COMMISSION OF THE EUROPEAN COMMUNITIES

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94/0248 (CNS)

Proposal for a
COUNCIL REGULATION (EC)
amending Regulations (EEC) Nos 1785/81 on the common organization of the markets in the sugar sector and 1010/86 laying down general rules for the production refund on certain sugar products used in the chemical industry

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(presented by the Commission)

EXPLANATORY MEMORANDUM

Introduction

After a roll-forward in 1994 for the 1994/95 marketing year, following two previous extensions, the production quota system provided for in the basic regulation for the sugar industry (Regulation (EEC) No 1785/81) and its expansion to cover the production of inulin syrup must now be re-examined in order to define rules to apply as from 1 July 1995. At the time this review is being conducted, the Community sugar industry also faces both the prospect of the implementation - from the same date - of the GATT Agreement on agriculture and the problem of supplies to Community refineries, since the moment has also come to reconsider the whole problem of raw sugar supply to the refining industry. The situation on the world market is still volatile and subject to unpredictable upheavals made worse by the break up of the USSR and creation of the CIS, the difficulties Cuba is experiencing and the persistence of large stocks. At the same time the Commission has taken into account the Council's opinion, as expressed in the recitals to Regulation (EEC) No 1548/93[(1)], that the present regime for sugar is such that it will prevent any sudden changes in total areas sown to sugar and that it is therefore possible for these arrangements to co-exist for a certain time at least with the regime for other arable crops. It is in this context the Commission has reviewed the whole subject and is proposing to the Council the adjustments in the market organization for sugar which it deems necessary while retaining the principal instruments of this organization, that is production quotas and the self-financing system.

The attached proposal includes the replacement of Title II of Regulation (EEC) No 1785/81 "Trade with third countries" as proposed by the Commission in COM(94) 414 of 5 October 1994.

I. The production system - its nature and duration

Article 23 of Regulation (EEC) No 1785/81 on the common organization of the market in sugar provides that the production quota system in this field is to apply during the 1994/95 marketing year and that the Council must adopt the arrangements to apply as from 1 July 1995 before 1 January 1995.

In this context, it should be remembered that the essential aims of the quota system are still to bring production into line with possibile market outlets and, in respect of each marketing year, to cover through financial contributions by producers all the losses caused by the disposal of excess Community production. Bearing these aims in mind, it is still necessary in designing the future quota system to decide the three following questions:

- Is it necessary for the production quota system to continue?
- If yes, what level should the quotas be set at?
- Is it necessary to modify the present instruments for the self–financing of the system from producers' contributions?

In order to find proper answers to these questions, they must of course be looked at in the context of the consequences and effects for the sugar industry of the GATT agreement on agriculture and the enlargement of the European Union to include Austria, Finland, Norway and Sweden.

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(1) OJ No L 154, 25.6.1993, p. 10.

A. Continuation of the production quota system

1. Developments on the world market

Since 1991/1992, that is since the first marketing year in which the present quota system in the Community was renewed, the situation on the world market has been characterised by the fact that in spite of some recent and continued improvement in consumption the overall surplus has continued. It should also be noted that during this period the market has shrunk as a result of the reduction in trade due in particular to the declining volume of developing country imports. For this reason the prices of raw sugar have scarcely moved outside the range of 9-12 cents/lb.

TABLE 1 : Trends on the world sugar market[1]

(Raw sugar)

	1991/92	1993/94
1. Production	116.4 million tonnes	109.6 million tonnes
2. Consumption	111.2 million tonnes	113.0 million tonnes
3. Balance (1.-2.)	+ 5.2 million tonnes	- 3.4 million tonnes
4. Final stocks	39.5 million tonnes	34.9 million tonnes
5. Final stocks as a percentage of consumption	35.54%	30.9%
6. Price of raw sugar on the world market (av. spot price NY in cents/lb)	9.65	10.58

[1]Source: F.O. Licht.

During the same period consumption continued to increase at an annual growth rate of 5%, which is much lower than the average annual rate of 2% in the 1980s.

These trends in consumption have however been checked in the developed countries by population trends and the state of the economy and by the substitution of isoglucose for sugar (in the USA and Japan). Stocks in 1993/94 remained at a relatively high level and certainly affected prices on the world market. However, the forecasts for 1994/95 confirm the trend with estimated consumption being exceeded by actual production to the tune of about 1 million tonnes in raw value.

In New York the spot price for raw sugar has been around 9.65 cents/lb (average 1991/92) to 10.58 cents/lb (average 1993/94). The intervention price for white sugar in the EC at the moment of writing this memorandum is approximately 23.79 cents/lb (before deduction of the production levy) while the support price in the United States is on average 23.62 cents/lb for white beet sugar; producer prices in Japan, the other most important traditional importer, are still much higher than the prices in the States.

In 1993/94, in spite of this situation, the Community had no difficulty in disposing of its exportable white sugar excess on the world market.

2. Market trends in the Community

As a result of constant improvements in yields and the integration of the former German Democratic Republic into the Community, sugar production in the Community reached the high level of 16.2 million tonnes of white sugar equivalent in 1993/94. This production level during a fairly normally processing year shows that production capacity in technical terms, at both the farming and industrial stages, is greater than 17.2 million tonnes in the Community of Sixteen. Internal consumption is fairly stable at around 11.9 million tonnes for the Twelve and will rise to about 13.1 million tonnes for the Sixteen.

TABLE 2: Trends on the sugar market in the EC
(in '000 t of white sugar equivalent)

	1991/92 EUR12	1993/94 EUR12 forecast	1994/95 EU16 forecast[1]
1. Actual production	14 703	16 235	15 927
2. Production carried over from the preceding marketing year	1 023	1 314	1 258
3. Production carried over to the following marketing year	904	1 258	1 000
4. C sugar exported	1 573	2 940	1 873
5. Production of A and B sugar	13 249	13 351	14 312
6. Consumption	11 948	11 875	12 957
7. Balance (5. - 6.)	1 301	1 476	1 355

[1] From 1 January 1995.

Production of sugar within the A and B quotas has been very stable for some years at an average of 13.3 million tonnes. This corresponds to 97% of the sum of the A and B quotas granted.

TABLE 2a: Trends on the isoglucose market in the EC
(in tonnes dry matter)

	1991/92 EUR12	1993/94 EUR12	1994/95 EU16 forecast[1]
1. Production	285 097	287 500	299 430
2. Non-quota production (1. - 3.)	1	0	
3. Isoglucose A + B production	285 078	287 500	299 430
4. Consumption	284 740	286 500	289 430
5. Balance (3. - 4.)	388	1 000	1 000

[1] From 1 January 1995.

TABLE 2b: Trends on the inulin syrup market in the EC
(in tonnes of sugar/isoglucose equivalent)

	1993/94 EUR 12 estimated	1994/95 EUR 16 forecast[1]
1. Production	98 489	104 630
2. Quota A production	-	104 630
3. Quota B production	-	0

[1] From 1 January 1995.

3. Conclusions

It may be seen from the above that:

- the present situation on the world market remains volatile in spite of some improvement;
- the prospects for development in the forseeable future are uncertain;
- in the Community as elsewhere production capacity is greater than consumption.

In light of this but also in view of:

- the European Community's obligation to import 1.3 million tonnes annually of ACP and Indian sugar at Community prices and 40 000 tonnes into Finland to supply its refineries in 1995;

- the undertakings made by the European Community as part of the GATT agreement on agriculture to reduce export volumes and subsidies;

- the need to continue to control guaranteed production, in particular to meet the commitments made under GATT,

it is necessary in the Commission's opinion to keep the production quota system for a further period. The Commission therefore proposes renewal of the present production regime for six marketing years matching the transition period for the agriculture agreement mentioned above. The Commission regards this as an appropriate period in order to permit the implementation of these commitments without risking serious upheavals in the industry.

B. Quota levels

In a world market situation as uncertain and as difficult to forecast as it is, and given the state of the Community sugar market, this review must focus on whether provision should be made for reducing quotas or maintaining them at their current levels. This issue should be assessed in the overall context of the CAP but also in light of the particular situation of the sugar industry and the mechanisms available to make it possible to meet the commitments in the agreement on agriculture.

1. The supply situation in the EC

TABLE 3: production under Community guarantee and consumption in the EC taking into account the quotas for 1994/95 and the prospects for 1994/95

(in 1 000 t of white sugar)

	1991/92 EUR12	1993/94 EUR 12 forecast	1994/95 EU16 forecast(1)
1. Quotas set			
(a) A sugar quotas	11 187	11 187	11 973
(b) B sugar quotas	2 488	2 488	2 609
(c) A + B sugar quotas	13 675	13 675	14 581
2. Production achieved			
(a) A sugar	10 885	10 934	11 756
(b) B sugar	2 364	2 417	2 556
(c) A + B sugar	13 249	13 351	14 312
3. Consumption	11 948	11 875	12 975
4. Balance (2. - 3.)	1 301	1 476	1 355

(1) From 1 January 1995.

Community production within the quotas of the marketing years since integration of the former GDR has been fairly stable, as has consumption. Portugal will continue to have a considerable deficit, as will Norway, which does not produce sugar. This potential deficit still represents about 217 000 tonnes taking into account annual imports of 75 000 tonnes from non-Community countries with a reduced levy, as provided for in the accession treaty for Portugal, and of 3 000 tonnes produced in the Azores. In 1991/92, 100 000 tonnes of raw beet sugar harvested in the Community was consumed in Portugal. Finland needed to import 40 000 tonnes of sugar expressed in white equivalent in 1995.

