest sugar exporter after Brazil, a fact which highlights the EU peculiarity of being simultaneously a top sugar importer and exporter in the world.

With the entry of the United Kingdom into the EU in 1973, a major change occurred in EU sugar trade policy. The UK transferred to the EU its commitment to the Commonwealth sugar producers. The Commonwealth Sugar Agreement became the SP, and therefore the EU started to import raw sugar cane for refining and subsequent sale in the UK market. The SP became a bilateral agreement between 21 ACP countries and the EU in 1975, during the first Lomé Convention. The SP provided the ACP countries with a total exemption from import duties on sugar for an indefinite duration. This intervention measure was limited to agreed quantities of sugar imported from the ACP signatories to the SP. Guaranteed prices for ACP white or raw sugar were applied to specific quantities of sugar per member country on a cost, insurance and freight paid (*cif*) basis, delivered to European ports. The price guaranteed to ACP countries was fixed each year by a decision of the Council of the EU, and set equal to the EU intervention price for sugar paid at the domestic level (FAO, 2005).

Furthermore, when Spain and Portugal entered the EU in 1986, the European Commission had to find a tool capable of merging the existing commitments with the import needs of the sugar refineries based in the newly entered countries. The concept of maximum supply need (MSN) was introduced, with the intention of setting a maximum ceiling of raw sugar allowed to enter into the EU domestic market under preferential arrangements, based on the member state's previous commitments to

former colonies and Overseas Courtiers and Territories (OCTs). These arrangements were expanded with the accession of Finland in 1996, as illustrated in table 1.

A total MSN of 1,774,000 tonnes was established for the seven refineries of raw cane sugar in Finland, Portugal, France and the UK that were officially allowed to import raw sugar cane for the functioning of their refineries. In order to meet the refiners' MSN, raw sugar was supplied and imported under a set schedule. MSN quantities were met firstly through the SP quota of 1,294,700 t from the ACP signatories to the SP and an Indian quota of 10,000 t. Furthermore, Finland had an MSN quota of 85,463 t, of which 58,969 t came from Cuba and 23,930 t from Brazil, representing a WTO Tariff Rate Quota (TRQ) commitment that predated Finland's accession to the EU.

Table 1 The EU Maximum Supply Needs, 2003/04 Imports ('000 tonne; white value)

(a) Demand (MSN)	1774
UK	1126
France	296
Portugal	291
Finland	60
(b) Supply	1696
ACP/India Protocol (for refining)	1305
OCT production (for refining)	208
WTO-TRQ	85
EBA	98
a-b = Special Preferential Sugar (SPS)	78

Under the terms of the agreement, these imports enjoyed a reduced import duty and were sold in the EU market at the EU support price (Chaplin and Matthews, 2005). The remaining volume was supplied by the OCTs. In the event that the OCTs were unable to supply the amount required, the ACP countries could fill the remaining part of the quota under a Special Preferential Sugar (SPS) Agreement at zero duty. This residual amount was then determined on an annual basis. Nearly 60 percent of all SPS supplies came from the Southern African Development Community (SADC) countries, with Swaziland, Zimbabwe and Malawi being priority suppliers under the SPS arrangement. The conditions for SPS imports, as well as for the Finnish TRQ from Cuba and Brazil, were slightly less favourable compared to those under the SP. The price, in fact, for the imported raw sugar was calculated by deducting € 81/t from the guaranteed price under the SP (Malzbender, 2003).

In March 2001, the EU introduced the Everything-but-Arms (EBA) initiative for the world's least-developed countries (LDCs) (Regulation [EC] 416/2001). This initiative naturally includes LDCs that are also ACP countries benefiting from the SP. Under this arrangement, full liberalization of sugar for LDC exporters will be phased in between 1 July 2006 and 1 July 2009. In the meantime, LDCs' raw sugar can be exported duty free within the limits of a tariff quota, which will be increased each year by 15 percent from 74,185 t in 2001/2002 to 197,355 t in 2008/2009.

However, it needs to be emphasized that EBA sugar is entering the EU market within the framework of the global quota under the MSN system. Any sugar entering under the EBA arrangement is therefore to be deducted from the SPS quota and does not, at least at this stage, lead to an overall increase in sugar exports to the EU.

Since the EU is also a net producer of beet sugar, it was necessary to establish a system able to guarantee each member state a certain share of the EU sugar market and keep the overall production within certain limits, despite the bulk of MSN sugar admitted into the market. Therefore, a set of quotas was established for EU sugar producers. Two types of quota were set: an 'A' quota, initially determined in accordance with domestic consumption, and a 'B' quota, set as an additional amount to fulfill export potential. The sugar producers could either export the out-of-quota sugar, called 'C' sugar, or carry it forward for the next marketing year and in doing so receive no support in terms of export refunds.

The intervention prices of € 632/t for white sugar and € 524/t for raw sugar represented the prices at which A and B quota sugars were sold to intervention agencies designated by each member state. The EU growers received € 47/t of sugar beet as the minimum price from sugar factories for the production of A quota sugar. To produce B quota sugar, the minimum price paid to growers was € 32/t. The purpose of setting a minimum price for beet sugar was to ensure a fair income to the grower and a proper balance in the distribution of income from sugar between growers and factories (EC, 2004).

