

Newsletter on the Common Agricultural Policy

Weekly

No. 14

March 1964

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EEC market organization for sugar in the light
of events on the world market

In the case of sugar, reorganization of international trade is essential. This has not been necessary hitherto for any other agricultural product for which a market organization has been set up in the EEC.

Throughout the world, the 1962/63 sugar marketing year was overshadowed by the precipitate chain of events on the world market, which showed within a few months that the International Sugar Agreement was unworkable and sent the world market price soaring from its lowest post-war level to an all-time high. The EEC Commission would like the proposal for a common organization of the market for sugar that it has just laid before the Council to be seen as a contribution towards the reorganization of the world market that will have to take place in the future.

World market prices on the London sugar market

(Daily quotations of the Sugar Terminal Association -
cif prices, free United Kingdom, for raw sugar)

	<u>£/long ton</u>	<u>u.a./100 kg</u>	<u>DM/100 kg</u>
1959	27.31	7.53	31.61
1960	28.48	7.85	32.97
1961	25.68	7.08	28.31
1962	25.59	7.05	28.21
1963	71.57	19.72	78.89
1963 - January	45.50	12.54	50.15
February	51.00	14.05	56.22
March	55.92	15.41	61.64
April	63.67	17.55	70.18
May	85.17	23.47	93.88
June	84.42	23.26	93.06
July	77.92	21.47	85.89
August	56.08	15.45	61.82
September	62.42	17.20	68.81
October	88.90	24.50	97.99
November	99.59	27.44	109.78
December	88.20	24.31	97.22
1964 - January	90.24	24.87	99.47
February	79.40	-	87.52

Conversion rate for 1959

£1 = 2.80 u.a. = DM 11.76

1 u.a. = US \$1 = DM 4.20

Since 1960

£1 = 2.80 u.a. = DM 11.20

1 u.a. = US \$1 = DM 4.00

Sugar will be on the agendas of the various EEC institutions for some time to come, and discussions on the Commission's new proposal will presumably elicit many interesting expressions of opinion in the six member countries. We need only point out the current differences in the sugar industry in the Six. The three Benelux countries pursue a more liberal policy than France or Germany, where government measures are more sweeping.

There are divergences between current prices for refined sugar and between prices for the unrefined raw material - sugar-beet. However, the differences between ex-works prices for white sugar, excluding tax but including charges, are not so great as to preclude harmonization among the member countries in the foreseeable future.

In the Netherlands a fairly large productive capacity is spread over rather a small number of thoroughly rationalized refineries. The Netherlands has traditionally both imported and exported sugar. Until 1962/63 the German Federal Republic, also an importing country, had the highest beet prices in the Community. In order to forestall the consequent danger that farmers would extend their sugar-beet acreage too much, restrictions were imposed on cultivation. Germany had an agreement with Cuba obliging it to buy certain quantities, but this is no longer in force.

Whatever individual circumstances may be at the moment, all six member countries are feeling an increasing need for an effective, overall organization of the sugar market in the Community now that common market organizations have been set up for all the other major agricultural products, and particularly in view of the chaotic situation on the world market.

The conviction is growing that there can be no reasonable agricultural policy for all the major farm products in the EEC if sugar remains "outside". At the moment - after a relatively good sugar-beet harvest in nearly all member countries last year - everyone is happy to have a surplus for export. Nevertheless, the need for an organized market is felt the more because harvests in the Community generally fluctuate sharply, but also because of the traditional sugar trade with the associated countries in Africa. (In the long run the Common Market will perhaps have to be regarded as an exporting market altogether.) In view of this, traders and manufacturers, in particular, are interested in a stable and balanced market.

Producers, too, have justifiable hopes of the future sugar-market organization, particularly as consumption of sugar - unlike practically all other agricultural products - is steadily rising. In the ten years between 1950/51 and 1960/61, sugar consumption in the Six went up 36%. It now stands at 5 700 000 metric tons of raw sugar.

EEC production in 1959/60 totalled 4 662 000 tons. In the following season the EEC produced 6 342 000 tons on about the same cultivated area - which is some indication of how sharply sugar production in the Community fluctuates.

