

**NEWSLETTER ON THE COMMON AGRICULTURAL POLICY**

No 7

JULY 1974

DEVELOPMENTS IN THE  
ORGANIZATION OF THE MARKET IN  
SUGAR

C O N T E N T S

	<u>Page</u>
INTRODUCTION .....	1
I. THE INTERNATIONAL COMMITMENTS OF THE COMMUNITY .....	2
A. The International Sugar Agreement .....	2
B. The Commonwealth Sugar Agreement and Protocol No 22 to the Accession Treaty .....	5
II. THE INTERNAL POLICY OF THE COMMUNITY .....	9
A. The present system .....	9
B. The proposals contained in the Memorandum of July 1973 .....	11
C. The proposals of July 1974 .....	15
CONCLUSION .....	16

DEVELOPMENTS IN THE  
ORGANIZATION OF THE MARKET IN  
SUGAR

INTRODUCTION

The organization of the world and Community markets is a problem of great importance for, as far as the workings of the Community are concerned, it affects both the common agricultural policy (CAP) and the commitments which the Nine have undertaken vis-à-vis those developing countries which are sugar producers.

Moreover, this problem must be solved in the very near future, for 1974 is the year when certain deadlines run out.

Firstly, the EEC must define its new sugar policy by the autumn of 1974 in order that this policy can be put into effect on 1 July 1975, when the present system will come to an end.

This question is, however, directly bound up with the manner in which the Member States implement the declaration which they adopted in Protocol No 22 to the Treaty concerning the accession of Ireland, Denmark and the United Kingdom to the EEC, for on that occasion they undertook to safeguard the interests of all the countries for whose sugar exports the United Kingdom provided a market. The Nine are to take over, in some form, the Commonwealth Sugar Agreement (CSA) which expires on 31 December 1974. Furthermore, within the framework of the negotiations with the African, Caribbean and Pacific countries (ACP), the EEC must set up a special scheme for sugar imports from the sugar producers among these countries.

./.

In anticipation of these various deadlines, on 12 July 1973, the Commission of the European Communities forwarded to the Council a Memorandum setting forth a number of principles so that appropriate solutions might be found to these various problems. Since then the Commission has made certain amendments in order to bring the document up to date.

I. THE INTERNATIONAL COMMITMENTS OF THE EEC

A. THE INTERNATIONAL SUGAR AGREEMENT

The United Nations Conference on Sugar, held in Geneva from 10 September to 10 October 1973, was supposed to work out a new international agreement, which would have taken over from that which began in 1968 and expired on 31 December 1973. The Conference only gave rise, however, to an Interim Agreement of a purely administrative nature to run from 1 January 1974 to 31 December 1975. Under this agreement the International Sugar Organization was given the task of convening at an appropriate time, a further United Nations Conference on Sugar and of examining in the meantime the bases for a new and more binding agreement.

In spite of pressure from the Commission, the Community was unable, as in 1968, to sign the Agreement. It should be remembered that at the time of the negotiations the Six had requested an export quota of 1 million metric tons of sugar but had been offered one of only 300 000 metric tons. It was essentially for this reason that the Six refused to sign the 1968 Agreement. It should be noted in this connection that 73 countries were a party to the International Sugar Agreement representing 42% of international trade and 12,5% of world demand.

./.

The view of the Commission

Bearing in mind the importance of the International Sugar Agreement and the fact that the three new Member States of the Community are parties to this Agreement, the Commission has proposed to the Council that the Nine should sign the new Agreement negotiated in Autumn 1973.

Before discussing the Commission's suggestions, one should point out that the Nine had requested the signatories of the International Sugar Agreement to accept an extension of the 1968 Agreement until 1975, by which time the Community would have defined the internal sugar policy which it intends to pursue.

This request from the Nine had been rejected by the signatories of the International Sugar Agreement during a first round of negotiations held from 7 till 30 May 1973.

In view of the positions adopted by the signatories of the International Sugar Agreement, the Commission had then drawn attention to the following points:

- Being of the opinion that the provisions of the 1968 Agreement no longer correspond to the present market situation and that it will have to be considerably amended -- both in respect of price and quota levels -- the exporting and importing countries all consider that an extension of the present Agreement would not serve the purpose for which it was designed. That being the case, the Community can no longer continue to press for an extension of the present Agreement when nearly 80 countries have voiced their intention to negotiate a new international agreement.

