EUROPEAN UNION SUGAR REGIME

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I. BASIC PRINCIPLES OF EUROPEAN UNION SUGAR POLICY

A. ART. 39 OF TREATY
1) increase of agricultural productivity
2) ensure a fair standard of living for the agricultural community
3) stabilize markets
4) assure the availability of supplies
5) ensure supplies to the consumers at reasonable prices

B. STRESA, 1958. CAP OPERATIONAL PRINCIPLES
1) Unity of the market
2) Community preference
3) Financial solidarity.

II. MAIN INSTRUMENTS

A. IMPORT/EXPORT REGIMES
B. PRODUCTION QUOTA SYSTEM
C. STORAGE COST EQUALISATION SCHEME
D. SELF-FINANCING REGIME
E. PRICE GUARANTEES
F. REFINING REGIME

A. PRICE GUARANTEES
- Intervention price for white sugar (IP)
- Minimum price for beet (MPB)
- Processing margin
- Premiums in deficit regions
- Annual price review

In order to implement the CAP principle of price guarantees for the basic agricultural products, beet and cane, which need processing before marketing, the sugar regime is based on the concept of border protection and an intervention price for white sugar in combination with a minimum price for beet.

These two prices, which are decided annually by the Council based on a proposal from the Commission, determine at the same time the processing margin for the sugar industry.

The white sugar intervention price is the basis for the calculation of all other prices, levies and refunds fixed for the sector. If this price is not obtained on the European Union market, sugar can be offered into intervention and this price represents therefore the floor price in the European Union. It should be underlined that the intervention system, in combination with the export policy, works as a real safety net, which is only used under exceptional circumstances.

In deficit areas the IP and MPB are increased by regional premiums.

B.1. IMPORT REGIME
- Condition for price guarantees
- Protection by
  - fixed tariffs
  - additional duties
- Suspension of tariffs possible
  - raw sugar for refining
  - molasses

The objective of the import regime within the CAP is to assure a clear Community preference.

The system with variable levies operating up to the end June 1995 ensured a preference up to 18 %, which made import nearly impossible, irrespective of the world market prices.

The present system operates with tariffs, which at present provide a high level of protection.

The tariffs are fixed by the Council in accordance with the European Union’s World Trade Organization commitments, but the Commission is authorised to suspend or reduce certain tariffs, e.g. on molasses and raw sugar for refining.

For cane molasses the tariff was completely suspended during 1995/96. From 18.7.1996 and up to 24.10.1996, the tariff has been partly suspended. Since then the full tariff has applied. The additional duty has not yet been triggered off, but if prices continue to drop, the conditions of the safeguard clause will be fulfilled.

B.2. EXPORT REGIME

- Refunds (IP – WMP) for quota and ACP sugar
- sugar in natural state
- in processed products
- Managed by weekly tenders
- Balance sheet approach
- WTO Commitments

When the price level in the European Union is higher than the world market price, European Union sugar can be granted a refund in order to make it competitive on the external markets

When the price level in the European Union is lower than the world market European Union sugar can/shall be subject to an export levy in order to ensure adequate supplies to the internal market.

These refunds or levies are managed by a system of regular weekly tenders, which ensures that refunds or levies are in line with current world market prices.

Lower rates of refunds or levies are available to exporters who cannot participate in the weekly tender.

The export program is established on a marketing year basis and managed by help of a forward balance sheet, which is updated very frequently.

The export policy is managed by the Commission assisted by the Management Committee for Sugar.

C. PRODUCTION QUOTA SYSTEM

- Strict production control under guarantee
- Limited in time (30.06.2001)
- Certain degree of specialisation
- Possibility for production outside the quotas (C sugar) at world market prices
- Interprofessional agreements
- Quota cuts mechanism
  - Existing balance maintained
  - Marketing year approach

The production quota system was introduced at the beginning of the European Union regime in 1968 as a counterpart to the relatively high price level, which was established as a compromise between the high prices in the less efficient producer countries and the much lower level in the more efficient areas.

