

## EUROPEAN PARLIAMENT

# Working Documents

1974-1975

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11 November 1974

DOCUMENT 340/74

## Report

drawn up on behalf of the Committee on Agriculture

on the proposals from the Commission of the European Communities to the Council (Doc. 303/74) for

- I. a Regulation on the introduction of a subsidy on imports of white and raw sugar
- II. a Regulation on the financing of the subsidy on sugar imports and the granting of a subsidy on sugar produced in excess of the maximum quota

Rapporteur: Mr C. LABAN



By letter of 10 October 1974 the President of the Council of the European Communities requested the European Parliament, pursuant to Article 43 of the EEC Treaty, to deliver an opinion on the proposals from the Commission of the European Communities to the Council for a regulation on the introduction of a subsidy on imports of white and raw sugar and a regulation on the financing of the subsidy on sugar imports and the granting of a subsidy on sugar produced in excess of the maximum quota.

On 14 October 1974 the President of the European Parliament referred these proposals to the Committee on Agriculture as the committee responsible and to the Committee on Budgets and the Committee on External Economic Relations for their opinions.

The Committee on Agriculture appointed Mr C. Laban rapporteur on 22 October 1974.

It considered these proposals at its meeting of 4 and 5 November 1974.

At the same meeting the committee adopted the motion for a resolution and the explanatory statement by 8 votes in favour, with 4 abstentions.

The following were present: Mr Houdet, Chairman; Mr Laban, rapporteur and Vice-chairman; Mr Espersen (deputizing for Mr Brégère), Mr Frehsee, Mr Früh, Mr Gibbons, Mr Howell, Mr Liogier, Mr Martens, Mrs Orth, Mr Scott-Hopkins and Lord St. Oswald.

The opinion of the Committee on External Economic Relations is attached.

The opinion of the Committee on Budgets will be given orally.

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The Committee on Agriculture hereby submits to the European Parliament the following motion for a resolution, together with explanatory statement :

MOTION FOR A RESOLUTION

embodying the opinion of the European Parliament on the proposals from the Commission of the European Communities to the Council for

- I. a regulation on the introduction of a subsidy on imports of white and raw sugar
- II. a regulation on the financing of the subsidy on sugar imports and the granting of a subsidy on sugar produced in excess of the maximum quota

The European Parliament,

- having regard to the proposals of the Commission to the Council<sup>1</sup>,
  - having been consulted by the Council pursuant to Article 43(2) of the EEC Treaty (Doc. 303/74);
  - having regard to the report of the Committee on Agriculture and the opinions of the Committee on Budgets and the Committee on External Economic Relations (Doc. 340/74);
  - having regard to the necessity to ensure sugar supplies within the Community;
  - having regard to the temporary sugar deficit experienced by certain regions within the Community;
  - having regard to the fact that a new organization of the common sugar market will enter into effect in July 1975;
1. Accepts the necessity to take proper measures to ensure sugar supplies within the Community;
  2. Believes that the present difficulties experienced by certain regions in obtaining adequate sugar supplies are due to purely temporary factors, and that the measures now proposed are essentially short-term in their application;
  3. Notes that a new common market organization for the sugar market will be established in July 1975 and that the market organization will correspond more exactly to the market situation, thus reducing the necessity for short-term measures of this nature;

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<sup>1</sup> OJ No. C 133, 29.10.1974, p.9

4. Believes that the subsidies accorded to sugar importers and producers of "C" sugar should be comparable, while taking into account differences in transport, insurance and stocking costs.
5. Instructs its President to forward this resolution and the report of its committee to the Council and the Commission of the European Communities.

## EXPLANATORY STATEMENT

### The Purpose of the Commission's Proposals

1. The situation on the Community sugar market is characterised at present by increasing scarcity due to the following internal and external factors :
  - an increase in Community consumption;
  - increasingly pessimistic forecasts for 1974 sugar beet harvest.
2. In view of these factors, the Commission predicts a shortfall in sugar for the 1974/75 campaign of 300,000 to 500,000 tonnes. The latest estimates of the Commission put 500,000 tonnes as a minimum figure.

These will most seriously affect the two countries with a present deficiency - Britain and Italy - who are already experiencing prices above the normal Community level.

