EUROPEAN COMMISSION
DIRECTORATE-GENERAL FOR AGRICULTURE

CAP WORKING NOTES 1994

SUGAR

CONTENTS

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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 ORGANIZATION OF THE MARKET (*)

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. In its proposal adopted on 23 December 1992, the Commision proposed the same production and refining arrangements for 1993/94.

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 1992, expenditure accounted for 6.2% 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 1991/92, production fell to 14.7 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. Production was up again in 1992/93 to an estimated 16 million t.

At world level, a situation of equilibrium is forecast for 1993 as a result of poor crops in several major exporting countries, which should lead to higher prices particularly benefiting Community C sugar.

(*) Translated from "Avant-projet de budget général des Communautés européennes pour l'exercice 1994".

Consumption in the Community, including the former German Democratic Republic, stands at about 12.0 million t, a certain amount of which is used by the chemical industry (190 000 t in 1991/92).

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 1991/92 was 112% (116% in 1990/91).

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.

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. 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.

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 correpsonding 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 Communtiy 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 customers 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 Spain, Italy, Portugal 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.

The complete alignment of beet and sugar prices applicable in Portugal and Spain came into effect on 1 July 1992 and 1 January 1993 respectively.

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 a sugar offered at the intervention price. After being bought in, t sugar remains in storage in the refinery's storerooms and silos, w the offerers assuming responsibility for it. Very little use is m of intervention for sugar as surpluses are exported.

Specialized traders and manufacturers are reimbursed, at fixed rat for the cost of storing sugar, such compensation being financed by 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 desig 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 incurr respect of sugar from the French overseas departments refined in " refineries in the Community. They may, in order to ensure that th refineries obtain sufficient supplies, also be granted for raw bee sugar.

2.4.5. Other measures

Adaptation was made available for the refining of preferential sug for the period 1991/92 to 1992/93, accompanied by additional refin aid for raw sugar from the French overseas departments and some raw beet sugar, with a view to restoring balance between prices for th sugar and preferential sugar, and also for raw sugar imported with reduced levy and refined in Portugal. There was a Community contribution of 25% towards the national aid of ECU 0.45 per 100 k the refining of preferential raw cane sugar in the United Kingdom authorized for the period 1991/92 to 1992/93. Lastly, following t early alignment of prices in Spain on 1 January 1993, transitional are being granted to beet and cane producers in that Member State the period 1993/94 to 1994/95, together with a Community contribut of 50% towards the adaptation aid granted to sugar-producing undertakings for the period 1993/94 to 1995/96.

Trend of appropriations (*)

(ECU)

Article	Heading	Appropriations 1994	Appropriations 1993
B1-110	Refunds on sugar and isoglucose	1 399 000 000	1 383 000 000
B1-111	Intervention for sugar	700 000 000	708 000 000
TOTAL FOR CHAPTER B1-11 (Sugar)		2 099 000 000	2 091 000 000

(*) Extracted from "Final adoption of the general budget of the European Communities for the financial year 1994." OJ L 34, 7.2.1994.

THE SITUATION OF THE MARKETS (*)

The overall surplus on the world market since 1989/90 improved during the 1992/93 marketing year in that world production, estimated at 110.3 million tonnes (raw sugar equivalent) was well exceeded by consumption, estimated provisionally at 112.6 million tonnes. Thus, for the first time in three marketing years, world stocks began to decline.

World market situation for raw sugar

(million tonnes)

		Production	Consumption	Surplus or deficit	Stock as % of consumption
		(1)	(2)	(3) = (1) − (2)	(4)
World	1983/84	98.0	96.0	+ 2.0	42.8
	1984/85	100.4	98.2	+ 2.2	42.4
	1985/86	98.7	100.5	− 1.8	38.9
	1986/87	104.2	106.0	− 1.8	34.2
	1987/88	104.7	107.0	− 2.3	31.7
	1988/89	104.4	106.2	− 1.8	29.4
	1989/90	109.2	108.4	+ 0.8	28.6
	1990/91	115.8	110.7	+ 5.1	31.9
	1991/92	116.6	111.5	+ 5.1	35.8
(Forecast)	1992/1993	110.3	112.6	− 2.3	32.7

Source: F.O. Licht.