2. Conclusions

The Commission cautiously concludes that the medium–term prospects on the world market are uncertain since the improvement of the fundamentals will not necessarily be followed by significant and lasting effects on prices. Taking into account the mechanisms to be introduced as a result of the GATT agriculture agreement in order to adapt guarantees to reduce export subsidies as explained in II, the Commission proposes that the A and B quotas for sugar, isoglucose and inulin syrup should be maintained at the level for the 1994/95 marketing year.

C. Continuation of the self–financing arrangements

1. Principles and mechanisms

The principle that the industry itself should finance the losses due to disposal of excess production under Community guarantee was introduced with effect from the 1981/82 marketing year on a multiannual basis.

Since the 1986/87 marketing year, this principle has been tightened in that the mechanisms (special elimination levy for 1986/87 and 1987/88 and supplementary levy as from the 1988/89 marketing year) have been adjusted to make the principle applicable to each marketing year separately.

The Commission would like to point out that up to now the disposal of Community production in excess of quotas has been financed by producers (i.e. beet growers and manufacturers) paying a levy of 2% maximum of the white sugar intervention price applicable to all A and B quota production, a B levy of 37.5% maximum of these prices and only applicable to B production and an supplementary levy if necessary to cover losses in each marketing year caused by the disposal of Community production in excess of internal Community consumption. This system is applied in full to production of inulin syrup. In the case of isoglucose the mechanism is applied by analogy and only to the industrial part. In addition, if for all sorts of reasons a marketing year shows a negative or positive balance it has to be carried over to the following year. This means that self–financing has to be achieved by this cumulative system at the latest by the end of the period of application of the quota system.

Experience in the 1986/87 to 1993/94 marketing years has shown that the mechanisms for this self-financing provided for in Articles 28 and 28a of the basic Regulation did made it possible to implement the Regulation during those years. As the Court of Auditors stated in its special report No 4/91 on the operation of the common organization of the market in the sugar and isoglucose sector (OJ No C 290 of 7 November 1991, p. 46):

"Bearing in mind all its constituent parts the sugar market is relatively simple to control and the administrative organization in place at Community and national level presents a relatively well-ordered picture. The management procedures are general competently implemented on the strength of relatively reliable data and very regular contacts between Community and national departments."

The only comments of the Court in this area referred to problems of control and it expressed doubts as to the reliability of the data concerned without however questioning them:

"Beyond these initial observations, the Court's analyses, while revealing that no conclusive reconciliation is feasible within the current system of accounting, nevertheless raised doubts, especially as to the accuracy of the amounts used, and included in the calculation of the levies, as regards the costs of export refunds. Considering the laborious nature of these analyses, on the one hand, and in view of the importance of transparent, verifiable management, on the other, it would be desirable to provide for specific reference to each marketing year in the system for the declaration of revenue and expenditure by the Member States. This can readily be achieved, since the Member States already have this information available for their own management purposes."

On this point the Commission already indicated in its replies that it supported the Court's suggestion on verifying the validity of the industry's self–financing, which would not require changing the actual self-financing mechanisms.

Starting from the Commission's assumption, i.e. that quota levels will be maintained for the next six marketing years, it is merely necessary to introduce the transition to the new application period for quotas.

The mechanism for adapting the export guarantees for quota sugar as explained in section II does not require any changes to the self–financing mechanism.

Self-financing of the system for covering storage costs has been in place since 1968 and functions on the basis of the storage levy which makes it possible to grant a monthly flat-rate reimbursement for storage fees. This system is not affected by the present proposal since it is not limited in time and the self-financing is continuously assured.

2. Conclusions

The Commission therefore considers that it is not necessary to modify the self–financing mechanism or to readjust the balance of it since the burdens imposed relate directly to the quotas allocated, which the Commission feels should continue at their present levels.

II. Reduction in support (quota and price guarantees)

1. The Commission therefore proposes to the Council that the levels of the A and B quotas should continue unchanged and that consequently the distribution of price and disposal guarantees resulting from the quotas for each Member State and each firm concerned and the distribution of burdens under the self–financing regime should be maintained. However, it feels that the common market organization for sugar must accordingly include appropriate management instruments enabling the Community to fulfil the commitments made under the agriculture agreement resulting from the Uruguay Round of multilateral trade negotiations.

2. The Commission therefore proposes that the price and disposal guarantees for sugar, isoglucose and inulin syrup produced under quota could be reduced for one or more marketing years to the extent necessary. Taking into account forecasts for production, imports, consumption, storage, carryover, the exportable balance and the average loss to be charged to self–financing arrangements due to export commitments for the marketing year in question, quotas for firms will be subject to a coefficient making it possible to determine the production volume which will benefit from these guarantees within the limits of the maximum exportable volume fixed in the GATT agriculture Agreement.

   These coefficients will be determined by product so that the distribution of the reduction in guarantees resulting from the quotas does not disturb the balance of existing guarantees, which are determined by the level of the current A and B quotas and the costs for each quota under the self–financing system. The balance is thus maintained at Member State level and for each firm in a given Member State.

3. As regards the institutional prices, the Commission thinks that they could be adapted where necessary for a given marketing year when prices are set each year. An adaptation of this type for the sugar sector would have to be made before the final date laid down in Article 3(4) of the basic Regulation (EEC) No 1785/81.

Against this background, the Commission believes that existing balances in the cane and sugar sector in the most remote regions as set out in the specific programmes for those regions should be retained in the future.

III. Supply to refineries (report on the situation of the Community refining industry)

1. Historical background

The refining of raw cane sugar in Europe has a long tradition which began even before the process for producing sugar from beet was developed. More recently it has acquired vital importance in Community trade policy with certain sugar-producing developing countries with which it has particularly close relations. After the enlargement of the Community of Six to the Community of Nine, imports of raw cane sugar, which had previously been regulated by Protocol No 8 on ACP sugar and the agreement with India, were added to sugar produced in the French overseas departments. The most recent enlargement brings the requirements of Community refineries, i.e. including Finland, to a refining volume of 1.77 million tonnes per year. This represents 14% of sugar consumption for the Community of Sixteen.

Portugal's entry into the Community resulted in measures to harmonize the price conditions for raw sugar intended for refining. The Act of Accession of Portugal also laid down that, during a transitional period, Portugal could import 75 000 tonnes (white sugar equivalent) of raw sugar originating in four ACP States (Côte d'Ivoire, Malawi, Zimbabwe and Swaziland) at a reduced levy and that it could also be authorized to import sugar from third countries at a reduced levy if the Community supply balance showed that there were insufficient supplies to adequately fulfil the needs of the Portuguese refineries. This arrangement continued as part of the common market organization for sugar at the end of the transitional period.

In a declaration attached to the Act of Accession of Portugal(2), the Community undertook to examine the whole question of the supply of the Community refining industry and in particular that of the Portuguese industry. A similar undertaking has been entered into for Finland under the terms of Article 16a(2a) of Regulation (EEC) No 1785/81 inserted by the Treaty of Accession of that Member State.

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(2) Declaration by the European Economic Community on the supplies to the sugar refining industry in Portugal

"The Community is prepared to pay particular attention to the supply situation of Portuguese refineries in future reviews of the common organization of the market in that sector. In addition the Community is prepared to carry out, before the end of the transitional period, an overall examination of the supply situation of the refining industry in the Community and in particular of the Portuguese industry, on the basis of a report from the Commission accompanied if necessary by proposals permitting the Council to decide, if need be, on the measures to be taken."

Before accession Portugal had been supplied by various traditional suppliers including certain ACP States. During negotiations on the accession of Portugal to Lomé III and negotiations between the Community and the ACP States on Lomé IV it was agreed to examine requests from the ACP States for increased preferential access to the Portuguese market for ACP sugar[3].

The Commission considers that the time has finally come to examine these two issues in the context of the review of the future production arrangements to apply from 1 July 1995. In the meantime the preferential import arrangements for Portugal have been extended until 30 June 1995 together with the said production arrangements, which will be extended to the four new Member States from 1 January 1995. During 1995 Finland will benefit from these arrangements for imports of 40 000 tonnes in accordance with Article 9 of Regulation (EEC) No 1785/81 as amended by the Act of Accession of that country to the Community.

2. Community raw sugar supplies

The four Member States refining raw sugar have different supply structures. The raw sugar imported under Protocol 8 and under the specific agreement with India is in theory available to all refiners but in reality, as intended from the beginning, this sugar flows through traditional trade channels and is covered for the most part by long-term contracts between refineries in the United Kingdom and producers in the ACP States. In the United Kingdom it is both used for supplying refineries and the source of between one-third and one-half of sugar sold on this market. Most sugars from the French overseas departments on the other hand are refined in France. Portugal, being the last but one of the Community refiner countries to join the Community, has only limited access to such sugar, most of its supplies being in the form of raw cane sugar imported from the four ACP States mentioned in the Act of Accession, third countries and occasionally in 1990/91 and 1991/92 raw Community beet sugar.

Finland, one of the latest countries to join the Community, has traditionally obtained its supplies on the world market.

