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Report

drawn up on behalf of the Committee on Agriculture

on the proposal from the Commission of the European Communities to the Council (Doc. 1-471/80) for a Regulation on the common organization of the market in sugar

Rapporteur: Mr R. BOCKLET

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By letter of 30 September 1980 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 proposal from the Commission of the European Communities to the Council for a regulation on the common organization of the market in sugar.

The President of the European Parliament referred this proposal to the Committee on Agriculture as the committee responsible and to the Committee on Budgets and the Committee on Development and Cooperation for their opinions.

On 21 October 1980 the Committee on Agriculture appointed Mr Bocklet rapporteur.

By letter of 9 December 1980 the Council requested debate by urgent procedure pursuant to Rule 14 of the Rules of Procedure.

At its sitting of 17 December 1980 the European Parliament rejected this request for debate by urgent procedure.

The Committee on Agriculture considered the proposal for a regulation at its meetings of 21/22 January and 28 to 30 January 1981.

At the latter meeting the committee adopted the motion for a resolution by 18 votes to 4 with 12 abstentions.

Present : Sir Henry Plumb, chairman; Mr Früh, Mr Ligios and Mr Caillavet, vice-chairmen; Mr Bocklet, rapporteur; Mrs Barbarella, Mr Blaney (deputizing for Mr Skovmand), Mrs Castle, Mr Colleselli, Mr Curry, Mr Dalsass, Mr Delatte, Mr Diana, Mr Gatto, Mr Gauthier, Mr Habsburg (deputizing for Mr d'Ormesson), Mr Helms, Mr Herklotz, Mr Hord, Mr Kirk, Mr Louwes (deputizing for Mr Jürgens), Mr Lücker (deputizing for Mr Clinton), Mr Maher, Mr Martin (deputizing for Mr Mafre-Baugé), Mr J. B. Nielsen, Mr Papaefstratiou, Mr Pranchère, Ms Quin, Mr Sutra, Mr Tolman, Mr Vernimmen, Mr Vitale, Mr Wettig and Mr Woltjer.

The explanatory statement will be presented orally.

The opinion of the Committee on Budgets is attached; the opinion of the Committee on Development and Cooperation will appear separately.

C O N T E N T S

The Committee on Agriculture hereby submits to the European Parliament the following motion for a resolution

MOTION FOR A RESOLUTION

embodying the opinion of the European Parliament on the proposal from the Commission of the European Communities to the Council for a regulation on the common organization of the market in sugar.

The European Parliament,

- having regard to the proposal from the Commission of the European Communities to the Council[1],
- having been consulted by the Council pursuant to Article 43 of the EEC Treaty (Doc. 1-471/80),
- having regard to the report of the Committee on Agriculture and the opinions of the Committee on Budgets and Committee on Development and Cooperation (Doc. 1-839/80),
- having regard to its opinion[2] on

  I. The communication from the Commission of the European Communities to the Council concerning changes in the Common Agricultural Policy to help balance the markets and streamline expenditure

  II. The proposals from the Commission of the European Communities to the Council on the fixing of prices of certain agricultural products and on certain related measures;

Retention of a sugar quota system with price differentials

1. Whereas the quota system with price differentials as an instrument to regulate the common organization of the market in sugar has largely succeeded in stabilizing sugar production;

2. Whereas this quota arrangement provides the optimum safeguard for producers' earnings and production in the poorer regions;

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1 OJ No. C 271, 18.10.1980, p.2

2 OJ No. C 97, 21.4.80, p.33 Doc. 1-37/80, rapporteur: Mr DELATTE

3. Whereas this quota system guarantees consumers more stable prices than those on the world market;

4. Welcomes the retention of the quota system with price differentials as a means of controlling sugar production and the sugar market;

Adjustment of sugar quotas

5. Convinced that the definition of quotas must not conflict with the principle of specialization;

6. Convinced that the quotas should be geared to the actual volume of production;

7. Convinced that any quota system should not hinder the rational development of production;

8. Whereas the A quota serves essentially to safeguard the incomes of farmers who cultivate sugar beet;

9. Recognizing that quotas can only be adjusted on the basis of a political decision;

10. Accepts the Commission's proposal to maintain the existing A quotas;

11. Asks that the present A Quota for Greece should be incorporated into the new common organization of the market in sugar;