3. The Commission, therefore, proposes :
  - (a) to implement Article 16 of Regulation No 1009/67 by introducing a subsidy on imports of sugar to cover only those amounts required to ensure the supplies of the Community;
  - (b) to introduce a subsidy on sugar produced beyond the maximum quota.

### Recent Amendments to the Common Organisation of the sugar market

4. The common organisation for the sugar market, as laid down in Regulation No 1009/67/EEC<sup>1</sup>, was drawn up in a period of world-wide sugar surpluses and low world prices.

Its principal aims, as a consequence, were the following :

- limitation of marketing costs;
- the maintenance of a fixed and limited production;
- expansion of production in those regions most suited to this crop;
- maintenance of a certain level of production in the less favoured regions.

5. Three regimes were established, therefore, for sugar production :
  - (i) the basic quota 'sugar A' with a guaranteed minimum price. Each undertaking has a basic quota allocated and laid down in the regulation (calculated on the basis of average production 1961/62 to 1965/66)<sup>2</sup>;
  - (ii) a maximum quota 'sugar B' fixed at 135% of the basic quota,<sup>3</sup> and for which the price received by producers is lower than that of 'sugar A' to the extent of a production levy;

<sup>1</sup> O.J. No 308, 18.12.1967, p. 1.

<sup>2</sup> Articles 23 and 24 of Regulation No 1009/67/EEC, O.J. No 308/67, p. 9 - 10.

<sup>3</sup> COM(74) 30 final, part VII, pp. 2 and 3; final recital and Article 4.

(iii) farmers are free to produce sugar beyond these established quotas. This 'sugar C' cannot be placed on the Community market (except in times of scarcity), receives no export restitutions and is entirely at the producer's risk.

6. However, between 1970 and 1973 world production was lower than consumption, with the result that carryforward stocks were rapidly marketed. By September 1973 stocks were at the absolute minimum required to ensure supplies for the beginning of the new season. No immediate lessening of these international market difficulties can be foreseen.

7. The result has been that world sugar prices have more than trebled between 1968 and 1973, resulting in a dramatic reversal in the relationship between the Community and the world price levels. In 1968 when the present organisation was set up, the price of sugar on the international market was 5 u.a. per 100kg as compared to a minimum price for sugar of 22 u.a. in the Community. In 1974, however, the situation has been completely reversed : sugar on the international market is 72 u.a. per 100kg on the international market and 26.5 u.a. in the Community.

8. The attractions of the present international sugar market for Community producers has had three important side-effects :

- (a) since 1971 all expenditure on the utilisation of surpluses has been practically covered by receipts from the production levy;
- (b) there has been a steady increase in the main producing regions in the area devoted to sugar beet; in the past year this area increased by 5% in France, by 3.4% in Germany, and to a much more limited extent in Belgium; only in Ireland, Italy and the Netherlands has there been a decline, of 23.7%, 18.1% and 1.9% respectively. Overall there has been a 1% increase and an increasing specialisation;
- (c) high world prices have encouraged exports of sugar from the Community to accelerate; these exports stood at 0.6 million tonnes in 1968/69 and 1.2 million tonnes in 1973/74.

9. An important part of these exports consists of 'C sugar' not benefitting from export restitutions. These have developed in the following manner :

1968/69	1969/70	1970/71	1971/72	1972/73	1973/74
'000 tonnes					
34	79	122	620	215	660



This is in relation to a total production which has progressed as follows :

1968/69	1969/70	1970/71	1971/72	1972/73	1973/74
6.823	7.435	7.051	8.071	7.639	8.274

10. The Commission has sought to ensure adequate Community supplies of sugar by means of a series of amendment to the basic regulation in the course of this year :

- (a) raising the level of the maximum quota for 1974/75 from 135% to 145%<sup>1</sup>;
- (b) providing for an export levy on 'C' sugar<sup>2</sup>;
- (c) authorizing Italy to increase supplementary payments to beet growers<sup>3</sup>;
- (d) providing for the suppression of the production refund to the chemical industry to encourage the use of Community sugar<sup>4</sup>.