Available supplies and their allocation amongst the refining countries are set out for each marketing year in a Community raw sugar balance. This balance is used to determine, firstly, the quantities of raw sugar available in the FODs which could be eligible for transport aid and refining aid, broken down by origin and place of refining and, secondly, the additional quantities required to ensure adequate supplies to Portuguese refiners to be imported from third countries under Article 303 of the Act of Accession of Portugal and since 1993 under Article 16a of Regulation (EEC) No 1785/81.

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(3) Joint declaration on sugar in the Portuguese market

"1. The ACP and the EEC agree, as foreseen in the protocol of accession of Portugal to the third ACP–EEC convention to continue under the appropriate provisions of the convention and in particular Article 168(2)(c), the examination of requests made by the ACP States concerning increased preferential access to the Portuguese market for ACP sugar.

2. Having regard to the review of the supply situation on the Portuguese market in 1991, the Community, for its part, undertakes to consult the ACP States prior to taking any decision bearing in mind the interests of all the traditional ACP suppliers to that market and the request of the ACP States submitted to the Community before and after the accession of Portugal to the third ACP–EEC convention and in the framework of the negotiations on the fourth ACP–EEC convention."

A reduced levy is fixed for these latter sugars, for the 75 000 tonnes originating in the four ACP States referred to in Article 16a and for the 40 000 tonnes of raw sugar for Finland so that their producer price equals the Community intervention price for raw sugar. The special arrangements for the supply of raw sugar to Portugal are only valid until 30 June 1995 and for Finland until 31 December 1995.

In conclusion, there are two sources of cane sugar which are restricted in volume but are not limited in time, i.e. sugar produced in the FODs and sugar imported under Protocol No 8 and the agreement with India. Almost all this sugar is refined in France and the United Kingdom, while Portugal has in the past had to obtain its sugar from various sources, including third countries, imports from which have a time limit, as is the case for Finland.

The system of setting out in a Community balance the quantities of raw sugar available for refining in the Community has generally worked satisfactorily. It is based on the expected traditional needs of the refineries concerned.

This allocation has the result, however, that the needs of France and the United Kingdom, which depend respectively on FOD or ACP preferential sugar, have rarely been met for two reasons.

Sugar production in the FODs fluctuates considerably because of natural disasters such as hurricanes and drought and of reductions in the areas under sugar cane. In some years the total available supplies of ACP Protocol and FOD sugar have not covered the total refinery needs of these two Member States.

Another factor also contributes to the instability of supplies. Where an ACP State is unable to fulfil its supply commitments the quantity concerned is reallocated to the other signatories to Protocol No 8 but part of the quantity for refining may be allocated to a country which normally does not supply raw sugar for refining but rather sugar for direct consumption, or reallocation may transfer delivery of sugar for refining from one refining country to another, which has turned out to the disadvantage of the United Kingdom.

With regard to Portugal it should be added that, from 1 July 1992, supplies to the Azores refinery have come under the Poseima programme.

3. <u>New preferential supply arrangements for the shortfall</u>

Portugal must be able to supply its refineries after expiry of the special arrangements introduced on the country's accession to the Community and renewed since then. Its refineries have benefited from investment in modern, efficient plant and provide stable employment, and at the same time guarantee supplies of white sugar at acceptable prices on the Portuguese mainland market, which does not have its own sugar production. Similarly refineries in Finland, the United Kingdom and France play a prominent role in the supply of white sugar to their regional markets, particularly in the case of the UK market and to a lesser extent in that of French refineries in port regions close to areas of consumption.

The UK refineries are also of major importance for the Community, enabling it to fulfil its obligation to import and dispose of the quantities of ACP sugar laid down in Protocol No 8. In general it is better to have refineries in the consumption area (less cost for the same economy of scale, better response to market requirements).

Finally, experience has demonstrated that the conditions of access to all available sugar will have to be harmonized. Although the Portuguese refineries have always managed to meet their needs, supplies to the French and UK refineries which only have access to Community sugar or sugar under Community control have not always been guaranteed.

It is not only a matter, therefore, of acknowledging the existence of the Community refining industry; the political and economic circumstances in which it operates also point to the need for permanent arrangements guaranteeing its future by means of steady supplies of raw sugar to the industry.

A new scheme extending the special arrangements for Portugal to the whole of the Community must therefore fulfil four conditions. It must:

1. harmonize throughout the Community the conditions of access to sugar for refining from various origins;

2. guarantee steady supplies, taking account of the need of existing refineries for industrial stability;

3. apply the system for determining shortfalls in accordance with the abovementioned Article 16a on the basis of a supply balance for the whole Community and an agreement with the ACP States in particular;

4. determine the expected maximum traditional needs for each Member State concerned on the basis of refining data for the past and, in the cases of Portugal and Finland, the results of their respective accession negotiations.

These four conditions should be recognized in the common organization of the market in sugar.

The meeting of traditional needs should be assured at current levels for a period matching that proposed for the system of production under quota.

The management of supplies to refineries would continue to be based on the Community raw sugar balance and determination of the additional quantities required in light of the Community and preferential sugar available and the agreed needs, on the understanding that the quantities not available for refining to be included in this balance would be frozen at their 1991/92 levels.

The additional quantities required that are identified in this way would in future be covered by a special preferential regime with reduced import duties for raw cane sugar. The terms of these arrangements for imports of raw cane sugar from the ACP States and India would have to be fixed under an agreement with those countries, as described in paragraph 5.

4. <u>Additional issues</u>

White sugar refined from raw cane sugar must be sold at a price comparable with that of white beet sugar, i.e. at a price based on the intervention price for white sugar plus a storage levy. For sugar produced in the FODs the price paid to raw cane sugar suppliers is based on the intervention price for raw sugar. The price of raw cane sugar imported under Protocol No 8 is based on a guaranteed price negotiated each year between the Community and the ACP States concerned, which is normally equal to the Community intervention price for raw sugar.

This means that the refining margin for raw cane sugar depends on the difference between the intervention price for raw sugar and the intervention price for white sugar plus the storage levy. However, all these parameters are fixed taking account solely of production conditions for producing white sugar from beet, which does not necessarily correspond to the cost of refining raw cane sugar.

In order to solve this problem the Council decided in 1988 to introduce adjustment aid for the Community preferential raw cane sugar refining industry. Similar aid is also available for the refining of raw cane sugar from the overseas departments, for Community raw beet sugar and for sugar imported into Portugal at the reduced levy. Under current rules the aid can be adjusted for a given marketing year on the basis of the storage levy and/or the refining margin resulting from the prices fixed for that marketing year.

In view of the logic of the system and experience with it, the Commission is of the opinion that provision should be made for automatic adjustment of the aid in line with increases or reductions in the storage levy.

In the case of shortfalls to be made up by imports from non-member counties, the purchasing conditions to be complied with by the refineries should be defined so as to ensure for that industry treatment equivalent to that under the present arrangements.

5. <u>The ACP issue</u>

At the time of Portugal's accession to the Community, the ACP States requested that account be taken of their traditional supply of raw sugar to Portugal (Ivory Coast, Malawi, Swaziland and Zimbabwe).

Stressing this status of traditional supplier and invoking their preferential relations with the Community, they several times requested a review of the supply arrangements. They asked for a certain quantity of raw sugar intended for the supply of Portuguese refineries to be included in the Protocol on ACP sugar and to be given priority for the supply of the remaining quantities required under Article 303 of the Act of Accession.

The Community's position was that these requests should be considered when it came to review the arrangements for supplies to Portuguese and Community refineries, scheduled for the end of the transitional period.

The two sides failed to reach an agreement, so it was agreed during the negotiations on Portugal's accession to the third Lomé Convention to continue examining the requests of the ACP States regarding sugar under the relevant provisions of the Convention, in particular Article 130(2)(c). During the negotiations for the Lomé IV Convention, this agreement was reaffirmed in the declaration refered to earlier.

During initial consultations between the Community and the ACP states regarding this undertaking, the ACP States formulated their request in the following terms:

"- include either in the Protocol or in a comparable special arrangement, at the full guaranteed price, the 75 000 tonnes currently obtained from the four traditional ACP suppliers;

- meet the whole balance of Portugal's refining requirements after taking due account of the interest of the FOD cane and EC beet producers, as established for any given year, by additional quantities from ACP signatories to the Protocol at the full guaranteed price and under legally contracted agreements."

While it must be acknowledged that the four ACP States in question are traditional suppliers of Portugal, they have no special relationship with Portugal warranting an increase in the quantities covered by the Protocol. The long-term supply contracts they concluded were classic trade contracts which gave neither price guarantees nor other potential advantages. The situation of the traditional suppliers to Portugal is therefore different from that of the traditional suppliers to the United Kingdom, who benefited from the guarantees laid down in the Commonwealth Sugar Agreement which were simply confirmed at Community level following UK accession.

The Community was therefore justified, during the negotiations leading up to the accession of Portugal, in refusing to increase the quantities covered by the Protocol. The fact that the Act of Accession provides for special preference for the ACP States in question in no way constitutes a new fact warranting a review of that position.

Nor does it seem appropriate in the case of Portugal to extend beyond 30 June 1995 the provisions granting four ACP States a different status from the other suppliers under Article 303 in terms of quantities only.

It should also be recalled that the Council has said on several occasions that it had no intention whatsoever of going beyond the initial global commitments made in the Protocol on ACP sugar and the agreement with India.

