

COMMISSION OF THE EUROPEAN COMMUNITIES
DIRECTORATE-GENERAL FOR AGRICULTURE

CAP WORKING NOTES 1993



SUGAR

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I N T R O D U C T I O N

The information in this document is arranged in three parts:

- the "analysis" part describes the market situation and the mechanisms of the market organization in the product;
- the "statistics" part gives most of the tables appearing for the product in the annual report on the agricultural situation in the Community;
- lastly, the "explanatory memorandum" of the Commission's annual agricultural price proposals provides an indispensable illustration of the Community policy.

* * *

DESCRIPTION OF THE MECHANISMS
OF THE COMMON MARKET ORGANIZATION
FOR SUGAR (*)

The sugar market organization began operation on 1 July 1968 and was extended to include isoglucose in 1977. It is governed by Regulation (EEC) No 1785/81 and covers the following products: beet, cane, sugar, pulps, molasses, isoglucose and products of secondary processing. Regulation (EEC) No 305/91 renewed the production arrangements until the 1992/93 marketing year.

The marketing year runs from 1 July to 30 June.

Expenditure on the sugar sector varies from one year to another, depending largely on the product's widely fluctuating world prices. In 1991, expenditure accounted for 5,9% of total EAGGF Guarantee spending, all borne by producers, except for the part corresponding to preferential imports (see point 2.2).

It should be pointed out that each year the Community imports 1,3 million t of preferential sugar under the agreement with the ACP (African, Caribbean and Pacific) countries, the overseas countries and territories and India, and is required to export an equivalent quantity of Community-produced white sugar, the cost of which is borne by the EAGGF, as is the net expenditure on other imports under special conditions, in particular those pursuant to the Act of Accession of Portugal.

1. ECONOMIC BACKGROUND

For some years now, Community sugar production has been satisfactory, with excellent yields and favourable weather conditions. In 1990/91, production totalled 15,9 million t. The estimate for 1991/92, on the other hand, is 14.8 million t on account of a 5% reduction in the area sown and a cold spell that affected almost all the Member States of the Community in mid-April 1991 and which checked the growth of this crop. A world surplus led to lower world prices, affecting C sugar.

Consumption in the Community, including the former German Democratic Republic, stands at about 11,8 million t, a certain amount of which is used by the chemical industry (180 000 t in 1990/91).

(*) Translated from "Avant-projet de budget général des Communautés européennes pour l'exercice 1993".

As regards external trade, the Community imports about 1 900 000 t of sugar a year and exports some 5 000 000 t, including 600 000 t in the form of processed products.

The degree of self-sufficiency for 1990/91 was 125% (129% in 1989/90).

2. OPERATION OF THE MARKET

2.1. Production quotas

This system consists of guarantees regarding prices and disposal for limited quantities of sugar production corresponding to the A and B quotas.

A and B sugar represent the quantity of sugar which the undertaking may produce and sell direct to the Community market and/or the world market (with refunds). The quotas are allocated to undertakings by the Member States. The sugar refineries conclude individual contracts with beet growers in accordance with the Community rules (minimum standards) and inter-branch agreements.

Production exceeding quotas, known as C sugar, cannot be marketed in the Community and must therefore be exported onto the world market without a refund before 31 December of the year following that in which the relevant marketing year ends.

However, to cushion the effects of annual variations in production, producers may carry over a quantity of C sugar to the following marketing year ⁽¹⁾, up to a maximum of 20% of their A quota. This sugar must be stored for 12 months. This sugar thus forms part of production under the A quota for the following marketing year.

2.2. Producers' financial responsibility

Since 1986/87 producers have borne the full financial responsibility for the disposal of their production surpluses, on an annual basis. Producers' responsibility covers the costs of disposal of the fraction of their production quota exceeding internal consumption. They are not, therefore, required to bear the cost of Community expenditure relating to exports arising from preferential agreements (ACP protocol on sugar, agreement on cane sugar with India and imports into Portugal) or on the production refunds for sugar used by the chemical industry up to a quantity of 60 000 t, the quantity traditionally established before Council Regulation (EEC) No 1010/86 applied the financial responsibility of producers for quantities exceeding that limit.

(1) The carryover arrangements are governed by Article 27 of Regulation (EEC) No 1785/81, which lays down that the quantity being carried over must be notified to the Member State concerned by 1 February.