It ensures a strict production and financial control which is particularly important now in GATT agreement context, a certain degree of specialisation and a production of sugar beet in all Member States except Luxemburg.

At the same time the system includes the possibility for production outside the quotas (C production) on world market conditions.

The quota system has proven to be very efficient in mastering the production and the associated costs.

Difference between A and B quotas is due to production under B quota supporting a much greater part of production levies paid, by producers.

The quota system is limited in time. The first regime was valid for 7 years, since when it was prolonged for up to 5 years. The present system is applicable for 6 years until 30.06.2001.

D. STORAGE COST EQUALISATION SCHEME

- Monthly reimbursement
  - fixed by Council
- Levy on first sale
  - fixed by Commission
- Administered by Member States.

The equalisation scheme for storage costs ensures the regular marketing of sugar on the internal market all year round at a stable price.

It contributes as well to an adequate rhythm of export and to avoiding the regular use of intervention.

All A quota and B quota sugar in store in factories or in agreed traders stores receive a monthly storage reimbursement fixed for each marketing year by the Council in the price review. Carry-over sugar also receives reimbursement.

Reimbursement fixed by Council at level necessary to cover stock financing costs, insurance and rent.

It is completely self-financed by a storage levy paid on monthly basis by sugar manufacturer on first sale. The levy is fixed by the Commission at a level which ensures budget neutrality.For this purpose accounts are maintained for each marketing year showing quantities concerned and corresponding amounts in EURO.

In spite of difference in storage time, interest rates and storage costs in different regions the reimbursement and the levy are fixed on a uniform basis, which assures full financial solidarity.

Reimbursement and levy are fixed in EUR and converted into national currencies using appropriate conversion rates.

System is administered by Member States on monthly basis in accordance with precise rules and conditions.

E. SELFFINANCING REGIME

- Production levies cover expenditure on
  - export of quota sugar, isoglucose and inulin syrup (export refunds)
  - non food use of quota sugar and isoglucose (prodution refunds)
- Storage levies cover expenditure on storage reimbursements granted for quota sugar.

The self-financing systems ensure that farmers and manufacturers bear the cost of marketing their production. They are a unique example of co-responsibility, which assures budget neutrality for the production within the quotas.

They have probably saved the sugar regime from radical changes during the turmoil within the CAP over the last decade, when budget crises led to severe measures – including substantial price reductions – for other crops than sugar beet.

Amounts of levies are fixed by Commission Regulation after examination in Management Committee for Sugar.

All amounts are fixed in EUROS on a common basis and converted into national currencies using the appropriate conversion rates.

In addition to the revenue from production and storage levies, the European Union budget benefits from the penalties charged to producers if the C production, carry-over and minimum stock rules are not respected, as well as from the income from the customs duties and additional duties charged on imports of sugar sector products under normal or reduced duty conditions.

F. REFINING REGIME

- Maximum supply needs
- French Overseas Department (F.O.D.) supplies
- ACP Protocol and Indian supplies
- Special preferential sugar (ACP protocol States) and Indian supplies

Respect GATT commitments (MFN)

When the common sugar market policy was developed in the ‘60s the emphasis was on locally produced beet sugar, and consequently many port refineries within the EC of 6 were closed.

Under impact from successive enlargements this part of the Sugar Regime developed in a very pragmatic way :

- The UK CSA developed to become the ACP Sugar Protocol and an Agreement with India
- The traditional supply from 4 ACP countries and world market to P developed in to “reduced levy”-imports
- Price differences for cane raw supplies to European Union refineries triggered off special FOD measures
- Increases in processing margin for beet highlighted needs for aid schemes for cane refining
- SF GATT engagements lead to MFN tariff quota

Review had to be linked to general review within CAP reform.