12. Recognizing that it is necessary to adjust at least the B quotas to the actual regional development in the production of sugar beet and sugar cane;

13. Convinced that the overall quotas (A + B) must be fixed in such a way that, regardless of imports from ACP countries, etc.,

   - both Community self-sufficiency and an economically viable level of exports are maintained and

   - the discrepancy between abundant and poor harvests is levelled out to offset the resulting fluctuations in production;

14. Accepts the limitation of the overall B quotas to an average of at most 23% of the A quotas;

15. Considers the principle of adjusting the B quota to actual sugar production during the period of validity of the previous market organization to be acceptable except in the case of the overseas departments which are frequently hit by hurricanes and should not therefore be put at an additional disadvantage;

16. Whereas a breakdown into national production quotas is necessary for reasons of clarity;

17. Whereas it is expedient for there to be only one A and B quota for each Member State;

18. Recognizing that this principle needs to be modified in the case of overseas territories;

19. Accepts the need for separate A and B quotas for Member States and overseas departments;

20. Whereas a system of production quotas must not only take regional aspects into consideration and be based on data specific to each producer concerned but also allow decisions which are as far as possible adapted to the prevailing local and technical conditions;

21. Points out that the French overseas departments have on several occasions suffered serious damage from hurricanes and require their entire sugar quotas to help them to rebuild their economy;

22. Rejects the direct allocation by the Community of quotas to each undertaking;

23. Calls for the retention of national production quotas;

Margin for manoeuvre

24. Whereas the natural evolution of specialization is to be encouraged without restructuring imposed by the state;

25. Whereas the creation of new production capacity should not be fostered in view of the current volume of production;

26. Convinced that the essential features of a market organization, such as the definition of quotas and amendments thereto, should be fixed in the basic regulation itself;

27. Convinced that a volume corresponding to 5% of the originally allocated quotas is sufficient for subsequent quota adjustments either for the restructuring of existing undertakings or for allocations to new undertakings;

28. Believes, unlike the Commission, that a margin of 5% of the originally allocated quotas is sufficient;

29. Proposes further that scope for manoeuvre should continue to be restricted to within the national quotas;

30. Demands that quotas be adjusted by amending the basic regulation rather than by a specific regulation to this effect and in accordance with previously defined criteria;

31. Demands that both A quotas and B quotas should be reviewed by 1 January 1984;

Production above the quotas (C sugar)

32. Whereas the costs of marketing the volume of sugar above the A and B quotas are fully borne by producers;

33. Recognizing that exports of this C sugar in periods of surplus demand help to restrict the escalation of world market prices;

34. Recognizing that the Community is under no contractual obligation until its accession to the International Sugar Agreement;

35. Opposes any obligation to store C sugar;

36. Supports the provision for the volume of sugar production exceeding the A quota to be carried forward to the next marketing year;

Guide price

37. Whereas the guide price plays and must continue to play an important guiding role in all market organizations, rejects the abolition of the guide price;

INCLUSION OF ISOGLUCOSE IN THE MARKET ORGANIZATION FOR SUGAR

38. Recognizing that isoglucose is, in certain sectors, entirely substitutable for sugar and therefore in direct competition with sugar;

39. Whereas only a common organization of the market can solve this problem;

40. Convinced that receipts from the levy on raw materials used to produce isoglucose should be included in the sugar market organization;

41. Convinced that there is a need for a uniform definition of isoglucose within the individual Community policies and in relation to the individual instruments of the market organization;

42. Welcomes the inclusion of isoglucose on the sugar market organization and the fixing of corresponding quotas for isoglucose; these quotas are the sum of A and B quotas and are based on the output of each undertaking in the period 1 July 1979 - 30 June 1980;

43. Advocates that sugar and isoglucose should receive entirely equal treatment in all cases in which equal conditions apply;