2.2.1. Production levy

Producers first of all pay a basic production levy amounting to 2% of the intervention price on their A and B quota and a B levy of up to 37,5% of their B quota. If these standard levies are not sufficient to cover the costs of disposing of the corresponding surpluses during the marketing year, the Commission fixes a supplementary levy by applying a standard coefficient to the basic levies, to establish additional payments to be borne by producers. The standard levies are payable twice a year (May and December) and the supplementary levy together with the final balance, in December. Sugar manufacturers and beet growers share the cost of the levies according to the proportion to which they obtain income from sugar (40%: 60%).

2.2.2. Storage levy and equalization scheme

To ensure a regular flow of sugar from the manufacturer to the consumer at a steady price, the costs of keeping sugar (storage, financing, etc.) are reimbursed monthly at a fixed rate. To keep the system financially neutral as far as the Community budget is concerned, a storage levy is charged at the time of marketing by the manufacturer, calculated to cover the monthly reimbursements. The Council fixes the amount of the reimbursement each year. It currently stands at ECU 0.52/100 kg per month.

The storage levy is fixed by the Commission having regard to the quantities of sugar covered by the scheme and the average number of months for which the sugar is stored before release to the retail sector. Manufacturers pass on the storage levy to their customs in such a way that the actual market support price in the Community represents the intervention price plus the storage levy.

2.3. Price arrangements

Each year the Council fixes two categories of price:

- beet prices,
- sugar prices.

2.3.1. Beet prices

- (a) Basic price: This is fixed in the light of the intervention price for white sugar and standard amounts representing the processing margin, the yield, the undertakings' receipts from sales of molasses and, where appropriate, the cost incurred in delivering beet to undertakings.
- (b) Minimum price: Each year, minimum prices are fixed for A beet and B beet (that is, any beet processed into A sugar or B sugar respectively).

The minimum price for A beet is equal to 98% of the basic price for beet, whilst the minimum price for B beet is in principle 68% of the said basic price but may be set as low as 37,5% as required.

For areas for which a derived intervention price for white sugar is fixed, the minimum prices for A beet and B beet are increased by an amount equal to the difference between the derived intervention price for the area in question and the intervention price, such amount being adjusted by the coefficient 1,30.

When purchasing beet intended for processing into sugar, sugar manufacturers are required to pay at least the minimum price, adjusted by price increases or reductions to allow for deviations from the standard quality.

Where agreements within the trade have been approved by the Member State concerned, the two-tier minimum price system may be replaced by a single price (the "mixed price"), which represents a weighted average of the two minimum prices. This option is at present seldom used in the Community, except in Belgium and the Netherlands.

2.3.2. Sugar prices

- (a) Target price: This price is fixed each year for white sugar of the standard quality, to which the intervention price applies, unpacked, ex-factory, loaded onto a means of transport chosen by the purchaser. It is about 5% higher than the intervention price.
- (b) Intervention price: Each year an intervention price for white sugar of standard quality is fixed for the deficit areas (currently Italy and the United Kingdom and Ireland).

An intervention price for raw sugar is also fixed annually on the basis of the intervention price for white sugar, taking account of flat-rate amounts for processing and yield.

- (c) Threshold price: Each year the Council fixes a threshold price for white sugar, raw sugar and molasses.

The threshold price for white sugar is equal to the target price plus the costs, calculated at a flat rate, of transport from the Community area having the largest surplus to the most distant deficit consumption area in the Community, with account being taken of the storage levy.

The threshold price for raw sugar is derived from that for white sugar, taking account of flat-rate amounts for processing and yield.

The threshold prices are intended to guarantee Community preference (import levies).

2.3.3. Alignment of Spanish and Portuguese prices on Community prices

Prices in Spain are being aligned in accordance with Articles 68 and 70 of the Act of Accession, but as prices for both beet and sugar are too high compared with the common prices for the alignment to be completed within the specified period of seven marketing years, the Council decided, by Regulation (EEC) No 1716/91 of 13 June 1991, to extend the period of price alignment until 1 July 1995.

In the case of Portugal, on the other hand, beet and sugar prices are closer to the common prices, and the Commission has proposed, in accordance with Article 238 of the Act of Accession, that Portuguese prices be completely aligned for 1992/93, which is the last marketing year in the seven-year period specified for alignment.

2.4. Specific market instruments

2.4.1. Import and export arrangements

Imports are subject to a levy when the world price is lower than the Community threshold price. Imports of preferential sugar cannot attract levies. Certain Portuguese imports of raw sugar are subject to reduced levies.

Refunds may be granted on exports when the world price is lower than the Community price. If the Community price is lower than the world price, as was the case from April 1980 until May 1981, an export levy is charged.