White sugar production in the EEC

	(metric tons)			
	<u>1963/64</u>	<u>1962/63</u>	<u>1961/62</u>	<u>1960/61</u>
Germany (FR)	2 050 000	1 521 197	1 329 000	1 807 000
France	1 980 000	1 664 065	1 571 000	2 508 000
Belgium/Luxembourg	343 000	334 750	409 000	459 000
Netherlands	383 000	209 000	540 000	652 000
Italy	322 200	462 213	897 000	916 000
	<u>5 083 200</u>	<u>4 191 225</u>	<u>4 746 000</u>	<u>6 342 000</u>

Sugar-beet yield per hectare in the EEC

	(metric tons)		
	<u>1963/64</u>	<u>1962/63</u>	<u>1961/62</u>
Germany (FR)	41.87	30.99	35.32
France	38.40	33.08	36.08
Belgium	38.61	33.52	43.66
Netherlands	39.28	38.61	47.79
Italy	34.38	31.29	31.21

Source: Statistical Office of the European Communities
(Agricultural Statistics)

The Commission's proposal has been submitted to the Council at a time when the world market is no longer showing a surplus but a deficit.

World sugar stocks at the end of the 1960/61 season totalled no less than 17 235 623 tons. At the end of the 1961/62 season stocks were 13 634 605 tons, at the end of the 1962/63 season 9 367 926 tons, and at the end of 1963/64 they will stand at an estimated 8 421 566 tons. Monthly world sugar consumption at the moment is about 4 647 000 tons. So stocks are sufficient for not much more than half a month's consumption. Such a low figure certainly constitutes a real danger for assured sugar supplies in the EEC unless the quantities available in the Community can be used in the first place for its own requirements. The sharp drop in stocks is one of the main reasons for the high prices now obtaining on the world market, since low stocks will ensure that supplies are strictly limited in the coming months. It is a hand-to-mouth existence everywhere as far as sugar is concerned, and one can only hope that there will be no more catastrophes like Hurricane Flora in Cuba to produce further chaos.

Of course, the change in circumstances affecting Cuban sugar stocks is also partly responsible for this situation.

World sugar movements

	(metric tons)			
	<u>1963/64</u>	<u>1962/63</u>	<u>1961/62</u>	<u>1960/61</u>
Production	54 315 790	50 889 534	51 869 239	55 997 836
Imports	18 678 050	18 377 590	21 123 145	20 926 518
Initial stocks	<u>9 367 926</u>	<u>13 634 605</u>	<u>17 235 623</u>	<u>14 790 297</u>
Total	82 361 766	82 901 729	90 228 007	91 714 651
Final stocks	<u>8 421 566</u>	<u>9 367 926</u>	<u>13 634 605</u>	<u>17 235 623</u>
Deliveries	73 940 200	73 533 803	76 593 402	74 479 028
Exports	<u>18 175 500</u>	<u>18 923 357</u>	<u>21 320 049</u>	<u>21 905 655</u>
Consumption	<u>55 734 700</u>	<u>54 610 446</u>	<u>55 273 353</u>	<u>52 573 373</u>

While stocks have fallen, consumption has been on the increase. In Western Europe excluding Great Britain, sugar consumption rose 18.91% between 1953/54 and 1957/58 but only 15.24% between 1958/59 and 1962/63. In Great Britain the percentage increase fell from 10.57 to 8.6% over the same period.

The percentage increase also slackened off to a greater or lesser extent between 1958/59 and 1962/63 in the countries that are parties to the Commonwealth Sugar Agreement, in Canada and in the Eastern-bloc countries other than the Soviet Union.

On the other hand, the percentage increase in the USA was higher in the 1958/59 to 1962/63 period than between 1953/54 and 1957/58. Estimates of the annual growth of consumption range from 100 000 to 200 000 tons. The percentage increase in the West as a whole was 20.13% between 1953/54 and 1957/58 owing to vigorous backlog demand, and 16.7% between 1958/59 and 1962/63 - 3.34% per annum.

Sugar experts reckon on an increase by 16.1% between 1962/63 and 1967/68, i.e. 3.22% per annum. Quantitatively, however, this 3.22% amounts to 6 655 000 tons.

The Warsaw Pact countries are consistent sugar exporters. The greatest hopes for an increase in consumption are pinned on India, China and parts of Africa, where the only obstacle to adequate supplies is a lack of foreign exchange to pay for imports.