However, given the Community's commitments towards the ACP States and our obligations under the agriculture agreement arrived at in the Uruguay Round of multilateral trade negotiations, the Community should consider entering into negotiations with those States to determine the terms and conditions for granting a preference in the mechanism used for determining the Community supply quantities which is similar to that applied until now, making it possible to apply the special preferential arrangements mentioned earlier.

The Commission wishes, therefore, to inform the Council of its intention to present it in the very near future with a recommendation under the terms of which the Commission would be authorized to conduct these negotiations with the ACP States party to Protocol No 8 annexed to the Lomé IV Convention and with India. The negotiating guidelines could provide for an agreement with the following features:

- a duration of six marketing years, the same as the Community sugar production regime;

- a tariff quota on a quantity of raw sugar originating from these countries to be determined taking into account the estimated maximum annual requirements of Community refineries not met by the Community sugar available or by the preferential sugar referred to in Protocol No 8 annexed to the Lomé Convention and in the agreement with India on sugar;

- a minimum purchase price to be paid by refineries, which would be determined with reference to the intervention price for Community raw sugar;

- a special reduced import duty for quota quantities representing the preference granted to this raw sugar.

An agreement of this type would be passed without prejudice to the negotiations relating to the taking over by the Community of the undertakings to import raw sugar for refining made by Finland under the above agriculture agreement.

IV. The C sugar carryover

The Commission is returning to this issue for reasons already mentioned in the past in connection with the current regime. The market organization for sugar, because of the binding system of production quotas it introduced, provided from its inception in 1968 for firms to decide, in agreement with beet producers or sugar cane planters, to carry over part of their production from one marketing year to the next, which would then be considered as production of the latter marketing year, but with a compulsory twelve-month storage period. The aim was to enable these firms to cope with unexpected changes in production from one year to another without the C sugar produced necessarily having to be exported to third countries regardless of world market conditions. The C sugar carried over did not qualify for reimbursement of storage costs under the Community compensation scheme during the compulsory storage period. With effect from the 1981/82 marketing year, provision was made that C sugar carried over could qualify for reimbursement of storage costs under the

Community compensation system during the compulsory storage period. After thirteen years of applying this reimbursement, experience shows (see the figures in Table 5) that the carryover has been used since 1981/82 in ways which do not correspond to the original intention.

TABLE 5 : Carryovers of C sugar ('000 tonnes)

1976/77	31	EUR-9
1977/78	24	EUR-9
1978/79	124	EUR-9
1979/80	none	EUR-9
1981/82	991	EUR-10
1982/83	1 090	EUR-10
1983/84	214	EUR-10
1984/85(1)	749	EUR-10
1985/86(1)	1 021	EUR-10
1986/87(1)	1 280	EUR-12
1987/88(1)	1 273	EUR-12
1988/89(1)	1 096	EUR-12
1989/90	621	EUR-12
1990/91	1 023	EUR-12 (including former GDR)
1991/92	904	EUR-12 (including former GDR)
1992/93	1 314	EUR-12 (including former GDR)
1993/94	1 258	EUR-12 (including former GDR)

(1) It should be noted that during these marketing years the price of sugar on the world market was low, which should have meant that producers did not produce C sugar simply to have it carried over with storage costs guaranteed.

The Commission regards the virtually systematic practice of carrying over substantial quantities as an encouragement for the production of C sugar and an obstacle to the smooth operation of the quota arrangements. Accordingly, it continues to believe that it would be desirable to return to the treatment of carried-over C sugar which applied between 1968/69 and 1980/81 and is therefore proposing that, during the period of compulsory storage, the storage costs of such C sugar should no longer be reimbursed under the Community arrangements for offsetting costs. However, as a transitional measure, the Commission is proposing that this rule should be mitigated by being applied for the first time to production in the 1996/97 marketing year. In the case of sugar produced in the 1995/96 marketing year and carried over to 1996/97, storage costs will be reimbursed for the first six months of the twelve-month compulsory storage period.

However, in the case of production of A and B sugar which has become production of C sugar following the reduction of guarantees as referred to in II.2, the Commission considers that storage costs should continue to be refunded as part of the arrangements for the equalization of such costs.

V. Arrangements for national adjustment aids in Italy

The Commission recalls that since the establishment of the market organization for sugar in July 1968, the Council has authorized Italy, subject to certain conditions, to grant national adjustment aid for the production of sugar beet and sugar. The justification for this aid was the difficulty of using modern production methods for the cultivation of sugar beet because of the structure of holdings, the nature of the soil and climatic conditions. As regards the sugar industry itself, it needed encouragement to modernize its productive apparatus and restructure undertakings. Each time the arrangements for production quotas have been reviewed, the authorization for this scheme has been extended in different forms, most recently and in a scaled-down form until the 1994/95 marketing year (at a rate for the marketing years 1991/92 to 1994/95 corresponding to 70% of the total financial commitment in ecus already allowed for the 1988/89 marketing year). This authorization will terminate when the quota regime expires on 30 June 1995.

The aid granted has helped to improve the conditions under which sugar beet is grown (mechanization, genetic research into a sugar beet better suited to cultivation in the Mediterranean area, etc.) and encouraged the restructuring and modernization of sugar production.

The most striking example is the slow but almost uninterrupted increase since the 1968/69 marketing year in the difference between the white-sugar yield per hectare of sugar beet in northern Italy and the Community average. The table below gives data for the final marketing years in each period when it was necessary to renew the production regime and so extend the authorization for the aid scheme.

TABLE 6

Yields in white-sugar equivalent (tonnes/ha)

Marketing year	Yields in Italy[1]		EC yields
	Northern Italy	Central and southern Italy	
1968/69	4.8	5.2	5.32
1974/75	6.10	5.0	5.06
1979/80	7.6	5.5	6.55
1980/81	8.10	6.10	6.46
1985/86	7.10	5.6	7.05
1989/90	8.10	6.10	7.59
1990/91	8.10	5.10	7.51
1991/92	7.7	5.5	7.30
1992/93	8.7	5.5	7.89
1993/94	7.7	4.7	8.32

(1) Source: Italian Ministry of Agriculture

Accordingly, since the Italian sugar industry no longer needs this aid, having very largely accomplished its restructuring especially in northern Italy, and since for the reasons set out above Italy should be allowed to concentrate its efforts on sugar beet cultivation in order to attain the objectives sought more rapidly, the Commission considers that, in the case of northern Italy, authorization should be given for sugar beet only and should taper over the marketing years 1995/96 to 1997/98 to cease completely in 1998/99. The Commission is therefore proposing that, in the case of northern Italy, the Council should renew its authorization for the next three marketing years and limit it to sugar beet alone. The Commission considers that the amount of aid should follow the degressive path on which the Council itself decided in Article 4 of Regulation (EEC) No 1254/89, that is tapering off until 1997/98. Table 7 below sets out the figures relating to the proposed method of application.

In the case of central and southern Italy, where the difficulties attendant on sugar beet cultivation are more or less structural in nature and the restructuring of the industry has not yet been accomplished, the Commission is proposing that the Council should reduce the unit aid for the 1995/96 marketing year to 75% of that granted in 1994/95, reduce it further to 50% for the 1996/97 marketing year and then continue to authorize aid at that level throughout the period during which quotas are to be applied until the 2000/01 marketing year, with the possibility of granting some of that aid to the sugar beet processing industry in that part of Italy since the development of the region is acknowledged to be lagging behind.

TABLE 7

1. Calculation of national aids in Italy from 1988/89 to 1994/95 (Article 46(2) and (3) of Regulation (EEC) No 1785/81)

Basis of calculation

(a) Unit amount of aid in 1988/89 per 100 kg of A + B quota sugar:
ECU 54.18 x 23.64% = ECU 12.81/100 kg (100%)

(b) Total financial commitment authorized for 1988/89

A quota sugar:	1 320 000 tonnes
B quota sugar:	248 250 tonnes
	1 568 250 tonnes.

Total: 1 568 250 tonnes x ECU 128.1/tonne = ECU 200 892 825, rounded to ECU 200.9 million (100%)

Total financial commitment authorized for each of the marketing years 1991/92 to 1994/95: 70% of ECU 200.9 million = ECU 140.6 million.

(c) Unit amount of aid in 1994/95 per 100 kg of A + B quota sugar:
ECU 140.6 million: 15 682 500 quintals = ECU 8.97/100 kg, rounded to ECU 9/100 kg

2. Calculation of national aids in Italy from 1995/96

(a) Northern Italy (Italy other than the area covered by (b))

The amount of aid for the 1994/95 marketing year which, as stated above, is ECU 9 per 100 kg of sugar, will be gradually reduced by 25% per marketing year until it is totally abolished in 1998/99.

This means that the amount of unit aid per 100 kg of sugar will be as follows:

Uniform aid
ECU/100 kg of quota sugar

1995/96: 6.75
1996/97: 4.5
1997/98: 2.25
1998/99: 0

(b) Central and southern Italy (Abruzzi - Molise - Apulia - Sardinia)

Uniform aid ECU/100 kg of quota sugar

1995/96:	6.75
1996/97:	4.5
1997/98 to 2000/01:	4.5

VI. Other issues: sugar used to manufacture chemicals

The Commission considers that the standard rate of ECU 7/100 kg of white sugar which, pursuant to Article 4b of Regulation (EEC) No 1010/86, has to be deducted in practice from the production refund for sugar used for the manufacture of chemical products, constitutes a serious hindrance to this utilization. It believes that after nine years of these arrangements the deduction of this standard rate is no longer fully justified and is therefore proposing that the Council allow the possibility of reducing this deduction by a simple management measure by permitting the Commission to determine its amount for one or more marketing years in the light of production and consumption in the Community. The Commission would not be opposed either to the inclusion of yeast in the Annex to Regulation (EEC) No 1010/86 in order to increase the opportunities for the further disposal of sugar.