Although consumption continued to grow steadily, this did not alter the trend in prices on the world market. The level of stocks, which together add up to 35.8 % of consumption following three years of surplus, has held prices down. The decline in prices begun in 1990/91 thus continued into 1992/93 and, except for intermittent instances when the supply and demand were finely balanced, the price of raw sugar continued to fluctuate between 8.0 and 10.0 cents/lb.

(*) Extract from "The agricultural situation in the Community. 1993 report."

Average spot price:	
Paris Stock Exchange (white sugar):	= ECU 24.23/100 kg in 1991/92 ECU 21.91/100 kg in 1992/93 (−9.6%)
New Yorker Stock Exchange (raw sugar):	= ECU 16.39/100 kg in 1991/92 ECU 16.95/100 kg in 1992/93 (+3.4%)

Furthermore, the world supply balance for 1992/93 was again marked by a fall in import demand, estimated at 1.75 million tonnes less than in 1991/92. Apart from the sharp drop in demand in Russia, and the slowdown in imports of Cuban sugar for refining in Eastern Europe, the fall-off in trade can be explained by the attitude of the industrialized countries, the United States and Japan in particular. A new reduction in the US import quota to 1.25 million tonnes (from an estimated 2.4 million tonnes in 1991/92) and the Japanese Government's policy of stimulating isoglucose production have come on top of the general saturation as regards sugar consumption in the industrialized countries.

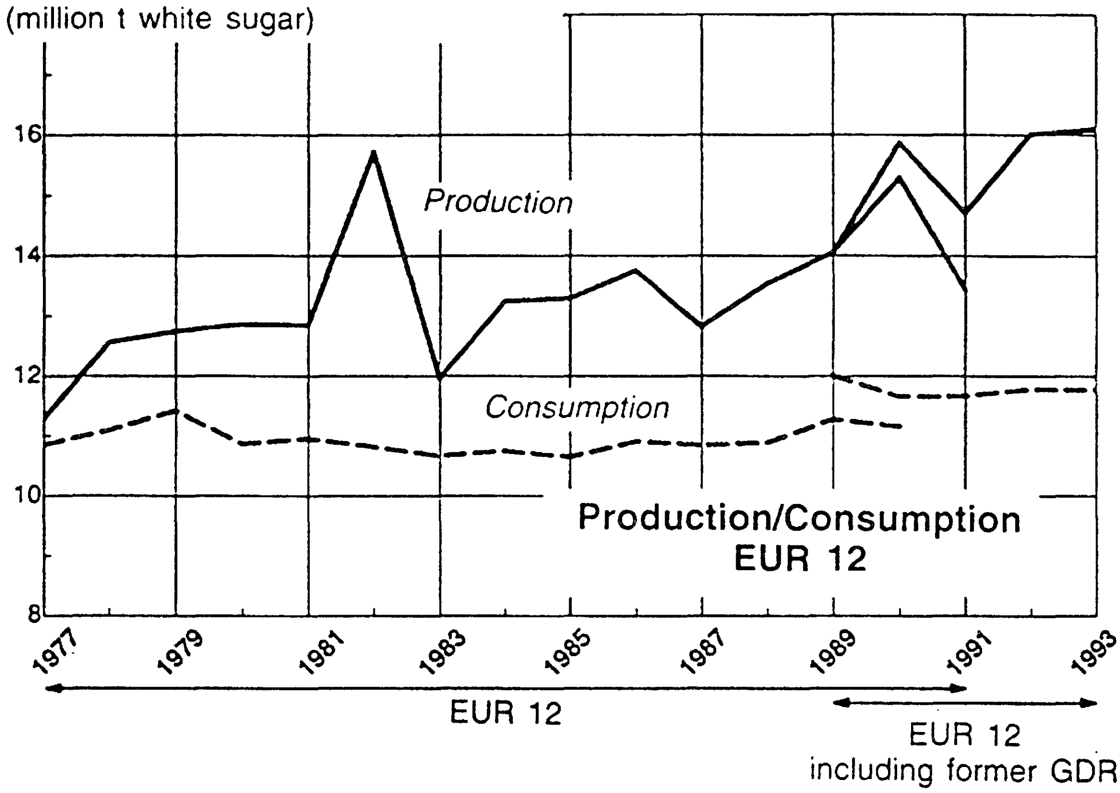
Market conditions, which appeared very unfavourable at the beginning of the marketing year, have improved as a result of the very small Cuban harvest and less-than-forecast production in Thailand and India. The poor Cuban harvest has slowed down the restructuring introduced on the world market after the break-up of the socialist bloc: for many years the former USSR alone accounted for half of all Cuban sugar exports. Community exports of sugar have accordingly found a significant market in the countries of the CIS, thus filling the gap left by other exporters.