The proposed subsidies for imports and 'C' sugar

11. Regulation No 2084 of 6 August 1974<sup>5</sup> establishes that Article 16 of Regulation No 1009/67/EEC, providing for an export levy on sugar equal to the difference between the c.i.f. price and the threshold price (when the former exceeds the latter) shall apply to sugar produced in excess of the maximum quota ('C' sugar) in respect of a quantity not exceeding 80% of that 'C' sugar. This sugar is to be disposed of on the Community market without any production levy being exacted (i.e. at the price of 'A' sugar).

12. In view of the present difficulties in Community sugar supplies, the Commission proposes a further regulation<sup>6</sup> in application of Article 16 of Regulation No 1009/67/EEC.

By this Regulation an import subsidy, of approximately 200 u.a. per tonne, will be granted to imports of sugar.

13. A second regulation is proposed<sup>7</sup>, on which the European Parliament is called upon to give its opinion, to allow for the possibility of a subsidy being granted to that 20% of the 'C' sugar production which may be freely exported on to the world market so as to encourage its disposal on the Community market.

<sup>1</sup> Regulation No 1600/74, O.J. No L 127/74.

<sup>2</sup> Regulation No 2084/74, O.J. No L 217/74, p. 17.

<sup>3</sup> Doc. 92/74

<sup>4</sup> Doc. 233/74

<sup>5</sup> O.J. No L 217/74, p. 17

<sup>6</sup> COM (74) 1593 final - I

<sup>7</sup> COM (74) 1593 final - II

These expenditures are to be considered part of intervention for the management of agricultural markets.

14. To help reduce the cost of these operations, the Commission proposes that those importing sugar or diverting that 20% of 'C' sugar free from an export levy on to the Community market should be allowed to export an equal amount of sugar free from export tax at a later period, in the 1975/76 sugar campaign.

15. Thus, in the case of the sugar importer, he may choose :

- (a) to benefit from the subsidy of 200 u.a. per tonne;
- (b) or forgo part or all of the subsidy and benefit from the high long-term sugar rates by obtaining an exemption in the export levy for 1975/76 for an amount equal to the quantity imported.

16. Similarly those who would normally export the 20% of 'C' sugar free from an export tax may benefit from :

- (a) a subsidy to be fixed by adjudication;
- (b) or an export tax exemption in the 1975/76 campaign.

17. To the extent that the importer/exporter seeks compensation on the forward market, rather than through a subsidy, the Commission seeks to limit the overall costs of obtaining (300,000 to) 500,000 tonnes of sugar that would normally be exported or needs to be imported.

18. One may wonder whether the subsidy of 200 u.a. per tonne will be sufficient given the fact that the world market price is 720 u.a. per tonne and the Community target price for sugar is 265.5 u.a. per tonne. It should be remembered, however, that the Community market price is above the target price and that the importer or potential exporter can economise on transport, customs and insurance charges and can benefit from Community stockage schemes.

The Commission calculates that the overall cost of the operation will be in the order of 60 - 100 million u.a.

If, however, one takes into account that estimated production for 1974/75 is 9,000,000 tonnes, together with imports from the Sugar Agreement in the order of 600,000 to 1,400,000 tonnes, and that consumption will probably be 10,100,000 tonnes (together with 600,000 tonnes for reconstituting stocks, exports in transformed products and for the chemical industry), the deficit may be considerably larger than 300,000 - 500,000 tonnes. In such a case, the expenditure required of the EAGGF will be greater.

Granting an export tax franchise for the export of sugar will result in a reduction in Community revenue during the 1975/76 campaign. The Commission believes that this loss in income cannot be estimated. Yet it should be possible to calculate this on the basis of the probable market evolution (the export tax being the difference between world and Community prices). The European Parliament cannot give its opinion without the essential indications.

### Conclusions

19. The proposals put forward by the Commission are intended to ease a temporary sugar deficit, with a corresponding rise in market prices, experienced by certain regions within the Community.
20. This deficit, which is likely to continue throughout the 1974/75 campaign, is due to mainly temporary factors : an unexpected increase in consumption and a poor harvest in 1974.
21. The subsidies for imports of sugar and for 'C' sugar are of a purely temporary nature and are to be applicable only until the beginning of the 1975/76 campaign.
22. In consequence, and considering that one of the objectives of the common organisation of the sugar market is to take account of the objectives set out in Article 39 of the Treaty, which include the assuring of the availability of supplies, the Committee on Agriculture approves the Commission's proposal.
23. The Committee on Agriculture, however, would also point out that producers of 'C' sugar have taken risks in its production - there normally being no guaranteed price applied - while being deprived of the benefits of high world prices.