44. Demands the inclusion of the proceeds of the levy on maize used to produce isoglucose on the revenue side of the sugar market organization;

45. Takes the view that the production levy should be based on overall production and be equivalent to the levy on B quota sugar;

Co-responsibility, production levy and budgetary neutrality

46. Recognizing the need for the producers to bear full financial responsibility for the sale of production surpluses which exceed the level of Community self-sufficiency and the level of reserves necessary to ensure reliable supplies;

47. Recognizing that the fixing of quotas as an instrument for controlling the market already represents a form of co-responsibility;

48. Whereas the production levy on B sugar contains a further element of co-responsibility;

49. Convinced that as a first step the co-responsibility instruments which already form part of the market organization must be correctly deployed, with the necessary adjustments, before further co-responsibility measures are considered;

50. Convinced that this greater co-responsibility justifies and requires greater involvement of growers and producers in market management;

51. Whereas fundamental changes in the world sugar market, in particular the increasing use of cane sugar to replace oil, will lead to lasting changes in the pattern of demand;

52. Recognizing that the marketing of A and B sugar, considered in the long term and including the costs for the storage of reserves to safeguard supplies, has involved little expense for the EAGGF;

53. Whereas the provision for carrying forward marketing costs not covered by revenue from the production levy and surpluses from the production levy to the next year, will, in the long term, help to ensure budgetary neutrality;

54. Recognizing that too high a production levy on the B quota would largely stifle production of B sugar and thus render meaningless the sales guarantees which the quota system seeks to provide;

55. Convinced that the sugar market organization should seek to achieve cost neutrality in order to ease the financial burden on the EAGGF;

56. Expresses its unequivocal support for the principle of producer co-responsibility as a vital element in the sugar market organization;

57. Draws attention to the two co-responsibility instruments in the sugar market organization, namely production quotas and the production levy which are quite sufficient to control the market organization;

58. Rejects the proposal for a basic production levy of 2.5% of the intervention price on A and B quotas;

59. Regards a production levy on B sugar of 35% of the intervention price as adequate;

60. Whereas, since their entry into force, the sugar and isoglucose regulations have cost the EAGGF and the taxpayer practically nothing;

61. Views favourably the general possibility of transferring negative and positive balances to the budgets of subsequent years, so that for the period of one or more cyclical periods on the world sugar market a balance is created between revenue and the expenditure charged to producers;

62. Supports the objective of cost neutrality for the sugar market organization based on the principle that in future only those costs which arise as a result of exporting quantities of sugar corresponding to the preferential imports (ACP, India, OCT), and the cost of storing reserves to safeguard supplies, shall represent a net charge on the Community budget;

Accession to the International Sugar Agreement

63. Recognizing that the Community plays an important role on the world sugar market with its yearly imports of 1.3 million tonnes and exports of approximately 3.7 million tonnes of sugar guaranteed by the Lomé II Convention and that Community sugar exports are crucially important for equilibrium on the world market;

64. Convinced that the Community is under a moral obligation towards the developing countries to maintain orderly conditions on the world sugar market;

65. Recognizing that the present International Sugar Agreement has hitherto been unable to put an end to the shifts between surplus and deficit which characterize the world sugar market;

66. Stresses that the Community should accede to the International Sugar Agreement but that negotiations on a new agreement must eliminate the flaws in the current agreement and that the Community must obtain guarantees for the current level of exports and conditions which take account of the Community's position on the world market and its specific role and function;

67. Rejects Article 47 of the draft Regulation which empowers the Council to amend the basic structure of the new market organization without consulting Parliament;

Aid from individual states and regionalization of prices

68. Whereas a common market organization must seek as far as possible to ensure uniform conditions;

69. Whereas, however, conditions in certain regions are less favourable than the average conditions in the Community;

70. Stresses that the abolition of national aids in countries where such a system exists could be acceptable provided these aids are not abolished on a rigid timetable, and provided the Council assesses at the beginning of each marketing year the scale of the reductions to be made during that year, taking into account the situation in the beet-growing sector as well as in the sugar industry in the regions concerned;

Inclusion of Greece

71. Demands that due account be taken of Greek interests in the new sugar market organization;

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72. Calls upon the Commission to amend its proposal in the light of this resolution pursuant to the second paragraph of Article 149 of the EEC Treaty.