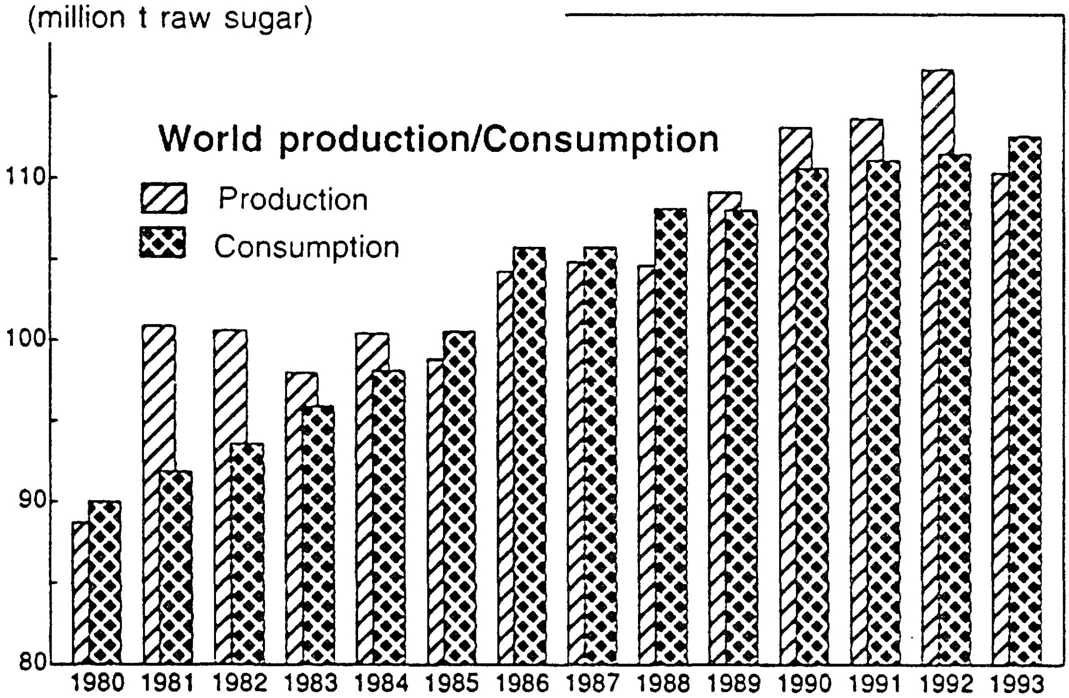
The first estimates for the 1993/94 harvest indicate a new production deficit compared with world consumption. The level of stocks could thus drop into the range of theoretical equilibrium, situated between 25 and 30% of consumption. The anticipated small improvement in market prices will accordingly result from a pick-up in demand in the developing countries, which are especially sensitive to price levels.

Areas under beet in the Community in 1992 (1.988 million ha) have remained practically stable (+0.7%) compared with the previous marketing year and the average sugar yield per hectare reached 7.90 tonnes. In white sugar equivalent, production totalled 16.011 million tonnes, of which 15.696 million tonnes came from beet, 296 000 tonnes from cane and 19 000 tonnes from molasses.

Sugar consumption in 1992/93, which was estimated overall at 11.950 million tonnes, remained practically stable compared with 1991/92, given the inclusion of the Canary Islands in the figures. Community sugar prices in ecus were maintained in 1992/93 at the level of the previous marketing year. Moreover, since the entry into force of the single market on 1 January 1993, Spanish sugar prices have definitively aligned with those of the Community.

Sugar





NB: Forecasts for 1993.

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 being subject to a subsequent increase in the ceiling in accordance with Article 28 of Regulation (EEC) No 1785/81.

As far as the reimbursement of storage costs is concerned, the Commission proposes that the amount of the monthly refund be reduced from ECU 0.52/100 kg to ECU 0.35/100 kg, to take account of the lower interest rates prevailing in the Community.