The Commission also believes that any sugar disposed of in the Community for use by the chemical industry should be deducted from the quantities exported outside the Community. It therefore considers that the self-financing arrangements for this sugar should no longer exempt from production levy the 60 000 tonnes provided for by Article 9 of Regulation (EEC) No 1010/86.

Proposal for a
COUNCIL REGULATION (EC)
amending Regulations (EEC) Nos 1785/81 on the common organization of the markets in the sugar sector and 1010/86 laying down general rules for the production refund on certain sugar products used in the chemical industry

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THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular Articles 42 and 43 thereof,

Having regard to the proposal from the Commission,

Having regard to the opinion of the European Parliament,

Having regard to the opinion of the Economic and Social Committee,

Whereas Article 23(5) of Council Regulation (EEC) No 1785/81[(1)], as last amended by the Act of Accession of Norway, Austria, Finland and Sweden, states that the Council is to adopt, in accordance with the procedure laid down in Article 43(2) of the Treaty, the arrangements to apply from 1 July 1995 to the production of sugar, isoglucose and inulin syrup;

Whereas the agreements resulting from the Uruguay Round multilateral trade negotiations have been approved by Council Decision .... of ....[(2)]; whereas the agreement on agriculture (hereinafter referred to as "the Agreement") provides, in particular, for the gradual reduction of the level of the Community's export support for agricultural products and in particular for sugar under guarantee of production quotas; whereas the Agreement provides for the reduction of export support, in terms of both quantities and appropriations, over a transitional period;

Whereas since the 1986/87 marketing year the common organization of the sugar sector markets has been based, first, on the principle of full financial responsibility on the part of producers for the losses incurred in each marketing year due to the disposal of that part of Community production under quota which is surplus to the Community's internal consumption and, secondly, on a differentiation of the price and disposal guarantees in line with the production quota allocated to each undertaking; whereas, since commitments to reduce export support are to be implemented over a transitional period, the present basic sugar and isoglucose quantities and inulin syrup quotas should be maintained unchanged but with provision made for the guarantees pertaining thereto to be adjusted as appropriate to permit compliance with the commitments made under the Agreement, while taking into account the fundamental factors affecting the situation of this sector in the Community; whereas it is accordingly desirable to maintain the sector's self-financing arrangements and production quotas for a period corresponding to the abovementioned transitional period, namely six marketing years;

Whereas the production quotas allocated to each sugar sector undertaking may, in any marketing year, give rise, as a result of the relevant consumption, production, importation, stock and carryover levels, and the average loss likely to be borne under the self-financing scheme, to an export volume exceeding that set in the Agreement; whereas provision should therefore be made for adjustments over one or more marketing years in the guarantees linked to quotas so that the Community's commitments can be met;

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(1) OJ No L 177, 1.7.1981, p. 4.

(2) OJ No L

Whereas, as the first step in implementing adjustments to the guarantees, the difference recorded for a given marketing year between the Community's exportable volume and the amount set in the Agreement should be apportioned between sugar, isoglucose and inulin syrup according to the percentages which the quotas of each represent in the total of the quotas set for these three products in the Community;

Whereas this initial breakdown by product should then be followed by a breakdown between the Member States which adjusts the guarantees linked to the quotas assigned to producing undertakings located in each Member State in a way that does not affect the existing balance of quotas and burden-sharing; whereas, to this end, a reduction coefficient should be determined for each Member State in respect of the A and B guarantees which is in line with the maximum contributions pertaining to these guarantees; whereas it should then be up to each Member State to make an allocation among undertakings which takes account of the guarantees arising for each undertaking from its own quotas;

Whereas, in view of the compulsory production quota system introduced when the market organization was set up, undertakings have from its inception been allowed the possibility of deciding, in agreement with beet and cane growers, to carry over part of their production from one marketing year to the next, treating it as production of the latter with compulsory storage during twelve months; whereas the essential aim of this arrangement was to allow interested parties to cope with unforeseen changes in production levels from one year to another without, in the case of the C sugar produced, being obliged to export it to third countries regardless of the situation on the world market; whereas from the 1981/82 marketing year onwards the reimbursement provided for under the Community rules on equalization of storage costs during the compulsory storage period has been extended to C sugar; whereas over the thirteen marketing years in which this particular rule has applied the quantities of C sugar carried over have increased substantially and are no longer in keeping with the purpose of carryover indicated above; whereas the possibility of systematic carryover of large volumes under these terms may constitute an encouragement to production of C sugar and impede the proper operation of the quota system; whereas in the case of C sugar carried over from production of the 1996/97 marketing year onwards a return should be made to the situation existing from 1968/69 to 1980/81, namely that during the compulsory storage period reimbursement of storage costs under the Community rules on equalizing these costs should no longer apply to C sugar carried over; whereas, however, as a transitional measure for the 1995/96 and 1996/97 marketing years, reimbursement of storage costs for C sugar should be granted for the first six months of the compulsory storage period; whereas the grant of this reimbursement for sugar in respect of which guarantees have been reduced under obligations created by commitments entered into in the context of the Agreement should not be discontinued;

Whereas Article 303 of the Act of Accession of Spain and Portugal provided for preferential arrangements, applying for seven years following accession, to ensure adequate supply of Portuguese refineries with raw sugar; whereas the preferential arrangement consisted of a reduced import levy on sugar imported to this end from certain ACP and other third countries, the use of available raw sugar from cane and beet harvested in the Community covered by Council Regulation (EEC) No 2225/86 of 15 July 1986 laying down measures for the marketing of sugar produced in the French overseas departments and for equalization of the price conditions with preferential raw sugar[3], and the use of available preferential raw sugar as defined in Article 33 of Regulation (EEC) No 1785/81; whereas these supply arrangements for Portuguese refineries have been continued and incorporated in Regulation (EEC) No 1785/81 as Article 16a; whereas they are also to apply to Finland;

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(3) OJ No L 194, 17.7.1986, p. 7.

Whereas, in the Declaration by the European Economic Community on supplies to the sugar refining industry in Portugal annexed to the Final Act of the Treaty of Accession of Spain and Portugal, the Community stated that it was prepared to make an overall examination of the supply situation of the refining industry in the Community and in Portugal in particular; whereas under the terms of paragraph 2a of Article 16a of Regulation (EEC) No 1785/81 such an examination is also to apply to Finland;

Whereas this examination has shown the need, in particular with the aim of achieving a steadier and more even flow of supplies to refineries throughout the Community, to estimate clearly the expected maximum traditional requirement of raw sugar for refining into white sugar in each of the Member States concerned, namely Finland, France, Portugal and the United Kingdom, using objective reference data and taking into account the quantities of sugar going for direct consumption recorded for the 1991/92 marketing year; whereas, to achieve this aim, the possibility should be opened to the industry, within the limit of its anticipated needs, of gaining access on certain terms to all raw sugar originating in the Community, the ACP States or in certain other traditional suppliers to be specified, on the basis of a forward balance and in a particular order of priority, namely Community sugar, preferential sugar covered by Protocol No 8 annexed to the Fourth ACP-EEC Lomé Convention[(4)], and sugar imported from ACP States or other traditional suppliers; whereas, for raw sugar imported from the ACP States listed in Protocol No 8 and from India other than preferential sugar in the strict sense, a special preferential arrangement for access to the Community refining market should be introduced;

Whereas refining is an important activity both in the sugar sector in general and in the Community, and in particular for conversion of raw sugar into white sugar; whereas, from a technical point of view, refining produces high-quality products from sugar cane that can meet market requirements; whereas, moreover, these refineries are located in areas of high consumption; whereas the port-related refining industry is accordingly, for the Community, a valuable complement to the beet processing industry, in particular in Finland, mainland Portugal, the United Kingdom and southern and western France;

Whereas in a joint declaration on the Portuguese sugar market annexed to the Final Act of the Fourth ACP-EEC Lomé Convention the ACP States and the Community agreed to continue, under the relevant provisions of the Convention and in particular Article 168(2) thereof, the examination of requests from the ACP States for increased preferential access to the Portuguese market; whereas examination of these requests, which concern supplies to port refineries in the Community as a whole, leads to the conclusion that special priority access should be given to raw cane sugar originating in the ACP States party to Protocol No 8 and in India, under special agreements negotiated between the Community and the countries party to Protocol No 8 and/or other countries and on the basis of a Community estimate of requirements after utilization for refining of all available raw cane and beet sugar in the Community and preferential sugar as defined in Article 33 of Regulation (EEC) No 1785/81;

Whereas up to the 1994/95 marketing year Community adjustment aid has been granted for refining of preferential raw cane sugar and of raw sugar from cane and beet harvested in the Community; whereas up to now it has been possible to adjust this aid for any given marketing year in line with the storage levy set for that year and/or any change in the refining margin resulting from the prices set for the marketing year; whereas in the light of experience this aid should continue; whereas given the direct impact on the refining margin of changes in the storage levy it should be made compulsory for the adjustment aid to be altered in line with that levy in the case of refining of raw sugar covered by Community price guarantees or imported from the ACP States as preferential sugar covered by Article 33 of Regulation (EEC) No 1785/81;

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(4) OJ No L 229, 17.8.1991, p. 1.