The EU intervention prices have remained stable following two periods of increase, in the mid 1970s and at the beginning of the 1980s, coinciding with two world sugar crises, during which world prices rose sharply (EC, 2004). The sharp increase shown in figure 2 in the intervention price in the mid 1990s is actually a result of the European green money system (Ritson and Swinbank, 1997) and not a result of a real increase in the EU intervention price.³

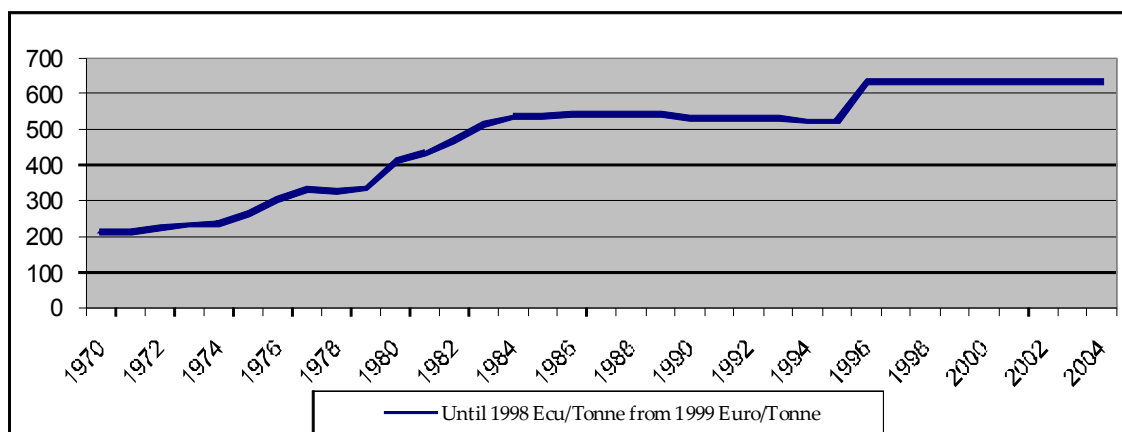


Figure 2 EU intervention prices.

Moreover, in those countries where sugar production was lower than consumption and growing costs were high, the Commission set a ‘derived’ intervention price that beet growers received besides the minimum beet price. All surplus quota sugar was exported by compensating producers for the difference between the price of sugar on the domestic and world markets. The price of C quota sugar from beets was freely negotiated between growers and manufactures (EC, 2004).

In the EU, sugar is one of the very few sectors where the mechanism for supporting prices has remained intact, in spite of 15 years of deep reforms of the CAP (Gohin and Bureau, 2005). Periodically the EU’s sugar policy has been renewed and, without a new regime, all price provisions, all quota arrangements and the intervention system would have ceased to apply by 30 June 2006. The latest sugar policy reform addressed both the erosion of trade preferences and domestic protective policies, in order to provide a new sugar regime that did not negatively affect the development of less-competitive exporting countries and that would be able to meet domestic sugar policy needs, with a trade policy in accordance with the commitments of the WTO Uruguay Round.

In November 2005, the EU reached an agreement on a reform of the EU sugar policy. The EU reform was in part a response to the WTO Appellate Body findings (WTO, 2005) against the EU concerning a dispute brought by Brazil, Australia and Thailand. In October 2004, a WTO panel found that 2.7 million tonnes of exported EU C sugar was cross-subsidized by the high guaranteed prices paid for A- and B-quota sugar. Moreover, the panel held that 1.6 million tonnes of refined sugar that the EU exported to the world market, corresponding to the amount of raw sugar it imported from India and the ACP countries, should be treated as subsidized exports and be subject to reduction commitments.

Thus, policy questions arising in recent years pushed the EU to implement a new sugar regime, which will have a domino effect on world sugar markets, generating new trading partners and scenarios.

On 20 February 2006, Council Regulation No. 318/2006 on the Common Market Organization for sugar was issued with the intention to bring the sugar regime into line with the international commitments (EC, 2006).

The whole EU sugar regime reform turns upon a fixed 36 percent price cut over four years, beginning in 2006/2007, to ensure a sustainable market balance. A 20 percent cut in the first year, a 27.5 percent cut in the second year, 35 percent in the third year and 36 percent in the fourth have been fixed. The price cut provision will reflect itself in a reduction of export subsidies. The scope of export refunds is in fact to cover the gap between world market quotations and prices fixed within the Community. Export refunds are therefore expected to decrease in accordance with the fall of the EU reference prices, which will substitute for the intervention prices. In order to relieve domestic support, the twofold quota system currently adopted has been modified, merging A and B quotas into a single quota. Moreover, countries that are currently C-quota sugar producers are allowed to purchase an additional 1 million tonne quota, and quotas will be reduced by a buy-out scheme. This is because levies on B quotas were much higher than on A quotas, so due to the merging the new regime will be beneficial for B sugar producers. Also under the new reforms, a member state may decide to carry forward all or part of its production in excess of its sugar quota. To compensate the EU farmers for this reduction (and loss of earnings), the farmers will be given a subsidy payment for taking care of the land. In other words, this subsidy amount will be decoupled from their production of sugar.