./.

- The declarations made by the majority of the delegations make it clear that the success of the negotiations depends on the Community accepting the Agreement.
  
- Bearing in mind the situation on the world and Community markets for sugar, the Commission thinks that the EEC could become a party to the new Agreement if the Council decided to request for the Community the status of net importer, with imports at least 600 000 metric tons greater than exports. In the event of a shortage on the world market, however, the Community should be able to sell any extra quantity on the international market, that is, even to be a net exporter without quantitative restrictions. In this connection it should be noted that in mid-July 1974 the Commission submitted to the Council a proposal containing some amendments to its position in respect of the level of net imports.

A purely administrative agreement

Such were the views of the Commission on the negotiations for a new International Sugar Agreement.

The countries participating in the negotiations did no more than approve an agreement of a purely administrative nature to run for a period of two years (1974 and 1975). This Agreement entails no obligations either in respect of prices or in respect of exports or imports. (for example fixing of quotas).

./.

The Commission has, however, proposed to the Council of Ministers that the Agreement should be signed for the following two reasons:

- firstly the Nine should have no difficulty in agreeing to participate in the International Sugar Agreement since the latter does not entail any obligation as to trade. The Commission is of the opinion that, when negotiations resume on the new Agreement, the Community will be able to defend its position concerning the terms of that Agreement;
- secondly, the Council should find it easier to support the signature of that Agreement inasmuch as the Commission proposes that the Community should participate in it both as an importer and as an exporter. This approach should help to facilitate the discussions considerably.

In spite of this proposal from the Commission, however, the Nine have refused to sign the Interim Agreement since at least some of them consider that there was no reason to enter into external commitments while the Community had still not defined the substance of its future sugar policy, particularly as regards its own production.

B. THE COMMONWEALTH SUGAR AGREEMENT AND PROTOCOL NO 22 TO THE ACCESSION TREATY

Since 1951, by virtue of its commitments under the Commonwealth Sugar Agreement, the United Kingdom has been importing annually 1 345 000 metric tons from the developing countries. These imports are at agreed prices, subject to periodic review. Thus, they

./.

are currently fixed at £83 per metric ton in the case of sugar imported from the Caribbean and £79 per metric ton in the case of sugar from other developing countries. This Agreement expires on 31 December 1974. Under the terms of Protocol No 22 to the Accession Treaty, however, the Community has undertaken to safeguard "the interests of all the countries whose economies depend to a considerable extent on the export of primary products, and particularly of sugar".

A guarantee of 1.4 million metric tons

The Commission of the European Communities, observing both the letter and the spirit of this commitment, proposed in its Memorandum of July 1973 that the Community should give similar guarantees to these countries, which are - with the exception of India - associated or eligible for association with the EEC. To the 1 345 000 metric tons already mentioned should be added 4 000 metric tons from Surinam and 51 000 metric tons of sugar from Madagascar and the Congo, as shown in the table below.

(a) Quantities currently imported from the developing countries under the Commonwealth Sugar Agreement

	(white sugar value)
West Indies and Guyana	696 000 t
Mauritius	375 000 t
Fiji	138 000 t
Commonwealth Africa	7 000 t
British Honduras	20 000 t
India	25 000 t
Swaziland	84 000 t
Total:	<u>1 345 000 t</u>

./.



(b) Quantities currently imported from Surinam:

4 000 t

(c) Quantities which may be imported from the AASM

Madagascar	13 000 t
Congo	38 000 t
Total:	<u>51 000 t</u>
GRAND TOTAL	1 400 000 t

In making such a proposal, the European Commission is requesting that the Nine should guarantee those countries outlets totalling 1.4 million metric tons.

As regards prices, against the background of the current negotiations between the Community and the African, Caribbean and Pacific countries (ACP), the Commission submitted on 1 July 1974 proposals which, with a few amendments, follow the principles laid down in the Memorandum of July 1973. Thus, the Commission proposes that the guaranteed income which the associated and potential associated countries derive from their sugar sales to the Community should be related to a total of 1.4 million metric tons and a reference price to be calculated on the basis of the prices currently in force under the Commonwealth Sugar Agreement (£83 and £79 per metric ton) and the lowest intervention price applicable in the Community. This guaranteed price would be negotiated annually.

./.