World sugar production

	(metric tons)
1963/64	53 484 150
1962/63	50 782 274
1961/62	52 111 879

Beet production

Cane production

		(metric tons)
1963/64	22 037 50	31 195 800
1962/63	21 013 098	29 169 176
1961/62	22 344 691	29 767 188

EEC sugar consumption

	(kg per head per annum)						
	<u>1955/56</u>	<u>1956/57</u>	<u>1957/58</u>	<u>1958/59</u>	<u>1959/60</u>	<u>1960/61</u>	<u>1961/62</u>
Germany (FR)	28.2	29.3	29.1	30.2	28.6	30.3	30.0
France	29.3	25.6	29.6	27.9	29.0	28.9	32.4
Italy	16.4	17.0	18.0	19.0	19.0	22.8	23.0
Netherlands	39.6	41.4	39.7	40.8	41.6	41.9	42.7
Belgium/ Luxembourg	31.5	32.4	31.6	32.3	34.3	32.6	33.1
Total	26.0	25.7	26.8	27.2	27.1	28.7	29.7

The future organization of the sugar market in the EEC can thus be seen only in the immediate context of the situation on the world market. It must be fitted into this overall picture. The expansion of consumption, which will last for some considerable time, warrants the deduction that we shall have no difficulty in finding outlets in the years ahead. This was one of the reasons why the Commission was able to submit to the Council a relatively liberal proposal for organization of the sugar market.

At the moment, the difference between the price of 100 kg of raw sugar on the world market (about DM 85) and the average price on the EEC market ex works, excluding tax and charges (DM 78) is about DM 7. The proposed regulation will therefore be the first under which a levy will actually be paid on exports: under the previous agricultural regulations exports have had to be subsidized.

Sugar-beet producers in the Community may at first think it unusual that the Commission's proposal takes as its datum point a guide price for white sugar rather than for sugar-beet, as is the case with most national regulations at present. In the Common Market, however, conditions are not the same as on national markets: sugar-beet is not an item of international trade, while the finished product is. But producers may rest easy, for the Commission's proposal will guarantee them a minimum price for their entire sugar-beet harvest. This will be a considerable improvement on the previous situation in some of the Member States.

In nearly all member countries there have been controls in one form or another: permitted acreage under cultivation has been allocated on a quota system, or production has been restricted. Imports have been kept in line with domestic production as calculated in advance on the basis of the quotas. These calculations often went amiss. We still remember the great surpluses and shortages resulting from wrong estimates. In contrast to this, the EEC is endeavouring to create a steadily supplied market regulated via the price of sugar.

For this reason in particular, it was high time the Commission prepared a common organization of the market for sugar - the last of the major farm products. In the interests of the farmers it was not right to go on any longer without bringing in sugar and sugar-beet. Moreover, we have lingered far too long over cereal prices as if they were the only important factor in farm price policy, without considering that agreement could be reached in other fields.

The Commission is therefore quite right to point out the close link between cereal prices and sugar-beet prices. The link is a natural one, since wheat generally follows beet in crop rotation. The immediate task in the EEC is to restore the balance between these two prices. Over the past few years cereal prices have been increased repeatedly by the governments of the Member States without any thought for sugar-beet prices. Only recently have some of the member governments begun to raise sugar-beet prices.

Producer prices per 100 kg of sugar-beet (16% sugar content)

	<u>Belgium</u>	<u>Ger.(FR)</u>	<u>France</u>	<u>Italy</u>	<u>Netherlands</u>
	Bfrs.	DM	FF	Lit.	Fl.
1958/59	66.28	7.20	5.30	903	5.24
1959/60	88.57	7.33	6.86	903	5.39
1960/61	62.78	7.15	5.57	905	4.69
1961/62	63.67	7.20	6.04	922	5.07
1962/63	80.44	7.27	6.34	932	5.23

Prices converted into DM

	<u>Belgium</u>	<u>Ger.(FR)</u>	<u>France</u>	<u>Italy</u>	<u>Netherlands</u>
1958/59	5.57	7.20	4.51	6.07	5.79
1959/60	7.44	7.33	5.84	6.07	5.96
1960/61	5.27	7.15	4.74	6.08	5.18
1961/62	5.09	7.20	4.89	5.90	5.60
1962/63	6.44	7.27	5.14	5.96	5.78

New prices already fixed

(Provisional, not yet official figures in DM)

1963/64	6.45	7.20	5.40	7.78	7.183
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Source: EEC

Note: Except in Belgium and the Netherlands, basic prices for sugar-beet are fixed annually by the government. In Belgium the beet price is agreed each year by the sugar industry and beet farmers, while in the Netherlands a specific beet price is recommended to the industry at the annual review of the guaranteed price for sugar.