OPINION OF THE COMMITTEE ON BUDGETS

Draftsman: Mr R.ARNDT

On 9 December 1980 the Committee on Budgets appointed Mr. R. ARNDT draftsman.

It considered the draft opinion at its meetings of 19/20 January and 28/29 January 1981 and adopted it by 14 votes to 3 at the latter meeting.

Present: Mr Lange, chairman; Mr Spinelli, vice-chairman; Mr Arndt, draftsman; Mr Dankert, Mr Dimopoulos, Mr Forth, Mr Habsburg (deputizing for Mr Ryan), Mrs Hoff, Mr Howell, Mr Langes, Mr Lega, Mr Newton Dunn, Mr Nord, Mr Pflimlin (deputizing for Mr Pfennig), Mr Schön, Mrs Scrivener, Mr Simonnet and Mr J.M. Taylor.

1. By letter of 7 October 1980 the Council of the European Communities referred a proposal for a Council regulation on the common organization of the market in sugar to the President of the European Parliament with a request for an opinion to be delivered on the Commission proposal by the European Parliament as soon as possible.
As the committees received the documents at a fairly late stage, the Committee on Budgets did not appoint a draftsman until its meeting on 9 December.
At the part-session of 15 - 19 December, the European Parliament rejected an application to deal with the Commission proposals by urgent procedure but the spokesman for the Committee on Agriculture promised that its report would be submitted as soon as possible. If the views of the Committee on Budgets are to be taken into account by the Committee on Agriculture, the Committee on Budgets must deal with the matter without further delay.

Structure of the sugar market organization

2. The sugar industry has its own specific structure, characterized by a high degree of concentration with only 111 undertakings. Concentration is most marked in the United Kingdom, the Netherlands and Denmark where there are only 2 undertakings in each case.

The main feature of the structure of the sugar market organization is that it has hitherto only proved possible to implement a Community policy to a very limited extent. This has led to a system of quotas for each Member State supplemented at the level of the undertakings by systems of production quotas. The quota system as a whole functions as follows:

(a) Production

3. There are 3 production quotas: the A quota, namely the amount of sugar which the undertaking is allowed to produce and sell directly on the Community market. The B quota; undertakings are permitted to sell sugar to the level specified by this quota within the Community subject to a production levy. Storage levies are paid for both these quotas The C quota cannot be sold on the Community market and must be exported at the producer's expense.

(b) Prices

4. Prices are fixed for the basic products (sugar beet and sugar cane) and for processed products (cane sugar and white sugar). Price support for the basic products is not direct but indirect, taking the form of intervention at the processed product stage.

In the case of processed products the prices for raw sugar are basically geared to the final stage of processing with white sugar.

The price system operates with the conventional instruments of target prices, intervention prices and threshold prices. The target price is the optimum ex-refinery price in the area with the largest surplus. The intervention price is 95% of the target price. The threshold price corresponds to the target price plus transport costs to the most remote region of the EEC receiving a subsidy plus a lump sum for storage costs. The intervention agencies are required to buy sugar at intervention prices. The storage costs of the producers, processers, and specialized dealers are refunded on a flat rate basis. Import levies are fixed on the basis of the difference between world market prices and the threshold price and charged when the goods are imported.

Commission proposal

5. In its explanatory memorandum the Commission points out that the present Community production arrangements in the sugar and isoglucose sectors expire on 30 June 1981. For the sake of simplicity this opinion has been drawn up in the form of a summary based on the Commission's explanatory memorandum to which the reader is referred.

The following are the most important data in the Commission proposal of 13 October 1980.

Estimated production 1980/81:	11	million tonnes
Consumption 1976/77:	9	million tonnes
1980	9.5	million tonnes approx.

(Increase in human consumption of sugar unlikely)

Results: Community surplus sugar production with normal harvest 1.5 million tonnes.