2.4.2. Storage

Public storage: the intervention agencies are required to buy in all sugar offered at the intervention price. After being bought in, the sugar remains in storage in the refinery's storerooms and silos, with the offerers assuming responsibility for it. Very little use is made of intervention for sugar as surpluses are exported.

Specialized traders and manufacturers are reimbursed, at fixed rates, for the cost of storing sugar, such compensation being financed by the levy payable by producers on disposal (see 2.2.2.).

2.4.3. Production refunds

This aid for the manufacture of certain chemical products is designed to put the manufacturers concerned on an equal footing with their counterparts using sugar from the world market.

2.4.4. Measures to aid the disposal of raw sugar

These are subsidies towards the shipping and refining costs incurred in respect of sugar from the French overseas departments refined in "pure" refineries in the Community. They may, in order to ensure that those refineries obtain sufficient supplies, also be granted for raw beet sugar.

2.4.5. Other measures

This consists of Community aid for the adaptation of the beet processing industry in the autonomous region of the Azores and aid for the adaptation of the preferential raw cane sugar refining industry in the Community. Adaptation aid has been made available for the refining of preferential sugar for the period 1991/92 to 1992/93, accompanied by additional refining aid for raw sugar from the French overseas departments and some raw beet sugar, with a view to restoring balance between prices for this sugar and preferential sugar, and also for raw sugar imported with a reduced levy and refined in Portugal. Lastly, there is a Community contribution of 25% towards the national aid of ECU 0.45 per 100 kg for the refining of preferential raw cane sugar in the United Kingdom authorized for the period 1991/92 to 1992/93.

Trend of appropriations (*)

(ECU)

Article	Heading	Appropriations 1993	Appropriations 1992
B1-110	Refunds on sugar and isoglucose	1.342.000.000	1.345.000.000
B1-111	Intervention for sugar	658.000.000	651.000.000
TOTAL FOR CHAPTER B1-11 (Sugar)		2.000.000.000	1.996.000.000

(*) Extracted from "Final adoption of the general budget of the European Communities for the financial year 1993."
OJ L 31, 8.2.1993.

THE SITUATION OF THE MARKETS (*)

The overall surplus on the world market was confirmed during the 1991/92 marketing year. Although world production, which was estimated at 113.6 million tonnes (raw sugar equivalent) was 1.5 % below that in the previous marketing year, it once again shows a surplus of 2.5 million tonnes over consumption, estimated provisionally at 110.1 million tonnes.

World market situation for raw sugar

(million t)

	Production	Consumption	Surplus or deficit	Stock as percentage of consumption
	(1)	(2)	(3) = (1) - (2)	(4)
1981/82	100.9	91.9	+ 9.0	36.6
1982/83	100.6	93.6	+ 7.0	42.6
1983/84	98.0	96.0	+ 2.0	42.9
1984/85	100.4	98.2	+ 2.1	42.6
1985/86	98.7	100.5	- 1.8	39.1
1986/87	104.1	105.6	- 1.5	34.3
1987/88	104.7	107.0	- 2.3	31.3
1988/89	104.4	106.3	- 1.9	29.4
1989/90	109.2	108.7	+ 0.5	28.0
1990/91	115.3	110.1	+ 5.2	31.3
(Forecast) 1991/92	113.6	111.1	+ 2.5	32.5

Source: F. O. Licht.

(*) Extract from "The agricultural situation in the Community. 1992 report."

Although consumption continued its steady growth of the last four years, the production surplus was reflected in the level of stocks, which rose once more at the end of the marketing year, and in the trend in prices on the world market. The decline in world sugar prices which commenced in the 1990/91 marketing year continued during 1991/92 and prices for raw sugar have fluctuated only within a range of 8 to 10 cents/lb since November 1990.

Average spot price:

Paris Exchange (<i>white sugar</i>):	ECU 24.25/100 kg in 1990/91 ECU 23.23/100 kg in 1991/92 (-4%)
New York Exchange (<i>raw sugar</i>):	ECU 16.48/100 kg in 1990/91 ECU 16.39/100 kg in 1991/92 (-1%)

An important factor to be noted in the world supply balance for 1991/92 is the substantial fall of close on 2.0 million tonnes (raw sugar equivalent) in demand for imports compared with 1990/91. A sharp drop in consumption in the CIS, a plentiful harvest in China and the continuing reduction in the United States' import quota underlie this fall. Furthermore, bumper harvests in Thailand, Brazil and India have completely offset the poor harvests in southern Africa and Australia due to the drought attendant on cyclical weather phenomena in the Pacific Ocean known as 'El Niño'.