Therefore, the subsidy granted to 'C' sugar should not be less than that granted to importers of sugar, while taking into account differences in transport, insurance and stocking costs.

In conclusion, it should be stated that Regulation (EEC) No 608/72<sup>1</sup> laid down rules to be applied in cases of considerable rises on the world sugar market. This regulation made provision for an import subsidy on sugar in cases where supplies to the Community or high consumption regions could not be maintained from Community resources. The regulation also establishes that when such a subsidy is to be granted the proposal from the Commission should include the conditions relating to :

- (a) the quantity of sugar covered;
- (b) the period for which it is wanted;
- (c) and, where appropriate, the import regions.

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<sup>1</sup> O.J. No L 75/72, page 5.

These conditions have not been followed in the Articles of the Regulation and are given only in a cursory fashion in the explanatory statement. It would be helpful if the Commission, as laid down in Regulation 608/72, were to include the conditions for the granting of the import subsidy.

These proposals will involve considerable expense for the Community, for which no provision exists in the 1974 or proposed 1975 Budgets. While the Committee on Agriculture is favourable to these proposals, it deplors the lack of information as to the amount of sugar needed and the costs of the operation.

## ANNEX I

## WORLD SUGAR PRODUCTION, CONSUMPTION AND STOCKS

	1970/71	1971/72	1972/73	1973/74	1980	1985
Production	74518 <sup>1</sup> - 2.12%	76105 <sup>1</sup> + 1.44%	78099 <sup>2</sup> + 4.50%	81068 <sup>2</sup> + 4.99%	(105)	(125)
Consumption	72771 + 3.18%	73852 + 2.13%	77173 + 2.62%	81021 + 3.3%	(100)	(113)
Balance	- 1747	- 2253	- 926	- 47		
% increase in production compared to consumption		- 0.6%	- 1.8%	- 1.6%		
Normal level of stocks	23%	23%	23%	23%	23%	23%
Actual or estimated level of stocks	25.6%			19.3%	(5.2%)	(11%)

<sup>1</sup> Reduced production in Cuba and the U.S.S.R.

<sup>2</sup> One-third of increased production due to increased production in Cuba and the U.S.S.R.

ANNEX II

POSITION 1973/74

PRODUCTION EEC	9,522,000	tonnes
of which 'C' sugar	0,660,000	tonnes
of which 'A' and 'B' sugar	8,862,000	tonnes

HUMAN CONSUMPTION

estimated summer 1973 at	9,600,000	tonnes
is now estimated at	10,181,000	tonnes

EXPORTS

sugar and transformed products without 'C' sugar	0,532,000	tonnes
'C' sugar	666,000	tonnes

CHEMICAL INDUSTRIES/DENATURISATION	0,050,000	tonnes
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IMPORTS	1,423,000	tonnes
	(instead of 1,760,000	tonnes)

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Production	8,862,000	tonnes <sup>1</sup>
Imports	1,423,000	tonnes
	<hr/>	
	10,285,000	tonnes
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Consumption	10,181,000	tonnes
Exports	532,000	tonnes
Chemical Industries/Denaturisation	50,000	tonnes
	<hr/>	
	10,763,000	tonnes
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DEFICIT	478,000	tonnes

REDUCTION IN STOCKS

(A minimum stock of 10% =	- 0,400,000	tonnes
STOCKS at 1/10/1973	1,200,000	tonnes)
STOCKS at 1/10/1974	0,900,000	tonnes
	0,492,000	tonnes