Preferential sugar imports from ACP countries: 1.3 million tonnes.

Total sucplus of 2.8 million tonnes of sugar.

The Commission takes the view that this surplus should be exported to the world market.

The Commission also maintains that the current high world market prices (spot price in New York in May 1980 between 30 and 35 cents per pound - Community price fob 26.4 cents per pound) will continue over the next year but there is a danger in the longer term that surpluses will again build up and lead to a lower price.

The Commission's objectives are (1) to gear production to marketing possibilities and (2) to ensure reasonable earnings, (3) to allow for Community membership of the ISA, (4) make compensatory adjustment between good and poor crops, (5) take account of regional developments in the context of specialization, (6) ensure that the commitments to import preferential sugar are respected.

Measures to be taken according to the Commission:

6. The Commission would prefer to influence production by way of prices in order to restrict output but this would have serious effects on producers' incomes. Without reducing the role of prices too much, therefore a quota-based system is to be reintroduced for a limited period of time. The Commission says that its proposal received a large measure of support in the Community institutions at the end of 1979. The only area of disagreement was the global volume of quotas and the method of allocating it between undertakings.

The Commission therefore is now recommending that the A quotas for sugar and isoglucose be retained at their present level rather than reduced. A quotas as a whole amount to 9.136 million tonnes. B quotas on the other hand are to be geared to the actual volume of production calculated on the basis of the three best years since 1975. The B quotas calculated in this way amount to 2.098 million tonnes. This gives a sum total (A + B) of 11.234 million tonnes as against 11.648 million at present. As the Commission hopes that a shortage will recur on the world market in 2 to 3 years, there is provision for the B quotas to be changed during the last two years of its five year period of validity. Essentially similar proposals are made in relation to isoglucose, i.e. retention of the A quota and a B quota which would amount to 23% of each undertaking's A quota, but not less than its actual production from 1 July 1979 to 30 June 1980. The A and B quota together amount to 183,709 tonnes.

The Commission further proposes that the losses incurred in the disposal of surpluses should be covered by contributions from the producers. Since if all such contributions were to fall solely on B production then this production could lose its value even for the most efficient producers, it is proposed that the contribution should be levied on production as a whole. Only if this levy which is restricted to 2.5% of the intervention price for white sugar, is not sufficient is there to be a further levy on surplus production at a much higher rate.

Conclusion from Commission figures:

7. In addition to the 11.234 million tonnes from the A and B quotas there are 1.3 million tonnes from the ACP countries. Consumption in Europe on the other hand currently amounts to 9.5 million tonnes. This yields a surplus of 3.03 million tonnes.

Figures in the 1981 draft budget

8. In the 1981 draft budget the Commission corrected or clarified some of these figures. Thus total Community production in the 1979/80 financial year amounted to 12.3 million tonnes. There is provision for export refunds in 1981 amounting to 665 million EUA. In 1980 394 million EUA were allocated. Storage reimbursements in 1981: 326 million EUA,

1980: 282 million EUA. Measures covering sugar from the French overseas departments: 1981 = 11 million EUA, 1980 = 10 million. Together with various other minor items the proportion of expenditure for sugar in total spending for agricultural guarantees is 7.82%. In 1980 the figure was 6.06%.

The Council's estimates of expenditure on sugar, contained in the preliminary draft budget for 1981 and not subsequently altered in the course of the budgetary procedure, are as follows:

Budget Item	Heading	Expenditure	Appropriations	Estimates
		1979 m EUA	1980 m EUA	1981 m EUA
6400	Commercial refunds	685.1+	394+	402
6401	Food aid refunds	(-)	(1.5)	(1)
640	Refunds - Total	685.1	395.5	403
6410	Denaturing premiums	2.3	3	1
6411	Refunds for use in the chemical industry	3.1	4	4
6412	Reimbursement of storage costs	240.0	282	333
6413	Net losses by intervention agencies	-	2	3
6414	Measures re sugar FODs)	9.3	10	11
6415	Import subsidies)	-	token entry	token entry
6419	Other intervention)	-	token entry	token entry
641	Intervention - Total	254.7	301	352
	SUGAR - TOTAL	939.8	696.5	755

+ The amounts given do not include export refunds granted for quantities resulting from the Sugar Protocol annexed to the Lomé Convention and the Specific Agreement with India.