The break in the special relations between Cuba and the former USSR also involves a major loss of Cuban exports to Eastern Europe, although the quantities imported by the CIS from Cuba in 1991 remained stable. On the basis of transactions at world prices and for simple geographical reasons, Cuban sugar is turning to other outlets. A process of redistribution could thus be set in motion on the world market in the near future. Against that background and in view of the anticipated surplus in 1992/93, prices will probably hold steady at their present levels.

As regards sucrose substitutes, the low world price for sugar and the fact that possibilities for replacing sucrose have been exhausted, in particular in the United States and Japan, have contributed to slowing down the rate of increase of world isoglucose production and consumption. In 1991, isoglucose production rose by only 1.8% in the United States (which accounts for 70% of world production) compared with 5.3% in the previous marketing year. The forecast rate of increase in consumption in that country is only 2.0% as compared with 2.75% in 1990. Furthermore, the expiry of the patent for the production of aspartame has already triggered off production projects, in particular in the Community, which should put the product on the market at more competitive prices. The effects of this should no doubt be watched in the near future.

Areas under beet in the Community in 1991 (1 975 000 hectares) were 5% down on the previous marketing year, in particular on account of decreases in areas sown in Germany and France, the two main sugar producers in the Community.

Forecasts for areas sown in the 1992/93 marketing year point to a slight increase of 1.0%. The average Community sugar yield per hectare of 7.36 tonnes may be considered normal.

In white sugar equivalent, Community production in 1991 totalled 14.817 million tonnes (1.053 million tonnes down on 1990/91) comprising:

Beet sugar: 14.527 million tonnes,

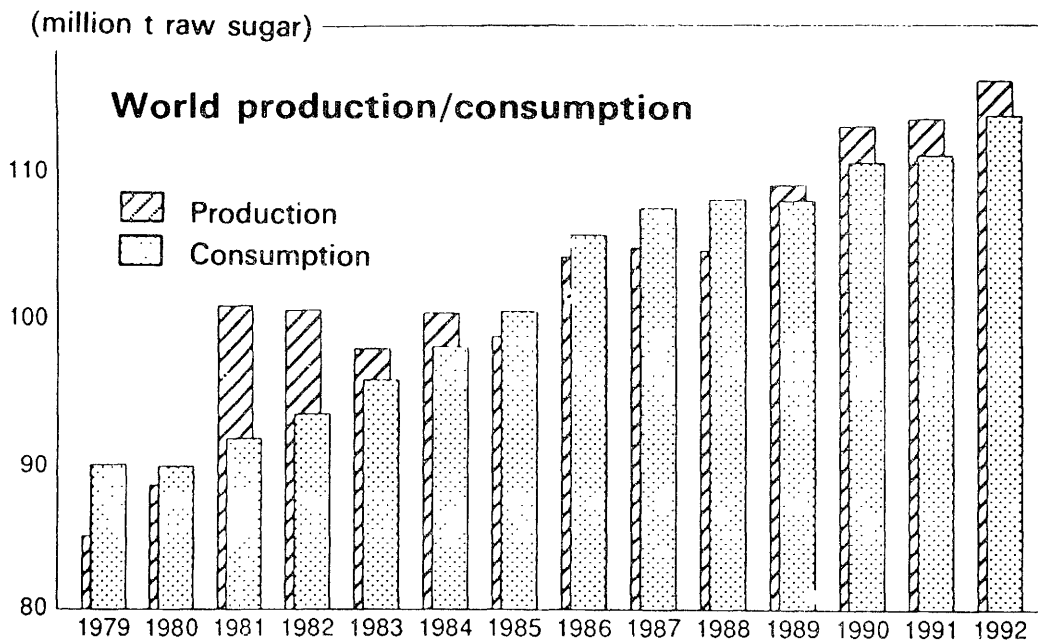
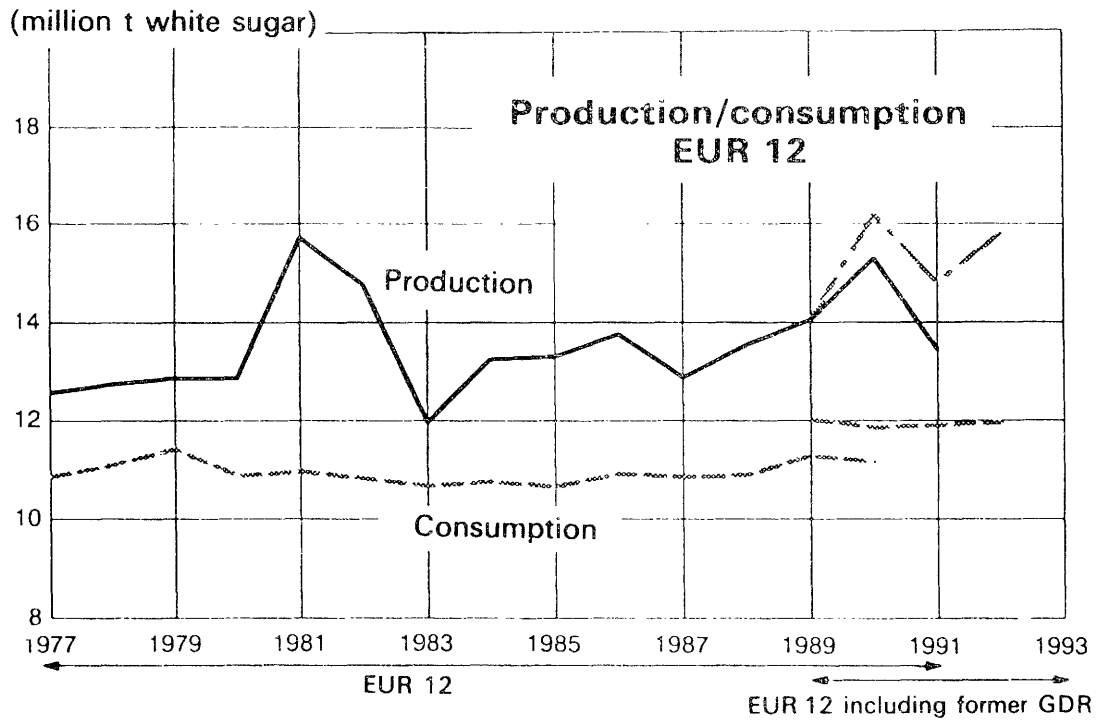
Cane sugar: 0.267 million tonnes,