The Commission services prepared already in 1992 a complete review of the policy for supply of raw sugar for refining, but due to the fundamental questions involved, it was decided to deal with these in connection with the planned reform of the entire sugar regime.

The main question was raised, if the European Union should refine raw sugar beyond the quantities produced in the FOD and the supplies delivered under the ACP Protocol and India Agreements.

The positive answer secures the refining regime for the same period as the quota regime. All the European Union refiners are now assured a predetermined level of supply of raw sugar, but possible increases in Direct Consumption will not be replaced by increased import.

This policy change formed the basis for an agreement with ACP states and India on delivery of raw cane sugar to cover the shortfall = missing quantities within the annual balance sheet.

These new arrangements have worked remarkably well during the first years of existence.

The SPS should be seen as an important supplement to the Sugar protocol as only Protocol States are covered, but conditions are different in the sense, that only raw cane sugar for refining can be delivered, and that the supplies are fixed on a yearly basis. The supply guarantee is collective and there is a fixed duty, to be paid. Furthermore the agreement is limited in time, whereas the Protocol is of indefinite duration.

The SPS agreement secures ACP suppliers a price around 85 % of the Protocol sugar price, but this is well above other preferential outlet like US market and for the time being more than the double of the world market price.

Common to both arrangements is the principle, that they provide for a stable revenue to the ACP suppliers.

III. FUTURE DEVELOPMENTS

A. DEADLINES

- Current production quota and refining regimes expire on 30.06.2001
- Council must decide before 31.12.2000

B. CHALLENGES

1. EVALUATION OF THE SUGAR REGIME
2. AGENDA 2000
3. NEXT ROUND OF WTO NEGOTIATIONS
4. ENLARGEMENT

B.1. EVALUATION OF THE SUGAR REGIME

- External ex-post evaluation
- Basis - Art. 39 of Treaty
  - Stresa conference
- Results by the end of 1999

B.2. AGENDA 2000

- Improving competitivity
  - Internally
  - Externally
- Avoiding surpluses
- Environment
- Multifonctionality / Rural development
- Budgetary discipline

Within the framework of maintaining a fair standard of living as well as stabilising incomes for the rural population

B.3. NEXT ROUND OF WTO NEGOTIATIONS

- More of the same ?
  - Exports commitments
    * Yearly refund reductions (budget/quantities)
  - Imports commitments
    * Tariff reductions
- Quota cut mechanism already in place
- When ?

B.4. ENLARGEMENT

- Quota levels
  - Current and next WTO commitments key factors
- Price levels
  - Monetary factors
- When ?

C. SUMMARY

In the thirty years since it was introduced, the Community sugar regime has been able to achieve the following.

- gear production in the light of the possibilities of disposal and, by means of financial contributions by producers, fund all the losses arising from the disposal of production surpluses in such a way as to achieve budgetary neutrality in the sugar sector ;
- ensure a fair income for beet and cane growers
- ensure equalisation between good and less successful harvests
- ensure availability of supplies at reasonable prices

- take into account the regional evolution of beet and cane
- growing in terms of specialisation
- integrate with ease the production of new Member States
- bring about conditions in which the commitments relating to preferential imports of sugar can be fulfilled
- enable the Community to sign the GATT.

Fresh challenges await us in 2000/01: determining the Community's future production and refning regimes; enlargement of the Community with, initially, six new Member States; and the future talks centred on the market organisation.

The regime of sugar quotas has since 1968 been able to adapt itself to new conditions, to new challenges. From a Community of 6 to a Union of 15, from sugar to sugar, isoglucose and inulin syrup, incorporating the ACP Protocol with its corresponding refining regime and lately to the Marrakech GATT agreement signed in 1994. In this context I personally believe that the sugar regime can – subject to any amendments that may prove necessary – be expected to continue after 2001, in particular because any other system would entail an unduly heavy burden on the budget of the European Union and because the quota arrangements have, on the whole, proved satisfactory over the last 30 years.