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LACK OF PROPER COORDINATION BETWEEN THE POLICIES OF THE COMMUNITY AND THE MEMBER STATES - THE CASE OF SUGAR

(Communication from the Commission to the Council)

Since the marketing year 1974/75, when prices soared owing to a temporary shortage, prices have declined steadily and stocks have shown a correspondingly steady increase. At the end of the marketing year 1977/78 the production surplus of 7 million tonnes has raised world stocks to the highest level for 25 years.

At the same time, sugar projects are being carried out all over the world, especially in the developing countries, which can only serve to swell the market surplus, at least in the short term, and keep world prices too low to provide a return on sugar-producing operations.

World consumption is growing but only slowly, the smallest increase being in the industrialized countries, where in some cases consumption is stationary or even declining. Obviously the unknown factor continues to be the future rate of growth of consumption in the developing countries, where - with a few exceptions, especially the traditional sugar-producing countries - consumption levels are still very low (ranging from 7 to 18 kg per capita compared with 34 to 50 kg in the industrialized countries). The future of the world sugar economy will depend largely on the rate at which demand actually grows in the developing countries.

2. Long-term organizational measures

The new International Sugar Agreement (ISA) entered into force provisionally on 1 January 1978 and it is too early yet to assess the impact of the economic measures it involves (export quotas to reduce international supply).

However, there are structural factors at work which hardly favour the effectiveness of the measures. The world sugar market has always been subject to cyclical swings which are sometimes sudden and extreme. The reasons for this situation are numerous and complex. However, the following may be mentioned:

- i) the world sugar market is a "residual" market (around 10% of production);
- ii) the "residual" nature of the market considerably heightens the various risks associated with adverse weather conditions.

- iii) the governments of most countries (whether buyers or sellers on the world market) are involved to varying degrees in the setting of domestic prices, and this affects the trend of production and hence the formation of world market prices;
- iv) the relative price inelasticity of consumption, at least in the industrialized countries.

Observation over a long period shows that in eight years out of ten the market is oversupplied, which is evidence of a situation of structural overproduction. The implications of this situation for the trend of prices are only too obvious, especially for the developing countries, which, with their fragile and undiversified economies, do not have the means to find compensation in other sectors. It is therefore only natural that these countries should place great hopes in the ISA.

However, during the first few months of application of the new ISA, spot prices - despite a temporary recovery in January 1978 - have declined appreciably and steadily, both in Paris for white sugar and in London for brown sugar, while in New York the quotation for brown sugar has been suspended since November 1977. This is a completely different situation from that observed in the first few months following the entry into force of the 1968 Agreement, when prices rose by 25%.

Yet the impact of the new ISA could have been considerable, since the introduction of export quotas was to have reduced supply on the world market by four million tonnes by compelling exporting countries to build up stocks (with the help of IMF facilities). What actually happened was quite different, however, for between the time negotiation of the Agreement was completed in October 1977 and its entry into force on 1 January 1978, the producer member countries, which at that stage were not yet bound by the export quotas, evidently made the most of the intervening period in order to reduce their stocks to a minimum by selling huge quantities. As a result of these sales the price of brown sugar was depressed in late 1977; this prompted many importing countries to anticipate their requirements and gave rise to a transfer of stocks from exporters to importers, thus producing a situation which has implications for the immediate future.

All in all, the situation outlined above is rather discouraging, especially if it is borne in mind that:

- i) the target price set by the ISA in October 1977 is US \$ 242 per tonne whereas, despite an initial 15% cut in export quotas, the average monthly price in 1978 is around US \$ 155 per tonne, and at this price no firm can cover its production costs;
- ii) the additional quantities of sugar will be offered on the "residual" world market despite some increase in consumption by the producers, and this will intensify the downward pressure. Hence there is a danger that the objective sought through the introduction of export quotas will not be attained.

Situation on the Community market

EEC balance sheet for sugar

('000 t white sugar equivalent)

<u>October-September</u>	<u>1976/77</u>	<u>1977/78 estimates</u>
1. Production covered by A and B quotas	9 820	10 740
2. Imports:		
- from the ACP States, OCT and India	1 313.2 ¹	1 305.2 ¹
- from other countries		
(a) in the unaltered state	27	27
(b) processed products	131	128
3. Exports: (a) in the unaltered state	1 477	2 859
(b) processed products	262	259
4. Consumption	8 997	9 242
5. Intervention stocks	<u>at 31.12.76</u>	<u>at 30.9.77</u>
	941	1 587

¹ Delivery period July-June.