Degree of self-sufficiency

(Net production as a percentage of total domestic consumption)

	<u>1955/56</u>	<u>1956/57</u>	<u>1957/58</u>	<u>1958/59</u>	<u>1959/60</u>	<u>1960/61</u>	<u>1961/62</u>
Germany (FR)	80	69	93	107	81	107	78
France	112	110	105	112	74	189	101
Italy	137	106	86	110	138	81	78
Netherlands	89	71	80	115	97	135	108
Belgium/ Luxembourg	122	98	119	138	62	149	129
EEC	104	89	96	112	91	128	91

Source: Statistical Office of the European Communities
(Agricultural Statistics)

The governments were forced to put prices up because, with prices as they were, the area under cultivation was diminishing. In order to maintain normal consumer prices despite high world prices for sugar, high consumer subsidies had to be paid when sugar was imported from the world market. An increase in sugar-beet prices was inevitable. Sugar-beet cultivation requires a lot of labour, and the acreage under beet can be maintained or extended only if prices are rising.

Another point proposed by the Commission is that the policy instruments utilized in the cereal market organization should be applied, in principle, on the sugar market. This is a reassurance for all concerned, since the cereal market organization is functioning extremely well.

Apart from the favourable price outlook, the expected levelling-out of production will be particularly advantageous to sugar-beet farmers. Owing to rejection of any kind of quota system, a more balanced market may be expected - as has already been noted.

Then we must not fail to mention the benefits it is hoped will accrue to the processing industry as a consequence of the Commission's proposal. In line with the existing regulations, the proposed regulation is to comprise within the levy system all processed products that are not regarded as agricultural products within the meaning of the EEC Treaty and which present serious trading difficulties. All countervailing charges for products containing sugar introduced under Article 235 would then become redundant, and genuine competition would result.

The sugar market organization proposed by the Commission will not mean higher prices for the consumer. We need only mention the sizeable consumer taxes that are still levied on sugar in some Member States. Those would gradually disappear as the market organization was introduced. Sugar is a staple foodstuff that should remain free of taxes.

Of the EEC member countries, only France has considerable quantities available for export. Among the signatories of the International Sugar Agreement, only France and Belgium are exporting countries: the other EEC Member States are importers.

As regards the future prospects for sugar production in the Common Market, production will be located wherever it can be carried on most cheaply by the most rationally developed methods.

Best sugar: prices in the EEC member countries (1950-62)

	Belgium	Germany(FR)	France	Italy	Netherlands	Belgium	Germany(FR)	France	Italy	Netherlands	
		(national currencies/100 kg)						(DM/100 kg)			
1950	868	98	-	24 500	73.50	72.91	98	-	164.64	81.22	
1951	868	101	-	25 000	80.00	72.91	101	-	168.00	83.40	
1952	866	112	-	25 000	80.00	72.74	112	-	168.00	80.40	
1953	834	112	86.80	25 000	73.20	70.06	112	104.16	168.00	80.88	
1954	835	112	86.80	25 000	71.50	70.14	112	104.16	168.00	79.01	
1955	848	112	82.00	25 000	69.30	71.23	112	98.40	168.00	76.57	
1956	879	96	72.80	24 800	75.60	73.84	96	87.36	166.66	83.54	
1957	907	98	77.80	24 000	84.10	76.19	98	85.58	161.28	92.93	
1958	907	101	85.00	23 800	89.00	76.19	101	85.00	159.94	98.34	
1959	907	101	90.10	23 700	88.50	76.19	101	76.68	159.26	97.79	
1960	907	101	90.05	22 200	88.00	76.19	101	76.63	149.18	97.24	
1961	907	101	90.59	-	87.00	72.56	101	73.40	-	96.13	
1962	907	101	94.29	-	88.00	72.56	101	76.39	-	97.24	

Source: Balance Sheets and Studies Division, Directorate-General for Agriculture, EEC Commission

Determination of sugar prices in the EEC

<u>France</u>	<u>Germany</u>	<u>Belgium/Luxembourg</u>	<u>Italy</u>	<u>Netherlands</u>
		<u>ex-works price</u>		
Maximum price	Fixed price	Free market price	Maximum price	1. Maximum price 2. Guaranteed price
		<u>Wholesale price</u>		
Maximum price	Fixed price	Free market price	Free market price	Free market price
		<u>Retail price</u>		
Maximum price	Fixed price	Free market price	Free market price	Free market price