<sup>1</sup> Production excluding 'C' sugar

ESTIMATED POSITION 1974/75

Reconstituting stocks	300,000	tonnes	1)
Exports of transformed products	120,000	tonnes	2)
Chemical industries/denaturisation	80,000	tonnes	2)
Consumption	10,100,000	tonnes	
	<u>10,600,000</u>	<u>tonnes</u>	
BEEF AREA	1,560,000	hectares	
ESTIMATED PRODUCTION (A, B and C)			
of which "C" sugar 220,000 tonnes	9,000,000	tonnes	
(Production with normal yield)	10,000,000	tonnes	
	(maximum	1,400,000	tonnes
IMPORTS	(		
	(minimum	1,000,000	tonnes
		<u>600,000</u>	<u>tonnes</u>
<u>MAXIMUM DEFICIT</u>		-	tonnes
<u>MAXIMUM SURPLUS</u>			

1) This includes a figure of 180,000 tonnes to reconstitute British stocks, which have been used to cover present needs.

2) These are minimum figures, that for transformed products will probably be at least 250,000 tonnes.

Opinion of the Committee on External Economic Relations

Draftsman : Mr G. Kaspereit

The Committee on External Economic Relations appointed Mr Kaspereit draftsman on 22 October 1974.

It considered the draft opinion at its meetings of 5 and 12 November 1974, and adopted it unanimously at the latter meeting.

The following were present: Mr de la Malène, chairman; Mr Boano and Mr Thomsen, vice-chairmen, Mr Kaspereit, draftsman; Mr Brewis, Mr Cousté, Sir Arthur Douglas Dodds-Parker, Mr Jahn, Mr De Koning, Mr Nyborg (deputizing for Mr Herbert), Mr Pintat, Lord St. Oswald and Mr Thornley.



1. In its Memorandum to the Council on the Community's future sugar policy prepared in the summer of 1973 (COM (73) 1177 final), the Commission of the European Communities considered it essential to limit Community sugar production (cf Memorandum, sec. 9). Events since then have shown that assertion to be wrong.

2. The situation of Community sugar supplies has in fact worsened constantly since the autumn of 1973. In seeking to explain this deterioration the Commission speaks of an abnormal increase in consumption of sugar and inadequate supplies from the Commonwealth countries. But was this increase so abnormal that it could not have been foreseen by the Commission's experts? There is room for doubt here, when it is considered that a great many developing countries do not have sufficient stocks to meet even the minimum needs of their own population.

Be that as it may, a sugar deficit amounting to somewhere between 300,000 and 500,000 tons is expected in the Community for the 1974/75 marketing year.

3. This deficit is largely the result of the policy carried out by the Commission since 1967 which did not encourage Community producers to increase their cultivation to meet growing consumer demand. This demand has been constantly underestimated by the Commission. Only a year ago, the Commission estimated the current needs of the Community at 9.2 million metric tons, whereas consumption in fact amounted to 10.15 million metric tons in the private sector, to which must be added 200,000 metric tons for the chemical industry and biscuit imports, which makes a total of 10.35 million metric tons. Also stocks which a few months ago amounted to 1.1 million metric tons have dropped to 450,000 metric tons. Home production has therefore in fact dropped to 9.1 million metric tons, since sugar beet diseases in certain Member States have also reduced Community production.

Furthermore, certain developing countries have not been in a position to export the quantities of sugar which they had undertaken to supply to the Community.

4. The scarcity of available sugar supplies is likely to lead to a very steep rise in the world price of this primary commodity and bring about a sharp reversal of the relationship between the level of Community and world prices. In 1968 when the Community organization was set up, the price of sugar on the international market was 5 ua/100 kg. The price on the Community market at the same time was 22 ua/100 kg. Today the respective figures are 72 and 26.55 u.a. More specifically, according to the latest press reports, sugar prices rose by some 20% in the last week of October 1974. The increase has exceeded 45% in the space of two months. Prices have almost quadrupled since January 1974.

5. This forecasting error cannot be viewed in isolation from a number of similar mistakes made by the Community authorities - in this respect the responsibility of the Council is no less than that of the Commission - in administering the common agricultural policy in recent months. These persistent errors are bound to have an adverse effect on the incomes of farmers and on consumers.

6. The common agricultural policy is based on two main principles: the unity of agricultural product prices within the Community and the common financial responsibility of the member states; it is therefore legitimate for the Community to accept responsibility for the cost of sugar imports, effected in particular by the United Kingdom and Italy - because their domestic production is insufficient - at the prevailing world price.