<u>Financial impact of a new regulation on the common organization of the market in sugar</u>

9. Annexes I and II of the Commission proposal (pages 12 and 15) give a detailed analysis of the quotas provided for in the new Regulation and of their financial impact on expenditure and revenue. According to these figures, A and B production will show an estimated surplus of 1.615 million tonnes in addition to the 1.3 million tonnes of ACP sugar.

The increase in expenditure for one year amounts to 11 million EUA and the increase in revenue to 54 million EUA. However, this net saving of 43 million EUA will not make itself felt before the 1982 financial year.

Total expenditure for one marketing year is assessed at roughly 285 million EUA.

The statement made by the Commission in paragraph 23 of its document concerning the need to adapt the draft regulation to take account of the entry of Greece observes criticism. The relevant data have not yet been published. In any case, the A quota for Greece should correspond to present output.

Comments by the Committee on Budgets

10. In principle the Committee on Budgets is required to adopt a position only with regard to those aspects of Commission proposals which relate to financial policy. Yet it cannot avoid determining whether these proposals are basically realistic or amount in effect to a common sugar market policy entailing considererable expenditure. As a result, the Committee on Budgets necessarily has to consider the agricultural policy aspect although it should not be forgotten that the price guarantees on the sugar market are of far greater benefit to sugar manufacturers than to sugar-growers (minimum price for sugar beet: 33.10 EUA/tonne, target price for white sugar: 451.9 EUA).

The Committee on Budgets consequently reached the following conclusions:

- The common European market in sugar needs to be safeguarded against pronounced fluctuations in world market prices by a flexible system of protection against imports in the form of levies. The Community system of preferences should, of course, be retained.

- In principle a production levy should only be imposed in respect of surplus production or unwanted increases in production. Under such an arrangement, sugar levies would take the form of a genuine co-responsibility levy. The revenue generated by such a levy would serve to finance export subsidies for those quantities by which quotas exceeded the consumption figure of around 9.5 million tonnes.

- The Commission's idea of a general production levy on A and B quotas is unacceptable because corresponding price increases could easily deprive it of any effect and soon provoke further production surpluses.

- In this way and by imposing a sufficiently high production levy, quantities eligible for intervention would have to be brought down to the consumption figure of approximately 9.5 million tonnes within the stipulated 5-year period. Export subsidies for intervention sugar could in this way be dispensed with. The B quota would shrink or be eliminated automatically and, along with it, the levies. Producers would, of course, remain free to produce or export sugar under the C quota at their own risk/cost.

- Expenditure in the form of export refunds in the sugar sector will consequently have to be limited to the 1.3 million tonnes of ACP sugar provided for in the ACP Convention.

- The B quota should not, as the Commission proposes, be based on an average of the best three years between 1975 and 1980 but on the crop forecast for 1980/81, i.e., according to the figures contained in the Commission's preliminary draft budget, roughly 1.7 million tonnes.

- A B quota for isoglucose should be dropped as isoglucose is not affected by harvest fluctuations. Should such a solution not be possible, then the levy on the B quota for isoglucose should be the same as on the B quota for sugar.

Conclusions

11. The Committee on Budgets requests the Committee on Agriculture as the committee responsible to give consideration to the conclusions which it has reached on the basis of the foregoing comments and which are set out below in the form of paragraphs of a resolution:

a) Rejects the Commission proposal for a production levy on A and B quotas;

b) Calls for a production levy of 40% of the intervention price to be imposed on a B quota of 2.1 m tonnes; wishes, in this way to use the production levy as a kind of co-responsibility levy, thus making it possible to reduce quantities eligible for intervention gradually to the Community consumption figure of approximately 9.5 million tonnes;

c) Calls for the abolition of the B quota for isoglucose.