Mutual obligations

In return for this guarantee, however, the Commission takes the view that the developing countries signing such an agreement should give a definite undertaking to deliver the quantities subscribed for. Should one or more countries nevertheless fail to supply their quota, for reasons beyond their control, the other developing countries who are parties to the agreement should make good such failure to deliver from their own export stocks. It should be pointed out that the present Commonwealth Sugar Agreement already puts such an obligation on the supplier countries, just as the United Kingdom is put under the obligation to buy the quantities agreed.

The Commission also states that the guarantee of purchase offered by the Community should be accompanied by an obligation on the part of the intervention agencies to buy in sugar offered under the conditions laid down; this would only occur, of course, in exceptional circumstances.

Lastly, the Commission considers that, in order to promote industrialization in the developing countries exporting sugar, the EEC should adopt a number of measures to ensure the entry of any white sugar imports from these countries.

The refining of raw sugar from the developing countries

At the moment, however, almost all the exports from the developing countries consist of raw sugar. The sale of this sugar depends, therefore, to a great extent, on the Community capacity for the refining of cane sugar.

./.

At present this refining can take place either in single-process refineries, that is, plants where the only process is that of refining raw sugar into white sugar, or in sugar factories where such refining is merely an accessory activity to the production of white sugar from beet.

The costs of refining in single-process refineries are higher than those in the ancillary refineries. This being the case, the Commission considers that this difference should be taken into account when importing and refining cane sugar.

## II. THE INTERNAL POLICY OF THE COMMUNITY

The internal sugar policy of the Community, under the present transitional arrangements for production, runs only until the end of the 1974/75 sugar year, that is, until 1 July 1975. In view of the characteristics of the sugar market, particularly the conclusion of contracts before sowing takes place, the Commission considers that the new production system should be decided upon before the end of 1974.

So far the Nine have been unable to agree on the future sugar policy of the EEC, in spite of numerous Council discussions between the Ministers of Agriculture.

### A. THE PRESENT SYSTEM

The present production system, which began in 1968\*, provided for transitional measures, whereby a quota system was introduced, the essential features of which were as follows:

- the limitation of total production;

---

\* EEC Regulation No 1009/67.

- the restriction of production within certain limits, even in regions less suitable for sugarbeet growing;
- the possibility of increasing production in the most suitable regions under the programmes for specialization within the Community;
- the limitation of the financial burdens.

Under this quota system each sugar factory is allocated a basic quota ("A") within which prices are fully guaranteed; in respect of an additional quota ("B"), the price guarantee becomes partial; beyond these two quotas, producers receive no price guarantee.

The Commission considers that this system has fulfilled the purposes for which it was designed. Thus, it has given the following results:

- total production within the Six has been limited to a level corresponding to between 110 and 120% approximately of consumption;
- in the regions less suited to sugarbeet growing, production has been maintained at levels slightly below the basic quotas ("A");
- a considerable degree of regional specialization has been achieved. Indeed, in the regions most suited to the growing of sugarbeet, production has reached between 120 and 140% approximately of the basic quota and between 140 and 160% of the reference production level (1961/62 to 1965/66).

./.

Furthermore, specialization among sugarbeet farms has increased. Thus, the total number of sugarbeet producers has dropped over the past five years by approximately 30%, with the result that production structures have been improved and at the same time new farmers have been able to start production; the losses connected with the sale of surplus quantities have been fully borne by the trade for several years. Such results have been made possible by the guarantee of differentiated prices -- payment of a production levy on sugar produced outside the basic quota and the absence of the price guarantee for sugar produced over and above the maximum quotas.

B. THE PROPOSALS CONTAINED IN THE MEMORANDUM OF JULY 1973

Taking account of these results and the difficulties of restricting production by means of a uniform price, the Commission considers it necessary to influence future production -- for 5 years -- by introducing a quota system such as has been in force since 1968.

In the opinion of the Commission, the basis for the new system which would thus be introduced is to be found in Regulation No 1009/67/EEC, Article 22 of which specifies that the provisions concerning national basic quantities, their distribution between factories or undertakings and price differentiation, shall be repealed with effect from 1 July 1975. This Article also stipulates that the definitive arrangements applicable from that date shall not involve any discrimination between Community producers.

./.