The Community balance sheet, taking into account preferential imports (ACP, OCT, India), shows that the quantities available for export increased from 1.7 million tonnes in 1976/77 to 2.8 million tonnes in 1977/78¹. The Community's situation is therefore helping to aggravate the depressed state of the world market and this situation could well continue.

Furthermore, the Community is likely to have an increasing impact on the world residual market so long as it is not a member of the ISA (and therefore not bound by certain obligations) and also because the traditional African market will tend to shrink.

Lack of proper coordination between the policies of the Community and the Member States : the case of sugar.

Following Zambia's request to be covered by the Protocol on sugar annexed to the Lomé Convention¹, certain ACP States have recently expressed the view that given the situation and prospects on the world market, part of the sugar production resulting from their investments should be granted preferential access to Community markets in order to ensure a return on those investments; they consider that this claim is particularly justified since many of the sugar projects have been or are being carried out with financial help - in some cases guaranteed and even provided by one or more Member States - and technical assistance from Community firms and agencies.

This disturbing situation has prompted the Commission to examine more closely current and planned developments with regard to investments in the sugar sector in the ACP States.

The Commission considers that the results of this examination are significant enough to warrant reference of the matter to the Council.

The results show that:

- (i) by 1981, the quantity of sugar that the ACP States will have to export will reach 2.9 million tonnes, as against 2 million tonnes at present (to which of course must be added the surpluses from other developing countries, on which full information is not available).
- (ii) Two-thirds of the projects being carried out or planned in the ACP States are in receipt of financial support and technical assistance from Community firms and agencies, which generally enjoy public guarantees and interest-rate subsidies. Community firms and agencies provide assistance in the spheres of promotion, consultant engineering, project-

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¹ Annex XIII to the Final Act of the Lomé Convention stipulates that any request for participation from an ACP State not benefiting from the provisions of Protocol No 3 on sugar must be examined.

management, the supply of equipment on credit, and, in a few special cases, by guaranteeing to market the sugar for an agreed period. In most cases, this assistance is provided jointly by one or more European firms.

This trend is taking shape at a time when the world market is suffering from a serious excess of structural capacity resulting in the persistent depression of prices. At present price levels, no new firm can be sure of achieving a profit (see Annex II). Moreover, the Community's own export availabilities are tending to increase as a result of the expansion of production and the imports of "preferential" sugar (see Annex III).

This situation presents the Community and the Member States with a very serious problem as regards coordination between their various internal and external policies. This lack of coordination is evident in the case of sugar and the supply of the relevant production and processing equipment. It is also evident in other areas. The Commission has merely taken the sugar question as an example in order to:

- (i) provide the information needed so that a practical and important dossier can be assessed;
- (ii) make proposals to the Council and the Member States on those areas which require careful consideration.

I. Projects under way or planned in the ACP States

The data obtained by the Commission from official sources¹ and summarized in Annex III relate to all sugar projects under way or planned in the ACP States, regardless of their source of financing.

The data show that, after all the projects agreed upon have been executed, the ACP States will be producing 4.8 million tonnes by 1981 compared with 3.5 million tonnes at present. The estimated balance between imports and exports, taking into account the likely trend of consumption in the ACP States, shows an ample surplus of sugar which the ACP States will have to export. The quantity available for export will rise by 900 000 tonnes compared with the present export level of about 2 million tonnes (45%), of which 1.22 million tonnes qualify for the Community price guarantee under the Lomé Sugar Protocol.

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¹ The real situation could well be worse.

This increase in overall production will stem from 66 identified projects; these vary in size and in some cases the actual volume of production is not yet known precisely. Forty-four of these projects are being carried out or planned to be carried out with the assistance (in exceptional cases partial, but generally very substantial) of European firms and agencies, which are in turn supported by the range of official export-aid measures available in their own countries.

One argument sometimes put forward to justify the size of some projects is that profitability must be guaranteed by ensuring that a project is not smaller than a given size. This does not justify projects devoted exclusively to exports and cannot conceal the fact that decisions to encourage work of this kind are very frequently motivated solely by the desire to sell plant and equipment.

Five countries stand out here:

Tonnes of raw sugar available for export

	<u>at present</u>	<u>by 1981</u>
Cameroon	12 000	100 000
Ivory Coast	0	160.000 ¹
Kenya	0	105 000
Sudan	0	187 000
Swaziland	216 000	359 000

i.e. 683 000 tonnes for only five countries (the figure might have been as high as 883 000 tonnes).