Whereas, for reasons already indicated in the past, in view of its particular characteristics and the dimensions of holdings it is difficult to apply modern beet production methods in Italy, although the situation is improving in the north; whereas for structural reasons these difficulties persist in the centre and south, regions which are, moreover, recognized as lagging behind in development and structural adjustment; whereas beet growing in these regions is indispensable in order to regenerate soils with a particularly high level of clay and to avoid a return to monoculture; whereas Italy should therefore be authorized to grant in its northern regions, for a restricted period of three marketing years up to 1997/98, national adjustment aid for beet cultivation of a decreasing amount starting lower than the amount granted for the 1994/95 marketing year under the terms of the authorization to Italy to grant such aid given in Regulation (EEC) No 1785/81, as amended by point 10 of Article 1 of Regulation (EEC) No 305/91[5], and to grant in its central and southern regions such aid over two marketing years, reduced by a uniform amount from the level granted for 1994/95, but thereafter continuing without further reduction up to the 2000/01 marketing year;

Whereas the partial exemption from self-financing granted by Article 9 of Council Regulation (EEC) No 1010/86[6], as last amended by Commission Regulation (EEC) No 464/91[7], to sugar used in the chemical industry should be discontinued;

Whereas this Regulation should be applied under the best possible conditions; whereas, to this end, certain transitional measures may prove necessary; whereas the procedure laid down in Article 41 of Regulation (EEC) No 1785/81 should apply to adoption of such transitional measures,

HAS ADOPTED THIS REGULATION:

Article 1

Regulation (EEC) No 1785/81 is amended as follows:

1. The following subparagraph is added to Article 9(3):

   "The standard amount of ECU 7 per 100 kilograms of white sugar referred to in Article 4a of Regulation (EEC) No 1010/86 may be reduced up to zero.";

2. In Article 9(6), the fifth indent is replaced by the following:

   "- the conditions for granting production refunds, the amounts of such refunds and the reduction referred to in paragraph 3;";

3. In Article 19(3), the first subparagraph is replaced by the following:

   "When the refund is being fixed, particular account shall be taken of the intervention price of white sugar and the need to establish a balance between the use of Community basic products in the manufacture of processed goods for export to third countries and the use of the products of such countries brought in under inward processing arrangements.";

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(5) OJ No L 37, 9.2.1991, p. 1.

(6) OJ No L 94, 9.4.1986, p. 9.

(7) OJ No L 54, 28.2.1991, p. 22.

4. Article 23(1) is replaced by the following:

"1. Articles 24 to 32 shall apply in respect of the marketing years 1995/96 to 2000/01.";

5. Article 23(2) is replaced by the following:

"2. For the period referred to in paragraph 1 and without prejudice to paragraph 4a, Article 24(2), Article 25 and, as appropriate, Article 24a(5), the A and B quotas of undertakings producing sugar or isoglucose shall be those assigned by the Member States for the 1994/95 marketing year.";

6. Article 23(4) is replaced by the following:

"4. For the period referred to in paragraph 1 and without prejudice to paragraph 4a, the A and B quotas of undertakings producing inulin syrup shall be those definitively assigned by the Member States pursuant to Article 24b for the 1994/95 marketing year. Articles 24 and 25 shall not apply to such undertakings.";

7. The following paragraph 4a is inserted in Article 23:

"4a. In order to comply with the commitments entered into by the Community under the agricultural agreement concluded pursuant to Article 228(2) of the Treaty, the guarantees for the disposal of sugar, isoglucose and inulin syrup produced under quota may be reduced for one or more designated marketing years.

For the purposes of applying the first subparagraph, for each marketing year the guaranteed quantity under quotas shall be laid down before 1 October on the basis of forecasts of production, imports, consumption, storage, carryover, exportable balance and average loss likely to be borne under the self-financing scheme within the meaning of point (d) of Article 28(1). If these forecasts show an exportable balance for the marketing year in question greater than the maximum laid down by the agreement referred to above, the guaranteed quantity shall be reduced by the difference in accordance with the procedure laid down in Article 41. This difference shall divided up between sugar, isoglucose and inulin syrup in accordance with the percentage representing the total of the A and B quotas of each product in the Community. It shall then be broken down by Member State and by product by applying the corresponding coefficient set out in the table below.

The Member State shall then allocate the difference to which it is subject among the producer undertakings established on its territory on the basis of the existing ratio between their A quota and their B quota for the product in question and the basic quantity A and the basic quantity B for the Member State or, as appropriate, the sum of the A quotas and the sum of the B quotas for this product assigned to the producer undertakings.

Sugar, isoglucose and inulin syrup produced beyond the quantity guaranteed shall be considered as C sugar, C isoglucose and C inulin syrup within the meaning of either point (c) in the second subparagraph of Article 24(1) or point (c) of Article 24b(5), as appropriate.

BREAKDOWN COEFFICIENTS

Member State	1		2		3	
	Coeff. applicable to sugar expressed as white sugar		Coeff. applicable to isoglucose in dry matter		Coeff. applicable to inulin syrup as sugar/isoglucose equivalent	
	A sugar	B sugar	A isogl.	B isogl.	A inulin syrup	B inulin syrup
Belgium	0.046201	0.009920	0.25547	0.062024	0.556265	0.130955
Denmark	0.027206	0.008015	-	-	-	-
Germany (region Art. 24)	0.169608	0.052188	0.104246	0.024551	-	-
Germany (region Art. 24a)	0.055204	0.016986	-	-	-	-
Greece	0.012352	0.001235	0.037978	0.008944	-	-
Spain	0.026459	0.001102	0.166138	0.017721	-	-
France (metropolitan) (1)	0.213231	0.063239	0.061081	0.015898	0.058922	0.013847
France (ODs) (1)	0.019298	0.002063	-	-	-	-
Ireland	0.007752	0.000775	-	-	-	-
Italy	0.082491	0.015514	0.059803	0.014083	-	-
Netherlands	0.053393	0.014083	0.026804	0.006313	0.194365	0.045646
Portugal (mainland)	0.002323	0.000232	0.029213	0.006880	-	-
Portugal (autonomous region of the Azores)	0.000387	0.000039	-	-	-	-
United Kingdom	0.044297	0.004430	0.084713	0.022596	-	-
Austria	0.022673	0.005292	-	-	-	-
Sweden	0.014327	0.001433	-	-	-	-
Finland	0.005683	0.000568	0.023151	0.002316	-	-
Norway	-	-	-	-	-	-

(1) Pursuant to the second subparagraph of Article 25(3).

The arrangements for the application of the first subparagraph, the reduction in the guaranteed quantity and, where appropriate, any change in that quantity during a marketing year shall be adopted in accordance with the procedure laid down in Article 41.";

8. In Article 23(5), the dates "1 January 1995" and "1 July 1995" are replaced by "1 January 2001" and "1 July 2001" respectively;

9. In the first indent of the first subparagraph of Article 24(1), the date "1993/94" is replaced by "1994/95";

10. In Article 24(3), the date "1993/94" is replaced by "1994/95";

11. In Article 27(2), the second indent is replaced by the following:

"- store such quantity or quantities for a period of 12 consecutive months from a date to be determined. For this period storage costs for the production of C sugar carried over from the 1996/97 marketing year to the following marketing year shall no longer be reimbursed under Article 8.

For the production of C sugar from the 1995/96 marketing year carried over to the 1996/97 marketing year, this reimbursement of storage costs shall be granted by way of a transitional measure for the first six months of compulsory storage.

Nevertheless, for the production of A sugar and B sugar which has become production of C sugar after application of Article 23 (4a) and which is carried forward, storage costs shall be reimbursed under the provisions of Article 8.";

12. The following subparagraph is added to Article 28(1)(e):

"In estimating this total loss, losses arising from the granting of the production refunds referred to in Article 1 of Regulation (EEC) No 1010/86 shall be taken into account for the beneficiary basic quantities.";

13. In Article 28(2), the introductory phrase is replaced by the following:

"Before the end of the 2000/01 marketing year and without prejudice to Article 23(4a), there shall be recorded cumulatively for the 1995/96 to 2000/01 marketing years:";

14. In Article 29(1), the date "1990/91" is replaced by "1994/95";

15. Title IV is replaced by the following:

"TITLE IV

System of preferential imports

<u>Article [33]</u>

Articles [34], [35] and [36] shall apply to cane sugar, hereinafter referred to as "preferential sugar", falling within CN code 1701, which originates in the States listed in Annex II and which is imported into the Community under:

(a) Protocol No 8 on ACP sugar annexed to the ACP-EEC Convention of Lomé;*

(b) the agreement between the European Economic Community and the Republic of India on cane sugar.**

<u>Article [34]</u>

Where the quality of preferential sugar imported pursuant to Article [33] and purchased by intervention agencies or by other agents appointed by the Community deviates from the standard quality, the guaranteed prices shall be adjusted by means of price increases and reductions.