Consequently, the Commission considers that the new quota system to be introduced should fix quotas directly for the undertakings concerned without first fixing the quantities applicable to the Member States. These quotas should be fixed for all undertakings, depending on the output they have achieved over a given reference period. Moreover, provision should be made for regional specialization, by concentrating production outside the basic quotas in the regions most suitable for sugarbeet growing, up to a maximum permissible limit for total production.

In the opinion of the Commission, such provisions would have the following purposes:

- to fix a price level for production within the basic quotas which would enable some production to continue outside the regions most suited to sugarbeet growing;
- to restrict production to the level of internal sales, taking into account, as already mentioned, the commitments entered into under Protocol No 22 to the Accession Treaty and the export possibilities on the world market.

In order to achieve these purposes, the Commission has in mind three series of measures as follows:

1. Measures designed to maintain a certain level of production

To maintain production it is necessary to maintain prices for sugar produced within the basic quotas at a level equal to that currently applicable.

./.

These quotas must be calculated in terms of the total production of each sugar undertaking. They should total 8 540 000 metric tons (as against 7 820 000 metric tons at present).

The basic quota for each undertaking would then be equal to its reference production (1968/69 to 1972/73), multiplied by the coefficient of 0.93. If however the quota for an undertaking in one of the new Member States is fixed by such calculations at a level lower than the basic quota applicable at present, the latter quota would then be selected under the future scheme. This can be explained by the fact that the Six had a different starting point from Ireland, Denmark and the United Kingdom. This possibility would also be open to other undertakings in the Community.

2. Measures designed to promote specialization

The Commission considers that the price level for sugarbeet produced outside the basic quotas ("B") should be decided in the following manner:

- only the undertakings and regions most suited to sugarbeet growing would be concerned with the production of "B" beet;
- the volume of total production would remain within the limits set by market outlets.

These aims should be achieved by the introduction of a contribution, to be fixed before each sugar year, on sugarbeet and sugar produced in excess of the basic quotas. Thus, the ex-factory price would remain uniform

./.

for all sugar production up to the level of the maximum quotas and a single Community market would be guaranteed.

The Commission considers, furthermore, that regional specialization entails the adoption of certain special measures designed to restrict production of "B" beet in areas less suited to sugarbeet production.

Therefore, for those undertakings which abandon that type of production, compensatory measures must be introduced:

- giving them the choice between the present quota and that which would apply under the new system;
- allowing for production to be carried over where the production of the undertaking has not reached the level of the basic quota;
- the inclusion of quantities of sugar carried over in the system of compensation for storage costs.

### 3. Measures designed to restrict production to market outlets

In view of the international commitments of the Community, the Commission considers it necessary to fix not only a basic quota but also a maximum quota for each undertaking. Production in excess of the maximum quota could not be sold either inside or outside the Community except when there was a shortage on the world market. Such production should therefore be carried over to the following sugar year.

./.



The Commission considers that the coefficient fixing the level of the maximum quotas in relation to the basic quotas should be calculated in terms of the following: firstly, the sales outlets and secondly, probable production within the basic quotas and the maximum quotas.

Thus, the level of these maximum quotas could be approximately 115 to 118% of the basic quotas for the first sugar year, 1975/76 as pointed out earlier. This percentage would, of course, increase with each sugar year, depending on human consumption (from 1 to 1.5% per year).

The level thus fixed should, moreover, be reviewed at the end of each sugar year in both the following cases: where total production is lower than the sales outlets; where there is a shortage on the international market.

C. THE PROPOSALS OF JULY 1974

In July 1974 the Commission forwarded to the Council a communication relating to the future sugar policy of the Community.

This communication updates the Memorandum of July 1973 in some respects. The Commission proposes in particular:

- (a) The fixing of the MINIMUM basic quotas at the level of the present quotas;
- (b) The fixing of the MAXIMUM quotas at 125%;
- (c) The reintroduction of "C" sugar.

./.

CONCLUSION

In October 1974 the Council of Ministers of the nine Member States will have to take a decision on the organization of the Community market in sugar and the international commitments of the Community in this sector. This decision is of considerable importance for the Community, for it affects both the organization of the common agricultural policy and relations with the Third World.

The Nine have already begun to study the sugar question and they are now engaged in discussing it. The new situation on the sugar market\* and the amendments which the Commission has made to its Memorandum should enable the Member States to reach an agreement.

---

\* See No 8 Newsletter of the Common Agricultural Policy, August 1974.