European firms and agencies are involved in all the projects affecting these countries.

	<u>Firms and agencies</u>
Cameroon	F, UK
Ivory Coast	B, D, F, NL, UK
Kenya	F, UK, EIB
Sudan	B, UK
Swaziland	D, UK, EIB, EDF

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¹This figure would have been 360 000 t if the President of the Ivory Coast had not had the courage to cancel four schemes that had initially been planned and were about to be started.

II. Comments

The situation described above prompts the following comments:

- (a) The estimates of increases in sugar production in the ACP States must of course be viewed with caution. Some of the projects that have been examined are under way, which means that they involve firm quantities. In the case of others, technical studies are being carried out or financial negotiations are taking place. Lastly, some are still only being planned by governments or promoters and there is still hope (hope from the point of view of good sense, apprehension on the part of those selling equipment) that they might be postponed indefinitely.
- (b) On the other hand, the estimates of future growth of local consumption are those made by the authorities that have provided information in this connection. They are not unreasonable in themselves but it is likely that the estimated levels will not be reached. They should therefore be treated as tentative, especially as private sugar consumption depends on eating habits and is only affected after a time-lag by changes in the standard of living (note the high per capita consumption in the poor countries of the Sahel and the low consumption in forest countries such as the Ivory Coast).
- (c) This assessment of the outlook with regard to consumption only takes into account the trends in food consumption; a new element would be introduced by the use of sugar-cane and derived products to manufacture alcohol to be used as a source of energy. This development could only become significant in the long term.
- (d) The Protocol on ACP Sugar was concluded for an indefinite period and no changes can be envisaged to take effect before 1 April 1981. It is to be expected, however, that the ACP States will endeavour to open discussions on access for sugar to the Community market in the light of the situation described above. It is clear that given the present situation of the Community and world markets, the Community cannot envisage any increase, however small, in the quota guaranteed in the Protocol.

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Points to be considered

The same problem arises in connection with the sale of sugar production and processing equipment which the Member States may facilitate in other developing countries. The above reasoning must be extended to other fields in which lack of proper coordination is liable, or might be liable, to cause difficulties (e.g. oil refining and petrochemicals). The Commission therefore believes that it would be useful if the Council were to discuss the matter with a view to defining a number of principles and the way in which these principles should then be applied to each sector.

In the matter of sugar, taken here as an example, the Commission proposes that an in-depth coordinative consultation be undertaken as regards action taken or envisaged by enterprises within the Community with the active and systematic support of Member States. This coordinative consultation would be prepared by an exchange of detailed information on all sugar projects supported or destined to be supported directly or indirectly by the Member States (or even the Community itself : FED or EIB) either through the mobilisation of loans or by the intervention of supply credits. On the basis of this information :

- a) the Community and its Member States would endeavour to adopt the most appropriate attitude or attitudes ;
- b) the Commission would draw the attention of the World Bank, the ADB and other aid agencies to the state of the market and its characteristics;
- c) the ACP States, and possibly other developing countries, would be made aware of the Community's apprehensions and they would be given all the information necessary to gain a better understanding of the world and Community context in which their investment policies for sugar are situated.

A similar type of consultation should be organised, in a manner yet to be defined, in all sectors where a significant export growth from the PVDs and especially the ACPs might conceivably create serious problems of profitability and disturbances on the world or Community market. The manner of consultation between ourselves, or with others, would vary according to the field concerned especially in areas where the Commission did not enjoy independent means of action ; but it is certain that the problem cannot be avoided each time that the Member States' justifiable

desire to promote equipment sales results in their using all the available export-aid facilities without taking into account the subsequent financial equilibrium of the installations which the developing countries are recommended to introduce and the danger of the economic (and even political) strains which may ensue.

The Member States are naturally anxious to boost exports and it is not easy for them to make elaborate distinctions in their export-aid policies, but indiscriminate aid along these lines is manifestly at odds with the responsibility incumbent upon these States and upon the Community towards their trading partners in the Third World, particularly with regard to the choice of industries and activities most suitable for development. So far the Community has turned a blind eye to this problem, but it is surely high time that the matter was properly discussed with a view to appropriate action.