The improving of market access through tariff reduction and TRQ revision will also be taken into consideration. Until 2009, the MSN will remain valid, granting to ACP and Indian sugar 75 percent of the already established quota of 1,796,351 tonnes.

The Reform of the EU Trade Preferences with the ACP Countries: the Economic Partnership Agreements

In June 2000, the EU and the ACP countries met in Cotonou and signed an Agreement laying a basis for a new partnership and bringing to an end their old relationship that had been based on the Lomé Conventions. One of the principal reasons for the phasing out of the Lomé Conventions and the signing of the Cotonou Agreement was the perception that the generous access to the EU market offered to developing countries had not been beneficial to the majority of EU countries nor had

it succeeded in transforming the ACP economies (Holland, 2003). The prospective new relationship is based on the guiding principles spelt out in the Cotonou Agreement. The end result is expected to be a number of Economic Partnership Agreements (EPAs) between the EU and various economic groupings in the ACP regions. The negotiated EPAs were supposed to enter into force in 2008 and will be based on a reciprocal and WTO-compatible trade framework.

The main objective of the Cotonou Agreement is the reduction and eventual eradication of poverty and the gradual integration of ACP states into the global economy while paying due regard to the principle of sustainable development. The reformed SP has to be integrated also into the Cotonou Agreement.

The Cotonou Agreement comprises a series of formal arrangements, outlining political cooperation and preferential trade agreements between the EU and the ACP group, and sets the framework for future negotiations, aiming toward the integration of the ACP states into the world economy and the reduction and eventual eradication of poverty (Article 1, Cotonou Agreement).

The WTO compatibility of the SP is one of the hottest topics within the whole ACP-EU arrangement, and especially in the negotiations for EPAs. Sugar has been under a protected regime since the first Lomé Convention, signed in 1975. There is an indefinite duration of this protected status, which is stated and reaffirmed not only in the 1975 convention but also in the 2000 Cotonou Agreement.

ACP-EU trade relations are governed not just by the Cotonou Agreement, but are subject also to the wider framework of legal obligations of the WTO, negotiated during the Uruguay Round. The EPAs currently under negotiation will be WTO compatible, and this is a radical departure from prior trade relations between the ACP states and the EU.

The Cotonou Agreement was concluded for a twenty-year period from March 2000 to February 2020. It defines the approach to relations between the EU and the ACP countries in a number of areas, including politics, trade and development. The intention of the parties was to establish mutual trade cooperation and development aid. According to the Cotonou Agreement, the overall objective of the EPA is to promote smooth and gradual integration of the ACP economies into the world economy while paying due regard to the creation of new trade dynamics and fostering investment-enhancing production, supply and trading capacities (EC, 2000). Domestic and foreign investments are expected to grow, and more know-how and technology will be transferred – all of which should boost ACP countries' competitiveness and ease their smooth and gradual integration into the world economy (EC, 2000).

Conclusions

The EPA negotiations were supposed to be completed by the end of 2007. However, in many regions, talks are seriously behind schedule. The African Union and a number of NGOs have been asking for more time for negotiations in order to address fully the development dimension of the EPAs. The major point of difference between the ACP states and the EU is realization of the development dimension of the EPAs. In this regard, during the ACP-EU Joint Council and Ministerial Trade Committee meetings held on 2 June and 29 June 2006 in Brussels, the ACP ministers called on the EU to make a binding commitment for additional resources beyond the 10th European Development Fund (ending in 2013). The aim of this call was to cover costs related to EPAs and to support reforms, capacity building, improving competitiveness and implementation of the agreements.

The Cotonou Agreement does not provide any article that binds the EU or the ACP countries to the conclusion of EPAs. Therefore what is still unclear is the procedure that will be undertaken to harmonize the new relationship with the global trade order. Few standing points will guide the negotiations. Any non-LDC ACP state that failed to join an EPA would lose its current (Cotonou) access arrangements to the EU, but would benefit from the EU's generalized system of preferences, and would not have to open up its markets to EU exports. Any LDC ACP state that failed to join an EPA could still benefit from the EBA initiative, which might offer better preferences than the (yet to be negotiated) EPAs, and would not have to open up its markets to EU exports. The EBA initiative belongs to a broader project to bring the EU-LDCs relationship into conformity with WTO rules.

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Endnotes

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2. The European Union was established in 1992 by the Treaty of The European Union, signed in Maastricht. From 1957 to 1992 it would be more appropriate to refer to the European Community, but for editorial reasons the term ‘European Union’ is used throughout.
3. The green money system, introduced in the early 1990s, protected the incomes of European farmers from currency fluctuations by paying income subsidies. The system ensured that, even with fluctuating currency, agricultural products could be traded freely. Therefore the reason for the sharp increase shown in figure 2 in the mid 1990s is a result of the new system and not a result of a real increase in the EU intervention price.

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