Molasses sugar: 0.019 million tonnes.

Sugar consumption in the Community in 1991/92, estimated overall at 11.890 million tonnes, was some 73 000 tonnes up on the previous year, an increase largely due to greater consumption by the chemical industry.

For 1991/92 Community sugar prices in ecus were maintained unaltered by the Council of Ministers.

Sugar



NB: Forecasts for 1992.

COMMISSION PRICE PROPOSALS (*)

The Commission proposes a "freeze" on the basic price for beet, the intervention price for white sugar and the manufacturing margin.

This proposal relates to the basic price for beet and to the minimum prices for A beet and B beet, which depend ultimately on a ceiling fixed for the basic production levy and for the B levy, the latter subject to a subsequent increase in the ceiling pursuant to Article 28 of Regulation (EEC) No 1785/81.

As regards the prices for Spain, with a view to the completion of the single market the Council decided by Regulation (EEC) No 3814/92 to speed up their alignment as provided for in Council Regulation (EEC) No 1716/91 concerning the alignment of the sugar and beet prices applicable in Spain on the common prices, and to complete alignment by 1 January 1993.

The Commission proposes that the prices for Spain, like those for the other Member States, be maintained for the 1993/94 marketing year at the level applying during the period 1 January to 30 June 1993.

As regards reimbursement of storage costs, the Commission proposes that the present rate (ECU 0.52/month) also be maintained in view of the proposed "freeze" on prices.

(*) Extracted from "Commission proposals on the prices for agricultural products and on related measures 1993/94 - Explanatory memoranda" [COM(93) 36 final - Vol. 1]

Price proposals in ECU 1993/94

		Decisions 1992/93	Proposals 1993/94
1.	Basic price for beet t	40,00	40,00
2.	Minimum price for A beet (1) t	39,20	39,20
3.	Minimum price for B beet (2) t	27,20	27,20
4.	Intervention price for white sugar q	53,01	53,01
5.	Target price for white sugar q	55,79	55,79
6.	Threshold price for white sugar q	63,90	63,90
7.	Intervention price for raw sugar q	43,94	43,94
8.	Threshold price for raw sugar q	54,60	54,60
9.	Threshold price for molasses q	6,89	6,89
10.	Monthly reimbursement for storage costs q	0,52	0,52
11.	Prices applicable in Spain		
(a)	Basic price for beet t	41,82 (3)	40,00
(b)	Intervention price for white sugar q	54,41 (3)	54,41
12.	Prices applicable in Portugal		
(a)	Basic price for beet t	40,00	40,00
(b)	Intervention price for white sugar q	54,22	54,22

- (1) 98% of the basic price for beet.
(2) 68% of the basic price for beet, subject to application of Article 28(5) of Regulation (EEC) No 1785/81.
(3) Council Regulation (EEC) No 3814/92 (single market on 1.1.93). Prices for the period 1.1.93-30.6.93 (including standard amounts).