The Commission has therefore submitted to the Council a proposal for a regulation on the implementation of a system of Community subsidies intended to make good the difference between the world sugar price and the Community price.

7. However, before the European Parliament even had an opportunity to deliver its opinion on this document, pursuant to the provisions of the EEC Treaty, the Council meeting in Luxembourg on 21 October 1974, agreed on the principle and procedures of such subsidies,

8. The Council expressed agreement with the proposals of the Commission on the introduction of an import subsidy for sugar, initially for 200,000 metric tons. The difference between the world price and the Community price - approximately 100 million u.a. - will therefore be borne by the Community. It should be pointed out here that this financial aid will be facilitated by the EAGGF revenue from levies on cereal exports, since the world price is higher than the Community price for cereals.

At the same meeting, the Council adopted measures to increase sugar production and, to this end, extend the price guarantee to a wider section of Community production. The 'A' basic quotas have been considerably extended (altogether accounting for 9,136,000 metric tons, instead of 7,820,000 metric tons, the Commission having proposed 8,500,000 metric tons). The 'B' quotas have also been increased (they are now 45% of the 'A' quotas),

9. The haste with which the Council has acted on this occasion, thus depriving the powers of the European Parliament of all substance, is obviously unacceptable. The fact that this action results from pressure exerted by individual Member States is no excuse.

Under these conditions and while our Parliament has received no official communication of the decisions taken by the Council, our opinion can only be of symbolic value. We shall therefore not consider in detail the Commission's proposals which have already been overtaken by events.

All we shall do is to express, in general terms, the opinion of the Committee on External Economic Relations as to the advisable basic strategy of Community sugar policy for the next few years, with particular reference to the new situation created by the world shortage of this product - which seems likely to persist for a relatively long time.

In this connection, we believe that three aims should be considered:

10. (a) safeguarding the interest of the developing countries

The Community has certain legal, and, more generally, moral obligations to a number of countries (belonging to the Yaoundé Convention, associable Commonwealth countries, India etc.).

In the light of these obligations which there can be no question of revoking, the Community has undertaken to lay down preferential import arrangements (for a quantity not exceeding 1.4 million t/year) at a guaranteed price for these beneficiary countries.

11. (b) 'The necessity, having regard to the serious balance of payments deficit of most member countries resulting from the increase in oil prices and a two-figure inflation rate in these countries, to limit as far as possible imports into the Community.

12. (c) The maintenance of secure Community supplies of a product needed for human nutrition. Any serious risk of a shortage would merely intensify the panic buying of this 'white gold' by housewives which occurred during the summer in a number of Member States. It therefore seems necessary to increase the area of sugar beet cultivation in the Community, and we welcome the decision taken by the Council in this respect.

13. Despite appearances, these three aims are not contradictory provided that they are applied flexibly, particularly in view of climatic irregularities and the resulting fluctuations of production. In the next few years mankind will be faced, as is apparent from the proceedings of the World Food Conference which opened in Rome on 5 November 1974, with increasing problems of food shortages to which there is no obvious short or medium term solution.

The mountains of butter or other food products which are periodically built up in the Community must not be allowed to lead us astray. In face of the inevitable increase in the world population, it therefore seems necessary, without jeopardizing the interests of the developing countries, to ensure the maintenance of indigenous sugar production at a level sufficient to meet the increasing needs of the Community in this sector.

14. In this respect, it is gratifying that the Council realised the need to safeguard consumer supplies by boosting Community production. The world sugar production deficit has lasted for some years and can probably be put down to structural causes.

The undertakings given by the Community to a number of developing countries will, of course, have to be respected. It is to be hoped that an agreement will soon be concluded between the Community and the ACP states to ensure the latter of a stable and secure revenue from their sugar exports to the Nine by guaranteeing prices and quantities.

15. In any case, we consider it would have been dangerous for the Community deliberately to make itself dependent on third countries in the sugar sector. The shortfall in supplies from certain Commonwealth countries should put us on our guard. The crisis affecting the whole raw materials sector makes security of paramount importance. The oil situation stands as a reminder - if we really need one!



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Luxembourg  
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