Article [35]

1. No import duty shall apply to imports of preferential sugar pursuant to Article [33].

2. Preferential sugar shall enjoy no derogations from the prohibitions referred to in Article (19(2)).

Article [36]

1. For marketing years 1995/96 to 2001/02, adjustment aid shall, as an intervention measure, be granted to the industry engaged in refining preferential raw cane sugar imported for that purpose into the Community pursuant to Article [33].

2. The aid referred to in paragraph 1 may be granted only in respect of the quantities eligible under Article [33] which are refined into white sugar at the refineries referred to in Article 9(4). The aid for the white sugar in question shall be ECU 0.08 per 100 kilograms, expressed in white sugar.

3. During the period specified in paragraph 1, additional aid of ECU 0.08 per 100 kilograms, expressed as white sugar, shall be granted for the refining, at the refineries referred to in Article 9(4), of raw cane sugar produced in the French overseas departments, in order to restore the price balance between that sugar and preferential sugar.

4. For a particular marketing year, adjustment aid and additional aid shall be adjusted in the light of the storage levy fixed for that year and previous adjustments.

5. Detailed rules for the application of this Article, and in particular concerning the adjustments referred to in paragraph 4, shall be adopted in accordance with the procedure laid down in Article 41.

Article [37]

1. During the period referred to in Article [36], in order to ensure adequate supplies to the Community refineries referred to in Article 9(4), a reduced rate of duty, hereinafter referred to as "special duty", shall be levied on imports of raw cane sugar originating in the States referred to in Article [33] pursuant to agreements with those States or with other States within the meaning of Article [16], hereinafter referred to as "special preferential sugar" and subject to the conditions laid down therein, and in particular the minimum purchasing price to be paid by refiners.

2. For the purposes of paragraph 1 and without prejudice to paragraph 5, the presumed maximum supply needs per marketing year, expressed in white sugar, of the refining industries in:

   (a) Finland, amount to 40 000 tonnes,
   (b) metropolitan France, amount to 297 000 tonnes,
   (c) continental Portugal, amount to 292 000 tonnes,
   (d) the United Kingdom, amount to 1 130 000 tonnes.

   However, in the case of Finland, these needs amount:

   - for the period from 1 July 1995 to 31 December 1995, to the balance of the quantities of raw sugar remaining to be refined subject to the limit laid down in Article 16a, as amended by the Act of Accession of Norway, Austria, Finland and Sweden;

   - for the period from 1 January 1996 to 30 June 1996, to 20 000 tonnes.

3. On the basis of a Community forecast supply balance for raw sugar for each marketing year or part of a marketing year, the quantities of raw cane sugar and raw beet sugar harvested in the Community with or without distinction of origin available to the refining industry shall be determined. This balance may be revised during the marketing year.

   For the purposes of determining these quantities, the quantities of sugar from the French overseas departments and of preferential sugar for direct consumption to be used in each balance shall be those determined for the 1991/92 marketing year less forecast local consumption in those departments during the marketing year in question. If the balance shows that the amounts available will be insufficient to meet the maximum needs laid down in paragraph 2, provision may be made for the Member States concerned to import the shortfall as special preferential sugar under the arrangements for imports at a special rate of duty provided for in the agreements referred to in paragraph 1.

4. When, after revision, the forecast of a shortfall for a given Member State and in a given marketing year shows that the limit of presumed needs laid down in paragraph 2 for that Member State will be exceeded, the quantity in excess shall not be entitled to benefit from the preferential arrangements defined in paragraph 2 if it is refined in the same Member State.

5. Where Article 23(4a) applies, the sum of the maximum needs referred to in paragraph 2 shall be reduced for the marketing year concerned by the same percentage reduction applied to the sum of the basic quantities A for Community sugar pursuant to the said paragraph 4a.

   The reduction of the maximum needs shall be apportioned between the Member States concerned on the basis of the relationship existing between the quantity fixed for each one of them in paragraph 2 and the sum of the quantities fixed in that paragraph.

6. Detailed rules for the application of this Article, and in particular concerning the implementation and management of the agreements referred to in paragraph 1, shall be adopted in accordance with the procedure laid down in Article 41.

* OJ No L 229, 17.8.1991, p. 1.
** OJ No L 190, 22.7.1975, p. 35."

16. In Article 46, paragraphs 1 to 5 are replaced by the following:

"Article [46]

1. Italy shall be authorized, under the conditions set out in paragraphs 2 and 3, to grant adjustment aid in the case referred to in point (a) of paragraph 2 to producers of sugar beet and in the case referred to in point (b) of paragraph 2 to producers of sugar beet as well as, where appropriate, to producers of sugar in the region in question.

2. The aid referred to in paragraph 1 may be granted only in respect of the quantity of sugar produced within the limit of the A and B quotas of each sugar-producing undertaking.

   (a) For the production referred to in the first paragraph in northern Italy, the unit amount of aid may not exceed:

      - in the 1995/96 marketing year, ECU 6.75 per 100 kilograms of white sugar;
      - in the 1996/97 marketing year, ECU 4.5 per 100 kilograms of white sugar;

- in the 1997/98 marketing year, ECU 2.25 per 100 kilograms of white sugar.

No aid shall be paid in northern Italy as from the 1998/99 marketing year.

(b) For the sugar production referred to in the first paragraph in central and southern Italy, the unit amount of aid may not exceed:

- in the 1995/96 marketing year, ECU 6.75 per 100 kilograms of white sugar;
- in the marketing years 1996/97 to 2000/01, ECU 4.5 per 100 kilograms of white sugar.

3. However, as regards central and southern Italy only, Italy may, depending on the marketing year in question, adjust the aid referred to in point (b) of paragraph 2 where this is necessitated by exceptional requirements connected with restructuring the sugar sector in that part of Italy. Pursuant to Articles 92, 93 and 94 of the Treaty, the Commission shall assess in particular whether such aid is consistent with the restructuring plans.

4. For the purposes of paragraphs 1, 2 and 3:

(a) northern Italy means Italy other than the regions of production listed under (b);
(b) central and southern Italy means Abruzzi, Molise, Apulia and Sardinia.

5. Italy shall notify the Council, in respect of each marketing year, of the measures taken in application of this Article and, in particular, of the distribution of the aid by region and between producers of sugar beet and producers of sugar in central and southern Italy."

17. In Article [48], the date "30 June 1995" is replaced by "30 June 1996".

Article 2

Article 9 of Regulation (EEC) No 1010/86 is repealed.

Article 3

This Regulation shall enter into force on the seventh day following that of its publication in the Official Journal of the European Communities.

It shall apply from 1 July 1995.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels,

For the Council
The President

FINANCIAL STATEMENT

(C237094/FEN)

Date: 31 October 1994

1. BUDGET HEADING: EXPENDITURE B1-11 APPROPRIATIONS: ECU 1 874 million
REVENUE 1000 AND 11 ECU 861.3 million and ECU 1 251.4 million

2. TITLE:

Proposal for a Council Regulation amending Regulation (EEC) No 1785/81 on the common organization of the markets in the sugar sector

3. LEGAL BASIS: Articles 42 and 43 of the Treaty

4. AIMS OF PROJECT:

To lay down the common organization of the markets in the sugar sector for the marketing years from 1995/96 to 2000/01

5. FINANCIAL IMPLICATIONS	PERIOD OF 12 MONTHS	CURRENT FINANCIAL YEAR (95)	FOLLOWING FINANCIAL YEAR (96)
5.0. EXPENDITURE - CHARGED TO THE EC BUDGET (REFUNDS) - NATIONAL ADMINISTRATION - OTHER		-	2 027.2
5.1. REVENUE - OWN RESOURCES OF THE EC (LEVIES/CUSTOMS DUTIES) - NATIONAL		-	1 677.4

	1997	1998	1999	2000
5.0.1. ESTIMATED EXPENDITURE	1 951.8	1 905.2	1 858.6	1 812.1
5.1.1. ESTIMATED REVENUE	1 581.5	1 515.4	1 449.2	1 383.2

5.2. METHOD OF CALCULATION:

SEE ANNEX

6.0. CAN THE PROJECT BE FINANCED FROM APPROPRIATIONS ENTERED IN THE RELEVANT CHAPTER OF THE CURRENT BUDGET? YES

6.1. CAN THE PROJECT BE FINANCED BY TRANSFER BETWEEN CHAPTERS OF THE CURRENT BUDGET? YES

6.2. IS A SUPPLEMENTARY BUDGET NECESSARY? NO

6.3. WILL FUTURE BUDGET APPROPRIATIONS BE NECESSARY? YES

COMMENTS:
Savings from the reduction in refund expenditure will not create an additional margin in heading 1, since the reduction in production levies must automatically cause a reduction in the agriculture guideline.

ANNEX TO THE FINANCIAL STATEMENT

A. EXPENDITURE

1. STORAGE

If C sugar carried over is ignored, the quantities which have received storage refunds in the EUR-12 over the last three marketing years amount to 70 million tonnes per month, giving an average length of storage of 5.9 months.

If this ratio remains unchanged in EUR-16, the quantity becomes 76.4 million tonnes per month.

Storage costs are therefore:

76.4 million tonnes per month x ECU(A) 4/tonne/month = ECU(A) 305.6 million

To cover this expenditure, assuming that the quantity of sugar disposed of in EUR-16 is 14.13 million tonnes, will require a storage levy of ECU 21.6/tonne.