Summary of sugar projects planned or in progress in the ACP States

(in 1000 t)

ACP	Production		Consumption		Imports		Protocol No 3	Exports		Financial support from European sour
	present	1981	present	1981	present	1981		present	1981	
1	2	3	4	5	6	7	8	9	10	11
Barbados	106						49,3	83		-
Benin	15	40	15	20	-	-	nil	-	20 to Niger and Nigeria	UK, B, F
Burundi	0	11, 14	4,5	9	no	-	nil	-	6 to Rwanda	F, EEF
Cameroon	48,4	140	36	45,5	no	-	nil	3-5 to Chad and Central African Empire	100 primarily to UDEAC Chad, Nigeria and world market	F, UK (via Redpa Canada)
Congo	33,1	65	15	17	-	-	10	18	38	F, NL, UK (via Redpath)
Ivory Coast	31,5	229	46,7	69,7	15,2	-	nil	-	159,3	F, UK, D, B, NL
Ethiopia	1,0	150	130	140	-	-	nil	10	10	-
Fiji	346	443	28	30	-	-	163,6	of 318 which Mal: 25 Sing: 25 USA: 16	370	-
nc = not communicated										

2.

1	2	3	4	5	6	7	8	9	10	11
Cabon	3,5 using imports	30			9 granulated, from the EEC		nil	-	-20	B, F
Ghana	7,5	60	125	132	no	-	nil	-	-	-
Guyana	362,7	398,1	33	36	-	-	157,7	329,7	355,7	UK
Upper Volta	30	35	24	26	-	-	nil	3 to 4 Ivory Coast 1,5 Niger	9 to neighbouring countries	F, EDF
Jamaica	291	363	105	123	22 Canada 5 Cuba	-	213	240	-	-
Kenya	180	390	210	280	30 from the EEC	-	5	5,2	110	F, UK, EIB

1	2	3	4	5	6	7	8	9	10	
Swaziland	237	381	21,2	25	-	-	116,4	215,8	353	D, UK, EIB
Tanzania	100	241	150	213	20 India and Brazil	-	10	10	-	DK, ML
Chad	17	30	27	30			nil	-	-	F, EIB, EDF
Togo	0	40	+ 12	18	12		nil			F
Trinidad/Tobago	156	200	53	-	-	-	69	103	140	
Zaire	55	58	60	114	14	-	nm			B, F, I, UK
Zambia	97	165	52	147	-	-	nil	(15)	18	D, UK

Situation on the world market

1. Quantitative data

The trend of the world sugar market over the last three marketing years has been as follows:

<u>September-August</u>	<u>'000 t of raw sugar</u>		
	<u>1975/76</u>	<u>1976/77</u>	<u>1977/78 (E)</u>
Initial stock	17 305	20 440	23 330
Production	82 780	86 080	92 500
Quantities available	100 085	106 520	115 830
Consumption ¹	79 650	83 190	85 500
Final stock	20 440	23 330	30 330
of which: as percentage of consumption	26	28	35
		in EUA/t	
World free market price ²	273 90	169	130 63

¹ Calculated as the difference between the quantities available and the final stock.

² Annual average July/June (London spot price)

Source: FO Licht -Journal européen des sucres (Bilan)
International Sugar Organization (ISO) (International Trade).

(E) = Estimated.

1	2	3	4	5	6	7	8	9	10	11
Liberia	13	8,2	6,6	7,2	no -s	-	nil	-	1	-
Madagascar	110	115	90	110	-	-	10	10		UK
Malawi	87	154					20	20		-
Mali	18,6	80	50	50	13	13	nil	-	-	F
Mauritius	675	740	38	44	-	-	487,2	637	696	UK, EDF
Mauritania	0	(1)	no	no	imports for a caking plant supplying local market		nil	-	-	-
Niger	± 10	20 to 30	20	25	5 to 7	0	nil	-	-	F

(1) No production of sugar cane planned.

1	2	3	4	5	6	7	8	9	10	11
Nigeria	32	235	200	300	no	-	nil	0	0	UK
Uganda	18,5	70	40	59	no	-	5	5		
Papua-New Guinea	0	20 30	23	30	no	-	nil	0	0	
Rwanda	2,2	34	44	5	no	-	nil	-	-	
Senegal	13	30	60	90	60	60	nil	-	-	F
Sierra Leone	0	3	27	-	no	-	nil	-	-	NI, EDF
Somalia	33	50	50	65	no	-	nil	0	surplus, if any, over consumption	UK
Sudan	170	570	304	383	134	85	nil	0	167	F, UK
Surinam	6	-	9-10	12	6		4	3,2	-	UK