Price proposals in ECU 1993/94

			Decisions 1993/94	Proposals 1994/95
1.	Basic price for beet	t	39.48	39.48
2.	Minimum price for A beet (1)	t	38.69	38.69
3.	Minimum price for B beet (2)	t	26.85	26.85
4.	Intervention price for white sugar	q	52.33	52.33
5.	Target price for white sugar	q	55.07	55.07
6.	Threshold price for white sugar	q	63.18	63.18
7.	Intervention price for raw sugar	q	43.37	43.37
8.	Threshold price for raw sugar	q	53.99	53.99
9.	Threshold price for molasses	q	6.80	6.80
10.	Monthly reimbursement for storage costs	q	0.52	0.35

(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.

(*) Extracted from "Commission proposals on the prices for agricultural products and on related measures 1994/95 - Explanatory memoranda" [COM(94) 10 final - Vol. 1]

STATISTICAL TABLES (*)

Sugar supply balance **EUR 12**
(October/September)

	1 000 t white sugar			% TAV	
	1986/87	1991/92	1992/93	1991/92 / 1986/87	1992/93 / 1991/92
1	2	3	4	5	6
Total production	14096	14703	16011	0,8	8,9
of which: C sugar production for export	1312	1573	2274	3,7	44,6
Usable production (1)	12784	13130	13737	0,5	4,6
Change in stocks	89	−321	236	×	×
Imports (2)	1769	1922	1946	1,7	1,2
Exports (1) (2)	3557	3407	3497	−0,9	2,6
Intra-Community trade	(818)	(1591)	(1600)	14,2	0,6
Internal use					
of which:	10907	11966	11950	1,9	−0,1
— animal feed	11	10	10	−1,9	0,0
— industrial use	170	179	177	1,0	−1,1
— human consumption	10726	11777	11763	1,9	−0,1
Human consumption (kg/head) (3)	33,2	35,8	35,6	1,5	−0,6
Self-sufficiency (%) (1)	117,2	109,7	115,0	−1,3	4,8

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. 1993 report".

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

	Area					Yield					Production				
	1 000 ha			% TAV		t/ha			% TAV		1 000 t			% TAV	
	1985/86	1992/93	1993/94	1992/93 / 1985/86	1993/94 / 1992/93	1985/86	1992/93	1993/94	1992/93 / 1985/86	1993/94 / 1992/93	1985/86	1992/93	1993/94	1992/93 / 1985/86	1993/94 / 1992/93
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
EUR 12	1886	1988	1913	0,8	– 3,8	7,05	7,90	8,01	1,6	1,4	13626	16011	15666	38,2	– 2,2
Belgique/België	125	106	104	– 2,3	– 1,9	7,55	8,69	9,62	2,0	10,7	944	889	1000	– 0,9	12,5
Danmark	73	65	67	– 1,6	3,1	7,26	6,32	7,27	– 2,0	15,0	530	411	487	– 3,6	18,5
BR Deutschland (3)	415	552	539	4,2	– 2,4	7,56	7,29	7,64	– 0,5	4,8	3155	4042	4139	3,6	2,4
Elláda	43	50	45	2,2	– 10,0	7,37	7,10	7,11	– 0,5	0,1	317	335	320	0,8	– 4,5
España (5)	178	162	165	– 1,3	1,9	4,99	5,80	6,02	2,2	3,8	900	954	1008	0,8	5,7
France (4)	464	440	420	– 0,8	– 4,5	8,52	9,91	10.12	2,2	2,1	4249	4640	4550	1,3	– 1,9
Ireland	34	32	32	– 0,9	0,0	5,12	6,97	6,25	4,5	– 10,4	174	223	200	3,6	– 10,3
Italia	221	290	253	4,0	– 12,8	5,63	6,44	5,97	1,9	– 7,3	1244	1869	1510	6,0	– 19,2
Nederland	130	121	117	– 1,0	– 3,3	7,08	9,51	9,83	4,3	3,4	897	1151	1150	3,6	– 0,1
Portugal (5)	1	0	0	×	0,0	–	–	–	×	×	6	2	2	– 14,5	0,0
United Kingdom	202	170	171	– 2,4	0,6	6,00	8,69	7.60	5,4	– 12,5	1210	1475	1300	2,9	– 11,9

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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