For 1995/96 only, when 1 million tonnes of carried over C sugar will be stored for nine months but financed for only six months, the extra cost will be:

1 million tonnes x 6 months x ECU(A) 4/tonne/month = ECU(A) 24 million

This means that for 1995/96 the storage levy will be increased to ECU(A) 23.3/tonne, provided that the balance of C sugar as at 30 June 1995 to be carried over from the preceding marketing year is included.

2. REFUNDS

(a) Calculation of the refund

The average world price over the last three years was USD 275/tonne. The following traditional calculation gives the level of refund to be used:

Intervention price:	ECU	523.3/tonne	
Storage levy:	ECU	21.6/tonne	(ECU 23.3/tonne in 1995/96)
Delivery FOB:	ECU	50.0/tonne	
TOTAL (1)	ECU	594.9/tonne	

Levy USD/tonne		275	
ECU rate		1.17647	(USD 1 = ECU 0.85)
Quotation in ECU(B)		233.75	
Monetary coefficient		1.207	
Quotation in ECU(A)		193.66	
Monetary adjustment for FOB		8.59	
TOTAL (2)	ECU	202.25/tonne	

Refunds = TOTAL(1) + TOTAL(2) = 594.9 - 202.25 = ECU(A) 392.6/tonne and ECU(A) 394.3/tonne in 1995/96.

(b) Impact of the GATT

Without wishing to prejudge the outcome of any negotiations consequent on the next enlargement and assuming the quantities and amounts negotiated in the GATT, the theoretical maximum refunds which would enable the authorized quota to be filled are as follows:

1995/96	:	ECU(A) 387.6/tonne
1996/97	:	ECU(A) 376.4/tonne
1997/98	:	ECU(A) 364.5/tonne
1998/99	:	ECU(A) 351.6/tonne
1999/2000	:	ECU(A) 337.6/tonne
2000/01	:	ECU(A) 322.3/tonne

In all possible cases, the maximum theoretical refund is less than the previous refund of ECU 392.6/tonne. Accordingly, to respect budgetary obligations under the GATT, authorized exports will have to be reduced to the following levels:

1995/96	:	1 533.9
1996/97	:	1 442.0
1997/98	:	1 343.6
1998/99	:	1 245.3
1999/2000	:	1 147.2
2000/01	:	1 048.8

(c) Calculation of expenditure on refunds

It is assumed that only the whole of the A quota for inulin syrup will be used. All the difference between the A quota of 274 000 tonnes and current consumption of 100 000 tonnes is exported under the "GATT" quantity calculated in the previous paragraph.

The table below sets out the expenditure on quantities exported and distinguishes between reexports of ACP sugar and the "GATT" quota.

EXPORT REFUNDS

	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01
QUANTITIES ('000 tonnes)						
Sugar and isoglucose	1 359.9	1 268.0	1 169.6	1 071.3	973.2	874.8
Inulin syrup	174.0	174.0	174.0	174.0	174.0	174.0
"GATT" Total	1 533.9	1 442.0	1 343.6	1 245.3	1 147.2	1 048.8
ACP	1 620.0	1 620.0	1 620.0	1 620.0	1 620.0	1 620.0
Total quantity	3 153.9	3 062.0	2 963.6	2 865.3	2 767.2	2 668.8
REFUND (ECU (A)/tonne)	394.3	392.6	392.6	392.6	392.6	392.6
COSTS (ECU(A) million/tonne)						
Sugar and isoglucose	536.2	497.8	459.2	420.6	382.1	343.5
Inulin syrup	68.6	68.3	68.3	68.3	68.3	68.3
"GATT" Total	604.8	566.1	527.5	488.9	450.4	411.8
ACP	638.8	636.0	636.0	636.0	636.0	636.0
Total	1 243.6	1 202.1	1 163.5	1 124.9	1 086.4	1 047.8
COSTS (ECU(B) million/tonne)						
DR	1.207	1.207	1.207	1.207	1.207	1.207
Sugar and isoglucose	647.2	600.8	554.2	507.6	461.1	414.5
Inulin syrup	82.8	82.5	82.5	82.5	82.5	82.5
"GATT" Total	730.0	683.3	636.7	590.1	543.6	497.0
ACP	771.0	767.7	767.7	767.7	767.7	767.7
Total	1 501.0	1 451.0	1 404.4	1 357.8	1 311.3	1 264.7

3. CHEMICAL INDUSTRY

It is estimated that the quantities in EUR-16 will be 10 000 tonnes greater than in EUR-12 at about 210 000 tonnes.

The cost is:

210 000 x ECU [392.6 (refunds) - 70 (allowance)]/tonne = ECU 67.7 million.
In 1995/96: 210 000 x (394.2 - 70) = ECU 68.1 million.

In the event that the 70 ECU/t allowance is reduced, the expenditure for the chemical industry should be revised upwards.

4. AID FOR THE DISPOSAL (TRANSPORT AND REFINING) OF RAW SUGAR IN THE FRENCH OVERSEAS DEPARTMENTS

The quantity concerned is estimated at 250 000 tonnes.
The calculation of the aid is as follows:

Flat-rate FOB transport	:	ECU(A) 13.5/tonne
Sea freight	:	ECU(A) 25.0/tonne
Storage element*	:	ECU(A) 9.6/tonne (11.3 in 1995/96)
Quality element	:	ECU(A) 7.0/tonne
TOTAL	:	ECU(A) 55.1/tonne (56.8 in 1995/96)

	250 000 tonnes x ECU(A) 55.1/tonne = ECU(A) 13.8 million
(1995/96):	250 000 tonnes x ECU(A) 56.8/tonne = ECU(A) 14.2 million

5. AID FOR THE ADJUSTMENT OF REFINING

This concerns refined ACP and OD sugar and covers 1.45 million tonnes.

Aid for refining is calculated in the same way as ine calculation for previous marketing years:

Aid of ECU(A) 0.8/tonne for a levy of ECU(A) 40/tonne.
For a levy of ECU(A) 21.6/tonne: 0.8 + 40 - 21.6 = ECU(A) 19.2/tonne:

	1 450 000 tonnes x ECU(A) 19.2/tonne = ECU(A) 27.8 million
(1995/96) :	1 450 000 tonnes x ECU(A) 16.6/tonne = ECU(A) 24.1 million

6. SUMMARY OF EXPENDITURE

The table below shows the trend of expenditure in the sugar sector for the financial years 1996 to 2001.

* Storage levy - 3 months reimbursement of storage costs
ECU(A) 21.6/tonne - 3 x ECU(A) 4/tonne.

SUMMARY OF EXPENDITURE

MARKETING YEAR	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01
Financial year	1996	1997	1998	1999	2000	2001
Refunds						
Sugar and isoglucose	536.2	497.8	459.2	420.6	382.1	343.5
Inulin syrup	68.6	68.3	68.3	68.3	68.3	68.3
ACP	638.8	636.0	636.0	636.0	636.0	636.0
Total	1 243.6	1 202.1	1 163.5	1 124.9	1 086.4	1 047.8
Storage	329.6	305.6	305.6	305.6	305.6	305.6
Chemical industry	68.1	67.7	67.7	67.7	67.7	67.7
Disposal of raw sugar	14.2	13.8	13.8	13.8	13.8	13.8
Aid for refinery adjustment	24.1	27.8	27.8	27.8	27.8	27.8
TOTAL (ECU million (A))	1 679.6	1 617.0	1 578.4	1 539.8	1 501.3	1 462.7
DR	1.207	1.207	1.207	1.207	1.207	1.207
TOTAL (ECU million (B))	**2 027.2**	**1 951.8**	**1 905.2**	**1 858.6**	**1 812.1**	**1 765.5**

B. OWN RESOURCES

A. STORAGE LEVY

Resources from storage levies should be equivalent to expenditure on storage refunds:

ECU(A) 329.6 million in 1996 and ECU(A) 305.6 million in other years.

B. PRODUCTION LEVIES

Resources from production levies should cover expenditure on export refunds for the Gatt quota, the production refund for the chemical industry and the net costs of exporting sugar in form of non-Annex II products.

Sugar-related expenditure under the budget quota for non-Annex II products provided for in the GATT accounts for about 35% of the total.

ECU(A) million	1996	1997	1998	1999	2000	2001
Refunds	604.8	566.1	527.5	488.9	450.4	411.8
Chemical industry	68.1	67.7	67.7	67.7	67.7	67.7
Non-Annex II	187.4	171.1	154.9	138.7	122.5	106.2
TOTAL	860.3	804.9	750.1	695.3	640.6	585.7

3. CUSTOMS TARIFFS

Full tariff	: 300 000 tonnes x ECU(A) 410/tonne =	ECU(A) 123.0 million
Reduced tariff	: 320 000 tonnes x ECU(A) 240/tonne =	ECU(A) 76.8 million
		ECU(A) 199.8 million

SUMMARY OF OWN RESOURCES

Financial year	1996	1997	1998	1999	2000	2001
Storage levy	329.6	305.6	305.6	305.6	305.6	305.6
Production levy	860.3	804.9	750.1	695.3	640.6	585.7
Tariff	199.8	199.8	199.8	199.8	199.8	199.8
TOTAL (ECU(A) million)	1 389.7	1 310.3	1 255.5	1 200.7	1 146.0	1 091.1
DR	1.207	1.207	1.207	1.207	1.207	1.207
TOTAL (ECU(B) million)	1 677.4	1 581.5	1 515.4	1 449.2	1 383.2	1 317.0

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