STATISTICAL TABLES (*)

Sugar supply balance
(October/September)

EUR 12

	1 000 t white sugar			% TAV	
	1986/87	1990/91	1991/92	$\frac{1990/91}{1986/87}$	$\frac{1991/92}{1990/91}$
1	2	3	4	5	6
Total production	14096	15870	14813	3,0	- 6,7
of which: C sugar production for export	1312	2130	1608	12,9	24,5
Usable production (1)	12784	13740	13205	1,8	- 3,9
Change in stocks	89	492	- 107	x	x
Imports (2)	1769	1877	1860	1,5	- 0,9
Exports (1) (2)	3557	3308	3372	- 1,8	1,9
Intra-Community trade	(818)	(1471)	(1500)	15,8	2,0
Internal use					
of which:	10907	11817	11800	2,0	- 0,1
--- animal feed	11	11	10	0,0	- 9,1
--- industrial use	170	151	130	- 2,9	13,9
--- human consumption	10726	11655	11660	2,1	0,0
Human consumption (kg/head) (3)	33,2	35,7	35,4	1,8	x
Self-sufficiency (%) (1)	117,2	116,3	111,9	- 0,2	- 3,8

Source: EC Commission, Directorate-General for Agriculture.

(1) Excl. C sugar

(2) Excl. sugar traded for processing.

(3) Ratio of human consumption to resident population at 1 January

(*) Extract from "The agricultural situation in the Community. 1992 report".

Area under sugarbeet (1), yield (2) and production (3) of sugar

	Area			Yield			Production								
	1 000 ha			t/ha			1 000 t								
	1985/86	1991/92	1992/93	1985/86	1991/92	1992/93	1985/86	1991/92	1992/93						
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
				% TAV	% TAV	% TAV								% TAV	% TAV
				1991/92 1985/86	1992/93 1991/92	1992/93 1991/92								1991/92 1985/86	1992/93 1991/92 P
EUR 12	1886	1974	1996	0,8	1,1	7,05	7,36	7,71	0,7	4,8	13626	14813	15398	1,4	3,9
Belgique/België	125	108	106	- 2,4	- 1,9	7,55	8,24	8,80	1,5	6,8	944	890	933	- 1,0	4,8
Danmark	73	65	65	- 1,9	0,0	7,26	7,20	6,62	- 0,1	- 8,1	530	468	430	- 2,1	- 8,1
BR Deutschland (3)	415	574	552	5,6	- 3,8	7,56	6,77	7,34	- 1,8	8,4	3155	3905	4050	3,6	3,7
Ellada	43	39	50	- 1,6	28,2	7,37	7,00	6,70	- 0,9	- 4,3	317	273	335	- 2,5	22,7
España (3)	178	165	167	- 1,3	1,2	4,99	5,70	5,69	2,2	- 0,2	900	956	950	1,0	- 0,6
France (4)	464	435	440	- 1,1	1,1	8,52	9,40	9,77	1,7	3,9	4249	4332	4300	0,3	- 0,7
Ireland	34	32	32	- 1,0	0,0	5,12	6,66	6,25	4,5	- 6,2	174	213	200	3,4	- 6,1
Italia	221	262	290	2,9	10,7	5,63	5,77	6,20	0,4	7,5	1244	1509	1800	3,3	19,3
Nederland	130	124	121	- 0,8	- 2,4	7,08	8,44	9,71	3,0	15,0	897	1046	1175	2,6	12,3
Portugal (5)	1	0	0	×	0,0	-	-	-	×	×	6	1	1	- 25,8	0,0
United Kingdom	202	170	173	- 2,8	1,8	6,00	7,35	7,08	3,4	- 3,7	1210	1220	1224	0,1	0,3

Source EC Commission, Directorate-General for Agriculture

(1) Area planted with sugarbeet exclusive of area planted for distillery supply

(2) In terms of white-sugar value

(3) Including production of molasses.

(4) Area and yield, metropolitan France only, production, including the French overseas departments

(5) Including production of sugar from sugar cane

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