

Comments of NEI on the European Commission's quality judgement of the final report of the Evaluation of the Common Market Organisation in the Sugar Sector

General remark

NEI is satisfied with the fact that the overall quality of the report is rated as 'acceptable' and is happy with the various positive remarks put forward in the quality judgement. Notwithstanding the overall positive appreciation of the report, the EC has the opinion that the report does not meet the quality criteria regarding the indicators 3, 5, 7 and 8. NEI has the opinion the arguments put forward for those judgements are quite weak and not convincing. NEI presents its comments and counter arguments regarding those four indicators in this brief note.

Indicator 3. Defensible design

The most fundamental comment of NEI regarding the design of the study is that the study was largely pre-designed by (i) the content of the evaluation questions and (ii) the fact that the report had to be structured in line with those questions. Those two factors implied that the Evaluation Team had very little room to manoeuvre for determining the design of the study and the structure of the report. The prescribed structure did not allow presenting a systematic analysis of objectives, assumptions, instruments and intended and unintended effects and impacts. When the EC is not happy with the present design of the study, NEI can hardly be criticised for that.

NEI's comments on three of the more detailed issues raised in the quality judgement regarding the design of the study, are presented hereafter:

- It the quality judgement it is said that that "the contractor understood initially the task as an economic sector analysis and not as an evaluation". This statement is not correct. The sector analysis undertaken by the Evaluation Team (particularly during the first phase of the study) was meant to lay the factual database on which the evaluation could be built. There has been a discussion with the Steering Group whether or not that sector analysis should be presented as a separate section in the report. The Steering Group preferred not to have such a separate section and to structure the evaluation report in accordance with the evaluation questions (one chapter per question). This meant that all the factual information, needed for answering the evaluation questions, had to be integrated in the chapters dealing with the respective evaluation questions.
- The quality judgement refers to misunderstandings about the interpretation of the terms 'indicator' and 'criterion'. However, no misunderstanding about these terms is created in the evaluation report. In the report a clear distinction is made between indicators (what will be measured) and criteria (what should be the minimum or maximum level of an indicator). Ideally a criterion should be expressed in

quantitative terms, but that is not always possible. Some criteria can only be defined in qualitative terms. For each evaluation question, indicators have been defined. For quite a number of indicators, it appeared to be impossible to fix quantified criteria, because the terms and concepts used in some of the evaluation question made it impossible to define objectively quantifiable criteria. In such cases conclusions had to be based on quality judgements. It is thus not right to conclude that “the evaluation team skipped the definition of evaluation criteria and defined straightaway indicators to be used for answering the questions”.

- In the quality judgement the report is criticised for not giving unequivocal responses to the evaluation questions. The counter argument of the Evaluation Team is that the complexity and multi-faceted nature of most of the evaluation questions, and the fact that in many evaluation questions concepts were used which were not objectively quantifiable, made it impossible to give an unequivocal response to some of the evaluation questions. In a number of cases the answer depends on the interpretation of the concepts used in the question and/or the weighting of the various indicators used. The latter varies from one interest group to another (EU policy makers, sugar producers, beet producers, sugar using industries, consumers, etc....).

In view of these counter arguments and the fact that the freedom of the Evaluation Team for designing the study was rather limited, NEI feels that the report merits a more positive judgement on the ‘design’ aspect.

Indicator 5. Sound analysis

In the quality judgement three examples are cited of “analysis based on assumptions, which are based on economic theory without empirical verification for the concrete case of the sugar market”. The mentioned examples are:

- a. *rise of instability on the world market due to the CMO Sugar;*
- b. *Only little sugar production in the absence of the CMO Sugar;*
- c. *Security of supply can be assured through imports from the world market.*

Indeed these conclusions could not be based on empirical verification, because the counter factual situations do not exist in reality. However, those conclusions are not based on “assumptions based on economic theory” but on logical reasoning and generally accepted knowledge about how markets normally function. In summary those reasonings are:

Ad. a: It is a well-known phenomenon that the smaller the percentage of total production/consumption of a product actually traded on the market, the larger the fluctuations in supply and demand on the (residual) market and the larger the price fluctuations. The CMO Sugar insulates most of the EC production and consumption, as well as the sugar imported under the preferential trade agreements, from the world market. Those quantities do not play a role any more in the process of supply, demand and price formation on the world market. As such the CMO Sugar makes the world

market thinner, which causes greater price instability in case of variations in total world supply and total world demand, compared to a situation in which there would be no CMO Sugar and no preferential trade agreements. Variations in total world supply and demand of sugar (or production and consumption) are often big enough to cause remarkable variations of the world market price. These price variations would be smaller when the entire sugar production and consumption of the EU would be part of the world trade in sugar (see also section 3.5.4).

Ad b and c: The statements that “only little sugar production would be produced in the EU without the CMO Sugar” and that “the security of sugar supply can be assured easily through imports from the world market” are based on:

- ▲ The analysis presented in chapter 7 (particularly 7.3) where it is shown that the production costs of EU sugar are substantially higher than the production costs of cane sugar in the major cane sugar exporting countries.
- ▲ The production and export potential of the low cost cane sugar producing countries such as Brazil, Australia, Thailand, South Africa, etc. Indeed their production potential has not been documented in the report, because it is a widely accepted fact by sugar industry specialists and documented in various articles and studies. The figures of the present exports of these countries (see tables 3.1 and 3.4) illustrate that an EU sugar demand of about 13 million tonnes of white sugar is not way out of line with the present export figures of the major sugar exporting countries. It is likely that these countries can develop, over a number of years, a production potential to meet the demand of the EU. At least availability of land and labour would not be a problem.

In the quality judgement a critical remark is made about the correlation analyses presented in the report. Indeed the correlation analyses included in the report do not show strong correlations between the variables analysed. Therefore the results of these analyses do not play a role in the conclusions of the chapters concerned. The results of those analyses are presented in the report for the sake of comprehensiveness (to show that these correlations have been checked). It is difficult to understand why this is called “a serious point of criticism” (see quality judgement).

In the quality judgement it is said that the gross margins of C-sugar beet production have been compared with average margins of cereals. This is a misunderstanding. In fact gross margins of C-beet production have been compared with gross margins of cereal production (see chapters 9 and 12). That analysis was made in the context of the question whether a farmer would produce C-beets intentionally or not. In the short term planting and production decisions of a farmer are based on a comparison of gross margins of alternative products, because most of the overhead and indirect costs are fixed in the short term. The comparison is made with wheat and maize, because those are the alternative crops for most of the farmers in the EU (see section 9.1).

The quality judgement complains that “possible counterfactual situations are not discussed sufficiently”. The Evaluation Team would like to point at the sections 3.6 and 13.2 where the results of counterfactual studies are mentioned. The Evaluation Team itself did not undertake counterfactual analyses, because those analyses have to be based

on econometric models, for which time and budget were lacking. Moreover results of such models remain strongly dependent on the assumptions and simplifications on which the models are based. Results are therefore usually not unambiguous (see also section 3.1). Furthermore, the Evaluation Team limited ‘general discussions about counterfactual situations’ because such discussions will easily be criticised because of ‘lack of empirical verification’ (as is shown by some comments of the quality judgement).

In view of these counter arguments, NEI feels that the report merits a more positive judgement on the aspect of ‘sound analysis’.

Indicator 7. Validity of conclusions

The quality judgement criticises the report for containing many “ambiguities and unclear formulations”. The Evaluation Team argues that the conclusions regarding the evaluation questions of this study had to be formulated with care. The ‘policy nature’ of the questions and the fact that various ‘non-measurable’ concepts were used in the questions, did not allow for straightforward ‘yes’ or ‘no’ answers. Many conclusions are of a qualitative nature and the questions had to be approached from different angles. Therefore terms such as “may” and “could” are often used. That is quite common in this type of studies. More pertinent statements will give the wrong impression of ‘being absolutely sure’.

In the quality judgement the report is also criticised for containing “contradictory statements” and “incredible conclusions not based on empirical evidence”. The evaluation team is not aware of and is not informed about which statements are contradictory and which conclusions are incredible.

The Evaluation Team is of the opinion that the conclusions and recommendations regarding the Storage Costs Equalisation Scheme are well reasoned and documented. The Steering Group could not specify gaps in the analysis and lines of reasoning.

The summary of the report provides the overall view on the different aspects of the CMO Sugar (as far as covered by the evaluation questions). The CMO Sugar and the evaluation questions are too multi-faceted and too complex for making it possible to draw a final judgement in a few sentences.

In view of these counter arguments and the fact that the criticisms of the Steering Group are not substantiated, NEI feels that the report merits a more positive judgement on the indicator ‘validity of the conclusions’.

8. Usefulness of the recommendations

Indeed an overall view on the CMO is lacking. This is (partly) caused by the fact that the evaluation had to be focussed (and to a certain degree limited too) the evaluation questions. The evaluation questions do not cover all aspects, objectives, instruments, intended and unintended effects of the CMO Sugar. It was therefore difficult to come up with recommendations regarding the overall structure of the CMO Sugar.

Nevertheless, the Evaluation Team made an attempt to formulate recommendations regarding some general aspects of the CMO Sugar. These were presented in one of the drafts of the report in a chapter entitled “some reflections on recommendations for the future”. Those recommendations were based on the analytical work done and insights gained during the evaluation. The Steering Group was of the opinion that those recommendations were not based on the evaluation and it was decided that those recommendations should not be included in the report. This was highly regretted by the Evaluation Team. The Evaluation Team had explained that when recommendations are made regarding the overall structure of the CMO Sugar, the link between those recommendations and the specific results of the evaluation questions becomes less (directly) visible. This should not be interpreted as ‘absence of a link between the recommendations and the evaluation’. In view of this course of events, it is unfair to criticise the Evaluation Team now that it has not presented recommendations regarding the CMO in general.

In the quality judgement it is said that the recommendations of the Evaluation Team regarding the Storage Costs Equalisation Scheme, the carry forward mechanism and the minimum stock requirement are “not reasoned enough and not sufficiently based on the analysis undertaken”. It is the opinion of the Evaluation Team that these recommendations are logically derived from the results of the evaluation. It is not the task of an evaluation study to analyse in detail all the practical implications of the implementation of the recommendations. That requires another study. In the mean time the relevance of these recommendations has been proven by the decisions of the EU to abolish the Storage Costs Equalisation Scheme and the minimum stock requirements

In view of these counter arguments NEI feels that the report merits a more positive judgement on the aspect of “usefulness of the recommendations”.